



THE MERCHANTS TRUST PLC
Report and Accounts for the year ended
31 January 2004

Report

Contents

Investment Objective	2	Statement of Total Return	18
Benchmark.....	2	Balance Sheet.....	19
Financial Highlights	2	Cash Flow Statement	20
Chairman’s Statement	3	Statement of Accounting Policies	21
Historical Record.....	5	Notes to the Accounts	22
Thirty Largest Investments	6	Independent Auditors’ Report	34
Investment Managers’ Review	7	Statement of Directors’ Responsibilities.....	35
Performance Attribution Analysis.....	8	Corporate Governance	36
United Kingdom Listed Holdings.....	9	Directors’ Remuneration Report.....	38
Distribution of Total Assets	11	Directors.....	39
Performance Graphs	13	Directors’ Report	40
Risk Review	14	Notice of Meeting	44
Investor Information.....	15	Form of Proxy	
Contact Details	17		

Key Facts

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 Company's investment performance is assessed by comparison with other investment trusts within the UK Growth and Income 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 Company's higher yield objective.

Financial Highlights for the years ended 31 January

Revenue	2004	2003	% change
Revenue	£22,246,829	£22,100,765	+0.7
Available for Ordinary Dividend	£17,701,638	£17,626,161	+0.4
Earnings per Ordinary Share	17.34p	17.26p	+0.5
Dividends per Ordinary Share	17.60p	17.20p	+2.3

Key Data as at 31 January	2004	2003	% change
Total Net Assets	£358,620,277	£274,585,271	+30.6
Net Asset Value per Ordinary Share	350.1p	267.8p	+30.7
Ordinary Share Price	326.3p	256.0p	+27.4
Discount of Net Asset Value to Ordinary Share Price	6.8%	4.4%	n/a

Chairman's Statement

Results

After two years of decline in stock markets, the financial year ended 31 January 2004 produced a welcome recovery. The Trust's net asset value per share increased by 30.7% to 350.1p and, including dividends paid, the total underlying return per share was 37.2% compared with the total return of 27.7% recorded by the FTSE 100 Index.

The Trust's total assets increased in value by 23.7% before allowing for the impact of gearing and costs. In comparison the FTSE 100 Index rose by 23.1% and the FTSE Higher Yield Index rose by 26.1%. In a rising market, the Trust's borrowings had a positive influence on returns to shareholders.

During the year the share price rose by 27.4% from 256p to 326p.

Market Background

After falling rapidly in the early weeks of 2003/4, markets recovered sharply in anticipation of a swift resolution to the military campaign in Iraq. Despite the difficulties in Iraq following these events, markets responded to the clear improvement in economic growth prospects, especially in the US. UK shares participated in this rally, although they rose by less than shares in overseas markets. With economic activity accelerating and companies starting to reap the benefits of cost savings, corporate profits increased by an estimated 15% in 2003. Analysts' forecasts were upgraded as the year progressed and the UK equity market finished the year just below its best level for the twelve months.

Earnings Per Share

In 2003/2004 net earnings per share rose by 0.5% to 17.34p. The 2002/3 financial year included special dividend receipts equivalent to 0.59p per share and, if this element is ignored, the underlying growth in earnings per share was 4.0%, notwithstanding dividend cuts by a number of leading companies.

Several major multinational companies in the Trust's portfolio now pay their dividends in US dollars. As a result of this, over 20% of the Trust's revenue is received in this currency. Recent dollar weakness reduced the level of the Trust's revenue when expressed in Sterling by about 0.2p per share in 2003/2004. If present exchange rates are maintained, the weakness of the dollar is likely to have a rather greater negative impact in the current year.

Dividends

The Board has declared dividends totalling 17.60p for the financial year, which compares with a total of 17.20p for 2002/3, and represents an increase of 2.3%. The total cost of the payments for 2003/4 was £18.0m, absorbing just under £0.3m from the Trust's Revenue Reserve. This now stands at £9.9m, or 9.72p per share. The Trust has recorded 22 years of consecutive dividend increases.

In the past it has been the Board's practice to recommend a final dividend at the Annual General Meeting. Many shareholders will be aware that the tax credit on dividends accruing to Personal Equity Plans (PEPs) and Individual Savings Accounts (ISAs) was terminated with effect from 5 April, 2004. The Board was advised that, for a useful proportion of the Trust's investors, there would be a modest tax advantage through bringing forward the fourth quarterly payment for 2003/4 to before this date. The final payment for 2003/4 was therefore made on 2 April 2004 in the form of a fourth interim dividend. We plan to revert to the normal schedule of dividend payments for 2004/5.

Gearing

Many shareholders will be aware that discussions are under way which may lead to a change in the valuation of all Investment Trusts' borrowings for the purposes of calculating net asset values. One proposal is that in future borrowings should be valued on the basis of prevailing fixed interest market yields rather than the final or 'par' value ultimately repayable. The Association of Investment Trust Companies (AITC) is examining the benefits of changing to a new method for the purposes of calculating monthly asset values and it is possible that many audited Investment Trust accounts will change for accounting periods beginning on and after 1 January 2005. By way of illustration the impact of this change for your Trust as at 31 January 2004 would have been to reduce the net asset value per share by 6% to 329.1p, leading to the shares being quoted at a 0.9% discount to the adjusted net asset value. Your Board and Managers are contributing to the debate and will communicate further with shareholders as appropriate. The change, if implemented will have no implications for the Trust's investment objective or for its dividend policy.

Chairman's Statement

International Financial Reporting Standards

The application of International Financial Reporting Standards (IFRS) will become more widespread in the European Union in the coming years. It is too early to tell how IFRS will affect the accounts of investment trusts, but if the Trust were to adopt IFRS it could have a significant impact on the presentation of the Trust's financial statements. The Board is keeping this matter under close review.

Repurchases of Shares

During the year the Trust did not add to the number of shares repurchased and cancelled. Thus the total number of shares repurchased remains at 225,000. As in previous years the Board is proposing to renew this authority at the forthcoming AGM on 11 May 2004. Since December last year it has been possible for companies, including investment trusts, to hold shares repurchased in the market in Treasury, rather than cancel them. At this stage your Board has decided not to seek approval from shareholders to hold shares in Treasury, but we propose to monitor how the use of this facility by the investment trust sector develops over the coming months.

Prospects

In my Statement this time last year, I noted that UK equities were attractive by reference to a number of historic benchmarks. Given the scale of the recovery in share values since then, a large proportion of this valuation gap has now been corrected. On the other hand, many economic forecasters expect the current trend in earnings growth to be maintained over the rest of 2004 and beyond. This continued earnings growth should have positive implications for UK company dividends, not least because of the recent improvement in company balance sheets. This in turn should have a beneficial impact on the UK market at large and help sustain the widespread investor interest in the higher yielding companies in which the Trust is invested.

Hugh Stevenson
Chairman
8 April 2004

Historical Record

Years ended 31 January

Revenue and Capital

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Revenue (£000s)	17,466 [◊]	17,351 [◊]	18,769 [◊]	20,399 [◊]	20,119 [◊]	22,590	21,546	21,596	22,101	22,247
Earnings per share (net)	12.12p	12.41p	13.66p	14.88p	15.21p	17.93p	16.35p	16.70p	17.26p	17.34p
Paid net per Share	11.50p	12.25p	13.65p ^Ø	14.25p	15.59p [‡]	16.00p	16.40p	16.80p	17.20p	17.60p
Tax Credit per Share	2.88p	3.06p	3.41p [#]	3.56p	3.90p [§]	1.78p	1.82p	1.87p	1.91p	1.96p
Gross Ordinary Dividend	14.38p	15.31p	17.06p	17.81p	19.49p	17.78p	18.22p	18.67p	19.11p	19.56p
Total Net Assets (£000s)	253,604	303,934	335,212	421,504	426,037	391,495	474,907	422,161	274,585	358,620
Net Assets attributable to										
Ordinary Capital (£000s)	252,426	302,756	334,034 [◊]	420,326	424,859	390,317	473,729	420,983	273,407	357,442
Net Asset Value per Ordinary Share	246.7p	295.9p [◊]	326.4p	410.8p	415.2p	381.4p	463.5p	412.3p	267.8p	350.1p
NAV Total Return (%) [*]	-14.8	+24.9	+14.9p	+30.2	+4.9	-4.3	+25.8	-7.4	-30.9	+37.3
Retail Price Index Increases (%) ⁶	+2.8	+2.8	+3.1	+2.5	+2.6	+2.1	+1.8	+2.6	+2.7	+2.4

Notes

[◊] Restated in accordance with Financial Reporting Standard 16 "Current Taxation"

^Ø The total distribution for 1997 was 13.65p. This was made up of interim dividends of 9.75p, a final foreign income dividend (FID) of 2.00p and a final ordinary dividend of 1.90p. The final ordinary dividend was enhanced by 0.40p to ensure no shareholder would be adversely affected by the FID. Excluding this enhancement the "normal" distribution for 1997 was therefore 13.25p.

[#] Inclusive of 0.50p tax credit on the FID which is notional and not repayable.

[‡] The total distribution for 1999 was 15.59p. This was made up of interim ordinary dividends of 8.86p, an interim foreign income dividend (FID) of 2.98p and a final ordinary dividend of 3.75p. The FID was enhanced by 0.59p to ensure no shareholder would be adversely affected by receiving this form of dividend. Excluding this enhancement the "normal" distribution for 1999 was therefore 15.00p.

[§] Inclusive of 0.74p tax credit on the FID which is notional and not repayable.

⁶ RPIX - excludes the effect of mortgage rates.

^{*} NAV total return reflects both the change in net asset value per ordinary share and the net ordinary dividends declared in respect of each year.

Thirty Largest Holdings

at 31 January 2004

	Valuation	% Net Assets	Unrealised Gain (Loss) Over Book Cost
	£'000s	%	£'000s
BP	38,757	8.18	(4,886)
HSBC	38,493	8.12	1,319
GlaxoSmithKline	23,600	4.98	(4,388)
Shell Transport & Trading	20,200	4.26	(3,173)
Barclays	20,097	4.24	(1,060)
Royal Bank of Scotland	19,440	4.10	4,381
Lloyds TSB	15,456	3.26	(3,849)
BT	14,499	3.06	(12,586)
HBOS	12,359	2.61	559
Imperial Tobacco	10,820	2.28	5,909
Prudential	9,139	1.93	87
Diageo	9,000	1.90	875
Bradford & Bingley	8,869	1.87	1,073
Slough Estates	8,757	1.85	1,797
Severn Trent Water	8,713	1.84	116
Land Securities	8,709	1.84	1,718
Abbey National	8,700	1.84	(6,402)
Rank	8,348	1.76	2,450
Hanson	7,344	1.55	1,999
BAA	6,949	1.47	(427)
Scottish & Southern Energy	6,848	1.44	56
Lonmin	6,390	1.35	1,864
Legal & General	6,237	1.32	(2,555)
Northern Foods	6,090	1.29	(187)
Alliance & Leicester	6,069	1.28	2,265
Friends Provident	5,943	1.25	1,291
Dixons	5,880	1.24	1,233
Gallaher	5,798	1.22	2,018
Aviva	5,407	1.14	(1,935)
Provident Financial	5,348	1.13	554
	<u>358,259</u>	<u>75.60</u>	% of Total Invested Funds

Investment Managers' Review

Economic Background

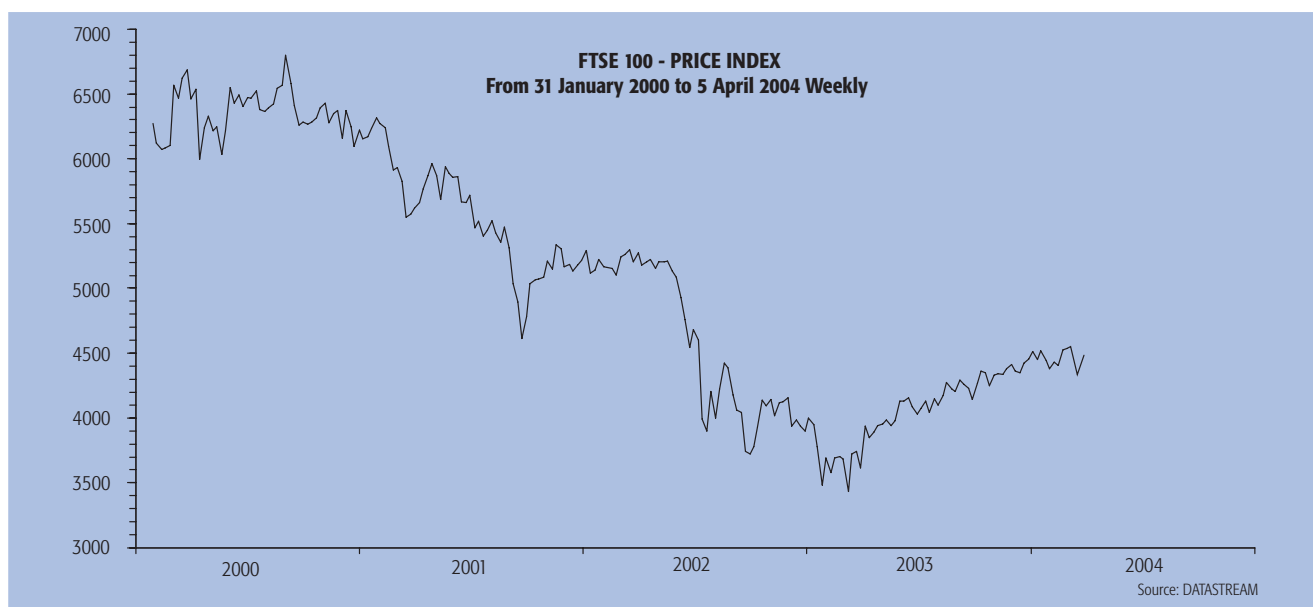
After growing by 2% in 2002, the UK economy appears to have achieved growth of the order of 2.5% in 2003. If anything this rate of growth was accelerating towards the end of the year in the face of high government spending and a relaxed monetary policy. After the rapid expansion in earlier years, consumer expenditure showed some signs of decelerating in 2003 but, in general, the housing market remained reasonably buoyant. Business investment was subdued, following on from the over-investment seen in earlier years. Overseas, the US economy expanded well, growing by nearly 5% on an annualised basis by the year end, but Europe recorded very modest growth, handicapped by the recovery in the Euro. In the Far East, the emergence of China as a major industrial power had a significant impact on commodity prices, and Far East stock markets recovered well.

