

## **THE MERCHANTS TRUST PLC**

### **Announcement of Unaudited Interim Results For the six months ended 31 July 2006**

#### **Highlights**

- Dividends of 9.8p per share declared for the first six months, up 5.4%.
- Net Asset Value of 528.1p per share, up 4.8% compared with 2.9% rise in the FTSE 100 Index.
- Historic dividend yield of 4.0% net at 484p per share.

#### **Interim Results**

##### **Earnings per share**

In the first six months of the current year, earnings have risen by 6.7% to 11.85p 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 4.90p per share, payable on 14 November 2006 to shareholders on the register at close of business on 13 October 2006. The total distribution declared for the first half of 2006/7 is 9.80p net, an increase of 5.4% when compared with the same period last year.

##### **Net Asset Value**

The net asset value per ordinary share was 528.1p at 31 July 2006. This represents an increase of 4.8% when compared with the equivalent figure at 31 January 2006 - 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, excluding expenses allocated to capital, was 4.5%. Over the same period the FTSE 100 Index rose by 2.9%, whilst the FTSE 350 Higher Yield Index rose by 1.7% (Capital Return).

##### **New Shares**

On 29 June 2006 1,655,941 new ordinary shares were issued to 320 former members of Allianz Dresdner Income Growth Investment Trust plc, a split capital investment trust which reached the end of its planned life.

##### **New Director**

The Directors are pleased to welcome James Sassoon who was appointed to the Board on 11 July. James is currently The Chancellor's Representative for Promotion for the City at HM Treasury. From 2002 to 2006 he was Managing Director of HM Treasury's Finance and Industry Directorate and a Member of the Treasury Board. Before that, he had worked at UBS Warburg since 1987 where he held a number of positions, including Vice Chairman, Investment Banking. He is a chartered accountant and he will succeed Joe Scott Plummer as Chairman of the Audit Committee.

## Prospects

The direction of future interest rate changes remains uncertain and is likely to have a significant effect on short term stock market sentiment. The uncertainty is driven by the opposing forces of rising inflationary pressures and concern over the sustainability of economic growth. Inflationary pressures seem to be driven largely by rising energy and commodity costs which might be expected to moderate over time although the risk is that these flow through to the wider economy through retail prices or higher wage rises. Set against this is the risk of slower economic growth which would normally counter inflationary pressures. The growth threat seems the greater risk at present as consumers face rising utility bills and taxes and there has been a modest rise in unemployment. However the UK is also benefiting from rising total employment and a robust corporate sector. The progress of the housing market, currently showing some strength, remains key to consumer confidence.

Despite the economic uncertainty, the corporate sector looks robust with companies generally having strong balance sheets and reporting good profit and cashflow growth. This is leading to broadly based dividend growth. There are also a number of companies making "special dividend" payments, especially in the natural resources sector, reflecting buoyant trading conditions in their industries. Although some of these payments may not be sustainable in the longer term, the overall outlook for market dividend growth looks healthy.

Market valuations also look supportive for long term investment, especially given the low level of bond yields by historic standards. Takeover activity has continued at a high level, aided by low interest rates and provides some further underpinning to the market.

Hugh Stevenson  
Chairman

155 Bishopsgate  
London EC2M 3AD

**THE MERCHANTS TRUST PLC****Summary of Unaudited Results****INCOME STATEMENT**

For the six months ended 31 July 2006

	Revenue £'000s	2006 Capital £'000s	Total Return £'000s
			(Note 2)
Net gains on investments held at fair value	-	27,002	27,002
Income from investments	14,446	-	14,446
Other income	142	-	142
Investment management fee	(468)	(869)	(1,337)
Expenses of administration	(291)	(3)	(294)
<b>Net return before finance costs and taxation</b>	<b>13,829</b>	<b>26,130</b>	<b>39,959</b>
Finance costs: interest payable and similar charges	(1,699)	(3,116)	(4,815)
<b>Return on ordinary activities before taxation</b>	<b>12,130</b>	<b>23,014</b>	<b>35,144</b>
Taxation	-	-	-
<b>Return attributable to Ordinary Shareholders</b>	<b>12,130</b>	<b>23,014</b>	<b>35,144</b>
<b>Return per Ordinary Share (Note 1)</b> (basic and diluted)	11.85p	22.47p	34.32p

