Allianz Global Investors

The Merchants Trust PLC

Report and Accounts for the year ended 31 January 2005

Contents

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	2005	2004	% change
Revenue	£22,674,672	£22,246,829	+1.9
Available for Ordinary Dividend	£17,950,187	£17,701,638	+1.4
Earnings per Ordinary Share	17.58p	17.34p	+1.4
Dividends per Ordinary Share	18.00p	17.60p	+2.3

Assets	2005	2004	% change
Total Net Assets	£416,499,554	£358,620,277	+16.1
Net Asset Value per Ordinary Share	406.8p	350.1p	+16.2
Ordinary Share Price	383.8p	326.3p	+17.6
Discount of Net Asset Value to Ordinary Share Price	5.7%	6.8%	n/a

Performance Attribution Analysis

for the year ended 31 January 2005

	%
Capital return of FTSE 100 Index	10.5
Relative return from Portfolio	3.5
Capital return of Portfolio	14.0
Impact of gearing on Portfolio	3.9
Expenses charged to Capital	(1.7)
Change in Net Asset Value per Ordinary Share	16.2

Chairman’s Statement

Results

In the last financial year the UK stock market continued the pattern of recovery established in 2003/4. The Trust’s net asset value per share rose by 16.2% to 406.8p and, including dividends paid, the total underlying return per share was 21.3% compared with the total return of 14.3% recorded by the FTSE 100 Index.

The Trust’s total assets increased in value by 14.0% before allowing for the impact of gearing and costs. In comparison, the FTSE 100 Index rose by 10.5%, whilst the FTSE Higher Yield Index rose by 15.3%. As in the previous financial year, the Trust’s gearing has had a positive impact, adding 3.9% to the returns to shareholders. The full Performance Attribution Analysis is shown on page 2.

In the twelve months to 31 January 2005, the Trust’s share price rose by 17.6% from 326.3p to 383.8p.

As at 4 April 2005, the Trust’s ordinary shares yielded 5.0% compared with the yield on the FTSE 100 Index of 3.2%.

Market Background

As reported at the interim stage, the level of the UK share market was hardly changed in the first six months of the financial year; nearly all the market appreciation seen in 2004/5 occurred in the second half. Equity markets rose as a result of the continuation of recent growth trends, the fall in bond yields and a significant revival of take-over activity. Furthermore, current buoyant corporate cashflows are in many cases being converted into higher dividend payments to shareholders.

Earnings Per Share

In 2004/5 net earnings per share rose by 1.4% to 17.58p.

Over 20% of the Trust’s income is paid in US dollars. During the year, the negative impact from the decline in value of the US dollar was approximately 0.35p per share or 2.0% of total dividend income (2004 – 0.20p or 1.2%).

The Trust’s reported earnings do not include any special dividends. During the year under review, the Trust received a number of such payments, including Centrica, Great Portland Estates and J Sainsbury. Under current accounting rules the receipts, totalling £2,132,750, or 2.09p per share, fall to be treated as capital disposals. Previously, these would have been treated as revenue receipts.

Dividends

The Board is recommending a final dividend of 4.5p per share giving a total of 18.0p for the last financial year, which compares with a total of 17.60p for 2003/4, an increase of 2.3%. The total cost of these payments for 2004/5 was £18.4m, which absorbed £0.43m or 0.42p per share from the Trust’s Revenue Reserve. This now stands at £9.50m or 9.30p per share. The Trust has now recorded 23 consecutive years of dividend increases.

International Financial Reporting Standards

Despite its listing with the UK Listing Authority, the Company is not currently obliged to adopt International Financial Reporting Standards (‘IFRS’) as it is not part of a group. However, the Board is aware that the well publicised convergence of UK accounting standards towards IFRS will have an impact on the Trust's accounts over the short to medium term, and is in discussion with the Auditors and Managers to ensure that the Trust is well placed to implement these changes as they arise.

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 10 May 2005. Since December 2003 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 will continue to monitor how the use of this facility by the investment trust sector develops.

Prospects

The UK equity returns seen in the last year suggest that valuations are, in isolation, less attractive than twelve months ago. However, most financial assets have recorded an appreciation in value, not least because there has been a further fall in bond yields as investors have sought long term security of returns. This augurs well for higher yielding shares, whose attractions are underlined by the recent strength of dividend payments. This may be expected to sustain investors’ interest in the higher yielding sector of the UK share market, in which the Trust is invested.

Hugh Stevenson
Chairman
5 April 2005

Historical Record

Years ended 31 January

Revenue and Capital

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Revenue (£'000s)	17,351◊	18,769◊	20,399◊	20,119◊	22,590	21,546	21,596	22,101	22,247	22,675
Earnings per Share (net)	12.41p	13.66p	14.88p	15.21p	17.93p	16.35p	16.70p	17.26p	17.34p	17.58p
Paid net per Share	12.25p	13.65pØ	14.25p	15.59p‡	16.00p	16.40p	16.80p	17.20p	17.60p	18.00p
Tax Credit per Share	3.06p	3.41p#	3.56p	3.90p§	1.78p	1.82p	1.87p	1.91p	1.96p	2.00p
Gross Ordinary Dividend	15.31p	17.06p	17.81p	19.49p	17.78p	18.22p	18.67p	19.11p	19.56p	20.00p
Total Net Assets (£'000s)	303,934	335,212	421,504	426,037	391,495	474,907	422,161	274,585	358,620	416,500
Net Assets attributable to										
Ordinary Capital (£'000s)	302,756	334,034◊	420,326	424,859	390,317	473,729	420,983	273,407	357,442	415,322
Net Asset Value per Ordinary Share	295.9p◊	326.4p	410.8p	415.2p	381.4p	463.5p	412.3p	267.8p	350.1p	406.8p
NAV Total Return (%)*	+24.9	+14.9	+30.2	+4.9	-4.3	+25.8	-7.4	-30.9	+37.3	+21.3
Retail Price Index Increases (%)6	+2.8	+3.1	+2.5	+2.6	+2.1	+1.8	+2.6	+2.7	+2.4	+2.1

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 FID of 2.98p and a final ordinary dividend of 3.75p. The interim 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.

* 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.

6 RPIX – excludes the effect of mortgage rates.

Thirty Largest Holdings

at 31 January 2005

	Valuation	% Net Assets	Unrealised Gain (Loss) Over Book Cost
	£'000s	%	£'000s
BP	41,840	7.82	2,952
HSBC	31,977	5.98	2,238
GlaxoSmithKline	31,137	5.82	(4,305)
Shell Transport & Trading	30,035	5.61	2,704
Royal Bank of Scotland	24,830	4.64	6,142
Barclays	23,629	4.42	2,473
HBOS	22,602	4.22	3,465
Lloyds TSB	22,455	4.20	(2,211)
BT	17,160	3.21	(9,926)
Vodafone	14,878	2.78	(1,073)
Scottish & Southern Energy	10,896	2.04	2,933
Land Securities	10,672	1.99	4,445
Diageo	10,310	1.93	888
Slough Estates	10,225	1.91	3,462
Bradford & Bingley	10,223	1.91	1,387
Severn Trent Water	10,142	1.90	1,953
Imperial Tobacco	9,744	1.82	6,306
Rio Tinto	9,405	1.76	1,923
National Grid Transco	8,905	1.66	1,677
British American Tobacco	8,280	1.55	1,446
Friends Provident	7,207	1.35	2,135
Rank	7,102	1.33	1,205
Centrica	6,928	1.29	(349)
Anglo American	6,653	1.24	(52)
Dixons	6,340	1.18	1,693
Hanson	6,290	1.18	2,518
Lonmin	6,061	1.13	949
United Utilities	5,957	1.11	(5)
Alliance & Leicester	5,852	1.09	1,636
BOC	5,646	1.05	452
	423,381	79.12	% of Total Invested Funds

Investment Managers' Review

Economic Background

2004 was a further year when the UK recorded useful economic growth. At present, the latest estimates for the last calendar year suggest a 3.0% rate of expansion, meaning that the UK now has an uninterrupted record of growth since 1992. Progress in 2004 occurred despite the rapid rise in crude oil prices, effectively a tax on developed economies, to over US$50 per barrel for Brent crude in October. The other remarkable feature arising from the latter was the stability of inflation, which has hardly changed over the course of the year. This appears to reflect the effectiveness of current UK monetary policy, as well as a competitive consumer environment.

UK interest rates continued the rising trend seen in the latter months of 2003, with base rates rising from 3¾% in January to 4¾% in August 2004. Thereafter they remained unchanged until the year end. More importantly, the interest rate futures market changed dramatically in the second half of the last financial year, with end 2005 expectations falling from over 5.5% in July 2004 to 4.75% by January 2005. This clearly implied limited expectations for rate increases from the current level. It also appears to have been a major contributor to market strength in the second half of 2004/5.

