

The Merchants Trust plc

Interim Report for the six months ended 31 July 2005



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

Revenue	For the six months ended 31 July		
	2005	2004	% change
Revenue	£13.68m	£12.79m	+7.0
Available for Ordinary Dividend	£11.33m	£10.43m	+8.6
Earnings per Ordinary Share	11.10p	10.22p	+8.6
Dividend declared per Ordinary Share	9.30p	9.00p	+3.3
Assets	At	At	% change
	31 July	31 January	
Total Net Assets	£459.7m	£424.5m*	+8.3
Net Asset Value per Ordinary Share	450.2p	415.8p*	+8.3
Ordinary Share price	394.0p	383.8p	+2.7
Discount of Ordinary Share price to Net Asset Value	12.5%	7.7%	

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.

* Figures are restated

Interim Report

for the six months ended 31 July 2005

Highlights

- Earnings per ordinary share of 11.10p, up 8.6%.
- Dividends per share declared for the first six months up 3.3%.
- Net Asset Value of 450.2p per share, up 8.3% compared with 8.9% rise in the FTSE 100 Index.
- Historic dividend yield of 4.5% net at 398p per share.

Interim Results

These interim results have been re-stated in accordance with new UK Financial Reporting Standards.

Earnings per share

In the first six months of the current year, earnings have risen by 8.6% to 11.10p per share. As in previous years, 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 4.70p per share, payable on 10 November 2005 to shareholders on the register at close of business on 7 October 2005. The total distribution declared for the first half of 2005/6 is 9.30p net, an increase of 3.3% when compared with the same period last year.

Net Asset Value

The net asset value per ordinary share was 450.2p at 31 July 2005. This represents an increase of 8.3% when compared with the equivalent figure at 31 January 2005 – the end of the last financial

year. Before taking account of the beneficial impact of the Trust's borrowings, the underlying rise in the Trust's total assets, excluding expenses allocated to capital, was 7.3%. Over the same period the FTSE 100 Index rose by 8.9%, whilst the FTSE Higher Yield Index rose by 8.2%.

Prospects

The first half of the current financial year has seen a useful appreciation in the Trust's investments and dividend income has grown. With corporate liquidity continuing to improve, there is every likelihood that these dividend trends can continue in the second half of 2005/6. Given this background and the strength of the Revenue Reserve, the Board is confident that the long term record of dividend growth will be maintained in the current financial year.

By Order of the Board

K J Salt
Secretary

155 Bishopgate
London EC2M 2AD

22 September 2005

Twenty Largest Equity Holdings

as at 31 July 2005

	Valuation £'000s	% of Total Assets*	Principal Activities
BP	50,360	8.79	Oil and gas production
HSBC Holdings	44,649	7.79	Banking
Royal Dutch Shell	39,179	6.84	Oil and gas production
GlaxoSmithKline	29,770	5.20	Pharmaceuticals
Royal Bank of Scotland	24,394	4.26	Banking
Lloyds TSB	21,811	3.81	Banking
HBOS	19,861	3.47	Banking
BT	18,769	3.28	Telecommunications
Vodafone	15,910	2.78	Telecommunications
Barclays	14,204	2.48	Banking
Scottish & Southern Energy	11,968	2.09	Electricity
Land Securities	11,074	1.93	Real estate
Rio Tinto	10,784	1.88	Mining
Slough Estates	10,700	1.87	Real estate
Anglo American	10,649	1.86	Mining
Alliance & Leicester	8,638	1.51	Banking
Severn Trent	8,411	1.47	Water
Diageo	8,355	1.46	Beverages
Legal & General	7,883	1.38	Life and general insurance
Bradford & Bingley	7,566	1.32	Banking
	<u>374,935</u>	<u>65.47</u>	

*Total assets include current liabilities.

