

## **THE MERCHANTS TRUST PLC**

### **Half yearly financial report For the six months ended 31 July 2007**

#### **Highlights**

- Dividends of 10.8 p per share declared for the first six months, up 10.2 %.
- Net Asset Value of 570.1p per share, up 0.5 % compared with 2.53 % rise in the FTSE 100 Index.
- Historic dividend yield of 4.2 % net at 493 p per share on 18 September 2007.

#### **Interim management report**

##### **Earnings per share**

In the first six months of the current year, earnings have risen by 7.8 % to 12.78 p per share. As in previous years, we expect dividend receipts to have been weighted towards the first half of the current financial year.

##### **Interim dividends**

The Board has declared a second quarterly dividend of 5.4 p per share, payable on 15 November 2007 to shareholders on the register at close of business on 19 October 2007. The total distribution declared for the first half of 2006/7 is 10.8 p net, an increase of 10.2% when compared with the same period last year.

##### **Net asset value**

The net asset value per ordinary share was 570.1p at 31 July 2007. This represents an increase of 0.5 % when compared with the equivalent figure at 31 January 2007 - the end of the last financial year. Before taking account of the impact of the Trust's borrowings, the underlying rise in the Trust's total assets, excluding expenses allocated to capital, was 1.1%. Over the same period the FTSE 100 Index rose by 2.53%, whilst the FTSE 350 Higher Yield Index rose by 0.24% (Capital Return).

##### **Material events and transactions**

In the six month period ended 31 July 2007 the following material events and transactions have taken place.

At the Annual General Meeting of the Company held on 14 May 2007, all the resolutions put to shareholders were passed. At the conclusion of the AGM, Sir John Banham retired from the Board.

The third quarterly dividend of 5.1p per share was paid on 16 February to shareholders on the register on 26 January 2007.

A final dividend of 5.1p per share was paid on 16 May 2007 to shareholders on the register on 13 April 2007. The total payment for the year ended 31 January 2007 was 20.0p.

There were no related party transactions in the period.

Since the period end, the first quarterly dividend (for the year ending 31 January 2008), of 5.4p per share was paid on 16 August 2007 to shareholders on the register on 20 July 2007.

## **Share buy backs**

For the first time since 2001, and in response to a widening of the discount of the share price to net asset value, 413,000 shares have been bought back for cancellation (at an average price of 517.5p) during the period. Further buy backs totalling 62,000 shares have taken place since the period end.

## **Responsibility statement**

The Directors confirm to the best of their knowledge that:

- the condensed set of financial statements contained within the half yearly financial report has been prepared in accordance with the Accounting Standards Board's Statement 'Half-Yearly Financial Reports'; and
- the interim management report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7 R, of important events that have occurred during the first six months of the financial year, and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- the interim management report includes a fair review of the information concerning related parties transactions as required by Disclosure and Transparency Rule 4.2.8 R.

The half yearly financial report was approved by the Board on 18 September 2007 and the above responsibility statement was signed on its behalf by the Chairman.

## **Prospects**

Interest rate increases earlier in the year are likely to weigh on UK consumer spending as mortgage costs rise. In addition, a disruption in the availability of credit, if sustained, is likely to slow economic growth and we continue to monitor the US economy closely. However UK unemployment is low, business and consumer confidence remains high and global demand should provide support. On balance, we remain broadly optimistic about the prospects for corporate profits and dividend growth.

Valuations in the FTSE 100 are not high by historic standards, with many stocks offering high and growing dividend yields. Tightening credit markets are likely to reduce the amount of merger and acquisition activity from the recent high level but the portfolio's emphasis on the largest UK companies should provide some protection since the valuations of these companies appear attractive even without the benefits of any potential mergers or acquisitions.

We will seek to take advantage of market volatility if it provides opportunities to buy into companies with strong franchises at attractive long term valuations.

