31 January 2015

The Merchants Trust PLC

Annual Report

Allianz Global Investors

www.merchantstrust.co.uk

Contents

Company Overview

Throughout its 126 year history, The Merchants Trust PLC has provided investors with an opportunity to benefit from investment in a diversified portfolio of leading companies with strong balance sheets and the potential to pay attractive dividends.

Merchants is governed by an independent board of directors and has no employees. Like other investment companies, it outsources management and administration to an investment management company – Allianz Global Investors – and other third party service providers to provide shareholders with an efficient, competitive and cost-effective way to gain wide investment exposure through a single investment vehicle.

The company's shares are recognised by the Association of Investment Companies (AIC) as suitable for retail investors.

Financial Highlights

Share Price 2015 484.0p 2014 491.5p **-1.5%**

Net asset value per ordinary share*	Earnings per ordinary share	Dividend	Yield
486.1p	23.6p	23.8p	4.9%
2014 486.8p	2014 24.2	2014 23.6p	2014 4.7%
-0.1%	**-2.5%**	**+0.8%**	

* Debt at market value

Investment Policy

The Merchants Trust aims to provide an above average level of income and income growth together with long term capital growth through a policy of investing mainly in higher yielding UK FTSE 100 companies.

The company's investment performance is assessed by comparison with other investment trusts within the UK Equity Income sector. Performance is benchmarked against the FTSE 100 Index, reflecting the emphasis within the portfolio.

Gearing

The company's policy is to remain substantially fully invested. The company has the facility to gear – borrow money – with the objective of enhancing future returns. Historically, the gearing has been in the form of long term, fixed-rate debentures. The board monitors the level of gearing and makes decisions on the appropriate action based on the advice of the manager and the future prospects of the company's portfolio.

The company's authorised borrowing powers set out in the Articles state that the company's borrowings may not exceed its called up share capital and reserves. In normal market conditions, it is unlikely that gearing (borrowings as a percentage of net assets) will exceed 35%. Gearing averaged 21.3% in the year to 31 January 2015 (2014: 21.7%).

Risk Diversification

The company aims to achieve a spread of investments, with no single investment representing more than 15% of assets. The company seeks to diversify its portfolio into at least five market sectors, with no one sector comprising more than 35% of the portfolio.

Chairman's Statement

Dear Shareholder

I am happy to present you with this year's results and to let you know about The Merchants Trust's unbroken 33 year record of dividend growth.

Results

Our Net Asset Value (NAV) per share with debt at par was up by 5.8% for the year to 31 January on a total return basis. You will see from the summary on page 8 of the Annual Report that the NAV per share with debt at market increased by 4.7%, including net dividends. This was around 2% behind our benchmark, the FTSE 100 Index. As you can see from the analysis, also on page 8, this under-performance was primarily due to the movement in the market value and the underlying cost of our debt. Our stock-picking was marginally behind the index but the fact that we were geared into a rising market had a positive impact on performance.

Over the longer term, it is pleasing to note that the NAV with debt at market (capital only, i.e., excluding dividends), has outperformed the FTSE 100 Index by 14.8% over the past three years and by 11.0% over the past five years.

Although the company's share price fell slightly by 1.5% from 491.5p to 484.0p over the year, on a total return basis (which includes net dividends) the value of the shares increased by 3.3%. As at 9 April 2015, the trust's ordinary shares yielded 4.9% compared with the 3.4% yield on the FTSE 100 Index.

There is more detail on the major contributors to the performance of the portfolio in the Investment Manager's Review starting on page 16 of the annual report.

Net Revenue Return and Dividends

The strength of Sterling over the year means that our revenue has been slightly impacted as we receive some of our income in other currencies. However, the board is recommending a final dividend of 6.0p, which will make this our 33rd consecutive year of dividend growth. This requires a small contribution from the revenue reserves that we have built up over the years.

The final dividend of 6.0p will be paid on 22 May 2015 to shareholders on the register on 24 April 2015. This payment will make our total dividend for the year 23.8p, an increase of 0.8%. As at 31 January 2015 and after providing for the final dividend payment, the trust's revenue reserves amounted to £11,513,458 (10.6p per share).

The Board

During the year we saw some changes to the board as a result of the retirement of Henry Staunton on 31 December 2014. Henry joined the board in May 2008 and was the Senior Independent Director (SID) since May 2010. We are very grateful to him for his invaluable contribution to the work of the board over the last seven years and wish him well for the future.

Before he retired, Henry was able to hand over responsibilities as SID to Mike McKeon and to work alongside our two new directors. We are very pleased to welcome both Mary Ann Sieghart and Sybella Stanley who both joined the board on 3 November 2014. Mary Ann and Sybella bring a wealth of different experiences and skills to the board and I am very confident that they will make a major contribution to the future of your company. Their biographies, and those of the other directors, are set out on page 30.

We are each standing for election or re-election this year and will continue to do this annually.

Chairman's Statement *(continued)*

Strategy and the Strategic Report

The Strategic Report starts on page 10.

At our annual strategy day last year we had our usual in-depth look at the matters we consider at each board meeting, including our long term performance in relation to our sector, peer group and benchmark, together with a number of other topics including the gearing structure and the future of our debentures. Going forward, our aim is to examine the macro environment in which we are operating in more detail and also to further explore the various possibilities we have to refinance the proportion of our debt that reaches its maturity in 2018.

Issue of new shares and the buy back of shares into treasury

For much of the year to 31 January 2015 we saw the company's share price continue to trade at a premium to the net asset value and during the year Merchants was therefore able to issue further new shares. Our policy is to issue shares at a premium to net asset value, cum income with debt at market value, at a price that is not dilutive to existing shareholders, to meet natural demand in the market. During the year we have issued 5,065,000 new shares, in total representing just over 48% of the 10,416,346 shares authorised for allotment for cash by shareholders at last year's annual general meeting.

The other side of the coin is that, when the company's share price trades consistently at a discount to net asset value, shares can be purchased by the company. Buying back shares helps to reduce the volatility of the discount and enhances the underlying NAV. In addition to seeking renewed authority to buy back shares at the annual general meeting, we will also be asking for approval to be able to hold these shares in treasury rather than cancelling them. More information is given in the Directors' Report on page 38, but any shares issued or sold from treasury will be at a premium to the NAV to ensure that existing shareholders benefit from the transaction.

Marketing Strategy

The Merchants Trust has a strong profile and is a popular choice for both professional and private investors. We attribute this to our consistent philosophy: to provide investors with year on year dividend growth and to deliver both capital and income growth over the medium to long term. We also understand the importance of sustaining ongoing demand for the company's shares. This is reflected in our commitment to promoting Merchants through active marketing and PR strategies to ensure the company remains a 'front of mind' choice for investors. The success of this strategy is reflected in the positive press comments Merchants has received throughout the past year, a selection of which can be found overleaf. Of particular note are the endorsements of the company by professional investors in the national press.

The company's website is the cornerstone of our investor communications, providing regular updates on company performance, views from our fund managers, dividend information and regulatory market announcements. This is especially important as the continued increase in share purchases via direct investor platforms reflects the popularity of Merchants with self-directed investors (source: RD:IR). A monthly email update, which includes the fund manager's latest views and relevant information, is now available to subscribers who would like to receive more frequent updates on the company.

Merchants also supports the AIC's 'Freedom in Pensions' campaign which looks at how investment companies can be used to help build a long term pension portfolio. Further details can be found on the home page of our website.

The board is recommending a final dividend of 6.0p, which will make this our 33rd consecutive year of dividend growth.

FREEDOM IN PENSIONS APRIL 2015

Chairman's Statement *(continued)*

The FTSE 100 Index has recently passed the previous all-time high set in 1999 but valuations in aggregate remain reasonable and the UK economy is recovering gradually.

AIFMD

The EU's Alternative Investment Fund Managers Directive came into effect during 2014. Under this legislation the company is designated as an Alternative Investment Fund (AIF) and we appointed our existing manager, Allianz Global Investors (AllianzGI), as our Alternative Investment Fund Manager (AIFM). A new AIFM agreement was entered into with AllianzGI, on substantially the same terms as the management agreement already in place. In addition, HSBC Bank plc, the existing custodian of the company's assets, was appointed as Depositary to provide oversight of the operations carried out for the company and to ensure that appropriate standards are maintained. Some further details of the new arrangements are on pages 34 and 76 of the annual report.

Gearing

The company continues to have long term debt amounting to £111 million. This is all deployed in the market for investment purposes. Our gearing averaged 21.3% throughout the year, compared to 21.7% last year.

Derivatives

We have continued our policy of selectively writing call options on a limited number of the trust's holdings. Writing options has provided a small amount of additional income. There are more details in the Investment Manager's Review on pages 20 and 21.

Annual General Meeting

The annual general meeting of the company will be held on Wednesday 20 May 2015 at 12.00 noon at Old School Building, 60 Victoria Embankment, London EC4Y 0JP, and we look forward to seeing as many shareholders then as are able to attend.

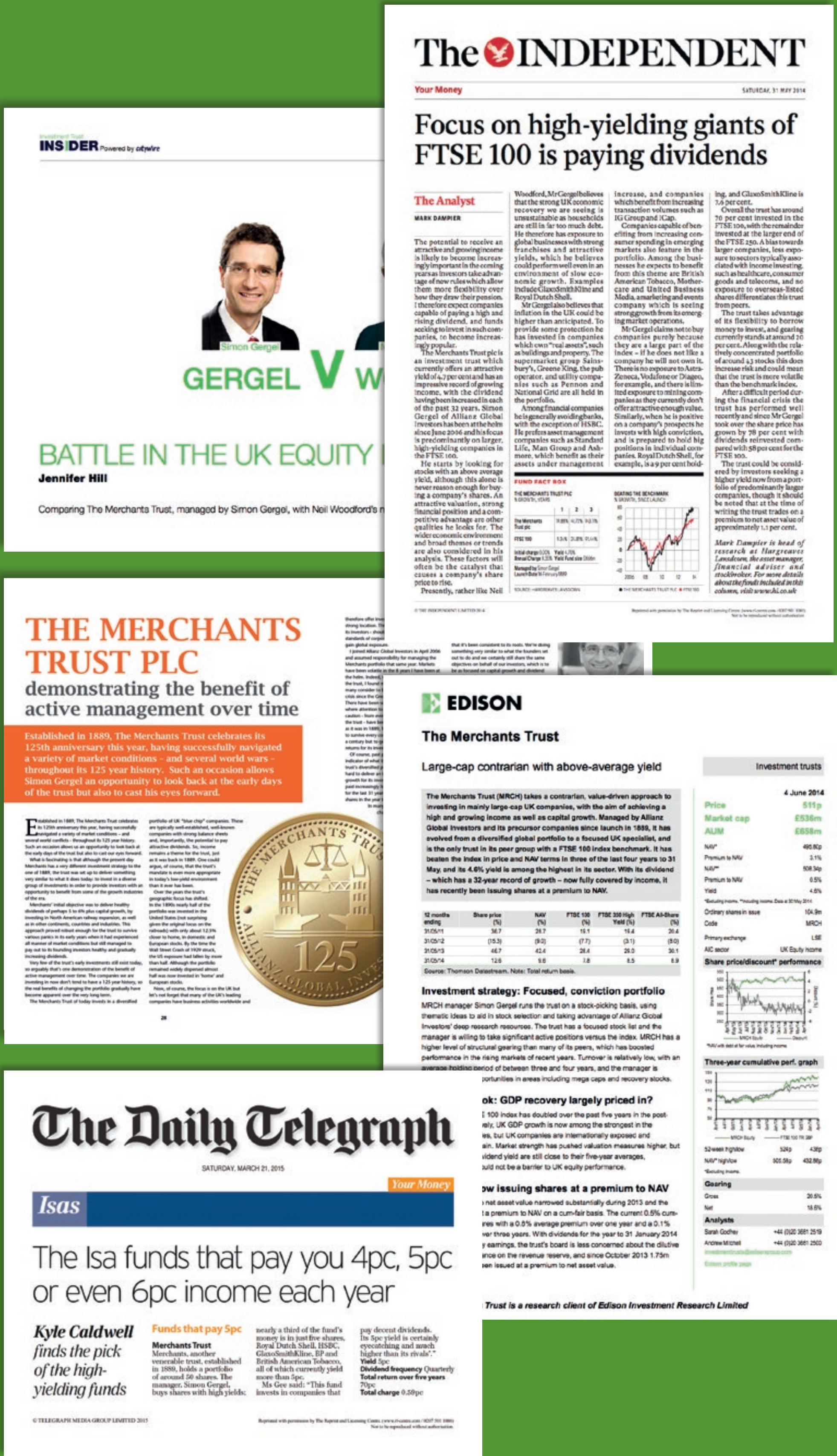
Outlook

The FTSE 100 Index has recently passed the previous all-time high set in 1999 but valuations in aggregate remain reasonable and the UK economy is recovering gradually. In the short term, the general election may lead to a period of uncertainty although the long term effect of a change of government is not expected to be that significant, especially as the portfolio companies have significant overseas earnings. Our fund managers are finding attractive investments across a variety of sectors of the stock market although they also see areas of over-valuation, particularly amongst the more defensive industries. The company's strategy remains to invest in a diversified portfolio of high yielding UK listed companies to generate income and capital growth. We very much believe that this strategy is still appropriate for the future and that Merchants continues to be well placed to benefit from the rapidly changing UK savings market.

Simon Fraser

Simon Fraser
Chairman
13 April 2015

The company secured significant press coverage during the year.



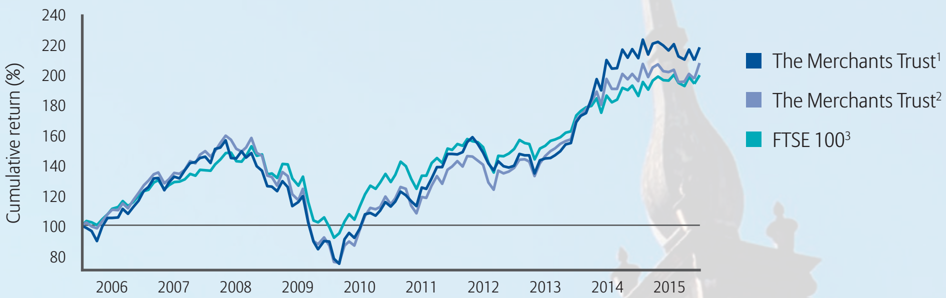
Please visit www.merchantstrust.co.uk
for full versions of these articles.

The Merchants Trust PLC

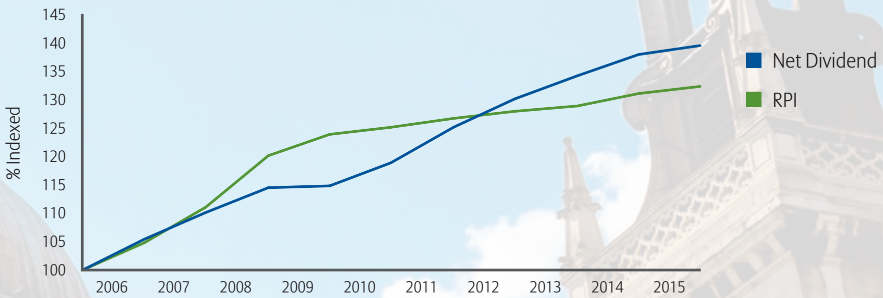
Strategic Review

Performance Graphs

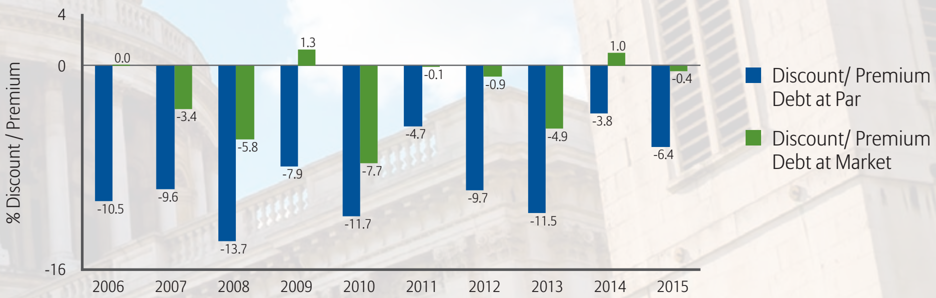
The Merchants Trust 10 Year Cumulative Return compared to FTSE 100 Index



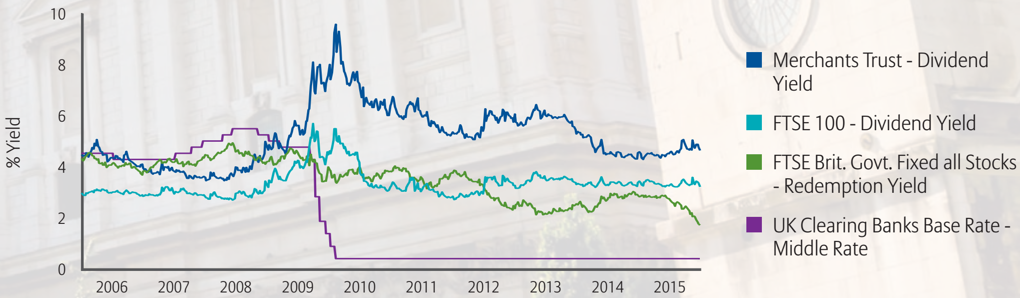
The Merchants Trust 10 Year Net Dividend Growth compared to inflation



The Merchants Trust 10 Year Discount/ Premium to Net Asset Value as at 31 January



The Merchants Trust Dividend Yield compared to FTSE 100 Index, UK Gilt Yield and Cash



[1] The Merchants Trust (Share Price Total Return). [2] The Merchants Trust (Nav Total Return). [3] FTSE 100 (Total Return).
Source: AllianzGI / Datastream in GBP.

Performance – Review of the Year

Financial Summary

Revenue	For the year ended 31 January 2015	For the year ended 31 January 2014	% change
Income	£29,957,608	£29,826,684	+0.4
Net revenue return attributable to ordinary shareholders	£24,950,147	£25,012,848	-0.3
Net revenue return per ordinary share	23.6p	24.2p	-2.5
Ordinary dividends per ordinary share	23.8p	23.6p	+0.8

Assets	2015	2014	Capital return % change	Total return % change
Total assets less current liabilities	£672,481,424	£640,144,245	+5.1	-
Net assets (debt at par)	£562,008,943	£529,478,058	+6.1	-
Net assets (debt at market value)	£528,533,136	£504,657,386	+4.7	-
Net asset value per ordinary share (debt at par)	516.9p	510.8p	+1.2	+5.8*
Net asset value per ordinary share (debt at market value)	486.1p	486.8p	-0.1	+4.7*
Ordinary share price	484.0p	491.5p	-1.5	+3.3
FTSE 100 Index	6,749.4	6,510.4	+3.7	+7.4
Discount ordinary share price to net asset value	-6.4%	-3.8%	n/a	n/a
(Discount) Premium (debt at market value)	-0.4%	+1.0%	n/a	n/a
Ongoing charges †	0.6%	0.6%	n/a	n/a

* NAV total return reflects both the change in net asset value per ordinary share and the net ordinary dividends paid.
† The ongoing charges percentage is calculated in accordance with the explanation given on page 12.

Performance Attribution Analysis against FTSE 100 Index	Capital Return %	Income Return %	Total Return %
Return of Index	3.7	3.7	7.4
Relative return on portfolio	-1.2	0.9	-0.3
Return of portfolio	**2.5**	**4.6**	**7.1**
Impact of gearing on portfolio	0.8	1.4	2.2
Movement in the market value of the debt	-1.7	-	-1.7
Finance costs	-1.2	-0.6	-1.8
Management fee	-0.3	-0.2	-0.5
Administration expenses	-	-0.2	-0.2
Other	-0.2	-0.2	-0.4
Change in net asset value per ordinary share (debt at market value)	**-0.1**	**4.8**	**4.7**

"The Merchants Trust has significant income reserves. In addition the underlying portfolio has a yield significantly above the yield on the FTSE 100 Index"

Simon Gergel
Fund Manager

Strategic Report

at 31 January 2015

Strategy Review

Every year we hold a Strategy Meeting outside the regular timetable of board meetings. At the most recent meeting the topics covered included:

- the company's market position compared with its peer group, including an analysis of benchmarks, dividend policies, yields, discount policies and issues of shares
- gearing, the appropriate debt structure and the future for our debentures
- an in-depth examination of the investment philosophy
- the future potential for growth of the company

Following our strategic review, the actions we have taken are to:

- Begin to make plans for the maturity of our first debenture in 2018.
- Develop our strategy on the management of premiums and discounts and consider any plans we may have to buy back shares and hold them in treasury.
- Consider the changes to the macro environment.
- Look in more detail at our stewardship and responsibilities as investors.

Strategic Aims

The company's aims continue to be to:

- consistently meet our growth and income objectives
- appeal to a broad range of investors ensuring that the company remains relevant and attractive to new investors and investor groups
- ensure the costs of running the company remain reasonable and competitive
- be a widely recommended investment
- engage with shareholders and other relevant stakeholders to understand their needs and take their views into account in the development of future plans and strategy
- understand the implications of changes to future income growth prospects

Objectives

Our objective is to provide shareholders with an above average level of income and income growth with long term capital growth through a policy of investing mainly in higher yielding UK FTSE 100 companies.