UK base rates started the year at 4%, and saw two ¼% cuts in February and July before rising again by ¼% to 3¾% in November. Just after the Trust's last year end, there was a further ¼% increase to 4% as the Monetary Policy Committee attempted to take some of the heat out of consumer expenditure. Indeed this change in interest rate policy appears to have been one of the key factors behind sterling's strength over the latter half of last year. Nevertheless sterling fell by approximately 5% against the Euro over the whole of the twelve months to January, but appreciated by nearly 10% when compared with the US dollar. A number of major UK companies now declare their dividends in US dollars, including BP and HSBC, and in the short term this factor has inhibited the growth in the Trust's dividend income.

Market Trends

The FTSE 100 Index started the last financial year at 3567 and, whilst February saw little change, sentiment crumbled in March with the index falling nearly 5% to 3287 on 12 March. This marked the low point for the year and, with hindsight, for the two year bear market. These events also coincided with the invasion of Iraq and sentiment built from then on, as the military campaign was seen to be a success. As the graph on this page shows, the market appreciated in a fairly consistent fashion over the rest of the financial year. This occurred in spite of the fact that investors became increasingly convinced, as the year progressed, that UK interest rates would have to be raised. Indeed by December, futures markets were discounting base rates of approximately 5% by the end of 2004.

The best performing sectors in the last year were information technology (+96.7%) and cyclicals such as automobiles (+78.1%) and leisure (+65.6%). Many of these sectors had performed poorly in previous years. In contrast the dull performers were food producers (+11.9%), oils (+13.0%) and utilities (+13.7%). This latter group are clearly less economically sensitive, however the under-performance of the oil sector was at odds with the sustained strength of the crude oil price. Perhaps the most significant trend in the last year was the strong performance by the FTSE 250, or "mid cap", index, which returned a total of 54.9%, reflecting its cyclical characteristics.



Investment Managers' Review

Portfolio Changes

Following the change in market sentiment, from March 2003 onwards the Managers were actively seeking to find new and "follow on" investments, which would gain from the more positive environment. Additions to existing holdings included Dixons, Hanson and Lonmin whilst the key new investments were EMI, Friends Provident, GKN and Kesa, the electrical retail business de-merged from Kingfisher.

In the property sector, where the current tax regime may be subject to a favourable review as announced in the Budget, there were purchases of Great Portland and Slough. Elsewhere a new holding was purchased in BAT in the light of the proposed new structure for its US business. The managers subscribed for the rights issues announced by Rexam and United Utilities as well as for four new issues; Benfield, Northumbrian, Vedanta and Yell. Overall the number of holdings remained broadly unchanged at just over 60.

As part of the policy of changing the emphasis in the portfolio, there were a number of disposals in the utility sector including Pennon, Severn Trent and Scottish Power. There were also disposals of Associated British Ports and Boots, where their share price valuations appeared to discount fully their trading prospects. Additionally the Trust's holding in Royal Sun Alliance was sold in anticipation of a large rights issue. Lastly the portfolio benefited from two take-over bids in the cases of Wilson Connolly and Safeway, the latter commencing just before the start of the 2003/4 financial year. In the former case the Trust took shares in the successful bidder, Taylor Woodrow, and this new holding was increased following the bid's success.

Future Policy

Looking ahead, equity markets, particularly in the UK, face a number of challenges in the current year. Share prices have appreciated substantially, interest rates are moving upwards, sterling has risen and taxes have also been increased. Despite these factors, the corporate sector is in general coping well, with profitability continuing to benefit from the trends seen in 2003. Indeed this new found confidence is being reflected in a revival of merger and acquisition activity as well as a pick-up in new issues.

In the last year a number of important UK market sectors have not reaped the full benefit from the rise in overall share values. As a result there are still some attractive opportunities, especially in the FTSE 100 Index where the Trust is predominately invested. This is expected to provide the platform for further progress in capital values in the current year, as well as under-pinning the Trust's dividend base.

Performance Attribution Analysis

for the year ended 31 January 2004

	%
Capital return of FTSE 100 Index	23.1
Relative return from Portfolio	0.6
Capital return of Portfolio	23.7
Impact of gearing on Portfolio	9.0
Expenses charged to capital	(2.0)
Change in Net Asset Value per Ordinary Share	30.7

United Kingdom Listed Holdings

at 31 January 2004

	Value (£)	Principal Activities
BP	38,756,625	Oil and gas production
HSBC	38,493,000	Banking
GlaxoSmithKline	23,600,000	Pharmaceuticals
Shell Transport & Trading	20,199,600	Oil and gas production
Barclays	20,097,000	Banking
Royal Bank of Scotland	19,440,000	Banking
Lloyds TSB	15,456,000	Banking
BT	14,499,375	Telecommunications
HBOS	12,359,000	Banking
Imperial Tobacco	10,820,000	Tobacco
Prudential	9,139,000	Life and general insurance
Diageo	9,000,000	Beverages
Bradford & Bingley	8,868,750	Banking
Slough Estates	8,757,000	Real estate
Severn Trent Water	8,712,925	Water
Land Securities	8,708,700	Real estate
Abbey National	8,700,000	Banking
Rank	8,347,500	Leisure and gaming
Hanson	7,344,000	Building materials
BAA	6,949,125	Transport
Scottish & Southern Energy	6,848,000	Electricity
Lonmin	6,389,700	Mining
Legal & General	6,237,000	Life and general insurance
Northern Foods	6,090,125	Food production
Alliance & Leicester	6,069,000	Banking
Friends Provident	5,943,000	Life assurance
Dixons	5,880,000	Retailing
Gallaher	5,798,400	Tobacco
Aviva	5,406,875	Life assurance
Provident Financial	5,347,890	Speciality finance
Boots	5,018,400	Retailing
British American Tobacco	4,972,500	Tobacco
Rexam	4,954,770	Packaging
Allied Domecq	4,925,200	Beverages
Tomkins	4,892,500	Engineering
Persimmon	4,781,303	Housebuilding

United Kingdom Listed Holdings

at 31 January 2004

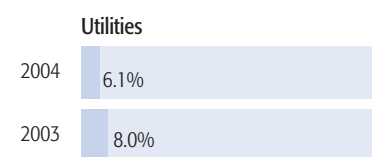
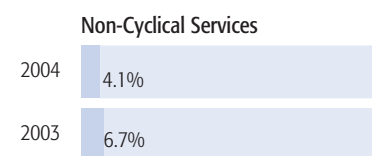
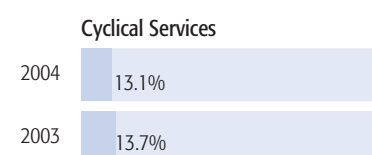
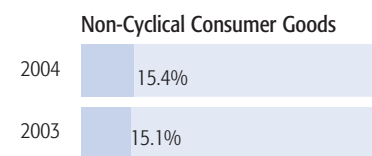
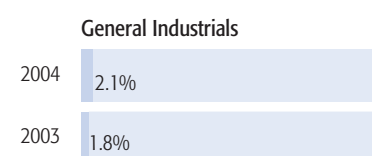
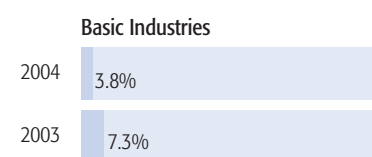
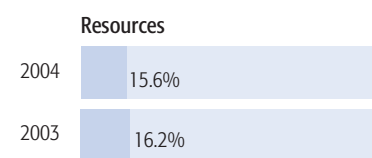
	Value (£)	Principal Activities
Hilton	4,772,250	Hotels and betting
Woolworths	4,758,750	Retailing
National Grid	4,704,000	Electricity
Sainsbury (J)	4,653,675	Food retailing
BBA	4,475,250	Engineering
United Utilities	4,440,750	Water and electricity
Scottish & Newcastle	4,353,250	Beverages
Close Bros	4,151,100	Banking and finance
GKN	3,588,050	Engineering
Great Portland	3,509,000	Real estate
Taylor Woodrow	3,395,000	Housebuilding
EMI	3,332,500	Music
P & O	3,250,125	Transport
Kesa Electricals	2,851,750	Retailing
Xstrata	2,680,000	Mining
IMI	2,648,813	Engineering
BPB	2,550,060	Building materials
Rio Tinto	2,482,000	Mining
Brit Insurance	2,430,000	Insurance
United Utilities 'A'	2,417,804	Water and electricity
Vedanta Resources	2,324,000	Mining
Mitchells & Butlers	2,267,500	Restaurants and pubs
Marks & Spencer	2,231,625	Retailing
Tate & Lyle	2,157,318	Food production
Smiths	2,112,000	Aerospace and defence
Pearson	2,000,375	Publishing
Pennon	1,531,200	Water
	<u>473,870,408</u>	

Distribution of Total Assets

at 31 January 2004

Total Assets (less creditors falling due within one year) £470,736,654 (2003 - £386,683,879)

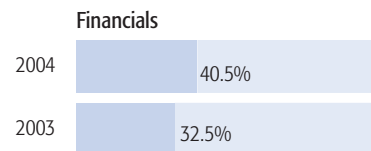
	Percentage of Total Assets	
	2004	2003
Equities		
Resources		
Mining	3.0	1.9
Oil and gas	12.6	14.3
	<u>15.6</u>	<u>16.2</u>
Basic Industries		
Chemicals	-	1.6
Construction & building materials	3.8	5.2
Steel and & other metals	-	0.5
	<u>3.8</u>	<u>7.3</u>
General Industrials		
Aerospace	0.5	-
Engineering & machinery	1.6	1.8
	<u>2.1</u>	<u>1.8</u>
Non-Cyclical Consumer Goods		
Beverages	3.9	2.0
Food products & process	1.9	2.1
Pharmaceuticals	5.0	5.7
Tobacco	4.6	5.3
	<u>15.4</u>	<u>15.1</u>
Cyclical Services		
General retailers	4.4	4.7
Leisure, entertainment & hotels	3.4	4.4
Media & photography	1.1	0.5
Support services	1.1	0.9
Transport	3.1	3.2
	<u>13.1</u>	<u>13.7</u>
Non-Cyclical Services		
Food & drug retail	1.0	2.6
Telecommunication services	3.1	4.1
	<u>4.1</u>	<u>6.7</u>
Utilities		
Electricity	2.5	2.9
Other	3.6	5.1
	<u>6.1</u>	<u>8.0</u>



Distribution of Total Assets

at 31 January 2004

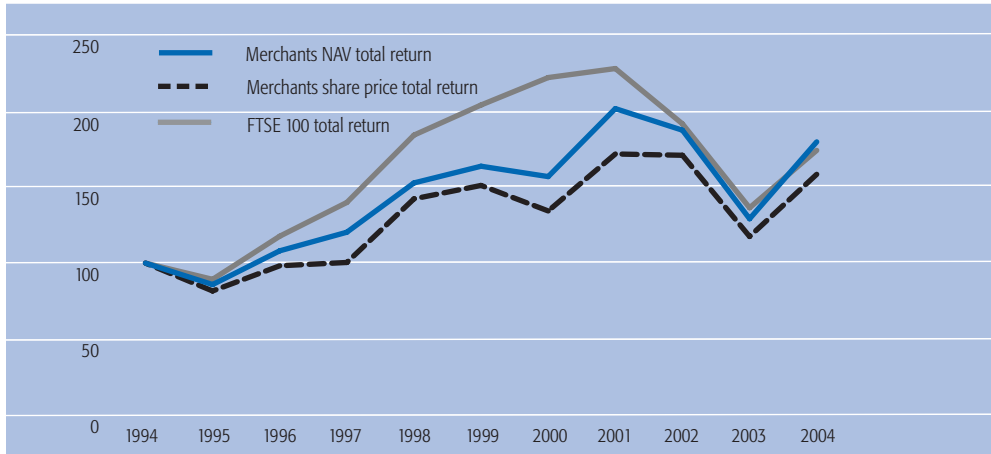
	Percentage of Total Assets	
	2004	2003
Financials		
Banks	27.7	24.0
Insurance	0.5	0.5
Life assurance	5.8	3.6
Real estate	4.5	2.7
Speciality & other financials	2.0	1.7
	<u>40.5</u>	<u>32.5</u>
Total Equities	100.7	101.3
Net Current Liabilities	(0.7)	(1.3)
Total Assets	<u>100.0</u>	<u>100.0</u>



