

The Mercantile Investment Trust plc

Annual Report & Accounts for the year ended 31st January 2012



Features

Contents

About the Company

- 1 Financial Highlights
- 2 Chairman's Statement

Investment Review

- 6 Investment Managers' Report
- 10 Summary of Results
- 11 Performance
- 12 Ten Year Financial Record
- 13 Ten Largest Investments
- 14 Portfolio Analyses
- 15 List of Investments

Directors' Report

- 17 Board of Directors
- 19 Directors' Report
- 19 Business Review
- 29 Directors' Remuneration Report

Accounts

- 30 Statement of Directors' Responsibilities
- 31 Independent Auditors' Report
- 32 Income Statement
- 33 Reconciliation of Movements in Shareholders' Funds
- 34 Balance Sheet
- 35 Cash Flow Statement
- 36 Notes to the Accounts

Shareholder Information

- 53 Notice of Meeting
- 56 Glossary of Terms and Definitions
- 57 Information about the Company

Objective

Long term capital growth from a portfolio of UK medium and smaller companies.

Investment Policy

- To emphasise growth from medium and smaller companies. Long term dividend growth at least in line with inflation.
- To use long term gearing to increase potential returns to shareholders. The Company's gearing policy is to operate within a range of 90% to 120% invested.
- To invest no more than 15% of gross assets in other UK listed investment companies (including investment trusts).

Benchmark

The FTSE All-Share Index excluding constituents of the FTSE 100 Index and investment trusts.

Capital Structure

At 31st January 2012 the Company's share capital comprised 98,710,719 ordinary shares of 25p each.

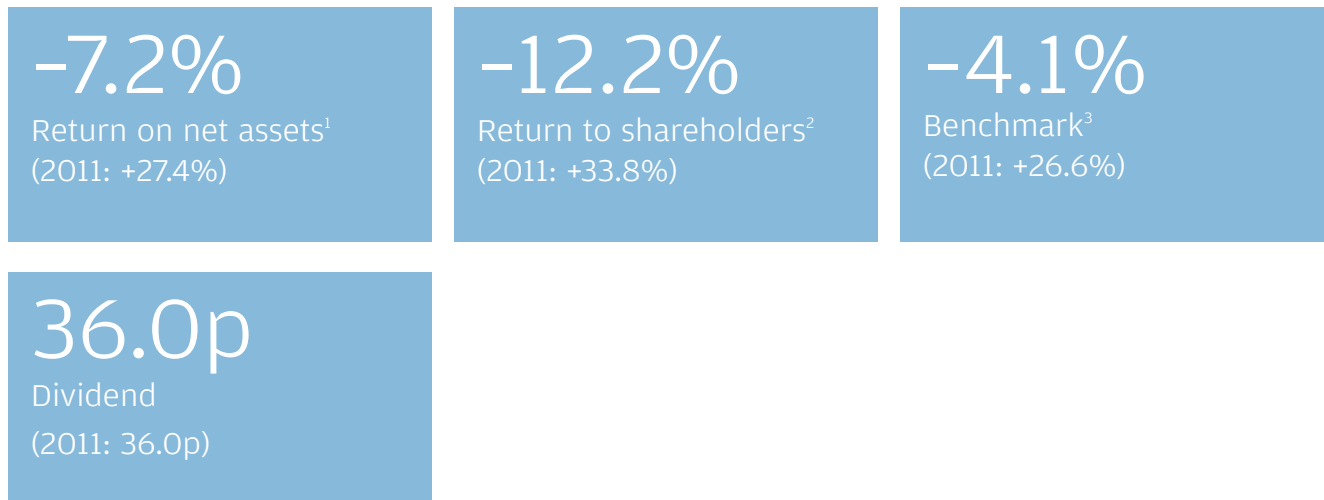
At 31st January 2012, the Company also had in issue, a £3,850,000 4.25% perpetual debenture and a £175 million 6.125% debenture repayable on 25th February 2030.

Management Company

The Company employs JPMorgan Asset Management (UK) Limited ('JPMAM' or the 'Manager') to manage its assets.

Financial Highlights

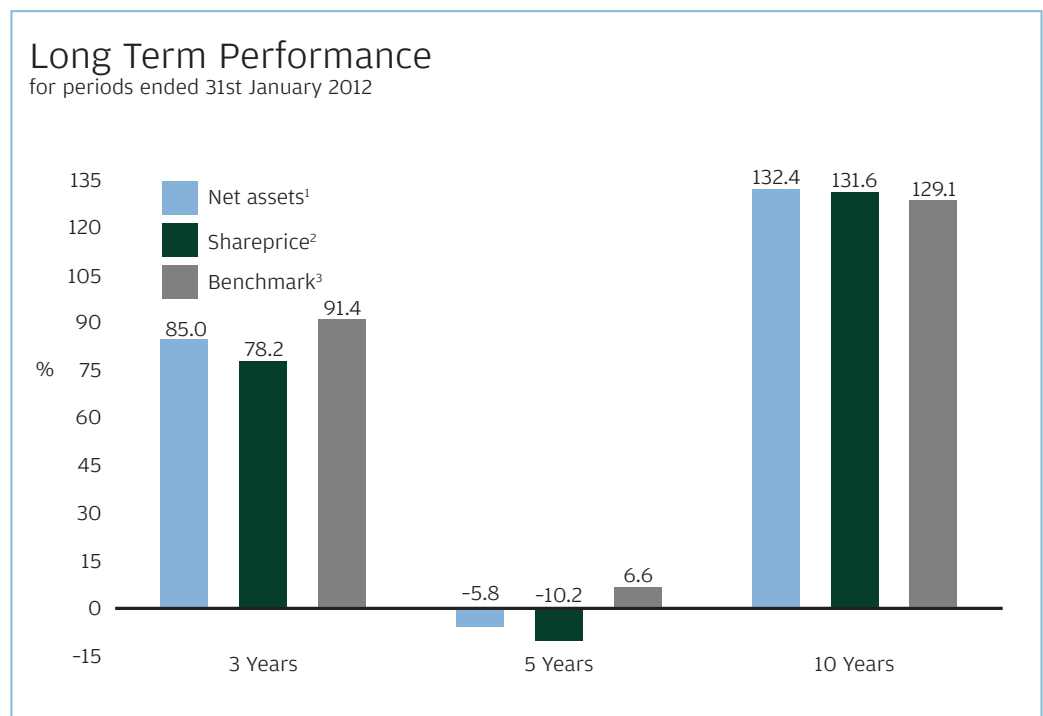
Total returns (includes dividends reinvested)



¹Source: J.P. Morgan.

²Source: Morningstar.

³Source: Russell/Mellon CAPS. The Company's benchmark is the FTSE All-Share Index (excluding FTSE 100 constituents and investment trusts).



A glossary of terms and definitions is provided on page 56.

¹Source: J.P. Morgan.

²Source: Morningstar.

³Source: Russell/Mellon CAPS. The Company's benchmark is the FTSE All-Share Index (excluding FTSE 100 constituents and investment trusts).

Chairman's Statement



Over the year to 31st January 2012, the Company's total return on net assets (ie with net income reinvested) was -7.2%, which compares with a return of -4.1% from the Company's benchmark index, the FTSE All-Share (excluding FTSE 100 constituents and investment trusts).

The share price fell by 15.2% during the year and, including dividends paid, the total return to shareholders was -12.2%. The discount to net asset value at year end was 13.6% compared to 10.3% (with debt at fair value) the previous year. The average daily discount, with debt at fair value, during the year, was 11.4%.

Performance and Manager Review

The Company's failure to outperform the benchmark over the financial year to 31st January 2012, and over the longer term, is extremely disappointing.

The Board is fully aware that this result is unacceptable and is working hard with the Manager to ensure that the Company's investment performance is improved.

Returns and Dividends

Earnings per share increased by 18.6% for the year, from 26.9p to 31.9p, largely due to a special dividend received from Stagecoach which increased earnings per share by 3.0p.

The Company has paid three interim dividends of 6.0p per ordinary share, and the Directors have declared a fourth quarterly interim dividend of 18.0p, giving a total dividend of 36.0p for the year, maintaining last year's dividend of 36.0p. The Board recognises, as in previous years, that it is essential to make an appropriate distribution, which both meets shareholders' legitimate expectations, and is prudent in the light of what may be continuing difficult times ahead.

The Board intends therefore to continue to pay three interim dividends at the current rate of 6.0p per ordinary share throughout the year ending 31st January 2013. The level of the fourth quarterly interim dividend will be determined by the Board based on the level of income received by the Company during the year and taking account of the Company's revenue reserve of 15.8p per share.

Share Repurchases

During the year under review a total of 325,000 shares were repurchased for cancellation, amounting to 0.33% of issued share capital at the beginning of the year, at a total cost of £2.98 million. Share repurchases during the year under review have added approximately 0.5 pence to the net asset value per share.

The Board's objective remains to use the share repurchase authority to manage imbalances between the supply and demand of the Company's shares, thereby reducing the volatility of the discount. The Board believes that, to date, this mechanism has been helpful and therefore proposes and recommends that the powers to repurchase up to 14.99% of the Company's shares for cancellation be renewed for a further period.

Gearing

The Company ended the year with gearing of 115.0%. During the year the gearing varied between 99% and 115%. It is the Board's intention to continue to operate within the range of 90% to 120% invested, under normal market conditions, and at the present time, the Board is maintaining gearing in the centre of the range. Gearing is regularly discussed between the Board and the Investment Manager. Where gearing is used, proceeds from the debenture issued provide the necessary funding. In addition, the Board will consider using a bank facility should the need arise.

Board

Charles Peel and Peter Halifax are not seeking re-election at this year's AGM. Since 2005 and 2007, respectively, the Board has benefited from their wise counsel and I would like to express the Board's appreciation and thanks for their great contributions. Jeremy Tigue joined the Board yesterday. His experience and knowledge of the sector will be an asset to the Company.

The UK Corporate Governance Code introduced in June 2010 requires all directors of companies within the FTSE 350 Index to offer themselves for annual re-election, and with this in mind all of the Company's Directors stand for re-election, with the exception of the retiring Directors. I refer you to the Directors' biographies on pages 17 and 18 for further details.

The Board undertakes a formal and rigorous evaluation of its performance, and that of the individual Directors including myself as the Chairman. The Directors conduct an assessment of performance each year, which is compiled into a report to the Nomination Committee. The Chairman reports the findings of the Nomination Committee to the Board, which considers these findings. During 2011 this process was assisted by an externally facilitated Board Review, which the Board intends to commission every third year going forward.

Investment Managers

During the year under review, the Company's investment management team comprised Martin Hudson, who was appointed in 1993, and Jane Lennard, who was appointed in 2006. Jane has left to pursue an alternative career. On behalf of the Board, I wish her well and thank her for her considerable contribution to the Company. The composition of the Investment Management Team will be announced in due course.

The Board continues to monitor the performance of the Manager on a regular basis.

Brokers

The Company continues to retain Cenkos Securities plc and Oriel Securities Limited as its joint brokers.

VAT

Last year I reported on two ongoing issues relating to VAT. The potential claim for recovery of VAT paid over the years 1997 to 2000 has now been considered by the High Court in relation to three parties (unconnected to

Chairman's Statement – continued

the Company). This claim was not successful, although the court also considered whether there should be reimbursement by HMRC of amounts withheld when the main VAT repayment was made in 2008, which the court upheld. The net effect, once expenses are offset, is a small receivable to the Company. The claim for compound interest on VAT already recovered continues. As I wrote last year, the outcome of this matter is uncertain.

Annual General Meeting

The Company's one hundred and twenty sixth Annual General Meeting will be held at Trinity House, Tower Hill, London EC3N 4DH on Wednesday, 23rd May 2012 at 12 noon. In addition to the formal part of the meeting, there will be a presentation from the Investment Managers who will answer questions on the portfolio and performance. The meeting will be followed by a buffet lunch which will give shareholders an opportunity to meet the Board, the Investment Managers and representatives of JPMAM. I look forward to seeing as many of you as possible at the meeting.

Please submit, via the Company's website (www.mercantileit.co.uk and click on the Investment Trust Information link) or in writing (to the Company Secretary at Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ) any detailed questions that you wish to raise at the AGM. Shareholders who are unable to attend the AGM in person are encouraged to use their proxy votes. Shareholders are now able to lodge their proxy votes electronically, whether their shares are held through CREST or in certificate form, and full details are set out on the form of proxy.

Archive

Following the 125th anniversary the incorporation of the Company in 2009, many of the original documents have been used to compile a website in order to allow public access to the archive, via www.mercantileit.co.uk

Outlook

Despite the ongoing challenges faced by European political leaders in relation to the economic imbalances within the Euro zone, equity markets have improved since October last year. Policy responses from both Governments and Central Banks around the World have demonstrated that key decision makers are not willing to put the global financial system in danger and will go to great lengths to avoid a collapse in financial markets, by focusing on counterparty risk and the injection of liquidity. Markets have continued to be strong in our current financial year and the Company's performance is ahead of the benchmark.

At present valuations, UK mid and small cap equities are attractive on a medium term investment horizon. Many mid and small cap stocks have good growth prospects, strong balance sheets and compelling business models. It is however, likely that markets will continue to be volatile

until the macroeconomic outlook is more certain, however, we believe that equities, and in particular UK mid and small cap equities, will provide investors with solid returns over the long term.

Hamish Leslie Melville

Chairman

27th March 2012

For further information, please contact:

Juliet Dearlove

For and on behalf of

JPMorgan Asset Management (UK) Limited - Company Secretary

020 7742 4000

Investment Managers' Report

Contributions to total returns in the year ended 31st January 2012

	%
Benchmark total return	-4.1
Asset allocation	1.5
Stock selection	-3.4
Cash effect	1.7
Effect of management fee	-0.5
Other expenses	-0.1
Interest expense	-1.0
Proposed dividend - use of prior year revenue reserve	-0.3
Gearing effect	-1.0
Return on net assets	-7.2
Effect of decrease in discount	-5.0
Return to shareholders	-12.2

Source: Xamin/JPMAM/AIC/Morningstar.

The table provides a breakdown, relative to the benchmark, of the contributions to total return.

A glossary of terms and definitions is provided on page 56.

Market Background

Mid and small sized UK equities suffered a negative return for the year ended 31st January 2012, following two very strong years of recovery.

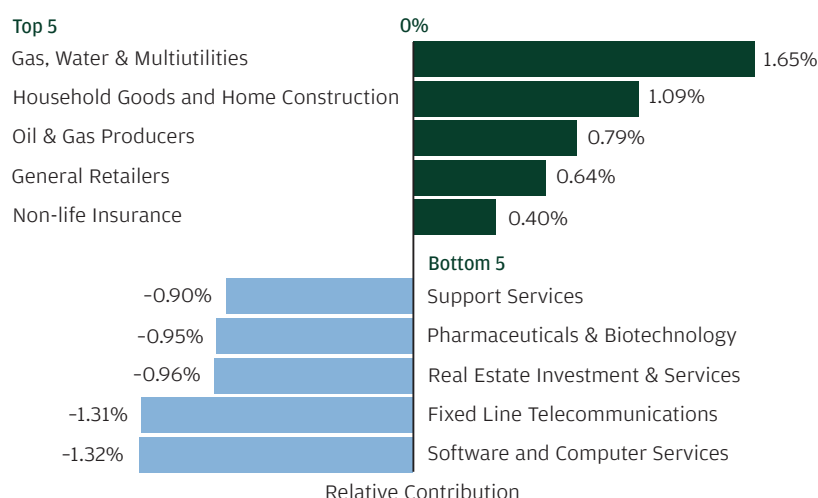
Investors were concerned by the reduced prospects for growth and by the interminable political wrangling in Europe which was failing to deliver a path to either debt reduction or growth. Markets in 2011 were characterised by periods of intense volatility. Risk aversion increased as Europe's debt crisis worsened and the stockmarket began to fear the return to recession in the US and a dramatic slowing in China. This was against a background of an already heightened level of anxiety due to the overturn of three regimes in North Africa and major earthquakes in New Zealand and Japan and also serious flooding in Thailand.