We measure our success in attaining this objective by comparing the performance of the portfolio against the performance of the FTSE 100 Index. We also note how the yield on the company's shares compares with the yields in our peer group, in the UK Equity Income sector, and the growth of the dividend itself against the retail price index in the UK.

A review of the company's business, activities and prospects is given in the Chairman's Statement on pages 2 to 4, and in the Investment Manager's Review on pages 16 to 23.

Investment Strategy and Policy

We aim to achieve our objective through a strategy of investing in a portfolio of mainly higher yielding UK FTSE 100 companies and by using appropriate gearing to enhance returns. This strategy is designed for those investors who require a single investment in a diversified and professionally managed portfolio.

The fund manager manages the portfolio primarily on a bottom up basis - selecting the best stocks - rather than through sector allocation. The portfolio is managed on a high conviction basis and as at 31 January 2015 was concentrated into 44 listed equity stocks.

Idea generation: The fund manager, who is supported by the UK equity income team, identifies potential investments for the portfolio by using an extensive team of over 85 in-house research analysts, meeting with individual companies and using sell-side research. In addition, the fund manager uses Grassroots^{SM} Research, Allianz Global Investors' (AllianzGI) extensive global research resource in which sector analysts are backed by over 300 field force investigators. This network of independent researchers and journalists conducts investigative fieldwork and data collection to identify and confirm trends and test market assumptions. This provides the fund managers with timely and customised business insights and is unique to AllianzGI.

Stock selection: The fund manager makes a validation of his investment case through further analysis, discussions with the UK equity team, a stringent buy and sell discipline and consideration of the yield requirement.

Portfolio construction: The fund manager then constructs the portfolio based upon his level of conviction generated from the idea generation and stock selection process. He ensures that the portfolio is diversified with a specific eye on risk analysis and control.

Implementation: Once a decision has been made to buy or sell a stock, the fund manager aims to get best execution through AllianzGI's central dealing desk.

Gearing

The gearing - employing the company's borrowings to invest – is in the form of long term debentures. The manager fully utilises the gearing within the guidelines set by the board.

Marketing

The company's marketing activity has increased year on year to assist with promoting the company to investors looking for exposure to capital growth in UK equities and an above average level of dividend. The policy is to reach out to private investors managing their own investments as well as wealth managers and institutional fund managers. This is undertaken through regional roadshows, marketing and public relations campaigns. Over the past two years we have increased the communication to investors through the website, providing more information and the views of the investment manager.

Dividend

A substantial proportion of the income is distributed to provide an above average yield on an annual basis. The board seeks to increase the company's dividend each year whilst keeping back a modest amount for reserves in years of strong income growth. Investors receive the dividend on a quarterly basis.

Discount/premium

The discount/premium of the share price to net assets is closely monitored. When shares are trading at a premium, the policy is to be prepared to issue shares to meet natural demand in the market. Issuance is at a premium to net asset value, cum income with debt at market value, at a price that is not dilutive to existing shareholders. Conversely, when shares are trading at a discount shares may be bought back and cancelled; however, for the first time, the board is seeking shareholder approval at the AGM to be able to hold such shares in treasury as an alternative to cancellation.

Business Model

The Merchants Trust carries on business as an investment company and follows the investment policy described above.

Merchants is governed by an independent board of non-executive directors and has no employees or premises of its own. Like other investment companies, it outsources investment management and accounting, secretarial and other administration services to an investment management company – Allianz Global Investors GmbH (AllianzGI) – and other third parties to provide shareholders with an efficient, competitive, cost-effective way to gain wide investment exposure through a single investment vehicle.

The company has a premium listing on the London Stock Exchange. In addition to annual and half-yearly financial reports, the company announces net asset values per share daily and provides more detailed information monthly to the Association of Investment Companies (AIC), of which the company is a member, in order for brokers and investors to compare its performance with its peer group.

Strategic Report *(continued)*

at 31 January 2015

Key Performance Indicators

The board uses certain financial Key Performance Indicators (KPIs) to monitor and assess the performance of the company.

Performance against the Benchmark Index

This is the most important KPI by which performance is judged and this is shown in graph form on page 7. The trust's objective is to provide an above average level of income and income growth together with long-term growth of capital through a policy of investing mainly in higher yielding UK FTSE 100 companies, and for this reason the FTSE 100 is the benchmark index against which we measure our performance.

We set out performance figures in the tables on page 8 of this Annual Report, but the main indicator of performance is the Net Asset Value Total Return, and the figures for this year and the previous year were as follows:

2015 Merchants Total Return

NAV Debt at market +4.7%
NAV Debt at par +5.8%
Benchmark +7.4%

2014 Merchants Total Return

NAV Debt at market +17.5%
NAV Debt at par +14.5%
Benchmark +7.6%

Expenses of Running the Company

The board has a policy of ensuring that the costs of running the company are reasonable and competitive. Ongoing charges are operating expenses incurred in the running of the company, whether charged to revenue or capital, but excluding financing costs. The ongoing charges figure (OCF) is calculated by dividing operating expenses, that is, the company's management fee and all other ongoing charges, by the average net asset value (with debt at market value) over the period. Since May 2012, ongoing charges have been published by the AIC.

Merchants	**Peer Group**
2015 0.6%	2015 1.0%
2014 0.6%	2014 0.8%

Performance against the Company's Peers

The board also monitors the performance relative to a broad range of competitor investment trusts over a range of time periods, taking into account comparative investment policies and objectives.

We look at the UK Equity Income investment trust sector and also compare the performance against a smaller number of competitors with the closest policies and objectives to our own.

As at 31 January 2015, the company was ranked in the UK Equity Income sector as follows:

1 year - 16 out of 21
3 years - 13 out of 21
5 years - 17 out of 20

(Net asset total return, with debt at market, Source JPMorgan Cazenove)

Dividends

The board has a policy of paying a progressive dividend each year, taking into account inflation and subject to general earnings growth and dividends received in the portfolio. Dividends paid in the past ten years are set out in the Historical Record table on page 28. Dividends have risen in every year since 1982 and the graph on page 7 shows how the dividend has performed against inflation.

2015 23.8p +0.8%
2014 23.6p +1.7%

Gearing

The company has the facility to gear - borrow money - with the objective of enhancing future returns. The market price of the debt is calculated and reflected in the published net asset values and gearing can be used to help to support dividend payments. Historically, gearing has been in the form of long term fixed rate debentures. The board monitors gearing to ensure that the company's borrowings remain below 35% in normal market conditions (as a percentage of net assets excluding borrowings).

Highest 23.5% Lowest 19.6% Average 21.3%
(2014 - Highest 25.1% Lowest 19.8% Average 21.7%)

Strategic Report *(continued)*

at 31 January 2015

Risk

The principal risks identified by the board are set out in the table on this page, together with the actions taken to mitigate these risks. A more detailed version of this table, in the form of a Risk Matrix, is reviewed and updated by the board twice yearly. The principal risks and uncertainties faced by the company relate to the nature of its objectives and strategy as an investment company and the markets in which it operates.

Description	Mitigating Actions
Investment Activity and Strategy, including Gearing and Market Volatility An inappropriate investment strategy, e.g., on asset allocation or the level of gearing, may lead to significant under-performance against the company's benchmark index and peer group companies, and may also result in the company's shares trading on a wider discount.	The board manages these risks by diversification of investments and through its investment restrictions and guidelines which are monitored and on which the board receives reports. Allianz Global Investors GmbH, UK Branch (AllianzGI) provides the directors with management information including performance data and reports and shareholder analyses. The board monitors the implementation and results of the investment process with the investment manager, who attends all board meetings, and reviews data which show risk factors and how they affect the portfolio. The board reviews investment strategy, including gearing, at each board meeting.
Corporate Governance, Shareholder Relations and Marketing If there is weak adherence to best practice in corporate governance, shareholder discontent could arise resulting in potential reputational damage to the company. Inadequate marketing and communication about the company could result in selling of the shares and a significant impact on the rating of the company.	The board receives reports on shareholder activity and on shareholder sentiment on a regular basis and contact is maintained with major shareholders. The board has continued to extend its marketing and public relations programme. Details of the company's compliance with corporate governance best practice, including information on relations with shareholders, are set out in the Corporate Governance Statement which can be found on the company's website http://www.merchantstrust.co.uk/Tenants/AGITrusts/Content/Documents/Corporate/Merchants/Corporate_Governance_Statement.pdf.
Financial and Regulatory Failure to contain financial risks could result in losses to the company. Failure to comply with relevant regulations could damage the company and its ability to continue in business.	The financial risks associated with the company include market risk (price, yield, foreign currency and interest rate), liquidity risk and credit risk. The audit committee also considers these risks as part of its remit. Further analysis of these risks can be found in Note 17 on pages 68 to 73. The board is guided by its advisers both within AllianzGI and external to the manager on matters such as compliance with the Companies Act 2006, Accounting Standards, the Listing Rules, Disclosure and Transparency Rules and other applicable regulations, including AIFMD.
Operational The company is dependent on third parties for the provision of all systems and services and there are risks of control failures and gaps in these systems and services resulting in loss or damage to the company.	The board receives a matrix of internal controls reports and bridging letters at least twice each year from all major service providers and reviews the assurances provided by these third parties.

In addition to the specific principal risks identified in the table above, the company faces risks to the provision of services from third parties and more general risks relating to compliance with accounting, tax, legal and regulatory requirements, which could have an impact on reputation and market rating. These risks are formally reviewed by the board twice each year and how these risks are managed and mitigated is discussed and agreed for recording in the Risk Matrix. The board's reviews of the risks faced by the company also include an assessment of the residual risks after mitigating action has been taken. Details of the company's compliance with Corporate Governance best practice, including information on relations with shareholders, are set out in the Corporate Governance Statement which can be found on the company's website http://www.merchantstrust.co.uk/Tenants/AGITrusts/Content/Documents/Corporate/Merchants/Corporate_Governance_Statement.pdf.

Strategic Report *(continued)*

at 31 January 2015

Human Rights and Gender Diversity

The company has no employees and has a board composed entirely of non-executive directors and has no disclosures to make in respect of employees.

The current board consists of three male and two female directors. The board always seeks to include a gender balance in the shortlist in every recruitment process.

Environmental Policy

The board has instructed the manager to take into account the impact of environmental policies on the investment prospects of the company's underlying investments.

Corporate Social Responsibility

The board has noted the manager's views on Social Responsibility that it adheres to in engaging with the underlying investee companies and in exercising its delegated responsibilities in voting. AllianzGI has said: "We believe that good corporate governance includes the management of the company's impacts on society and the environment, as these are increasingly becoming a factor in contributing towards maximising long term shareholder value." In its Sustainable Investment Policy Statement, AllianzGI says it "believes that the consideration of environmental, social and governance issues within the investment decision process provides a new and longer-term perspective on evaluating risk and opportunities."

The Future

Some of the trends likely to affect the company in the future are common to many investment companies, such as the future attractiveness of investment companies as investment vehicles and regulatory changes in the pensions and savings market. The outlook for economic growth, interest rates, inflation and asset returns will also be important factors. In particular for Merchants, the availability of attractive income producing UK equities and their future returns are central to the investment proposition.

The Chairman gives his view on the outlook in his statement on page 4 and the investment manager discusses his view of the outlook for the company's portfolio in his review on pages 21 and 22.

The board continues to believe that the Retail Distribution Review offers opportunities to generate more interest in investment trusts and to demonstrate the advantages over open-ended investments.

In pursuit of this, the board has devoted more resources to marketing and, following on from this, there will be fuller information on the website www.merchantstrust.co.uk and more extensive media coverage.

Our aim is to continue to take advantage, if the company's shares are trading at a premium, and to issue more shares to give existing shareholders the prospect of benefiting from reducing costs and opportunities for further strengthening of returns.

On behalf of the board

Simon Fraser
Chairman
13 April 2015

London Bridge →

The Merchants Trust PLC

Investment Manager's Review

Investment Manager's Review

Simon Gergel is Chief Investment Officer, UK Equities, Allianz Global Investors, based in London.

Economic and Market Background

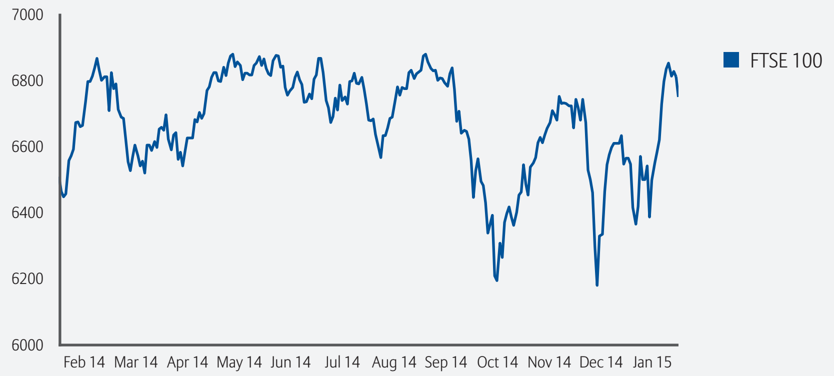
This has been a year of divergence. Divergence between the Anglo Saxon economies and the Eurozone, with the USA seeing reasonable growth and rising employment whilst much of the Eurozone struggled with low growth and high unemployment. Divergence in central bank policies, with the US Federal Reserve Bank winding down asset purchases and considering when they may raise interest rates just as the European Central Bank announced plans to embark on a massive bond buying programme and German and Swiss short term interest rates turned negative.

Divergence between asset classes, with bonds, real estate and many equity markets rising in response to the force of cheap money, whilst commodity prices, notably oil, slumped to multi-year lows; and divergence within the stock market, with many of the more defensive shares soaring as investors sought higher returns with limited risk, whilst commodity and cyclical companies fell heavily on concerns about the profits outlook.

The UK economic performance was similar to the USA, with an estimated 2.6% GDP growth making the UK one of the strongest growing of the major developed world economies. The level of employment continued to improve although inflation was subdued, with little sign that job creation was leading through to wage increases, outside of certain specific skills. The Bank of England Monetary Policy Committee held base rates at 0.5%, where they have been since 2009, reflecting an underlying weakness in the economy and a sensitivity to higher interest rates given the huge debt burden and the budget deficit.

The UK stock market traded within a fairly narrow range all year, with the FTSE 100 Index giving a total return of 7.4%. Medium sized companies produced similar returns although small companies were notably weaker. Most major overseas equity markets were strong in response to stimulus packages or hopes for economic recovery, with the USA, Japan and Europe producing double digit returns in local currencies. However, peripheral European countries like Greece and Portugal fell heavily. Perhaps the most dramatic moves were in bond markets where low interest rates and low inflation led to UK ten year gilt yields halving from 2.7% to 1.4% and the All Stocks index returning 17%, whilst index linked gilt returns were over 20%.

FTSE 100 Index 31 January 2014 - 31 January 2015



Investment Manager's Review *(continued)*

Within the UK stock market there was a clear divergence between low and high risk shares. Companies perceived to offer relative earnings stability, dependable cash flows or a safe dividend yield performed well. Leading sectors included healthcare equipment, tobacco, electricity, real estate, life assurance and personal goods which all had total returns over 25%. On the other hand, sectors directly or indirectly exposed to falling commodities prices or more challenging trading conditions fell heavily, with oil equipment and services, mining, engineering, general industrials and food retailers all posting double digit negative returns, and in some cases far worse than that. The more diversified oil & gas producers and the banks sector also fell back but more modestly. One other notable feature was a strong performance by consumer sectors that may benefit from rising employment and falling energy and food costs, such as travel & leisure and media.

Investment Performance

The company's UK equity portfolio produced a total return of 7.1%, modestly behind the 7.4% return of the FTSE 100 Index. The performance of individual companies in the portfolio reflected the market themes discussed above, with the strong performers broadly counterbalancing the poor performers. The table below shows the top ten positive and negative individual contributors to performance.

On the positive side, defensive investments such as the utilities **Pennon** and **SSE**, the aerospace and defence company **BAE Systems** and the satellite communications business **Inmarsat** performed well. In addition, the fund manager **Man Group** more than doubled from a depressed base. Relative performance also benefited from the company not owning shares that fell back for specific or industry reasons, including the commodity trader and mining company **Glencore**, banks **Barclays**, **Lloyds** and **Standard Chartered** and aero-engine manufacturer **Rolls Royce**.

On the negative side, weak industry conditions impacted the oil services company **Amec Foster Wheeler** and food retailer **Sainsbury**, whilst performance was also impacted by company specific problems at construction company **Balfour Beatty** and bank note paper and printing company **De La Rue**. In addition, not owning certain strong performing defensive companies held back returns. The most notable were the pharmaceutical stocks **Shire** and **AstraZeneca** which were both temporarily subject to take-over bid approaches, but other important stocks were **Imperial Tobacco**, **SAB Miller** and **Reckitt Benckiser**. Elsewhere the remaining top ten negative contributor was **Prudential** which was not in the portfolio but performed well as it delivered robust growth.

Companies perceived to offer relative earnings stability, dependable cash flows or a safe dividend yield performed well.

Contribution to Investment Performance relative to FTSE 100 Index

Positive Contribution	%	Over/under weight	Negative Contribution	%	Over/under weight
Glencore	0.6	-	Amec Foster Wheeler	-0.9	+
Pennon	0.6	+	Sainsbury (J)	-0.8	+
BAE Systems	0.5	+	AstraZeneca	-0.6	-
Inmarsat	0.5	+	Shire	-0.6	-
Man Group	0.5	+	Prudential	-0.5	-
SSE	0.5	+	Balfour Beatty	-0.5	+
Barclays	0.5	-	Imperial Tobacco	-0.5	-
Lloyds	0.5	-	SABMiller	-0.4	-
Standard Chartered	0.5	-	Reckitt Benckiser	-0.4	-
Rolls Royce	0.4	-	De La Rue	-0.4	+

Over / under weight: Whether proportion of stock in portfolio is higher (+) or lower (-) than its weighting in the FTSE 100 Index.

Investment Manager's Review *(continued)*

Overall, we added seven new companies to the portfolio and completely sold out of seven others.

Portfolio Changes

Portfolio activity was influenced by the themes discussed above; in particular, the divergence between low and high risk companies. We took profits in a number of companies that rallied in the flight to safety, as they reached fair or expensive valuations. We reinvested in shares that offered better long term value, although we were careful still to focus on well financed companies with strong competitive positions and reasonable growth prospects. Overall, we added seven new companies to the portfolio and completely sold out of seven others. The largest net purchases and sales are shown below.

We bought two life insurance companies, **Standard Life** and **Legal & General**. They are well placed to benefit from the growth in the savings market as pension saving shifts from large corporate schemes to individual pension plans funded by employers. Both companies also have valuable asset management businesses and other growth opportunities. They trade on reasonable valuations and pay attractive and growing dividend yields. We partially funded these investments by reducing the holding in **Friends Life**, formerly Resolution Plc, which performed well and received a bid approach from **Aviva**.

As mentioned in the half year report, we bought **Amec Foster Wheeler**, an engineering services company formed from the merger of Amec and Foster Wheeler. Whilst the collapse in the oil price in recent months has darkened the trading outlook for part of the business, we continued to add to this position as the shares weakened. The business model is risk-averse, generally avoiding fixed priced contracts. It is diversified across industries and can scale down activity rapidly in response to any sector downturn. There are significant cost savings to come from the merger and we believe there is considerable long term value in the shares at the depressed level they reached in the second half of the year.

We said a year ago that we were finding value selectively in recovery situations, companies that are depressed by a downturn in their industry or specific trading issues. Share prices often over-react to difficult trading circumstances as investors fear near-term uncertainty, even if there is good value and a sound business franchise. This can create opportunities for investors with a longer term horizon prepared to look through a period of volatility. We added three new recovery situations to the portfolio in the year; **Tate & Lyle**, **Kier** and **Brammer**. The investment in Tate & Lyle was explained in the half year report.

Largest Net Purchases		Largest Net Sales	
Company	**£m**	**Company**	**£m**
Standard Life	19.7	Reed Elsevier	13.5
Amec Foster Wheeler	18.5	Vodafone	11.1
Diageo	11.3	Hammerson	9.8
Tate & Lyle	10.0	Tesco	9.2
UBM	7.2	Pennon	8.2
Legal & General	6.7	BBA Aviation	7.3
Kier Group	5.6	Friends Life	6.8
British American Tobacco	5.2	GlaxoSmithKline	6.3
Greene King	5.1	BAE Systems	6.3
SThree	4.9	Daily Mail & General Trust 'A'	5.5

Kier is a diverse construction, services and property company which has navigated a tough industry downturn well through a combination of organic growth and acquisitions. It stands to benefit from a recovery in the UK construction market over the next few years as spending on infrastructure, housing and commercial property improves. The shares are modestly valued and pay a good dividend yield.

