



THE MERCHANTS TRUST PLC
Interim Report for the six months ended
31 July 2003

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

Revenue	For the six months ended 31 July		% change
	2003	2002	
Revenue	£12.70m	£12.58m	+1.0
Available for Ordinary Dividend	£10.38m	£10.28m	+1.0
Earnings per Ordinary Share	10.17p	10.07p	+1.0
Dividend per Ordinary Share	8.60p	8.60p	–

Assets	At	At	% change
	31 July	31 January	
	2003	2003	
Total Net Assets	£343.3m	£274.5m	+25.0
Net Asset Value per Ordinary Share	335.0p	267.8p	+25.1
Ordinary Share price	315.3p	256.0p	+23.2
Discount of Ordinary Share price to Net Asset Value	5.9%	4.4%	

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 2003

Highlights

- Net Asset Value 335.0p per share, up 25.1% compared with 16.5% rise in the FTSE 100 Index.
- Underlying rise in the Trust's total assets was 17.9%.
- Earnings per ordinary share of 10.17p, up 1.0%.
- Dividends per share for first six months unchanged at 8.6p per share.
- Historic dividend yield of 5.2% net at 329.5p per share.

Interim Results

Net Asset Value

The net asset value per ordinary share at 31 July 2003 was 335.0p. This represents an increase of 25.1% when compared with the equivalent figure at 31 January 2003 – 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 17.9%. Over the same period the FTSE 100 Index rose by 16.5%, whilst the FTSE Higher Yield Index rose by 20.4%.

Earnings per share

In the first six months of the current year, earnings per share have risen by 1.0% to 10.17p per share. As in 2002/3, dividend receipts are expected to be weighted towards the first half of the current financial year.

Interim Dividends

The Board is recommending a second quarterly dividend of 4.30p per share, payable on 12 November 2003 to shareholders on the register at close of business on 10 October 2003. The total distribution for the first half of 2003/4 is 8.6p net, unchanged when compared with the same period last year.

Share Buy Backs

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

Prospects

After a weak start to the Trust's first half, equity markets have since recorded a significant recovery. Confidence has been re-built as a result of Central Banks' easier monetary policies, as well as better than expected company results and a revival of corporate activity. The Directors remain cautiously optimistic and believe there should be good investment opportunities in the coming months.

By Order of the Board
K J Salt
Secretary

155 Bishopsgate
London EC2M 2AD

15 September 2003

Twenty Largest Equity Holdings

As at 31 July 2003

	Valuation £'000s	% of Total Assets*	Principal Activities
BP	38,553	8.45	Oil and Gas
HSBC	36,960	8.10	Banking
GlaxoSmithkline	26,224	5.75	Pharmaceuticals
Shell Transport & Trading	21,734	4.77	Oil and Gas
Barclays	19,011	4.17	Banking
Lloyds TSB	14,152	3.10	Banking
Royal Bank of Scotland	12,299	2.70	Banking
BT	11,451	2.51	Telecommunications
Alliance & Leicester	10,746	2.36	Banking
Gallaher	10,349	2.27	Tobacco
Imperial Tobacco	9,780	2.14	Tobacco
Bradford & Bingley	8,731	1.91	Banking
Prudential	8,127	1.78	Life assurance
Abbey National	8,119	1.78	Banking
Wilson Connolly	8,103	1.78	Housebuilding
Diageo	7,944	1.74	Beverages
Rank	7,632	1.67	Leisure
Slough Estates	7,334	1.61	Real estate
Land Securities	7,138	1.57	Real estate
Boots	6,747	1.48	Retailing
	281,134	61.64	

*Total Assets include current liabilities.

Portfolio Analysis

As at 31 July 2003

Sector	UK %	Total %
Listed equities	101.6	101.6
Net Current Liabilities	(1.6)	(1.6)
Total Assets	100.0	100.0

Statement of Total Return

For the six months ended 31 July 2003

	Revenue £'000s	Capital £'000s	Total £'000s
	(Note 2)		
Net gains (losses) on investments	–	70,885	70,885
Income from fixed asset investments	12,612	–	12,612
Other income	89	–	89
Investment management fee	(320)	(594)	(914)
Other expenses	(288)	–	(288)
Net return before finance costs and taxation	12,093	70,291	82,384
Finance costs of borrowings	(1,683)	(3,124)	(4,807)
Return before taxation	10,410	67,167	77,577
Taxation			
UK corporation tax	–	–	–
Return after taxation	10,410	67,167	77,577
Dividends on Preference Stock	(21)	–	(21)
Return attributable to Ordinary Shareholders	10,389	67,167	77,556
Dividends on Ordinary Shares:			
First Interim	4.3p (4,390)	–	(4,390)
Second Interim	4.3p (4,391)	–	(4,391)
Third Interim	–	–	–
Final	–	–	–
	8.6p (8,781)	–	(8,781)
Transfers to (from) Reserves	1,608	67,167	68,775
Return per Ordinary Share (Note 1)	10.17p	65.78p	75.95p

Net Asset Statement

as at 31 July 2003
£'000s

Fixed asset investments		463,437
Net current liabilities		(7,969)
		456,068
Less: Creditors – amounts falling due after more than one year		(112,107)
Total Net Assets		343,361
Called up Share Capital	– Ordinary	25,526
	– Preference	1,178
Share Premium Account		40
Capital Redemption Reserve		56
Capital Reserves	– Realised	336,494
	– Unrealised	(31,735)
Revenue Reserve		11,802
Shareholders' Funds		343,361
Net asset value per Ordinary Share		335.0p

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

The net asset value per share as at 31 July 2002 is based on 102,103,936 shares in issue and at 31 January 2003 is based on 102,103,936 shares in issue.