Performance

The net asset value total return for the year ended 31st January 2012 was -7.2% which was behind the Company's benchmark index, the FTSE All-Share excluding FTSE 100 constituents and investment companies, which returned -4.1%. Within the stockmarket there were more big fallers than risers last year as perceived safe, low risk, high quality stocks re-rated in response to the anxiety and fear generated by persistent volatility. These high quality stocks became increasingly more expensive as the year progressed and as the cautiousness of investor behaviour became more extreme.

The bar chart shows the relative contributions to performance for the year for the five best and five worst sectors within the portfolio. The dark green bars to the right show positive contributors relative to the benchmark index and reflect both sector weighting and stock selection. The light blue bars to the left show the negative relative contributors.

Sector performance contribution analysis. Year to 31st January 2012



Source: Factset

This shows that the most positive contributor was the Gas, Water and Multiutilities sector where we benefited from an agreed takeover of Northumbrian Water by CKI and also from our holding in another water company, Pennon, which performed well as the market found its inflation linked characteristics attractive. Home Construction was our second best contributor; expectations for the sector at the beginning of the year were low but as the year progressed trading stabilised and profit margins improved as the companies began to build on newer, less expensive land. The sector began to outperform as cash flow turned positive and balance sheets were no longer seen to be problematic. Cove Energy was again a strong performer in the Oil and Gas Sector as it continued to discover substantial gas reserves in offshore Mozambique and since our year end Cove has received a takeover approach at a substantial premium. The worst contributing sector was Software and Computer Services where we suffered from a takeover bid for Misys failing when its Board could not agree a price with the bidder, Fidelity National Information Services. However, since our year end Misys has received new merger and takeover approaches. Elsewhere in the sector, Logica underperformed when it suffered from profit estimate downgrades as its European and UK customers reduced their information technology expenditure. The Fixed Line Telecommunications sector suffered particularly from big profit estimate downgrades to Cable & Wireless Worldwide as its UK Government and retail sector customers cut back on their telecoms expenditure. A new Chairman, Chief Executive and Finance Director were appointed, and the Company is working to execute a strategic plan which will generate an improved performance from its substantial network of cable, fibre, data centre and unbundled telephone exchange assets. Since our year end Cable & Wireless Worldwide received preliminary takeover interest from both Vodafone and Tata Communications.

Activity

The investment managers have the flexibility to operate within a gearing range of 90% to 120% invested and a more specific tactical range is agreed regularly with the Board.

Gearing was reduced from 109% to 100% in the first half of the year to reflect reduced economic growth prospects and seemingly intractable Sovereign debt problems. As market volatility increased, reflecting doubts about politicians' willingness and ability to tackle large budget deficits in Europe and in the United States of America, gearing was reduced further to around 99% over the summer, but, as investor anxiety reached its peak at the beginning of October, gearing was increased to around 110%, reaching 115% by the Company's year end. The use of the gearing range allows the investment managers to take advantage of opportunities in a volatile market. The types of shares acquired when the gearing was increased generally had either good growth or value characteristics in anticipation of stockmarket performance broadening away from the small group of low risk, high quality stocks which had become so dominant during times of extreme uncertainty. The portfolio continues to retain its style of broad diversification across all sectors, comprising 135 stocks of which 80 are FTSE mid 250 index stocks and 55 are smaller companies.

Investment Managers' Report – continued

Market capitalisation	Benchmark index weighting %	Fund weighting %	Relative weighting %
More than £1.5bn	34.4	32.6	-1.8
£1.0bn to £1.5bn	26.4	26.0	-0.4
£500m to £1.0bn	22.4	23.2	0.8
£300m to £500m	7.5	5.8	-1.7
£100m to £300m	8.1	6.9	-1.2
£50m to £100m	1.1	2.5	1.4
Less than £50m	0.1	3.0	2.9
Total	100.0	100.0	0.0

As at 31st January 2012

The table above shows that our holdings in companies which have a market capitalisation of more than £1 billion account for more than half of the portfolio. We focus on those successful larger companies which are progressing towards promotion into the FTSE 100 index and also on some relatively small companies, capitalised at less than £100 million, which can present outstanding growth opportunities.

Of the ten largest investments at the year end, which are shown on page 13, five were in the top ten a year ago and a further four were already substantial holdings within the portfolio. One, Laird, is a new holding acquired during the year. Of those remaining five stocks which were in the top ten one year ago but which are not in the top ten this year, smaller positions in three are still held in the portfolio and two, ITV and Tate and Lyle, have been sold, having been promoted into the FTSE 100 index.

At the sector level the portfolio is overweight in: Consumer Goods, reflecting our holdings in housebuilders; Financials, reflecting our holdings in non-life insurance companies and insurance brokers; Oil and Gas, with our largest position in the sector being in Cove Energy; and in Technology and Telecommunications reflecting our holdings in software companies and in Cable & Wireless Communications and Cable & Wireless Worldwide. The portfolio is underweight in: Basic Materials, not holding many chemicals companies; Consumer Services, not holding many retail stocks; and Industrials, being underweight in support services and engineering companies which we believe are generally too highly rated.

Many UK quoted mid and small sized equities offer exposure to growing economies and one third of the revenue generated by companies held in the portfolio is from outside the UK and Continental Europe. Of the remaining two thirds of revenues generated by invested companies, 57% comes from the UK and only 10% is generated in Continental Europe. We remain underweight in companies with significant European exposure because we believe growth prospects will remain subdued as the impact of austerity measures is felt especially in the southern countries within the Euro zone.

During the year we held more than 250 meetings with companies and this remains an important component of our investment process when evaluating companies. We believe that properly targeted company meetings can help us to analyse smaller companies that are often overlooked by the mainstream, evaluate managers and resolve issues. Our fundamental analysis of companies is aided by JPMorgan's in-house proprietary screening process which helps us to identify companies that exhibit the best value and growth characteristics.

Outlook

Mid and small sized UK equities have recovered strongly from a low point in October when investor anxiety peaked and volatility increased as markets focussed on short term newsflow and the increased likelihood of a recession in Europe.

The recovery in markets came when the European Central Bank announced a new three year loan deal for the commercial banks which effectively removed the systemic risk of a series of European bank bankruptcies destabilising the economy. The recovery in the stockmarket then gathered pace as it became clear that the extreme pessimism on US growth was beginning to look misplaced. The stockmarket continues to be dominated by macroeconomic developments and we should expect some volatility to persist, with markets generally rising in response to looser monetary policy from central banks and falling in response to bad news from the Euro zone or to deteriorating macroeconomic data. Because investor sentiment and positioning in equities is generally still negative we expect that there will be a tendency for equities to rise in the absence of further bad news. Having the flexibility to operate within a gearing range of 90% to 120% invested is a great advantage in these volatile market conditions enabling the investment managers to take the opportunity to increase their investment in the stockmarket when pessimism is high and valuations are low. Some profits have been taken following the strong recovery since October 2011, during which time Mercantile's benchmark index, the FTSE All-Share excluding FTSE 100 constituents and investment trusts, has risen by more than 20%. Gearing has been reduced to 101% invested since the Company's year end. Nevertheless, the valuations of many mid and small sized UK equities are still attractive on a medium term view. Companies have generally improved their balance sheets since the credit crisis, many are exploring acquisition opportunities or share buybacks and the outlook for dividend growth is good.

Martin Hudson
Investment Manager

27th March 2012

Summary of Results

	2012	2011	
Total returns for the year ended 31st January			
Return on net assets ¹	-7.2%	+27.4%	
Return to shareholders ²	-12.2%	+33.8%	
Benchmark ³	-4.1%	+26.6%	
Net asset value and discount at 31st January			% change
Shareholders' funds (£'000)	1,110,361	1,237,266	-10.3
Net asset value per share with debt at par value	1,124.9p	1,249.3p	-10.0
Net asset value per share with debt at fair value ⁴	1,088.2p	1,236.7p	-12.0
Share price discount to net asset value with debt at par value	16.4%	11.2%	
Share price discount to net asset value with debt at fair value	13.6%	10.3%	
Market Data			
FTSE All-Share Index (capital only) (excluding FTSE 100 Index constituents and investment trusts) ⁵	2,153.3	2,313.2	-6.9
Share price	940.0p	1,109.0p	-15.2
Revenue for the year ended 31st January			
Net revenue available for shareholders (£'000)	31,555	26,769	+17.9
Return per share	31.9p	26.9p	+18.6
Dividend per share	36.0p	36.0p	0.0
Total Expense Ratio ⁶	0.51%	0.49%	
Actual Gearing Factor ⁷	115.0%	108.9%	

A glossary of terms and definitions is provided on page 56.

¹Source: J.P. Morgan.

²Source: Morningstar.

³Source: Russell/Mellon CAPS. The Company's benchmark is the FTSE All-Share Index excluding constituents of the FTSE 100 Index and investment trusts.

⁴The fair value of the Company's debentures have been calculated using discounted cash flow techniques, using the yield from a similarly dated gilt plus a margin based on the 5 year average for the AA Barclays Sterling Corporate Bond spread.

⁵Source: Datastream.

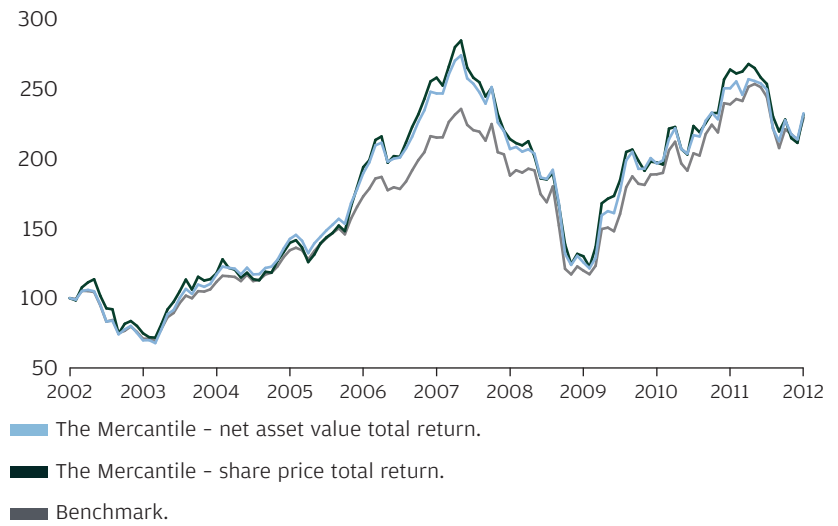
⁶Management fee and all other operating expenses excluding finance costs, expressed as a percentage of the average of the month end net assets during the year. The total expense ratio is calculated in accordance with guidance issued by the Association of Investment Companies.

⁷Actual gearing means investments expressed as a percentage of shareholders' funds.

Performance

Ten Year Performance

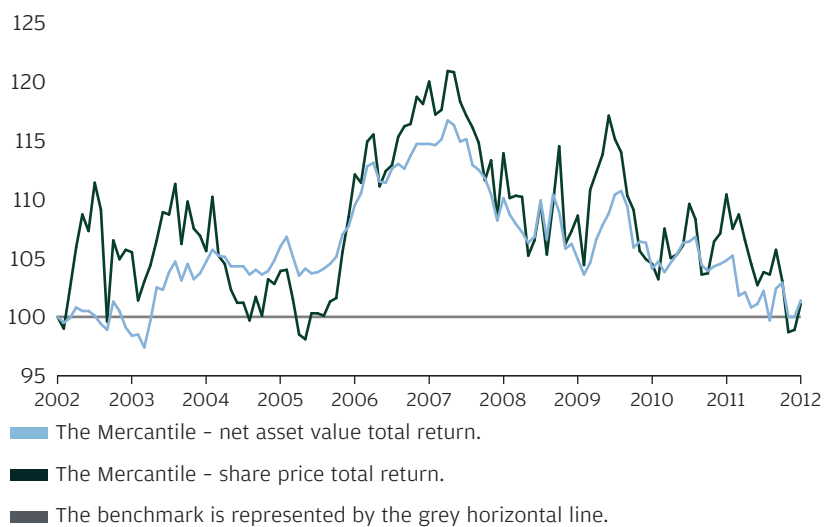
Figures have been rebased to 100 at 31st January 2002



Source: Morningstar, Russell/Mellon CAPS.

Performance relative to Benchmark

Figures have been rebased to 100 at 31st January 2002



Source: Morningstar, Russell/Mellon CAPS.

Ten Year Financial Record

At 31st January	2002	2003	2004	2005 ¹	2006	2007	2008	2009	2010	2011	2012
Total assets less current liabilities (£'m)	1,076.8	791.5	1,156.8	1,321.0	1,621.5	1,920.5	1,384.9	874.1	1,212.3	1,414.3	1,287.5
Net asset value per share (p)	644.7	434.6	703.5	842.6	1,090.6	1,394.4	1,158.3	681.5	1,015.6	1,249.3	1,124.9
Share price (p)	567.0	408.5	620.0	713.5	965.0	1,258.0	1,020.0	592.5	860.0	1,109.0	940.0
Year to 31st January											
Gross revenue (£'000)	39,435	34,584	34,050	34,970	39,899	45,493	51,684	51,750	32,248	32,237	37,384
Revenue available for shareholders (£'000)	28,364	24,169	24,555	24,820	29,373	35,043	44,345	43,028	23,703	26,769	31,555
Earnings per share (p)	20.9	17.8	18.1	18.3	21.8	27.5	39.8	41.7	23.2	26.9	31.9
Dividend per share (net) (p) ²	17.5	18.0	18.8	19.8	21.8	25.0	38.0	36.0	36.0	36.0	36.0
Discount	12.1	6.0	11.9	15.3	11.5	9.8	11.9	13.0	15.3	11.2	16.4
Actual gearing	110.0	113.1	112.6	115.5	111.2	102.0	94.8	102.8	111.9	108.9	115.0
Total expense ratio ³	0.63	0.73	0.69	0.60	0.56	0.55	0.59	0.56	0.54	0.49	0.51
Rebased to 100 at 31st January 2002											
Net asset value per share	100.0	67.4	109.1	130.7	169.2	216.3	179.7	105.7	157.5	193.8	174.5
Net asset value per share - total return ⁴	100.0	69.8	116.9	142.4	189.4	246.6	206.8	125.6	196.4	250.3	232.4
Share price	100.0	72.0	109.3	125.8	170.2	221.9	179.9	104.5	151.7	195.6	165.8
Share price - total return ⁴	100.0	74.8	117.8	139.6	193.8	257.9	213.9	130.0	197.1	263.7	231.6
Benchmark ⁴	100.0	70.9	111.6	134.3	172.9	215.0	187.8	119.7	188.7	238.8	229.1
Earnings per share	100.0	85.2	86.6	87.6	104.3	131.6	190.4	199.5	111.0	128.8	152.7
Dividends per share ²	100.0	102.9	107.4	113.1	124.6	142.9	217.1	205.7	205.7	205.7	205.7

¹The results for the year ended 31st January 2005 have been restated, where necessary, in accordance with Financial Reporting Standards 21, 25 and 26. Years prior to 2005 have not been restated.