Performance Graphs

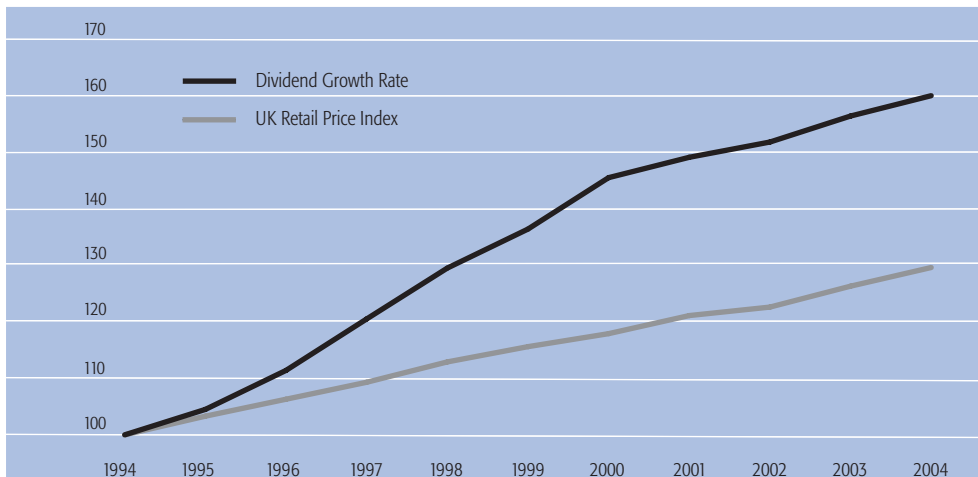
10 year record-as at 31 January

Merchants Total Return compared to FTSE 100 Total Return



(Rebased to 100, net income reinvested) Source: Datastream

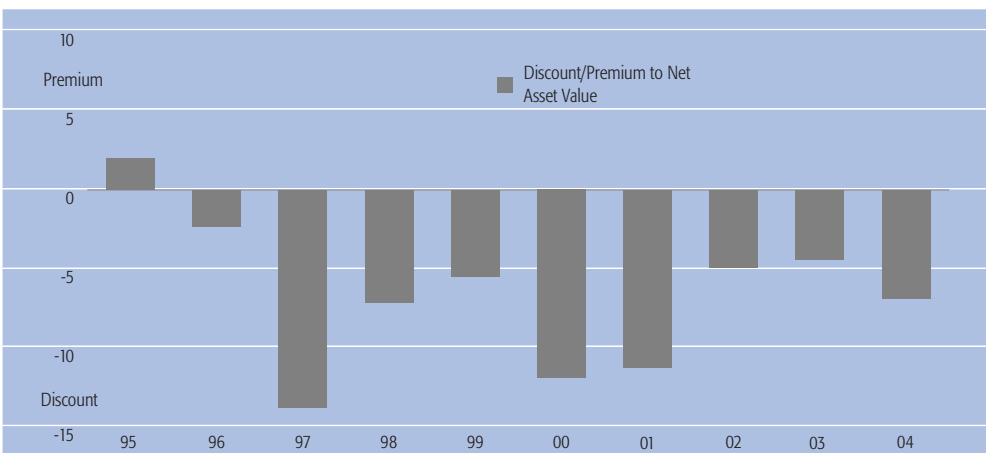
Merchants Net Dividend Growth compared to inflation*



*excluding FID enhancement (see page 5 for details)

(Rebased to 100) Source: Allianz Dresdner Asset Management/Datastream

Merchants Share Price Discount/Premium to Net Asset Value



Risk Review

Financial Reporting Standard 13 – Derivatives and Other Financial Instruments: Disclosure

FRS 13 requires entities to disclose narrative and numerical information about the financial instruments that they use.

This information is given so that investors in the Company can decide for themselves whether their investment is high or low risk. It allows them to assess what kind of impact the use of financial instruments (investments, cash/overdraft and borrowings) will have on the performance of the entity. Short term debtors and creditors are not considered to be financial instruments. They have been included at the bottom of the numerical disclosure in Note 20(a) merely to enable users of the accounts to reconcile the summary provided to total net assets per the balance sheet.

The narrative below explains the different types of risks the Company may face. Numerical disclosures are listed in Note 20 to the Accounts. These disclosures are in line with the requirements of FRS 13.

As an investment trust, the Company invests in securities for the long term. Accordingly it is, and has been throughout the year under review, the Company's policy that no short term trading in investments or other financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are market price risk, liquidity risk and interest rate risk. The risk profile and the policies adopted to manage risk did not change materially during either the current or previous year.

Market price risk

Market price risk arises mainly from the uncertainty about future prices of financial instruments held. It represents the potential loss the Company might suffer through holding market positions in the face of price movements. The Board meets regularly to consider the asset allocation of the portfolio in order to evaluate the risk associated with particular industry sectors. A dedicated fund manager has the responsibility for monitoring the existing portfolio selection in accordance with the Company's investment objectives and seeks to ensure that individual stocks meet an acceptable risk reward profile.

Liquidity risk

Liquidity risk relates to the capacity to meet liabilities.

The Company's assets mainly comprise realisable securities, which can be sold to meet funding requirements if necessary. Short-term flexibility can be achieved through the use of overdraft facilities, where necessary.

Interest rate risk

Interest rate risk is the risk of movements in the value of financial instruments as a result of fluctuations in interest rates.

The Company invests predominantly in equities, the values of which are not directly affected by changes in prevailing market interest rates. Therefore there is minimal exposure to interest rate risk.

The Company finances its operations through a mixture of share capital, retained earnings and long term borrowings.

Foreign currency risk

Foreign currency risk is the risk of movement in the values of overseas financial instruments as a result of fluctuations in exchange rates.

The Company invests predominantly in UK listed securities. Accordingly, the capital value of the Company's investments are not materially affected by exchange rate movements. As a proportion of the investments pay their dividends in US dollars, income can be subject to exchange rate risk.

Credit risk

Credit risk is the risk of default by a counterparty.

In February 2000 the Company commenced stock lending in order to generate additional income. The risk of default is managed by holding collateral, in the form of letters of credit and FTSE 100 equities amounting to 105% of the mid market value of the stock on loan. The level of collateral required is recalculated on a daily basis.

Investor Information

Results

Half-year announced September

Full-year announced March

Report and Accounts posted to Shareholders April

Annual General Meeting held May

Ordinary Dividends

First quarterly paid August

Second quarterly paid November

Third quarterly paid February

Final usually paid May

Preference Dividends

Payable half-yearly 1 August and 1 February

Market and Portfolio Information

The Company's Ordinary Shares are listed on the London Stock Exchange. The market price, price range, gross yield and net asset value are shown daily in The Financial Times and The Daily Telegraph. The net asset value of the Ordinary Shares is calculated weekly and published by the London Stock Exchange Regulatory News Service. The geographical spread of investments and ten largest holdings are also published monthly by the London Stock Exchange Regulatory News Service. They are also available to any enquirer of Allianz Dresdner Asset Management on 0800 317 573 or on the Managers' website: www.allianzdresdneram.co.uk.

Share Prices

The share prices quoted in The London Stock Exchange Daily Official List for 31 January 2004 were 326.0p-326.5p.

For CGT indexation purposes at 31 March 1982 the share price, after adjustment for bonus issues, was 48.75p.

Savings Scheme

The Allianz Dresdner Asset Management 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. Full details of the scheme are available from Allianz Dresdner Asset Management on 0800 317 573 or on the Managers' website: www.allianzdresdneram.co.uk.

Investment Trust Maxi ISA & PEP Transfer

Shareholders can invest in the shares of the Company through the Allianz Dresdner Investment Trust Maxi ISA and PEP. Full details are available from Allianz Dresdner Asset Management on 0800 317 573 or on the Managers' website: www.allianzdresdneram.co.uk.

Website

Further information about the Company is available on the Managers' website www.allianzdresdneram.co.uk.

Investor Information

The Managers

On 30 January 2004 Allianz Dresdner Asset Management (UK) Limited, Allianz Group's regulated UK fund management company, re-registered as RCM (UK) Limited.

Allianz Dresdner Asset Management is the marketing name of RCM (UK) Limited, which is authorised and regulated by the Financial Services Authority.

Allianz Dresdner Asset Management Group is one of the largest fund managers in Europe. As at 31 December 2003, the Allianz Dresdner Asset Management Group had combined assets of £709 billion under management.

Allianz Dresdner Asset Management, through its predecessors, has a heritage of investment trust management expertise in the UK stretching back to the nineteenth century and had £1.04 billion assets under management in a range of investment trusts as at 31 December 2003.

Payment of Dividends Direct to Bank Accounts

Cash dividends will be sent by cheque to first-named shareholders at their registered address together with a tax voucher. Dividends may be paid directly into shareholders' bank accounts. Details of how this may be arranged can be obtained from Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Dividends mandated in this way are paid via BACS (Bankers' Automated Clearing Service). Tax vouchers will then be sent directly to shareholders at their registered address unless other instructions have been given.

Association of Investment Trust Companies (AITC)

The Company is a member of the AITC, the trade body of the investment trust industry, which provides a range of literature including fact sheets and a monthly statistical service. Copies of these publications can be obtained from the AITC, Durrant House, 8-13 Chiswell Street, London EC1Y 4YY.

Category: UK Growth and Income

Contact Details

Shareholders' Enquiries

Capita Registrars are the Company's registrars and maintain the share register. In the event of queries regarding their holdings of shares, lost certificates, dividend cheques, registered details, etc., shareholders should contact them on 0870 162 3100 or, if telephoning from overseas, 0044 20 8639 2157. 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.

Managers and Advisers

Fund Manager

RCM (UK) Limited

Represented by Nigel Lanning ASIP ACIS

Director UK Equities, RCM (UK) Limited

Secretary and Registered Office

Kirsten Salt BA (Hons) ACIS

155 Bishopsgate, London EC2M 3AD

Telephone: 020 7065 1513

E mail: kirsten.salt@uk.rcm.com.

Registered Number 28276

Registrars and Transfer Office

Capita Registrars

The Registry

34 Beckenham Road

Beckenham, Kent BR3 4TU

Telephone: 0870 162 3 100 or, if telephoning from overseas, 0044 20 8639 2157

E mail: ssd@capitaregistrars.com

Independent Auditors

PricewaterhouseCoopers LLP

Southwark Towers

32 London Bridge Street, London SE1 9SY

Bankers

HSBC Bank PLC

Barclays Bank plc

Stockbroker

Cazenove & Co. Ltd

Allianz Dresdner Asset Management

Tel: 0800 317 573 or www.allianzdresdneram.co.uk.

Statement of Total Return

for the year ended 31 January 2004

		2004 £ Revenue	2004 £ Capital	2004 £ Total	2003 £ Revenue	2003 £ Capital	2003 £ Total
	Note						
Net gains (losses) on investments	8	–	91,703,301	91,703,301	–	(140,362,992)	(140,362,992)
Income	1	22,246,829	–	22,246,829	22,100,765	–	22,100,765
Investment management fee	2	(662,470)	(1,230,302)	(1,892,772)	(684,279)	(1,270,805)	(1,955,084)
Expenses of administration	3	(502,417)	–	(502,417)	(507,788)	–	(507,788)
Net return before finance costs and taxation		21,081,942	90,472,999	111,554,941	20,908,698	(141,633,797)	(120,725,099)
Finance costs of borrowings	4	(3,331,880)	(6,169,338)	(9,501,218)	(3,239,540)	(6,005,840)	(9,245,380)
Return on ordinary activities before taxation		17,750,062	84,303,661	102,053,723	17,669,158	(147,639,637)	(129,970,479)
Taxation	5	(5,427)	–	(5,427)	–	–	–
Return on ordinary activities after taxation for the financial year		17,744,635	84,303,661	102,048,296	17,669,158	(147,639,637)	(129,970,479)
Dividends on Preference Stock		(42,997)	–	(42,997)	(42,997)	–	(42,997)
Return attributable to Ordinary Shareholders		17,701,638	84,303,661	102,005,299	17,626,161	(147,639,637)	(130,013,476)
Dividends on Ordinary Shares	6	(17,970,293)	–	(17,970,293)	(17,561,877)	–	(17,561,877)
Transfer (from) to reserves		(268,655)	84,303,661	84,035,006	64,284	(147,639,637)	(147,575,353)
Return per Ordinary Share	7	17.34p	82.57p	99.91p	17.26p	(144.60)p	(127.34)p
Net Asset Value							
Per Ordinary Share	15			350.1p			267.8p
Per Preference Stock Unit				100.0p			100.0p

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

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

The Notes on pages 21 to 33 form part of these Accounts.

