



THE MERCHANTS TRUST PLC  
Interim Report for the six months ended  
31 July 2004

Report

# Investment Objective

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.

## Benchmark

The Trust's investment performance is assessed by comparison with other investment trusts within the UK Income Growth sector. In addition, it is benchmarked against the FTSE 100 Index, reflecting the emphasis within the portfolio, as well as the FTSE 350 Higher Yield Index, reflecting the Trust's high yield objective.

## Trust Performance

<b>Revenue</b>	<b>For the six months ended 31 July</b>		
	<b>2004</b>	<b>2003</b>	<b>% change</b>
Revenue	£12.79m	£12.70m	+0.7
Available for Ordinary Dividend	£10.43m	£10.38m	+0.5
Earnings per Ordinary Share	10.22p	10.17p	+0.5
Dividend per Ordinary Share	9.00p	8.60p	+4.7
<b>Assets</b>	<b>At</b>	<b>At</b>	<b>% change</b>
	<b>31 July</b>	<b>31 January</b>	
Total Net Assets	£363.7m	£358.6m	+1.4
Net Asset Value per Ordinary Share	355.1p	350.1p	+1.4
Ordinary Share price	308.5p	326.3p	-5.4
Discount of Ordinary Share price to Net Asset Value	13.1%	6.8%	

The discount represents the difference between the share price and the Net Asset Value per share, expressed as a percentage of the Net Asset Value per share.

# Interim Report

for the six months ended 31 July 2004

## Highlights

- Earnings per ordinary share of 10.22p, up 0.5%.
- Dividends per share for first six months up 4.7%.
- Net Asset Value of 355.1p per share, up 1.4% compared with 0.5% rise in the FTSE 100 Index.
- Historic dividend yield of 5.4% net at 327.0p per share.

## Interim Results

### Earnings per share

In the first six months of the current year, earnings have risen by 0.5% to 10.22p per share. As in 2003/4, we expect dividend receipts to have been weighted towards the first half of the current financial year.

### Interim Dividends

The Board has declared a second quarterly dividend of 4.5p per share, payable on 10 November 2004 to shareholders on the register at close of business on 8 October 2004. The total distribution for the first half of 2004/5 is 9.0p net, an increase of 4.7% when compared with the same period last year. In the absence of unforeseen circumstances, the Board intends to recommend dividends totalling 18.0p net for 2004/5, an increase of 2.3%.

## Net Asset Value

The net asset value per ordinary share was 355.1p at 31 July 2004. This represents an increase of 1.4% when compared with the equivalent figure at 31 January 2004 – the end of the last financial year. Before taking account of the impact of the Trust's borrowings, the underlying rise in the Trust's total assets was also 1.4%. Over the same period the FTSE 100 Index rose by 0.5%, whilst the FTSE Higher Yield Index rose by 3.4%.

## Share Buy Backs

The Trust renewed its powers to buy back its ordinary shares at the last Annual General Meeting.

## Prospects

After the sharp recovery in UK market values recorded over most of 2003/4, there was very little change in share prices in the first half of the current financial year. Nevertheless, companies are still reporting useful growth in profits and there has been a noteworthy improvement in corporate liquidity. Despite some potential headwinds in the months ahead, the overall outlook for UK company dividend payments is now better than for some while.

By Order of the Board

K J Salt  
Secretary

155 Bishopsgate  
London EC2M 2AD

13 September 2004

# Twenty Largest Equity Holdings

as at 31 July 2004

	Valuation £'000s	% of Total Assets*	Principal Activities
BP	44,118	9.25	Oil and gas production
HSBC Holdings	31,896	6.68	Banking
GlaxoSmithKline	29,601	6.20	Pharmaceuticals
Shell	22,236	4.66	Oil and gas production
Royal Bank of Scotland	21,799	4.57	Banking
Barclays	18,676	3.91	Banking
HBOS	16,388	3.43	Banking
BT	15,572	3.26	Telecommunications
Lloyds TSB	13,852	2.90	Banking
Slough Estates	10,058	2.11	Real estate
Land Securities	9,857	2.07	Real estate
Scottish & Southern Energy	9,700	2.03	Electricity
Aviva	9,660	2.02	Life assurance
Diageo	8,519	1.79	Beverages
Alliance & Leicester	8,480	1.78	Banking
Imperial Tobacco	8,372	1.75	Tobacco
Bradford & Bingley	8,315	1.74	Banking
Rio Tinto	8,168	1.71	Mining
Legal & General	7,857	1.65	Life and general insurance
Rank Group	7,837	1.64	Leisure and gaming
	<u>310,961</u>	<u>65.15</u>	

\*Total assets include current liabilities.