²2008 includes ordinary dividends of 34.0p and a special dividend of 4.0p.

³Management fee and all other operating expenses excluding finance costs, expressed as a percentage of the average of the month end net assets during the year (2008 and prior years: the average of the opening and closing net assets).

⁴Source: Morningstar, Russell/Mellon CAPS.

Ten Largest Investments

Company	At 31st January 2012		At 31st January 2011	
	Valuation £'000	% ¹	Valuation £'000	% ¹
Misys² Misys provides industry specific software. The company develops and markets integrated solutions to the international financial services industry. Misys serves financial institutions such as retail, wholesale, and investment banks.	41,474	3.2	16,010	1.1
Cable & Wireless Communications Cable & Wireless Communications is a global full service telecommunications business providing mobile, broadband and fixed line services to 13 million customers in a range of developed and developing territories.	37,659	2.9	33,073	2.3
Jardine Lloyd Thompson Jardine Lloyd Thompson operates in the wholesale insurance and reinsurance industry. The company's businesses offer marine, aviation, property and casualty plans, in addition to reinsurance services. Jardine Lloyd Thompson, which operates as a Lloyd's broker, also provides a range of innovative risk solutions and transactional services.	37,145	2.9	28,484	2.0
Persimmon Persimmon designs, builds and develops residential housing. The company has regional branches in Yorkshire, the North East and North West, Scotland, the Midlands, Anglia, Wessex, Thames Valley, the South East, South Coast, South West and Wales.	32,665	2.5	24,648	1.7
Phoenix Holdings² Phoenix Holdings offers life insurance and asset management services, and manages pension funds.	31,761	2.5	11,065	0.8
Pennon Pennon operates and invests in water and sewerage services, waste management and renewable energy.	29,727	2.3	30,704	2.2
Cove Energy Cove Energy is an oil and gas exploration and development company, focusing on emerging basins in Africa and the Mediterranean.	29,536	2.3	33,716	2.4
Laird^{2,3} Laird is a global provider of products and technology solutions used in network infrastructure, wireless connectivity, displays and industrial controls.	26,902	2.1	–	–
Wood (John)² John Wood is an international energy service company that provides products and services to the oil and gas power industries. The company designs and manufactures submersible pumping systems, well-head systems, and pressure controls. John Wood also provides aftermarket services for heavy industrial turbines and aero gas turbines.	23,915	1.9	19,117	1.4
African Barrick Gold² African Barrick Gold is Tanzania's largest gold producer and one of the five largest gold producers in Africa. They have four producing gold mines in Northern Tanzania and several ongoing exploration projects.	23,827	1.8	14,868	1.1
Total⁴	314,611	24.4		

All of the above investments are listed in UK.

¹Based on total assets less current liabilities of £1,287m (2011: £1,414m).

²Not Included in the ten largest investments at 31st January 2011.

³Not held in the portfolio at 31st January 2011.

⁴At 31st January 2011, the value of the ten largest investments amounted to £278m representing 19.6% of total assets less current liabilities.

Portfolio Analyses

Listed Equity Market Capitalisation

at 31st January

	2012 %	2011 %
UK FTSE Mid 250 Companies	78.1	67.5
UK Smaller Companies	19.3	25.2
UK FTSE 100	1.0	1.1
UK Unquoted	0.3	0.4
Overseas Companies	0.5	1.1
Net Current Assets	0.8	4.7
Total	100.0	100.0

Based on total assets less current liabilities of £1,287m (2011: £1,414m).

Sector Analysis

at 31st January

	Portfolio 2012 %	Benchmark 2012 %	Portfolio 2011 %	Benchmark 2011 %
Financials	23.1	19.8	17.6	19.6
Consumer Services	16.7	18.1	18.0	21.5
Industrials	15.5	24.1	11.1	27.2
Consumer Goods	11.5	5.7	11.1	6.7
Oil & Gas	8.7	5.5	8.4	5.7
Technology	8.7	11.7	6.2	5.8
Basic Materials	6.4	8.9	9.0	7.3
Telecommunications	5.0	2.4	5.0	2.1
Utilities	2.3	2.0	4.7	2.1
Health Care	1.3	1.8	4.2	2.0
Net Current Assets	0.8	–	4.7	–
Total	100.0	100.0	100.0	100.0

Based on total assets less current liabilities of £1,287m (2011: £1,414m).

List of Investments

at 31st January 2012

Company	£'000	Company	£'000
Financials		Millennium & Cophorne Hotels	12,620
Jardine Lloyd Thompson	37,145	Marston's	12,441
Phoenix Holdings	31,761	Inchcape	9,371
Hiscox	23,806	Chime Communications	7,797
Catlin	20,221	Supergroup	7,670
London Stock Exchange	17,681	Young & Co's Brewery ¹	7,205
Great Portland Estates	16,965	CVS ¹	5,999
IG	16,588	Sports Direct International	5,424
Songbird Estates ¹	15,231	United Business Media	5,415
Shaftesbury	14,964	Aer Lingus ³	4,094
Derwent London	12,992	Sportech	3,949
Close Brothers	9,669	M&C Saatchi ¹	3,881
Brewin Dolphin	9,212	Stagecoach	3,166
Tullett Prebon	7,449	Ashley (Laura)	2,509
Hansteen	7,119	Bloomsbury Publishing	1,735
Horizon Acquisition	6,231	H.R.Owen	1,433
Beazley	6,078	Spirit Pub	1,371
International Personal Finance	4,454	888	1,013
Rathbone Brothers	4,386	Peel Hotels ¹	459
Shore Capital ¹	4,091		215,322
London & Stamford ¹	3,539	Industrials	
Helical Bar	3,163	Laird	26,902
St Peter Port ¹	3,100	Travis Perkins	21,510
Camellia	2,909	Balfour Beatty	18,814
Hardy	2,886	Cobham	17,009
Mountview Estates	2,783	Hays	13,562
Marwyn Management Partners	2,200	Morgan Crucible	12,114
Channel Islands Property	2,127	SIG	10,373
Cazenove Capital ²	2,020	Ricardo	9,947
Puma Brandenburg ³	1,721	Senior	7,991
Cenkos Securities ¹	1,704	Victrex	7,968
WH Ireland ¹	1,425	Howden Joinery	7,081
Panmure Gordon ¹	606	BBA Aviation	6,926
Development Securities	591	Fenner	6,893
Brookwell ¹	387	VP	6,185
	297,204	Kier	6,170
Consumer Services		Xchanging	4,014
Go-Ahead	20,891	Shanks	3,897
William Hill	19,853	Renold	3,350
Aegis	19,575	Tennants Consolidated ^{2,4}	2,508
Mitchells & Butlers	16,149	Chemring	2,240
First Group	14,818	Oxford Catalysts ¹	1,543
Daily Mail	13,853	ACAL	1,136
Bwin.Party Digital Entertainment	12,631	Shaft Sinkers	716
			198,849

List of Investments – continued

Company	£'000	Company	£'000
Consumer Goods		Basic Materials	
Persimmon	32,665	African Barrick Gold	23,827
Bovis Homes	20,155	Petropavlovsk	20,384
Berkeley	18,705	Centamin	10,670
Barratt Developments	15,854	Aquarius Platinum	9,527
Taylor Wimpey	14,967	Lonmin	7,883
Bellway	14,522	Mondi	6,867
MP Evans ¹	13,827	Gem Diamonds	3,679
AGA Rangemaster	5,432		82,837
Cranswick	4,559	Telecommunications	
R.E.A.	3,579	Cable & Wireless Communications	37,659
Anglo-Eastern Plantations	3,114	Cable & Wireless Worldwide	19,486
	147,379	Colt Telecom	7,691
			64,836
Oil & Gas		Utilities	
Cove Energy ¹	29,536	Pennon	29,727
Wood (John)	23,915		29,727
Premier Oil	17,054	Health Care	
Cairn Energy	12,258	BTG	4,427
Cape	7,233	Renovo ¹	3,182
Nautical Petroleum ¹	4,640	Oxford Biomedica	3,060
Exillon Energy	4,182	Sphere Medical Holding ¹	2,941
Heritage Oil	3,740	Vernalis	1,913
Hunting	2,519	Vectura	1,682
Faroe Petroleum ¹	2,226		17,205
Infrastrata ¹	1,940	Total Portfolio⁵	
Amerisur Resources ¹	1,659		1,276,856
Bayfield Energy ¹	1,245		
	112,147		
Technology			
Misys	41,474		
Logica CMG	20,335		
Invensys	16,964		
Imagination Technologies	11,897		
Wolfson Microelectronics	9,601		
Investec	6,374		
Playtech ¹	4,705		
	111,350		

¹AIM listed investment.

²Unquoted investment.

³Listed overseas.

⁴Includes a fixed interest investment.

⁵The portfolio comprises investments in equity shares and a fixed interest investment.

Board of Directors

Hamish Leslie Melville (Chairman)#

A Director since 1996 and Chairman since September 2003.

Having served as an executive director of Hambros Bank he founded Enskilda Securities. He was then chairman of Capel-Cure Myers Capital Management and then of Dunedin Fund Managers. He was chairman of the Investment Banking Committee of Credit Suisse Securities (Europe) Ltd for 12 years until 2010 when he joined The Royal Bank of Scotland to set up an Investment Banking Committee. He has served as chairman or director of a number of UK listed companies, and was chairman of The National Trust for Scotland for three years from 1995.

Sir Richard Beckett**

A Director since September 2009.

Sir Richard was called to the bar in 1965 and took silk in 1987. He was one of the pre-eminent practitioners in regulatory and licensing matters. He is also a non-executive director of JD Wetherspoon Plc.

The Right Hon. The Earl of Halifax**

A Director since December 2007.

Formerly Vice-Chairman of Christie, Manson & Woods, the European Division of Christie's International Fine Arts Auctioneers, and a non-executive director of Hambros Bank. He is Deputy Lieutenant of The East Riding of Yorkshire, High Steward of York Minster and a JP.

Helen James

A Director since September 2011.

Helen was Head of Pan-European Equity Sales at Paribas prior to co-founding Investis Limited, a leading digital corporate communications company. She has been Managing Director of Investis since 2000, and is also a non-executive director of Edinburgh Worldwide Investment Trust plc.

Board of Directors – continued

Sandy Nairn**

A Director since December 2003. He is Chief Executive of Edinburgh Partners Ltd. Previously, he served on the boards of Vebnet (Holdings) plc, Vebnet Ltd, Franklin Templeton Investment Management Limited, Hill Samuel Asset Management International Limited, Waverley General Private Equity Limited and Scottish Widows Investment Partnership Limited.

Charles Peel**

A Director since October 2005.

A founding director of Peel Hunt and Co. Limited in 1989. He is actively involved with a number of private companies. Previously, he was a non-executive director of Artemis Alpha Trust plc, and a director of Ingenious Music VCT plc, and held senior positions with Fielding Newson-Smith & Co. and Morgan Grenfell Securities.

Ian Russell**

A Director since January 2007 and Chairman of the Audit Committee since May 2007. He is Chairman of Johnston Press plc, Advanced Power AG, Remploy Limited and the University of Edinburgh's Campaign Board. He is also a non-executive director of British Assets Trust plc and British Polythene Industries plc, and an advisor to the Clyde Bergemann Power Group. Previously, he held senior positions with Scottish Power, Tomkins and HSBC.

Jeremy Tighe

A Director since March 2012. He joined F&C Management in 1981 and has been the fund manager of Foreign and Colonial Investment Trust plc since 1997. He is a Director of the Association of Investment Companies and an investment advisor to the BP and British Steel pension funds. A Non-executive Director of Graphite Enterprise Trust plc.

*A member of the Audit Committee throughout the year.

Helen James joined the Audit Committee upon her appointment as a Director on 21st September 2011. Jeremy Tighe joined the Audit Committee upon his appointment as a Director on 26th March 2012.

#A member of the Nomination Committee throughout the year.

Helen James joined the Nomination Committee on 30th November 2011.

All Directors are considered independent of the Manager.

Directors' Report

The Directors present their report and audited financial statements for the year ended 31st January 2012.

Business Review

Business of the Company

The Company carries on business as an investment trust and was approved by HM Revenue & Customs as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010, for the year ended 31st January 2011. In the opinion of the Directors, the Company has subsequently conducted its affairs so that it should continue to qualify as an investment trust under the HM Revenue & Customs' qualifying rules.

Approval in previous years is subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment.

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006. The Company is not a close company for taxation purposes.

A review of the Company's activities and prospects is given in the Chairman's Statement on pages 2 to 5, and in the Investment Managers' Report on pages 6 to 9.

Investment Objective

The Company's objective is to achieve long term capital growth from a portfolio of UK medium and smaller companies.

Investment Policies and Risk Management

In order to achieve its objective, the Company invests in a diversified portfolio and employs a Manager with a strong focus on research that enables it to identify what it believes to be the most attractive stocks in the market.

The Board has sought to manage the Company's risk by imposing various investment limits and restrictions. These limits and restrictions may be varied at any time by the Board at its discretion.

Investment Limits and Restrictions

- The Company invests in medium and smaller companies which are listed mainly on the London Stock Exchange.
- At time of purchase the maximum exposure to any individual stock is 8% of gross assets.
- Investment growth is emphasised, with long-term dividend growth at least in line with inflation.

- Gearing may be used when appropriate in order to increase potential returns to shareholders. Such gearing will be long-term in nature and will operate within a range of 90% to 120% invested.
- The Company does not invest more than 15% of its gross assets in other UK listed investment companies (including investment trusts).
- The Company will not invest more than 10% of assets in companies that themselves may invest more than 15% of gross assets in UK listed investment companies.

Performance

In the year to 31st January 2012, the Company produced a total return to shareholders of -12.2% and a total return on net assets of -7.2%. This compares with the return on the Company's benchmark of -4.1%. At 31st January 2012, the value of the Company's investment portfolio was £1,277 million. The Investment Managers' Report on pages 6 to 9 includes a review of developments during the year as well as information on investment activity within the Company's portfolio.

Total Return, Revenue and Dividends

Gross total loss for the year amounted to £71.1 million (2011: £281.5 million return) and net total loss after deducting interest, management expenses and taxation amounted to £88.4 million (2011: £265.0 million return). Distributable income for the year amounted to £31.6 million (2011: £26.8 million). The Directors have declared quarterly interim dividends totalling 36.0p (2011: 36.0p) per ordinary share for the year which totalled £35.6 million (2011: £35.8 million). The year end revenue reserve after allowing for these dividends will amount to £15.6 million (2011: £19.5 million).