<b>BALANCE SHEET</b> as at 31 July 2006	<b>2006 £'000s</b>
Investments held at fair value through profit or loss	662,034
Net current liabilities	(697)
<b>Total Assets Less Current Liabilities</b>	<b>661,337</b>
Creditors - amounts falling due after more than one year	(113,375)
<b>Total Net Assets</b>	<b>547,962</b>
Called up Share Capital	25,940
Share Premium Account	7,527
Capital Redemption Reserve	56
Capital Reserves: Realised	376,269
Unrealised	115,958
Revenue Reserve	22,212
<b>Equity Shareholders' Funds</b>	<b>547,962</b>
<b>Net Asset Value per Ordinary Share</b>	<b>528.1p</b>

The net asset value is based on 103,759,877 Ordinary Shares in issue at 31 July 2006.

## **THE MERCHANTS TRUST PLC**

### **Summary of Unaudited Results**

#### **INCOME STATEMENT**

For the six months ended 31 July 2005

	<b>Revenue</b>	<b>2005 Capital</b>	<b>Total Return</b>
	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>
			(Note 2)
Net gains on investments held at fair value	-	36,873	36,873
Income from investments	13,586	-	13,586
Other income	90	-	90
Investment management fee	(391)	(726)	(1,117)
Expenses of administration	(272)	-	(272)
<b>Net return before finance costs and taxation</b>	<b>13,013</b>	<b>36,147</b>	<b>49,160</b>
Finance costs: interest payable and similar charges	(1,682)	(3,124)	(4,806)
<b>Return on ordinary activities before taxation</b>	<b>11,331</b>	<b>33,023</b>	<b>44,354</b>
Taxation	-	-	-
<b>Return attributable to Ordinary Shareholders</b>	<b>11,331</b>	<b>33,023</b>	<b>44,354</b>
<b>Return per Ordinary Share (Note 1)</b> (basic and diluted)	11.10p	32.34p	43.44p

#### **BALANCE SHEET** as at 31 July 2005

	<b>2005 £'000s</b>
Investments held at fair value through profit or loss	564,290
Net current assets	8,722
<b>Total Assets Less Current Liabilities</b>	<b>573,012</b>
Creditors - amounts falling due after more than one year	(113,336)
<b>Total Net Assets</b>	<b>459,676</b>
Called up Share Capital	25,526
Share Premium Account	40
Capital Redemption Reserve	56
Capital Reserves: Realised	335,254
Unrealised	77,972
Revenue Reserve	20,828
<b>Equity Shareholders' Funds</b>	<b>459,676</b>
<b>Net Asset Value per Ordinary Share</b>	450.2p

The net asset value is based on 102,103,936 Ordinary Shares in issue at 31 July 2005.

## **THE MERCHANTS TRUST PLC**

### **INCOME STATEMENT**

for the year ended 31 January 2006

	<b>Revenue</b>	<b>2006 Capital</b>	<b>Total Return</b>
	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>
			(Note 2)
Net gains on investments held at fair value	-	96,792	96,792
Income from investments	24,358	-	24,358
Other income	356	-	356
Investment management fee	(824)	(1,530)	(2,354)
Expenses of administration	(622)	(6)	(628)
<b>Net return before finance costs and taxation</b>	<b>23,268</b>	<b>95,256</b>	<b>118,524</b>
Finance costs: interest payable and similar charges	(3,414)	(6,219)	(9,633)
<b>Return on ordinary activities before taxation</b>	<b>19,854</b>	<b>89,037</b>	<b>108,891</b>
Taxation	-	-	-
<b>Return attributable to Ordinary Shareholders</b>	<b>19,854</b>	<b>89,037</b>	<b>108,891</b>
<b>Return per Ordinary Share (Note 1)</b> (basic and diluted)	19.44p	87.20p	106.64p

### **BALANCE SHEET** as at 31 January 2006

	<b>2006 £'000s</b>
Investments held at fair value through profit or loss	621,948
Net current assets	6,118
<b>Total Assets Less Current Liabilities</b>	<b>628,066</b>
Creditors - amounts falling due after more than one year	(113,353)
<b>Total Net Assets</b>	<b>514,713</b>
Called up Share Capital	25,526
Share Premium Account	40
Capital Redemption Reserve	56
Capital Reserves: Realised	351,107
Unrealised	118,105
Revenue Reserve	19,879
<b>Equity Shareholders' Funds</b>	<b>514,713</b>
<b>Net Asset Value per Ordinary Share</b>	<b>504.1p</b>

The net asset value is based on 102,103,936 Ordinary Shares in issue at 31 January 2006.