Taking the year as a whole, Sterling's value against its major trading currencies was little changed. Nevertheless, the pound stood well above its 2003 US dollar exchange rate for most of 2004, which had a depressing effect on the 25% of UK profits denominated in that currency. Despite all these sources of uncertainty, UK corporate profits are estimated to have risen by just over 10% in 2004. As a result, the overall level of share market values has only broadly kept pace with the level of corporate profitability.

Market Trends

In contrast to recent years, the FTSE 100 Index described a remarkably steady course in the first half of 2004/5. Until the middle of August, it fluctuated between 4300 and 4550 without showing signs of breaking away from these parameters. However, from this point onwards, investor confidence started to grow appreciably, prompted by the view that interest rates had in practical terms peaked, falling bond yields and good corporate cashflows and profits. As a consequence, the FTSE 100 Index rose quite sharply, ending the financial year at 4852, some 10% or so above its starting level.

Looking at the key sector trends over 2004/5, the leaders included Real Estate (+40.2%), Aerospace (+39.5%) and Building (+31.7%). The Trust has been well represented in these areas, with the exception of Aerospace, given the high yields available at the start of the period. In contrast, the weakest sectors were Information Technology (-15.2%), Pharmaceuticals (-7.3%) and Insurance (-5.5%). I.T. was the leading market sector in 2003/4, however the portfolio's low weightings in this area, and in Pharmaceuticals, have had a positive impact on investment performance in the last year. More generally, the market at large has again been led by 'mid-caps' with the FTSE Mid 250 Index rising by 19.0% over the year to last January.

Investment Managers' Review

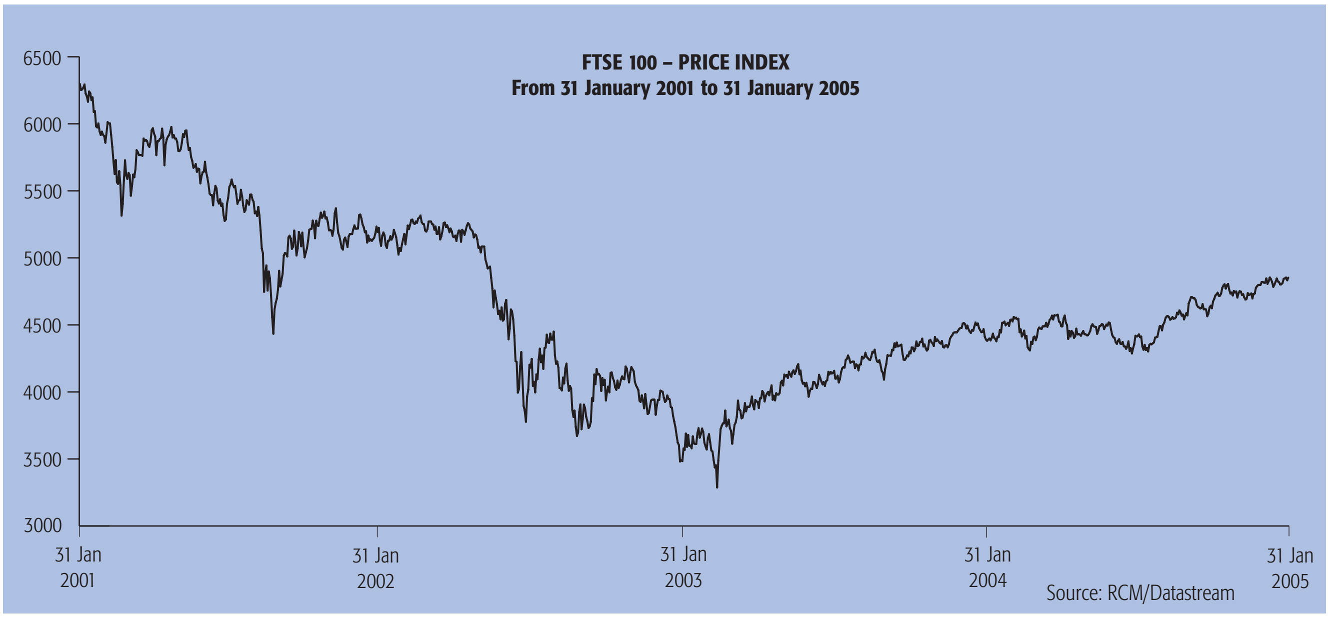
Portfolio Changes

In common with recent years, 2004/5 was a year in which 'value' as an investment style continued to lead the market. This environment has been helpful for higher yielding portfolios, including the Trust's. In this light, new purchases have included a number of utilities, including **AWG, Centrica** and **Pennon**. Aside from their high dividend yields, regulation in this sector appears to have entered a much more benign phase. In the food sector we added to **Tate & Lyle**, given the potential of its new sweetener, Sucralose, and subscribed for the new issue of shares in **Premier Foods**. The banking sector remains a key area for performance and dividend income and, whilst there were reductions to the holdings in **Alliance & Leicester** and **HSBC**, the investments in **HBOS** and **Royal Bank of Scotland** were increased. Other significant additions to holdings were **Rio Tinto, Shell** and **Slough Estates**, whilst **Vodafone** was a new investment, reflecting the group's decision to almost double its dividend payments.

Bearing in mind the portfolio's inherently conservative nature, disposals in the last year were driven by valuation considerations rather than by major changes in trading circumstances. Examples of such sales would include **BAA, Close Brothers, Mitchells & Butlers, Northern Foods, Pearson** and **Rexam**. The sums invested in **Prudential** were switched into a number of other life assurance groups with higher yields, following a substantial recovery in its share price. Finally the holdings in **BBA** and **Hanson** were 'top-sliced', as were the Trust's holdings in house builders, given their trading uncertainties.

Future Policy

Although equity markets are now significantly above the lows recorded in March 2003, the parallel rise in bond markets means that on a comparative basis shares are still under-valued. Although there is clearly the potential for bond yields to rise, whilst inflation remains well contained, the upside potential appears to be limited. A slowdown in UK growth in 2005, partly prompted by the likelihood of a General Election, would help to sustain gilt yields at low historic levels. With dividends now growing well, this environment should support higher yielding shares despite their recent out-performance, and this should provide worthwhile opportunities to sustain the Trust's record in the coming year.



United Kingdom Listed Holdings

at 31 January 2005

	Value (£)	Principal Activities
BP	41,840,000	Oil & gas production
HSBC	31,977,400	Banking
GlaxoSmithKline	31,137,500	Pharmaceuticals
Shell Transport & Trading	30,034,800	Oil & gas production
Royal Bank of Scotland	24,830,100	Banking
Barclays	23,629,200	Banking
HBOS	22,601,550	Banking
Lloyds TSB	22,455,313	Banking
BT	17,160,000	Telecommunications
Vodafone	14,878,200	Telecommunications
Scottish & Southern Energy	10,896,375	Electricity
Land Securities	10,671,750	Real estate
Diageo	10,309,875	Beverages
Slough Estates	10,225,000	Real estate
Bradord & Bingley	10,223,182	Banking
Severn Trent Water	10,142,000	Water
Imperial Tobacco	9,744,000	Tobacco
Rio Tinto	9,405,000	Mining
National Grid Transco	8,905,313	Electricity
British American Tobacco	8,280,000	Tobacco
Friends Provident	7,206,618	Life assurance
Rank	7,102,000	Leisure and gaming
Centrica	6,927,525	Gas
Anglo American	6,652,800	Mining
Dixons	6,340,000	Retailing
Hanson	6,289,675	Building materials
Lonmin	6,060,600	Mining
United Utilities	5,956,650	Water and Electricity
Alliance & Leicester	5,852,425	Banking
BOC	5,646,500	Chemicals
Legal & General	5,491,250	Life and general insurance
Allied Domecq	5,488,000	Beverages
Aviva	5,397,500	Life and general insurance
AWG	5,334,000	Water
Provident Financial	5,175,000	Speciality finance
Boots	5,165,375	Retailing

United Kingdom Listed Holdings

at 31 January 2005

	Value (£)	Principal Activities
Tomkins	5,139,500	Engineering
Persimmon	5,033,000	Housebuilding
GKN	4,865,000	Engineering
Hilton	4,698,450	Hotels and betting
EMI	4,659,600	Music
Gallaher	4,587,405	Tobacco
Brit Insurance	4,413,750	Insurance
Tate & Lyle	4,378,000	Food production
Premier Foods	4,345,200	Food production
Britannic	4,325,394	Life assurance
Kesa Electricals	4,153,500	Retailing
Taylor Woodrow	4,011,000	Housebuilding
IMI	3,988,600	Engineering
Great Portland Estates	3,874,400	Real estate
Pennon	3,450,600	Water
C&C*	3,144,654	Beverages
Marks & Spencer	2,978,250	Retailing
F&C Asset Management	2,625,000	Speciality finance
Rexam	2,592,075	Packaging
BBA	2,357,900	Engineering
	535,053,754	

*Registered in Ireland.