Hugh Stevenson  
Chairman

155 Bishopsgate  
London EC2M 3AD

**THE MERCHANTS TRUST PLC****Summary of Unaudited Results****INCOME STATEMENT**

For the six months ended 31 July 2007

	Revenue £'000s	2007 Capital £'000s	Total Return £'000s
			(Note 2)
Net gains on investments at fair value	-	3,849	3,849
Income from investments	15,560	-	15,560
Other income	228	-	228
Investment management fee	(517)	(961)	(1,478)
Administration expenses	(335)	(1)	(336)
<b>Net return before finance costs and taxation</b>	<b>14,936</b>	<b>2,887</b>	<b>17,823</b>
Finance costs: interest payable and similar charges	(1,681)	(3,081)	(4,762)
<b>Net return on ordinary activities before taxation</b>	<b>13,255</b>	<b>(194)</b>	<b>13,061</b>
Taxation	-	-	-
<b>Net return attributable to Ordinary Shareholders</b>	<b>13,255</b>	<b>(194)</b>	<b>13,061</b>
<b>Return per Ordinary Share (Note 1)</b> (basic and diluted)	12.78p	(0.19)p	12.59p

<b>BALANCE SHEET</b> as at 31 July 2007	2007 £'000s
Investments held at fair value through profit or loss	696,876
Net current assets	5,808
<b>Total Assets Less Current Liabilities</b>	<b>702,684</b>
Creditors - amounts falling due after one year	(113,513)
<b>Total Net Assets</b>	<b>589,171</b>
Called up Share Capital	25,837
Share Premium Account	7,527
Capital Redemption Reserve	159
Capital Reserves: Realised	420,712
Unrealised	109,496
Revenue Reserve	25,440
<b>Equity Shareholders' Funds</b>	<b>589,171</b>
<b>Net Asset Value per Ordinary Share</b>	<b>570.1p</b>

The net asset value is based on 103,346,877 Ordinary Shares in issue at 31 July 2007.

## **THE MERCHANTS TRUST PLC**

### **Summary of Unaudited Results**

#### **INCOME STATEMENT**

For the six months ended 31 July 2006

	<b>Revenue £'000s</b>	<b>2006 Capital £'000s</b>	<b>Total Return £'000s</b>
			(Note 2)
Net gains on investments at fair value	-	27,002	27,002
Income from investments	14,446	-	14,446
Other income	142	-	142
Investment management fee	(468)	(869)	(1,337)
Administration expenses	(291)	(3)	(294)
<b>Net return before finance costs and taxation</b>	<b>13,829</b>	<b>26,130</b>	<b>39,959</b>
Finance costs: interest payable and similar charges	(1,699)	(3,116)	(4,815)
<b>Net return on ordinary activities before taxation</b>	<b>12,130</b>	<b>23,014</b>	<b>35,144</b>
Taxation	-	-	-
<b>Net return attributable to Ordinary Shareholders</b>	<b>12,130</b>	<b>23,014</b>	<b>35,144</b>
<b>Return per Ordinary Share (Note 1)</b> (basic and diluted)	11.85p	22.47p	34.32p

<b>BALANCE SHEET</b> as at 31 July 2006	<b>2006 £'000s</b>
Investments held at fair value through profit or loss	662,034
Net current liabilities	(697)
<b>Total Assets Less Current Liabilities</b>	<b>661,337</b>
Creditors - amounts falling due after one year	(113,375)
<b>Total Net Assets</b>	<b>547,962</b>
Called up Share Capital	25,940
Share Premium Account	7,527
Capital Redemption Reserve	56
Capital Reserves: Realised	376,269
Unrealised	115,958
Revenue Reserve	22,212
<b>Equity Shareholders' Funds</b>	<b>547,962</b>
<b>Net Asset Value per Ordinary Share</b>	<b>528.1p</b>

The net asset value is based on 103,759,877 Ordinary Shares in issue at 31 July 2006.