# Portfolio Analysis

as at 31 July 2004

Sector	UK %	Other %	Total %
Listed equities	100.1	—	100.1
Unlisted equities	—	—	—
Net current liabilities	(0.1)	—	(0.1)
Total Assets	<u>100.0</u>	<u>—</u>	<u>100.0</u>

# Statement of Total Return

	For the six months ended 31 July 2004		
	Revenue £'000s	Capital £'000s	Total £'000s
	(Note 2)		
Net gains on investments	–	6,896	6,896
Income from fixed asset investments	12,708	725	13,433
Other income	79	–	79
Investment management fee	(355)	(654)	(1,009)
Other expenses	(284)	–	(284)
<b>Net return before finance costs and taxation</b>	<b>12,148</b>	<b>6,967</b>	<b>19,115</b>
Finance costs of borrowings	(1,693)	(3,111)	(4,804)
<b>Return before taxation</b>	<b>10,455</b>	<b>3,856</b>	<b>14,311</b>
<b>Taxation</b>			
UK corporation tax	–	–	–
<b>Return after taxation</b>	<b>10,455</b>	<b>3,856</b>	<b>14,311</b>
Dividends on Preference Stock	(21)	–	(21)
<b>Return attributable to Ordinary Shareholders</b>	<b>10,434</b>	<b>3,856</b>	<b>14,290</b>
<b>Dividends on Ordinary Shares:</b>			
First Interim	4.5p (4,595)	–	(4,595)
Second Interim	4.5p (4,595)	–	(4,595)
Third Interim	–	–	–
Fourth Interim	–	–	–
	9.0p (9,190)	–	(9,190)
<b>Transfer to (from) reserves</b>	<b>1,244</b>	<b>3,856</b>	<b>5,100</b>
<b>Return per Ordinary Share (Note 1)</b>	<b>10.22p</b>	<b>3.78p</b>	<b>14.00p</b>

## Net Asset Statement

	As at 31 July 2004 £'000s
Fixed Asset Investments	477,847
Net Current Liabilities	(691)
	477,156
Less: Creditors – amount falling due after more than one year	(113,436)
<b>Total Net Assets</b>	<b>363,720</b>
Called up Share Capital:	
– Ordinary	25,526
– Preference	1,178
Share Premium Account	40
Capital Redemption Reserve	56
Capital Reserves:	
– Realised	322,467
– Unrealised	3,284
Revenue Reserve	11,169
<b>Shareholders' Funds</b>	<b>363,720</b>
<b>Net asset value per Ordinary Share</b>	<b>355.1p</b>

The net asset value is based on 102,103,936 shares in issue at 31 July 2004, at 31 January 2004 and at 31 July 2003.

For the six months ended 31 July 2003			For the year ended 31 January 2004		
Revenue £'000s	Capital £'000s	Total £'000s	Revenue £'000s	Capital £'000s	Total £'000s
(Note 2)			(Note 2)		
–	70,885	70,885	–	91,703	91,703
12,612	–	12,612	22,049	–	22,049
89	–	89	198	–	198
(320)	(594)	(914)	(663)	(1,230)	(1,893)
(288)	–	(288)	(502)	–	(502)
12,093	70,291	82,384	21,082	90,473	111,555
(1,683)	(3,124)	(4,807)	(3,332)	(6,169)	(9,501)
10,410	67,167	77,577	17,750	84,304	102,054
–	–	–	(5)	–	(5)
10,410	67,167	77,577	17,745	84,304	102,049
(21)	–	(21)	(43)	–	(43)
10,389	67,167	77,556	17,702	84,304	102,006
4.3p	(4,390)	–	(4,390)	–	(4,390)
4.3p	(4,391)	–	(4,391)	–	(4,391)
	–	–	4.5p	(4,595)	(4,595)
			4.5p	(4,595)	(4,595)
8.6p	(8,781)	–	(8,781)	–	(8,781)
	1,608	67,167	68,775	(269)	84,304
	10.17p	65.78p	75.95p	17.34p	82.57p
					99.91p

As at 31 July 2003 £'000s	As at 31 January 2004 £'000s
463,437	473,912
(7,969)	(3,175)
455,468	470,737
(112,107)	(112,117)
343,361	358,620
25,526	25,526
1,178	1,178
40	40
56	56
336,494	331,129
(31,735)	(9,234)
11,802	9,925
343,361	358,620
335.0p	350.1p