Balance Sheet

at 31 January 2004

	Note	2004 £	2004 £	2003 £
Fixed Assets				
Investments	8		473,911,875	391,703,740
Current Assets				
Debtors	10	1,862,055		2,351,290
Cash at bank	10	6,233,102		3,866,703
		8,095,157		6,217,993
Creditors: Amounts falling due within one year	10	(11,270,378)		(11,237,854)
Net Current Liabilities			(3,175,221)	(5,019,861)
Total Assets less Current Liabilities			470,736,654	386,683,879
Creditors: Amounts falling due after more than one year	10		(112,116,377)	(112,098,608)
Total Net Assets			<u>358,620,277</u>	<u>274,585,271</u>
Capital and Reserves				
Called up Share Capital: Ordinary	11	25,525,984		25,525,984
Preference	11	1,178,000		1,178,000
			26,703,984	26,703,984
Capital Redemption Reserve	12		56,250	56,250
Share Premium Account			39,809	39,809
Capital Reserves: Realised	13	331,128,953		353,215,764
Unrealised	13	(9,233,782)		(115,624,254)
			321,895,171	237,591,510
Revenue Reserve	14		9,925,063	10,193,718
Shareholders' Funds	16		<u>358,620,277</u>	<u>274,585,271</u>
Analysis of Shareholders' Funds				
Equity interests	15		357,442,277	273,407,271
Non-equity interests	15		1,178,000	1,178,000
			<u>358,620,277</u>	<u>274,585,271</u>

Approved by the Board of Directors on 8 April 2004 and signed on its behalf by:

Hugh Stevenson

Joe Scott Plummer

Cash Flow Statement

for the year ended 31 January 2004

	Note	2004 £	2004 £	2003 £
Net cash inflow from operating activities	18		20,140,829	19,294,289
Servicing of finance				
Interest paid		(9,459,243)		(9,265,619)
Preference dividends paid		(21,498)		(64,496)
Net cash outflow on servicing of finance			(9,480,741)	(9,330,115)
Taxation				
UK income tax repaid			-	9,669
Investing Activities				
Payments to acquire fixed asset investments		(148,695,240)		(138,920,574)
Proceeds on disposal of fixed asset investments		158,187,790		151,375,089
Net cash inflow from investing activities			9,492,550	12,454,515
Equity dividends paid			(17,561,878)	(17,357,668)
Net cash inflow before financing			2,590,760	5,070,690
Financing				
Decrease in short term loan			(224,361)	(461,460)
Increase in cash	19		2,366,399	4,609,230

The Notes on pages 21 to 33 form part of these Accounts.

Statement of Accounting Policies

for the year ended 31 January 2004

1. The financial statements have been prepared under the historical cost convention, modified to include the revaluation of investments, and in accordance with United Kingdom law and applicable accounting standards including the Statement of Recommended Practice – “Financial Statements of Investment Trust Companies” issued in January 2003 by the Association of Investment Trust Companies.
2. Revenue - Dividends on equity shares are accounted for on an ex-dividend basis and shown in the revenue account except where, in the opinion of the Directors, the nature of the dividends indicate they should be treated as capital receipts. UK dividends are shown net of tax credits. Income from convertible securities having an element of equity is recognised on an accruals basis. Fixed returns on non-equity shares are recognised on an accruals basis.

Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the equivalent of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital reserves.

Deposit interest receivable and stock lending fees are accounted for on an accruals basis. Underwriting commission is recognised when the issue underwritten closes.

3. Investment management fee - The investment management fee is calculated on the basis set out in Note 2 to the financial statements and is charged to capital and revenue in the ratio 65:35 to reflect the Company's prospective split of capital and income returns.
4. Valuation – Investments listed in the United Kingdom have been valued at middle market prices. Those listed abroad have been valued at closing or middle market prices as available. Unlisted investments are valued by the Directors based upon the latest dealing prices, stockbrokers' valuations, net asset values, earnings and other known accounting information in accordance with the principles set out by the British Venture Capital Association issued in July 2003. An unrealised Capital Reserve has been established to reflect differences between value and book cost.

Net gains or losses arising on realisations of investments are taken directly to the realised Capital Reserve.

5. Finance costs – In accordance with Financial Reporting Standard 4 “Capital Instruments”, long term borrowings are stated as the amount of net proceeds immediately after issue plus the appropriate accrued finance costs at the balance sheet date. The finance costs of such borrowings, being the difference between the net proceeds of a borrowing and the total payments that may be required in respect of that borrowing, are allocated to periods over the term of the debt at a constant rate on the carrying amount. Finance costs on long term borrowings are charged to capital and revenue in the ratio 65:35 to reflect the Company's prospective split of capital and income returns.
6. Taxation – Where expenses are allocated between capital and revenue, any tax relief obtained in respect of those expenses is allocated between capital and revenue on the marginal basis using the Company's effective rate of corporation tax for the accounting period.

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date. Where deferred tax assets are likely to be considered irrecoverable no provision is made.

7. Foreign currency – Transactions in foreign currencies are translated into sterling at the rates of exchange ruling on the date of the transaction. Foreign currency assets and liabilities are translated into sterling at the rates of exchange ruling at the balance sheet date. Profits and losses thereon are recognised in Capital Reserves.
8. No Statement of Recognised Gains and Losses as required by Financial Reporting Standard 3 has been prepared. The Managers consider that the additional information provided would not add materially to the information disclosed in the Statement of Total Return from which recognised gains and losses can be derived.

Notes to the Accounts

for the year ended 31 January 2004

1. Income

	2004 £	2004 £	2003 £
Income from Investments			
Franked income:			
Equity income from UK investments		22,012,244	21,233,313
Special dividends from UK investments		–	602,000
Unfranked income:			
Interest from UK fixed income securities		–	3,849
Equity income from overseas investments		36,182	–
		<u>22,048,426</u>	<u>21,839,162</u>
Other income:			
Deposit interest	104,568		143,730
Underwriting commission	69,592		108,132
Stocklending fees	24,243		9,341
Other	–		400
		<u>198,403</u>	<u>261,603</u>
Total income		<u>22,246,829</u>	<u>22,100,765</u>

Income from Investments

Listed	22,048,426	21,839,162
Unlisted	–	–
	<u>22,048,426</u>	<u>21,839,162</u>

2. Investment Management Fee

	2004 £ Revenue	2004 £ Capital	2004 £ Total	2003 £ Revenue	2003 £ Capital	2003 £ Total
Investment management fee	<u>662,470</u>	<u>1,230,302</u>	<u>1,892,772</u>	<u>684,279</u>	<u>1,270,805</u>	<u>1,955,084</u>

The management contract with RCM (UK) Limited ("RCM"), terminable at one year's notice, provides for a management fee based on 0.35% (2003 – 0.35%) per annum of the value of the Company's assets calculated quarterly after deduction of current liabilities, short-term loans under one year and any funds within the portfolio managed by RCM. The amounts stated include irrecoverable VAT of £281,902 (2003 – £291,183). Under the contract RCM (UK) Limited provides the Company with investment management, accounting, secretarial and administration services.

Notes to the Accounts

for the year ended 31 January 2004

3. Expenses of Administration

	2004 £	2003 £
Directors' fees	62,000	63,729
Auditors' remuneration for audit services	16,130	14,814
Marketing costs of Savings Scheme	179,098	201,596
Other administrative expenses	245,189	227,649
	<u>502,417</u>	<u>507,788</u>

- (i) The above expenses include value added tax where applicable.
- (ii) Payments of £1,175 to the Auditors in respect of non-audit services are included in other administrative expenses (2003 – £1,763).
- (iii) Directors' fees are paid at the rate of £11,000 per annum (2003 – £11,000). The Chairman of the Audit Committee receives an additional £3,000 (2003 – £3,000) and the Chairman receives fees of £15,000 (2003 – £15,000).

4. Finance Costs of Borrowings

	2004 £ Revenue	2004 £ Capital	2004 £ Total	2003 £ Revenue	2003 £ Capital	2003 £ Total
On Stepped Rate Interest Loan repayable after more than five years	1,359,620	2,525,009	3,884,629	1,265,608	2,350,415	3,616,023
On Fixed Rate Interest Loan repayable after more than five years	1,321,075	2,453,425	3,774,500	1,326,966	2,464,366	3,791,332
On 4% Perpetual Debenture Stock repayable after more than five years	19,250	35,750	55,000	19,250	35,750	55,000
On 5.875% Secured Bonds repayable after more than five years	622,006	1,155,154	1,777,160	622,089	1,155,309	1,777,398
On sterling overdraft	9,929	–	9,929	5,627	–	5,627
	<u>3,331,880</u>	<u>6,169,338</u>	<u>9,501,218</u>	<u>3,239,540</u>	<u>6,005,840</u>	<u>9,245,380</u>

Notes to the Accounts

for the year ended 31 January 2004

5. Taxation

	2004 £ Revenue	2004 £ Capital	2004 £ Total	2003 £ Revenue	2003 £ Capital	2003 £ Total
Corporation tax at 30%	-	-	-	-	-	-
Overseas tax suffered	5,427	-	5,427	-	-	-
Current year tax charge	5,427	-	5,427	-	-	-
Reconciliation of current charge						
Return on ordinary activities before taxation	17,750,062	84,303,661	102,053,723	17,669,158	(147,639,637)	(129,970,479)
Tax on return on ordinary activities at 30% (2003 – 30%)	5,325,019	25,291,098	30,616,117	5,300,747	(44,291,891)	(38,991,144)
Reconciling factors:						
Non taxable income	(6,603,673)	-	(6,603,673)	(6,550,594)	-	(6,550,594)
Non taxable capital gains	-	(27,510,990)	(27,510,990)	-	42,108,898	42,108,898
Disallowable expenses	80,561	49,830	130,391	135,440	121,002	256,442
Excess of allowable expenses over taxable income	1,199,722	2,170,062	3,369,784	1,114,407	2,061,991	3,176,398
Overseas tax suffered	5,427	-	5,427	-	-	-
Relief on overseas tax suffered	(1,629)	-	(1,629)	-	-	-
Current year tax charge	5,427	-	5,427	-	-	-

The Company's taxable income is exceeded by its tax allowable expenses, which include both the capital and revenue elements of the management fee and finance costs of borrowings. The Company has surplus expenses carried forward of £67m (2003 – £56m). Given the Company's current investment strategy, it is unlikely to generate sufficient UK taxable profits to relieve these expenses.

As at 31 January 2004 there is an unrecognised deferred tax asset, measured at the standard rate of 30%, of £20.1m (2003 – £16.7m). This deferred tax asset relates to the current and prior year unutilised expenses. It is considered uncertain that there will be a liability in the future against which the deferred tax asset can be offset. Therefore, the tax asset has not been recognised.

Due to the Company's status as an investment trust and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the disposal of investments.

6. Dividends on Ordinary Shares

	2004 £	2003 £
Dividends on Ordinary Shares of 25p–		
First interim 4.3p paid 15 August 2003 (2002 – 4.3p)	4,390,470	4,390,469
Second interim 4.3p paid 12 November 2003 (2002 – 4.3p)	4,390,469	4,390,469
Third interim 4.5p paid 17 February 2004 (2003 – 4.3p)	4,594,677	4,390,469
Fourth interim dividend in lieu of final 4.5p payable 2 April 2004 (2003 – 4.3p)	4,594,677	4,390,470
	<u>17,970,293</u>	<u>17,561,877</u>

The proposed fourth interim dividend accrued is based on the number of shares in issue at the year end. However, the dividend payable will be based on the number of shares in issue on the record date and will reflect any purchases and cancellation of shares by the Company settled subsequent to the year end.

Ordinary dividends paid by the Company carry a tax credit of 10%. The credit discharges the tax liability of shareholders subject to income tax at less than the higher rate. Shareholders liable to pay tax at the higher rate will have further tax to pay. PEP and ISA holders may be able to reclaim all or part of this tax credit and charities are subject to transitional provisions.

Notes to the Accounts

for the year ended 31 January 2004

7. Return per Ordinary Share

	2004 £ Revenue	2004 £ Capital	2004 £ Total	2003 £ Revenue	2003 £ Capital	2003 £ Total
Return after taxation	17,744,635	84,303,661	102,048,296	17,669,158	(147,639,637)	(129,970,479)
Attributable to Preference Stockholders	(42,997)	–	(42,997)	(42,997)	–	(42,997)
Attributable to Ordinary Shareholders	17,701,638	84,303,661	102,005,299	17,626,161	(147,639,637)	(130,013,476)
Return per Ordinary Share	17.34p	82.57p	99.91p	17.26p	(144.60)p	(127.34)p

The weighted average number of shares in issue during the year was 102,103,936 (2003: 102,103,936).