Brammer is an industrial distribution company, providing maintenance, repair and overhaul products to a wide range of European companies, helping them save costs by more efficient inventory management. It has grown rapidly through various initiatives such as having its own employees working on customer premises as well as via acquisitions in a fragmented industry. The shares were temporarily depressed after warning that a few large UK customers had seen a sharp drop in their order flow. This presented an opportunity to buy into a high growth business at an unusually modest valuation.

The final new investment was **Diageo**, a leading international spirits company. Whilst most defensive food and beverages branded companies performed well last year there were some exceptions. Diageo has suffered from a slowdown in emerging markets demand for high priced spirits as well as tougher trading in the USA. However, this is a strong business, which makes high returns on investment and has attractive long term growth prospects. We made an investment over the summer when the shares were trading on a fair valuation. In a similar vein, we added to the position in British American Tobacco which had also lagged the consumer staples sector.

Elsewhere within the top ten net investments, we supported the rights issue at **UBM**, making this one of the largest investments in the Trust, as UBM acquired the US exhibitions business Advanstar. This further focused the group on the exhibitions industry which we believe has good growth prospects, high barriers to competition and strong cash flow characteristics. We also added to the holdings in pub company **Greene King** and specialist recruitment firm **SThree**. Both were modestly valued and stand to benefit from an improving macroeconomic backdrop as well as specific growth initiatives.

We believe the exhibitions industry has good growth prospects, high barriers to competition and strong cash flow characteristics.

Investment Manager's Review *(continued)*

Our option strategy once again delivered its primary objective of income generation.

As explained above, sales from the portfolio were mainly driven by shares approaching or reaching our valuation targets particularly in the more defensive industries. We sold out of **Reed Elsevier**, **BBA Aviation**, **Daily Mail & General Trust** and **Tyman**, primarily on valuation grounds, as well as taking profits on part of the holdings of **Hammerson**, Pennon and BAE Systems, amongst others. The sale of **Vodafone**, as explained in the half year report, was partially driven by profit taking as the shares reached full value, but also reflected a change in the investment case as it sold its strongest business, Verizon Wireless, leaving the group highly exposed to a tough European telecommunications market.

We sold the remaining holding in supermarket **Tesco** early in the year on concerns over the deteriorating trading environment. We also exited the position in banknote paper and printing company **De La Rue**, where competitive pressures intensified and we lost confidence that the company could turn around its fortunes in a realistic time frame. The final company amongst the top ten net sales was the pharmaceutical company **GlaxoSmithKline**. Here a succession of disappointing trading statements has reduced the strength of our conviction in the investment case, so we reduced the portfolio exposure. We still like the company's long term positioning and its increased focus on consumer health brands and vaccines, but its core respiratory franchise and drugs pipeline has proved disappointing.

Derivatives

The Trust operates a covered call overwriting strategy on a limited proportion of the portfolio to generate additional income. In "writing" or selling an option, the Trust gives the purchaser the right to buy a specific number of shares in a company at an agreed "strike" price within a fixed period. In exchange, the Trust receives an option premium which is taken to the revenue account. The Trust gets the full benefit of any move in the share price up to the strike price but not beyond. If the share price rises above the strike price there is a potential "opportunity" (but not cash) cost to the Trust as the option holder can exercise their option to buy the shares at the strike price.

Option activity was fairly limited in the year. Low market volatility for much of the period meant that the premiums available for writing options were not generally attractive and there were fewer situations that met our specific criteria. Overall, the option strategy once again delivered its primary objective of income generation, with approximately £0.6m of option premiums accrued. The strategy was also profitable, generating a small overall gain after the opportunity costs of any option exercises.

Investment Manager's Review *(continued)*

Our selective approach to option writing is driven by the investment fundamentals on each stock rather than by a separate derivatives rationale. We write calls on portions of shareholdings that we are happy to sell at the strike price, provided that the premium income received is sufficiently attractive. The options written are typically short dated with most less than 4 months' duration. The total exposure is closely monitored and is limited to 15% of the portfolio value with all option positions "covered" by shares owned. From a holistic view, it can be argued that the overall strategy slightly reduces the Trust's gearing to the equity market, neutralising some of the financial leverage. It tends to be more profitable in sideways or downwards markets but less profitable in rising markets.

Dividends

Dividend growth was modest in the UK market during the year. Whilst underlying corporate performance was generally sound, currency movements had a notable effect. For most of the year the pound was stronger against the US dollar than in the prior year. This lowered cash flows to UK companies from profits earned overseas and more directly reduced the sterling value of dividends paid in US dollars. Approximately 30% of the portfolio's current dividend income is declared in US dollars. Overall, the income received from dividends was up 2% to £29.0m, although the previous year also included £0.6m of special dividends which were not repeated. Excluding specials, dividend income was up 4% but there was also a 2.5% increase in the weighted average number of shares in issue. Other income was lower due to reduced option writing activity, leaving total income up modestly at £30.0m.

If currencies stay around current levels there should be a positive tailwind for UK dividend income in this year's important April / May dividend season. Otherwise, dividend income will depend upon corporate performance. There should be underlying dividend growth in the market this year but there are risks of dividend cuts at specific companies and in sectors like food retail, utilities and commodities that may hold back aggregate dividend growth.

Economic and Market Outlook

It is difficult to adjust mentally to a world with negative interest rates, where "investors" are willing to pay central banks and even some companies to look after their money for them. Conventional financial theory describes government bonds as "risk free" assets, but with quantitative easing (QE) and ultra-low interest rates, bond markets are not providing a reliable guide to the risks in the financial markets and the economic system. Bond yields matter to equity investors for many reasons but I will highlight two.

First, low bond yields reflect the lacklustre recovery from the global financial crisis. Whilst the US and UK economies are recovering and creating jobs, the pace of recovery is modest, fragile and dependent upon a highly stimulative interest rate policy. Inflation in consumer prices is modest and there are few signs of wage pressures outside of a few specific sectors. In Europe and Japan the economic situation is even slower and emerging economies like China, Brazil and Russia are much weaker than in recent years. Very low bond yields imply that inflation is likely to remain subdued and, in turn, that economic growth will stay below trend. This is not a favourable environment for corporate sales or profits growth. We have seen many instances of companies struggling to adapt to an era where raising prices, or even maintaining them, is difficult. This has affected businesses in industries such as food retail, pharmaceuticals, energy, mining, household goods and engineering.

Second, low bond yields affect investor behaviour. There is a search for income. Investors and pension funds requiring income are forced to move money out of the bank or bond markets into riskier assets such as equities, real estate or infrastructure to try to attain better returns. In fact, one of the prime aims of QE is to push money into the wider economy and to encourage investment. In the short term, this is helpful to investors as it increases the value of their shareholdings or properties but there is a risk that it goes too far. With government bond yields at or below 2%, it is easy to justify buying a company with a dividend yield of 3 or 4% or a prime property yielding 4% on the basis that you will probably make a better return than from government bonds if you hold the alternative asset for the long term. However, when bond yields rise, those valuations can look exposed.

We have seen many instances of companies struggling to adapt to an era where raising prices, or even maintaining them, is difficult.

Investment Manager's Review *(continued)*

Equity investors cannot escape risk. At the moment companies with less operational risk are highly priced and carry a high risk of being de-rated when market sentiment changes.

Within the stock market we can clearly see many examples of this behaviour. Companies that are regarded as high quality, reliable performers are being pushed to valuations above their historical averages and well above what is justified by the outlook for profits growth alone. We call these the "expensive defensives" and we have significantly reduced the Trust's exposure to these businesses over recent months.

Having said that, it is not all bad news. The overall market valuation level is not excessive and the Anglo Saxon economies are recovering, albeit slowly, whilst Europe seems to be showing tentative signs of improvement. The FTSE 100 Index may have recently made its first new high this century, but this has taken 15 years and share prices in aggregate are reasonable. We can still find strong companies trading at attractive valuations to buy for the portfolio, although there are, of course, specific trading risks associated with them. Equity investors cannot escape risk. At the moment companies with less operational risk are highly priced and carry a high risk of being de-rated when market sentiment changes.

Political Outlook

The general election this year is particularly hard to call and the result could have significant implications for investors. A strong result for either of the two major parties is likely to lead to the greatest uncertainty in markets. The Conservatives have promised an EU referendum which could affect the prospects for capital investment into the UK as well as de-stabilising financial markets. Labour policy is harder to predict following a Conservative coalition government, but a strong Labour government may lead to investor nervousness. Ironically, a weak coalition, or even a minority government might result in the least change in economic policy and might reassure markets in the medium term, although it would probably lead to high volatility in the near term. Overall, however, we have not changed our investment strategy ahead of the election, not least because the majority of sales and profits of the portfolio's companies comes from overseas.

Investment Manager's Review *(continued)*

Portfolio Strategy

We find the most attractive equity investments in two broad areas of the stock market at the moment. Some of the largest companies in the market look cheap, with strong balance sheets, globally spread businesses and high dividend yields. The oil majors **BP** and **Royal Dutch Shell** have been held back by the fall in the oil price but we see good value here. The industry has proven able to react to falling energy prices in the past by paring back expenditure to preserve cash flow and we are confident they can repeat this. Also, we still see value in **HSBC** and **GlaxoSmithKline** which remain large investments in the portfolio.

The other broad area of the market we continue to favour is recovery situations, for the reasons discussed above. Investments here are primarily driven by individual company circumstances and valuations but certain sectors are particularly well represented. The travel and leisure industry has a number of attractive businesses in cruising, pubs, bookmaking, cinemas and transport, where the investment cases may be different but they all stand to benefit from an improving consumer environment due to rising employment and recent falls in the cost of living. The building materials and construction sector seems to be coming out of a prolonged downturn and we expect an improving backdrop for some time to come, which supports the specific companies in the portfolio.

Another example is the industrial property sector which has lagged many other prime areas of the property market. There is increasing tenant demand as the economy recovers and as the internet encourages retailers to look for additional warehouse capacity. This is combining with limited new build and tightening supply to improve the rental outlook. We are also seeing increased investor demand pushing up industrial property prices. This trend is likely to continue in the UK and accelerate on the continent where the portfolio companies have significant assets.

In summary, therefore, whilst we are cognisant of the risks in major economies and the messages implied in the bond markets, we believe the companies in the portfolio are attractively valued and well positioned to deliver a combination of income and capital growth to meet the company's objectives.

Simon Gergel
Allianz Global Investors

We believe the companies in the portfolio are attractively valued and well positioned to deliver a combination of income and capital growth to meet the company's objectives.

"We have not changed our investment strategy ahead of the election, not least because the majority of sales and profits of the portfolio's companies comes from overseas."

Portfolio Holdings

at 31 January 2015

Listed Equity Holdings

Name	Value (£)	% of holdings	Principal Activities
Royal Dutch Shell 'B'	53,208,073	8.0	Oil & Gas Producers
HSBC	41,950,636	6.3	Banks
GlaxoSmithKline	39,007,530	5.8	Pharmaceuticals & Biotechnology
BP	33,941,250	5.1	Oil & Gas Producers
British American Tobacco	30,589,681	4.6	Tobacco
UBM	29,836,356	4.5	Media
SSE	24,054,550	3.6	Electricity
Inmarsat	21,398,004	3.2	Mobile Telecommunications
Standard Life	20,547,900	3.1	Life Insurance
BAE Systems	20,533,186	3.1	Aerospace & Defence
Top Ten Holdings	315,067,166	47.3	
Friends Life	17,731,752	2.7	Life Insurance
Centrica	17,143,230	2.6	Gas, Water & Multiutilities
BHP Billiton	16,907,386	2.5	Mining
Carnival	16,075,787	2.4	Travel & Leisure
National Grid	15,519,945	2.3	Gas, Water & Multiutilities
Marks & Spencer	15,013,300	2.3	General Retailers
CRH	14,738,400	2.2	Construction & Materials
Amec Foster Wheeler	12,982,950	1.9	Oil Equipment, Services & Distribution
Diageo	12,608,000	1.9	Beverages
Pennon	12,432,000	1.9	Gas, Water & Multiutilities
ICAP	12,351,551	1.9	Financial Services
Greene King	11,970,000	1.8	Travel & Leisure
William Hill	11,947,816	1.8	Travel & Leisure
Hansteen	11,856,731	1.8	Real Estate Investment Trusts
SThree	11,050,553	1.7	Support Services
Britvic	10,529,302	1.6	Beverages
Unilever	10,401,500	1.6	Food Producers
Tate & Lyle	10,162,500	1.5	Food Producers
Balfour Beatty	9,715,209	1.5	Construction & Materials
Sainsbury (J)	9,488,110	1.4	Food & Drug Retailers
Cineworld	8,912,522	1.3	Travel & Leisure
IG Group	7,984,509	1.2	Financial Services
Ladbrokes	7,604,550	1.1	Travel & Leisure
Smiths Group	7,375,300	1.1	General Industrials
Ashmore Group	7,013,813	1.1	Financial Services
Segro	7,009,100	1.0	Real Estate Investment Trusts
Legal & General	6,962,800	1.0	Life Insurance

Portfolio Holdings *(continued)*

at 31 January 2015

Listed Equity Holdings *(continued)*

Name	Value (£)	% of holdings	Principal Activities
Kier Group	5,970,506	0.9	Construction & Materials
Premier Farnell	5,961,360	0.9	Support Services
Man Group	5,911,270	0.9	Financial Services
Mothercare	5,713,680	0.9	General Retailers
FirstGroup	4,930,200	0.7	Travel & Leisure
Hammerson	4,819,500	0.7	Real Estate Investment Trusts
Brammer	4,165,320	0.6	Support Services
Total Listed Equities	666,027,618	100.0	

Unlisted Equity Holdings

Name	Value (£)	% of holdings	Principal Activities
First Debenture Finance	23,483	84.0	Financial Services
Fintrust Debenture	4,486	16.0	Financial Services
Total Unlisted Equities	27,969	100.0	

Written Call Options

As at 31 January 2015, the market value of the open option positions was £(310,200), resulting in an underlying exposure to 2.7% of the portfolio (valued at strike price).

Distribution of Total Assets

at 31 January 2015

	Percentage of Total Assets* at 31 January 2015	Percentage of Total Assets* at 31 January 2014
Oil & Gas		
Oil & Gas Producers	13.0	15.5
Oil Equipment, Services & Distribution	1.9	-
	14.9	15.5
Basic Materials		
Mining	2.5	3.3
	2.5	3.3
Industrials		
Aerospace & Defence	3.1	3.6
Construction & Materials	4.5	4.0
General Industrials	1.1	1.5
Industrial Transportation	-	1.0
Support Services	3.1	3.1
	11.8	13.2
Consumer Goods		
Beverages	3.4	2.0
Food & Drug Retailers	1.4	3.7
Food Producers	3.1	0.8
Tobacco	4.6	2.9
	12.5	9.4
Health Care		
Pharmaceuticals & Biotechnology	5.8	7.6
	5.8	7.6
Consumer Services		
General Retailers	3.1	3.0
Media	4.5	6.0
Travel & Leisure	9.1	7.8
	16.7	16.8

Distribution of Total Assets *(continued)*

at 31 January 2015

	Percentage of Total Assets* at 31 January 2015	Percentage of Total Assets* at 31 January 2014
Telecommunications		
Mobile Telecommunications	3.2	4.2
	3.2	4.2
Utilities		
Electricity	3.6	2.9
Gas, Water & Multiutilities	6.7	7.0
	10.3	9.9
Financials		
Banks	6.2	6.7
Financial Services	4.9	4.1
Life Insurance	6.7	3.4
Real Estate Investment Trusts	3.5	4.5
	21.3	18.7
Total Investments	99.0	98.6
Net Current Assets	1.0	1.4
Total Assets	100.0	100.0

*Total Assets (less creditors due within one year) £672,481,424 (2014 - £640,144,245)

Historical Record

year ended 31 January 2015

Revenue and Capital	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Income (£'000s)	24,714	27,750	28,495	31,730	23,687	25,741	27,305	28,313	29,827	29,958
Net revenue return per ordinary share	19.44p	22.17p	22.86p	27.25p	18.91p	21.22p	22.00p	22.90p	24.22p	23.56p
Dividend per share	18.90p	20.00p	21.60p	22.80p	22.50p	22.80p	23.00p	23.20p	23.60p	23.80p
Ordinary dividend per share	18.90p	20.00p	21.60p	22.30p	22.50p	22.80p	23.00p	23.20p	23.60p	23.80p
Special dividend per share	-	-	-	0.50p	-	-	-	-	-	-
Tax credit per share	2.10p	2.22p	2.40p	2.53p	2.50p	2.53p	2.56p	2.58p	2.62p	2.64p
Gross dividend per share	21.00p	22.22p	24.00p	25.33p	25.00p	25.33p	25.56p	25.78p	26.22p	26.44p
Total net assets attributable to ordinary capital (£'000s)	514,713	588,835	506,187	314,804	384,747	440,846	415,025	481,464	529,478	562,009
Net asset value per ordinary share (debt at par)	504.1p	567.5p	492.3p	306.2p	372.8p	427.1p	402.1p	466.5p	510.8p	516.9p
Net asset value per ordinary share (debt at market value)~	-	-	-	278.5p	356.4p	407.3p	366.2p	434.1p	486.8p	486.1p
NAV total return (%)*	+25.6	+16.4	-9.6	-33.4	+29.2	+20.7	-0.5	+21.8	+14.5	+5.8
Ordinary share price	451.0p	513.0p	425.0p	282.0p	329.1p	406.9p	363.0p	412.7p	491.5p	484.0p
Discount/premuim (debt at par)	-10.5	-9.6	-13.7	-7.9	-11.7	-4.7	-9.7	-11.5	-3.8	-6.4
Discount/premium (debt at market value)~	-	-	-	-1.3	-7.7	-0.1	-0.9	-4.9	+1.0	-0.4

Notes

* NAV total return reflects both the change in net asset value per ordinary share and the net ordinary dividends paid.

~ NAV debt at market value has been reported since 2009.

Regent Street →

The Merchants Trust PLC

Directors' Review

Directors, Investment Manager and Advisers

Directors

The current directors' details are set out below. All directors are non-executive and independent of the manager.

Simon Fraser (Chairman)

Joined the board in August 2009 and became Chairman in 2010. He is Chairman of Foreign & Colonial Investment Trust PLC and Chairman of The Investor Forum and is a non-executive director of Ashmore Group plc, Fidelity European Values PLC and Fidelity Japanese Values PLC. He spent his career at Fidelity International Limited, where he held a number of positions, including Chief Investment Officer from 1999-2005, President of Fidelity International's European and UK Institutional business and latterly President of the Investment Solutions Group.

Mike McKeon (Chairman of the Audit Committee and Senior Independent Director)

Joined the board in May 2008. He was Group Finance Director of Severn Trent Plc until 31 March 2015, when he retired from the board. Prior to that, from 2000 until 2005, he was Group Finance Director of Novar plc. He held various senior positions at Rolls-Royce plc from 1997 to 2000. He has extensive experience from a number of overseas roles, having worked at CarnaudMetalbox, Elf Atochem and PricewaterhouseCoopers LLP. He is a Chartered Accountant.

Mary Ann Sieghart

Joined the board in November 2014. She is Chair of the Social Market Foundation, a non-executive director of Henderson Smaller Companies Investment Trust PLC and a director of DLN Digital Ltd. Mary Ann sits on the Council of Tate Modern and the Content Board of Ofcom and she is a trustee of the Radcliffe Trust and holds other voluntary posts. Mary Ann is a political journalist and broadcaster and was formerly Assistant Editor of The Times, a Lex Columnist at the Financial Times and City Editor of Today.

Sybella Stanley

Joined the board in November 2014. She is Director of Corporate Finance at RELX Group plc (formerly Reed Elsevier), where she manages RELX Group's global mergers and acquisitions programmes, and is a Member of the Department of Business, Innovation and Skills' Industrial Development Advisory Board. Before joining RELX Group in 1997, Sybella was a member of the M&A advisory teams at, successively, Citi and Barings. She is a trustee of the Britten-Pears Foundation and a member of the Somerville College Oxford Development Board. Sybella is a barrister.

Paul Yates

Joined the board in March 2011. He is Chairman of the Advisory Board of 33 St James's Limited and is a non-executive director of Aberdeen UK Tracker Trust plc. He has had a long career in investment management beginning at Samuel Montagu & Co in 1980. He joined Phillips and Drew in 1985 – the year that it was acquired by UBS. He held a number of positions at UBS, covering management, portfolio management, pensions, strategy and client service. He was CEO of UBS Global Asset Management (UK) Limited between 2001 and 2005. After undertaking a number of global roles at UBS he retired in 2007.

Directors, Investment Manager and Advisers *(continued)*

The Manager

Allianz Global Investors GmbH is an investment company with limited liability incorporated in Germany and registered in the UK as a branch with establishment number BR009058 and with an establishment address of 199 Bishopsgate, London EC2M 3TY. It is authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and is subject to limited regulation by the Financial Conduct Authority (FCA).

Allianz Global Investors are active asset managers operating across 19 markets with specialised in-house research teams around the globe, managing assets for individuals, families and institutions worldwide.

As at 31 December 2014, Allianz Global Investors had €412 billion of assets under management worldwide.