Key Performance Indicators ('KPIs')

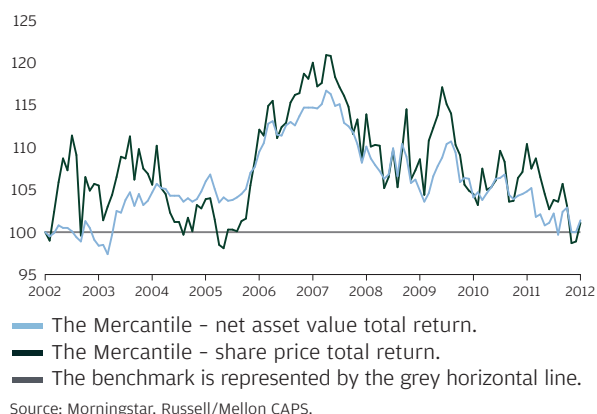
The Board uses a number of financial KPIs to monitor and assess the performance of the Company. The principal KPIs are:

- Performance against the benchmark index
This is the most important KPI by which performance is judged.

Directors' Report – continued

Performance relative to Benchmark Index

Figures have been rebased to 100 at 31st January 2002



Ten Year Performance

Figures have been rebased to 100 at 31st January 2002



- Performance against the Company's peers
The principal objective is to achieve capital growth relative to the benchmark. The Board also monitors the performance relative to a broad range of competitor funds.
- Performance attribution
The purpose of performance attribution analysis is to assess how the Company achieved its performance relative to its benchmark index, i.e. to understand the impact on the Company's relative performance of the various components such as asset allocation and stock selection. Details of the attribution analysis for the year ended 31st January 2012 are given in the Investment Managers' Report on page 8.

- Share price discount to net asset value ('NAV') per share
The Board operates a share repurchase programme that seeks to address imbalances in supply and demand of the Company's shares within the market and thereby reduce the volatility and absolute level of the discount to NAV at which the Company's shares trade.

Discount Performance



- Total expense ratio ('TER')
The TER represents the management fee and all other operating expenses excluding finance costs, expressed as a percentage of the average of the month end net assets during the year. The TER for the year ended 31st January 2012 is 0.51% and for the year ended 31st January 2011 is 0.49%. The Board reviews each year an analysis which shows a comparison of the Company's TER and its main expenses with those of its peers.

Share Capital

During the year the Company repurchased a total of 325,000 ordinary shares for cancellation. This amount represented 0.33% of the issued share capital at the beginning of the year. As the shares were repurchased at a discount to the underlying net asset value ('NAV') they enhanced the NAV of the remaining shares. The Company has repurchased no further shares for cancellation since the year end.

A resolution to renew the authority to repurchase shares will be put to shareholders at the forthcoming Annual General Meeting.

The Company did not issue any shares during the year and has not issued any shares since the year end.

Principal Risks

With the assistance of the Manager, the Board has drawn up a risk matrix, which identifies the key risks to the Company. These key risks fall broadly under the following categories:

- **Investment and Strategy:** An inappropriate investment strategy, for example asset allocation or the level of gearing, may lead to underperformance against the Company's benchmark index and peer companies, resulting in the Company's shares trading on a wider discount. The Board manages these risks by diversification of investments through its investment restrictions and guidelines which are monitored and reported by the Manager. JPMAM provides the Directors with timely and accurate management information, including performance data and attribution analyses, revenue estimates, liquidity reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the Investment Managers, who attend all Board meetings, and reviews data which show statistical measures of the Company's risk profile. The Investment Managers employ the Company's gearing tactically, within a strategic range set by the Board.
- **Accounting, Legal and Regulatory:** In order to qualify as an investment trust, the Company must comply with Section 1158 of the Corporation Tax Act 2010 ('Section 1158'). Details of the Company's approval are given under 'Business of the Company' above. Were the Company to breach Section 1158, it might lose investment trust status and, as a consequence, gains within the Company's portfolio could be subject to Capital Gains Tax. The Section 1158 qualification criteria are continually monitored by JPMAM and the results reported to the Board each month. The Company must also comply with the provisions of the Companies Act and, since its shares are listed on the London Stock Exchange, the UKLA Listing Rules and Disclosure & Transparency Rules ('DTRs'). A breach of the Companies Act could result in the Company and/or the Directors being fined or the subject of criminal proceedings. Breach of the UKLA Listing Rules or DTRs could result in the Company's shares being suspended from listing which in turn would breach Section 1158. The Board relies on the services of its Company Secretary, JPMAM, to ensure compliance with The Companies Act and The UKLA Listing Rules.
- **Corporate Governance and Shareholder Relations:** Details of the Company's compliance with Corporate Governance best practice, including information on relations with shareholders, are set out in the Corporate Governance report on pages 23 to 28.
- **Operational:** Disruption to, or failure of, JPMAM's accounting, dealing or payments systems or the custodian's records could prevent accurate reporting and monitoring of the Company's financial position. Details of how the Board monitors the services provided by JPMAM and its associates and the key elements designed to provide effective risk management and internal control are included within the Risk Management and Internal Control section of the Corporate Governance report on pages 26 and 27.
- **Financial:** The financial risks faced by the Company include market price risk, interest rate risk, liquidity risk and credit risk. Bank counterparties are subject to daily credit analysis by the Manager and regular consideration at meetings of the Board. In addition the Board receives regular reports on the Manager's monitoring and mitigation of credit risks on share transactions carried out by the Company. Further details are disclosed in note 23 on pages 47 to 51.

Future Developments

Clearly, the future development of the Company is dependent upon the success of the Company's investment strategy in the light of economic and equity market developments. The Investment Managers discuss the outlook in their report on page 9.

Management of the Company

The Manager and Secretary is JPMorgan Asset Management (UK) Limited ('JPMAM'). JPMAM is employed under a contract terminable on six months' notice, without penalty. If the Company wishes to terminate the contract on shorter notice, the balance of remuneration is payable by way of compensation.

JPMAM is a wholly-owned subsidiary of JPMorgan Chase Bank which, through other subsidiaries, also provides banking, dealing and custodian services to the Company.

The Board conducts a formal evaluation of the Manager on an annual basis, and confirms that it is satisfied that the continuing appointment of the Manager on the terms agreed is in the interests of shareholders as a whole. The evaluation includes consideration of investment strategy and process of the Investment Managers, noting performance against the benchmark over the long term and the support that the Company receives from JPMAM.

Directors' Report – continued

Management Fee

The management fee is charged at the rate of 0.5% of the value of the Company's market capitalisation and is calculated and paid monthly in arrears. If the Company invests in funds managed or advised by JPMAM, or any of its associated companies, they are excluded from the calculation and therefore attract no fee.

Going Concern

The Directors believe that having considered the Company's investment objective (see page 19), risk management policies (see page 47), capital management policies and procedures (see page 52), the nature of the portfolio and expenditure projections, that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future. For these reasons, they consider that there is reasonable evidence to continue to adopt the going concern basis in preparing the accounts.

Payment Policy

It is the Company's policy to obtain the best terms for all business and therefore there are no standard payment terms. In general, the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by these terms. As at 31st January 2012, the Company had no outstanding trade creditors.

Directors

The Directors of the Company during the year and subsequent to the year end, together with their beneficial interests in the Company's ordinary share capital, were:

	31st January 2012	1st February 2011 or at date of appointment
Hamish Leslie Melville	30,000	30,000
Sir Richard Beckett	4,100	4,100
The Right Hon. The Earl of Halifax	2,000	2,000
Helen James*	650	0
Sandy Nairn	5,000	5,000
Charles Peel	33,100	33,100
Ian Russell	5,000	5,000
Jeremy Tigue	0	0

*non-beneficial holding

No changes in the above holdings have been recorded at the date of this report.

The Nomination Committee and the Chairman, having considered their qualifications, performance and contribution to the Board and its committees, confirms that each Director proposed for re-election or election continues to be effective and demonstrates commitment to the role and the Board recommends to shareholders that they be re-elected or elected.

Director Indemnification and Insurance

As permitted by the Company's Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity, as defined by Section 234 of the Companies Act 2006. This was in place throughout the financial year and also as at the date of approval of these financial statements.

An insurance policy is maintained by the Company which indemnifies the Directors of the Company against certain liabilities arising in the conduct of their duties. There is no cover against fraudulent or dishonest actions.

Disclosure of Information to Auditors

In the case of each of the persons who are Directors of the Company at the time when this report was approved:

- so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act) of which the Company's Auditors are unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's Auditors are aware of that information.

The above confirmation is given and should be interpreted in accordance with the provisions of Section 418(2) of the Companies Act 2006.

Independent Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as Auditors to the Company and resolutions proposing their re-appointment and authorising the Directors to determine their remuneration for the ensuing year will be put to shareholders at the Annual General Meeting.

Annual General Meeting

Note: This section is important and requires your immediate attention. If you are in any doubt as to the action you should take you should seek your own personal financial advice from your stock broker,

bank manager, solicitor, or other financial advisor authorised under the Financial Services and Markets Act 2000.

Resolutions relating to the following item of special business will be proposed at the forthcoming Annual General Meeting:

Authority to allot new shares and to disapply statutory pre-emption rights (resolutions 10 and 11)

The Directors will seek renewal of the authority at the AGM to issue up to 4,935,535 Ordinary shares for cash up to an aggregate nominal amount of £1,233,884 such amount being equivalent to 5% of the present issued ordinary share capital as at the last practicable date before the publication of this document. The full text of the resolutions is set out in the Notice of Meeting on pages 53 to 55. This authority will expire at the conclusion of the AGM of the Company in 2013 unless renewed at a prior general meeting.

It is advantageous for the Company to be able to issue new shares to participants purchasing shares through the JPMorgan savings products and also to other investors when the Directors consider that it is in the best interests of shareholders to do so. As such issues are only made at prices greater than the net asset value (the 'NAV'), they increase the NAV per share and spread the Company's administrative expenses, other than the management fee which is charged on the value of the Company's market capitalisation, over a greater number of shares. The issue proceeds are available for investment in line with the Company's investment policies. The Company currently does not hold any shares in the capital of the Company in Treasury.

Authority to repurchase the Company's shares for cancellation (resolution 12)

At the Annual General Meeting held in May 2011, shareholders gave authority to the Company to enable it to purchase up to 14.99% of its then issued share capital. This authority will expire on 22nd November 2012 unless renewed by shareholders. The Directors consider that the renewing of the authority is in the interests of shareholders as a whole, as the repurchase of shares at a discount to the underlying net asset value ('NAV') enhances the NAV of the remaining shares.

Approval of dividend policy (resolution 13)

The Directors seek approval of the Company's dividend policy to continue to pay four quarterly interim dividends, which in the year ended 31st January 2012 have totalled 36 pence per share.

Recommendation

The Board considers resolutions 10-13 are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings which amount in aggregate to 79,850 shares representing approximately 0.08% of the existing issued ordinary share capital of the Company. The full text of the resolutions are set out in the Notice of Meeting on pages 53 to 55.

Corporate Governance Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities on page 30, indicates how the Company has applied the principles of good governance of the Financial Reporting Council UK Corporate Governance Code (the 'UK Corporate Governance Code') and the AIC's Code of Corporate Governance, (the 'AIC Code'), which complements the UK Corporate Governance Code and provides a framework of best practice for investment trusts.

The Board is responsible for ensuring the appropriate level of corporate governance and considers that the Company has complied with the best practice provisions of the UK Corporate Governance Code and the AIC Code throughout the year under review, other than in respect of the provisions relating to the appointment of a senior independent director and the engagement of an external recruitment consultancy, both of which are explained below.

Role of the Board

A management agreement between the Company and JPMAM sets out the matters over which the Manager has authority. This includes management of the Company's assets and the provision of accounting, company secretarial, administration, and some marketing services.

All other matters are reserved for the approval of the Board. A formal schedule of matters reserved to the Board for decision has been approved. This includes determination and monitoring of the Company's investment objectives and policy and its future strategic direction, gearing policy, management of the capital structure, appointment and removal of third party service providers, review of key investment and financial data and the Company's corporate governance and risk control arrangements.

Directors' Report – continued

The Board has procedures in place to deal with potential conflicts of interest and following the introduction of The Bribery Act 2010, has adopted appropriate procedures designed to prevent bribery. It confirms that the procedures have operated effectively during the year under review.

The Board meets at least quarterly during the year and additional meetings are arranged as necessary. Full and timely information is provided to the Board to enable it to function effectively and to allow Directors to discharge their responsibilities.

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access that every Director has to the advice and services of the Company Secretary, JPMAM, which is responsible to the Board for ensuring that applicable rules and regulations are complied with and that Board procedures are followed.

Board Composition

The Board, chaired by Hamish Leslie Melville, consists of eight non-executive Directors, all of whom are regarded by the Board as independent, including the Chairman. The Directors have a breadth of investment, business and financial skills and experience relevant to the Company's business and brief biographical details of each Director are set out on pages 17 and 18.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board. The Board has considered whether a senior independent director should be appointed and has concluded that, as the Board consists entirely of non-executive directors, this is unnecessary.

Tenure

The Chairman, having been a Director of the Company for more than nine years, has retained his independence by submitting to annual re-election.

Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be elected by shareholders. Thereafter, subject to the performance evaluation carried out each year, the Board will agree whether it is appropriate for each Director to seek re-election. In accordance with the UK Corporate Governance Code, from 2011 onwards, Directors continuing in office have sought annual re-election.

The terms and conditions of Directors' appointments are set out in formal letters of appointment, copies

of which are available for inspection on request at the Company's registered office and at the AGM.

The Board recommends the election and re-election of the Directors who each seek election and re-election at this year's AGM.

Induction and Training

On appointment, the Manager and Company Secretary provide all Directors with induction training. Thereafter, regular briefings are provided on changes in law and regulatory requirements that affect the Company and the Directors. Directors are encouraged to attend industry and other seminars covering issues relevant to investment trust companies. Regular reviews of the Directors' training needs are carried out by the Nomination Committee by means of the evaluation process below.

Meetings and Committees

The Board delegates certain responsibilities and functions to committees. Details of membership of committees are shown with the Directors' profiles on pages 17 and 18. Directors who are not members of Committees may attend at the invitation of the Chairman.

The table below details the number of Board, Audit Committee and Nomination Committee meetings attended by each Director. During the year there were five Board meetings, two Audit Committee meetings and two Nomination Committee meetings.

Director	Board Meetings Attended	Audit Committee Meetings Attended	Nomination Committee Meetings Attended
Hamish Leslie Melville	5	2 ¹	2
Sir Richard Beckett	5	2	2
The Right Hon. The Earl of Halifax	5	2	2
Helen James ²	2	1	1
Sandy Nairn	4	2	1
Charles Peel	5	2	2
Ian Russell	5	2	2
Jeremy Tighe ³	—	—	—

¹Attended by invitation.

²Was appointed on 21st September 2011.

³Was appointed on 26th March 2012.

Board Committees

Nomination Committee

The Nomination Committee, chaired by Hamish Leslie Melville, consists of all the Directors and meets at least annually to ensure that the Board has an appropriate balance of skills and experience to carry out its fiduciary duties and to select and propose suitable candidates for appointment when necessary. The appointment process takes account of the benefits of diversity, including gender.

The Board has a wide network of contacts within the field of financial services and beyond, and believes that the engagement of the services of an external recruitment consultancy is consequently unnecessary at present, although this will be kept under review. Ms Helen James was appointed during the course of the year. Mr Jeremy Tighe was appointed after year end, on 26th March 2012.

Mr Charles Peel and The Right Honourable The Earl of Halifax will not seek re-election at the forthcoming Annual General Meeting.