8. Fixed Asset Investments

	2004 £	2003 £
Listed at market valuation on recognised Stock Exchanges –		
United Kingdom	473,870,408	391,660,828
Unlisted at Directors' valuation	41,467	42,912
Total fixed asset investments	473,911,875	391,703,740
Market value of investments brought forward	391,703,740	546,771,665
Unrealised losses brought forward	115,624,254	422,226
Cost of investments held brought forward	507,327,994	547,193,891
Additions at cost	148,248,658	136,643,652
Disposals at cost	(172,430,995)	(176,509,549)
Costs of investments held at 31 January	483,145,657	507,327,994
Unrealised losses at 31 January	(9,233,782)	(115,624,254)
Market value of investments held at 31 January	473,911,875	391,703,740
Gains (losses) on investments		
Net realised losses based on historical costs	(14,687,171)	(25,160,964)
Less: Net unrealised losses recognised on these investments at the previous balance sheet date	37,999,547	8,180,986
Net realised gains (losses) based on carrying value at previous balance sheet date	23,312,376	(16,979,978)
Net unrealised gains (losses) arising in the year	68,390,925	(123,383,014)
Net gains (losses) on investments	91,703,301	(140,362,992)

The Board considers that the Company's remaining unquoted investment is not material to the financial statements.

Stock Lending

Aggregate value of securities on loan at year-end	40.7m	6.8m
Maximum aggregate value of securities on loan during the year	61.6m	90.2m
Fee income from stock lending during the year	24,243	9,341

In respect of securities on loan at the year-end, the Company held £42.8m (2003 – £7.5m) as collateral, the value of which exceeded the value of the loan securities by £2.1m (2003 – £0.7m).

In respect of the maximum aggregate value of securities on loan during the year, the Company held £64.7m (2003 – £99.2m) as collateral, the value of which exceeded the value of securities on loan by £3.1m (2003 – £9.0m).

Notes to the Accounts

for the year ended 31 January 2004

9. Investments in Subsidiary and Other Companies

Surrey Investments Inc. is a wholly owned subsidiary registered in the State of Delaware, U.S.A. with an issued share capital of US\$300,000. It was formed to act as a Limited Partner in O'Connor Associates LP and a shareholder in JW O'Connor & Co. Inc., both of which are engaged in property development in the US. This company is now in the process of liquidation following the disposal of its interest in JW O'Connor & Co. Inc.

The Company has not produced consolidated accounts in view of the immaterial amounts involved. This subsidiary is deemed not material for the purposes of giving a true and fair view.

The Company held more than 10% of the share capital of the following companies, both of which are incorporated in Great Britain and registered in England and Wales:

Company	Total	Class of Shares Held	% of Class held	% Equity
	Net Assets* £			
First Debenture Finance PLC ('FDF')	(946,283)	'A' Shares	39.2	50.0
		'B' Shares	59.2	n/a
		'C' Shares	45.6	n/a
		'D' Shares	60.1	n/a
Fintrust Debenture PLC ('Fintrust')	15,586	Ordinary	50.0	50.0

In the opinion of the Directors, the Company is not in a position to exert significant influence over these companies. The aggregate share capital, reserves and results are immaterial to the Company's accounts. FDF and Fintrust are the lenders of the Company's Stepped Rate Loan and Fixed Rate Interest Loan, as detailed in notes 10(i) and (ii), respectively. Apart from the finance costs and the provision of a short term loan by FDF, there were no other transactions between FDF, Fintrust and the Company during the year.

*At the date of the latest published financial statements.

10. Current Assets and Creditors

	2004 £	2003 £
Debtors –		
Sales for future settlement	–	443,966
Accrued income	1,834,345	1,878,978
Other debtors	27,710	28,346
	<u>1,862,055</u>	<u>2,351,290</u>
Cash at bank –		
Current account	6,233,102	3,866,703

Notes to the Accounts

for the year ended 31 January 2004

10. Current Assets and Creditors (continued)

	Note	2004 £	2003 £
Creditors: Amounts falling due within one year–			
Purchases for future settlement		–	446,582
Short term loan (see (v) below)		–	224,361
Other creditors		747,426	498,079
Interest on borrowings (see (vi) below)		1,312,099	1,287,893
Dividend on Cumulative Preference Stock Units		21,499	–
Dividend on Ordinary Shares (declared)	6	4,594,677	4,390,469
Dividend on Ordinary Shares (proposed)	6	4,594,677	4,390,470
		<u>11,270,378</u>	<u>11,237,854</u>
Creditors: Amounts falling due after more than one year–			
Stepped Rate Interest Loan (see (i) below)		35,227,722	35,106,731
Fixed Rate Interest Loan (see (ii) below)		46,512,584	46,631,304
5.875% Secured Bonds 2029 (see (iii) below)		29,001,071	28,985,573
4% Perpetual Debenture Stock (see (iv) below)		1,375,000	1,375,000
		<u>112,116,377</u>	<u>112,098,608</u>

(i) The effective interest rate of the Stepped Rate Interest Loan over its terms is 11.28% per annum.

The Stepped Rate Interest Loan comprises adjustable Stepped Rate Interest Loan Notes of £5,133,520 and Stepped Rate Interest Bonds of £20,534,079 issued at 97.4%. These amounts are repayable on 2 January 2018 exclusive of any redemption expenses, together with a premium of £8,366,513.

The initial interest rate in 1987 on the Loan Notes and Bonds was 7.16% per annum. This increased annually by 7.5% compound until January 1998 when it reached its current rate of 14.75%. However, the combined effect of this interest charge and the accrual of the premium referred to above results in an effective interest rate of 11.28% per annum. Interest is payable in January and July each year.

Interest on the Loan Notes is variable in accordance with the terms of the agreement with the lender, First Debenture Finance PLC ("FDF").

The Company has guaranteed the repayment of £34,012,852, being its proportionate share (60.10%) of the required amount to enable FDF to meet all of its liabilities to repay principal and interest on its £56.6 million of 11.125% Severally Guaranteed Debenture Stock 2018. There is a floating charge on all the Company's present and future assets to secure this obligation. The Company has also agreed to meet its proportionate share of any expenses incurred by FDF, including any tax liability which may accrue to FDF as a result of the redemption or earlier transfer of the Stepped Rate Loan Notes and Bonds held by FDF. The accounting treatment adopted in respect of the stepped rate interest and redemption premiums is set out in the Statement of Accounting Policies.

(ii) The Fixed Rate Interest Loan of £42,000,000 is due to Fintrust Debenture PLC ("Fintrust"). This loan is repayable in 2023 and carries interest at the rate of 9.25125% per annum on the principal amount payable in arrears by equal half yearly instalments in May and November in each year. As security for this loan, the Company has granted a floating charge over all its undertakings, property and assets in favour of the lender. This charge ranks *pari passu* with the floating charge noted in (i) above.

Following the liquidation of Kleinwort Overseas Investment Trust plc ("KOIT") in March 1998, the Company assumed £12,000,000 of KOIT's obligations to Fintrust. Both the interest cost and repayment terms of this additional borrowing are identical to the Company's existing loan. In order that the finance costs on this new borrowing be comparable to existing market rates at that time, the Company also received a premium payment from KOIT of £5,286,564. This premium is being amortised over the remaining life of the loan in accordance with FRS 4, as set out in the Statement of Accounting Policies. At 31 January 2004, the unamortised premium included within the Fixed Rate Interest Loan balance of greater than one year amounted to £4,638,156 (2003 – £4,759,035).

The original loan from Fintrust is stated at net proceeds (being the principal amount of £30,000,000 less issue costs of £141,053) plus accrued finance costs.

Notes to the Accounts

for the year ended 31 January 2004

10. Current Assets and Creditors (continued)

(iii) The £30,000,000 5.875% Secured Bonds, repayable on 20 December 2029, carry interest at the rate of 5.875% per annum on the principal amount payable in arrears by equal half yearly instalments in June and December in each year. As security for this loan the Company has granted a floating charge ranking pari passu with the floating charges referred to in note (i) and (ii) above over the whole of the present and future undertakings, property, assets and rights of the Company.

The accounting treatment adopted in respect of the Bonds is set out in the Statement of Accounting Policies.

(iv) The 4% Perpetual Debenture Stock is secured by a floating charge on the assets of the Company, which ranks prior to any other floating charge. Interest is repayable in arrears by equal half yearly instalments in May and November.

(v) The short term loan for FDF is interest free and repayable on demand.

(vi) Interest on borrowings consists of:

	2004 £	2003 £
Stepped Rate Interest Loan	312,004	282,355
Fixed Rate Interest Loan	779,240	783,545
5.875% Secured Bonds 2029	207,105	208,243
4% Perpetual Debenture Stock	13,750	13,750
	<u>1,312,099</u>	<u>1,287,893</u>

11. Share Capital

		2004 £	2003 £
Authorised			
1,178,000	3.65% Cumulative Preference Stock Units of £1	<u>1,178,000</u>	<u>1,178,000</u>
107,431,248	Ordinary Shares of 25p	<u>26,857,812</u>	<u>26,857,812</u>
Allotted and fully paid			
1,178,000	3.65% Cumulative Preference Stock Units of £1	<u>1,178,000</u>	<u>1,178,000</u>
102,103,936	Ordinary Shares of 25p	<u>25,525,984</u>	<u>25,525,984</u>
		<u>26,703,984</u>	<u>26,703,984</u>

(i) The Cumulative Preference Stock Units have been classified as non-equity interests in shareholders' funds under the provisions of FRS 4 on Capital Instruments. The rights of the Stock to receive payments are not calculated by reference to the Company's profits and, in the event of a return of capital are limited to a specific amount, being £1,178,000.

Dividends on the Preference stock are payable half yearly on 1 August and 1 February.

(ii) The Directors are authorised by an ordinary resolution passed on 12 May 2003 to allot relevant securities, in accordance with Section 80 of the Companies Act 1985, up to a maximum aggregate nominal amount of £1,331,828. This authority, if not previously revoked or varied, expires five years from the date of the resolution.

The Directors are also authorised by a special resolution passed on 12 May 2003 to allot relevant securities for cash, in accordance with Section 95 of the Companies Act 1995, up to a maximum aggregate nominal amount of £1,273,746. This authority, if not previously revoked or renewed, expires at the forthcoming Annual General Meeting and a resolution will be proposed at that Annual General Meeting for its renewal.

Notes to the Accounts

for the year ended 31 January 2004

12. Capital Redemption Reserve

	£
Balance at 1 February 2003	56,250
Movement in the year	–
Balance at 31 January 2004	<u>56,250</u>

13. Capital Reserves*

	Realised £	Unrealised £	Total £
Balance at 1 February 2003	353,215,764	(115,624,254)	237,591,510
Net gain on realisation of investments	23,312,376	–	23,312,376
Increase in unrealised appreciation	–	68,390,925	68,390,925
Transfer on disposal of investments	(37,999,547)	37,999,547	–
Investment management fee	(1,230,302)	–	(1,230,302)
Finance costs of borrowings	(6,169,338)	–	(6,169,338)
Balance at 31 January 2004	<u>331,128,953</u>	<u>(9,233,782)</u>	<u>321,895,171</u>

*Included in the Capital Reserves is an amount of £680,000 special dividend treated as a repayment of capital.

14. Revenue Reserve

	£
Balance at 1 February 2003	10,193,718
Deficit for the year	(268,655)
Balance at 31 January 2004	<u>9,925,063</u>

Notes to the Accounts

for the year ended 31 January 2004

15. Net Asset Value per Share

The Net Asset Value per share (which equals the net asset values attributable to each class of share at the year end calculated in accordance with the Articles of Association) were as follows:

	Net Asset Value per Share attributable	
	2004	2003
Ordinary Shares of 25p	350.1p	267.8p
3.65% Cumulative Preference Stock Units of £1	100.0p	100.0p

The Net Asset Value per Ordinary Share is based on 102,103,936 Ordinary Shares in issue at the year end (2003 – 102,103,936).

	Net Asset Values attributable	
	2004	2003
	£	£
Ordinary Shares of 25p	357,442,277	273,407,271
3.65% Cumulative Preference Stock Units of £1	1,178,000	1,178,000

The movements during the year of the assets attributable to each class of share were as follows:

	Ordinary Shares £	Cumulative Preference Stock £	Total £
Total net assets attributable at 1 February 2003	273,407,271	1,178,000	274,585,271
Total return on ordinary activities after taxation for the year	102,005,299	42,997	102,048,296
Dividends appropriated in the year	(17,970,293)	(42,997)	(18,013,290)
Total net assets attributable at 31 January 2004	<u>357,442,277</u>	<u>1,178,000</u>	<u>358,620,277</u>

16. Reconciliation of Movements in Shareholders' Funds

	2004 £	2003 £
Revenue reserves		
Revenue profit available for distribution	17,744,635	17,669,158
Dividends appropriated in the year	(18,013,290)	(17,604,874)
Transfer (from) to distributable reserve	(268,655)	64,284
Other reserves		
Recognised net capital gains (losses) transferred to capital reserves	84,303,661	(147,639,637)
Net increase (decrease) in Shareholders' Funds	84,035,006	(147,575,353)
Opening Shareholders' Funds	274,585,271	422,160,624
Closing Shareholders' Funds	<u>358,620,277</u>	<u>274,585,271</u>

Notes to the Accounts

for the year ended 31 January 2004

17. Contingent Liabilities and Guarantees

At 31 January 2004 there were no outstanding contingent liabilities (2003 – £nil) in respect of underwriting commitments and calls on partly paid investments.

Details of the guarantee provided by the Company as part of the terms of the Stepped Rate Loan are provided in Note 10(i) "Current Assets and Creditors" on page 27.