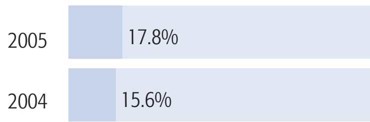
Distribution of Total Assets

at 31 January 2005

Total Assets (less creditors falling due within one year) £528,641,010 (2004 – £470,736,654)

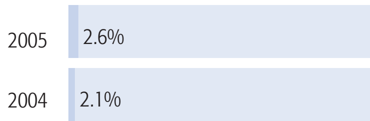
	Percentage of Total Assets 2005	Percentage of Total Assets 2004
Equities		
Resources		
Mining	4.2	3.0
Oil & gas	13.6	12.6
	17.8	15.6
Basic Industries		
Chemicals	1.1	–
Construction & building materials	2.9	3.8
Steel & other metals	–	–
	4.0	3.8
General Industrials		
Aerospace	–	0.5
Engineering & machinery	2.6	1.6
	2.6	2.1
Non-Cyclical Consumer Goods		
Beverages	3.6	3.9
Food products & processing	1.7	1.9
Pharmaceuticals	5.9	5.0
Tobacco	4.3	4.6
	15.5	15.4
Cyclical Services		
General retailers	3.5	4.4
Leisure, entertainment & hotels	2.2	3.4
Media & photography	0.9	1.1
Support services	0.5	1.1
Transport	0.4	3.1
	7.5	13.1
Non-Cyclical Services		
Food & drug retail	–	1.0
Telecommunication services	6.1	3.1
	6.1	4.1
Utilities		
Electricity	3.7	2.5
Other	6.0	3.6
	9.7	6.1

Resources

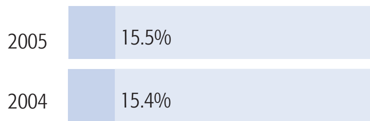


Basic Industries

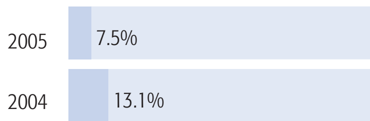
General Industrials



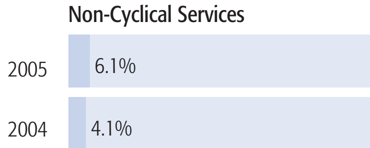
Non-Cyclical Consumer Goods



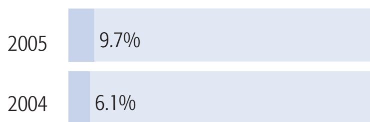
Cyclical Services



Non-Cyclical Services



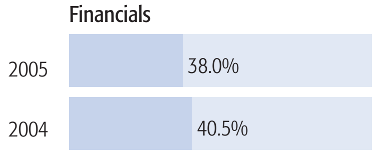
Utilities



Distribution of Total Assets

at 31 January 2005

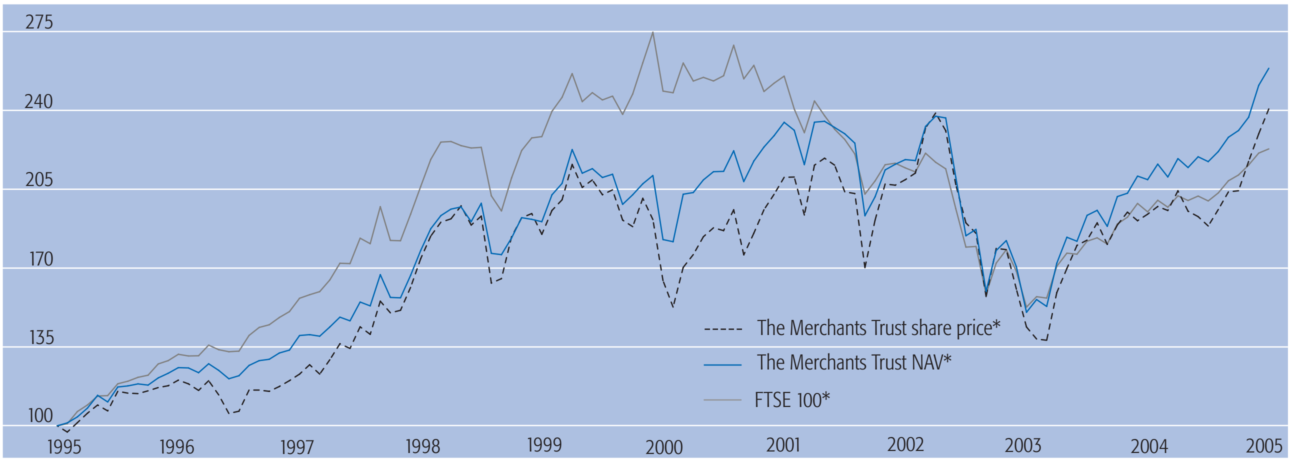
	Percentage of Total Assets 2005	2004
Financials		
Banks	26.8	27.7
Insurance	0.8	0.5
Life assurance	4.2	5.8
Real estate	4.7	4.5
Speciality & other financials	1.5	2.0
	38.0	40.5
Total Equities	101.2	100.7
Net Current Liabilities	(1.2)	(0.7)
Total Assets	100.0	100.0



Performance Graphs

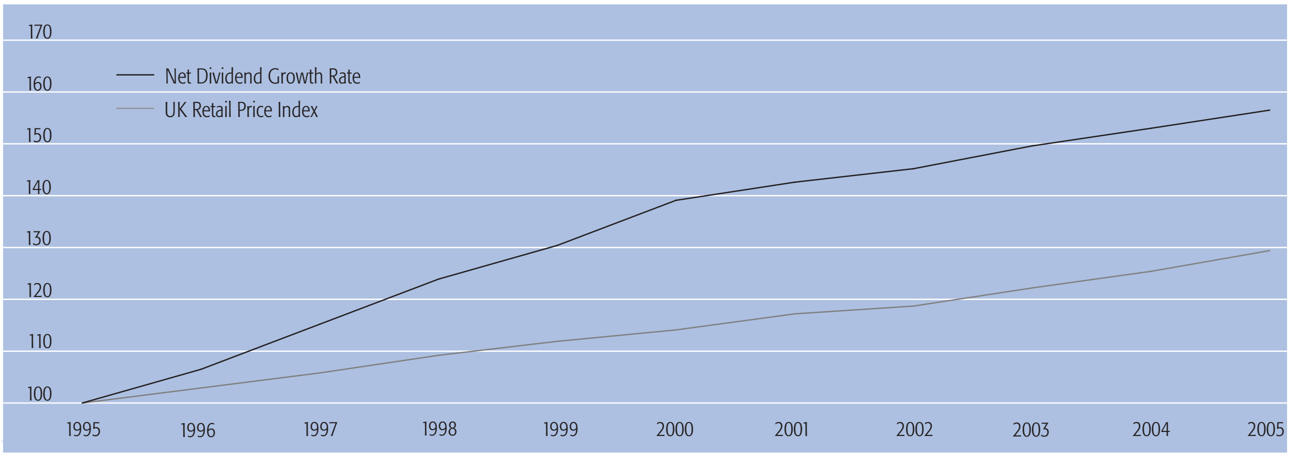
10 year record as at 31 January

The Merchants Trust Total Return compared to FTSE 100 Total Return



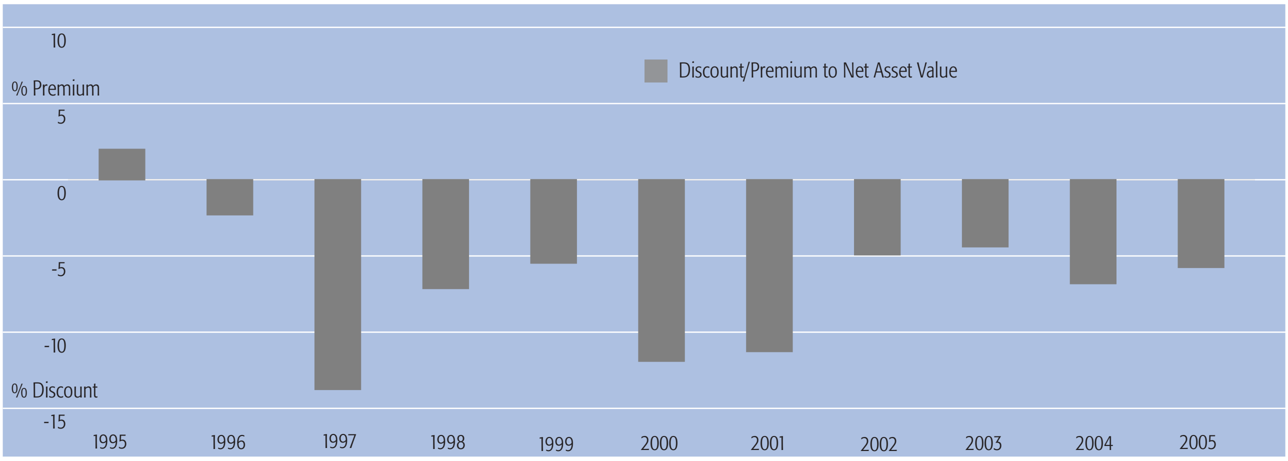
*net income reinvested
(Rebased to 100) Source: Russell/Mellon

The Merchants Trust Net Dividend Growth compared to inflation*



*excluding FID enhancement (see page 4 for details)
(Rebased to 100) Source: RCM/Datastream

The Merchants Trust Share Price Discount/Premium to Net Asset Value



Source: Datastream

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

The Managers

Allianz Global Investors is the marketing name of RCM (UK) Limited, Allianz Group's regulated UK fund management company, which is authorised and regulated by the Financial Services Authority.