Portfolio Analysis

as at 31 July 2005

	UK %	Other %	Total %
Listed equities	98.5	—	98.5
Unlisted equities	—	—	—
Net current assets	1.5	—	1.5
Total Assets	<u>100.0</u>	<u>—</u>	<u>100.0</u>

Statement of Total Return

	For the six months ended 31 July 2005		Total
	Revenue £'000s	Capital £'000s	£'000s
	(Note 2)		
Net gains on investments	–	37,542	37,542
Income from fixed asset investments	13,586	–	13,586
Other income	90	–	90
Investment management fee	(391)	(726)	(1,117)
Other expenses	(272)	–	(272)
Transaction costs	–	(669)	(669)
Net return before finance costs and taxation	13,013	36,147	49,160
Finance costs: interest and similar charges	(1,682)	(3,124)	(4,806)
Return before taxation	11,331	33,023	44,354
Taxation			
UK corporation tax	–	–	–
Return attributable to Ordinary Shareholders	11,331	33,023	44,354
Return per Ordinary Share (Note 1)			43.44p

Balance Sheet

As at 31 July 2005

	£'000s
Fixed Asset Investments	564,290
Net Current Assets	8,722
	573,012
Creditors – amounts falling due after more than one year	(113,336)
Total Net Assets	459,676
Called up Share Capital: – Ordinary	25,526
Share Premium Account	40
Capital Redemption Reserve	56
Capital Reserves: – Realised	335,254
– Unrealised	77,972
Revenue Reserve	20,828
Shareholders' Funds	459,676
Net asset value per Ordinary Share	450.2p

The net asset value is based on 102,103,936 shares in issue at 31 July 2005, at 31 January 2005 and at 31 July 2004.

For the six months ended 31 July 2004			For the year ended 31 January 2005		
Revenue (restated) £'000s	Capital (restated) £'000s	Total (restated) £'000s	Revenue (restated) £'000s	Capital (restated) £'000s	Total (restated) £'000s
(Note 2)			(Note 2)		
–	8,227	8,227	–	67,133	67,133
12,708	–	12,708	22,517	–	22,517
79	–	79	158	–	158
(355)	(654)	(1,009)	(723)	(1,342)	(2,065)
(284)	–	(284)	(594)	–	(594)
–	(606)	(606)	–	(1,273)	(1,273)
12,148	6,967	19,115	21,358	64,518	85,876
(1,714)	(3,111)	(4,825)	(3,408)	(6,210)	(9,618)
10,434	3,856	14,290	17,950	58,308	76,258
–	–	–	–	–	–
10,434	3,856	14,290	17,950	58,308	76,258
		14.00p			74.69p

As at 31 July 2004 (restated) £'000s	As at 31 January 2005 (restated) £'000s
477,847	535,095
8,499	2,736
486,346	537,831
(114,614)	(113,320)
371,732	424,511
25,526	25,526
40	40
56	56
322,467	322,240
3,284	57,963
20,359	18,686
371,732	424,511
364.1p	415.8p

Cash Flow Statement

for the six months ended 31 July 2005 and comparative periods

	Six months to 31 July 2005 £'000s	Six months to 31 July 2004 £'000s	Year to 31 January 2005 £'000s
Net cash inflow from operating activities	11,966	11,306	22,381
Servicing of Finance			
Interest paid	(4,774)	(4,795)	(9,543)
Preference dividends paid	(21)	(43)	(43)
Net cash outflow on servicing of finance	(4,795)	(4,838)	(9,586)
Investing Activities			
Payments to acquire fixed asset investments	(79,751)	(66,869)	(142,790)
Proceeds on disposal of fixed asset investments	87,429	67,959	145,334
Net cash inflow from investing activities	7,678	1,090	2,544
Equity dividends paid	(9,189)	(9,189)	(18,379)
Increase (decrease) in cash	5,660	(1,631)	(3,040)

Notes

Note 1

The Returns per Ordinary Share attributable to each period are as follows:

	Six months to 31 July 2005 £'000s	Six months to 31 July 2004 £'000s	Year to 31 January 2005 £'000s
Revenue	11.10p	10.22p	17.58p
Capital	32.34p	3.78p	57.11p
Total	43.44p	14.00p	74.69p

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 2004 — 102,103,936 shares; 31 January 2005 — 102,103,936 shares).