18. Reconciliation of Operating Revenue before Taxation to Net Cash Flow from Operating Activities

	2004 £	2003 £
Revenue before taxation	17,750,062	17,669,158
Add: Finance costs of borrowings	3,331,880	3,239,540
Less: Management fee charged to capital	(1,230,302)	(1,270,805)
Less: Overseas tax suffered	(5,427)	–
	<u>19,846,213</u>	<u>19,637,893</u>
Decrease in debtors	45,269	241,405
Increase (decrease) in creditors	249,347	(585,009)
	<u>20,140,829</u>	<u>19,294,289</u>
Net cash inflow from operating activities	<u>20,140,829</u>	<u>19,294,289</u>

19. Reconciliation of Net Cash Flow to Movement in Net Debt

(i) Analysis of Net Debt

	Cash £	Short term loan £	Stepped and Fixed Rate loans £	5.875% Secured Bonds 2029 £	4% Perpetual Debenture Stock £	Net Debt £
At 1 February 2003	3,866,703	(224,361)	(81,738,035)	(28,985,573)	(1,375,000)	(108,456,266)
Movement in year	<u>2,366,399</u>	<u>224,361</u>	<u>(2,271)</u>	<u>(15,498)</u>	<u>–</u>	<u>2,572,991</u>
At 31 January 2004	<u>6,233,102</u>	<u>–</u>	<u>(81,740,306)</u>	<u>(29,001,071)</u>	<u>(1,375,000)</u>	<u>(105,883,275)</u>

(ii) Reconciliation of net cash flow to movement in net debt

	2004 £	2003 £
Net cash inflow	2,366,399	4,609,230
Decrease in short term loan	224,361	461,460
Increase in long term loans	(17,769)	(11,134)
	<u>2,572,991</u>	<u>5,059,556</u>
Movement in net funds	<u>2,572,991</u>	<u>5,059,556</u>
Net debt brought forward	(108,456,266)	(113,515,822)
Net debt carried forward	<u>(105,883,275)</u>	<u>(108,456,266)</u>

Notes to the Accounts

for the year ended 31 January 2004

20. Financial Reporting Standard 13 – Derivatives and Other Financial Instruments: Disclosures

The note below should be read in conjunction with the Risk Review of the Company detailed on page 14.

(a) Interest Rate Risk Profile

The tables below summarise in sterling terms the assets and liabilities whose values are affected by changes in interest rates, together with the weighted average rates and periods for which rates are fixed on the fixed interest bearing assets and liabilities.

Currency	2004 Fixed rate interest £000s	2004 Floating rate interest £000s	2004 Nil interest £000s	2004 Total £000s	2003 Fixed rate interest £000s	2003 Floating rate interest £000s	2003 Nil interest £000s	2003 Total £000s
Financial Assets								
Values not directly affected by changes in interest rates:								
Equities Sterling	-	-	473,899	473,899	-	-	391,689	391,689
Equities US Dollar	-	-	13	13	-	-	15	15
Cash Sterling	-	6,233	-	6,233	-	3,867	-	3,867
Total Financial Assets	-	6,233	473,912	480,145	-	3,867	391,704	395,571
Financial Liabilities								
Values directly affected by changes in interest rates:								
First Debenture								
Finance loan Sterling	(35,228)	-	-	(35,228)	(35,107)	-	-	(35,107)
Fintrust loan Sterling	(46,512)	-	-	(46,512)	(46,631)	-	-	(46,631)
5.875% Secured								
Bonds 2029 Sterling	(29,001)	-	-	(29,001)	(28,986)	-	-	(28,986)
4% Perpetual								
Debenture Stock Sterling	(1,375)	-	-	(1,375)	(1,375)	-	-	(1,375)
Short term loan Sterling	-	-	-	-	-	-	(224)	(224)
Total Financial Liabilities	(112,116)	-	-	(112,116)	(112,099)	-	(224)	(112,323)
Net Financial (Liabilities) Assets	(112,116)	6,233	473,912	368,029	(112,099)	3,867	391,480	283,248
Short term debtors and creditors				(9,409)				(8,663)
Net Assets per Balance Sheet				358,620				274,585

Notes to the Accounts

for the year ended 31 January 2004

20. Financial Reporting Standard 13 – Derivatives and Other Financial Instruments: Disclosures (continued)

The fixed rate interest bearing liabilities bear the following coupon and effective rates as at 31 January 2003 and 31 January 2004:

	Maturity date	Amount borrowed £	Coupon rate	Effective rate since inception*
First Debenture Finance loan – bonds	2/1/2018	20,534,079	14.75%	11.28%
First Debenture Finance loan – notes	2/1/2018	5,133,520	14.75%	11.28%
Fintrust – original loan	20/11/2023	30,000,000	9.25125%	9.30%
Fintrust – new loan	20/11/2023	12,000,000	9.25125%	6.00%
5.875% Secured Bonds	20/12/2029	30,000,000	5.875%	6.13%
4% Perpetual Debenture Stock	n/a	1,375,000	4.00%	n/a

*The effective rates are calculated in accordance with FRS 4 as detailed in the Accounting Policies.

The weighted average coupon rate of the Company's fixed interest bearing liabilities is 9.58% (2003 – 9.58%) and the weighted average period to maturity of these liabilities (excluding the 4% Perpetual Debenture Stock) is 20.2 years (2003 – 21.2) years.

(b) Currency Risk Profile

As at 31 January 2004 £146,334 (2003 – £15,367) of the assets of the Company were denominated in US Dollars with the effect that the total net assets and total return are not materially affected by currency movements.

(c) Fair Value Disclosures

The assets and liabilities of the Company are held at fair value with the exception of the liabilities shown below:*

	2004 £ million Book value	2004 £ million Fair value	2003 £ million Book value	2003 £ million Fair value
First Debenture Finance Loan	35.2	48.6	35.1	51.2
Fintrust Loan	46.5	55.7	46.7	56.9
5.875% Secured Bonds	29.0	28.3	29.0	28.1
4% Perpetual Debenture Stock	1.4	1.0	1.4	1.2

*The fair value is derived from the closing market value as at 31 January 2003 and 2004.

(d) Liquidity Profile

The maturity profile of the Company's financial liabilities at 31 January 2004, (being the borrowings from Fintrust, First Debenture Finance, the 5.875% Secured Bonds and the 4% Perpetual Debenture Stock) is detailed in Note 10 – "Current Assets and Creditors" on pages 26 to 28. The undrawn committed borrowings facilities available to the Company at 31 January 2004 were £10,000,000.

(e) Hedging Instruments

At the year end the Company had no hedging arrangements in place (2003 – Nil).

Independent Auditors' Report

To the members of The Merchants Trust PLC

We have audited the financial statements which comprise the Statement of Total Return, the Balance Sheet, the Cash Flow Statement and notes 1 to 20, which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out in the statement of accounting policies. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report ("the auditable part").

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The Directors are also responsible for preparing the directors' remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the Directors' Remuneration Report in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Directors' Remuneration Report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the unaudited part of the Directors' Remuneration Report, the Investment Manager's Review and the Corporate Governance Statement.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code issued in June 1998, specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the Directors' Remuneration Report. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the Directors' Remuneration Report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs at 31 January 2004 and of its total return and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

Chartered Accountants
and Registered Auditors

London

8 April 2004

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the revenue of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The financial statements are published on www.allianzdresdneram.co.uk, which is a website maintained by the Company's Investment Managers, RCM (UK) Limited. The work undertaken by the Auditors does not involve consideration of the maintenance and integrity of the website and, accordingly, the Auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Corporate Governance

The Board has put in place a framework for corporate governance which it believes is appropriate for an investment trust company and which enables the Company to comply with the Combined Code on Corporate Governance (“the Combined Code”) issued by the Hampel Committee on Corporate Governance in 1998 with the exception that the Board has not identified a senior independent non-executive Director for the reason given below.

The Board has considered the new Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 which is effective for reporting years beginning on or after 1 November 2003. The Board intends to apply the provisions of the new code, as far as practicable, during the year ending 31 January 2005 and will make a compliance statement in next year’s Annual Report.

The Board considers that the Company has complied with the applicable provisions contained within Section 1 of the Combined Code throughout the accounting period to 31 January 2004. Much of this statement describes how the relevant principles of governance are applied to the Company.

The Association of Investment Trust Companies (AITC) published its Code of Corporate Governance in July 2003. The Board intends to comply with the AITC Code as far as practicable and where appropriate, and will report more fully on compliance with the AITC Code in the Annual Report for the year ending 31 January 2005.

The Board

The Board currently consists of five Directors, all of whom are non-executive and deemed by the Board to be independent of the Company’s investment manager. Their biographies, on page 39, demonstrate a breadth of investment, industrial, commercial and professional experience.

In accordance with the Articles of Association new Directors stand for election at the first Annual General Meeting following their appointment and then at least one third of Directors retire by rotation at each Annual General Meeting. Every Director is required to seek re-election at least every three years.

The Board meets at least six times a year and convenes ad hoc meetings as and when required. Between meetings regular contact with the investment manager is maintained. Matters specifically reserved for decision by the full Board have been defined and a procedure adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company. The Directors have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that Board procedures are followed and that the Company complies with applicable rules and regulations.

When a new Director is appointed there is an induction process carried out by the investment manager. Directors are provided, on a regular basis, with key information on the Company’s regulatory and statutory requirements and internal financial controls. Changes affecting Directors’ responsibilities are advised to the Board as they arise.

The Chairman of the Company is a non-executive Director. A senior independent non-executive Director has not been identified as the Board considers that this is not appropriate for a Board of this size which wholly consists of non-executive Directors. The Board believes that length of service does not diminish the contribution from an investment trust director and that a Director’s experience and extensive knowledge of the Company is of positive benefit to the Board.

The Board has contractually delegated to the investment manager the management of the investment portfolio, and the day to day accounting and company secretarial requirements. This contract was entered into after full and proper consideration by the Board of the quality and cost of services offered, including the financial control systems in operation, in so far as they relate to the affairs of the Company. The Board receives and considers reports regularly from the investment manager and ad hoc reports and information are supplied to the Board as required. The Board’s statement on its review of the management contract appears on page 42.

Board Committees

The Audit Committee consists of all of the independent non-executive Directors, with the exception of the Chairman, and has defined terms of reference and duties. The Audit Committee is chaired by Joe Scott Plummer. This committee meets at least twice each year and reviews the annual accounts and interim report and the terms of appointment of the auditors together with their remuneration as well as any non-audit services provided by the auditors. It meets representatives of the investment manager and receives reports on the internal controls maintained on behalf of the Company and reviews the effectiveness of these controls.

The Nomination Committee meets at least once each year and makes recommendations on the appointment of new Directors. The Committee is chaired by Hugh Stevenson, the Chairman of the Board. All Directors serve on the Committee and consider nominations made in accordance with an agreed procedure.

The Management Engagement Committee meets at least once each year to review the Management Agreement and the Managers’ performance. It has defined terms of reference and consists of the non-executive directors and excludes any directors previously employed by the Managers. It is chaired by Hugh Stevenson, the Chairman of the Board.

The Terms of Reference for each of the Committees may be viewed by shareholders on request.

Corporate Governance

Accountability and Audit

The Directors' statement of responsibility in respect of the accounts is on page 35 and a statement of going concern is on page 40.

The Report of the Independent Auditors can be found on page 34.

Internal Control

The Directors have overall responsibility for the Company's system of internal control. Whilst acknowledging their responsibility for the system of internal control, the Directors are aware that such a system can provide only reasonable but not absolute assurance against material misstatement or loss.

The key elements of the procedures that the Directors have established and which are designed to provide effective internal control are as follows:

- The Board, assisted by the Managers undertook a full review of the Company's business risks and these are analysed and recorded in a risk matrix. The Board receives every six months from the Managers a formal report which details any known internal controls failures, including those that are not directly the responsibility of the Managers. The Board continues to check that good systems of internal control and risk management are embedded in the operations and culture of the Company and its key suppliers.
- The appointment of RCM (UK) Limited ("RCM") as the Managers provides investment management, custodial, accounting and company secretarial services to the Company. The Managers therefore maintain the internal controls associated with the day to day operation of the Company. These responsibilities are included in the Management Agreement between the Company and the Managers whose system of internal control includes organisation arrangements with clearly defined lines of responsibility and delegated authority as well as control procedures and systems which are regularly evaluated by management and monitored by its internal audit department. RCM (UK) Limited is regulated by the Financial Services Authority ("FSA") and its compliance department regularly monitors compliance with FSA's rules.
- There is a regular review by the Board of asset allocation and any risk implications. There is also regular and comprehensive review by the Board of management accounting information including revenue and expenditure projections, actual revenue against projections, and performance comparisons.
- Authorisation and exposure limits are set and maintained by the Board.

- The Audit Committee assesses the Managers' and Custodian's systems of controls and approves the appointment of sub-custodians. The Audit Committee also receives reports from the Managers' and Custodian's internal auditors, compliance department and independent auditors.

The Directors confirm that the Audit Committee has reviewed the effectiveness of the system of internal control

Relations with Shareholders

The Board strongly believes that the Annual General Meeting should be an event which private shareholders are encouraged to attend. The Annual General meeting is attended by the Chairman of the Board, the Chairman of the Audit Committee and the Investment Manager makes a presentation at the meeting. The number of proxy votes cast in respect of each resolution will be made available at the Annual General Meeting.