Allianz Global Investors is one of the largest fund managers in Europe, and as at 31 December 2004, had combined assets of £709 billion under management. Through its predecessors, it has a heritage of investment trust management expertise in the UK stretching back to the nineteenth century and had £1.09 billion assets under management in a range of investment trusts as at 31 December 2004.

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

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 the Registrars, 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.

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 Global Investors, either via Investor Services on 0800 317 573 or on the Managers' website: www.allianzglobalinvestors.co.uk.

Share Prices

The share prices quoted in the London Stock Exchange Daily Official List for 31 January 2005 were 383.5p-384.0p.

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

Savings Scheme

The Allianz Global Investors 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 monthly contribution, or an individual lump sum or a combination of the two. There are arrangements for the reinvestment of dividends and for selling and switching. Full details of the scheme are available from Allianz Global Investors, either via Investor Services on 0800 317 573 or the Managers' website: www.allianzglobalinvestors.co.uk.

Investment Trust Maxi ISA and PEP Transfer

Shareholders can invest in the shares of the Company through the Allianz Global Investors Investment Trust Maxi ISA and PEP Transfer. Full details are available from Allianz Global Investors, either via Investor Services on 0800 317 573 or the Managers' website: www.allianzglobalinvestors.co.uk.

Website

Further information about the The Merchants Trust PLC is available on the Managers' website: www.allianzglobalinvestors.co.uk.

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, 9th Floor, 24 Chiswell Street, London EC1Y 4YY, or at www.aitc.co.uk.

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, Deputy Secretary and Registered Office

Kirsten Salt BA (Hons) ACIS
Peter Ingram FCIS
155 Bishopsgate
London EC2M 3AD
Telephone: 020 7859 9000

Registered Number 28276

Registrars and Transfer Office

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Telephone (if calling from within the UK): 0870 162 3100
Telephone (if calling from overseas): 0044 20 8639 2157
Email: ssd@capitaregistrars.com

Independent Auditors

PricewaterhouseCoopers LLP
Southwark Towers
32 London Bridge Street
London SE1 9SY

Bankers

HSBC Bank
Barclays Bank

Stockbroker

JPMorgan Cazenove

Legal Advisers

Herbert Smith LLP

Allianz Global Investors

Telephone: 0800 317 573 or www.allianzglobalinvestors.co.uk.

Statement of Total Return

for the year ended 31 January 2005

	Note	2005 £ Revenue	2005 £ Capital	2005 £ Total	2004 £ Revenue	2004 £ Capital	2004 £ Total
Net gains on investments	8	–	65,859,676	65,859,676	–	91,703,301	91,703,301
Income	1	22,674,672	–	22,674,672	22,246,829	–	22,246,829
Investment management fee	2	(722,446)	(1,341,685)	(2,064,131)	(662,470)	(1,230,302)	(1,892,772)
Expenses of administration	3	(593,850)	–	(593,850)	(502,417)	–	(502,417)
Net return before finance costs and taxation		21,358,376	64,517,991	85,876,367	21,081,942	90,472,999	111,554,941
Finance costs of borrowings	4	(3,365,192)	(6,210,193)	(9,575,385)	(3,331,880)	(6,169,338)	(9,501,218)
Return on ordinary activities before taxation		17,993,184	58,307,798	76,300,982	17,750,062	84,303,661	102,053,723
Taxation	5	–	–	–	(5,427)	–	(5,427)
Return on ordinary activities after taxation for the financial year		17,993,184	58,307,798	76,300,982	17,744,635	84,303,661	102,048,296
Dividends on Preference Stock		(42,997)	–	(42,997)	(42,997)	–	(42,997)
Return attributable to Ordinary Shareholders		17,950,187	58,307,798	76,257,985	17,701,638	84,303,661	102,005,299
Dividends on Ordinary Shares	6	(18,378,708)	–	(18,378,708)	(17,970,293)	–	(17,970,293)
Transfer (from) to reserves		(428,521)	58,307,798	57,879,277	(268,655)	84,303,661	84,035,006
Return per Ordinary Share	7	17.58p	57.11p	74.69p	17.34p	82.57p	99.91p
Net Asset Value							
Per Ordinary Share	15			406.8p			350.1p
Per Preference Stock Unit	15			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 19 to 31 form part of these Accounts.

Balance Sheet

at 31 January 2005

	Note	2005 £	2005 £	2004 £
Fixed Assets				
Investments	8		535,094,994	473,911,875
Current Assets				
Debtors	10	1,713,769		1,862,055
Cash at bank	10	3,192,907		6,233,102
		4,906,676		8,095,157
Creditors: Amounts falling due within one year	10	(11,360,660)		(11,270,378)
Net Current Liabilities			(6,453,984)	(3,175,221)
Total Assets less Current Liabilities			528,641,010	470,736,654
Creditors: Amounts falling due after more than one year	10		(112,141,456)	(112,116,377)
Total Net Assets			416,499,554	358,620,277
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	322,240,327		331,128,953
Unrealised	13	57,962,642		(9,233,782)
			380,202,969	321,895,171
Revenue Reserve	14		9,496,542	9,925,063
Shareholders' Funds	16		416,499,554	358,620,277
Analysis of Shareholders' Funds				
Equity interests	15		415,321,554	357,442,277
Non-equity interests	15		1,178,000	1,178,000
			416,499,554	358,620,277

Approved by the Board of Directors on 5 April 2005 and signed on its behalf by:

Hugh Stevenson

Joe Scott Plummer

The Notes on pages 19 to 31 form part of these Accounts.

Cash Flow Statement

for the year ended 31 January 2005

	Note	2005 £	2005 £	2004 £
Net cash inflow from operating activities	18		22,380,842	20,140,829
Servicing of finance				
Interest paid		(9,543,139)		(9,459,243)
Preference dividends paid		(42,997)		(21,498)
Net cash outflow on servicing of finance			(9,586,136)	(9,480,741)
Investing Activities				
Payments to acquire fixed asset investments		(142,790,215)		(148,695,240)
Proceeds on disposal of fixed asset investments		145,334,022		158,187,790
Net cash inflow from investing activities			2,543,807	9,492,550
Equity dividends paid			(18,378,708)	(17,561,878)
Net cash (outflow) inflow before financing			(3,040,195)	2,590,760
Financing				
Decrease in short term loan			–	(224,361)
(Decrease) increase in cash	19		(3,040,195)	2,366,399

The Notes on pages 19 to 31 form part of these Accounts.

Statement of Accounting Policies

for the year ended 31 January 2005

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 stocklending 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. 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 2005

1. Income

	2005 £	2005 £	2004 £
Income from investments*			
Franked income:			
Equity income from UK investments		22,463,026	22,012,244
Unfranked income:			
Equity income from overseas investments		52,968	36,182
		22,515,994	22,048,426
Other income:			
Deposit interest	114,267		104,568
Underwriting commission	12,296		69,592
Stocklending fees	32,115		24,243
		158,678	198,403
Total income		22,674,672	22,246,829

	2005 £	2004 £
Income from investments		
Listed	22,515,994	22,048,426
	22,515,994	22,048,426

*All equity income is derived from listed investments.

2. Investment Management Fee

	2005 £ Revenue	2005 £ Capital	2005 £ Total	2004 £ Revenue	2004 £ Capital	2004 £ Total
Investment management fee	722,446	1,341,685	2,064,131	662,470	1,230,302	1,892,772

The management contract with RCM (UK) Limited ('RCM'), terminable at one year's notice, provides for a management fee based on 0.35% (2004 – 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 £307,423 (2004 – £281,902). Under the contract, RCM provides the Company with investment management, accounting, secretarial and administration services.