Through its predecessors, Allianz Global Investors has a heritage of investment trust management expertise in the UK reaching back to the nineteenth century and as at 31 December 2014 had £1.2 billion of assets under management in a range of investment trusts. Website: www.allianzgi.co.uk

Head of Investment Trusts

Melissa Gallagher
Email: melissa.gallagher@allianzgi.com

Investment Manager

Simon Gergel, representing Allianz Global Investors GmbH, UK Branch, 199 Bishopsgate, London EC2M 3TY.

Company Secretary and Registered Office

Kirsten Salt BA (Hons) ACIS,
199 Bishopsgate, London EC2M 3TY
Telephone: 020 7065 1513
Email: kirsten.salt@allianzgi.com

Registered Number

28276

Independent Auditors

PricewaterhouseCoopers LLP

Bankers

HSBC Bank plc,
Barclays Bank plc

Registrars

Capita Asset Services
(full details on page 77)

Solicitors

Herbert Smith Freehills LLP

Stockbrokers

J.P. Morgan Securities Limited

Directors' Report

The directors present their report and the audited financial statements of the company for the year ended 31 January 2015.

Revenue

The net return attributable to ordinary shareholders for the year amounted to £24,950,147 or 23.6p per share (2014 – £25,012,848, 24.2p per share).

The first and second interim dividends of £6,198,744 and £6,279,869, respectively, or 5.9p per share, have been paid during the year. Since the year end the third interim dividend of £6,523,708, or 6.0p per share, was paid on 25 February. Subject to shareholder approval, a final dividend of 6.0p will be payable on 22 May 2015. In accordance with FRS 21 'Events after the Balance Sheet Date', the third interim dividend and final dividend are not recognised as liabilities within the financial statements on the basis that at the year end the third interim dividend had not been paid and the final dividend not approved by the shareholders.

Historical Record

The distribution of total assets is shown on pages 26 and 27, and the historical record of the company's revenue, capital and invested funds over the past ten years is shown on page 28. Graphs appear on page 7 showing the performance on a total return basis over the past ten years of the net asset value of the company's ordinary shares against the FTSE 100 Index, the growth in net ordinary distributions made by the company against the Retail Price Index, the company's discount/premium to net asset value and the dividend yield compared to the FTSE 100 Index, UK gilt yield and cash, over the same period.

Invested Funds

Sales of investments during the year resulted in net gains based on historical costs of £26,890,447 (2014 – gains of £51,355,968). Provisions contained in the Finance Act 2010 exempt approved investment trusts from corporation tax on their chargeable gains.

Share Issuance

During the previous year Merchants announced that, given the demand for the company's shares, it had adopted a policy of issuing shares at a premium to net asset value, cum income with debt at market value, to meet natural demand in the market, and at a price that would not be dilutive to existing shareholders. This programme continued into the year to 31 January 2015, and 5,065,000 shares were issued at an average premium of 1.5% (2014 - 1.5%). Since the year end no further shares have been issued.

Future Development

The future development of the company is dependent on the success of the company's investment strategy against the economic environment and market developments. The Chairman's Statement on pages 2 to 4 sets out the outlook for the company and the investment manager also discusses his view of the outlook for the company's portfolio in his report beginning on page 16. The future is also discussed in the Strategic Report on page 14.

Going Concern

The directors have considered the company's investment objective and capital structure and, having noted that the portfolio consists mainly of securities which are readily realisable, have concluded that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

Section 992 of the Companies Act 2006

The following information is disclosed in accordance with Section 992 of the Companies Act 2006.

Capital Structure

The company's capital structure is summarised in Note 11 on page 65. The details of the 4% perpetual debenture stock and the 3.65% cumulative preference stock are provided in notes 10(iv) and 10(v) respectively on page 65.

Directors' Report *(continued)*

Voting Rights in the Company's Shares

The voting rights at 10 April 2015 were:

Share class	Number of shares issued	Voting rights per share	Total voting rights
Ordinary shares of 25p	108,728,464	1	108,728,464
3.65% cumulative preference stock of £1	1,178,000	1	1,178,000
Total	**109,906,464**		**109,906,464**

Every member on a show of hands has one vote. On a poll every member who is present in person or by proxy or representative has one vote for every £1 in nominal amount of preference stock or one vote for every ordinary share of 25p. The perpetual debenture stock and bonds carry no voting rights.

Interests in the Company's Share Capital

As at 10 April 2015 the following had declared a notifiable interest in the company's issued share capital:

Ordinary Shares

Name	Number of shares	Percentage of voting rights
Legal & General Group PLC	4,099,823	3.94
Axa SA	3,664,667	3.48

This represents no change since the year end.

The rules concerning the appointment and replacement of directors, amendment of the Articles and powers to issue or buy back the company's shares are contained in the Articles of the company and the Companies Act 2006.

Directors

Biographical details of the current directors at the date of the signing of this report are shown on page 30.

All of the directors are retiring at the annual general meeting and each offers themself for re-election or election, if this is their first annual general meeting since appointment. The board considers each director to be independent of the manager and each has the full support of the board in standing for re-election or election. Following a formal performance evaluation conducted by the chairman it was noted that each director's individual performance continues to be effective and each director demonstrates commitment to his or her role.

All directors attended all board and relevant committee meetings during the year.

No contracts of significance in which directors are deemed to have been interested have subsisted during the year under review.

Contracts of service are not entered into with the directors, who hold office in accordance with the company's Articles.

Directors' and officers' liability insurance cover is held by the company and deeds of indemnity are entered into with the directors. The indemnity is a qualifying third-party provision under the Companies Act 2006.

Directors' Report *(continued)*

Related Party Transactions

During the financial year no transactions with related parties have taken place which would materially affect the financial position or the performance of the company.

Management Contract and Management Fee

The management contract with Allianz Global Investors GmbH, UK Branch (AllianzGI) provides for a fee of 0.35% per annum (2014 – 0.35%) of the value of the assets, calculated quarterly, after deduction of current liabilities, short term loans under one year and any funds within the portfolio managed by AllianzGI. The management contract is terminable at one year's notice (2014 – one year). Under the contract, other than a year's fees which may be paid in lieu of notice, there are no compensation payments due on termination.

The manager's performance under the contract and the contract terms are reviewed at least annually by the Management Engagement Committee. This committee consists of the directors not employed by the management company in the past five years and therefore includes the entire board. During the year, the committee met the manager to review the current investment framework, including the trust's performance, marketing activity and total expense ratio.

The committee also reviewed the terms of the management contract and considered the level of the management fee. The committee was satisfied with its review and believes that the continuing appointment of the manager is in the best interests of shareholders as a whole.

Individual Savings Accounts

The affairs of the company are conducted in such a way as to meet the requirements for an Individual Savings Account and it is the intention to continue to do so.

Political Donations

The company made no political donations in the year (2014 - nil).

Corporate Governance Statement

The board has considered the principles and recommendations of the AIC Code of Corporate Governance 2013 (AIC Code) and been guided by the AIC Corporate Governance Guide for Investment Companies (AIC Guide). Both documents can be found on the AIC website www.theaic.co.uk. As confirmed by the Financial Reporting Council, following the AIC Guide enables investment company boards to meet their obligations under the UK Corporate Governance Code and Listing Rules. The company has complied with the current recommendations of the AIC Code and the relevant provisions of UK Corporate Governance Code, except in relation to the UK Corporate Governance Code provisions relating to: the role of the chief executive; executive directors' remuneration; the remuneration committee; and the need for an internal audit function. For the reasons set out in the AIC Guide, and in the preamble to the UK Corporate Governance Code, the board considers these provisions are not relevant to the company as it is an externally managed investment company.

The full text of the company's Corporate Governance Statement is on the website http://www.merchantstrust.co.uk/Tenants/AGITrusts/Content/Documents/Corporate/Merchants/Corporate_Governance_Statement.pdf.

Attendance by the directors at formal board and committee meetings during the year was as follows:

Director	Board	Audit Committee	Nomination Committee	Management Engagement Committee
Number of meetings	6	2	1	1
Simon Fraser	6	2†	1	1
Mike McKeon	6	2	1	1
Mary Ann Sieghart*	2	-	-	-
Sybella Stanley*	2	-	-	-
Henry Staunton~	5	2	1	1
Paul Yates	6	2	1	1

† Invited to attend meetings, although not a committee member.
* Appointed to the board on 3 November 2014.
~ Retired from the board on 31 December 2014.

Special Rights Disclosure

There are no restrictions concerning the transfer of securities in the company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the company; no agreements which the company is party to that might affect its control following a takeover bid; and no agreements between the company and its directors concerning compensation for loss of office.

The company is not aware of any agreements between holders of securities with regard to control of the company which may result in restrictions on voting rights.

Conflicts of Interest

The Companies Act 2006 provides that a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the company's interests. Directors are able to authorise these conflicts and potential conflicts. The board reports annually on the company's procedures for ensuring that its powers of authorisation of conflicts are operated effectively and that the procedures have been followed.

Each of the directors has provided a statement of all conflicts of interest and potential conflicts of interest relating to the company. These statements have been considered and approved by the board. The directors have undertaken to notify the Chairman and Company Secretary of any proposed new appointments and new conflicts or potential conflicts for consideration, if necessary, by the board. The board has agreed that only directors who have no interest in the matter being considered will be able to take the relevant decision and that in taking the decision the directors will act in a way they consider, in good faith, will be most likely to promote the company's success. The board is able to impose limits or conditions when giving authorisation if it thinks this is appropriate.

The board confirms that its powers of authorisation are operating effectively and that the agreed procedures have been followed.

Board Composition and Succession Planning

During the year two new directors were appointed. Mary Ann Sieghart and Sybella Stanley joined the board on 3 November, and Henry Staunton retired from the board on 31 December 2014. The number of directors now stands at five.

The board has issued a statement giving support to the intention of the Davies Review 'Women on boards' to encourage diversity on the boards of companies. There are no current plans to recruit further new directors, but the board continues to keep this under review. In the last recruitment exercise, the board sought to identify a wide spectrum of candidates and to take gender into account. The board engaged Nurole to facilitate the selection process. This resulted in the board reviewing a long, diverse list of high calibre applicants and the appointment to the board of Mary Ann Sieghart and Sybella Stanley in November 2014 from the very strong shortlist of eight candidates. The board's aim is to continue with a policy of shortlisting women in the search for new directors.

Board Committees

Audit Committee

The Audit Committee Report is on pages 41 and 42.

Nomination Committee

The Nomination Committee meets at least once each year and makes recommendations on the appointment of new directors and the re-election of existing directors by shareholders. The committee also determines the process for the annual evaluation of the board. The committee is chaired by Simon Fraser, the Chairman of the board. All directors serve on the committee and consider nominations made in accordance with an agreed procedure. The recruitment process for new directors is for the board to appoint external consultants to nominate candidates for the committee to consider.

Management Engagement Committee

The Management Engagement Committee meets at least once each year to review the management agreement and the manager's performance. It has defined terms of reference and consists of the non-executive directors and would exclude any directors previously employed by the manager. It is chaired by Simon Fraser, the Chairman of the board.

Terms of Reference

The terms of reference for each of the committees may be viewed by shareholders on request and are published on the website www.merchantstrust.co.uk.

The board has not constituted a remuneration committee; all directors are non-executive and remuneration matters are dealt with by the whole board.

Directors' Report *(continued)*

Financial Reporting

The Statement of Directors' Responsibilities in respect of the financial statements is on page 40. The Independent Auditors' Report can be found on pages 47 to 50.

Auditors' Information

Each of the persons who is a director at the date of approval of this report confirms that:

(a) in so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

(b) the director has taken all the steps he or she ought to have taken as a director in order to make himself/ herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Internal Control

The directors have overall responsibility for the company's system of internal control and are responsible for reviewing the effectiveness of the company's systems of internal control. Whilst acknowledging their responsibility for the system of internal control, the directors are aware that such a system is designed to manage rather than eliminate the risk of a failure to achieve business objectives and can provide only reasonable but not absolute assurance against material misstatement or loss.

The board has established an ongoing process for identifying, evaluating and managing the risks faced by the company. The process has been fully in place throughout the year under review and up to the date of signing of this Annual Financial Report.

The key elements of the procedures that the directors have established and which are designed to provide effective internal control are as follows:

- The board, assisted by the manager, undertook a full review of the company's business risks and these are analysed and recorded (see page 13). Every six months the board receives from the manager a formal report which details any known internal controls failures, including those that are not directly the responsibility of the manager. The board continues to check that good systems of internal control and risk management are embedded in the operations and culture of the company and its key suppliers.
- Allianz Global Investors GmbH, UK Branch (AllianzGI), as the manager, provides investment management, accounting and company secretarial services to the company. The manager therefore maintains the internal controls associated with the day to day operation of the company. These responsibilities are included in the management agreement between the company and the manager. The manager's system of internal control includes organisation arrangements with clearly defined lines of responsibility and delegated authority as well as control procedures and systems which are regularly evaluated by management and monitored by its internal audit department. The company receives reports at least annually from the manager on its internal controls. The company, in common with other investment trusts, has no internal audit department, but the effectiveness of the manager's internal controls is monitored by Allianz Global Investors' internal audit function.
- There is a regular review by the board of asset allocation and any risk implications. There is also regular and comprehensive review by the board of management accounting information including revenue and expenditure projections, actual revenue against projections and performance comparisons.
- Authorisation and exposure limits are set and maintained by the board.
- The audit committee assesses the systems of controls of third party service providers by reviewing internal control reports of those parties including the manager, the company's registrars, Capita Asset Services and the custodian, HSBC Bank plc.

The audit committee has received reports from each of its service providers on the anti-bribery policies of these third parties. It receives reports on compliance with the manager's anti-bribery policy.

The directors confirm that the audit committee has reviewed the effectiveness of the system of internal control. During the course of its review of the system of internal control, the board has not identified nor been advised of any failings or weaknesses which it has determined to be significant.

Relations with Shareholders

The board strongly believes that the annual general meeting should be an event which private shareholders are encouraged to attend. The annual general meeting is attended by the Chairman of the board, the Chairmen of the board's committees and the directors, and the investment manager makes a presentation at the meeting. The number of proxy votes cast in respect of each resolution will be made available at the annual general meeting.

The manager meets with institutional shareholders on a regular basis and reports to the board on matters raised at these meetings. The Chairman and, where appropriate, other directors, are available to meet with shareholders to discuss governance and strategy and to understand their issues and concerns. All correspondence with shareholders is reviewed by the board.

Shareholders who wish to communicate directly with the Chairman, the Senior Independent Director or other directors may write care of the Company Secretary, The Merchants Trust PLC, 199 Bishopsgate, London EC2M 3TY.

The notice of meeting sets out the business of the meeting and special resolutions are explained more fully later in the Directors' Report. Separate resolutions are proposed for each substantive issue.

The UK Stewardship Code and Exercise of Voting Powers

The company's investments are held in a nominee name. The board has delegated discretion to discharge its responsibilities in respect of investments, including the exercise of voting powers on its behalf to the manager, AllianzGI. The UK Stewardship Code sets out good practice on engagement with investee companies. It provides an opportunity to bring together UK and overseas investors committed to the high quality dialogue with companies needed to underpin good governance.

By creating a sound basis of engagement it should create a much needed stronger link between governance and the investment process, and support the concept of "comply or explain" as applied by listed companies. The Financial Reporting Council therefore sees it as complementary to the UK Corporate Governance Code for listed companies. Allianz Global Investors' policy statement on the Stewardship Code can be found on its website. The board has reviewed this policy statement and is satisfied that the company's delegated voting powers are being properly executed and is working with AllianzGI to assess the effectiveness of the Stewardship Code in practice.

The board has noted the manager's statement of its corporate governance aims and objectives, summarised as:

"Our primary corporate aim is to maximise shareholder value through the securing of corporate performance whilst protecting this value through operating within established rules of conformance.

Our primary investment management aim is to meet or exceed our clients' expectations through generating first class returns within the constraint of their risk tolerance.

Allianz Global Investors votes in all markets wherever possible, and strives actively to encourage both improved levels of disclosure among companies and proper voting infrastructure among custodians and agents globally."

In the UK, AllianzGI is a member of the National Association of Pension Funds and the International Corporate Governance Network, and abides by these organisations' founding principles. These guidelines also take into account international codes of corporate governance from a number of sources, including Employment Retirement Income Security Act legislation and Department of Labor recommendations in the U.S. where appropriate.

Where directors hold directorships on the boards of companies in which the company is invested, they do not participate in decisions made concerning those investments.

Allianz Global Investors (AllianzGI) subscribes to the ISS Proxy Voting Services. ISS manages the voting process and recommends actions based upon AllianzGI's Global Proxy Voting Policy Guidelines. Where recommendations are for a vote to be cast against a resolution or for an abstention, and for all extraordinary general meeting resolutions, the relevant portfolio managers or analysts are consulted and may decide on a different course of action. The reasons for such deviations are recorded as are all the reasons for abstaining on or voting against any resolution. An extract from the company's voting record in the previous year will be available for inspection at the annual general meeting each year.

Greenhouse Gas Emissions

The company has an external manager, Allianz Global Investors, part of Allianz Group, and has no physical assets, operations, premises or employees of its own. Consequently it has no greenhouse gas emissions to report. Allianz Group reports on the greenhouse gas emissions for its own operations.

Directors' Report *(continued)*

Annual General Meeting

1. Allotment of New Shares

Approval is sought in Resolution 11 for the renewal of the directors' authority to allot relevant securities, in accordance with section 551 of the Companies Act 2006, up to a maximum number of 36,242,821 ordinary shares, representing approximately one third of the existing ordinary share capital. This authority is renewable annually and will expire at the conclusion of the annual general meeting in 2016.

2. Disapplication of Pre-emption Rights

A resolution was passed at the annual general meeting held on 21 May 2014 in accordance with section 570 of the Companies Act 2006, to authorise the directors to allot ordinary shares for cash other than pro rata to existing shareholders. The authority is renewable annually and expires at the conclusion of the annual general meeting in 2015. Special resolution 12 is therefore proposed under special business at the forthcoming annual general meeting to renew this authority until the conclusion of the annual general meeting in 2016 or 20 August 2016 if earlier. This power is limited to a maximum number of 10,872,846 ordinary shares, being approximately 10% of the issued ordinary share capital of the company as at the date of this report, provided that there is no change in the issued share capital between the date of this report and the annual general meeting to be held on 20 May 2015.

Authority will also be sought in Resolution 12 to disapply pre-emption rights in respect of the allotment of shares by the sale and reissue of shares held by the company as treasury shares.

The directors may allot shares under these authorities to take advantage of opportunities in the market as they arise but only if they believe it would be advantageous to the company's existing shareholders to do so. The directors confirm that no allotment of new shares will be made unless the lowest market offer price of the ordinary shares is at least at a premium to net asset value, valuing debt at market value.

3. Purchase of Own Shares

The board is proposing that the company should be given renewed authority to purchase ordinary shares in the market for cancellation. The board believes that such purchases in the market at appropriate times and prices are a suitable method of enhancing shareholder value. The company would make either a single purchase or a series of purchases, when market conditions are suitable, with the aim of maximising the benefits to shareholders and within guidelines set from time to time by the board.

Under the Companies Act 2006, the company is allowed to hold its own shares in treasury following a buyback, instead of having to cancel them. This gives the company the ability to reissue treasury shares quickly and cost-effectively (including pursuant to the authority under resolution 12, see above) and provides the company with additional flexibility in the management of its capital base. Such shares may be resold for cash but all rights attaching to them, including voting rights and any right to receive dividends are suspended whilst they are in the treasury. If the board exercises the authority conferred by resolution 12, which will be proposed as a Special Resolution, the company will have the option of either holding in treasury or of cancelling any of its shares purchased pursuant to this authority and will decide at the time of purchase which option to pursue.

Where purchases are made at prices below the prevailing net asset value of the ordinary shares, this will enhance net asset value for the remaining shareholders. It is therefore intended that purchases would only be made at prices below net asset value, with the purchases to be funded from the capital reserves of the company (which are currently in excess of £450 million). The rules of the UK Listing Authority (Listing Rules) limit the price which may be paid by the company to 105% of the average middle-market quotation for an ordinary share on the five business days immediately preceding the date of the relevant purchase. The minimum price to be paid will be 25p per ordinary share (being the nominal value). Overall, this proposed share buy-back authority, if used, could help to reduce the discount to net asset value when the company's shares trade at a discount.

The board considers that it will be most advantageous to shareholders for the company to be able to continue to make such purchases as and when it considers the timing to be most favourable and therefore does not propose to set a timetable for making any such purchases.

Under the Listing Rules, the maximum number of shares which a listed company may purchase through the market pursuant to a general authority such as this is equivalent to 14.99% of its issued share capital. For this reason, the company is limiting its renewed authority to make such purchases to 16,298,396 ordinary shares, representing 14.99% of the issued share capital, provided that there is no change in the issued share capital between the date of this report and the annual general meeting to be held on 20 May 2015.

In addition to renewing its powers to buy back and cancel shares, the board will seek shareholder authority to reissue shares from treasury.