The Board has engaged an independent consultant to conduct an evaluation of the Manager, its own performance and that of its committees, the Chairman and individual Directors. This evaluation was endorsed by the Board and all recommendations, other than the appointment of a senior independent director, adopted (see paragraph 2 under 'Board Composition' above). The independent consultant engaged had no other connection with the Company.

The Committee conducts an annual performance evaluation, to ensure that all members of the Board have devoted sufficient time and contributed adequately to the work of the Board. The Committee also reviews Directors' fees and makes recommendations to the Board as and when appropriate.

On an annual basis each Director submits a list of potential conflicts of interest for approval at the Nomination Committee meeting. These are considered carefully, taking into account the circumstances surrounding them, and, if considered appropriate, are approved for a period of one year.

Audit Committee

The Audit Committee, chaired by Ian Russell, consists of all the Directors other than the Chairman and meets at least twice each year. The members of the Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee for details of their qualifications see pages 17 and 18.

The Committee reviews the actions and judgements of the Manager in relation to the half year and annual accounts and the Company's compliance with the UK Corporate Governance Code. It reviews the terms of the management agreement and examines the effectiveness of the Company's risk management and internal control systems, receives information from the Manager's Compliance department and reviews the scope and results of the external audit, its cost effectiveness, the balance of audit and non-audit services, and the independence and objectivity of the external auditors. In the Directors' opinion, the Auditors are considered independent.

The Audit Committee also has a primary responsibility for making recommendations to the Board on the re-appointment and removal of external auditors.

Representatives of the Company's Auditors attend the Audit Committee meeting at which the draft Annual Report & Accounts are considered. Having reviewed the performance of the external auditors, the Committee considered it appropriate to recommend their reappointment. The Board supported this recommendation which will be put to shareholders at the forthcoming Annual General Meeting.

In order to safeguard the Auditors' objectivity and independence, any significant non-audit services are carried out through a partner other than the audit engagement partner where appropriate. Representatives of the Company's auditors attend the Committee meeting at which the draft annual report and accounts are considered. The Directors' statement on the Company's system of risk management and internal control is set out on pages 26 and 27.

Both the Nomination Committee and the Audit Committee have written terms of reference which define clearly their respective responsibilities, copies of which are available for inspection on the Company's website, on request at the Company's registered office and at the Company's AGM.

Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company. It aims to provide shareholders with a full understanding of the Company's activities and performance and reports formally to shareholders four times a year by way of the Annual Report and Accounts, Half Year Financial Report and two Interim Management Statements. This is supplemented by the daily publication, through the London Stock Exchange, of the net asset value of the Company's shares.

Directors' Report – continued

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the Directors and representatives of the Manager are available in person to meet with shareholders and answer questions. In addition, a presentation is given by the Investment Managers who review the Company's performance. During the year the Company's brokers and the Investment Managers hold regular discussions with larger shareholders. The Directors are made fully aware of their views. The Chairman and Directors make themselves available as and when required to address shareholder queries. The Directors may be contacted through the Company Secretary whose details are shown on page 57.

The Company's Annual Report and Accounts is published in time to give shareholders at least 20 working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to submit questions via the Company's website or write to the Company Secretary at the address shown on page 57.

Details of the proxy voting position on each resolution will be published on the Company's website shortly after the Annual General Meeting.

Section 992 Companies Act 2006

The following disclosures are made in accordance with Section 992 Companies Act 2006.

Capital Structure

The Company's capital structure is summarised on the inside front cover of this report.

Voting Rights in the Company's shares

As at 26th March 2012 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 98,710,719 Ordinary shares, carrying one vote each. Therefore the total voting rights of the Company are 98,710,719.

Environmental Matters, Social and Community Issues

Information about environmental matters, and social and community issues is set out on pages 27 and 28. The Company has no employees.

Notifiable Interests in the Company's Voting Rights

At the year end and the date of this report, the following had declared a notifiable interest in the Company's voting rights:

Shareholders	Number of voting rights	%
AXA Investment Managers UK Ltd	11,656,984	11.81
Brewin Dolphin Ltd	9,303,353	9.42
Rathbone Investment Management Ltd	7,141,855	7.24
Chase Nominees Ltd ¹	7,095,069	7.19
Investec Wealth & Investment Ltd	5,135,921	5.20
Quilter & Co Ltd	4,394,349	4.45
JPMorgan Asset Management (UK) Ltd	4,084,292	4.14
Legal & General Group Plc	3,420,532	3.47

¹Held on behalf of JPMAM Share Plan, ISA and SIPP participants.

The rules concerning the appointment and replacement of Directors, amendment of the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Acts.

There are no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; no agreements which the Company is party to that affect its control following a takeover bid; and no agreements between the Company and its directors concerning compensation for loss of office.

Risk Management and Internal Control

The UK Corporate Governance Code requires the Directors, at least annually, to review the effectiveness of the Company's system of risk management and internal control and to report to shareholders that they have done so. This encompasses a review of all controls, which the Board has identified as including business, financial, operational, compliance and risk management.

The Directors are responsible for the Company's system of risk management and internal control which is designed to safeguard the Company's assets, maintain proper accounting records and ensure that financial information used within the business, or published, is reliable. However, such a system can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and therefore can only provide reasonable, but not absolute, assurance against fraud, material mis-statement or loss.

Since investment management, custody of assets and all administrative services are provided to the Company by JPMAM and its associates, the Company's system of risk management and internal control mainly consists of monitoring the services provided by JPMAM and its associates, including the operating controls established by them, to ensure they meet the Company's business objectives. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company (see Principal Risks on pages 20 and 21). This process has been in place for the year under review and up to the date of approval of the Annual Report & Accounts and it accords with the Turnbull guidance. The Company does not have an internal audit function of its own, but relies on the internal audit department of JPMAM. This arrangement is kept under annual review. The key elements designed to provide effective risk management and internal control are as follows:

Financial Reporting – Regular and comprehensive review by the Board of key investment and financial data, including management accounts, revenue projections, analysis of transactions and performance comparisons.

Management Agreement – Appointment of a manager and custodian regulated by the Financial Services Authority (FSA), whose responsibilities are clearly defined in a written agreement.

Management Systems – The Manager's system of risk management and internal control includes organisational agreements which clearly define the lines of responsibility, delegated authority, control procedures and systems. These are monitored by JPMAM's Compliance department which regularly monitors compliance with FSA rules.

Investment Strategy – Authorisation and monitoring of the Company's investment strategy and exposure limits by the Board.

The Board, either directly or through the Audit Committee, keeps under review the effectiveness of the Company's system of risk management and internal control by monitoring the operation of the key operating controls of the Manager and its associates as follows:

- reviews the terms of the management agreement and receives regular reports from JPMAM's Compliance department;
- reviews reports on the risk management and internal controls and the operations of its

custodian, JPMorgan Chase Bank, which is itself independently reviewed; and

- the Directors review on a regular basis an independent report on the risk management and internal controls and the operations of JPMAM.

By the means of the procedures set out above, the Board confirms that it has reviewed the effectiveness of the Company's system of risk management and internal control for the year ended 31st January 2012, and to the date of approval of this Annual Report and Accounts.

During the course of its review of the system of risk management and internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant.

Corporate Governance and Voting Policy

The Company delegates responsibility for voting to JPMAM.

The following is a summary of JPMAM's policy statements on corporate governance, voting policy and social and environmental issues, which has been reviewed and endorsed by the Board.

Corporate Governance

JPMAM believes that corporate governance is integral to our investment process. As part of our commitment to delivering superior investment performance to our clients, we expect and encourage the companies in which we invest to demonstrate the highest standards of corporate governance and best business practice. We examine the share structure and voting structure of the companies in which we invest, as well as the board balance, oversight functions and remuneration policy. These analyses then form the basis of our proxy voting and engagement activity.

Proxy Voting

JPMAM manages the voting rights of the shares entrusted to it as it would manage any other asset. It is the policy of JPMAM to vote in a prudent and diligent manner, based exclusively on our reasonable judgement of what will best serve the financial interests of our clients. So far as is practicable, we will vote at all of the meetings called by companies in which we are invested.

Stewardship/Engagement

JPMAM recognises its wider stewardship responsibilities to its clients as a major asset owner. To this end, we support the introduction of the FRC Stewardship Code, which sets out the responsibilities of institutional shareholders in respect of investee companies. Under the Code, managers should:

Directors' Report – continued

- publicly disclose their policy on how they will discharge their stewardship responsibilities to their clients;
- disclose their policy on managing conflicts of interest;
- monitor their investee companies;
- establish clear guidelines on how they escalate engagement;
- be willing to act collectively with other investors where appropriate;
- have a clear policy on proxy voting and disclose their voting record; and
- report to clients.

JPMAM endorses the Stewardship Code for its UK investments and supports the principles as best practice elsewhere. We believe that regular contact with the companies in which we invest is central to our investment process and we also recognise the importance of being an 'active' owner on behalf of our clients.

Social & Environmental

JPMAM believes that companies should act in a socially responsible manner. Although our priority at all times is the best economic interests of our clients, we recognise that, increasingly, non-financial issues such as social and environmental factors have the potential to impact the share price, as well as the reputation of companies. Specialists within JPMAM's environmental, social and governance ('ESG') team are tasked with assessing how companies deal with and report on social and environmental risks and issues specific to their industry.

JPMAM is also a signatory to the United Nations Principles of Responsible Investment, which commits participants to six principles, with the aim of incorporating ESG criteria into their processes when making stock selection decisions and promoting ESG disclosure. Our detailed approach to how we implement the principles is available on request. JPMAM is also a signatory to Carbon Disclosure Project. JPMorgan Chase is a signatory to the Equator Principles on managing social and environmental risk in project finance.

JPMAM's Voting Policy and Corporate Governance Guidelines are available on request from the Company Secretary or can be downloaded from JPMAM's website: <http://www.jpmorganinvestmenttrusts.co.uk/Governance>. This also sets out its approach to the seven principles of the FRC Stewardship Code, its policy relating to conflicts of interest and its detailed voting record.

By order of the Board
Juliet Dearlove, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Company Secretary
27th March 2012

Copies of the UK Corporate Governance Code and the AIC Code may be found on the respective organisations' websites: www.frc.org.uk and www.theaic.co.uk

Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of Section 421 of the Companies Act 2006. An ordinary resolution to approve this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited they are indicated as such. The auditors' opinion is included in their report on page 31.

With effect from 1st July 2011, Directors' fees were raised from £45,000 to £60,000 for the Chairman, from £35,000 to £40,000 for the Chairman of the Audit Committee and from £30,000 to £33,000 for the other Directors. Directors' fees were last increased in 2007. The independent consultant engaged to conduct the Board evaluation as detailed under "Nomination Committee" above, considered the new fee levels in his report, concluding that he believed them to be both competitive and appropriate for a company of this size and nature.

The Nomination Committee reviews Directors' fees on a regular basis and makes recommendations to the Board as and when appropriate. Reviews are based on information provided by the Manager and relevant third parties on the level of fees paid to the directors of the Company's peers and within the investment trust industry generally. The Directors' fees are not performance-related. Any increase in the aggregate level of Directors' fees requires both Board and shareholder approval.

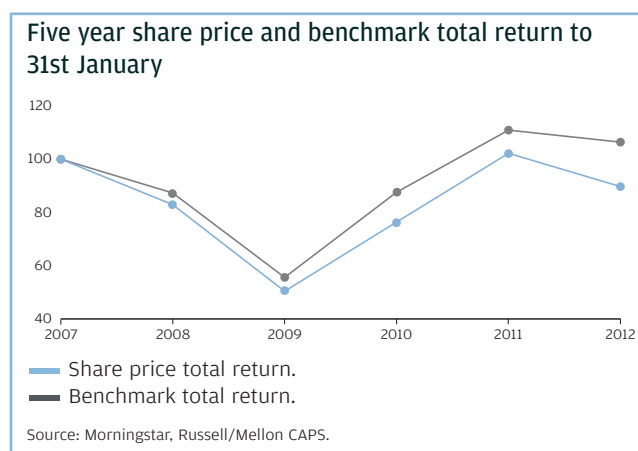
The Board's policy is that Directors' fees should properly reflect the time spent by the Directors on the Company's business and should be at a level to ensure that candidates of a high calibre are recruited to the Board. The Chairman of the Board and the Chairman of the Audit Committee are paid higher fees than the other Directors, reflecting the greater time commitment involved in fulfilling those roles.

The terms and conditions of the Directors' appointments are set out in formal letters of appointment. Details of the Board's policy on tenure are set out on page 24.

The Company does not operate any type of incentive or pension scheme and therefore no Directors receive bonus payments or pension contributions from the Company or hold options to acquire shares in the Company. Directors are not paid compensation

for loss of office. No other payments are made to Directors, other than the reimbursement of reasonable out-of-pocket expenses incurred in connection with attending the Company's business.

A graph showing the Company's share price total return compared with its benchmark index, the FTSE All-Share Index excluding FTSE 100 constituents and investment trusts, over the last five years is shown below.



Directors' Remuneration

(Audited Information) Directors' Name	2012 £	2011 £
Hamish Leslie Melville (Chairman)	53,750	45,000
Sir Richard Beckett	31,750	30,000
The Right Hon. The Earl of Halifax	31,750	30,000
Helen James ¹	12,015	n/a
Sandy Nairn	31,750	30,000
Charles Peel	31,750	30,000
Ian Russell	37,916	40,000
Jeremy Tighe ²	n/a	n/a
Total	230,681	205,000

¹Appointed 21st September 2011.

²Appointed 26th March 2012.

By order of the Board
Juliet Dearlove, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Company Secretary
27th March 2012

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and the accounts in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these 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; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the

Companies Act 2006. 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.

Under applicable law and regulations the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Statement of Corporate Governance that comply with that law and those regulations.

Each of the Directors, whose names and functions are listed in the Directors' Report confirms that, to the best of his/her knowledge:

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and net return or loss of the Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board
Hamish Leslie Melville
Chairman

27th March 2012

Independent Auditors' Report

To the members of The Mercantile Investment Trust plc

We have audited the financial statements of The Mercantile Investment Trust plc for the year ended 31st January 2012 which comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 30, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report & Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31st January 2012 and of its net return/loss and cash flows for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 22, in relation to going concern;
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Jeremy Jensen (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

27th March 2012

Notes:

- The maintenance and integrity of The Mercantile Investment Trust plc website (www.mercantileit.co.uk) is the responsibility of JPMAM; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the accounts since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income Statement

for the year ended 31st January 2012

	Notes	2012			2011		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments held at fair value through profit or loss	2	–	(108,508)	(108,508)	–	249,190	249,190
Net foreign currency (losses)/gains		–	(6)	(6)	–	26	26
Income from investments	3	36,700	–	36,700	30,631	–	30,631
Other interest receivable and similar income	3	684	–	684	1,606	–	1,606
Gross return/(loss)		37,384	(108,514)	(71,130)	32,237	249,216	281,453
Management fee	4	(1,496)	(3,492)	(4,988)	(1,407)	(3,282)	(4,689)
Other administrative expenses	5	(900)	–	(900)	(723)	–	(723)
Net return/(loss) on ordinary activities before finance costs and taxation		34,988	(112,006)	(77,018)	30,107	245,934	276,041
Finance costs	6	(3,389)	(7,907)	(11,296)	(3,320)	(7,748)	(11,068)
Net return/(loss) on ordinary activities before taxation		31,599	(119,913)	(88,314)	26,787	238,186	264,973
Taxation	7	(44)	–	(44)	(18)	–	(18)
Net return/(loss) on ordinary activities after taxation		31,555	(119,913)	(88,358)	26,769	238,186	264,955
Return/(loss) per share	9	31.88p	(121.13)p	(89.25)p	26.91p	239.48p	266.39p

Dividends declared in respect of the financial year ended 31st January 2012 total 36.0p (2011: 36.0p) per share amounting to £35,583,000 (2011: £35,657,000). Further information on dividends is given in note 8 on page 41.