Note 2

The total 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 statements have been prepared using the following changes in accounting policies. Restatement of prior year results are explained in notes 5, 6 and 7.

FRS 21: *'Events after the Balance Sheet date'* requires that final dividends are recognised as a liability when approved by shareholders. Interim dividends are recognised only when paid.

FRS 25: *'Financial Instruments: Presentation and Disclosure'* requires the reclassification of the Company's 3.65% Cumulative Preference Stock as a financial liability rather than as share capital (non-equity interests in the balance sheet). Preference dividends are now to be treated as an interest expense and shown accordingly in the balance sheet and profit and loss account.

FRS 26: *'Financial Instruments: Measurement'* requires that fixed asset investments held for trading are measured at their fair value which is deemed to be the bid value of those investments held at the close of business on the accounting date. Previous policy measured fixed asset investments at their mid-market value. The Company however has taken advantage of paragraph 108D of FRS 26, which allows exemption from restating the previous periods' fixed asset investments to bid values. Note 7 discloses the effect of such a restatement. Also, in accordance with FRS 26, transaction costs relating to the purchase and sale of investments are stated separately in the Statement of Total Return.

Note 4

Dividends payable on Ordinary Shares in respect of earnings for each period are as follows:

	Six months to 31 July 2005 £'000s		Six months to 31 July 2004 £'00s		Year to 31 January 2005 £'000s	
First interim	4.6p*	4,697	4.5p*	4,595	4.5p	4,595
Second interim	4.7p*	4,799	4.5p*	4,595	4.5p	4,595
Third interim		—		—	4.5p*	4,595
Final		—		—	4.5p*	4,594
	9.3p	9,496	9.0p	9,190	18.0p	18,379

* These dividends are not recognised as a liability under FRS 21 (see Note 3).

Note 5

Statement of changes in equity for each period as follows:

	Six months to 31 July 2005 £'000s	Six months to 31 July 2004 £'000s (restated)	Year to 31 January 2005 £'000s (restated)
Revenue reserves			
Revenue profit available for distribution	11,331	10,434	17,950
Dividends appropriated in the year	(9,189)	(9,190)	(18,379)
Transfer to (from) distributable reserve	2,142	1,244	(429)
Other reserves			
Recognised net capital gains transferred to capital reserves	33,023	3,856	58,308
Net increase in Shareholders' Funds	35,165	5,100	57,879
Opening Shareholders' Funds	424,511	366,632	366,632
Closing Shareholders' Funds	459,676	371,732	424,511

Note 6

Restatement of opening balances

	As previously stated 31 July 2004 £'000s	Adjustment £'000s	Restated 31 July 2004 £'000s
Fixed Asset Investments	477,847	–	477,847
Net Current (Liabilities) Assets	(691)	9,190 ¹	8,499
	<u>477,156</u>	<u>9,190</u>	<u>486,346</u>
Less: Creditors – amounts falling due after more than one year	(113,436)	(1,178) ²	(114,614)
Total Net Assets	<u>363,720</u>	<u>8,012</u>	<u>371,732</u>
Capital and Reserves			
Called up Share Capital: – Ordinary	25,526	–	25,526
– Preference	1,178	(1,178) ²	–
Share Premium Account	40	–	40
Capital Redemption Reserve	56	–	56
Capital Reserves: – Realised	322,467	–	322,467
– Unrealised	3,284	–	3,284
Revenue Reserve	11,169	9,190 ¹	20,359
Shareholders' Funds	<u>363,720</u>	<u>8,012</u>	<u>371,732</u>
Net asset value per Ordinary Share	355.1p		364.1p