The Managers meet with institutional shareholders on a regular basis and report to the Board on matters raised at these meetings.

All correspondence with Shareholders is reviewed by the Board.

Shareholders who wish to communicate directly with the Chairman or other Directors may write care of the Company Secretary at 155 Bishopsgate, London EC2M 3AD.

The Notice of Meeting sets out the business of the meeting and special resolutions are explained more fully in the Directors' Report. Separate resolutions are proposed for each substantive issue.

Environmental Policy

The Investment Managers have been directed by the Board to take account of companies' environmental performance when taking investment decisions.

Exercise of Voting Powers

The Company's investments are held in a nominee name. The Board has delegated discretion to the Managers to exercise voting powers on its behalf.

The Managers use a proxy voting service which casts votes in accordance with the guidelines of the National Association of Pension Funds (NAPF) research material, unless its clients request a very specific policy to be voted by its fund managers.

Where Directors hold directorships on the boards of companies in which the Company is invested, they do not participate in decisions made concerning those investments.

Directors' Remuneration Report

This report is submitted in accordance with the Directors' Remuneration Report Regulations 2002 for the year ended 31 January 2004.

The Board

The Board of Directors is composed solely of non-executive Directors and the determination of the Directors' fees is a matter dealt with by the whole Board. The Board has not been provided with advice or services by any person to assist it to make its remuneration decisions, although the Directors carry out reviews from time to time of the fees paid to the directors of other investment trusts.

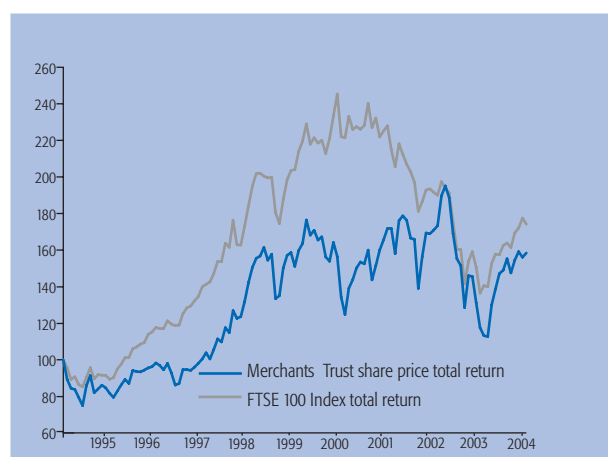
Policy on Directors' Remuneration

Directors meet at least six times a year. The audit committee meets twice each year and the other Board Committees meet at least once a year.

Directors offer themselves for retirement at least once every three years. No Director has a service contract with the Company. The Company's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears. There are no long term incentive schemes, bonuses, pension benefits, share options or other benefits and fees are not related to the individual directors' performance, nor to the performance of the Board as a whole.

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £100,000 per annum. Subject to this overall limit, it is the Board's policy to determine the level of Directors' fees having regard to the level of fees payable to non-executive directors in the investment trust industry generally, the role that individual Directors fulfil, and the time committed to the Company's affairs. The Board believes that levels of remuneration should be sufficient to attract and retain non-executive directors to oversee the Company.

Performance Graph



Directors' and Officers' Liability insurance cover is held by the Company.

The Company's performance is measured against the FTSE 100 Index as this is the most appropriate in respect of its asset allocation and is the Company's benchmark. An explanation of the Company's performance is given in the Chairman's Statement and the Investment Managers' Review.

The remaining disclosures on directors' remuneration have been audited as required by Part 3 of Schedule 7A of the Companies Act 1985.

Remuneration

In the year to 31 January 2004 Directors were paid at the rate of £11,000 with the Chairman of the Audit Committee receiving an extra £3,000 per annum and the Chairman of the Board receiving £15,000 per annum. The policy is to review these rates from time to time, but reviews will not necessarily result in a change to the rates. The last review resulting in an increase for Directors was in 2002; the Chairman's fees were not increased at that time. Increasingly, since then and most particularly in the past year, the role of non-executive directors has become more onerous, involving greater time commitment and a higher degree of responsibility against a more demanding regulatory environment. The Company has conducted its own research into fees paid within the investment trust industry and the its peer group, and with the weight of evidence supporting an increase, it intends, with effect from 1 June 2004, to raise the Directors' fees to £12,000 each, with the Chairman of the Audit Committee receiving an extra £3,000, and the Chairman's fees to £20,000, to reflect market levels in the Company's investment trust sector and the increased volume of work of investment trust directors.

Directors' emoluments

The payments receivable during the year and in the previous year are as follows:

	Director's fees 2004 £	Director's fees 2003 £
H. A. Stevenson	15,000	15,000
P. J. Scott Plummer	14,000	13,721
Sir John Banham	11,000	10,721
R. A. Barfield	11,000	10,721
Sir Bob Reid	11,000	10,721
A. D. A. W. Forbes	–	2,845
Totals	<u>62,000</u>	<u>63,729</u>

By Order of the Board

K. J. Salt

Secretary

8 April 2004

Directors

Directors

Mr H. A. Stevenson* (Chairman)

(Born September 1942) joined the Board in September 1999. Formerly Chairman of Mercury Asset Management Group plc, he is Chairman of Equitas Limited, Chairman of Standard Life Investments, a Director of Standard Life Assurance Company and a member of the Investment Committee of the Wellcome Trust.

Sir John Banham*

(Born August 1940) joined the Board in August 1992. Formerly Controller of the Audit Commission and Director General of the Confederation of British Industry, he is Chairman of Whitbread PLC, Geest plc, and Cyclacel Limited. He is also the Senior Non-Executive Director of Amvescap Plc.

Mr R. A. Barfield*

(Born April 1947) joined the Board in May 1999. Formerly Chief Investment Manager of Standard Life Assurance Company, he is a Director of Equitas Limited, The Baillie Gifford Japan Trust PLC, JP Morgan Fleming Overseas Investment Trust PLC, The Edinburgh Investment Trust PLC, Standard Life Investments Property Income Trust Limited and other companies.

Sir Bob Reid*

(Born May 1934) joined the Board in January 1995. He was formerly Chairman of Shell (UK), British Rail, London Electricity plc, and Sears PLC. He is Senior Non-executive Director of HBOS plc.

Mr P. J. Scott Plummer* (Chairman of Audit Committee)

(Born August 1943) is a Chartered Accountant and joined the Board in May 1997. He is Non-executive Chairman of Martin Currie Limited and is a Director of Martin Currie Portfolio Investment Trust PLC. He was formerly a Director of Candover Investments PLC.

*All of the above Directors are non-executive and independent of the Manager.

Directors' Report

Status

The Company is an investment company as defined in section 266 of the Companies Act 1985.

The Company was approved by the Inland Revenue as an investment trust for the year ended 31 January 2003 and approval is expected to be given for the year ended 31 January 2004. In the opinion of the Directors the Company has conducted its affairs so as to enable it to continue to obtain S.842 approval.

Going Concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Share Capital

The share capital of the Company is set out in note 11 on page 28.

Payment Policy

It is the Company's payment policy for the financial year to 31 January 2005 to obtain the best terms for all business and therefore there is no consistent policy as to the terms used. In general, the Company agrees with its suppliers the terms on which business will take place and it is our policy to abide by these terms. The Company had no trade creditors at either year end.

Invested Funds

Sales of investments during the year resulted in net losses based on historical costs of £14,687,171 (2003 – £25,160,964 losses). Provisions contained in the Finance Act 1980 exempt approved Investment Trusts from corporation tax on their chargeable gains. Invested funds at 31 January 2004 had a value of £473,911,875 before deducting net liabilities of £115,291,598 (2003 – £391,703,740 and £117,118,469).

Net Asset Value

The Net Asset Value of the Ordinary Shares of 25p at the year end, after deducting the provision for the final dividend, was 350.1p as compared with a value of 267.8p at 31 January 2003.

Donations and Subscriptions

There were no charitable donations and subscriptions in respect of the year (2003 – £nil). No political donations were made during the year.

Historical Record

There is included on page 6 a schedule of the Company's thirty largest holdings. The distribution of total assets is shown on page 11, and the historical record of the Company's revenue, capital and invested funds over the past ten years is shown on page 5. Graphs are included on page 13 showing the performance on a total return basis over the past ten years of the net asset value of the Company's Ordinary Shares against the Company's benchmark indices, the growth in net ordinary distributions made by the Company against the Retail Price Index, and the Company's discount to net asset value over the same period.

Business Review

A review of the Company's activities is given in the Chairman's Statement on pages 3 and 4 and in the Investment Managers' Review on pages 7 and 8.

Corporate Governance

The Corporate Governance Statement is set out on pages 36 and 37.

Directors' Fees

A report on the Directors' remuneration is set out on page 38.

Directors' Report

Revenue

	£	£
Revenue for the year after deducting management and general expenses and finance costs of borrowing amounted to		17,750,062
Taxation		(5,427)
and there remained a balance of		17,744,635
from which has been deducted the dividend on £1,178,000 of Preference Stock		(42,997)
leaving available for distribution to the Ordinary Shareholders		17,701,638

Dividends

Provisions have been made in the Accounts for dividends announced on the Ordinary Shares of 25p as follows:

First Interim 4.3p per Share paid 15 August 2003	4,390,470	
Second Interim 4.3p per Share paid 12 November 2003	4,390,469	
Third Interim 4.5p per Share paid 17 February 2004	4,594,677	
Fourth Interim in lieu of final 4.5p payable 2 April 2004	4,594,677	
		17,970,293
leaving a deficit to be transferred from the Revenue Reserve		(268,655)

A fourth interim dividend in lieu of a final dividend was paid on 2 April 2004 to shareholders on the Register of Members at the close of business on 19 March 2004 at the rate of 4.5p per Ordinary Share. Further details are provided in Note 6 on page 24.

Substantial Shareholdings

In accordance with Section 198 of the Companies Act 1985 and the Disclosure of Interests in Shares (Amendment) (No. 2) Regulations 1993, as at the date of this report, the Company has been advised of the following substantial share interests in its relevant share capital:

3.65% Cumulative Preference Stock:
P. S. & J. M. Allen – 185,582 (15.75%)
The Prudential Corporation PLC – 176,000 (14.9%);
Ecclesiastical Insurance Office PLC – 134,690 (11.4%);
Royal Insurance PLC – 60,000 (5.1%)
D. J. Edwards – 50,000 (4.2%)
J. Y. Miller – 36,000 (3.0%)
Ordinary Shares:
Legal & General Group PLC – 3,155,760 (3.1%)

Directors and Management

All Directors listed below served throughout the financial year under review.

Mr Scott Plummer and Sir Bob Reid retire by rotation in accordance with the Articles of Association and being eligible, offer themselves for re-election. Sir Bob Reid will attain the age of 70 years on 1 May 2004 and special notice has been received, pursuant to sections 293 and 379, Companies Act 1985, of the intention to propose the resolution concerning his re-election.

The Directors and their interests in the share capital of the Company as at 31 January 2004 and 2003 are listed below:

	Ordinary Shares of 25p			
	2004 Beneficial	2004 Non-Beneficial	2003 Beneficial	2003 Non-Beneficial
R. A. Barfield	2,120	–	2,001	–
Sir John Banham	2,000	–	2,000	–
Sir Bob Reid	500	–	500	–
P. J. Scott Plummer	1,000	–	1,000	–
H. A. Stevenson	25,000	–	25,000	–

Between the end of the period under review and the date of this report Mr R. A. Barfield has acquired a further 24 Ordinary Shares of 25p each through the Allianz Dresdner Asset Management Investment Trust ISA bringing his total holding in the Company to 2,144 shares.

Directors' Report

No contracts of significance in which Directors are deemed to have been interested have subsisted during the year under review.

Management Contract and Management fee

The management contract with RCM (UK) Limited ("RCM") provides for a fee of 0.35% per annum (2003 – 0.35%) of the value of the assets, calculated quarterly, after deduction of current liabilities, short term loans under one year and any funds within the portfolio managed by RCM. The management contract is terminable at one year's notice (2003 – one year).

The managers' performance under the contract and the contract terms are reviewed at least annually by the Management Engagement Committee. This committee consists of the directors not employed by the management company in the past five years and therefore includes the entire Board. At its last meeting the committee reviewed the managers' investment process and considered the investment management performance over various time periods. The committee also considered the level of the management fee. The committee was satisfied with its review and believes that the continuing appointment of the managers is in the best interests of shareholders as a whole.

The Managers have discretion to exercise voting rights at the meeting of companies in which the Company is invested, and will usually do so. However, in cases of takeover, merger or

other offer involving a corporate client of the Managers or any of its associated companies the voting rights may only be exercised with the approval of at least one independent Director of the Company. Similar approval must be sought in the case of any investment transactions in such companies or underwriting participations involving the securities of corporate clients of the Managers or any of its associated companies. The Managers do not have any discretion over any securities of Dresdner Bank Group or its subsidiaries that may be held by the Company.

The Company has entered into an annual agreement with Allianz Dresdner Asset Management to operate the Investment Trust Savings Scheme. The cost to the Company for the year ending 31 January 2004 is £152,424 excluding VAT (2003 – £171,571 excluding VAT). The fee relates to generic costs and is partially calculated on a usage and market capitalisation basis.