## **THE MERCHANTS TRUST PLC**

### **INCOME STATEMENT**

for the year ended 31 January 2007

	<b>Revenue £'000s</b>	<b>2007 Capital £'000s</b>	<b>Total Return £'000s</b>
			(Note 2)
Net gains on investments at fair value	-	71,441	71,441
Income from investments	27,342	-	27,342
Other income	409	-	409
Investment management fee	(962)	(1,786)	(2,748)
Administration expenses	(488)	(3)	(491)
<b>Net return before finance costs and taxation</b>	<b>26,301</b>	<b>69,652</b>	<b>95,953</b>
Finance costs: interest payable and similar charges	(3,447)	(6,321)	(9,768)
<b>Net return on ordinary activities before taxation</b>	<b>22,854</b>	<b>63,331</b>	<b>86,185</b>
Taxation	-	-	-
<b>Net return attributable to Ordinary Shareholders</b>	<b>22,854</b>	<b>63,331</b>	<b>86,185</b>
<b>Return per Ordinary Share (Note 1)</b> (basic and diluted)	22.17p	61.44p	83.61p

<b>BALANCE SHEET</b> as at 31 January 2007	<b>2007 £'000s</b>
Investments held at fair value through profit or loss	695,770
Net current assets	6,613
<b>Total Assets Less Current Liabilities</b>	<b>702,383</b>
Creditors - amounts falling due after one year	(113,548)
<b>Total Net Assets</b>	<b>588,835</b>
Called up Share Capital	25,940
Share Premium Account	7,527
Capital Redemption Reserve	56
Capital Reserves: Realised	401,295
Unrealised	131,248
Revenue Reserve	22,769
<b>Equity Shareholders' Funds</b>	<b>588,835</b>
<b>Net Asset Value per Ordinary Share</b>	<b>567.5p</b>

The net asset value is based on 103,759,877 Ordinary Shares in issue at 31 January 2007.

## **THE MERCHANTS TRUST PLC**

### **RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	<b>Called Up Share Capital £'000s</b>	<b>Share Premium Account £'000s</b>	<b>Capital Redemption Reserve £'000s</b>	<b>Capital Reserve Realised £'000s</b>	<b>Capital Reserve Unrealised £'000s</b>	<b>Revenue Reserve £'000s</b>	<b>Total £'000s</b>
<b>Six months ended 31 July 2007</b>							
Net Assets at 31 January 2007	25,940	7,527	56	401,295	131,248	22,769	588,835
Revenue Return	-	-	-	-	-	13,255	13,255
Dividends on Ordinary Shares	-	-	-	-	-	(10,584)	(10,584)
Capital Return	-	-	-	21,558	(21,752)	-	(194)
Shares repurchased during the period	(103)	-	103	(2,141)	-	-	(2,141)
Net Assets at 31 July 2007	<u>25,837</u>	<u>7,527</u>	<u>159</u>	<u>420,712</u>	<u>109,496</u>	<u>25,440</u>	<u>589,171</u>
<b>Six months ended 31 July 2006</b>							
Net Assets at 31 January 2006	25,526	40	56	351,107	118,105	19,879	514,713
Revenue Return	-	-	-	-	-	12,130	12,130
Dividends on Ordinary Shares	-	-	-	-	-	(9,797)	(9,797)
Capital Return	-	-	-	25,161	(2,147)	-	23,014
Shares issued during the period	414	7,487	-	1	-	-	7,902
Net Assets at 31 July 2006	<u>25,940</u>	<u>7,527</u>	<u>56</u>	<u>376,269</u>	<u>115,958</u>	<u>22,212</u>	<u>547,962</u>
<b>Year ended 31 January 2007</b>							
Net Assets at 31 January 2006	25,526	40	56	351,107	118,105	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	<u>25,940</u>	<u>7,527</u>	<u>56</u>	<u>401,295</u>	<u>131,248</u>	<u>22,769</u>	<u>588,835</u>