Notes to the Accounts

for the year ended 31 January 2005

3. Expenses of Administration

	2005 £	2004 £
Directors' fees	68,236	62,000
Auditors' remuneration for audit services	16,703	16,130
Marketing costs of Savings Scheme	202,600	179,098
Other administrative expenses	306,311	245,189
	593,850	502,417

(i) The above expenses include value added tax where applicable.

(ii) There were no fees payable to the Auditors in respect of non-audit services (2004 – £1,175).

(iii) Between 1 February 2004 and 31 May 2004, Directors' fees were paid at the rate of £11,000 (2004 – £11,000) per annum with an additional sum of £4,000 (2004 – £4,000) per annum paid to the Chairman and an additional sum of £3,000 (2004 – £3,000) per annum paid to the Chairman of the Audit Committee. Between 1 June 2004 and 31 January 2005, Directors' fees were paid at the rate of £12,000 per annum with an additional sum of £8,000 per annum paid to the Chairman and an additional sum of £3,000 per annum paid to the Chairman of the Audit Committee.

4. Finance Costs of Borrowings

	2005 £ Revenue	2005 £ Capital	2005 £ Total	2004 £ Revenue	2004 £ Capital	2004 £ Total
On Stepped Rate Interest Loan repayable after more than five years	1,379,152	2,561,283	3,940,435	1,359,620	2,525,009	3,884,629
On Fixed Rate Interest Loan repayable after more than five years	1,322,399	2,455,885	3,778,284	1,321,075	2,453,425	3,774,500
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	623,148	1,157,275	1,780,423	622,006	1,155,154	1,777,160
On Sterling overdraft	21,243	–	21,243	9,929	–	9,929
	3,365,192	6,210,193	9,575,385	3,331,880	6,169,338	9,501,218

Notes to the Accounts

for the year ended 31 January 2005

5. Taxation

	2005 £ Revenue	2005 £ Capital	2005 £ Total	2004 £ Revenue	2004 £ Capital	2004 £ 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	17,993,184	58,307,798	76,300,982	17,750,062	84,303,661	102,053,723
Tax on return on ordinary activities at 30% (2004 – 30%)	5,397,955	17,492,339	22,890,294	5,325,019	25,291,098	30,616,117
Reconciling factors:						
Non taxable income	(6,738,908)	(639,825)	(7,378,733)	(6,603,673)	–	(6,603,673)
Non taxable capital gains	–	(19,118,078)	(19,118,078)	–	(27,510,990)	(27,510,990)
Disallowable expenses	75,288	26,717	102,005	80,561	49,830	130,391
Excess of allowable expenses over taxable income	1,265,665	2,238,847	3,504,512	1,199,722	2,170,062	3,369,784
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 £79m (2004 – £67m). Given the Company's current investment strategy, it is unlikely to generate sufficient UK taxable profits to relieve these expenses.

As at 31 January 2005 there is an unrecognised deferred tax asset, measured at the standard rate of 30%, of £23.6m (2004 – £20.1m). This deferred tax asset relates to the current and prior year unutilised expenses. It is considered unlikely 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

	Note	2005 £	2004 £
Dividends on Ordinary Shares of 25p:–			
First interim 4.5p paid 13 August 2004 (2003 – 4.3p)		4,594,677	4,390,470
Second interim 4.5p paid 10 November 2004 (2003 – 4.3p)		4,594,677	4,390,469
Third interim 4.5p payable 17 February 2005 (2004 – 4.5p)	10	4,594,677	4,594,677
Final proposed 4.5p payable 11 May 2005 (2004 – Fourth interim 4.5p)	10	4,594,677	4,594,677
		18,378,708	17,970,293

The proposed final 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.

Notes to the Accounts

for the year ended 31 January 2005

7. Return per Ordinary Share

	2005 £ Revenue	2005 £ Capital	2005 £ Total	2004 £ Revenue	2004 £ Capital	2004 £ Total
Return after taxation	17,993,184	58,307,798	76,300,982	17,744,635	84,303,661	102,048,296
Attributable to Preference Stockholders	(42,997)	–	(42,997)	(42,997)	–	(42,997)
Attributable to Ordinary Shareholders	17,950,187	58,307,798	76,257,985	17,701,638	84,303,661	102,005,299
Return per Ordinary Share	17.58p	57.11p	74.69p	17.34p	82.57p	99.91p

The weighted average number of shares in issue during the year was 102,103,936 (2004 – 102,103,936).

8. Fixed Asset Investments

	2005 £	2004 £
Listed at market valuation on recognised Stock Exchanges:–		
United Kingdom	535,053,754	473,870,408
Unlisted at Directors' valuation	41,240	41,467
Total fixed asset investments	535,094,994	473,911,875
Market value of investments brought forward	473,911,875	391,703,740
Unrealised losses brought forward	9,233,782	115,624,254
Cost of investments held brought forward	483,145,657	507,327,994
Additions at cost	142,790,215	148,248,658
Disposals at cost	(148,803,520)	(172,430,995)
Costs of investments held at 31 January	477,132,352	483,145,657
Unrealised gains (losses) at 31 January	57,962,642	(9,233,782)
Market value of investments held at 31 January	535,094,994	473,911,875
Gains on investments		
Net realised losses based on historical costs	(3,469,498)	(14,687,171)
Adjustment for net unrealised losses recognised in previous years	32,135,599	37,999,547
Net realised gains based on carrying value at previous balance sheet date	28,666,101	23,312,376
Net unrealised gains arising in the year	35,060,825	68,390,925
Net gains on investments before special dividends	63,726,926	91,703,301
Special dividends credited to capital	2,132,750	–
Net gains on investments	65,859,676	91,703,301

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

Stocklending		
Aggregate value of securities on loan at year-end	12.5m	40.7m
Maximum aggregate value of securities on loan during the year	76.2m	61.6m
Fee income from stocklending during the year	32,115	24,243

In respect of securities on loan at the year-end, the Company held £13.2m (2004 – £42.8m) as collateral, the value of which exceeded the value of the loan securities by £0.7m (2004 – £2.1m).

In respect of the maximum aggregate value of securities on loan during the year, the Company held £80.1m (2004 – £64.7m) as collateral, the value of which exceeded the value of securities on loan by £3.9m (2004 – £3.1m).

Notes to the Accounts

for the year ended 31 January 2005

9. Investments in Subsidiary and Other Companies

Surrey Investments Inc. is a wholly owned subsidiary registered in the State of Delaware, USA 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 Net Assets* £	Class of Shares held	% of Class held	% Equity
First Debenture Finance PLC ('FDF')	(5,630,879)	'A' Shares	39.2	49.2
		'B' Shares	59.2	
		'C' Shares	45.6	
		'D' Shares	53.3	
Fintrust Debenture PLC ('Fintrust')	12,920	Ordinary	50.0	50.0

In the opinion of the Directors, the Company is not in a position to exert significant influence over the financial or operating policies of FDF or Fintrust, either through voting rights or through agreement with those companies' other shareholders, due to provisions in FDF and Fintrust's Articles of Association and in certain contracts between the Company and each of FDF and Fintrust. 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 10(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.

*As at the date of the latest published financial statements of FDF or Fintrust, as appropriate.

10. Current Assets and Creditors

	2005 £	2004 £
Debtors:–		
Accrued income	1,676,805	1,834,345
Other debtors	36,964	27,710
	1,713,769	1,862,055
Cash at bank:–		
Current account	3,192,907	6,233,102

Notes to the Accounts

for the year ended 31 January 2005

10. Current Assets and Creditors (continued)

	Note	2005 £	2004 £
Creditors: Amounts falling due within one year–			
Other creditors		830,541	747,426
Interest on borrowings	10(v)	1,319,266	1,312,099
Dividend on Cumulative Preference Stock Units		21,499	21,499
Dividend on Ordinary Shares (declared)	6	4,594,677	4,594,677
Dividend on Ordinary Shares (proposed)	6	4,594,677	4,594,677
		11,360,660	11,270,378
Creditors: Amounts falling due after more than one year–			
Stepped Rate Interest Loan	10(i)	35,362,362	35,227,722
Fixed Rate Interest Loan	10(ii)	46,386,538	46,512,584
5.875% Secured Bonds 2029	10(iii)	29,017,556	29,001,071
4% Perpetual Debenture Stock	10(iv)	1,375,000	1,375,000
		112,141,456	112,116,377

(i) The effective interest rate on 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 (65.15%) of the required amount to enable FDF to meet all of its liabilities to repay principal and interest on its £52.2 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 10(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 2005, the unamortised premium included within the Fixed Rate Interest Loan balance of greater than one year amounted to £4,509,738 (2004 – £4,638,156).