## **THE MERCHANTS TRUST PLC**

### **RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	<b>Called Up Share Capital £'000s</b>	<b>Share Premium Account £'000s</b>	<b>Capital Redemption Reserve £'000s</b>	<b>Capital Reserve Realised £'000s</b>	<b>Capital Reserve Unrealised £'000s</b>	<b>Revenue Reserve £'000s</b>	<b>Total £'000s</b>
<b>Six months ended 31 July 2006</b>							
Net Assets at 31 January 2006	25,526	40	56	351,107	118,105	19,879	514,713
Revenue Return	-	-	-	-	-	12,130	12,130
Dividends on Ordinary Shares	-	-	-	-	-	(9,797)	(9,797)
Capital Return	-	-	-	25,161	(2,147)	-	23,014
Shares issued during the year	414	7,487	-	1	-	-	7,902
Net Assets at 31 July 2006	<u>25,940</u>	<u>7,527</u>	<u>56</u>	<u>376,269</u>	<u>115,958</u>	<u>22,212</u>	<u>547,962</u>
<b>Six months ended 31 July 2005</b>							
Net Assets at 31 January 2005	25,526	40	56	322,240	57,963	18,686	424,511
Revenue Return	-	-	-	-	-	11,331	11,331
Dividends on Ordinary Shares	-	-	-	-	-	(9,189)	(9,189)
Capital Return	-	-	-	13,014	20,009	-	33,023
Net Assets at 31 July 2005	<u>25,526</u>	<u>40</u>	<u>56</u>	<u>335,254</u>	<u>77,972</u>	<u>20,828</u>	<u>459,676</u>
<b>Year ended 31 January 2006</b>							
Net Assets at 31 January 2006	25,526	40	56	322,240	57,963	18,686	424,511
Adjustment to record investments at bid value	-	-	-	-	(28)	-	(28)
Revenue Return	-	-	-	-	-	19,854	19,854
Dividends on Ordinary Shares	-	-	-	-	-	(18,661)	(18,661)
Capital Return	-	-	-	28,867	60,170	-	89,037
Net Assets at 31 January 2006	<u>25,526</u>	<u>40</u>	<u>56</u>	<u>351,107</u>	<u>118,105</u>	<u>19,879</u>	<u>514,713</u>

## THE MERCHANTS TRUST PLC

### CASH FLOW STATEMENT

for the six months ended 31 July 2006 and comparative periods

	<b>Six Months to 31 July 2006 £'000s</b>	<b>Six Months to 31 July 2005 £'000s</b>	<b>Year to 31 January 2006 £'000s</b>
<b>Net cash inflow from operating activities</b>	11,789	11,966	22,806
<b>Servicing of finance</b>			
Interest paid	(4,780)	(4,774)	(9,557)
Dividends paid on Preference Stock	(21)	(21)	(64)
<b>Net cash outflow on servicing of finance</b>	(4,801)	(4,795)	(9,621)
<b>Financial investment</b>			
Purchase of fixed asset investments	(128,364)	(79,751)	(139,141)
Sale of fixed asset investments	124,557	87,429	146,799
<b>Net cash (outflow) inflow from investing activities</b>	(3,807)	7,678	7,658
<b>Equity dividends paid</b>	(9,797)	(9,189)	(18,661)
<b>Net cash (outflow) inflow before financing</b>	(6,616)	5,660	2,182
<b>Financing</b>			
Cash transferred from Allianz Dresdner Income Growth Investment Trust plc	909	-	-
<b>(Decrease) increase in cash</b>	(5,707)	5,660	2,182