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

The 'total' column of this statement is the profit and loss account of the Company, and the 'revenue' and 'capital' columns represent supplementary information prepared under guidance issued by the Association of Investment Companies. The total column represents all the information that is required to be disclosed in a Statement of Total Recognised Gains and Losses ('STRGL'). For this reason, a STRGL has not been presented.

The notes on pages 36 to 52 form an integral part of these accounts.

Reconciliation of Movements in Shareholders' Funds

for the year ended 31st January 2012

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31st January 2010	25,487	23,459	11,283	928,785	46,362	1,035,376
Repurchase and cancellation of the Company's own shares	(728)	–	728	(27,273)	–	(27,273)
Net return on ordinary activities	–	–	–	238,186	26,769	264,955
Dividends appropriated in the year	–	–	–	–	(35,792)	(35,792)
At 31st January 2011	24,759	23,459	12,011	1,139,698	37,339	1,237,266
Repurchase and cancellation of the Company's own shares	(81)	–	81	(2,976)	–	(2,976)
Net (loss)/return on ordinary activities	–	–	–	(119,913)	31,555	(88,358)
Dividends appropriated in the year	–	–	–	–	(35,571)	(35,571)
At 31st January 2012	24,678	23,459	12,092	1,016,809	33,323	1,110,361

The notes on pages 36 to 52 form an integral part of these accounts.

Balance Sheet

at 31st January 2012

	Notes	2012 £'000	2011 £'000
Fixed assets			
Investments held at fair value through profit or loss	10	1,276,856	1,347,562
Current assets	12		
Debtors		2,115	4,030
Cash and short term deposits		18,447	89,530
		20,562	93,560
Creditors: amounts falling due within one year	13	(9,963)	(26,859)
Net current assets		10,599	66,701
Total assets less current liabilities		1,287,455	1,414,263
Creditors: amounts falling due after more than one year	14	(177,094)	(176,997)
Net assets		1,110,361	1,237,266
Capital and reserves			
Called up share capital	15	24,678	24,759
Share premium	16	23,459	23,459
Capital redemption reserve	16	12,092	12,011
Capital reserves	16	1,016,809	1,139,698
Revenue reserve	16	33,323	37,339
Total equity shareholders' funds		1,110,361	1,237,266
Net asset value per share	17	1,124.9p	1,249.3p

The accounts on pages 32 to 52 were approved and authorised for issue by the Directors on 27th March 2012 and are signed on their behalf by:

Hamish Leslie Melville
Chairman

The notes on pages 36 to 52 form an integral part of these accounts.

The Mercantile Investment Trust plc

Company registration number 20537

Cash Flow Statement

for the year ended 31st January 2012

	Notes	2012 £'000	2011 £'000
Net cash inflow from operating activities	18	30,632	26,671
Servicing of finance			
Interest paid		(11,216)	(10,954)
Net cash outflow from servicing of finance		(11,216)	(10,954)
Taxation			
Overseas tax recovered		30	–
Financial investment			
Purchases of investments		(956,066)	(1,154,341)
Sales of investments		918,124	1,236,936
Other capital charges		(20)	(31)
Net cash (outflow)/inflow from financial investment		(37,962)	82,564
Dividends paid		(35,571)	(35,780)
Net cash (outflow)/inflow before financing		(54,087)	62,501
Financing			
(Repayment)/drawdown of short term loan		(15,000)	15,000
Repurchase and cancellation of the Company's own shares		(1,990)	(28,222)
Net cash outflow from financing		(16,990)	(13,222)
(Decrease)/increase in cash in the year	19	(71,077)	49,279

The notes on pages 36 to 52 form an integral part of these accounts.

Notes to the Accounts

for the year ended 31st January 2012

1. Accounting Policies

(a) Basis of accounting

The accounts are prepared in accordance with the Companies Act 2006, United Kingdom Generally Accepted Accounting Practice ('UK GAAP') and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (the 'SORP') issued by the Association of Investment Companies in January 2009. All of the Company's operations are of a continuing nature.

The accounts have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of investments at fair value through profit or loss.

The policies applied in these accounts are consistent with those applied in the preceding year.

(b) Valuation of investments

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy and information is provided internally on that basis to the Company's Board of Directors. Accordingly, upon initial recognition the investments are designated by the Company as 'held at fair value through profit or loss'. They are included initially at fair value which is taken to be their cost, excluding expenses incidental to purchase which are written off to capital at the time of acquisition. Subsequently the investments are valued at fair value, which are quoted bid prices for investments traded in active markets. For investments which are not traded in active markets, unlisted and restricted investments, the Board takes into account the latest traded prices, other observable market data and asset values based on the latest management accounts.

(c) Accounting for reserves

Gains and losses on sales of investments including the related foreign exchange gains and losses, realised gains and losses on foreign currency, management fee and finance costs allocated to capital and any other capital charges, are included in the Income Statement and dealt with in capital reserves within 'Gains on sales of investments'. Increases and decreases in the valuation of investments held at the year end including the related foreign exchange gains and losses, are included in the Income Statement and dealt with in capital reserves within 'Investment holding gains'.

All purchases and sales are accounted for on a trade date basis.

(d) Income

Dividends receivable from equity shares are included in revenue on an ex-dividend basis except where, in the opinion of the Board, the dividend is capital in nature, in which case it is included in capital.

UK dividends are included net of tax credits. Overseas dividends are included gross of any withholding tax.

Where the Company has elected to receive scrip dividends in the form of additional shares rather than in cash, the amount of the cash dividend foregone is recognised in revenue. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital.

Interest receivable from debt securities, together with any premiums or discounts on purchase, are allocated to revenue on a time apportionment basis so as to reflect the effective interest of those securities.

Deposit interest receivable is taken to revenue on an accruals basis.

Underwriting commission is taken to revenue on a receipts basis. Underwriting commission is recognised in revenue where it relates to shares that the Company is not required to take up. Where the Company is required to take up a proportion of the shares underwritten, the same proportion of commission received is deducted from the cost of the shares taken up, with the balance taken to revenue.

(e) Expenses

All expenses are accounted for on an accruals basis. Expenses are allocated wholly to the revenue column of the income statement with the following exceptions:

- The management fee is allocated 30% to revenue and 70% to capital, in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.
- Expenses incidental to the purchase of an investment are included within the cost of the investment and those incidental to the sale are deducted from the sale proceeds. These expenses are commonly referred to as transaction costs and comprise brokerage commission and stamp duty. Details of transaction costs are given in note 10 on page 42.

(f) Finance costs

Finance costs are accounted for on an accruals basis using the effective interest method and in accordance with the provisions of FRS 25 'Financial Instruments: Presentation' and FRS 26 'Financial Instruments: Measurement'.

Finance costs are allocated 30% to revenue and 70% to capital, in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.

Breakage costs incurred on the early repayment of loans are charged 100% to capital.

(g) Financial instruments

Cash and short term deposits may comprise cash and demand deposits which are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

Other debtors and creditors do not carry any interest, are short term in nature and are accordingly stated at nominal value, with debtors reduced by appropriate allowances for estimated irrecoverable amounts.

The debentures in issue, bank loans and overdrafts are measured at amortised cost. They are recorded at the proceeds received net of direct issue costs. Finance costs, including any premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis using the effective interest method.

(h) Taxation

Current tax is provided at the amounts expected to be received or paid.

Deferred tax is accounted for in accordance with FRS 19: 'Deferred Tax'.

Deferred tax is provided on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax liabilities are recognised for all taxable timing differences but deferred tax assets are only recognised to the extent that it is probable that taxable profits will be available against which those timing differences can be utilised.

Tax relief is allocated to expenses charged to the capital column of the income statement on the 'marginal basis'. On this basis, if taxable income is capable of being entirely offset by revenue expenses, then no tax relief is transferred to the capital column.

Deferred tax is measured at the tax rate which is expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates that have been enacted or substantively enacted at the balance sheet date and is measured on an undiscounted basis.

(i) Value Added Tax ('VAT')

Expenses are disclosed inclusive of the related irrecoverable VAT. Recoverable VAT is calculated using the partial exemption method, based on the proportion of zero rated supplies to total supplies.

(j) Foreign currency

In accordance with FRS 23: 'The effects of changes in Foreign Exchange Rates' the Company is required to nominate a functional currency, being the currency in which the Company predominantly operates. The Board, having regard to the currency of the Company's share capital and the predominant currency in which its shareholders operate, has determined that sterling is the functional currency. Sterling is also the currency in which the accounts are presented.

Transactions denominated in foreign currencies are converted at actual exchange rates as at the date of the transaction. Monetary assets, liabilities and equity investments held at fair value, denominated in foreign currencies at the year end are translated at the rates of exchange prevailing at the year end.

(k) Dividends payable

In accordance with FRS 21: 'Events after the Balance Sheet Date', dividends are included in the accounts in the year in which they are paid.

(l) Repurchases of ordinary shares for cancellation

The cost of repurchasing ordinary shares including the related stamp duty and transactions costs is charged to 'Capital reserves' and dealt with in the Reconciliation of Movement in Shareholders' Funds. Share repurchase transactions are accounted for on a trade date basis. The nominal value of ordinary share capital repurchased and cancelled is transferred out of 'Called up share capital' and into 'Capital redemption reserve'.

Notes to the Accounts – continued

	2012 £'000	2011 £'000
2. (Losses)/gains on investments held at fair value through profit or loss		
Gains on investments held at fair value through profit or loss based on historical cost	76,019	144,292
Amounts recognised in investment holding gains and losses in the previous year in respect of investments sold during the year	(96,933)	(45,924)
(Losses)/gains on sales of investments based on the carrying value at the previous balance sheet date	(20,914)	98,368
Net movement in investment holding gains and losses	(87,580)	150,858
Other capital charges	(14)	(36)
Total capital (losses)/gains on investments held at fair value through profit or loss	(108,508)	249,190

	2012 £'000	2011 £'000
3. Income		
Income from investments		
UK dividends	29,524	24,858
UK bond interest	–	438
Property income distributions	731	362
Overseas dividends	5,005	4,917
Scrip dividends	1,440	56
	36,700	30,631
Other interest receivable and similar income		
Underwriting commission	375	1,242
Deposit interest	309	364
	684	1,606
Total income	37,384	32,237

	2012			2011		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
4. Management fee						
Management fee ¹	1,496	3,492	4,988	1,407	3,282	4,689

¹Details of the management fee are given in the Directors' Report on page 22.

	2012	2011
	£'000	£'000
5. Other administrative expenses		
Administration expenses	516	370
Directors' fees ¹	231	205
Savings scheme costs ²	115	111
Auditors' remuneration for audit services ³	36	36
Auditors' remuneration for all other services ⁴	2	1
	900	723

¹Full disclosure is given in the Directors' Remuneration Report on page 29.

²These amounts were paid to JPMAM for the marketing and administration of saving scheme products.

³Includes £7,000 (2011: £6,000) irrecoverable VAT.

⁴Includes £200 (2011: £200) irrecoverable VAT.

	2012			2011		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
6. Finance costs						
Interest on bank loans and overdrafts	95	221	316	27	63	90
Debenture interest	3,265	7,618	10,883	3,264	7,618	10,882
Amortisation of debenture issue costs	29	68	97	29	67	96
	3,389	7,907	11,296	3,320	7,748	11,068

Notes to the Accounts – continued

	2012 £'000	2011 £'000
7. Taxation		
(a) Analysis of tax charge in the year		
Overseas withholding tax	44	18
Current tax charge for the year	44	18

(b) Factors affecting the current tax charge for the year

The tax assessed for the year is higher (2011: lower) than the Company's applicable rate of corporation tax for the year of 26.32% (2011: 28%). The factors affecting the current tax charge for the year are as follows:

	2012			2011		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net return/(loss) on ordinary activities before taxation	31,599	(119,913)	(88,314)	26,787	238,186	264,973
Net return on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax of 26.32% (2011: 28%)	8,317	(31,561)	(23,244)	7,500	66,692	74,192
Effect of:						
Non taxable scrip dividends	(379)	–	(379)	(16)	–	(16)
Non taxable UK dividend income	(7,771)	–	(7,771)	(6,960)	–	(6,960)
Non taxable overseas dividend income	(1,317)	–	(1,317)	(1,377)	–	(1,377)
Non taxable capital losses/(gains)	–	28,561	28,561	–	(69,780)	(69,780)
Unrelieved expenses	1,150	3,000	4,150	853	3,088	3,941
Overseas withholding tax	44	–	44	18	–	18
	44	–	44	18	–	18

(c) Deferred taxation

The Company has an unrecognised deferred tax asset of £43,396,000 (2011: £42,610,000) based on a prospective corporation tax rate of 25% (2011: 27%). The reduction in the standard rate of corporation tax was substantively enacted on 5th July 2011 and is effective from 1st April 2012. The deferred tax asset has arisen due to the cumulative excess of deductible expenses over taxable income. Given the composition of the Company's portfolio, it is not likely that this asset will be utilised in the foreseeable future and therefore no asset has been recognised in the accounts.

Given the Company's status as an Investment Trust Company and the intention to continue meeting the conditions required to obtain approval, the Company has not provided for deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

	2012 £'000	2011 £'000
8. Dividends		
(a) Dividends paid and declared		
Unclaimed dividends refunded to the Company ¹	(70)	–
2011 fourth quarterly dividend of 18.0p (2010: 18.0p) paid to shareholders in May	17,826	17,961
First quarterly dividend of 6.0p (2011: 6.0p) paid to shareholders in August	5,942	5,945
Second quarterly dividend of 6.0p (2011: 6.0p) paid to shareholders in November	5,942	5,944
Third quarterly dividend of 6.0p (2011: 6.0p) paid to shareholders in February ²	5,931	5,942
Total dividends paid in the year	35,571	35,792

¹Represents dividends which remain unclaimed after a period of 12 years and thereby become the property of the Company.

²Paid to the Registrars in January.

	2012 £'000	2011 £'000
Fourth quarterly dividend declared of 18.0p (2011: 18.0p) payable to shareholders in May	17,768	17,826

The fourth quarterly dividend has been declared in respect of the year ended 31st January 2012. In accordance with the accounting policy of the Company, this dividend will be reflected in the accounts for the year ending 31st January 2013.

(b) Dividends for the purposes of Section 1158 of the Corporation Tax Act 2010 ('Section 1158')

The requirements of Section 1158 are considered on the basis of dividends declared in respect of the financial year as shown below. The revenue available for distribution by way of dividend for the year is £31,555,000 (2011: £26,769,000).

	2012 £'000	2011 £'000
First quarterly dividend of 6.0p (2011: 6.0p) paid in August	5,942	5,945
Second quarterly dividend of 6.0p (2011: 6.0p) paid in November	5,942	5,944
Third quarterly dividend of 6.0p (2011: 6.0p) paid in February	5,931	5,942
Fourth quarterly dividend of 18.0p (2011: 18.0p) payable in May	17,768	17,826
	35,583	35,657

9. Return/(loss) per share

The revenue return per share is based on the revenue earnings attributable to the ordinary shares of £31,555,000 (2011: £26,769,000) and on the weighted average number of ordinary shares in issue during the year of 98,998,335 (2011: 99,461,672).