Individual Savings Accounts/PEPs

The affairs of the Company are conducted in such a way as to meet the requirement of a qualifying investment trust to Personal Equity Plans and the requirements for an Individual Savings Account and it is the intention to continue to do so.

Analysis of Share Register

	Shareholder Accounts				Ordinary Shareholding			
	Number		%		000's		%	
	2004	2003	2004	2003	2004	2003	2004	2003
Private holders*	9,761	9,988	62.6	62.0	25,484	25,920	25.0	25.4
Nominees	5,073	5,250	32.5	32.6	70,362	66,764	68.9	65.4
Insurance Companies	28	39	0.1	0.2	553	1,966	0.5	1.9
Other holders	547	607	3.5	3.8	4,456	4,389	4.4	4.3
Pension Funds	8	9	0.1	0.1	98	97	0.1	0.1
Investment Trusts and Funds	182	215	1.2	1.3	1,150	2,967	1.1	2.9
	<u>15,599</u>	<u>16,108</u>	<u>100.0</u>	<u>100.0</u>	<u>102,103</u>	<u>102,103</u>	<u>100.0</u>	<u>100.0</u>

*Including PEP, ISA and Saving Plan Nominees.

Based on an analysis of the Ordinary Share register at 29 March 2004 (28 March 2003).

Directors' Report

Directors' and Officers' Liability Insurance

The Company maintained Directors' and Officers' liability insurance during the year.

Purchase of Own Shares

The Board is proposing that the Company should be given renewed authority to purchase Ordinary Shares in the market for cancellation. The Board believes that such purchases in the market at appropriate times and prices would be a suitable method of enhancing shareholder value. The Company would make either a single purchase or a series of purchases, when market conditions are suitable, with the aim of maximising the benefits to shareholders and within guidelines set from time to time by the Board.

Where purchases are made at prices below the prevailing net asset value of the Ordinary Shares, this will enhance net asset value for the remaining shareholders. It is therefore intended that purchases would only be made at prices below net asset value, with the purchases to be funded from the realised capital profits of the Company (which are currently in excess of £358 million). The rules of the London Stock Exchange limit the price which may be paid by the Company to 105% of the average middle-market quotation for an Ordinary Share on the 5 business days immediately preceding the date of the relevant purchase. The minimum price to be paid will be 25p per Ordinary Share (being the nominal value). Additionally, the Board believes that the Company's continued ability to purchase its own shares should create additional demand for the Ordinary Shares in the market and that this increase in liquidity should assist shareholders wishing to sell their own Ordinary Shares.

The Board considers that it will be most advantageous to shareholders for the Company to be able to make such purchases as and when it considers the timing to be most favourable and therefore does not propose to set a timetable for making any such purchases.

Under the rules of the London Stock Exchange, the maximum number of shares which a listed company may purchase through the market pursuant to a general authority such as this is equivalent to 14.99% of its issued share capital. For this reason, the Company is limiting its renewed authority to make such purchases to 15,305,380 Ordinary Shares, representing 14.99% of the issued share capital at the date of this document.

By Order of the Board
K. J. Salt
Secretary

The authority will last until the Annual General Meeting of the Company to be held in 2005 or the expiry of 18 months from the date of the passing of this resolution, whichever is the earlier. The authority will be subject to renewal by shareholders at subsequent Annual General Meetings.

Allotment of New Shares

Approval is sought for the renewal of the Directors' authority to allot relevant securities, in accordance with Section 80 of the Companies Act 1985, up to a maximum aggregate nominal amount of £1,331,828. This authority would expire 5 years from the date of renewal, if not previously revoked or varied.

A resolution was passed at the Annual General Meeting held on 12 May 2003 to authorise the Directors to allot the unissued share capital for cash. The power to allot new shares for cash other than pro rata to existing shareholders, limited to the aggregate nominal amount of £1,273,746 Ordinary capital, being approximately 4.99 per cent of the issued Ordinary Share capital of the Company as at the date of this report, is renewable annually and expires at the conclusion of the Annual General Meeting in 2004. A Special Resolution is therefore proposed under special business at the forthcoming Annual General Meeting to renew this authority for a further year.

Whilst it is anticipated that allotments under this authority will normally be to the Allianz Dresdner Asset Management Investment Trust Savings Scheme the resolution allows for allotments of new shares at the discretion of the Directors and is not limited only to this Scheme. The Directors confirm that no allotment of new shares will be made unless the lowest market offer price of the Ordinary Shares is at least at a premium to net asset value.

Auditors

The Directors will place a resolution before the Annual General Meeting to re-appoint PricewaterhouseCoopers LLP as auditors for the ensuing year. A resolution to authorise the Directors to determine their remuneration will also be proposed at the Annual General Meeting.

8 April 2004

Notice of Meeting

Notice is hereby given that the Annual General Meeting of **The Merchants Trust PLC** will be held at **20 Moorgate, London EC2R 6DA**, on Tuesday 11 May 2004 at 12.00 noon to transact the following business.

Routine Business

- 1 To receive and adopt the Report of the Directors and the Accounts for the year ended 31 January 2004 together with the Auditors' Report thereon.
- 2 To re-elect Mr P. J. Scott Plummer as a Director.
- 3 To re-elect Sir Bob Reid as a Director, special notice having been received of the intention to propose his re-election.
- 4 To approve the Directors' Remuneration Report
- 5 To re-appoint PricewaterhouseCoopers LLP as Auditors of the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.
- 6 To authorise the Directors to determine the remuneration of the Auditors.

Special Business

Resolution 8 will be proposed as an Ordinary Resolution and Resolutions 7 and 9 as Special Resolutions:

- 7 That the Company be and is hereby generally and unconditionally authorised in accordance with Section 166 of the Companies Act 1985 (the "Act") to make market purchases (within the meaning of Section 163 of the Act) of Ordinary Shares of 25p each in the capital of the Company ("Ordinary Shares"), provided that:
 - (i) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 15,305,380;
 - (ii) the minimum price which may be paid for an Ordinary Share is 25p;
 - (iii) the maximum price which may be paid for an Ordinary Share is an amount equal to 105 per cent of the average of the middle market quotations for an Ordinary Share taken

from the London Stock Exchange Official List for the 5 business days immediately preceding the day on which the Ordinary Share is purchased or such other amount as may be specified by the London Stock Exchange from time to time;

- (iv) the authority hereby conferred shall expire at the conclusion of the annual general meeting of the Company in 2005 or, if earlier, on the expiry of 18 months from the passing of this resolution, unless such authority is renewed prior to such time; and
 - (v) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares pursuant to any such contract.
- 8 That for the purposes of Section 80 of the Companies Act 1985 the Directors be generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of the said section) up to an aggregate nominal amount of £1,331,828 provided that:
 - (i) the authority granted shall expire five years from the date upon which this Resolution is passed but may be revoked or varied by the Company in General Meeting and may be renewed by the Company in General Meeting for a further period not exceeding five years; and
 - (ii) the authority shall allow and enable the Directors to make an offer or agreement before the expiry of that authority which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of any such offer or agreement as if that authority had not expired.

Notice of Meeting

9 That the Directors be empowered in accordance with Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the Act) for cash as if sub-section (1) of Section 89 of the Act did not apply to any such allotment provided that:

- (i) the power granted shall be limited to the allotment of equity securities wholly for cash up to an aggregate nominal amount of £1,273,746 (being within 5 per cent of the issued Ordinary Share capital at the date of this Notice);
- (ii) the power granted shall (unless previously revoked or renewed) expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution; and
- (iii) the said power shall allow and enable the Directors to make an offer or agreement before the expiry of that power which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuant of such offer or agreement as if that power had not expired.

Annual General Meeting Venue



155 Bishopgate,
London EC2M 3AD
8 April 2004

By Order of the Board
K. J. Salt
Secretary

Notes: Members entitled to attend and vote at this Meeting may appoint one or more proxies to attend and, on a poll, vote in their stead. The proxy need not be a Member of the Company. Duly completed forms of proxy must reach the office of the Registrars at least 48 hours before the Meeting. A form of proxy is provided with the Annual Report. Completion of the enclosed form of proxy does not preclude a Member from attending the Meeting and voting in person.

To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), Members must be entered on the Company's register of Members at 6 p.m. on 9 May 2004 ("the specified time"). If the Meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original Meeting, that time will also apply for the purpose of determining the entitlement of Members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned Meeting. If, however, the Meeting is adjourned for a longer period then, to be so entitled, Members must be entered on the Company's register of Members at the time which is 48 hours before the time fixed for the adjourned Meeting or, if the Company gives notice of the adjourned Meeting, at the time specified in that notice.

Contracts of service are not entered into with the Directors, who hold office in accordance with the Articles of Association.

Form of Proxy

and Authority for Savings Scheme Investors – see **(D)** below
 and Authority for PEP and/or ISA Investors – see **(E)** below

Notes on how to complete the proxy form

If you are a registered Ordinary Shareholder and you are unable to attend the Meeting or you are an investor through the Allianz Dresdner Investment Trust Savings Scheme (“Savings Scheme Investors”) and/or Allianz Dresdner Trust PEP and/or ISA (“PEP and/or ISA Investors”) you may appoint a proxy to attend and, on a poll, to vote on your behalf.

A How to sign the form

- (i) Please print your name and address in the space provided and sign and date the form.
- (ii) If someone else signs the form on your behalf, the authority entitling them to do so, or a certified copy of it, must accompany the form.
- (iii) In the case of a corporation, this form must be executed either under its common seal or be signed on its behalf by an attorney or duly authorised officer of the corporation.
- (iv) In the case of joint holders, the signature of the first-named on the Register of Members, in respect of the joint holding, shall be accepted to the exclusion of the other joint holders.

B Appointing a proxy

If you wish to appoint someone other than the Chairman as your proxy please cross out the words “the Chairman of the Meeting”, initial the deletion, and insert the name and address of your proxy. A proxy need not be a member of the Company, but must attend the Meeting in order to represent you.

C Telling your proxy how to vote

Tick the appropriate box indicating how your proxy should vote on the Resolutions. If you do not give instructions, your proxy or relevant Administrator/Manager (see note **(D)** and **(E)** below) will vote or abstain at their discretion. They will also vote or abstain at their discretion on any other business which may lawfully be put before the Meeting.

D Savings Scheme Investors

The Ordinary Shares held on your behalf in the Savings Scheme are registered in the name of the Scheme Nominee Company. If you complete parts **(A)** and **(C)** of the form of proxy you will be deemed to have instructed the Scheme Administrator to vote as indicated in part **(C)** in respect of all such Ordinary Shares. You will also be deemed to have appointed the Chairman of the Meeting or, if you complete part **(B)**, the person named there, as your proxy in respect of any Ordinary Shares registered in your name.

E PEP and/or ISA holders

The Ordinary Shares held on your behalf in the PEP and/or ISA are registered in the name of the Plan/Account Nominee Company. If you complete parts **(A)** and **(C)** of the form of proxy you will be deemed to have instructed the Plan/Account Manager to vote as indicated in part **(C)** in respect of all such Ordinary Shares. You will also be deemed to have appointed the Chairman of the Meeting or, if you completed part **(B)**, the person named there, as your proxy in respect of any Ordinary Shares registered in your name.

Returning the form

The form must reach the office of the Registrars of the Company no later than 48 hours before the time of the Meeting, 96 hours in the case of Savings Scheme investors and PEP and/or ISA holders. If you are a registered Ordinary Shareholder and you subsequently decide to attend the Meeting you may do so.

Attendance at the AGM

Please indicate above if you wish to attend the Annual General Meeting. This will facilitate the Company’s planning of the AGM in general, and in respect of Scheme, PEP and ISA holders, enable the relevant Nominee Company to send a Letter of Representation, for you to bring to the Meeting.

A Shareholders’ name and address

Title and Surname
 Forenames
 Address

Postcode

B Appointment of Proxy

I/We, the undersigned, being (a) member(s) of the above-named Company hereby appoint the Chairman of the Meeting or
 Title and Surname (or your chosen proxy)
 Forenames
 Address

Postcode

as my/our proxy to attend and vote for me/us and on my/our behalf as directed below at the Annual General Meeting of the Company to be held on 11 May 2004 at 12 noon and at any adjournment.

C Ordinary Business

	For	Against	Abstain
1 To receive the report and accounts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 To re-elect Mr P. J. Scott Plummer as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 To re-elect Sir Bob Reid as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 To approve the Directors’ Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 To re-appoint PricewaterhouseCoopers LLP as Auditors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6 To authorise the Directors to determine the remuneration of the Auditors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Special Business

7 To authorise the Company to make market purchases of its own Ordinary Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8 To renew the Directors’ authority to allot shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9 To renew the Directors’ authority to allot shares for cash	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

I/We wish to attend the AGM (all shareholders) Yes No

(D) Savings Scheme Investors only (please tick)

(E) PEP and/or ISA Holders only (please tick)

Signature

Date



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BUSINESS REPLY SERVICE
Licence No. MB 122

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Capita Registrars (proxies)
PO Box 25
BECKENHAM,
Kent
BR3 4BR

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ALLIANZ DRESDNER ASSET MANAGEMENT

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