Directors' Report *(continued)*

The authority in accordance with section 701 of the Companies Act 2006, will last until the annual general meeting of the company to be held in 2016 or the expiry of 15 months from the date of the passing of this resolution, whichever is the earlier. The authority will be subject to renewal by shareholders at subsequent annual general meetings.

4. Independent Auditors

The directors will place a resolution before the annual general meeting to reappoint PricewaterhouseCoopers LLP as statutory auditors for the ensuing year. A resolution to authorise the directors to determine the auditors' remuneration will also be proposed at the annual general meeting.

5. Amendment to the Articles of Association

The AIFM Regulations 2013, formally The Alternative Investment Fund Managers Directive 2011/61/EU, which implemented the Alternative Investment Fund Managers Directive in the UK (AIFM Regulations) came into force on 22 July 2013. The AIFM Regulations require that the company has a depositary. Under the AIFM Regulations, the depositary has strict liability for the loss of the company's financial assets in respect of which it has safe-keeping duties (save in limited circumstances). This rule applies even where the depositary has delegated the actual custody of an asset to another entity. The company may wish to hold assets in a country where the depositary is required by local law to use a local sub-custodian to hold the relevant asset. The depositary may not wish the company to acquire or retain such an asset, unless it can discharge its strict liability to the local sub-custodian. A discharge of such strict liability in these circumstances will only be possible if the company's rules or instruments of incorporation (for example, the Articles of Association) permit such a discharge. The board is aware that situations may arise (although the board would expect this to occur very rarely) where allowing the depositary to discharge its strict liability will be commercially necessary or desirable. An amendment to the Articles of Association is therefore proposed with the effect of enabling the board, should the need arise and subject to applicable laws, to allow a depositary to discharge its strict liability in such circumstances. This proposed amendment provides the company with commercial flexibility and the board will exercise its discretion in the usual way in determining whether or not to provide such a discharge. The proposed amendments to the Articles of Association will be available for inspection at 199 Bishopsgate, London EC2M 3TY from the date of this report until the close of the forthcoming annual general meeting and will also be available for inspection at the place of the forthcoming AGM for at least 15 minutes before and during that AGM.

The board and the Annual Report

The board reviewed the entire annual report and noted all the supporting information received. It then considered whether the annual report satisfactorily reflected a true picture of the company and its activities and performance in the year, with a clear link between the relevant sections of the report. The directors were then able to confirm that the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

By order of the board

Kirsten Salt
Company Secretary
13 April 2015

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Company law also requires that the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the net return of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors each have a duty to make themselves aware of any "relevant audit information" and ensure that the auditors have been made aware of that information. A disclosure stating that each director has complied with that duty is given in the Directors' Report.

The directors are responsible for ensuring that the Annual Financial Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

The financial statements are published on www.merchantstrust.co.uk, which is a website maintained by the company's investment manager, AllianzGI. The directors are responsible for the maintenance and integrity of the company's website. The work undertaken by the auditors does not involve consideration of the maintenance and integrity of the website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement under Disclosure and Transparency Rule 4.1.12

The directors at the date of approval of this report, each confirm to the best of their knowledge that:

- the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the company;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

For and on behalf of the board

Simon Fraser
Chairman
13 April 2015

Audit Committee Report

I am pleased to present the report of the audit committee for the year ended 31 January 2015.

Composition

The audit committee consists of all of the independent non-executive directors, with the exception of the Chairman of the board. The committee considers that, collectively, its members have sufficient recent and relevant financial experience to discharge their responsibilities fully. I am a chartered accountant and have current recent experience as a Group Financial Director of a FTSE 100 company and previously in a similar capacity in other large companies.

Role

The principal role of the Audit Committee is to assist the board in relation to the reporting of financial information, the review of financial controls and the management of risk. The committee has defined terms of reference and duties and the terms of reference are published on the company's website. These include:

- responsibility for the review of the Annual Report and the Half-yearly Report;
- the nature and scope of the external audit and the findings therefrom; and
- the terms of appointment of the auditors, including their remuneration and the provision of any non-audit services by them.

Non-audit services

Non-audit services received in the year related to certificates supplied in connection with the covenants under the debenture trust deeds and the audit committee agreed that it was appropriate that the company's auditors should be asked to provide these services.

Fees for non-audit services were £4,450 in the year (2014 - £4,320). These fees are considered by the audit committee to be proportionate to the fees for audit services of £28,295 (2014 - £25,530) plus £9,900 additional fee for one off audit scope changes. This non-audit work was found not to have a significant impact on the financial statements.

Activities

During the year the committee met twice during which the Annual Report and the Half-yearly Report respectively were reviewed in detail. These meetings were attended by representatives of the manager including the UK heads of both the compliance and risk departments. At each meeting the committee received reports on the operation of financial controls relating to the company and the proper conduct of its business in accordance with the regulatory environment in which both the company and the manager operate. Specifically, the committee looked at the processes and performance of one of its outsourced service providers to ensure that it met all current governance requirements. The committee also considered the auditor's report on the annual report, the planning and the process of the audit and the auditor's independence and objectivity. The audit committee believes the performance of the auditor is satisfactory and recommended the reappointment of PricewaterhouseCoopers as auditor of the company to the board. The audit committee reviews the company's accounting policies and considers their appropriateness. The committee also reviews the terms of appointment of the auditors together with their remuneration.

Risk

The committee considered a matrix of risks at each of its meetings and there is more detail on the process of these reviews in the Strategic Report on page 13.

Internal audit

The audit committee continues to believe that the company does not require an internal audit function of its own as it delegates its day to day operations to third parties from whom it receives internal controls reports.

Whistleblowing

As the company has no employees it does not have a formal policy concerning the raising, in confidence, of any concerns about improprieties, whether in matters of financial reporting or otherwise, for appropriate independent investigation. The audit committee has, however, received and noted the manager's policy on this matter. Any matters concerning the company may be raised with the Chairman or the Senior Independent Director.

Audit Committee Report *(continued)*

Financial Report and Significant Issues

The audit committee met with the auditors at the half-year point to discuss the audit plan for the year and identify the significant issues to be dealt with in the review of the year end results.

Significant issues considered by the audit committee in the year

Risk	Activity
The risk that income from the portfolio of investments was not correctly recognised and accounted for.	The committee noted that the board receives income forecasts throughout the year and is able to compare these against actual income received. The committee has also received assurances from the manager that the company's stated accounting policies, which are set out on pages 56 and 57, were noted and adhered to.
Risks around the existence of and the valuation of investments.	The company's assets are principally invested in listed equities. The committee reviewed internal controls reports from the manager in the year reporting on the systems and controls around the pricing and valuation of securities. The committee notes that investments are valued using stock exchange prices provided by third party financial data vendors. The committee also reviews the valuation of unlisted investments.

These and other matters, identified as posing lesser risk, were considered and discussed with the manager and the auditors as part of the year end process.

We also agreed the degree of materiality that the auditors would apply in their work, which is £5.6m million, or about 1% of Net Assets, although the auditors would bring to the audit committee's attention any significant misstatements below that level.

The audit, its effectiveness and the reappointment of the auditor

The committee reviewed the terms of appointment of the auditor, monitored the audit process, assessed the auditor's independence, objectivity and the effectiveness of the audit process, including the provision of non audit services by the firm, and determined that they have had no impact on the auditor's independence and objectivity.

As part of the review of the auditor, the members of the committee and those representatives of the manager involved in the audit process reviewed and considered a number of areas including: the reputation and standing of the audit firm; the audit processes, evidence of partner oversight and external information about the firm; the skills, experience and specialist knowledge of the audit team, particularly relating to investment trusts; audit communication including details of planning, information on relevant accounting and regulatory developments, and recommendations on corporate reporting; the reasonableness of audit fees; and the Financial Reporting Council's Audit Quality Report on PricewaterhouseCoopers LLP for 2013/14.

The committee was satisfied that the audit process was effective for the year under review.

The committee considered the representations made by the auditor and sought comments from representatives of the manager on the provision of services by the auditor and the effectiveness of the external audit. The audit committee believes that the performance of the auditor is satisfactory and has recommended to the board that a resolution proposing the re-appointment of the auditor is put to shareholders at the annual general meeting.

Auditor's tenure

PricewaterhouseCoopers LLP have acted as auditor to the company for over twenty years. EU audit legislation has been published in the past year which will require the rotation of PricewaterhouseCoopers LLP as the audit firm by 2020 . The current partner, Jeremy Jensen, will have completed five years on the company's audit in 2018 and it is the view of the audit committee that it will look to tender the audit at this time.

Mike McKeon
Audit Committee
Chairman
13 April 2015

Directors' Remuneration Report

The Remuneration Report

This is the Directors' Remuneration Report for the year. The report is submitted in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 for the year ended 31 January 2015. An ordinary resolution for the approval of the Directors' Remuneration Policy Report was put to a binding shareholder vote at the last annual general meeting and is next due to be placed before the shareholders for approval at the annual general meeting in 2017. The results of the vote at the 2014 AGM for this resolution were as follows: In favour 26.4%, Against 1.1% and Withheld 0.8% (29,721,728 votes). The results of the advisory vote at the 2014 AGM for the resolution to approve the Implementation Report were as follows: In favour 26.3%, Against 1.2% and Withheld 0.8% (29,721,730 votes). The Directors' Remuneration Implementation Report will be put to an advisory shareholder vote at this year's AGM.

The information provided in this part of the Directors' Remuneration Report is not subject to audit unless specified below.

The Board

The board of directors is composed solely of non-executive directors and the determination of the directors' fees is a matter dealt with by the whole board. The board has not been provided with advice or services by any person to assist it to make its remuneration decisions, although the directors carry out reviews from time to time of the fees paid to the directors of other investment trusts.

Directors' Shareholdings and Share Interest (Audited)

The interest of the directors at the year end in the ordinary share capital of the company are set out below:

	2015	2014
Simon Fraser	20,000	20,000
Mike McKeon	5,450	5,450
Mary Ann Sieghart	1,000	-
Sybella Stanley	3,114	-
Henry Staunton*	-	10,000
Paul Yates	10,000	10,000

* Retired 31 December 2014

The company's Articles provide for directors to hold qualifying shares in the nominal amount of £100, i.e., currently 400 shares.

Directors' Remuneration Policy

No director has a service contract with the company. The company's policy is for the directors to be remunerated in the form of fees, payable half-yearly in arrears. There are no long term incentive schemes, bonuses, pension benefits, share options or other benefits and fees are not related to the individual director's performance, nor to the performance of the board as a whole.

The company's Articles limit the aggregate fees payable to the board of directors to a total of £200,000 per annum. Subject to this overall limit, it is the board's policy to determine the level of directors' fees having regard to the level of fees payable to non-executive directors in the investment trust industry generally, the role that individual directors fulfil, and the time committed to the company's affairs. The board believes that levels of remuneration should be sufficient to attract and retain non-executive directors to oversee the company.

Directors are entitled to be reimbursed for any reasonable expenses properly incurred by them in connection with the performance of their duties and attendance at meetings. There are no agreements between the company and its directors concerning compensation for loss of office.

The company's Articles also provide that additional discretionary payments can be made for services which in the opinion of the directors are outside the scope of the ordinary duties of a director.

This Directors' Remuneration Policy is the same in all material respects as that currently followed by the board and summarised in the last Directors' Remuneration Report and approved by the shareholders at the annual general meeting held on 21 May 2014. This policy is intended to take effect immediately upon its approval by shareholders.

The company has no employees and consequently has no policy on the remuneration of employees.

The board will consider, where raised, shareholders' views on directors' remuneration. No comments have been received on this subject in the past year.

Directors' Remuneration Report *(continued)*

Annual Statement and Directors' Remuneration Implementation Report

Directors' Emoluments (Audited)

The policy is to review directors' fee rates from time to time, but reviews will not necessarily result in a change to the rates.

In the year under review the directors were paid at a rate of £23,000 per annum and the Chairman at a rate of £35,000 per annum, with an additional £4,500 for the Chairman of the Audit Committee. The current fees have applied since 1 February 2014.

The fees were reviewed after the end of the year and the following new fees apply with effect from 1 February 2015: directors' fees are £24,000 per annum, the Chairman's fees are £36,500 per annum, with an additional £5,000 for the Chairman of the Audit Committee.

The directors' emoluments during the year and in the previous year, all of which were in the form of fees, were as follows:

	Directors' fees	
	2015 £	2014 £
Simon Fraser	35,000	33,000
Mike McKeon	27,500	25,750
Mary Ann Sieghart*	5,750	-
Sybella Stanley*	5,750	-
Henry Staunton ~	21,083	22,000
Paul Yates	23,000	22,000
Totals	**118,083**	**102,750**

* Appointed to the board on 3 November 2014
~ Retired from the board on 31 December 2014

Analysis of Pay against Distributions

A table showing actual expenditure by the company on remuneration and distributions to shareholders for the year and the prior year is below:

Expenditure by the company on remuneration and distributions to shareholders

	2015 £	2014 £
Remuneration paid to all directors	118,083	102,750
Distributions to shareholders	25,526,029	24,405,576

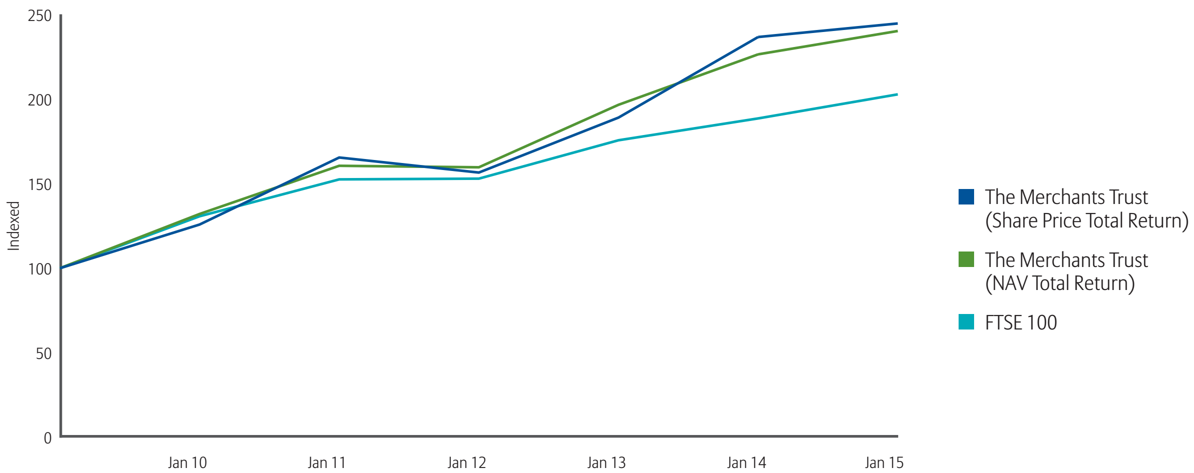
The disclosure is a statutory requirement, however the directors do not consider that the comparison of directors' remuneration with distributions to shareholders is a meaningful measure against the company's overall performance.

Directors' Remuneration Report *(continued)*

Performance Graph

The graph below measures the company's share price and net asset value performance against its benchmark index of the FTSE 100 Index and is re-based to 100.

The company's performance is measured against the FTSE 100 Index as this is the most appropriate comparator in respect of its asset allocation. An explanation of the company's performance is given in the Chairman's Statement and the Investment Manager's Review.



Source: AllianzGI / Datastream in GBP
Figures have been rebased to 100 as at January 2009

Signed on behalf of the board

Simon Fraser
Chairman
13 April 2015

The Merchants Trust PLC

Independent Auditors' Report

Independent Auditors' Report to the members of The Merchants Trust PLC

Report on the financial statements

Our opinion

In our opinion, The Merchants Trust PLC's financial statements (the financial statements):

- give a true and fair view of the state of the company's affairs as at 31 January 2015 and of its net return and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

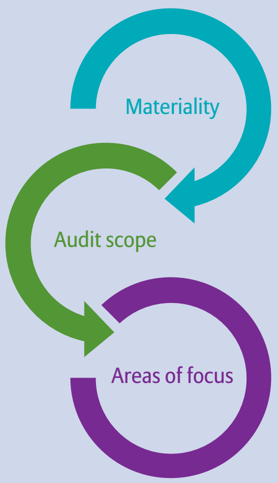
The Merchants Trust PLC's financial statements comprise:

- the Balance Sheet as at 31 January 2015;
- the Income Statement for the year then ended;
- the Reconciliation of Movements in Shareholders' Funds for the year then ended;
- the Cash Flow Statement for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our audit approach



Overview
Overall materiality: £5.6 million which represents 1% of net assets.
The company is a standalone Investment Trust Company and engages Allianz Global Investors GmbH (the Manager) to manage its assets.
We conducted our audit of the financial statements at The Bank of New York Mellon (International) Limited (the Administrator) to whom the Manager has, with the consent of the directors, delegated the provision of certain administrative functions.
We tailored the scope of our audit taking into account the types of investments within the company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the company operates.
Income.
Valuation and existence of investments.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)).

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table on the next page. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Independent Auditors' Report to the members of The Merchants Trust PLC *(continued)*

Area of focus	How our audit addressed the area of focus
Income Refer to page 42 (Audit Committee Report), page 56 (Statement of Accounting Policies) and page 58 (notes). We focused on the accuracy and completeness of dividend income recognition and its presentation in the Income Statement as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the AIC SORP). This is because incomplete or inaccurate income could have a material impact on the company's net asset value and dividend cover.	We assessed the accounting policy for income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that income had been accounted for in accordance with this stated accounting policy. We found that the accounting policies implemented were in accordance with accounting standards and the AIC SORP, and that income has been accounted for in accordance with the stated accounting policy. We understood and assessed the design and implementation of key controls surrounding income recognition. We then tested those key controls, including those related to income and corporate action processing, using inspection to obtain evidence that the controls had operated effectively throughout the year. In addition, we tested dividend receipts by agreeing the dividend rates from a sample of investments to independent third party sources. No misstatements were identified which required reporting to those charged with governance.
Valuation and existence of investments Refer to page 42 (Audit Committee Report), page 56 (Statement of Accounting Policies) and page 62 (notes). The investment portfolio at the year-end principally comprised listed investments of £666m. We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Balance Sheet in the financial statements.	We tested the valuation of the listed investments by agreeing the prices used in the valuation to independent third party sources. No misstatements were identified by our testing which required reporting to those charged with governance. We tested the existence of the investment portfolio by agreeing the holdings for investments to an independent custodian confirmation from HSBC Bank plc. No differences were identified.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the types of investments within the company, the involvement of the Manager and Administrator, the accounting processes and controls, and the industry in which the company operates.

The company's accounting is delegated to the Administrator who maintain their own accounting records and controls and report to the Manager and the directors.

As part of our risk assessment, we assessed the control environment in place at both the Manager and the Administrator to the extent relevant to our audit. This assessment of the operating and accounting structure in place at both organisations involved obtaining and reading the relevant control reports issued by the independent auditor of the Manager and the Administrator in accordance with generally accepted assurance standards for such work. We then identified those key controls at the Administrator on which we could place reliance to provide audit evidence. We also assessed the gap period of four months between the period covered by the controls report and the year-end of the company. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements, including whether we needed to perform additional testing in respect of those key controls to support our work. We determined that additional testing of controls in place at the Administrator was required and performed such testing of controls within the gap period, as we deemed appropriate, to provide a sufficient level of evidence over the operating effectiveness of these controls throughout the period.

Independent Auditors' Report to the members of The Merchants Trust PLC *(continued)*

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£5.6 million (2013: £5.3 million)
How we determined it	1% of net assets.
Rationale for benchmark applied	We have applied this benchmark, as it is a generally accepted auditing practice for investment trust audits.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £281,000 (2013: £265,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 32, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the company's financial statements using the going concern basis of accounting. The going concern basis presumes that the company has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the company's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinions

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
Information in the Annual Report is: ■ materially inconsistent with the information in the audited financial statements; or ■ apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or ■ otherwise misleading.	We have no exceptions to report arising from this responsibility.
The statement given by the directors on page 40, in accordance with provision C.1.1 of the UK Corporate Governance Code (the Code), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the company's performance, business model and strategy is materially inconsistent with our knowledge of the company acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
The section of the Annual Report on page 42, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

Independent Auditors' Report to the members of The Merchants Trust PLC *(continued)*

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' Remuneration Report - Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 40, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Jeremy Jensen
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors, London
13 April 2015

The Merchants Trust PLC

Financial Statements

Income Statement

for the year ended 31 January 2015

	Notes	2015 Revenue £	2015 Capital £	2015 Total Return £	2014 Revenue £	2014 Capital £	2014 Total Return £
Net gains on investments at fair value	8	-	15,606,644	15,606,644	-	52,436,938	52,436,938
Income	1	29,957,608	-	29,957,608	29,826,684	-	29,826,684
Investment management fee	2	(805,548)	(1,496,017)	(2,301,565)	(778,416)	(1,445,631)	(2,224,047)
Administration expenses	3	(879,807)	(3,537)	(883,344)	(720,249)	(4,198)	(724,447)
Net return before finance costs and taxation		**28,272,253**	**14,107,090**	**42,379,343**	**28,328,019**	**50,987,109**	**79,315,128**
Finance costs: interest payable and similar charges	4	(3,322,106)	(6,089,773)	(9,411,879)	(3,315,171)	(6,076,873)	(9,392,044)
Net return on ordinary activities before taxation		**24,950,147**	**8,017,317**	**32,967,464**	**25,012,848**	**44,910,236**	**69,923,084**
Taxation	5	-	-	-	-	-	-
Net return on ordinary activities attributable to ordinary shareholders		**24,950,147**	**8,017,317**	**32,967,464**	**25,012,848**	**44,910,236**	**69,923,084**
Net return per ordinary share (basic and diluted)	7	**23.56p**	**7.57p**	**31.13p**	**24.22p**	**43.48p**	**67.70p**

Dividends in respect of the financial year ended 31 January 2015 total 23.80p (2014 - 23.60p), amounting to £25,526,029 (2014 - £24,405,576). Details are set out in Note 6 on page 61.