The capital loss per share is based on the capital loss attributable to the ordinary shares of £119,913,000 (2011: £238,186,000 return) and on the weighted average number of ordinary shares in issue during the year of 98,998,335 (2011: 99,461,672).

The total loss per share is based on the total loss attributable to the ordinary shares of £88,358,000 (2011: £264,955,000 return) and on the weighted average number of ordinary shares in issue during the year of 98,998,335 (2011: 99,461,672).

Notes to the Accounts – continued

	2012 £'000	2011 £'000
10. Investments		
Investments listed on a recognised stock exchange	1,157,257	1,232,085
Investments listed on AIM and unlisted investments	119,599	115,477
	1,276,856	1,347,562

	Listed in UK £'000	Listed Overseas £'000	AIM and Unlisted £'000	Total £'000
Opening book cost	1,075,314	6,884	86,556	1,168,754
Opening investment holding gains	141,674	8,213	28,921	178,808
Opening valuation	1,216,988	15,097	115,477	1,347,562
Movements in the year:				
Purchases at cost	905,749	4	48,491	954,244
Sales - proceeds	(871,585)	(8,786)	(36,085)	(916,456)
(Losses)/gains on sales of investments based on the carrying value at the previous balance sheet date	(29,733)	126	8,693	(20,914)
Net movement in investment holding gains and losses	(69,977)	(626)	(16,977)	(87,580)
	1,151,442	5,815	119,599	1,276,856
Closing book cost	1,175,028	4,115	103,418	1,282,561
Closing investment holding (losses)/gains	(23,586)	1,700	16,181	(5,705)
Total investments held at fair value through profit or loss	1,151,442	5,815	119,599	1,276,856

Transaction costs on purchases during the year amounted to £5,306,000 (2011: £6,128,000) and on sales during the year amounted to £1,151,000 (2011: £1,610,000). These costs comprise stamp duty and brokerage commission.

Investments include Alternative Investment Market stocks which are valued at £115,071,000 (2011: £109,512,000).

During the year, prior year investment holding gains amounting to £96,933,000 have been transferred to gains on sales of investments as disclosed in note 16.

11. Significant interests

Details of investments in which the Company has an interest of 3% or more of the nominal value of the allotted shares of any class and which are valued in the portfolio in excess of £10 million, are as follows:

Name of company	Country of registration	Class of share	% of class held
Laird	UK	Ordinary	6.0
MP Evans	UK	Ordinary	5.9
Cove Energy	UK	Ordinary	4.4
Misys	UK	Ordinary	3.8
Go-Ahead	UK	Ordinary	3.8
Cable & Wireless Communications	UK	Ordinary	3.5
Bovis Homes	UK	Ordinary	3.4
Cable & Wireless Worldwide	UK	Ordinary	3.4
Phoenix	UK	Ordinary	3.1

The Company has interests of 3% or more in the share capital of 38 (2011: 31) investee companies.

The Company does not exercise significant influence over the operating and financial policies of the above mentioned companies which are therefore not considered to be associated companies. The total value of investments in which the Company had an interest of 3% or more at 31st January 2012 was £337,458,000 (2011: £277,040,000).

	2012 £'000	2011 £'000
12. Current assets		
Debtors		
Securities sold awaiting settlement	410	2,078
Dividends and interest receivable	1,592	1,783
Taxation recoverable	67	–
Other debtors	46	169
	2,115	4,030

The Directors consider that the carrying amount of debtors approximates to their fair value.

Cash and short term deposits

Cash and short term deposits comprises bank balances and short term deposits. The carrying amount of these represents their fair value. Cash balances in excess of a predetermined amount are placed on short term deposit at market rates of interest.

	2012 £'000	2011 £'000
13. Creditors: amounts falling due within one year		
Securities purchased awaiting settlement	3,728	6,990
Repurchases of the Company's own shares awaiting settlement	986	–
Bank loan	–	15,000
Other creditors and accruals	5,249	4,869
	9,963	26,859

The Company's loan facility with ING Bank expired in January 2012 and has not been renewed.

The Directors consider that the carrying amount of creditors falling due within one year approximates to their fair value.

	2012 £'000	2011 £'000
14. Creditors: amounts falling due after more than one year		
Falling due after more than five years		
£3,850,000 4.25% perpetual debenture stock ¹	3,850	3,850
£175 million 6.125% debenture stock ²	173,244	173,147
	177,094	176,997

¹The £3,850,000 4.25% debenture stock is irredeemable and secured by a floating charge over the assets of the Company. The debenture is repayable at 105% if the Company goes into default and the security is enforced.

²The £175 million 6.125% debenture stock is repayable at par on 25th February 2030 and is secured by a floating charge over the assets of the Company.

Notes to the Accounts – continued

	2012 £'000	2011 £'000
15. Called up share capital		
Ordinary shares allotted and fully paid:		
Opening balance of 99,035,719 (2011: 101,947,968) shares of 25p each	24,759	25,487
Repurchase and cancellation of 325,000 (2011: 2,912,249) shares	(81)	(728)
Closing balance of 98,710,719 (2011: 99,035,719) shares of 25p each	24,678	24,759

During the year, the Company made market purchases of 325,000 of its own shares, nominal value £81,250, for cancellation, representing 0.33% of the shares outstanding at the beginning of the year. The total consideration paid for these shares amounted to £2,976,000.

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves			Total £'000
				Gains on sales of investments £'000	Investment holding gains £'000	Revenue reserve £'000	
16. Reserves							
Opening balance	24,759	23,459	12,011	960,890	178,808	37,339	1,237,266
Net currency losses on cash and short term deposits held during the year	–	–	–	(6)	–	–	(6)
Losses on sales of investments based on the carrying value at the previous balance sheet date	–	–	–	(20,914)	–	–	(20,914)
Net movement in investment holding gains and losses	–	–	–	–	(87,580)	–	(87,580)
Transfer on disposal of investments	–	–	–	96,933	(96,933)	–	–
Repurchase and cancellation of the Company's own shares	(81)	–	81	(2,976)	–	–	(2,976)
Management fee and finance costs charged to capital	–	–	–	(11,399)	–	–	(11,399)
Other capital charges	–	–	–	(14)	–	–	(14)
Dividends appropriated in the year	–	–	–	–	–	(35,571)	(35,571)
Retained revenue for the year	–	–	–	–	–	31,555	31,555
Closing balance	24,678	23,459	12,092	1,022,514	(5,705)	33,323	1,110,361

17. Net asset value per share

The net asset value per share is based on the net assets attributable to the ordinary shareholders of £1,110,361,000 (2011: £1,237,266,000) and on the 98,710,719 (2011: 99,035,719) shares in issue at the year end.

	2012 £'000	2011 £'000
18. Reconciliation of net (loss)/return on ordinary activities before finance costs and taxation to net cash inflow from operating activities		
Total (loss)/return on ordinary activities before finance costs and taxation	(77,018)	276,041
Less capital loss/(return) on ordinary activities before finance costs and taxation	112,006	(245,934)
Scrip dividends received as income	(1,440)	(56)
Decrease in dividends and interest receivable	191	5
Decrease/(increase) in other debtors	5	(37)
Increase/(decrease) in accrued expenses	403	(34)
Management fee charged to capital	(3,492)	(3,282)
Overseas withholding tax	(23)	(32)
Net cash inflow from operating activities	30,632	26,671

	At 31st January 2011 £'000	Cash flow £'000	Other exchange movement £'000	Non cash movements £'000	At 31st January 2012 £'000
19. Analysis of changes in net debt					
Cash and short term deposits	89,530	(71,077)	(6)	–	18,447
Bank loans falling due within one year	(15,000)	15,000	–	–	–
Debentures falling due after more than five years	(176,997)	–	–	(97)	(177,094)
Net debt	(102,467)	(56,077)	(6)	(97)	(158,647)

20. Contingent liabilities and capital commitments

At the balance sheet date there were no contingent liabilities or capital commitments.

21. Transactions with JPMorgan

Details of the management contract are set out in the Directors' Report on page 21. The management fee payable to JPMorgan Asset Management (UK) Limited ('JPMAM') for the year was £4,988,000 (2011: £4,689,000) of which £352,000 (2011: £nil) was outstanding at the year end.

During the year £115,000 (2011: £111,000) was payable to JPMAM for the marketing and administration of savings scheme products, of which £8,000 (2011: £nil) was outstanding at the year end.

Included in other management expenses in note 5 on page 39 are safe custody fees amounting to £22,000 (2011: £16,000) payable to JPMorgan Chase of which £10,000 (2011: £6,000) was outstanding at the year end.

During the year, brokerage commission and stamp duty on dealing transactions amounting to £1,250,000 (2011: £465,000) was payable to JPMorgan subsidiaries of which £nil (2011: £nil) was outstanding at the year end.

Handling charges on dealing transactions amounting to £14,000 (2011: £36,000) were payable to JPMorgan Chase during the year of which £8,000 (2011: £14,000) was outstanding at the year end.

At the year end, a bank balance of £18.4 million (2011: £89.5 million) was held with JPMorgan Chase. A net amount of interest of £0.3 million (2011: £0.4 million) was receivable by the Company during the year from JPMorgan Chase of which £nil (2011: £7,000) was outstanding at the year end.

Notes to the Accounts – continued

22. Disclosures regarding financial instruments measured at fair value

The Company's financial instruments that are held at fair value comprise its investment portfolio.

The investments are categorised into a hierarchy consisting of the following three levels:

Level 1 - valued using quoted prices in active markets.

Level 2 - valued by reference to valuation techniques using observable inputs other than quoted market prices included within Level 1.

Level 3 - valued by reference to valuation techniques using inputs that are not based on observable market data.

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset.

Details of the valuation techniques used by the Company are given in note 1(b) on page 36.

The following table sets out the fair value measurements using the FRS 29 hierarchy at 31st January:

	2012			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Financial assets held at fair value through profit or loss at 31st January 2012				
Equity investments	1,270,607	1,721	4,434	1,276,762
Fixed interest investment	–	–	94	94
Total	1,270,607	1,721	4,528	1,276,856

	2011			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Financial assets held at fair value through profit or loss at 31st January 2011				
Equity investments	1,338,526	3,071	5,871	1,347,468
Fixed interest investment	–	–	94	94
Total	1,338,526	3,071	5,965	1,347,562

There have been no transfers between Levels 1 and 2 during the year (2011: nil). A reconciliation of the fair value measurements in Level 3 is set out below.

	2012		Total £'000
	Equity investments £'000	Fixed interest investment £'000	
Level 3 financial assets held at fair value through profit or loss at 31st January 2012			
Opening balance	5,871	94	5,965
Sales proceeds	(1,894)	–	(1,894)
Gains on sales of investments based on the carrying value at the previous balance sheet date	2	–	2
Net movement in investment holding gains and losses	455	–	455
Closing balance	4,434	94	4,528

There have been no transfers into or out of Level 3 during the year.

	Equity investments £'000	2011 Fixed interest investment £'000	Total £'000
Level 3 financial assets held at fair value through profit or loss at 31st January 2011			
Opening balance	17,961	2,342	20,303
Sales - proceeds	(14,248)	(2,698)	(16,946)
Transfer into Level 3	1,891	–	1,891
Gains on sales of investments based on the carrying value at the previous balance sheet date	6,030	450	6,480
Net movement in investment holding gains and losses	(5,763)	–	(5,763)
Closing balance	5,871	94	5,965

The transfer into Level 3 related to one stock which was suspended at the prior year end, pending delisting from the FTSE Small-Cap Index.

Included in the table above are the sales proceeds from the disposal of JPMorgan Cazenove during the year, amounting to £14,234,000. The cost of this investment amounted to £7,887,000 and the carrying value at the previous balance sheet date was £14,234,000.

23. Financial instruments' exposure to risk and risk management policies

As an investment trust, the Company invests in equities for the long term so as to secure its investment objective stated on the 'Features' page. In pursuing this objective, the Company is exposed to a variety of financial risks that could result in a reduction in the Company's net assets or a reduction in the profits available for dividends.

These financial risks include market risk (comprising interest rate risk and market price risk), liquidity risk and credit risk. The Directors' policy for managing these risks is set out below. The Company Secretary, in close cooperation with the Board and the Manager, coordinates the Company's risk management policy. The Company has no significant direct exposure to foreign exchange risk.

The objectives, policies and processes for managing the risks and the methods used to measure the risks that are set out below, have not changed from those applying in the comparative year.

The Company's classes of financial instruments are as follows:

- investments in equity shares and other securities, which are held in accordance with the Company's investment objective;
- short term debtors, creditors and cash arising directly from its operations; and
- debentures issued by the Company, the purpose of which is to finance the Company's operations.

(a) Market risk

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises two elements - interest rate risk and market price risk. Information to enable an evaluation of the nature and extent of these two elements of market risk is given in parts (i) and (ii) of this note, together with sensitivity analyses where appropriate. The Board reviews and agrees policies for managing these risks and these policies have remained unchanged from those applying in the comparative year. The Manager assesses the exposure to market risk when making each investment decision and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

(i) Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits and the interest payable on variable rate borrowings when interest rates are re-set.

Management of interest rate risk

Liquidity and borrowings are managed with the aim of increasing returns to shareholders. The Company's gearing policy is to limit gearing within the range 90% to 120% where gearing is defined as investments expressed as a percentage of total net assets.

Notes to the Accounts – continued

23. Financial instruments' exposure to risk and risk management policies – continued

(a) Market risk – continued

(i) Interest rate risk – continued

Interest rate exposure

The two series of debentures issued by the Company both carry fixed rates of interest and were issued as a planned level of gearing. This debenture stock is carried in the Company's balance sheet at amortised cost rather than fair value. Hence movement in interest rates will not affect equity but may have an impact on the share price and discount which is not likely to be material.

The Company has no significant holdings of fixed interest rate securities whose fair value would be affected by interest rate movements.

The Company does not normally hold a significantly high level of cash balances and there is an overdraft facility available when required.

The exposure of financial assets and financial liabilities to floating interest rates, giving cash flow interest rate risk when rates are re-set, is shown below:

	2012 £'000	2011 £'000
Exposure to floating interest rates		
Cash at bank and short term deposits	18,447	89,530
Creditors: amounts falling due within one year – borrowings on the loan facility	–	(15,000)
Total exposure	18,447	74,530

Interest receivable on cash balances, or paid on overdrafts, is at a margin below or above LIBOR respectively (2011: same).

The Company's £45 million one year floating rate loan facility with ING bank expired in January 2012 and has not been renewed.

The above year end amounts are not representative of the exposure to interest rates during the year as the level of cash balances and drawings on the loan facility have fluctuated. The maximum and minimum net cash balances during the year are as follows:

	2012 £'000	2011 £'000
Maximum interest rate exposure during the year – net cash balances	186,949	215,261
Minimum interest rate exposure during the year – net cash balances	18,447	6,986

Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 1% (2011: 1%) increase or decrease in interest rates in regards to the Company's monetary financial assets and financial liabilities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's monetary financial instruments held at the balance sheet date with all other variables held constant.