## THE MERCHANTS TRUST PLC

### CASH FLOW STATEMENT

for the six months ended 31 July 2007 and comparative periods

	Six Months to 31 July 2007 £'000s	Six Months to 31 July 2006 £'000s	Year to 31 January 2007 £'000s
<b>Net cash inflow from operating activities</b>	13,820	11,789	28,262
<b>Servicing of finance</b>			
Interest paid	(4,793)	(4,780)	(9,530)
Dividends paid on Preference Stock	(21)	(21)	(43)
<b>Net cash outflow on servicing of finance</b>	(4,814)	(4,801)	(9,573)
<b>Financial investment</b>			
Purchase of fixed asset investments	(99,124)	(128,364)	(236,519)
Sale of fixed asset investments	99,873	124,557	238,514
<b>Net cash inflow (outflow) from financial investment</b>	749	(3,807)	1,995
<b>Equity dividends paid</b>	(10,584)	(9,797)	(19,964)
<b>Net cash (outflow) inflow before financial investment</b>	(829)	(6,616)	720
<b>Financing</b>			
Purchase of Ordinary Shares for cancellation	(2,144)	-	-
Cash transferred from Allianz Dresdner Income Growth Investment Trust plc in connection with the issue of Ordinary Shares	-	909	908
<b>Net cash (outflow) inflow from financing</b>	(2,144)	909	908
<b>(Decrease) Increase in cash</b>	<u>(2,973)</u>	<u>(5,707)</u>	<u>1,628</u>
<b>Reconciliation of Return on Ordinary Activities before Taxation to Net Cash Flow from Operating Activities</b>			
Revenue before taxation	13,061	35,144	86,185
Add: Finance costs: interest payable and similar charges	4,762	4,815	9,768
Add: Special dividends credited to capital	-	-	4,854
Less: Net gains on investments at fair value	(3,849)	(27,002)	(71,441)
	13,974	12,957	29,366
Increase in debtors	(200)	(500)	(458)
Increase (Decrease) in creditors	46	(668)	(646)
<b>Net cash inflow from operating activities</b>	<u>13,820</u>	<u>11,789</u>	<u>28,262</u>
<b>Reconciliation of net cash flow to movement in net debt</b>			
Net cash (outflow) inflow	(2,973)	(5,707)	1,628
Decrease (Increase) in long term loans	35	(21)	(194)
Movement in net funds	(2,938)	(5,728)	1,434
Net debt brought forward	(106,545)	(107,979)	(107,979)
Net debt carried forward	<u>(109,483)</u>	<u>(113,707)</u>	<u>(106,545)</u>

## **THE MERCHANTS TRUST PLC**

### **TWENTY LARGEST EQUITY HOLDINGS AS AT 31 JULY 2007**

	<b>Valuation</b>	<b>% of</b>	
	<b>£'000s</b>	<b>Total</b>	<b>Principal Activities</b>
		<b>Assets*</b>	
Royal Dutch Shell	58,191	8.28	Oil & Gas Producers
GlaxoSmithKline	54,223	7.72	Pharmaceuticals & Biotechnology
BP	52,946	7.54	Oil & Gas Producers
HSBC	47,894	6.82	Banking
Vodafone	44,657	6.36	Mobile Telecommunications
Royal Bank of Scotland	37,474	5.34	Banking
Barclays	25,477	3.63	Banking
HBOS	21,289	3.03	Banking
Anglo American	19,529	2.78	Mining
Reed Elsevier	18,498	2.63	Media
British American Tobacco	17,349	2.47	Tobacco
Aviva	16,503	2.35	Life Insurance
Scottish & Southern Energy	15,577	2.22	Electricity
Lloyds TSB	15,429	2.20	Banking
BAE Systems	14,567	2.07	Aerospace & Defence
Rexam	13,403	1.91	General Industrials
Rio Tinto	12,794	1.82	Mining
Lonmin	12,425	1.77	Mining
BT	12,080	1.72	Fixed Line Telecommunications
Centrica	12,068	1.72	Gas, Water & Multiutilities
	<u>522,373</u>	<u>74.38</u>	