	As previously stated 31 January 2005 £'000s	Adjustment £'000s	Restated 31 January 2005 £'000s
Fixed Assets Investments	535,095	–	535,095
Net Current (Liabilities) Assets	(6,454)	9,190 ¹	2,736
	<u>528,641</u>	<u>9,190</u>	<u>537,831</u>
Less: Creditors – amounts falling due after more than one year	(112,141)	(1,178) ²	(113,320)
Total Net Assets	<u>416,499</u>	<u>8,012</u>	<u>424,511</u>
Capital and Reserves			
Called up Share Capital: – Ordinary	25,526	–	25,526
– Preference	1,178	(1,178) ²	–
Share Premium Account	40	–	40
Capital Redemption Reserve	56	–	56
Capital Reserves: – Realised	322,240	–	322,240
– Unrealised	57,963	–	57,963
Revenue Reserve	9,496	9,190 ¹	18,686
Shareholders' Funds	<u>416,499</u>	<u>8,012</u>	<u>424,511</u>
Net asset value per Ordinary Share	406.8p		415.8p

1 Represents the effect of not recognising the interim and final dividends (FRS 21).

2 Represents the effect of recognising the preference stock holding as a liability and not non-equity shareholder funds (FRS 25).

Note 7

FRS 26 requires that the fixed asset investments be measured at their fair value which is deemed to be the bid price. Had the Company not elected to take advantage of the exemption under paragraph 108D of FRS 26, the effect of revaluing the fixed asset investments at 31 January 2005 from mid to bid would be to lower the value of the investments by £28,000 to £535,067,000 and subsequently reduce the total net assets of the Company by the same amount.

Note 8

The interim statement has been neither audited nor reviewed by the Company's auditors. The financial information for the year ended 31 January 2005 has been extracted from the statutory accounts for that year which have been delivered to the Registrar of Companies and restated by reference to the changes in accounting policy detailed above. 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
155 Bishopsgate
London EC2M 3AD
Telephone: 020 7859 9000
Represented by Nigel Lanning
Allianz Global Investors is the marketing name of RCM (UK) Limited, which is authorised and regulated by the Financial Services Authority.

Secretary and Registered Office

Kirsten Salt BA (Hons) ACIS
155 Bishopsgate
London EC2M 3AD
Telephone: 020 7065 1513

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

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 2005/2006

	Dividend	Payment Date
First interim	4.6p	18 August 2005
Second interim	4.7p	10 November 2005
Third interim		February 2006
Final		May 2006

Website

Further information about the Trust is available on the Managers' website:
www.allianzglobalinvestors.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 Allianz Global Investors, via Investor Services on 0800 317 573 or on the Managers' website: www.allianzglobalinvestors.co.uk.

Share Plan

Investors are able to buy shares in the Company at low cost through the Allianz Global Investors Share Plan. Investments can be in the form of a regular monthly contribution, an individual lump sum or a combination of the two. There is an arrangement for the reinvestment of dividends as well as facilities for selling and switching. Full details of the Share Plan are available from Allianz Global Investors either via Investor Services on 0800 317 573 or on the Managers' website: www.allianzglobalinvestors.co.uk, or alternatively, please use the FREEPOST card enclosed to request any literature you may require.

Maxi ISA and PEP Transfer

Shareholders can invest in the shares of the Company through the Allianz Global Investors Investment Trust Maxi ISA and PEP Transfer. Full details are available from Allianz Global Investors, via Investor Services on 0800 317 573 or on the Managers' website: www.allianzglobalinvestors.co.uk, or alternatively, please use the enclosed FREEPOST card to request any literature you may require.

Shareholders' Enquiries

Capita Registrars 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, if telephoning from overseas 0044 20 8639 2157, or by e-mail: ssd@capitaregistrars.com. 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

The Company is a member of the Association of Investment Trust Companies.
Category: UK Growth & Income.

Allianz Global Investors
Phone 0800 317 573
Fax 020 7638 3508
www.allianzglobalinvestors.co.uk