The total return column of this statement is the profit and loss account of the company. The supplementary revenue return and capital return columns are both prepared under the guidance published by the Association of Investment Companies.

All revenue and capital items in the above statement derive from continuing operations.

A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the company have been reflected in the above statement.

The Notes on pages 56 to 74 form an integral part of these financial statements.

Reconciliation of Movements in Shareholders' Funds

for the year ended 31 January 2015

	Notes	Called up Share Capital £	Share Premium Account £	Capital Redemption Reserve £	Capital Reserve £	Revenue Reserve £	Total £
Net assets at 1 February 2013		25,803,366	8,523,195	292,853	423,327,975	23,516,780	481,464,169
Revenue return		-	-	-	-	25,012,848	25,012,848
Dividends on ordinary shares	6	-	-	-	-	(24,151,950)	(24,151,950)
Capital return		-	-	-	44,910,236	-	44,910,236
Shares issued during the year	11	112,500	2,130,255	-	-	-	2,242,755
Net assets at 31 January 2014		**25,915,866**	**10,653,450**	**292,853**	**468,238,211**	**24,377,678**	**529,478,058**
Net assets at 1 February 2014		25,915,866	10,653,450	292,853	468,238,211	24,377,678	529,478,058
Revenue return		-	-	-	-	24,950,147	24,950,147
Dividends on ordinary shares	6	-	-	-	-	(24,766,951)	(24,766,951)
Capital return		-	-	-	8,017,317	-	8,017,317
Shares issued during the year	11	1,266,250	23,064,122	-	-	-	24,330,372
Net assets at 31 January 2015		**27,182,116**	**33,717,572**	**292,853**	**476,255,528**	**24,560,874**	**562,008,943**

The Notes on pages 56 to 74 form an integral part of these financial statements.

Balance Sheet

as at 31 January 2015

	Notes	2015 £	2015 £	2014 £
Fixed Assets				
Investments held at fair value through profit or loss	8		666,055,587	631,256,415
Current Assets				
Debtors	10	1,051,878		3,742,966
Cash at bank		8,654,487		8,083,385
		9,706,365		**11,826,351**
Creditors: amounts falling due within one year	10	(2,970,328)		(2,863,521)
Derivative financial intstruments	8	(310,200)		(75,000)
		(3,280,528)		**(2,938,521)**
Net current assets			6,425,837	8,887,830
Total assets less current liabilities			**672,481,424**	**640,144,245**
Creditors: amounts falling due after more than one year	10		(110,472,481)	(110,666,187)
Net assets			**562,008,943**	**529,478,058**
Capital and Reserves				
Called up share capital	11		27,182,116	25,915,866
Share premium account	12		33,717,572	10,653,450
Capital redemption reserve	12		292,853	292,853
Capital reserve	12		476,255,528	468,238,211
Revenue reserve	12		24,560,874	24,377,678
Total shareholders' funds	**13**		**562,008,943**	**529,478,058**
Net asset value per ordinary share (basic and diluted)	**13**		**516.9p**	**510.8p**

The financial statements of The Merchants Trust PLC on pages 52 to 55 were approved by the board of directors on 13 April 2015 and signed on its behalf by:

Simon Fraser
Chairman

The Notes on pages 56 to 74 form an integral part of these financial statements.

Cash Flow Statement

for the year ended 31 January 2015

	Notes	2015 £	2015 £	2014 £
Net cash inflow from operating activities	15		27,294,907	27,322,153
Return on investment and servicing of finance				
Interest paid		(9,556,695)		(9,537,920)
Dividends on cumulative preference stock		(64,496)		(42,997)
Net cash outflow from servicing of finance			(9,621,191)	(9,580,917)
Capital expenditure and financial investment				
Purchases of fixed asset investments		(160,831,485)		(176,561,838)
Sales of fixed asset investments		144,165,450		180,153,054
Net cash (outflow) inflow from capital expenditure and financial investment			(16,666,035)	3,591,216
Dividends paid on ordinary shares	6		(24,766,951)	(24,151,950)
Net cash outflow before financing			(23,759,270)	(2,819,498)
Financing				
Proceeds from issue of ordinary shares			24,379,130	2,247,250
Share issue costs			(48,758)	(4,495)
Net cash inflow from financing	11		24,330,372	2,242,755
Increase (decrease) in cash	16		571,102	(576,743)

The Notes on pages 56 to 74 form an integral part of these financial statements.

Statement of Accounting Policies

for the year ended 31 January 2015

1 **The financial statements** – The financial statements have been prepared under the historical cost basis, except for the measurement at fair value through profit or loss of investments and derivative financial instruments, and in accordance with applicable accounting standards, the United Kingdom Law and United Kingdom Generally Accepted Accounting Practice (UK GAAP), the Companies Act 2006 and the Statement of Recommended Practice - 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (SORP) issued in January 2009 by the Association of Investment Companies (AIC).

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of revenue and capital nature has been presented alongside the Income Statement. In accordance with the company's Articles, net capital returns may not be distributed by way of dividend.

The accounting policies adopted in preparing the current year's financial statements are consistent with those of previous years.

The directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements as the assets of the company consist mainly of securities which are readily realisable and significantly exceed liabilities. Accordingly, the directors believe that the company has adequate financial resources to continue in operational existence for the foreseeable future. The company's business, the principal risks and uncertainties it faces, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 10 to 14.

2 **Income** – Franked, unfranked and overseas dividends received on equity shares are accounted for on an ex-dividend basis. UK dividends are shown net of tax credits.

Special dividends are recognised on an ex-dividend basis and treated as a capital or revenue item depending on the facts and circumstances of each dividend. The board reviews special dividends and their treatment at each meeting.

Where the company has elected to receive its dividends in the form of additional shares rather than in cash, the equivalent of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital reserves.

Deposit interest receivable is accounted for on an accruals basis.

Commissions in respect of underwriting are recognised when the underwritten issue closes and are generally recognised within the Income Statement as revenue. Where, however, the company is required to take up a proportion of the shares underwritten, the same proportion of the commission received is recognised as capital, with the balance recognised as revenue.

3 **Investment management fees and administration expenses** – The investment management fee is calculated on the basis set out in note 2 to the financial statements and is charged to capital and revenue in the ratio 65:35 to reflect the board's investment policy and prospective split of capital and income returns. The split is reviewed annually. Other administration expenses are charged in full to revenue, except custodian handling charges on investment transactions which are charged to capital. All expenses are recognised on an accruals basis.

4 **Valuation** – As the company's business is investing in financial assets with a view to profiting from their total return in the form of increases in fair value, financial assets are designated as held at fair value through profit or loss in accordance with FRS 26 'Financial Instruments: Recognition and Measurement'. The company manages and evaluates the performance of these investments on a fair value basis in accordance with its investment strategy, and information about the investments is provided on this basis to the board of directors.

Investments held at fair value through profit or loss are initially recognised at fair value. After initial recognition, these continue to be measured at fair value, which for quoted investments is either the bid price or the last traded price depending on the convention of the exchange on which the investment is listed. Gains or losses on investments are recognised in the capital column of the Income Statement. Purchases and sales of financial assets are recognised on the trade date, being the date which the company commits to purchase or sell the assets.

After initial recognition unquoted stocks are valued by the board on an annual basis.

Statement of Accounting Policies *(continued)*

for the year ended 31 January 2015

5 **Derivatives** – Options may be purchased or written over securities held in the portfolio for generating or protecting capital returns, or for generating or maintaining revenue returns. Where the purpose of the option is the maintenance of capital the premium is treated as a capital item. The value of the option is subsequently marked to market to reflect the fair value of the option based on traded prices. When an option is closed out or exercised the gain or loss is accounted for as capital.

Where the purpose of the option is the generation of income, the premium is treated as a revenue item. The value of the option is subsequently marked to market to reflect the fair value of the option based on traded prices. Premiums received on written options are amortised to revenue over the period to expiry. If an option is exercised early unamortised premiums are taken to capital.

6 **Finance costs** – In accordance with the FRS 25 'Financial Instruments: Disclosure and Presentation' and FRS 26 'Financial Instruments: Recognition and Measurement', long term borrowings are stated at the amortised cost being the amount of net proceeds on issue plus accrued finance costs to date. Finance costs are calculated over the term of the debt on the effective interest rate basis.

Where debt is issued at a premium, the premium is amortised over the term of the debt on the effective interest rate basis.

Finance costs net of amortised premiums are charged to capital and revenue in the ratio 65:35 to reflect the board's investment policy and prospective split of capital and revenue returns.

Dividends payable on the 3.65% cumulative preference stock are classified as an interest expense and are charged in full to revenue.

7 **Taxation** – Where expenses are allocated between capital and revenue, any tax relief obtained in respect of those expenses is allocated between capital and revenue on the marginal basis using the company's effective rate of corporation tax for the accounting period.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax or a right to pay less tax in the future have occurred. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements.

A deferred tax asset is recognised when it is more likely than not that the asset will be recoverable. Deferred tax is measured on a non-discounted basis at the rate of corporation tax that is expected to apply when the timing differences are expected to reverse.

8 **Foreign currency** – In accordance with FRS 23 'The Effect of changes in Foreign Currency Exchanges Rates', the company is required to nominate a functional currency, being the currency in which the company predominately operates. The functional and reporting currency is sterling, reflecting the primary economic environment in which the company operates. Transactions in foreign currencies are translated into sterling at the rates of exchange ruling on the date of the transaction. Foreign currency monetary assets and liabilities are translated into sterling at the rates of exchange ruling at the balance sheet date. Profits and losses thereon are recognised in the capital column of the income statement and taken to the capital reserve.

9 **Dividends** – In accordance with FRS 21 'Events After the Balance Sheet Date', the final dividend proposed on ordinary shares is recognised as a liability when approved by shareholders. Interim dividends are recognised only when paid.

10 **Shares repurchased for cancellation and for holding in treasury** – For shares repurchased for cancellation, share capital is reduced by the nominal value of the shares repurchased, and the capital redemption reserve is correspondingly increased in accordance with section 733 Companies Act 2006. The full cost of the repurchase is charged to the capital reserve within Gains, Losses on Sales of Investments.

For shares repurchased for holding in treasury, the full cost is charged to the Capital Reserve.

11 **Shares sold (reissued) from treasury** – Proceeds received from the sale of shares held in treasury are treated as realised profits in accordance with Section 731 of the Companies Act 2006. Proceeds equivalent to the original cost, calculated by applying a weighted average price, are credited to the Capital Reserve to replenish the profits available for distribution; proceeds in excess of the original cost are credited to the share premium account

12 **Shares issued** – Share capital is increased by the nominal value of shares issued. The proceeds in excess of the nominal value of shares net of expenses are allocated to the share premium account.

Notes to the Financial Statements

for the year ended 31 January 2015

1. Income

	2015 £	2014 £
Income from Investments *		
Franked equity dividends from UK investments #	28,061,371	27,367,156
Unfranked dividends from UK investments	595,889	548,717
Equity dividends from overseas investments	352,115	534,818
	29,009,375	28,450,691
Other Income		
Premiums on derivative contracts	653,835	1,214,748
Underwriting commission	294,398	161,245
	948,233	1,375,993
Total income	29,957,608	29,826,684

* All equity income is derived from listed investments.
# Includes special dividends of Nil (2014 - £576,500).

During the year, the company received premiums totalling £698,620 (2014 - £1,093,647) for writing covered call options for the purpose of revenue generation. Premium income of £653,835 was amortised to income (2014 - £1,214,748). All derivatives transactions were based on FTSE 100 stocks. At the year end there were five open positions with a net liability value of £310,200 (2014 - £75,000).

2. Investment Management Fee

	2015 Revenue £	2015 Capital £	2015 Total £	2014 Revenue £	2014 Capital £	2014 Total £
Investment management fee	805,548	1,496,017	2,301,565	778,416	1,445,631	2,224,047
Total	805,548	1,496,017	2,301,565	778,416	1,445,631	2,224,047

Under the terms of the Management and Administration Agreement the company's manager is Allianz Global Investors GmbH, UK Branch (AllianzGI). The agreement was restated in July 2014, with the appointment of AllianzGI as the Alternative Investment Fund Manager. The terms of the agreement were unchanged: it provides for a management fee based on 0.35% (2014 - 0.35%) per annum of the value of the assets after deduction of current liabilities, short-term loans under one year and other funds managed by AllianzGI. Under the contract, AllianzGI provides the company with investment management, accounting, secretarial and administration services.

3. Administration Expenses

	2015 £	2014 £
Auditors' remuneration		
For audit services*	38,130	25,530
Other services - for certification of loan covenants	5,175	4,320
VAT on auditors' remuneration	8,661	5,970
	51,966	**35,820**
Directors' fees	118,083	102,750
Marketing costs	250,702	284,021
Other administration expenses	459,056	297,658
	879,807	**720,249**

(i) The above expenses include value added tax where applicable.
(ii) Directors' fees are set out in the Directors' Remuneration Report on page 44.
(iii) Custody handling charges of £3,537 were charged to capital (2014 - £4,198).
(iv) *The 2015 audit fee was £28,230 + VAT. An additional £9,900 + VAT incurred in relation to the prior year audit was paid by the company and fully reimbursed by AllianzGI after the year end.
(v) Other administration expenses includes AIFMD set up costs and one-off search fees for the recruitment of the two new directors.

4. Finance Costs: Interest Payable and Similar Charges

	2015 Revenue £	2015 Capital £	2015 Total £	2014 Revenue £	2014 Capital £	2014 Total £
On Stepped Rate Interest Loan repayable in two to five years	1,341,992	2,492,271	3,834,263	1,331,292	2,472,399	3,803,691
On Fixed Rate Interest Loan repayable after more than five years	1,290,336	2,396,338	3,686,674	1,294,709	2,404,459	3,699,168
On 4% Perpetual Debenture Stock repayable after more than five years	19,250	35,750	55,000	19,250	35,750	55,000
On 5.875% Secured Bonds repayable after more than five years	627,531	1,165,414	1,792,945	626,912	1,164,265	1,791,177
On 3.65% Preference Stock repayable after more than five years	42,997	-	42,997	42,997	-	42,997
On Sterling overdraft	-	-	-	11	-	11
	3,322,106	**6,089,773**	**9,411,879**	**3,315,171**	**6,076,873**	**9,392,044**

Notes to the Financial Statements *(continued)*

for the year ended 31 January 2015

5. Taxation

	2015 Revenue £	2015 Capital £	2015 Total £	2014 Revenue £	2014 Capital £	2014 Total £
(i) Analysis of tax charge for the year						
Overseas taxation	-	-	-	-	-	-
Current tax charge	-	-	-	-	-	-

(ii) Factors affecting current tax charge for the year

The tax assesed for the year is lower than the standard rate of corporation tax in the UK (21.33%) (2014 - 23.16%).

Reconciliation of tax charge						
Return on ordinary activities before taxation	24,950,147	8,017,317	32,967,464	25,012,848	44,910,236	69,923,084
Tax on return on ordinary activities at 21.33% (2014 - 23.16%)	5,321,335	1,709,923	7,031,258	5,792,975	10,401,211	16,194,186
Reconciling factors						
Non taxable income	(6,059,991)	-	(6,059,991)	(6,462,097)	-	(6,462,097)
Non taxable capital gains	-	(3,328,565)	(3,328,565)	-	(12,144,395)	(12,144,395)
Disallowable expenses	9,609	1,569	11,178	10,144	1,317	11,461
Excess of allowable expenses over taxable income	729,047	1,617,073	2,346,120	658,978	1,741,867	2,400,845
Current tax charge	-	-	-	-	-	-

The standard rate of Corporation Tax in the UK changed from 23% to 21% with effect from 1 April 2014. Accordingly the company's profits for this accounting period are taxed at the effective rate of 21.33% and will be taxed at 20% from 1 April 2015.

The company's taxable income is exceeded by its tax allowable expenses, which include both the revenue and capital elements of the management fee and finance costs. As at 31 January 2015, the company had accumulated surplus expenses of £185.5 million (2014 - £172.5 million).

As at 31 January 2015 the company has not recognised a deferred tax asset of £36.7 million (2014 - £34.5 million) in respect of the accumulated expenses, based on a prospective corporation tax rate of 20% (2014 - 20%). The reduction in the standard rate of corporation tax was substantively enacted on 17 July 2013 and is effective from 1 April 2015. Provided the company continues to maintain its current investment profile, it is unlikely that these expenses will be utilised and that the company will obtain any benefit from this asset.

The company will continue to seek approval under section 1158 of the Corporation Tax Act 2010 for the current year and the foreseeable future. The company has not therefore provided for deferred tax on any capital gains and losses arising on the disposals of investments.

Notes to the Financial Statements *(continued)*

for the year ended 31 January 2015

6. Dividends on Ordinary Shares

	2015 £	2014 £
Dividends on Ordinary Shares of 25p		
Third interim dividend 5.9p paid 26 February 2014 (2014 - 5.8p)	6,110,244	5,986,381
Final dividend 5.9p paid 23 May 2014 (2014 - 5.8p)	6,178,094	5,986,381
First interim dividend 5.9p paid 14 August 2014 (2014 - 5.9p)	6,198,744	6,089,594
Second interim dividend 5.9p paid 11 November 2014 (2014 - 5.9p)	6,279,869	6,089,594
	24,766,951	**24,151,950**

Dividends payable at the year end are not recognised as a liability under FRS 21 'Events After Balance Sheet Date' (see page 57 - Statement of Accounting Policies). Details of these dividends are set out below.

	2015 £	2014 £
Third interim dividend 6.0p paid 25 February 2015 (2014 - 5.9p)	6,523,708	6,110,244
Final proposed dividend 6.0p payable 22 May 2015 (2014 - 5.9p)	6,523,708	6,116,144
	13,047,416	12,226,388

The proposed final dividend accrued is based on the number of shares in issue at the year end. However, the dividend payable will be based on the numbers of shares in issue on the record date and will reflect any share issues or share buybacks settled subsequent to the year end.

Ordinary dividends paid by the company carry a tax credit at a rate of 10%. The credit discharges the tax liability of shareholders subject to income tax at less than the higher rate. Shareholders liable to pay tax at the higher or additional rate will have further tax to pay.

7. Net Return per Ordinary Share

	2015 Revenue £	2015 Capital £	2015 Total Return £	2014 Revenue £	2014 Capital £	2014 Total Return £
Net return after taxation attributable to ordinary shareholders	24,950,147	8,017,317	32,967,464	25,012,848	44,910,236	69,923,084
Net return per ordinary share (basic and diluted)	23.56p	7.57p	31.13p	24.22p	43.48p	67.70p

The weighted average number of shares in issue during the year was 105,879,424 (2014 - 103,286,752).

Notes to the Financial Statements *(continued)*

for the year ended 31 January 2015

8. Investments

	2015 £	2014 £
Listed on the London Stock Exchange at market valuation	666,027,618	631,224,383
Unlisted at fair value (see Note 9)	27,969	32,032
Fixed asset investments	**666,055,587**	**631,256,415**
Derivative financial instruments - written call options	(310,200)	(75,000)
Total investments	**665,745,387**	**631,181,415**
Market value of investments brought forward	631,181,415	586,956,504
Investment holding gains brought forward	(79,363,515)	(79,009,589)
Derivative holding (gains) losses brought forward	(13,439)	761,447
Cost of investments held brought forward	**551,804,461**	**508,708,362**
Additions at cost	161,514,289	173,549,516
Disposals at cost	(115,682,973)	(130,453,417)
Cost of investments held at 31 January	**597,635,777**	**551,804,461**
Investment holding gains at 31 January	68,284,965	79,363,515
Derivative holding (losses) gains at 31 January	(175,355)	13,439
Market value of investments held at 31 January	**665,745,387**	**631,181,415**

Net gains on investments

	2015 £	2014 £
Net gains on sales of investments based on historical costs	26,890,447	51,355,968
Adjustment for net investment holding losses (gains) recognised in previous years	24,376,379	(28,848,658)
Net gains on sales of fixed asset investments based on carrying value at previous balance sheet date	**51,266,826**	**22,507,310**
Net losses on derivative financial instruments	(16,459)	(47,842)
Net gains on sales of investments based on carrying value at previous balance sheet date	**51,250,367**	**22,459,468**
Net investment holding (losses) gains arising in the year	(35,454,929)	29,202,584
Net derivative holding (losses) gains arising in the year	(188,794)	774,886
Net gains on investments	**15,606,644**	**52,436,938**

Transaction costs and stamp duty on purchases amounted to £904,464 (2014 - £1,050,202) and transaction costs on sales amounted to £119,480 (2014 - £152,904).

