

THE MERCHANTS TRUST PLC

**ANNOUNCEMENT OF PRELIMINARY RESULTS
For the year ended 31 January 2008**

Highlights

- Net dividends are 21.6p per share in 2007/08, an increase of 8.0%, the twenty-sixth consecutive annual increase.
- Ordinary shares yield 5.5% at 382p, compared with 4.1% on the FTSE 100 Index at the close of business on 17 March 2008.
- Total return was -9.6%, compared with -8.3% for the FTSE 350 Higher Yield Total Return Index and -1.9% for the FTSE 100 Total Return index. Performance of the underlying portfolio exceeded that of the Higher Yield Index by 1.7%* but the Net Asset Value was adversely affected by gearing over the period.
- The Net Asset Value per share fell by 13.3% compared with a fall of 12.1% in the FTSE 350 Higher Yield Price Index and 5.2% in the FTSE 100 Price Index.

Net Asset Value

The Net Asset Value per ordinary share at 31 January 2008 was 492.3p compared with 567.5p at 31 January 2007, a decrease of 13.3%. This compares with a decrease of 12.1% recorded by the FTSE 350 Higher Yield Price Index and one of 5.2% recorded by the FTSE 100 Price Index. The performance of the underlying portfolio exceeded the return on the FTSE 350 Higher Yield Index by 1.7%*. In a falling market, however, the net asset value per share return was adversely impacted by the Trust's long term gearing.

Ordinary Dividend

The Board has declared a final dividend of 5.4p per share, payable on 14 May 2008 to shareholders on the register at the close of business on 11 April 2008. This gives a total of 21.6p for the year ended 31 January 2008, an increase of 8.0% when compared with the total distribution of 20.0p paid in respect of the previous year. The Trust has now recorded an unbroken record of dividend increases over the last twenty-six years.

Total Return and Earnings

The Net Asset Value total return, reflecting both the decrease in capital values and increase in dividends paid to Ordinary Shareholders in the last financial year, was -9.6%. The equivalent return recorded by the FTSE 350 Higher Yield Total Return Index and the FTSE 100 Total Return Index was -8.3% and -1.9% respectively. Net revenue earnings per share rose from 22.17p to 22.86p or by 3.1%. Earnings in the financial year included £0.5m from special dividends; in the previous financial year special dividends totalled £1.3m.

Share Buy Backs

During the financial year 946,413 shares were bought back for cancellation, representing 0.91% of the Trust's shares in issue at the beginning of the year. The Board will recommend to shareholders that the Company takes renewed powers to buy back its Ordinary Shares. Full details will be sent to shareholders in the forthcoming Annual Financial Report.

Market and Portfolio Background

During the year the stock market became increasingly volatile as the disruption in credit markets spread to other asset classes. Volatility of individual sectors was even higher than at the level of the market as a whole. Higher yielding shares, which generally comprise Merchants' portfolio, performed particularly poorly as higher dividend yields provided little support. This area of the market is also heavily biased towards financials (which were very weak) and has no mining shares (which rose significantly). Another notable feature was the underperformance of medium sized companies often more exposed to the domestic economy.

Prospects

Over the coming months the disruption in the banking and credit markets is likely to shape developments in the wider economy. US growth is slowing rapidly and the risks of a significant economic slowdown in the UK have increased. Share prices are likely to remain volatile until a measure of confidence returns to the financial markets.

Sir Bob Reid

Sir Bob Reid, who joined the Board in January 1995, will be retiring from the Board after the AGM in May this year. Sir Bob has made an exceptional contribution to the Trust over many years, bringing great breadth of experience in the commercial and financial world to our discussions. We shall miss him enormously.

Plans are well advanced to enable us to appoint at least one new director in 2008.

Annual General Meeting

The Annual General Meeting of the Company will be held on Tuesday 13 May 2008 at 12.00 noon.

Hugh Stevenson
Chairman

155 Bishopsgate
London EC2M 3AD

* Source: Wilshire

For further information, please contact:
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Unaudited preliminary results for the year ended 31 January 2008 were approved for immediate release as undernoted:

RESULTS

INCOME STATEMENT

for the year ended 31 January 2008

	2008		
	Revenue Return (£000s)	Capital Return (£000s)	Total Return (£000s) (Note 3)
Net losses on investments at fair value	-	(72,106)	(72,106)
Income	28,495	-	28,495
Investment management fee	(899)	(1,670)	(2,569)
Administration expenses	(587)	(2)	(589)
Net return before finance costs and taxation	27,009	(73,778)	(46,769)
Finance costs: interest payable and similar charges	(3,342)	(6,117)	(9,459)
Net return on ordinary activities before taxation	23,667	(79,895)	(56,228)
Taxation	(18)	-	(18)
Net return attributable to Ordinary Shareholders	23,649	(79,895)	(56,246)
Return per Ordinary Share (Note 1) (basic and diluted)	22.86p	(77.23)p	(54.37)p

	2008 (£000s)
BALANCE SHEET as at 31 January 2008	
Investments held at fair value through profit or loss	608,451
Net Current Assets	11,150
	619,601
Creditors : Amounts falling due after more than one year	(113,414)
Total Net Assets	506,187
Called up Share Capital	25,703
Share Premium Account	7,527
Capital Redemption Reserve	293
Capital Reserves : Realised	431,359
: Unrealised	16,645
Revenue Reserve	24,660
Equity Shareholders' Funds	506,187
Net Asset Value per Ordinary Share (Note 2)	492.3p

Unaudited preliminary results for the year ended 31 January 2007 were approved for immediate release as undernoted:

RESULTS

INCOME STATEMENT

for the year ended 31 January 2007

	2007		
	Revenue Return (£000s)	Capital Return (£000s)	Total Return (£000s) (Note 3)
Net gains on investments at fair value	-	71,441	71,441
Income	27,750	-	27,750
Investment management fee	(961)	(1,786)	(2,747)
Administration expenses	(488)	(3)	(491)
Net return before finance costs and taxation	26,301	69,652	95,953
Finance costs: interest payable and similar charges	(3,447)	(6,321)	(9,768)
Net return on ordinary activities before taxation	22,854	63,331	86,185
Taxation	-	-	-
Net return attributable to Ordinary Shareholders	22,854	63,331	86,185
Return per Ordinary Share (Note 1) (basic and diluted)	22.17p	61.44p	83.61p

	2007 (£000s)
BALANCE SHEET as at 31 January 2007	
Investments held at fair value through profit or loss	695,770
Net Current Assets	6,613
	<u>702,383</u>
Creditors : Amounts falling due after more than one year	(113,548)
Total Net Assets	<u>588,835</u>
Called up Share Capital	25,940
Share Premium Account	7,527
Capital Redemption Reserve	56
Capital Reserves : Realised	401,296
: Unrealised	131,247
Revenue Reserve	22,769
Equity Shareholders' Funds	<u>588,835</u>
Net Asset Value per Ordinary Share (Note 2)	567.5p

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 31 January 2008

	Called up Share Capital	Share Premium Account	Capital Redemption Reserve	Capital Reserve Realised	Capital Reserve Unrealised	Revenue Reserve	Total
	(£000s)	(£000s)	(£000s)	(£000s)	(£000s)	(£000s)	(£000s)
Net Assets at 31 January 2006	25,526	40	56	351,108	118,104	19,879	514,713
Revenue Return	-	-	-	-	-	22,854	22,854
Dividends on Ordinary Shares	-	-	-	-	-	(19,964)	(19,964)
Capital Return	-	-	-	50,188	13,143	-	63,331
Shares issued during the year	414	7,487	-	-	-	-	7,901
Net Assets at 31 January 2007	25,940	7,527	56	401,296	131,247	22,769	588,835
Net Assets at 31 January 2007	25,940	7,527	56	401,296	131,247	22,769	588,835
Revenue Return	-	-	-	-	-	23,649	23,649
Dividends on Ordinary Shares	-	-	-	-	-	(21,758)	(21,758)
Capital Return	-	-	-	34,707	(114,602)	-	(79,895)
Shares repurchased during the year	(237)	-	237	(4,644)	-	-	(4,644)
Net Assets at 31 January 2008	25,703	7,527	293	431,359	16,645	24,660	506,187

CASH FLOW STATEMENT

For the years ended 31 January 2008 and 2007

	2008 (£000s)	2008 (£000s)	2007 (£000s)
Net cash inflow from operating activities		33,678	28,262
Servicing of Finance			
Interest paid	(9,553)		(9,530)
Dividends on Preference Stock	<u>(43)</u>		<u>(43)</u>
Net cash outflow from servicing of finance		(9,596)	(9,573)
Investing Activities			
Purchases of fixed asset investments	(188,448)		(236,518)
Sales of fixed asset investments	<u>189,710</u>		<u>238,513</u>
Net cash inflow from investing activities		1,262	1,995
Equity dividends paid		<u>(21,758)</u>	<u>(19,964)</u>
Net cash inflow before financing		3,586	720
Financing			
Purchase of Ordinary shares for cancellation		(4,644)	-
Cash transferred from Allianz Dresdner Income Growth Investment Trust Plc in connection with the issue of Ordinary Shares		-	908
Increase in cash		<u>(1,058)</u>	<u>1,628</u>

Note 1

The Returns per Ordinary Share have been calculated using a weighted average number of shares in issue during the year of 103,451,633 shares (2007 - 103,083,890).

Note 2

The net asset value is based on 102,813,464 Ordinary Shares in issue at the year-end (2007 - 103,759,877).

Note 3

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

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

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

Included in the cost of investments are transaction costs on purchases amounting to £1,176,671 (2007: £1,502,518) and transaction costs on sales amounting to £291,295 (2007: £369,855).

Note 4

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

	Year to 31 January 2008 £'000s	Year to 31 January 2007 £'000s
Third Interim dividend 5.1p paid 16 February 2007 (2006 - 4.8p)	5,292	4,901
Final dividend 5.1p paid 16 May 2007 (2006 - 4.8p)	5,292	4,901
First Interim dividend 5.4p paid 16 August 2007 (2006 - 4.9p)	5,597	5,084
Second Interim dividend - 5.4p paid 15 November 2007 (2006 - 4.9p)	5,577	5,084
Unpaid dividends from prior years	-	(6)
	21,758	19,964

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

	Year to 31 January 2008 £'000s	Year to 31 January 2007 £'000s
Third Interim dividend 5.4p paid 13 February 2008 (2007 - 5.1p)	5,552	5,292
Final proposed dividend 5.4p payable 14 May 2008 (2007 - 5.1p)	5,552	5,292
	11,104	10,584

The total cash cost of the proposed final dividend 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 cancellations of shares by the Company settled subsequent to the year end.

Note 5

The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31 January 2008 or 31 January 2007. The financial information for the year ended 31 January 2007 has been extracted from the audited statutory accounts for that year. The auditors report on those accounts was unqualified and did not contain a statement under either Section 237(2) or Section 237(3) of the Companies Act 1985. The statutory accounts for the year ended 31 January 2008 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

Note 6

The annual report will be sent to shareholders in mid April 2008 and will be available to members of the public on the website www.merchantstrust.co.uk or from the Company's registered office at 155 Bishopsgate, London EC2M 3AD.