

The Merchants Trust PLC

Key Information

Total Assets*	£606.1m
Gearing^{††} (net)	23%
No. of Shares[†] (Ordinary 25p)	102,103,936
Net asset value[†]	479.6p
Net asset value (debt at Market Value)[†]	445.5p
Premium/-discount to NAV[†]	-10.0%
Premium/-discount to NAV (debt at Market Value)[†]	-3.2%
Share price*	435p
AITC Sector	UK Income Growth
ISIN	GB0005800072
Sedol	0580007
RIC	MRCH
Year end	31st January
Report and Accounts	Final posted in April Interim posted in September
AGM	May
Dividends	February, May, August and November
Price Information	Financial Times The Daily Telegraph www.allianzglobalinvestors.co.uk
Board of Directors	Hugh Stevenson (Chairman), Sir John Banham, Dick Barfield, Sir Bob Reid, Joe Scott Plummer
Investor services	020 7065 1407
Brochure request	0800 317 573

* Source: Datastream as at 31.12.05

† Source: Allianz Global Investors as at 31.12.05

Investment trusts are quoted companies listed on the London Stock Exchange. Their share price is determined by factors including demand, or lack of, which means that the shares may trade below (at a discount to) or above (at a premium to) the underlying net asset value.

A trust's net asset value (NAV) is calculated as available shareholders' funds divided by the number of shares in issue, with shareholders' funds taken to be the net value of all the company's assets after deducting liabilities. In line with current industry best practice NAVs are now shown that take into account the 'fair value' of debt. This means NAVs are calculated after allowing for the valuation of debt at fair value or current market price, rather than at final repayment value. NAVs with debt at market value provide a more realistic impact of the cost of debt, and thus a more realistic discount.

†† Source: Datastream as at 31.12.05.

Please also refer to Trust Aim & Characteristics, above right

Trust aim & characteristics

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.

††Merchants seeks to enhance returns for its shareholders through gearing, in the form of bank borrowings. Gearing can boost the Trust's returns when investments perform well, though losses can be magnified when investments do badly. You should be aware that this Trust may be subject to sudden and large falls in value and you could suffer substantial capital loss.

Fund Manager's Review

The UK equity market ended the year in good style with the FTSE100 Index rising by 3.6% in December to give 16.7% for 2005 as a whole. Company news continued to be supportive with take-over interest over-laying good trading. Although general economic news continued to be subdued, the prospect for further falls in base rates helped sentiment. The trust benefited from its exposure to mining, retailers and real estate, whilst the underweight position in telecoms continued to be helpful. In contrast tobacco and food retailing were negative influences. Overall the trust's shares continued to give a good return against the market. In the coming year the strength of corporate cash flows and the prospects for further take-over activity suggest that dividend growth will continue in a positive vein, with high-yielding shares expected to give further profitable opportunities for new investments.

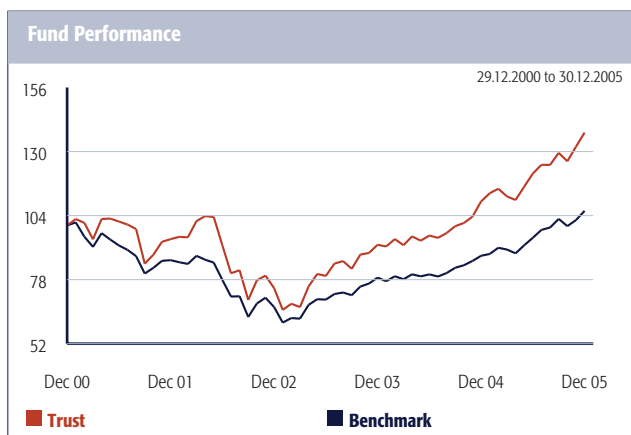


Nigel Lanning

Top 10 holdings

Name	%
BP	8.1
HSBC	7.3
Royal Dutch Shell "B" Shares	7.3
Glaxosmithkline	5.6
Royal Bank of Scotland Group	4.1
HBOS	3.7
Lloyds TSB Group	3.6
BT Group	3.0
Barclays	2.5
Rio Tinto	2.5
Total	47.7

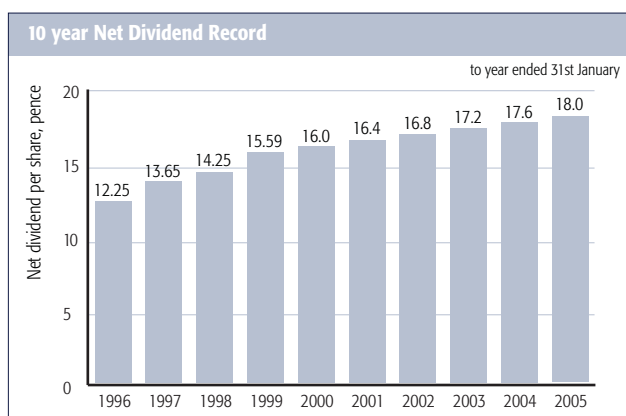
Source: Allianz Global Investors as at 30.12.05.



Source: Allianz Global Investors/ Russell/ Mellon. 29th December 2000 to 30th December 2005, Total Return, net income reinvested, calculation indexed. UK Sterling. Please remember that past performance is not a guide to future performance. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount originally invested. This investment trust charges 65% of its annual management fee to the capital account and 35% to revenue. This could lead to a higher level of income but a lower capital return.

Standardised Past Performance						
	From to	29/12/2000 31/12/2001	31/12/2001 31/12/2002	31/12/2002 31/12/2003	31/12/2003 31/12/2004	31/12/2004 30/12/2005
Share Price		2.0%	-22.3%	18.9%	20.2%	22.1%

Source: Allianz Global Investors/S&P Micropal. Discrete years, mid to mid, basic rate tax, based in UK sterling. Standardised past performance figures comply with the Financial Services Authority's regulations to enable investors to compare different products from different providers.



Source: Allianz Global Investors

History

The Trust was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it principally invested in the fixed interest securities of railway companies in the USA, Canada and South America, with the remainder held in Government securities and companies such as Castlemain Brewery in New South Wales. The Trust now concentrates primarily upon major UK companies with an above average rate of dividend yield.

Launch Date: 1889 **Wind-up Date:** None

Share buybacks

230,000 shares have been repurchased for cancellation to date.