Notes to the Financial Statements *(continued)*

for the year ended 31 January 2015

9. Investments in Other Companies

The company held more than 3% of the share capital of the following companies, both of which are incorporated in Great Britain and registered in England and Wales:

Company	Class of Share held	Fair value £	% Equity
First Debenture Finance PLC (FDF)	'A' Shares	47	50.0
	'B' Shares	71	50.0
	'C' Shares	23,244	50.0
	'D' Shares	121	50.0
Fintrust Debenture PLC (Fintrust)	Ordinary Shares	4,486	50.0
Total		27,969	

In the opinion of the directors, the company is not in a position to exert significant influence over the financial operating policies of FDF or Fintrust, either through voting rights or through agreement with those companies' other shareholders, due to provisions in FDF's and Fintrust's Articles of Association and in certain contracts between the company and each of FDF and Fintrust. Accordingly, FDF and Fintrust are not considered to be associate undertakings as per FRS9 and are therefore included in the balance at the director's valuation. FDF and Fintrust are the lenders of the company's Stepped Rate Interest Loan and Fixed Rate Interest Loan, as detailed in Notes 10(i) and 10(ii), respectively. Apart from the finance costs, there were no other transactions between FDF, Fintrust and the company during the year.

10. Current Assets and Creditors

	2015 £	2014 £
Debtors		
Sales for future settlement	-	1,608,489
Share issue	-	487,024
Other debtors	25,446	26,425
Accrued income	1,026,432	1,621,028
	1,051,878	3,742,966
Creditors: Amounts falling due within one year		
Purchases for future settlement	682,804	-
Other creditors	968,256	1,528,647
Interest on borrowings	1,319,268	1,334,874
	2,970,328	2,863,521
Interest on outstanding borrowings consists of:		
Stepped Rate Interest Loan	313,729	307,836
Fixed Rate Interest Loan	783,545	783,545
5.875% Secured Bonds 2029	208,243	208,243
4% Perpetual Debenture Stock	13,751	13,751
3.65% Cumulative Preference Stock	-	21,499
	1,319,268	1,334,874

Notes to the Financial Statements *(continued)*

for the year ended 31 January 2015

		2015 £	2014 £
Creditors: Amounts falling due after more than one year			
Stepped Rate Interest Loan	10(i)	34,034,109	34,034,109
Fixed Rate Interest Loan	10(ii)	44,634,661	44,858,512
5.875% Secured Bonds 2029	10(iii)	29,250,711	29,220,566
4% Perpetual Debenture Stock	10(iv)	1,375,000	1,375,000
3.65% Cumulative Preference Stock	10(v)	1,178,000	1,178,000
		110,472,481	**110,666,187**

(i) The Stepped Rate Interest Loan of £34,034,109 (2014- £34,034,109) comprises adjustable Stepped Rate Interest Loan Notes of £5,133,520 and Stepped Rate Interest Bonds of £20,534,079. The Loan Notes and Bonds were issued in 1987 at 97.4% and are repayable on 2 January 2018, together with a premium of £8,366,510.

The initial interest rate on the Loan Notes and Bonds was 7.16% per annum. This increased annually by 7.5% compound until January 1998 when it reached its current rate of 14.75%. This stepped interest rate, when combined with the accrual of the premium, results in an effective interest rate of 11.28% per annum.

Interest on Loan Notes and Bonds is payable in January and July each year.

Interest on the Loan Notes is variable in accordance with the terms of the agreement with the lender, First Debenture Finance PLC (FDF).

FDF has a liability to its debenture stockholders to repay principal and interest on its £52.2 million of 11.125% Severally Guaranteed Debenture Stock 2018. The company has guaranteed the repayment of principal and interest on £34.0 million of FDF's debenture stock. This is in proportion to the principal amounts raised by the company in 1987 in respect of the Loan Notes and Bonds. There is a floating charge on all the company's present and future assets to secure this obligation. The company has also agreed to meet its proportionate share of any expenses incurred by FDF.

(ii) The Fixed Rate Interest Loan of £42,000,000 is due to Fintrust Debenture PLC (Fintrust). It comprises a loan of £30,000,000 taken out in 1993, and a further amount of £12,000,000 assumed in 1998 from another of Fintrust's borrowers. This loan is repayable on 20 May 2023 and carries interest at 9.25125% per annum on the principal amount. Interest is payable in May and November each year.

As security for this loan, the company has granted a floating charge over its assets in favour of the lender. This charge ranks pari passu with the floating charge noted in 10(i) above.

The loan of £30,000,000 taken out in 1993 is stated at £29,917,187 (2014 - £29,911,310), being the net proceeds of £29,858,947 plus accrued finance cost of £58,240 (2014 - £52,363). The effective interest rate of this portion of the loan is 9.51%.

On assuming the additional loan of £12,000,000 in 1998, the company also received a premium of £5,286,564 to ensure that the finance costs on this additional loan were comparable to existing market interest rates. This premium is being amortised over the remaining life of the loan. At 31 January 2015, the loan is stated at £14,717,474 (2014 - £14,947,202), being the principal amount of £12,000,000 plus the unamortised premium of £2,717,474 (2014 - £2,947,202). The effective interest rate of this portion of the loan is 6.00%.

(iii) The £30,000,000 of 5.875% Secured Bonds is stated at £29,250,711 (2014 - £29,220,566), being the net proceeds of £28,942,800 plus accrued finance costs of £307,911 (2014 - £277,766). The Bonds are repayable on 20 December 2029 and carry interest at 5.875% per annum on the principal amount. Interest is payable in June & December each year. The effective interest rate of this loan is 6.23% per annum.

As security for this loan, the company has granted a floating charge over its assets ranking pari passu with the floating charges referred to in note 10(i) and 10(ii) above.

(iv) The 4% perpetual debenture stock of £1,375,000 is secured by a floating charge on the assets of the company, which ranks prior to any other floating charge. Interest is payable on 1 May and 1 November each year.

(v) The 3.65% cumulative preference stock is recognised as a creditor due after more than one year under the provisions of FRS25 'Financial Instruments: Disclosure and Presentation'. The right of the preference stock holders to receive payments is not calculated by reference to the company's net return and, in the event of a return of capital is limited to a specific amount, being £1,178,000. Dividends on the preference stock are payable on 1 February and 1 August each year. The preference stock is non-redeemable.

11. Called up Share Capital

	2015 £	2014 £
Allotted and fully paid		
108,728,464 ordinary shares of 25p (2014 - 103,663,464)	27,182,116	25,915,866

The directors are authorised by an ordinary resolution passed on 21 May 2014 to allot relevant securities, in accordance with section 551 on the Companies Act 2006, up to a maximum of 34,721,154 ordinary shares of 25p each. This authority expires on 20 May 2015 and accordingly a renewed authority will be sought at the annual general meeting on 20 May 2015.

During the year the company issued 5,065,000 ordinary shares. After deducting expenses of £48,758, the net cash proceeds were £24,330,372. Since the year end no further shares have been issued.

Notes to the Financial Statements *(continued)*

for the year ended 31 January 2015

12. Reserves

	Share Premium Account £	Capital Redemption Reserve £	Capital Reserve: Gains (Losses) on sales of Investments £	Capital Reserve: Investment Holding Gains (Losses) £	Revenue Reserve £
Balance at 1 February 2014	10,653,450	292,853	388,861,257	79,376,954	24,377,678
Net gains on sales of fixed asset investments	-	-	51,266,826	-	-
Net losses on derivative financial instruments	-	-	(16,459)	-	-
Net movement in fixed asset investment holding losses	-	-	-	(35,454,929)	-
Net movement in derivative holding losses	-	-	-	(188,794)	-
Transfer on sale of investments	-	-	(24,376,379)	24,376,379	-
Issue of ordinary shares	23,112,880	-	-	-	-
Expenses of issue	(48,758)	-	-	-	-
Investment management fee	-	-	(1,496,017)	-	-
Finance costs of borrowings	-	-	(6,089,773)	-	-
Other capital expenses	-	-	(3,537)	-	-
Dividends appropriated in the year	-	-	-	-	(24,766,951)
Revenue retained for the year	-	-	-	-	24,950,147
Balance at 31 January 2015	**33,717,572**	**292,853**	**408,145,918**	**68,109,610**	**24,560,874**

13. Net Asset Value per Share

	Net Asset Value per share attributable 2015	2014
Ordinary shares of 25p	516.9p	510.8p

	Net Asset Value attributable 2015	2014
Ordinary shares of 25p	£562,008,943	£529,478,058

The net asset value per ordinary share is based on 108,728,464 ordinary shares in issue at the year end (2014 - 103,663,464).

14. Contingent Liabilities and Commitments

At 31 January 2015 there were no contingent liabilities (2014 - £1,029,878).

Details of the guarantee provided by the company as part of the terms of the Loans are provided in Note 10(i), 10(ii) and 10(iii) 'Current assets and Creditors on pages 64 and 65.

15. Reconciliation of Net Return on Ordinary Activities before Finance Costs and Taxation to Net Cash Flow from Operating Activities

	2015 £	2014 £
Net return before finance costs and taxation	42,379,343	79,315,128
Less: Net gains on investments at fair value	(15,606,644)	(52,436,938)
	26,772,699	26,878,190
Decrease (increase) in debtors	1,082,599	(182,948)
(Decrease) increase in creditors	(560,391)	626,911
Net cash inflow from operating activities	**27,294,907**	**27,322,153**

16. Reconciliation of Net Cash Flow to Movement in Net Debt

	Cash £	Stepped and Fixed Rate Loans £	5.875% Secured Bonds 2029 £	4% Perpetual Debenture Stock £	3.65% Preference Stock £	Net Debt £
(i) Analysis of net debt						
At 1 February 2014	8,083,385	(78,892,621)	(29,220,566)	(1,375,000)	(1,178,000)	(102,582,802)
Movement in year	571,102	223,851	(30,145)	-	-	764,808
At 31 January 2015	**8,654,487**	**(78,668,770)**	**(29,250,711)**	**(1,375,000)**	**(1,178,000)**	**(101,817,994)**

	2015 £	2014 £
(ii) Reconciliation of net cash flow to movement in net debt		
Net cash inflow (outflow)	571,102	(576,743)
Decrease in long term loans	193,706	188,424
Movement in net funds	**764,808**	**(388,319)**
Net debt brought forward	(102,582,802)	(102,194,483)
Net debt carried forward	**(101,817,994)**	**(102,582,802)**

Notes to the Financial Statements *(continued)*

for the year ended 31 January 2015

17. Financial Risk Management Policies and Procedures

The company invests in equities and other investments in accordance with its investment policy as stated on page 1. In pursuing its investment policy, the company is exposed to certain inherent risks that could result in either a reduction in the company's net assets or a reduction in the profits available for distribution by way of dividends.

The main risks arising from the company's financial instruments are: market risk (comprising market price risk, market yield risk, foreign currency risk, interest rate risk), liquidity risk and credit risk. The directors determine the objectives and agree policies for managing each of these risks, as set out below. The investment manager, in close co-operation with the directors, implement the company's risk management policies. The company's policy allows the use of derivative financial instruments to moderate risk exposure and to generate additional revenue. These policies have remained substantially unchanged during the current and preceding period.

(a) Market Risk

The investment manager assesses the exposure to market risk when making each investment decision, and monitors the risk on the investment portfolio on an ongoing basis. Market risk comprises market price risk, market yield risk, foreign currency risk and interest rate risk.

(i) Market Price Risk

Market price risk arises mainly from the uncertainty about future prices of financial instruments held. It represents the potential loss the company might suffer through holding market positions in the face of price movements.

Changes in stock market valuations lead to changes in gearing ratios. The board's procedure for monitoring the gearing of the company is set out in Note 18 on page 74. This takes into account the investment manager's view on the market, covenant requirements and the future prospects of the company's performance.

Market price risk sensitivity

The value of the company's listed investments (i.e fixed asset investments, excluding unlisted equities) which were exposed to market price risk as at 31 January 2015 was as follows:

	2015 £	2014 £
Listed investments held at fair value through profit or loss	666,027,618	631,224,383
Derivative financial instruments - written call options	(310,200)	(75,000)
Total listed investments	**665,717,418**	**631,149,383**

The following illustrates the sensitivity of the return and the net assets to an increase or decrease of 20% (2014 - 20%) in the fair values of the company's listed investments. This level of change is considered to be reasonably possible based on observation of market conditions in the recent years. The sensitivity analysis on the net return after tax is based on the impact of a 20% increase or decrease in the value of the company's listed equity investments at each balance sheet date and the consequent impact on the investment management fees for the year, with all other variables held constant.

	2015 20% Increase in fair value £	2015 20% Decrease in fair value £	2014 20% Increase in fair value £	2014 20% Decrease in fair value £
Revenue return				
Investment management fees	(163,177)	163,177	(154,650)	154,650
Capital return				
Net gains (losses) on investments at fair value	133,143,484	(133,143,484)	126,229,877	(126,229,877)
Investment management fees	(303,043)	303,043	(287,207)	287,207
Change in net return and net assets	**132,677,264**	**(132,677,264)**	**125,788,020**	**(125,788,020)**

Management of market price risk
The directors meet regularly to consider the asset allocation of the portfolio in order to minimise the risk associated with particular industry sectors. A dedicated investment manager has the responsibility for monitoring the existing portfolio selection in accordance with the company's investment objectives and to ensure that individual stocks meet an acceptable risk reward profile. Call options are only written on stock owned within the portfolio, with a maximum exposure of 15% of gross assets at the time of writing the call.

(ii) Market Yield Risk
Market yield risk arises from the uncertainty about the company's ability to maintain its income objectives due to systematic decline in corporate dividend levels.

Where call options are sold (written), in all cases a sufficient position is maintained in the underlying equity to cover any potential option exercise. Whilst the option value can be volatile, price movements should to some extent be offset by opposing movements in the value of the underlying equity. If options are retained until expiry they will either expire worthless or be exercised. The effect of any option exercise is to sell the underlying shares at the strike price of the option. A schedule of the company's listed holdings is shown on pages 24 and 25. Where put options are purchased, the market value of such options can be volatile but the maximum loss on any contract is limited to the original investment cost. No put options were purchased in the year (see Note 1 on page 58 for detail of income received.).

Further explanation of the derivative strategy is included in the Investment Manager's Review on pages 20 and 21.

Management of market yield risk
The directors regularly review the current and projected yield of the investment portfolio, and discuss with the investment manager the extent to which it will enable the company to meet its investment income objective.

(iii) Foreign Currency Risk
Foreign currency risk is the risk of the movement in the values of overseas financial instruments as a result of fluctuations in exchange rates.

Management of foreign currency risk
The company invests predominantly in UK listed equities and has no significant exposure to currencies other than sterling (2014 - no significant exposure).

Any income denominated in foreign currency is converted into sterling on receipt. The company does not hedge against foreign currency exposure.

(iv) Interest Rate Risk
Interest rate risk is the risk of movements in the value of financial instruments as a result of fluctuations in interest rates.

Notes to the Financial Statements *(continued)*

for the year ended 31 January 2015

Interest Rate Exposure

The table below summarises in sterling terms the financial assets and financial liabilities whose values are directly affected by changes in interest rates.

	2015 Fixed rate interest £	2015 Floating rate interest £	2015 Nil interest £	2015 Total £	2014 Fixed rate interest £	2014 Floating rate interest £	2014 Nil interest £	2014 Total £
Financial Assets	-	8,654,487	666,055,587	674,710,074	-	8,083,385	631,256,415	639,339,800
Financial Liabilities	(110,472,481)	-	(310,200)	(110,782,681)	(110,666,187)	-	(75,000)	(110,741,187)
Net Financial (Liabilities) Assets	**(110,472,481)**	**8,654,487**	**665,745,387**	**563,927,393**	**(110,666,187)**	**8,083,385**	**631,181,415**	**528,598,613**
Short term debtors and creditors				(1,918,450)				879,445
Net Assets per Balance Sheet				**562,008,943**				**529,478,058**

As at 31 January 2015, the interest rates received on cash balances or paid on bank overdrafts, was nil and 1.35% per annum respectively (2014 - nil and 1.35% per annum).

The fixed rate interest bearing liabilities bear the following coupon and effective rates as at 31 January 2015 and 31 January 2014.

	Maturity date	Amount borrowed £	Coupon rate	Effective rate since inception*
First Debenture Finance PLC (FDF) - Bonds	02/01/2018	5,133,520	14.75%	11.28%
First Debenture Finance PLC (FDF) - Notes	02/01/2018	20,534,079	14.75%	11.28%
Fintrust Debenture PLC (Fintrust) - Original Loan	20/05/2023	30,000,000	9.25125%	9.51%
Fintrust Debenture PLC (Fintrust) - Additional Loan	20/05/2023	12,000,000	9.25125%	6.00%
5.875% Secured Bonds 2029	20/12/2029	30,000,000	5.875%	6.23%
4% Perpetual Debenture Stock	n/a	1,375,000	4.00%	4.00%
3.65% Cumulative Preference Stock	n/a	1,178,000	3.65%	3.65%
		100,220,599		

* The effective rates are calculated in accordance with FRS 26 'Financial Instruments: Recognition and Measurement' as detailed in the Statement of Accounting Policies on page 57.

The details in respect of the above loans have remained unchanged since the previous accounting period.

The weighted average effective rate of the company's fixed interest bearing liabilities (excluding the 3.65% Cumulative Preference Stock and the 4% Perpetual Debenture Stock) is 8.54% (2014 - 8.54%) and the weighted average period to maturity of these liabilities is 9.2 years (2014 - 10.2 years).

The above year end amounts are reasonably representative of the exposure to interest rates during the year, as the level of exposure does not change materially. Therefore the company's net return and net assets, are not significantly affected by changes in interest rates.

Management of interest rate risk

The company invests predominantly in equities, the values of which are not directly affected by changes in prevailing market interest rates. In the year to 31 January 2015, the company held no fixed interest securities. The company's policy is to remain substantially fully invested and thus does not expect to hold significant cash balances. The financial assets have minimal exposure to interest rate risk.

The company finances its operations through a mixture of share capital, retained earnings and long term borrowings. Movement in interest rates will not have a material effect on the finance costs and financial liabilities of the company as all the borrowings of the company are subject to fixed rates of interest.

(b) Liquidity Risk

Liquidity risk relates to the capacity to meet liabilities as they fall due and is dependent on the liquidity of the underlying assets.

Maturity of financial liabilities

The table below presents the future cash flows payable by the company in respect of its financial liabilities.

Cash flows in respect of the principal and interest on the Stepped Rate Interest Loan, Fixed Rate Interest Loan and 5.875% Secured Bonds 2029 reflect the maturity dates as set out in Note 10 on pages 63 to 65. The loans are each governed by a trust deed. Only if the covenants are breached would early repayment be enforced. Therefore their repayment is not considered to be a likely short term liquidity issue. Cash flows in respect of the 4% Perpetual Debenture Stock and 3.65% Cumulative Preference Stock, which have no fixed repayment date, assumes maturity of 20 years from the balance sheet date. Cash flows have not been discounted.

2015	Three months or less £	Between three months and one year £	Between one and five years £	More than five years £	Total £
Creditors - amounts falling due within one year					
Finance costs of borrowing	-	9,510,471	-	-	9,510,471
Other creditors	1,651,060	-	-	-	1,651,060
Derivative financial instruments	310,200	-	-	-	310,200
Creditors - amounts falling due after more than one year					
Amounts payable on maturity of borrowings	-	-	34,034,109	74,553,000	108,587,109
Finance cost of borrowings	-	-	30,556,584	32,732,541	63,289,125
	1,961,260	**9,510,471**	**64,590,693**	**107,285,541**	**183,347,965**

2014	Three months or less £	Between three months and one year £	Between one and five years £	More than five years £	Total £
Creditors - amounts falling due within one year					
Finance costs of borrowing	21,499	9,510,471	-	-	9,531,970
Other creditors	1,528,647	-	-	-	1,528,647
Derivative financial instruments	75,000	-	-	-	75,000
Creditors - amounts falling due after more than one year					
Amounts payable on maturity of borrowings	-	-	34,034,109	74,553,000	108,587,109
Finance cost of borrowings	-	-	34,342,232	38,380,866	72,723,098
	1,625,146	**9,510,471**	**68,376,341**	**112,933,866**	**192,445,824**

Notes to the Financial Statements *(continued)*

for the year ended 31 January 2015

Management of liquidity risk

Liquidity risk is not significant as the company's assets mainly comprise of realisable securities, which can be sold to meet funding requirements if necessary. Short term flexibility can be achieved through the use of overdraft facilities, where necessary. As at the 31 January 2015, the company had an undrawn committed borrowing facility of £10 million (2014 - £10 million).

(c) Credit Risk

Credit risk is the risk of default by a counterparty in discharging its obligations under transactions that could result in the company suffering a loss.

