

THE MERCHANTS TRUST PLC

**ANNOUNCEMENT OF PRELIMINARY RESULTS
For the year ended 31 January 2007**

Highlights

- Total return was 16.4%, compared with 11.3% for the FTSE 100 Total Return index.
- The Net Asset Value per share rose by 12.6% compared with a rise of 7.7% in the FTSE 100 Price Index.
- Net dividends were 20.0p per share in 2006/07, an increase of 5.8%, the twenty-fifth consecutive annual increase.
- Ordinary shares yield 3.9% at 500p, compared with 3.1% on the FTSE 100 Index at the close of business on 15 March 2007.

Net Asset Value

The Net Asset Value per ordinary share at 31 January 2007 was 567.5p compared with 504.1p at 31 January 2006, an increase of 12.6%. This compares with an increase of 7.7% recorded by the FTSE 100 Price Index and one of 6.7% recorded by the FTSE 350 Higher Yield Price Index.

Ordinary Dividend

The Board has declared a final dividend of 5.1p per share, payable on 16 May 2007 to shareholders on the register at the close of business on 13 April 2007. This gives a total of 20.0p for the year ended 31 January 2007, an increase of 5.8% when compared with the total distribution of 18.9p paid in respect of the previous year. The Trust has now recorded an unbroken record of dividend increases over the last twenty-five years.

Total Return and Earnings

The Net Asset Value total return, reflecting both the increase in capital values and dividends paid to Ordinary Shareholders in the last financial year, was 16.4%. The equivalent return recorded by the FTSE 100 Total Return Index was 11.3%. Net earnings per share rose from 19.44p to 22.17p or by 14.0%.

Share Buy Backs

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 Report and Accounts.

Prospects

Notwithstanding recent market volatility, the corporate sector is continuing to perform well and the outlook for profits and dividends growth, at least in the short term, is promising. However, the UK economy is likely to be sensitive to any further interest rate rises. Market valuations in aggregate are reasonable although dividend yields are less supportive than a year ago, especially for medium sized companies. As long as bond yields and credit spreads remain relatively low, corporate activity and share buy-backs should provide further support to the equity market.

Sir John Banham

After over 14 years as a Director of the Trust, Sir John Banham will be retiring from the Board after the AGM in May this year. During his career Sir John has been the Chairman of a number of FTSE 100 companies, Controller of the Audit Commission and Director General of the Confederation of British Industry. He has been able to bring a unique insight to our deliberations over the years and we will miss his contribution and experience enormously.

Annual General Meeting

The Annual General Meeting of the Company will be held on Monday 14 May 2007 at 12.00 noon.

Hugh Stevenson
Chairman

155 Bishopsgate
London EC2M 3AD

For further information, please contact:

RCM (UK) Ltd
Simon White
Head of Investment Trusts
RCM (UK) Limited
Tel: 020 7065 1539

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

RESULTS

INCOME STATEMENT

for the year ended 31 January 2006

	2006		
	Revenue Return (£000s)	Capital Return (£000s)	Total Return (£000s) (Note 3)
Net gains on investments at fair value	-	96,792	96,792
Income	24,714	-	24,714
Investment management fee	(824)	(1,530)	(2,354)
Administration expenses	(622)	(6)	(628)
Net return before finance costs and taxation	23,268	95,256	118,524
Finance costs: interest payable and similar charges	(3,414)	(6,219)	(9,633)
Net return on ordinary activities before taxation	19,854	89,037	108,891
Taxation	-	-	-
Net return attributable to Ordinary Shareholders	19,854	89,037	108,891
Return per Ordinary Share (Note 1) (basic and diluted)	19.44p	87.20p	106.64p

	2006 (£000s)
BALANCE SHEET as at 31 January 2006	
Investments held at fair value through profit or loss	621,948
Net Current Assets	6,118
	<u>628,066</u>
Creditors : Amounts falling due after more than one year	(113,353)
Total Net Assets	<u>514,713</u>
Called up Share Capital	25,526
Share Premium Account	40
Capital Redemption Reserve	56
Capital Reserves : Realised	351,108
: Unrealised	118,104
Revenue Reserve	19,879
Equity Shareholders' Funds	<u>514,713</u>
Net asset value per Ordinary Share (Note 2)	504.1p

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 31 January 2007

	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 2005 (restated)	25,526	40	56	322,240	57,963	18,686	424,511
Adjustment to record investments at bid value	-	-	-	-	(28)	-	(28)
Revenue Return	-	-	-	-	-	19,854	19,854
Dividends on Ordinary Shares	-	-	-	-	-	(18,661)	(18,661)
Capital Return	-	-	-	28,868	60,169	-	89,037
Net Assets at 31 January 2006	25,526	40	56	351,108	118,104	19,879	514,713

CASH FLOW STATEMENT

For the years ended 31 January 2007 and 2006

	2007 (£000s)	2007 (£000s)	2006 (£000s)
Net cash inflow from operating activities		28,262	22,806
Servicing of Finance			
Interest paid	(9,530)		(9,557)
Dividends on Preference Stock	<u>(43)</u>		<u>(64)</u>
Net cash outflow from servicing of finance		(9,573)	(9,621)
Investing Activities			
Purchases of fixed asset investments	(236,518)		(139,141)
Sales of fixed asset investments	<u>238,513</u>		<u>146,799</u>
Net cash inflow from investing activities		1,995	7,658
Equity dividends paid		<u>(19,964)</u>	<u>(18,661)</u>
Net cash inflow before financing		720	2,182
Financing			
Cash transferred from Allianz Dresdner Income Growth Investment Trust Plc in relation to the issue of 1,655,941 shares		908	-
Increase in cash		<u>1,628</u>	<u>2,182</u>

During the year, investments and cash amounting to £7m and £0.9m respectively were transferred into the Company following the reconstruction of Allianz Dresdner Income Growth Investment Trust plc, as consideration for 1,655,941 new Ordinary Shares issued at 477.1p.

Note 1

The Returns per Ordinary Share have been calculated using a weighted average number of shares in issue during the year of 103,083,890 shares (2006 - 102,103,936).

Note 2

The net asset value is based on 103,759,877 Ordinary Shares in issue at the year-end (2006 - 102,103,936).

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 £1,502,518 (2006: £888,492) and transaction costs on sales amounting to £369,855 (2006: £302,257).

Note 4

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

	Year to 31 January 2007 £'000s	Year to 31 January 2006 £'000s
Third Interim dividend 4.8p paid 17 February 2006 (2005 - 4.5p)	4,901	4,595
Final dividend 4.8p paid 10 May 2006 (2005 - 4.5p)	4,901	4,594
First Interim dividend 4.9p paid 17 August 2006 - 4.6p)	5,084	4,697
Second Interim dividend - 4.9p paid 14 November 2006 (2005 - 4.7p)	5,084	4,799
Unpaid dividends from prior years	(6)	(24)
	<hr/> 19,964	<hr/> 18,661 <hr/>

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

	Year to 31 January 2007 £'000s	Year to 31 January 2006 £'000s
Third Interim dividend 5.1p payable 16 February 2007 (2006 - 4.8p)	5,292	4,901
Final proposed dividend 5.1p payable 16 May 2007 (2006 - 4.8p)	5,292	4,901
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	10,584	9,802

The total cash cost of the proposed final dividend is based on the number of shares in issue at the period 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 2007 or 31 January 2006. The financial information for the year ended 31 January 2006 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 2007 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 2007 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.