\* Total Assets include current liabilities

### **PORTFOLIO ANALYSIS AS AT 31 JULY 2007**

	<b>UK</b>	<b>Total</b>
	<b>%</b>	<b>%</b>
Listed equities	99.2	99.2
Net current liabilities	0.8	0.8
Total Assets	<u>100.0</u>	<u>100.0</u>



## **THE MERCHANTS TRUST PLC**

### **NOTES**

#### **Note 1**

The return per Ordinary Share is based on a weighted average number of shares in issue during the period of 103,739,616 shares. (31 July 2006 - 102,396,699 shares; 31 January 2007 – 103,083,890 shares).

#### **Note 2**

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 period.

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 which amounted to £611,882 (31 July 2006 - £866,297; 31 January 2007 - £1,502,518) and transaction costs on sales which amounted to £147,407 (31 July 2006 - £203,769; 31 January 2007 - £369,855).

#### **Note 3**

Investments are designated as held at fair value through profit or loss in accordance with FRS 26 'Financial Instruments : Recognition and Measurement'. Listed investments are valued at bid market prices.

#### **Note 4**

In accordance with FRS 21 'Events after the Balance Sheet Date', the final dividend payable on Ordinary Shares is recognised as a liability when approved by shareholders. Interim dividends are recognised only when paid.

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

	Six months to 31 July 2007 £'000s	Six months to 31 July 2006 £'000s	Year to 31 January 2007 £'000s
Third Interim dividend 4.80p paid 17 February 2006	-	4,901	4,901
Final dividend 4.80p paid 10 May 2006	-	4,901	4,901
First Interim dividend 4.90p paid 17 August 2006	-	-	5,084
Second Interim dividend 4.90p paid 14 November 2006	-	-	5,084
Third Interim dividend 5.10p paid 16 February 2007	5,292	-	-
Final dividend 5.10p paid 16 May 2007	5,292	-	-
Uncollected dividends from prior years	-	(5)	(6)
	<u>10,584</u>	<u>9,797</u>	<u>19,964</u>

## **THE MERCHANTS TRUST PLC**

### **NOTES CONTINUED**

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.

	Six months to 31 July 2007 £'000s	Six months to 31 July 2006 £'000s	Year to 31 January 2007 £'000s
Third Interim dividend 5.10p paid 16 February 2007	-	-	5,292
Final dividend 5.10p paid 16 May 2007	-	-	5,292
First Interim dividend 5.40p paid 16 August 2007 (2006 - 4.90p)	5,603	5,084	-
Second Interim dividend 5.40p payable 15 November 2007 (2006 - 4.90p)	5,581	5,084	-
	<u>11,184</u>	<u>10,168</u>	<u>10,584</u>

The second interim dividend noted above is based on the number of shares at period end. However, the dividend subsequently paid will be based on the number of shares in issue on the record date and will reflect any purchase or cancellations of shares by the Company settled subsequent to the period end.

### **Note 5**

The half yearly report has been neither audited nor reviewed by the Company's auditors. The financial information for the year ended 31 January 2007 has been extracted from the statutory accounts for that year which have been delivered to the Registrar of Companies. The accounting policies and presentation are consistent with those applied in the latest published annual accounts. 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.

In accordance with recently introduced changes to the UK's disclosure requirements for listed companies, the Company is now required to make limited additional and updated disclosures, mainly relating to the first and third quarters of the financial year. These Interim Management Statements will be released via the Regulatory News Service and posted on the Company's website [www.merchantstrust.co.uk](http://www.merchantstrust.co.uk) on or shortly before 19 June and 19 December each year.

This half yearly financial report, which will include a Fund Managers' Report, will be sent to Shareholders shortly and made available to the public at the Registered Office of the Company, 155 Bishopsgate, London, EC2M 3AD.

For further information, please contact:

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