## **THE MERCHANTS TRUST PLC**

### **TWENTY LARGEST EQUITY HOLDINGS AS AT 31 JULY 2006**

	<b>Valuation</b>	<b>% of</b>	
	<b>£'000s</b>	<b>Total</b>	<b>Principal Activities</b>
		<b>Assets*</b>	
Royal Dutch Shell	62,548	9.46	Oil and Gas Production
BP	51,600	7.80	Oil and Gas Production
HSBC Holdings	46,996	7.11	Banking
GlaxoSmithKline	39,395	5.96	Pharmaceuticals
Vodafone	27,110	4.10	Telecommunications
Royal Bank of Scotland	26,637	4.03	Banking
Barclays	22,922	3.47	Banking
HBOS	22,414	3.39	Banking
Lloyds TSB	21,782	3.29	Banking
BT	19,614	2.97	Telecommunications
Anglo American	16,539	2.50	Mining
Scottish Power	13,640	2.06	Electricity
Scottish & Southern Energy	12,997	1.97	Electricity
Lonmin	13,437	2.03	Mining
Legal & General	11,185	1.69	Life and General Insurance
Tesco	10,390	1.57	Food & Drug Retailer
Reed Elsevier	10,003	1.51	Media
Rio Tinto	9,818	1.48	Mining
Smiths Group	9,776	1.48	Aerospace & Defence
Drax	9,029	1.37	Electricity
	<u>457,832</u>	<u>69.24</u>	

\* Total Assets include current liabilities

### **PORTFOLIO ANALYSIS AS AT 31 JULY 2006**

	<b>UK</b>	<b>Other</b>	<b>Total</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Listed equities	100.1	-	100.1
Net current liabilities	(0.1)	-	(0.1)
Total Assets	<u>100.0</u>	<u>-</u>	<u>100.0</u>



## **THE MERCHANTS TRUST PLC**

### **NOTES**

#### **Note 1**

The return per Ordinary Share is based on a weighted average number of shares in issue during the period of 102,396,699 shares. (31 July 2005 - 102,103,936 shares; 31 January 2006 – 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.

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

Included in the cost of investments are transaction costs on purchases which amounted to £866,297 (31 July 2005 - £492,649; 31 January 2006 - £888,492) and transaction costs on sales which amounted to £203,769 (31 July 2005 - £176,898; 31 January 2006 - £302,257).

On 30 June 2006 investments and cash amounting to £7.0m and £0.9m respectively were transferred into the Company following the reconstruction of Allianz Dresdner Income Growth Investment Trust plc, as consideration for 1,655,941 new Ordinary Shares issued at 477.1p

#### **Note 3**

In accordance with FRS 21 'Events after the Balance Sheet date', the final dividend payable on Ordinary Shares is recognised as a liability when approved by shareholders. Interim dividends are recognised only when paid.

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

	Six months to 31 July 2006 £'000s	Six months to 31 July 2005 £'000s	Year to 31 January 2006 £'000s
Third Interim dividend 4.50p paid 17 February 2005	-	4,594	4,594
Final dividend 4.50p paid 11 May 2005	-	4,595	4,595
First Interim dividend 4.60p paid 18 August 2005	-	-	4,697
Second Interim dividend 4.70p paid 10 November 2005	-	-	4,799
Third Interim dividend 4.80p paid 17 February 2006	4,901	-	-
Final dividend 4.80p paid 10 May 2006	4,901	-	-
Uncollected dividends from prior years	(5)	-	(24)
	<u>9,797</u>	<u>9,189</u>	<u>18,661</u>

## **THE MERCHANTS TRUST PLC**

### **NOTES CONTINUED**

Dividends payable at the period end are not recognised as a liability under FRS 21 'Events after the Balance Sheet date'. Details of these dividends are set out below.

	Six months to 31 July 2006 £'000s	Six months to 31 July 2005 £'000s	Year to 31 January 2006 £'000s
Third Interim dividend 4.80p paid 17 February 2006	-	-	4,901
Final dividend 4.80p paid 10 May 2006	-	-	4,901
First Interim dividend 4.90p payable 16 August 2006 (2005 - 4.60p)	5,084	4,697	-
Second Interim dividend 4.90p payable 14 November 2006 (2005 - 4.70p)	5,804	4,799	-

The second interim dividend noted above is based on the number of shares at period end. However, the dividend subsequently paid will be based on the number of shares in issue on the record date and will reflect any purchase or cancellations of shares by the Company settled subsequent to the period end.

#### **Note 4**

The interim statement has been neither audited nor reviewed by the Company's auditors. The financial information for the year ended 31 January 2006 has been extracted from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors' 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.

The Interim Report, which will include a Fund Managers' Report, will be sent to Shareholders shortly and made available to the public at the Registered Office of the Company, 155 Bishopsgate, London, EC2M 3AD.

For further information, please contact:

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