# Cash Flow Statement

for the six months ended 31 July 2004 and comparative periods

	Six months to 31 July 2004 £'000s	Six months to 31 July 2003 £'000s	Year to 31 January 2004 £'000s
<b>Net cash inflow from operating activities</b>	11,306	10,959	20,141
<b>Servicing of Finance</b>			
Interest paid	(4,795)	(4,684)	(9,459)
Dividends paid on Preference Stock	(43)	(21)	(21)
<b>Net cash outflow on servicing of finance</b>	(4,838)	(4,705)	(9,480)
<b>Financial investment</b>			
Purchase of fixed asset investments	(66,869)	(71,147)	(148,696)
Sale of fixed asset investments	67,959	70,296	158,188
<b>Net cash inflow (outflow) from financial activities</b>	1,090	(851)	9,492
<b>Equity dividends paid</b>	(9,189)	(8,780)	(17,562)
<b>Net cash (outflow) inflow before financing</b>	(1,631)	(3,377)	2,591
<b>Financing</b>			
Decrease in short term loans	—	(224)	(224)
<b>Net cash outflow from financing</b>	—	(224)	(224)
<b>(Decrease) increase in cash</b>	(1,631)	(3,601)	2,367

## Notes

### Note 1

The Returns per Ordinary Share have been calculated using a weighted average number of shares in issue during the period of 102,103,936 shares. (31 July 2003 — 102,103,936 shares; 31 January 2004 — 102,103,936 shares).

### Note 2

The revenue column of this statement is the profit and loss account of the Company.

All revenue and capital items derive from continuing operations. No operations were acquired or discontinued in the period.

### Note 3

The interim statement has been neither audited nor reviewed by the Company's auditors. The interim statement has been prepared using the accounting policies as those adopted in the annual accounts for the year ended 31 January 2004. The financial information for the year ended 31 January 2004 has been extracted from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified and did not contain a statement under either Section 237(2) or Section 237(3) of the Companies Act 1985.

# Investor Information

## Directors

H A Stevenson (Chairman)  
P J Scott Plummer (Chairman – Audit Committee)  
Sir John Banham  
R A Barfield  
Sir Bob Reid

## Managers

RCM (UK) Limited  
(regulated by FSA)  
Represented by Nigel Lanning  
Telephone: 020 7859 9000

## Secretary and Registered Office

Kirsten Salt BA (Hons) ACIS  
155 Bishopsgate  
London EC2M 3AD  
Registered Number: 28276

## Registrars

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham, Kent BR3 4TU  
Telephone: 0870 162 3100  
or, if telephoning from overseas  
00 44 20 8639 2157  
Email: [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com)

## Results

Half-year announced in September.  
Full year announced in March.  
Reports and Accounts posted to shareholders in April.  
Annual General Meeting held in May.

## Ordinary Dividends 2004/2005

	<b>Dividend</b>	<b>Payment Date</b>
First interim	4.5p	13 August 2004
Second interim	4.5p	10 November 2004
Third interim		February 2005
Final		May 2005

## Website

Further information about the Trust is available on the Managers' website:  
[www.allianzdresdneram.co.uk](http://www.allianzdresdneram.co.uk).

## Net Asset Value

The Net Asset Value of the Ordinary Shares is calculated weekly and the top ten holdings are announced monthly. They are published on the London Stock Exchange Regulatory News Service. They are also available from the Managers by contacting Allianz Dresdner Investment Trust Helpline on 0800 317 573 and on the Allianz Dresdner website: [www.allianzdresdneram.co.uk](http://www.allianzdresdneram.co.uk).

## Savings Scheme

The Allianz Dresdner Investment Trust Savings Scheme provides a convenient and economical way for shareholders to increase their existing holdings. Investments can be in the form of a regular payment or an individual lump sum and there is an arrangement for the reinvestment of dividends. There are also facilities for selling and switching.

## Investment Trust Maxi ISA and PEP Transfer

Shareholders can invest in the shares of the Company through the Allianz Dresdner Investment Trust Maxi ISA and PEP Transfer. Full details are available from Allianz Dresdner Investment Trust Helpline on 0800 317 573 or on the Allianz Dresdner website: [www.allianzdresdneram.co.uk](http://www.allianzdresdneram.co.uk)., or alternatively, please use the FREEPOST card enclosed to request any literature you may require.



## Shareholders' Enquiries

Capita Registrars are the Company's registrars and maintain the share register. In the event of queries regarding shareholdings, lost certificates, registered details, etc., shareholders should contact the registrars on 0870 162 3100 or 0044 20 8639 2157 if calling from overseas. Changes of name or 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, 155 Bishopsgate, London EC2M 3AD.

## AITC Membership

A member of the Association of Investment Trust Companies

Category: UK Growth & Income

Allianz Dresdner Asset  
Management  
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