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 2005

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 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 10(i) and 10(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) Interest on borrowings consists of:

	2005 £	2004 £
Stepped Rate Interest Loan	313,728	312,004
Fixed Rate Interest Loan	783,545	779,240
5.875% Secured Bonds 2029	208,243	207,105
4% Perpetual Debenture Stock	13,750	13,750
	1,319,266	1,312,099

11. Share Capital

		2005 £	2004 £
Authorised			
1,178,000	3.65% Cumulative Preference Stock Units of £1	1,178,000	1,178,000
107,431,248	Ordinary Shares of 25p	26,857,812	26,857,812
Allotted and fully paid			
1,178,000	3.65% Cumulative Preference Stock Units of £1	1,178,000	1,178,000
102,103,936	Ordinary Shares of 25p	25,525,984	25,525,984
		26,703,984	26,703,984

(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 11 May 2004 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 11 May 2004 to allot relevant securities for cash, in accordance with Section 95 of the Companies Act 1985, 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 meeting for its renewal.

Notes to the Accounts

for the year ended 31 January 2005

12. Capital Redemption Reserve

	£
Balance at 1 February 2004	56,250
Movement in the year	–
Balance at 31 January 2005	56,250

13. Capital Reserves

	Realised £	Unrealised £	Total £
Balance at 1 February 2004	331,128,953	(9,233,782)	321,895,171
Net gain on realisation of investments	30,798,851	–	30,798,851
Increase in unrealised appreciation	–	35,060,825	35,060,825
Transfer of net unrealised losses recognised in previous years	(32,135,599)	32,135,599	–
Investment management fee	(1,341,685)	–	(1,341,685)
Finance costs of borrowings	(6,210,193)	–	(6,210,193)
Balance at 31 January 2005	322,240,327	57,962,642	380,202,969

14. Revenue Reserve

	£
Balance at 1 February 2004	9,925,063
Deficit for the year	(428,521)
Balance at 31 January 2005	9,496,542

Notes to the Accounts

for the year ended 31 January 2005

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 2005	2004
Ordinary Shares of 25p	406.8p	350.1p
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 (2004 – 102,103,936).

	Net Asset Values attributable 2005	2004
Ordinary Shares of 25p	£415,321,554	£357,442,277
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 2004	357,442,277	1,178,000	358,620,277
Total return on ordinary activities after taxation for the year	76,257,985	42,997	76,300,982
Dividends appropriated in the year	(18,378,708)	(42,997)	(18,421,705)
Total net assets attributable at 31 January 2005	415,321,554	1,178,000	416,499,554

16. Reconciliation of Movements in Shareholders' Funds

	2005 £	2004 £
Revenue reserves		
Revenue profit available for distribution	17,993,184	17,744,635
Dividends appropriated in the year	(18,421,705)	(18,013,290)
Transfer from distributable reserve	(428,521)	(268,655)
Other reserves		
Recognised net capital gains transferred to capital reserves	58,307,798	84,303,661
Net increase in Shareholders' Funds	57,879,277	84,035,006
Opening Shareholders' Funds	358,620,277	274,585,271
Closing Shareholders' Funds	416,499,554	358,620,277

Notes to the Accounts

for the year ended 31 January 2005

17. Contingent Liabilities and Guarantees

At 31 January 2005 there were no outstanding contingent liabilities (2004 – £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 24.

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

	2005 £	2004 £
Revenue before taxation	17,993,184	17,750,062
Add: Finance costs of borrowings	3,365,192	3,331,880
Add: Special dividends credited to capital	2,132,750	–
Less: Management fee charged to capital	(1,341,685)	(1,230,302)
Less: Overseas tax suffered	–	(5,427)
	22,149,441	19,846,213
Decrease in debtors	148,286	45,269
Increase in creditors	83,115	249,347
Net cash inflow from operating activities	22,380,842	20,140,829

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

(i) Analysis of net debt

	Cash £	Stepped and Fixed Rate loans £	5.875% Secured Bonds 2029 £	4% Perpetual Debenture Stock £	Net Debt £
At 1 February 2004	6,233,102	(81,740,306)	(29,001,071)	(1,375,000)	(105,883,275)
Movement in year	(3,040,195)	(8,594)	(16,485)	–	(3,065,274)
At 31 January 2005	3,192,907	(81,748,900)	(29,017,556)	(1,375,000)	(108,948,549)

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

	2005 £	2004 £
Net cash (outflow) inflow	(3,040,195)	2,366,399
Decrease in short term loan	–	224,361
Increase in long term loans	(25,079)	(17,769)
Movement in net funds	(3,065,274)	2,572,991
Net debt brought forward	(105,883,275)	(108,456,266)
Net debt carried forward	(108,948,549)	(105,883,275)

Notes to the Accounts

for the year ended 31 January 2005

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 13.

(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 interest rates and periods for which rates are fixed on the fixed interest bearing assets and liabilities.

	Currency	2005 Fixed rate interest £000s	2005 Floating rate interest £000s	2005 Nil interest £000s	2005 Total £000s	2004 Fixed rate interest £000s	2004 Floating rate interest £000s	2004 Nil interest £000s	2004 Total £000s
Financial Assets									
Values not directly affected by changes in interest rates:									
Equities	Sterling	–	–	535,081	535,081	–	–	473,899	473,899
Equities	US Dollar	–	–	14	14	–	–	13	13
Cash	Sterling	–	3,193	–	3,193	–	6,233	–	6,233
Total Financial Assets		–	3,193	535,095	538,288	–	6,233	473,912	480,145
Financial Liabilities									
Values directly affected by changes in interest rates:									
First Debenture Finance loan	Sterling	(35,362)	–	–	(35,362)	(35,228)	–	–	(35,228)
Fintrust loan	Sterling	(46,386)	–	–	(46,386)	(46,512)	–	–	(46,512)
5.875% Secured Bonds 2029	Sterling	(29,018)	–	–	(29,018)	(29,001)	–	–	(29,001)
4% Perpetual Debenture Stock	Sterling	(1,375)	–	–	(1,375)	(1,375)	–	–	(1,375)
Total Financial Liabilities		(112,141)	–	–	(112,141)	(112,116)	–	–	(112,116)
Net Financial (Liabilities) Assets		(112,141)	3,193	535,095	426,147	(112,116)	6,233	473,912	368,029
Short term debtors and creditors					(9,647)				(9,409)
Net Assets per Balance Sheet					416,500				358,620

Notes to the Accounts

for the year ended 31 January 2005

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 2004 and 31 January 2005:

	Maturity date	Amount borrowed £	Coupon rate	Effective rate since inception[1]
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

[1]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% (2004 – 9.58%) and the weighted average period to maturity of these liabilities (excluding the 4% Perpetual Debenture Stock) is 19.2 years (2004 – 20.2) years.

(b) Currency Risk Profile

As at 31 January 2005 £13,695 (2004 – £146,334) 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:[2]

	2005 £ million Book value	2005 £ million Fair value	2004 £ million Book value	2004 £ million Fair value
First Debenture Finance Loan	35.3	50.1	35.2	48.6
Fintrust Loan	46.4	58.6	46.5	55.7
5.875% Secured Bonds	29.0	28.7	29.0	28.3
4% Perpetual Debenture Stock	1.4	1.0	1.4	1.0

[2]The fair value is derived from the closing market value as at 31 January 2004 and 2005.

(d) Liquidity Profile

The maturity profile of the Company's financial liabilities at 31 January 2005, (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 24 to 26. The undrawn committed borrowings facilities available to the Company at 31 January 2005 were £10,000,000.

(e) Hedging Instruments

At the year end the Company had no hedging arrangements in place (2004 – nil).

Independent Auditors' Report

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 the related notes 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 and 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 unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Investment Managers' Review and the Corporate Governance statement.

We review whether the Corporate Governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code 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 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 2005 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

5 April 2005

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.allianzglobalinvestors.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').

In addition, the AITC Code of Corporate Governance was issued by the Association of Investment Trust Companies in July 2003. The Board has reviewed and applied the additional requirements of both documents except where stated otherwise.

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 2005, with the exceptions that during the year there was no senior independent director and the Board assessment process did not take place until after the year end. Much of this statement describes how the relevant principles of governance are applied to the Company.

The Board

The Board currently consists of five Directors, all of whom are non-executive and independent of the Company's investment manager. Their biographies, on page 37, demonstrate a breadth of investment, industrial, commercial and professional experience.

The Chairman of the Company is a non-executive Director and Joe Scott Plummer has been appointed as the Senior Independent Director with effect from 7 March 2005.

The Board considers Sir John Banham and Sir Bob Reid to be independent, notwithstanding that each has served on the Board for more than nine years. The Board does not consider that length of service has diminished the independence of Sir John Banham or Sir Bob Reid and continues to be of the view that their extensive experience and knowledge is a great benefit to the Board.

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 and annually after nine years' service. The names of the Directors retiring by rotation at this year's Annual General Meeting are given on page 41.

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.