For the six months ended 31 July 2002			For the year ended 31 January 2003		
Revenue £'000s	Capital £'000s	Total £'000s	Revenue £'000s	Capital £'000s	Total £'000s
(Note 2)			(Note 2)		
-	(69,698)	(69,698)	-	(140,363)	(140,363)
12,470	-	12,470	21,839	-	21,839
112	-	112	262	-	262
(377)	(700)	(1,077)	(684)	(1,271)	(1,955)
(293)	-	(293)	(508)	-	(508)
11,912	(70,398)	(58,486)	20,909	(141,634)	(120,725)
(1,608)	(2,976)	(4,584)	(3,240)	(6,006)	(9,246)
10,304	(73,374)	(63,070)	17,669	(147,640)	(129,971)
-	-	-	-	-	-
10,304	(73,374)	(63,070)	17,669	(147,640)	(129,971)
(21)	-	(21)	(43)	-	(43)
10,283	(73,374)	(63,091)	17,626	(147,640)	(130,014)
4.3p (4,390)	-	(4,390)	4.3p (4,390)	-	(4,390)
4.3p (4,391)	-	(4,391)	4.3p (4,390)	-	(4,390)
-	-	-	4.3p (4,391)	-	(4,391)
-	-	-	4.3p (4,391)	-	(4,391)
8.6p (8,781)	-	(8,781)	17.2p (17,562)	-	(17,562)
1,502	(73,374)	(71,872)	64	(147,640)	(147,576)
10.07p	(71.86)p	(61.79)p	17.26p	(144.60)p	(127.34)p

as at 31 July 2002
£'000s

as at 31 January 2003
£'000s

463,778	391,704
(1,397)	(5,020)
462,381	386,684
(112,093)	(112,099)
350,288	274,585
25,526	25,526
1,178	1,178
40	40
56	56
373,772	353,215
(61,915)	(115,624)
11,631	10,194
350,288	274,585
341.9p	267.8p

Cash Flow Statement

for the six months ended 31 July 2003 and comparative periods

	Six months ended 31 July 2003 £'000s	Six months ended 31 July 2002 £'000s	Year ended 31 January 2003 £'000s
Net cash inflow from operating activities	10,959	10,039	19,294
Servicing of Finance			
Interest paid	(4,684)	(4,389)	(9,266)
Dividends paid on preference stock	(21)	(21)	(64)
Net cash outflow on servicing of finance	(4,705)	(4,410)	(9,330)
Taxation			
UK income tax repaid	-	-	10
Financial Investment			
Purchase of fixed asset investments	(71,147)	(75,610)	(138,921)
Sale of fixed asset investments	70,296	84,002	151,375
Net cash (outflow) inflow from financial activities	(851)	8,392	12,454
Equity dividends paid	(8,780)	(8,577)	(17,358)
Net cash (outflow) inflow before financing	(3,377)	5,444	5,070
Financing			
(Decrease) increase in short term loans	(224)	1,010	(461)
Net cash (outflow) inflow from financing	(224)	1,010	(461)
(Decrease) increase in cash	(3,601)	6,454	4,609

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 2002 – 102,103,936 shares; 31 January 2003 – 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 2003. The financial information for the year ended 31 January 2003 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

Allianz Dresdner Asset Management (UK) Ltd
(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.

Results

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

Ordinary Dividends 2003/2004

	Dividend	Payment Date
First interim	4.3p	15 August 2003
Second interim	4.3p	12 November 2003
Third interim		February 2004
Final		May 2004

Website

Further information about the Trust is available on the Allianz Dresdner website:
www.allianzdresdneram.co.uk.

Net Asset Value

The Net Asset Value of the Ordinary Shares is calculated daily 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 Investor Services on 0800 317 573 and on the Allianz Dresdner website: 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 Investor Services on 0800 317 573 or on the Allianz Dresdner website: www.allianzdresdneram.co.uk or, alternatively, please use the enclosed FREEPOST card 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, dividend cheques, registered details, etc., shareholders should contact the registrars on 0870 162 3100 or 0044 20 8639 2157 if calling from overseas. 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, 155 Bishopsgate, London EC2M 3AD.

AITC Membership

A member of the Association of Investment Trust Companies.

Category: UK Growth & Income

ALLIANZ DRESDNER ASSET MANAGEMENT

Phone 0800 317 573

Fax 020 7638 3508

www.allianzdresdneram.co.uk