Management of credit risk

Outstanding settlements are subject to credit risk. Credit risk is mitigated by the company through its decision to transact with counterparties of high credit quality. The company only buys and sells investments through brokers which are approved counterparties, thus minimising the risk of default during settlement. The credit ratings of brokers are reviewed quarterly by the investment manager.

The company is also exposed to credit risk through the use of banks for its cash position. Bankruptcy or insolvency of banks may cause the company's rights with respect to cash held by banks to be delayed or limited. The company's cash balances are held by HSBC Bank PLC, rated Aa3 by Moody's rating agency. The directors believe the counterparties the company has chosen to transact with are of high credit quality, therefore the company has minimal exposure to credit risk.

The table below summarises the credit risk exposure of the company as at 31 January:

	2015 £	2014 £
Debtors		
Outstanding settlements	-	1,608,489
Share issue	-	487,024
Accrued income	1,026,432	1,621,028
Other debtors	25,446	26,425
	1,051,878	**3,742,966**
Cash at bank	8,654,487	8,083,385
	9,706,365	**11,826,351**

Fair Values of Financial Assets and Financial Liabilities

With the exception of those financial liabilities measured at amortised cost, the financial assets and financial liabilities are either carried at their fair value, or the balance sheet amount is considered to be a reasonable approximation of their fair value. The financial liabilities measured at amortised cost, including interest on outstanding borrowings due within one year, have the following fair values*:

	2015 Book value £	2015 Fair value £	2014 Book value £	2014 Fair value £
Stepped Rate Interest Loan	34,347,838	42,660,173	34,341,945	43,935,611
Fixed Rate Interest Loan	45,418,206	61,337,594	45,642,057	57,410,686
5.875% Secured Bonds 2029	29,458,954	39,176,930	29,428,809	33,780,306
4% Perpetual Debenture Stock	1,388,751	1,167,261	1,388,751	944,039
3.65% Cumulative Preference Stock	1,178,000	925,598	1,199,499	751,091
	111,791,749	**145,267,556**	**112,001,061**	**136,821,733**

The net asset value per ordinary share, with debt at fair value is calculated as follows:

	2015 £	2014 £
Net assets per balance sheet	562,008,943	529,478,058
Add: financial liabilities at book value	111,791,749	112,001,061
Less: financial liabilities at fair value *	(145,267,556)	(136,821,733)
Net assets (debt at fair value)	**528,533,136**	**504,657,386**
Net asset value per ordinary share (debt at fair value)	486.1p	486.8p

* The fair value has been derived from the closing market value as at 31 January 2015 and 31 January 2014.

The net asset value per ordinary share is based on 108,728,464 ordinary shares in issue at 31 January 2015 (2014 - 103,663,464).

FRS 29 'Financial Instruments: Disclosures' has been expanded to include a fair value hierarchy for the disclosure of fair value measurement of financial instruments.

As at 31 January 2015, the financial assets at fair value through profit and loss of £665,745,387 (2014 - £631,181,415) are categorised as follows:

	2015 £	2014 £
Level 1	665,717,418	631,149,383
Level 2	-	-
Level 3	27,969	32,032
	665,745,387	**631,181,415**

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant assets as follows:

Level 1 - valued using quoted prices in active markets.
Level 2 - valued by reference to valuation techniques using observable inputs other than quoted prices included in level 1.
Level 3 - valued by reference to valuation techniques using inputs that are not based on observable market data.

A reconciliation of the fair value movements in Level 3 is set out below:

	£
Opening fair value of level 3	32,032
W & G Investment delisted holding redeemed	(4,063)
Closing fair value of level 3	**27,969**

Notes to the Financial Statements *(continued)*

for the year ended 31 January 2015

18. Capital Management Policies and Procedures

The company's objective is to provide an above average level of income and income growth together with long term capital growth. It invests in high yielding stocks and receives premium income from options.

The company's capital at 31 January 2015 comprises:

	2015 £	2014 £
Debt		
Creditors: amounts falling due after more than one year	110,472,481	110,666,187
	110,472,481	110,666,187
Equity		
Called up share capital	27,182,116	25,915,866
Share premium account and other reserves	534,826,827	503,562,192
	562,008,943	529,478,058
Total Capital	672,481,424	640,144,245
Debt as a percentage of total capital	16.4%	17.3%

The board, with the assistance of the investment manager, monitors and reviews the broad structure of the company's capital on an ongoing basis. The level of gearing is monitored, taking into account the investment manager's view on the market and the future prospects of the company's performance. Capital management also involves reviewing the difference between the net asset value per share and the share price (i.e. the level of share price discount or premium) to assess whether to issue shares or repurchase shares for cancellation or for holding in treasury.

The company is subject to several externally imposed capital requirements; the banks borrowings under the overdraft facility are not to exceed £10m, and as a public company the minimum share capital is £50,000. The company's objective, policies and processes for managing capital are unchanged from the preceding accounting period, and the company has complied with them. The terms of the debenture trust deeds have various covenants which prescribe that moneys borrowed should not exceed the adjusted total value of the capital and reserves. These are measured in accordance with the policies used in the annual report. The company has complied with these.

19. Transaction with the Investment Manager and related parties

The amounts paid to the investment manager together with details of the Management and Administration Agreement are disclosed in Note 2 on page 58. The existence of an independent board of directors demonstrates that the company is free to pursue its own financial and operating policies and therefore, under FRS8: Related Party Disclosures, the investment manager is not considered to be a related party.

The company's related parties are its directors. Fees paid to the company's board are disclosed in the Directors' Remuneration Report on page 44 and in Note 3 on page 59.

There are no other identifiable related parties at the year end, and as of 10 April 2015.

The Gherkin →

The Merchants Trust PLC

Investor Information

Investor Information

Appointment of AIFM and Depositary

During the year the Alternative Investment Fund Managers Directive (AIFMD) came into force. The aim of the directive was to create a comprehensive and effective regulatory and supervisory framework for alternative investment fund managers within the EU.

Under AIFMD the company is an Alternative Investment Fund (AIF) which needs to appoint an Alternative Investment Fund Manager (AIFM) and a Depositary. In July 2014 the company announced that the current manager, Allianz Global Investors GmbH (AllianzGI), was designated the AIFM. Allianz is authorised to act as an AIFM and to conduct its activities from its UK Branch by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), in accordance with AIFMD and Financial Conduct Authority requirements. The management fee and the notice period are unchanged in the restated Management and Administration Agreement (details in note 2 on page 58).

The company has also appointed HSBC Bank PLC as its depositary in accordance with AIFMD under a depositary agreement between the company, AllianzGI and HSBC. This agreement replaced the custody agreement between the company and HSBC Bank PLC. Depositary fees are charged in addition to custody fees and are calculated on the basis of net assets.

Leverage and Risk Policies under AIFMD

Details of leverage and risk policies required under AIFMD are published on the website www. merchantstrust. co.uk . These policies represent no change to the board's policies in existence prior to AIFMD and have been put in place to ensure that these limits would not be breached under any foreseeable circumstances.

Remuneration Disclosure

Certain details of the AIFM's remuneration information are required to be disclosed in the annual reports of AIFs under AIFMD and this will be reported in next year's Annual Financial Report when a full reporting period is available, in accordance with FCA guidance.

Financial Calendar

Year end 31 January.

Full year results announced and Annual Report posted to shareholders in April.

Annual general meeting held in May.

Half-yearly Report posted to shareholders in September.

How to Invest

Alliance Trust Savings Limited (ATS) is one of a number of providers offering a range of products and services, including Share Plans, ISAs and pension products. ATS also maintains services including online and telephone-based dealing facilities and online valuations. More information is available from Allianz Global Investors either via Investor Services on 0800 389 4696 or on the trust's website: www.merchantstrust.co.uk, or from Alliance Trust Savings Customer Services Department on 01382 573737 or by e-mail: contact@alliancetrust.co.uk.

A list of other providers can be found at the trust's website: www.merchantstrust.co.uk.

Ordinary Dividends

It is anticipated that dividends will be paid as follows:

1st quarterly	August
2nd quarterly	November
3rd quarterly	February
Final	May

Preference Dividends

Payable half-yearly 1 February and 1 August.

Benchmark

The company's benchmark is the FTSE 100 Index.

Investor Information *(continued)*

Market and Portfolio Information

The company's ordinary shares are listed on the London Stock Exchange. The market price range, gross yield and net asset value are shown daily in the Financial Times and The Daily Telegraph under the headings 'Investment Companies' and 'Investment Trusts', respectively. The net asset value of the ordinary shares is calculated daily and published on the London Stock Exchange Regulatory News Service. The geographical spread of investments and ten largest holdings are published monthly on the London Stock Exchange Regulatory News Service. They are also available from the manager's Investors Helpline on 0800 389 4696 or via the company's website: www.merchantstrust.co.uk.

Website

Further information about The Merchants Trust PLC, including monthly fact sheets, daily share price and performance, is available on the company's website: www.merchantstrust.co.uk.

Dividend

The board is recommending a final distribution of 6.0p to be payable on 22 May 2015 to shareholders on the Register of Members at the close of business on 24 April 2015, making a total distribution of 23.8p per share for the year ended 31 January 2015, an increase of 0.8% over last year's distribution. The ex dividend date is 23 April 2015.

Cash dividends will be sent by cheque to first-named shareholders at their registered address together with a tax voucher. Dividends may be paid directly into shareholders' bank accounts. Details of how this may be arranged can be obtained from Capita Asset Services. Dividends mandated in this way are paid via Bankers' Automated Clearing Services (BACS). Tax vouchers will then be sent directly to shareholders at their registered address unless other instructions have been given.

Registrars

Capita Asset Services, The Registry,
34 Beckenham Road, Beckenham, Kent BR3 4TU
Telephone: 020 8639 3399.
Lines are open 9.00 a.m. to 5.30 p.m.
(London time) Monday to Friday.
Email: ssd@capita.co.uk
Website: www.capitaassetservices.com

Shareholder Enquiries

In the event of queries regarding their holdings of shares, lost certificates, dividend payments, registered details, etc., shareholders should contact the registrars on 020 8639 3399. Lines are open 9.00 a.m. to 5.30 p.m. (London time) Monday to Friday. Calls may be recorded and monitored randomly for security and training purposes.

Changes of name and address must be notified to the registrars in writing. Any general enquiries about the company should be directed to the Company Secretary, The Merchants Trust PLC, 199 Bishopsgate, London EC2M 3TY. Telephone: 020 7065 1513.

Dividend Reinvestment Plan for Ordinary Shareholders (DRIP)

The registrars offer a DRIP which gives ordinary shareholders the opportunity to use their cash dividend to buy further shares in the company under a low-cost dealing arrangement. Terms and Conditions and an application form are enclosed with each dividend payment.

Share Dealing Services

Capita Asset Services operate an online and telephone dealing facility for UK resident shareholders with share certificates. Stamp duty and commission may be payable on transactions.

For further information on these services please contact: www.capitadeal.com for online dealing or 0871 664 0454 for telephone dealing. Lines are open 8.00 a.m. to 4.30 p.m. Monday to Friday (London time). Calls to the 0871 664 0454 number are charged at 10 pence per minute plus any of your service provider's network extras. Different charges may apply to calls made from mobile telephones and calls may be recorded and monitored randomly for security and training purposes.

The company's ordinary shares are listed on the London Stock Exchange. The market price range, gross yield and net asset value are shown daily in the Financial Times and The Daily Telegraph under the headings 'Investment Companies' and 'Investment Trusts', respectively.

Investor Information *(continued)*

Capita Asset Services offer shareholders a free online service called The Share Portal, enabling shareholders to access a comprehensive range of shareholder related information.

Capita Asset Services operate an international payment service for shareholders, whereby they can elect either for their dividend to be paid by foreign currency draft or they can request an international bank mandate.

Share Portal

Capita Asset Services offer shareholders a free online service called The Share Portal, enabling shareholders to access a comprehensive range of shareholder related information. Through The Share Portal, shareholders can: view their current and historical shareholding details; obtain an indicative share price and valuation; amend address details; view details of dividend payments; and apply for dividends to be paid directly to a bank or change existing bank details.

Shareholders can access these services at www.capitaassetservices.com and selecting Share Portal (shareholders) from the drop down menu, or alternatively via the Portals: Quick Links, and selecting Share Portal. Shareholders will need to register for a Share Portal Account by completing an on-screen registration form. An email address is required.

CREST Proxy Voting

Shares held in uncertificated form (i.e., in CREST) may be voted through the CREST Proxy Voting Service in accordance with the procedures set out in the CREST manual.

International Payment Services

Capita Asset Services operate an international payment service for shareholders, whereby they can elect either for their dividend to be paid by foreign currency draft or they can request an international bank mandate. This service is only available for dividend payments of £10 or more.

The International Payment Service will generally cost less than the fees charged by your local bank to convert your sterling dividend into your local currency. A £5 administration fee per dividend payment applies. Your dividends are paid as cleared funds directly into your bank or sent to you as a draft.

Capita Asset Services, working in partnership with Deutsche Bank, will arrange for your dividend to be exchanged into your local currency at competitive rates based on actual market rates.

To use this service you will need to register online at: www.capitaassetservices.com/international or by contacting Capita as detailed below.

For further information on these services please contact: 020 8639 3405. Lines are open between 9.00am and 5.30pm, Monday to Friday (London time) or email IPS@capita.co.uk.

Association of Investment Companies (AIC)

The company is a member of the AIC, the trade body of the investment trust industry, which provides a range of literature including fact sheets and a monthly statistical service. Copies of these publications can be obtained from the AIC, 9th Floor, 24 Chiswell Street, London EC1Y 4YY, or at www.theaic.co.uk.

AIC Category: UK Equity Income.

Warning to Shareholders

We are aware that some shareholders may have received unsolicited telephone calls or correspondence concerning investment matters. These are typically from overseas based organisations who target UK shareholders offering to sell them, what often turn out to be, worthless or high risk shares in US or UK investments. They can be extremely persistent and persuasive. Shareholders are therefore advised to be very wary of any unsolicited advice or offers.

Please note that it is most unlikely that either the company or the company's Registrar, Capita Asset Services, would make unsolicited telephone calls to shareholders. Any such calls would only ever relate to official documentation already circulated to shareholders and never in respect of investment 'advice'.

If you are in any doubt about the veracity of an unsolicited telephone call, please call either the Company Secretary or the Registrar on the numbers provided above.

Notice of Meeting

Notice is hereby given that the annual general meeting of The Merchants Trust PLC will be held the offices of J.P. Morgan, Old School Building, 60 Victoria Embankment, London EC4Y 0JP on Wednesday 20 May 2015 at 12 noon to transact the following business.

Ordinary Business

1 To receive and adopt the Directors' Report and the Financial Statements for the year ended 31 January 2015 together with the Auditors' Report thereon.

2 To declare a final dividend of 6.0p per ordinary share.

3 To re-elect Simon Fraser as a director.

4 To re-elect Mike McKeon as a director.

5 To elect Mary Ann Sieghart as a director.

6 To elect Sybella Stanley as a director.

7 To re-elect Paul Yates as a director.

8 To approve the Directors' Remuneration Implementation Report.

9 To reappoint PricewaterhouseCoopers LLP as Auditors of the company, to hold office until the conclusion of the next general meeting at which financial statements are laid before the company.

10 To authorise the directors to determine the remuneration of the Auditors.

Special Business

To consider and, if thought fit, to pass the following resolutions. Resolution 11 will be proposed as an ordinary resolution and resolutions 12, 13 and 14 as special resolutions:

11 That for the purposes of section 551 of the Companies Act 2006 the directors be generally and unconditionally authorised to exercise all the powers of the company to allot relevant securities (within the meaning of the said section) up to a maximum number of 36,242,821 ordinary shares provided that:

(i) the authority granted shall expire one year from the date upon which this resolution is passed but may be revoked or varied by the company in general meeting and may be renewed by the company in general meeting for a further period not exceeding one year; and

(ii) the authority shall allow and enable the directors to make an offer or agreement before the expiry of that authority which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of any such offer or agreement as if that authority had not expired.

12 That the directors be empowered in accordance with section 570 of the Companies Act 2006 (the Act) to allot equity securities (within the meaning of section 560 of the Act) either for cash pursuant to the authority conferred by resolution 11 or by way of a sale of treasury shares as if sub-section (1) of section 561 of the Act did not apply to any such allotment provided that:

(i) the power granted shall be limited to the allotment of equity securities wholly for cash up to a maximum number of 10,872,846 ordinary shares;

(ii) the power granted shall (unless previously revoked or renewed) expire at the conclusion of the next annual general meeting of the company after this resolution is passed, or 20 August 2016 if earlier; and

(iii) the said power shall allow and enable the directors to make an offer or agreement before the expiry of that power which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if that power had not expired.

13 That the company be and is hereby generally and unconditionally authorised in accordance with section 701 of the Companies Act 2006 (the Act) to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 25p each in the capital of the company (ordinary shares), either for retention as treasury shares or for cancellation provided that:

(i) the maximum number of ordinary shares hereby authorised to be purchased shall be 16,298,396;

(ii) the minimum price which may be paid for an ordinary share is 25p;

(iii) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle-market quotations for an ordinary share taken from the London Stock Exchange Official List for the five business days immediately preceding the day on which the ordinary share is purchased or such other amount as may be specified by the London Stock Exchange from time to time;

Notice of Meeting *(continued)*

(iv) the authority hereby conferred shall expire at the conclusion of the annual general meeting of the company in 2016 or, if earlier, on the expiry of 15 months from the passing of this resolution, unless such authority is renewed prior to such time; and

(v) the company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract.

14 To adopt new Articles of Association.

By order of the board

Kirsten Salt
Company Secretary
199 Bishopsgate, London, EC2M 3TY
13 April 2015

Notes:

1. Members entitled to attend and vote at this meeting may appoint one or more proxies to attend, speak and vote in their stead by completion of a personalised form of proxy. Full details on how to complete the form of proxy are set out on the form of proxy. The proxy need not be a member of the company.

2. A proxy must vote in accordance with any instructions given by the member by whom the proxy is appointed. A proxy has one vote on a show of hands in all cases (including where one member has appointed multiple proxies), except where he/ she is appointed by multiple members who instruct him to vote in different ways, in which case he/ she only has one vote for and one vote against the resolution.

3. A personalised form of proxy is provided with the Annual Report. Any replacement forms must be requested direct from the registrar.

4. Completion of the form of proxy does not exclude a member from attending the meeting and voting in person.

5. Duly completed forms of proxy must reach the office of the registrars at least 48 hours (excluding non-business days) before the meeting.

6. Shares held in uncertificated form (i.e., in CREST) may be voted through the CREST Proxy Voting Service in accordance with the procedures set out in the CREST manual on the Euroclear website (www.euroclear.com/CREST).

7. To be entitled to attend and vote at the meeting (and for the purpose of determination by the company of the number of votes they may cast), members must be entered on the company's Register of Members by 6pm on 18 May 2015 (the record date).

8. If the meeting is adjourned to a time not more than 48 hours after the record date applicable to the original meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the company's Register of Members at the time which is 48 hours before the time fixed for the adjourned meeting or, if the company gives new notice of the adjourned meeting, at the record date specified in that notice.

9. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the company in accordance with section 146 of the Companies Act 2006 (nominated persons). Nominated persons may have a right under an agreement with the registered shareholder who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights. Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements.

10. Corporate representatives are entitled to attend and vote on behalf of the corporate member in accordance with section 323 of the Companies Act 2006. Pursuant to the Companies (Shareholders' Rights) Regulations 2009 (SI 2009/1632), multiple corporate representatives appointed by the same corporate member can vote in different ways provided they are voting in respect of different shares.

Notice of Meeting *(continued)*

11. Members have a right under section 319A of the Companies Act 2006 to require the company to answer any question raised by a member at the AGM, which relates to the business being dealt with at the meeting, although no answer need be given (a) if to do so would interfere unduly with the preparation of the meeting or involve disclosure of confidential information; (b) if the answer has already been given on the company's website; or (c) it is undesirable in the best interests of the company or the good order of the meeting.
12. Members satisfying the thresholds in section 527 of the Companies Act 2006 can require the company, at its expense, to publish a statement on the company website setting out any matter which relates to the audit of the company's accounts that are to be laid before the meeting. Any such statement must also be sent to the company's auditors no later than the time it is made available on the website and must be included in the business of the meeting.
13. As at 10 April 2015, the latest practicable date before this notice is given, the total number of ordinary shares and preference stock in the company in respect of which members are entitled to exercise voting rights was 108,728,464 ordinary shares of 25p each and 1,178,000 3.65% Cumulative Preference Stock of £1 each. Each carries the right to one vote and therefore, the total number of voting rights in the company is 109,906,464.
14. Further information regarding the meeting which the company is required by section 311A of the Companies Act 2006 to publish on a website in advance of the meeting (including this notice), can be accessed at www.merchantstrust.co.uk.
15. Contracts of service are not entered into with the directors, who hold office in accordance with the company's Articles.

Annual General Meeting venue

The Merchants Trust PLC
199 Bishopsgate
London
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