During the current year, the effectiveness of the Board was assessed through interviews conducted by the Chairman with each Director. In addition, the performance of the Directors was evaluated by each Director, followed by a discussion with the Chairman. The Chairman's own performance was evaluated by the other Directors, who met under the chairmanship of Joe Scott Plummer. The results of the effectiveness assessment and performance evaluation have been presented to the Nomination Committee.

The effectiveness assessment determined that the balance of the Board was satisfactory.

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.

Attendance by Directors at formal Board and committee meetings during the year was as follows:

Director	Board	Audit Committee	Nomination Committee	Management Engagement Committee
No. of meetings	6	2	1	1
Sir John Banham	6	1	1	1
R. A. Barfield	5	2	1	1
Sir Bob Reid	4	2	1	1
P. J. Scott Plummer	5	2	1	1
H. A. Stevenson	6	2*	1	1

*Invited to attend meetings, although not a committee member.

Corporate Governance

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 and the re-election of existing Directors by shareholders. The committee also determines the process for the annual evaluation of the Board. 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 Board has not constituted a Remuneration Committee; all Directors are non-executive and remuneration matters are dealt with by the whole Board.

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

Accountability and Audit

The Statement of Directors' Responsibilities in respect of the accounts is on page 33 and a statement of going concern is on page 40.

The Independent Auditors' Report can be found on page 32.

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 is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable but not absolute assurance against material misstatement or loss.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process is subject to review by the Board and accords with the Turnbull guidance. The process has been fully in place throughout the year under review and up to the date of signing of these Report and Accounts.

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. Every six months the Board receives 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, 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 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.

Corporate Governance

- The Board reviews the Internal Control reports of third party service providers, including those of the Company's Registrars, Capita Registrars, and Custodian, HSBC Bank plc.

The Board has undertaken a full review of the aspects covered by the Turnbull guidance and believes that there is an effective framework substantially in place to meet the requirements of the Combined Code.

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

As set out elsewhere in this report, the Managers provide certain services, including internal audit services, to the Company. Consequently, the Company does not have its own internal audit function.

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 and 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, the Senior Independent Director 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.

Socially Responsible Investment and Environmental Policy

The Investment Managers have been directed by the Board to take account of companies' socially responsible investment and 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 discharge its responsibilities in respect of investments, including the exercise of voting powers on its behalf, to the Managers.

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.

An extract from the Trust's voting record in the previous calendar year will be available for inspection at the annual general meeting each year.

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

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, a Non-Executive Director of the Financial Services Authority 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, JPMorgan Fleming Overseas Investment Trust PLC, The Edinburgh Investment Trust PLC, Standard Life Investments Property Income Trust Limited, Umbro PLC 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 (Senior Independent Director and 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 the above Directors are non-executive and independent of the Managers.

Directors' Remuneration Report

This report is submitted in accordance with the Directors' Remuneration Report Regulations 2002 for the year ended 31 January 2005.

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 and annually after nine 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 Director's 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.

Directors' and officers' liability insurance cover is held by the Company.

Performance Graph

The graph on the next page measures the Company's share price and net asset value performance against its benchmark index of the FTSE 100 Index.

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

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

Remuneration

The policy is to review Directors' fees from time to time, but reviews will not necessarily result in a change to the rates. Prior to the year ended 31 January 2005, 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. In 2004, the Company conducted its own research into fees paid within the investment trust industry and its peer group and, with the weight of evidence supporting an increase, with effect from 1 June 2004, it raised the annual fee for each Director from £11,000 to £12,000, and for the Chairman from £15,000 to £20,000. The Chairman of the Audit Committee continues to receive an additional £3,000 per annum. The increases 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:

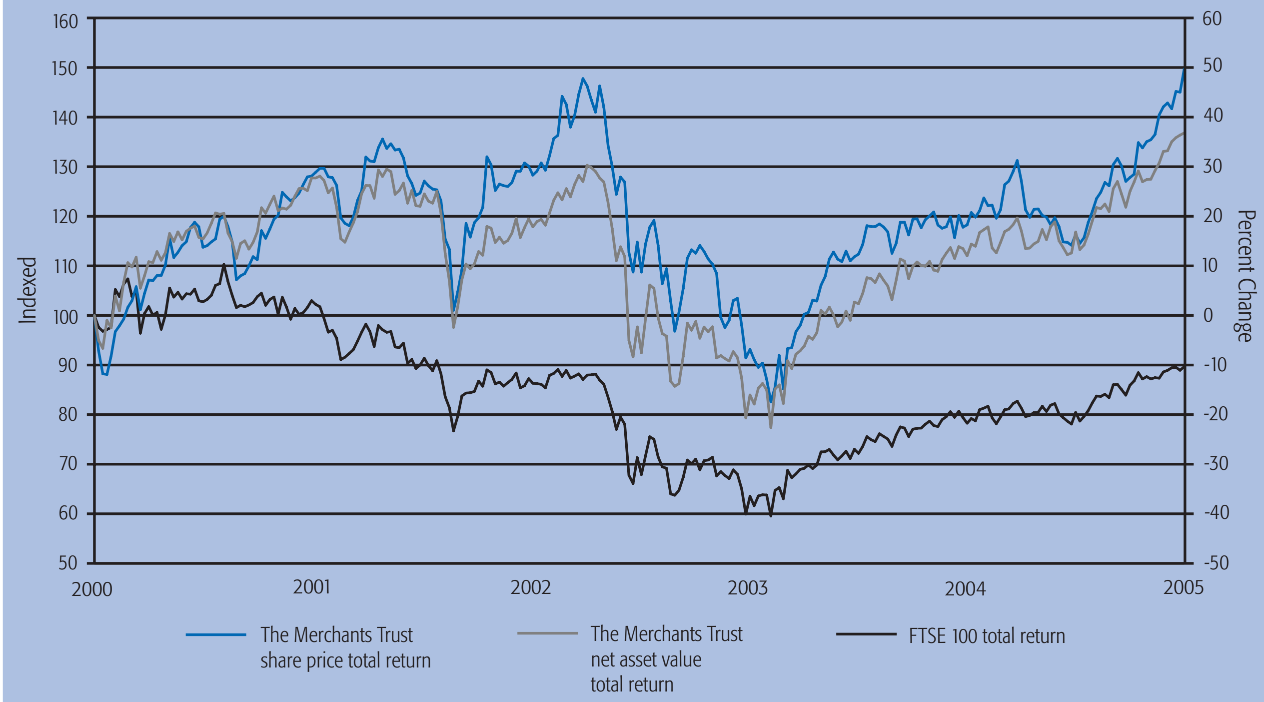
	Directors' fees	
	2005 £	2004 £
H. A. Stevenson	18,481	15,000
P. J. Scott Plummer	14,667	14,000
Sir John Banham	11,696	11,000
R. A. Barfield	11,696	11,000
Sir Bob Reid	11,696	11,000
Totals	68,236	62,000

By Order of the Board
P. W. I. Ingram
Deputy Secretary
5 April 2005

Directors’ Remuneration Report

Performance Graph

The graph below illustrates the total return on the Company’s share price with net income reinvested and net asset value total return performance against that of the benchmark of the FTSE 100 Index, for the five years ended 31 January 2005.



(Rebased to 100) Source: Datastream

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 2004 and approval is expected to be given for the year ended 31 January 2005. In the opinion of the Directors, the Company has conducted its affairs so as to enable it to continue to obtain Section 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 26.

Payment Policy

It is the Company's payment policy for the financial year to 31 January 2006 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 the year end (2004 – £nil).

Invested Funds

Sales of investments during the year resulted in net losses based on historical costs of £3,469,498 (2004 – £14,687,171 losses). Provisions contained in the Finance Act 1980 exempt approved Investment Trusts from corporation tax on their chargeable gains. Invested funds at 31 January 2005 had a value of £535,094,994 (2004 – £473,911,875) before deducting net liabilities of £118,595,440 (2004 – £115,291,598).

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 406.8p as compared with a value of 350.1p at 31 January 2004.

Donations and Subscriptions

There were no charitable donations and subscriptions in respect of the year (2004 – £nil). No political donations were made during the year.

Historical Record

There is included on page 5 a schedule of the Company's thirty largest holdings. The distribution of total assets is shown on page 10, and the historical record of the Company's revenue, capital and invested funds over the past ten years is shown on page 4. Graphs appear on page 12 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 page 3 and in the Investment Managers' Review on pages 6 and 7.

Corporate Governance

The Corporate Governance statement is set out on pages 34 to 36.

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		17,993,184
Taxation		–
and there remained a balance of		17,993,184
from which has been deducted the dividend on £1,178,000 of Preference Stock		(42,997)
leaving available for distribution to Ordinary Shareholders		17,950,187
Dividends		
Provisions have been made in the Accounts for dividends announced on the Ordinary Shares of 25p as follows:		
First Interim 4.5p per Share paid 13 August 2004	4,594,677	
Second Interim 4.5p per Share paid 10 November 2004	4,594,677	
Third Interim 4.5p per Share payable 17 February 2005	4,594,677	
Final proposed 4.5p per Share payable 11 May 2005	4,594,677	
		18,378,708
leaving a deficit to be transferred from the Revenue Reserve		(428,521)

Subject to the final dividend being approved by shareholders at the Annual General Meeting, payment will be made on 11 May 2005 to shareholders on the Register of Members at the close of business on 15 April 2005 at the rate of 4.50p per Ordinary Share. Further details are provided in Note 6 on page 22.

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%)
Prudential plc – 176,000 (14.9%);
Ecclesiastical Insurance Office plc – 134,690 (11.4%);
F&C Asset Management 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.

Sir John Banham and Sir Bob Reid, having each held office for more than nine years, are subject to annual re-election under the provisions of the Combined Code, and accordingly each retires by rotation and offers himself for re-election. The Board considers Sir John Banham and Sir Bob Reid to be independent, notwithstanding their length of service, and continues to be of the view that their extensive experience and knowledge is a great benefit to the Board.

Sir Bob Reid attained 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 Chairman has confirmed that, since the year end, the performances of Sir John Banham and Sir Bob Reid have been subject to a formal evaluation, and that each continues to be effective in, and to demonstrate commitment to, his role.

Biographical details of the Directors are on page 37.

The current Directors and their beneficial interests in the share capital of the Company as at 31 January 2005 and 2004 are listed below:

	Ordinary Shares of 25p 2005	2004
Sir John Banham	2,000	2,000
R. A. Barfield	2,183	2,120
Sir Bob Reid	500	500
P. J. Scott Plummer	1,000	1,000
H. A. Stevenson	25,000	25,000

Since the year end, Mr Barfield has increased his beneficial holding to 2,204 Ordinary Shares.

Directors' Report

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

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

Management Contract and Management Fee

The management contract with RCM (UK) Limited ('RCM') provides for a fee of 0.35% per annum (2004 – 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 (2004 – 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. During the year, the committee met the Managers to review the current investment framework, including the Trust's performance, marketing activity and total expense ratio.

The committee also reviewed the terms of the management contract and considered the level of the management fee, which it found to be appropriate. 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 AG or its subsidiaries that may be held by the Company.

The Company has entered into an annual agreement with Allianz Global Investors to operate the Investment Trust Savings Scheme. The cost to the Company for the year ending 31 January 2005 is £172,426 excluding VAT (2004 – £152,424 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 Shares held			
	Number		%		000's		%	
	2005	2004	2005	2004	2005	2004	2005	2004
Private holders*	9,124	9,761	63.7	62.6	31,247	32,515	30.6	31.9
Nominees	4,574	5,073	31.9	32.5	65,376	63,331	64.0	62.0
Insurance Companies	25	28	0.2	0.1	398	553	0.4	0.5
Other holders	439	547	3.1	3.5	4,038	4,456	4.0	4.4
Pension Funds	7	8	0.0	0.1	35	98	0.0	0.1
Investment Trusts and Funds	163	182	1.1	1.2	1,009	1,150	1.0	1.1
	14,332	15,599	100.0	100.0	102,103	102,103	100.0	100.0

*Including PEP, ISA and Savings Plan Nominees.

Based on an analysis of the Ordinary Share register at 1 April 2005 (2004 – 29 March).

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 £416 million). The rules of the UK Listing Authority ('Listing Rules') limit the price which may be paid by the Company to 105% of the average middle-market quotation for an Ordinary Share on the five 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. Overall, this proposed share buy-back authority, if used, should help to reduce the discount to net asset value at which the Company's shares currently trade.

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.

The Company's Articles of Association permit the Company to redeem or purchase its own shares out of capital profits. Under the Listing Rules, 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, provided that there is no change in the issued share capital between the date of this report and the Annual General Meeting to be held on 10 May 2005.

The authority will last until the Annual General Meeting of the Company to be held in 2006 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 five years from the date of renewal, if not previously revoked or varied.

A resolution was passed at the Annual General Meeting held on 11 May 2004 to authorise the Directors to allot the unissued Ordinary Share capital for cash. The authority is renewable annually and expires at the conclusion of the Annual General Meeting in 2005. A Special Resolution is therefore proposed under special business at the forthcoming Annual General Meeting to renew this authority for a further year.

The power to allot new Ordinary Shares for cash, other than pro rata to existing shareholders, is limited to the aggregate nominal amount of £1,273,746 Ordinary Share capital, being approximately 4.99 per cent of the issued Ordinary Share capital of the Company as at the date of this report, provided that there is no change in the issued share capital between the date of this report and the Annual General Meeting to be held on 10 May 2005.

Whilst it is anticipated that allotments under this authority will normally be to the Allianz Global Investors 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 the Auditors' remuneration will also be proposed at the Annual General Meeting.

By Order of the Board
P. W. I. Ingram
Deputy Secretary

5 April 2005

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 10 May 2005 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 2005 together with the Auditors' Report thereon.

2 To declare a final dividend of 4.50p per Ordinary Share.

3 To re-elect Sir John Banham as a Director.

4 To re-elect Sir Bob Reid as a Director, special notice having been received of the intention to propose his re-election.

5 To approve the Directors' Remuneration Report.

6 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.

7 To authorise the Directors to determine the remuneration of the Auditors.

Special Business

Resolution 9 will be proposed as an Ordinary Resolution and Resolutions 8 and 10 as Special Resolutions:

8 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 five 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 2006 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.

9 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

10 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 five 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 pursuance of such offer or agreement as if that power had not expired.

155 Bishopgate,
London EC2M 3AD
5 April 2005

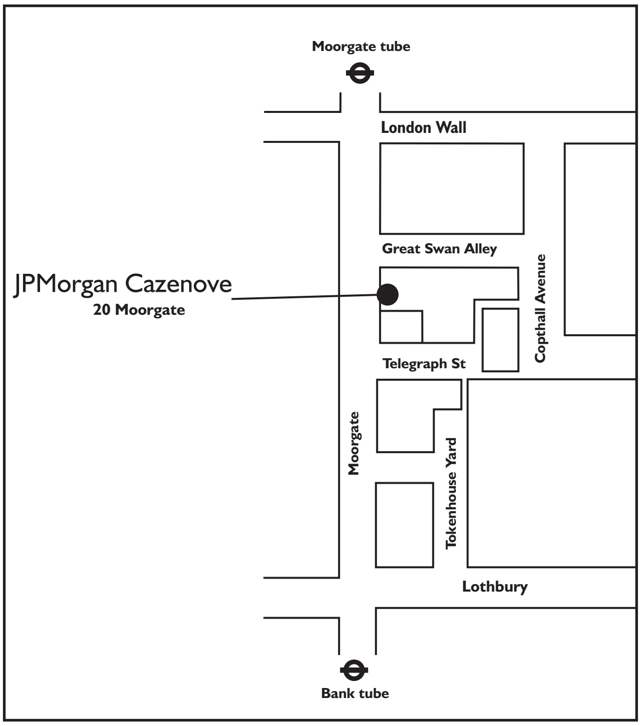
By Order of the Board
P. W. I. Ingram
Deputy Secretary

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 8 May 2005 ('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.

Annual General Meeting Venue



Form of Proxy and Voting Direction Form

for Savings Scheme Investors – see D below

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 Global Investors Investment Trust Savings Scheme ('Savings Scheme Investors') and/or Allianz Global Investors Investment 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 this form 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 on the Company's Register of Members.

E PEP and/or ISA Investors

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 this form 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 on the Company's Register of Members.

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 Investors. 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 in part C 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 Investors, 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 Merchants Trust PLC hereby appoint the Chairman of the Meeting or

Title and Surname (of 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 10 May 2005 at 12.00 noon and at any adjournment.

C Ordinary Business

		For	Against	Abstain
1	To receive the Report and Accounts	☐	☐	☐
2	To declare a final dividend	☐	☐	☐
3	To re-elect Sir John Banham as a Director	☐	☐	☐
4	To re-elect Sir Bob Reid as a Director	☐	☐	☐
5	To approve the Directors' Remuneration Report	☐	☐	☐
6	To re-appoint PricewaterhouseCoopers LLP as Auditors	☐	☐	☐
7	To authorise the Directors to determine the remuneration of the Auditors	☐	☐	☐
	Special Business			
8	To authorise the Company to make market purchases of its own Ordinary Shares	☐	☐	☐
9	To renew the Directors' authority to allot shares	☐	☐	☐
10	To renew the Directors' authority to allot shares for cash	☐	☐	☐

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

D Savings Scheme Investors only *(please tick)* ☐

E PEP and/or ISA Investors 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

First fold

Second fold

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