	2012		2011	
	1% Increase in rate £'000	1% Decrease in rate £'000	1% Increase in rate £'000	1% Decrease in rate £'000
Income statement - return after taxation				
Revenue return	184	(184)	850	(850)
Capital return	–	–	(105)	105
Total return after taxation	184	(184)	745	(745)
Net assets	184	(184)	745	(745)

In the opinion of the Directors, this sensitivity analysis may not be representative of the Company's future exposure to interest rate changes due to fluctuations in the level of cash balances.

(ii) **Market price risk**

Market price risk includes changes in market prices, other than those arising from interest rate risk, which may affect the value of equity investments.

Management of market price risk

The Board meets on at least four occasions each year to consider the asset allocation of the portfolio and the risk associated with particular industry sectors. The investment management team has responsibility for monitoring the portfolio, which is selected in accordance with the Company's investment objective and seeks to ensure that individual stocks meet an acceptable risk/reward profile.

Market price risk exposure

The Company's total exposure to changes in market prices at 31st January comprises its holdings in equity investments as follows:

	2012 £'000	2011 £'000
Equity investments held at fair value through profit or loss	1,276,762	1,347,468

The above data is broadly representative of the exposure to market price risk during the year.

Concentration of exposure to market price risk

An analysis of the Company's investments is given on pages 15 and 16. This shows that the majority of the investments' value is in the UK. Accordingly there is a concentration of exposure to that country. However it should be noted that an investment may not be entirely exposed to the economic conditions in its country of domicile or of listing.

Market price risk sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to an increase or decrease of 10% (2011: 20%) in the fair values of the Company's equities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's equities, adjusting for changes in the management fee but with all other variables held constant.

	2012		2011	
	10% Increase in fair value £'000	10% Decrease in fair value £'000	10% Increase in fair value £'000	10% Decrease in fair value £'000
Income statement - return after taxation				
Revenue return	(192)	192	(202)	202
Capital return	127,230	(127,230)	134,276	(134,276)
Total return after taxation	127,038	(127,038)	134,074	(134,074)
Net assets	127,038	(127,038)	134,074	(134,074)

(c) Credit risk

Credit risk is the risk that the failure of the counterparty to a transaction to discharge its obligations under that transaction could result in loss to the Company.

Management of credit risk**Portfolio dealing**

The Company invests in markets that operate DVP (Delivery Versus Payment) settlement. The process of DVP mitigates the risk of losing the principal of a trade during the settlement process. The Manager continuously monitors dealing activity to ensure best execution, a process that involves measuring various indicators including the quality of trade settlement and incidence of failed trades. Counterparty lists are maintained and adjusted accordingly.

Cash

Counterparties are subject to daily credit analysis by the Manager and trades can only be placed with counterparties that have a minimum credit rating of A1/P1 from Standard & Poor's and Moody's respectively.

Exposure to JPMorgan Chase

JPMorgan Chase is the custodian of the Company's assets. The custody agreement grants a general lien over the securities credited to the securities account. The Company's assets are segregated from JPMorgan Chase's own trading assets and are therefore protected from creditors in the event that JPMorgan Chase were to cease trading. However, no absolute guarantee can be given to investors on the protection of all of the assets of the Company.

Credit risk exposure

The following amounts shown in the Balance Sheet, represent the maximum exposure to credit risk at the current and comparative year end.

	2012		2011	
	Balance sheet £'000	Maximum exposure £'000	Balance sheet £'000	Maximum exposure £'000
Fixed assets - investments held at fair value through profit or loss	1,276,856	–	1,347,562	–
Current assets				
Debtors - securities sold awaiting settlement, dividends and interest receivable and other debtors	2,115	2,115	4,030	4,030
Cash and short term deposits	18,447	18,447	89,530	89,530
	1,297,418	20,562	1,441,122	93,560

No debtors are past their due date and none have been provided for.

Cash and short term deposits comprises balances held at banks that have a minimum credit rating of A1/P1 (2011: A1/P1) from Standard & Poor's and Moody's respectively.

(d) Fair values of financial assets and financial liabilities

All financial assets and liabilities are either carried in the balance sheet at fair value or the balance sheet amount is a reasonable approximation of fair value except for the debenture stock which the Company has in issue. The fair value of this debenture stock has been calculated using discounted cash flow techniques, using the yield on a similarly dated gilt plus a margin based on the 5 year average for the AA Barclays Sterling Corporate Bond spread.

	Carrying value		Fair value	
	2012 £'m	2011 £'m	2012 £'m	2011 £'m
£175 million 6.125% debenture stock 25th February 2030	173.2	173.1	209.9	188.1
£3.85 million 4.25% perpetual debenture stock	3.9	3.9	3.4	3.2
	177.1	177.0	213.3	191.3

Notes to the Accounts – continued

24. Capital management policies and procedures

The Company's debt and capital structure comprises the following:

	2012 £'000	2011 £'000
Debt		
£175 million 6.125% debenture stock 25th February 2030	173,244	173,147
£3.85 million 4.25% perpetual debenture stock	3,850	3,850
Bank loan	–	15,000
	177,094	191,997
Equity		
Called up share capital	24,678	24,759
Reserves	1,085,683	1,212,507
	1,110,361	1,237,266
Total debt and equity	1,287,455	1,429,263

The Company's capital management objectives are to ensure that it will continue as a going concern and to maximise the income and capital return to its equity shareholders through an appropriate level of gearing.

The Board's policy is to limit gearing within the range 90% to 120%. Gearing for this purpose is defined as investments expressed as a percentage of net assets.

	2012 £'000	2011 £'000
Investments at fair value	1,276,856	1,347,562
Net assets	1,110,361	1,237,266
Gearing	115.0%	108.9%

The Board, with the assistance of the Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the planned level of gearing, which takes into account the Manager's views on the market;
- the need to buy back equity shares, either for cancellation or to hold in Treasury, which takes into account the share price discount or premium;
- the opportunity for issues of new shares, including issues from Treasury; and
- the level of dividend distributions in excess of that which is required to be distributed.

Notice of Meeting

Notice is hereby given that the one hundred and twenty sixth Annual General Meeting of The Mercantile Investment Trust plc will be held at Trinity House, Tower Hill, London EC3N 4DH on 23rd May 2012 at 12 noon for the following purposes:

1. To receive the Directors' Report, the Annual Accounts and the Auditors' Report for the year ended 31st January 2012.
2. To approve the Directors' Remuneration Report for the year ended 31st January 2012.
3. To re-elect Hamish Leslie Melville as a Director of the Company.
4. To re-elect Sir Richard Beckett as a Director of the Company.
5. To re-elect Sandy Nairn as a Director of the Company.
6. To re-elect Ian Russell as a Director of the Company.
7. To elect Helen James as a Director of the Company.
8. To elect Jeremy Tighe as a Director of the Company.
9. To reappoint PricewaterhouseCoopers LLP as auditors to the Company and to authorise the Directors to determine their remuneration.

Special Business:

To consider the following resolution:

Authority to allot new shares - Ordinary Resolution

10. THAT the Directors of the Company be and they are hereby generally and unconditionally authorised, (in substitution of any authorities previously granted to the Directors), pursuant to and in accordance with Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company ('rights') up to an aggregate nominal amount of £1,233,884, representing approximately 5% of the Company's issued share capital as at the date of the passing of this resolution, provided that this authority shall

expire at the conclusion of the Annual General Meeting of the Company held in 2013 unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers or agreements which would or might require shares to be allotted or Rights to be granted after such expiry and so that the Directors of the Company may allot shares and grant Rights in pursuance of such offers or agreements as if the authority conferred hereby had not expired.

Authority to disapply pre-emption rights on allotment of relevant securities - Special Resolution

11. THAT subject to the passing of Resolution 10 set out above, the Directors of the Company be and they are hereby empowered pursuant to Sections 570 and 573 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by Resolution 10 as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £1,233,884 representing approximately 5% of the issued share capital as at the date of the passing of this resolution at a price of not less than the net asset value per share and shall expire upon the expiry of the general authority conferred by Resolution 10 above, save that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.

Authority to repurchase the Company's shares - Special Resolution

12. THAT the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with Section 701 of the Act to make market purchases (within the meaning of Section 693 of the Act) of its issued shares on such terms and in such manner as the Directors may from time to time determine.

PROVIDED ALWAYS THAT

- (i) the maximum number of ordinary shares hereby authorised to be purchased shall be 14,796,736 or if less, that number of ordinary

Notice of Meeting – continued

shares which is equal to 14.99% of the Company's issued share capital as at the date of the passing of this Resolution;

- (ii) the minimum price which may be paid for an ordinary share shall be 25p;
- (iii) the maximum price which may be paid for an ordinary share or unit shall be an amount equal to the highest of: (a) 105% of the average of the middle market quotations for an ordinary share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased; or (b) the price of the last independent trade; or (c) the highest current independent bid;
- (iv) any purchase of ordinary shares will be made in the market for cash at prices below the prevailing net asset value per ordinary share (as determined by the Directors);
- (v) the authority hereby conferred shall expire on 22nd November 2013 unless the authority is renewed at the Company's Annual General Meeting in 2013 or at any other general meeting prior to such time; and
- (vi) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which contract will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares pursuant to any such contract.

Approval of dividend policy – Ordinary Resolution

13. THAT the shareholders approve the Company's dividend policy to continue to pay four quarterly interim dividends, which in the year under review have totalled 36 pence per share.

By order of the Board
JPMorgan Asset Management (UK) Limited,
Company Secretary
5th April 2012

Notes

These notes should be read in conjunction with the notes on the reverse of the proxy form.

1. A member entitled to attend and vote at the Meeting may appoint another person(s) (who need not be a member of the Company) to exercise all or any of his rights to attend, speak and vote at the Meeting. A member can appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him.
2. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Your proxy could be the Chairman, another director of the Company or another person who has agreed to attend to represent you. Details of how to appoint the Chairman or another person(s) as your proxy or proxies using the proxy form are set out in the notes to the proxy form. If a voting box on the proxy form is left blank, the proxy or proxies will exercise his/their discretion both as to how to vote and whether he/they abstain(s) from voting. Your proxy must attend the Meeting for your vote to count. Appointing a proxy or proxies does not preclude you from attending the Meeting and voting in person.
3. Any instrument appointing a proxy, to be valid, must be lodged in accordance with the instructions given on the proxy form, no later than 12.00 p.m. two business days prior to the Meeting (i.e. excluding weekends and bank holidays).
4. You may change your proxy instructions by returning a new proxy appointment. The deadline for receipt of proxy appointments also applies in relation to amended instructions. Any attempt to terminate or amend a proxy appointment received after the relevant deadline will be disregarded. Where two or more valid separate appointments of proxy are received in respect of the same share in respect of the same Meeting, the one which is last received (regardless of its date or the date of its signature) shall be treated as replacing and revoking the other or others as regards that share; if the Company is unable to determine which was last received, none of them shall be treated as valid in respect of that share.
5. 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 as at 6.00 p.m. two business days prior to the Meeting (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 as at 6.00 p.m. two business days prior to the adjourned Meeting or, if the Company gives notice of the adjourned Meeting, at the time specified in that notice. Changes to entries on the register after this time shall be disregarded in determining the rights of persons to attend or vote at the meeting or adjourned meeting.
6. Entry to the Meeting will be restricted to shareholders and their proxy or proxies, with guests admitted only by prior arrangement.

7. A corporation, which is a shareholder, may appoint an individual(s) to act as its representative(s) and to vote in person at the Meeting (see instructions given on the proxy form). In accordance with the provisions of the Companies Act 2006, each such representative(s) may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative. Representatives should bring to the meeting evidence of their appointment, including any authority under which it is signed.
 8. Members that satisfy the thresholds in Section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to: (a) the audit of the Company's accounts (including the Auditor's report and the conduct of the audit) that are to be laid before the AGM; or (b) any circumstances connected with an Auditor of the Company ceasing to hold office since the previous AGM; which the members propose to raise at the meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement placed on the website must also be sent to the Company's Auditors no later than the time it makes its statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required to publish on its website pursuant to this right.
 9. Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the meeting except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the meeting or if it would involve the disclosure of confidential information.
 10. Under sections 338 and 338A of the 2006 Act, members meeting the threshold requirements in those sections have the right to require the Company: (i) to give, to members of the Company entitled to receive notice of the Meeting, notice of a resolution which those members intend to move (and which may properly be moved) at the Meeting; and/or (ii) to include in the business to be dealt with at the Meeting any matter (other than a proposed resolution) which may properly be included in the business at the Meeting. A resolution may properly be moved, or a matter properly included in the business unless: (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise); (b) it is defamatory of any person; or (c) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person(s) making it and must be received by the Company not later than the date that is six clear weeks before the Meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.
 11. A copy of this notice has been sent for information only to persons who have been nominated by a member to enjoy information rights under Section 146 of the Companies Act 2006 (a 'Nominated Person'). The rights to appoint a proxy can not be exercised by a Nominated Person: they can only be exercised by the member. However, a Nominated Person may have a right under an agreement between him and the member by whom he was nominated to be appointed as a proxy for the Meeting or to have someone else so appointed. If a Nominated Person does not have such a right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.
 12. In accordance with Section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM, the total voting rights members are entitled to exercise at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website www.mercantileit.co.uk.
 13. The register of interests of the Directors and connected persons in the share capital of the Company and the Directors' letters of appointment are available for inspection at the Company's registered office during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted). It will also be available for inspection at the Annual General Meeting. No Director has any contract of service with the Company.
 14. You may not use any electronic address provided in this Notice of meeting to communicate with the Company for any purposes other than those expressly stated.
 15. As an alternative to completing a hard copy Form of Proxy/Voting Instruction Form, you can appoint a proxy or proxies electronically by visiting www.sharevote.co.uk. You will need your Voting ID, Task ID and Shareholder Reference Number (this is the series of numbers printed under your name on the Form of Proxy/Voting Instruction Form). Alternatively, if you have already registered with Equiniti Limited's online portfolio service, Shareview, you can submit your Form of Proxy at www.shareview.co.uk. Full instructions are given on both websites.
 16. As at 26th March 2012 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 98,710,719 Ordinary shares, carrying one vote each. Therefore the total voting rights in the Company are 98,710,719.
- Electronic appointment – CREST members**
- CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. See further instructions on the proxy form.

Glossary of Terms and Definitions

Return on Net Assets

Total return on net asset value ('NAV') per share, on a bid value to bid value basis, assuming that all dividends paid out by the Company were reinvested into the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend.

In accordance with industry practice, dividends payable which have been declared but which are unpaid at the balance sheet date are deducted from the NAV per share when calculating the return on net assets.

Return to Shareholders

Total return to the investor, on a mid-market price to mid-market price basis, assuming that all dividends received were reinvested, without transaction costs, into the shares of the Company at the time the shares were quoted ex-dividend.

Benchmark Return

Total return on the benchmark, on a mid-market value to mid-market value basis, assuming that all dividends received were reinvested, without transaction costs, into the shares of the underlying companies at time the shares were quoted ex-dividend.

The benchmark is a recognised index of stocks which should not be taken as wholly representative of the Company's investment universe. The Company's investment strategy does not 'track' this index and consequently, there may be some divergence between the Company's performance and that of the benchmark.

Total Expense Ratio (TER)

Management fee and all other operating expenses excluding finance costs, expressed as a percentage of the average of the month end net assets during the year. (2008 and prior years: the average of the opening and closing net assets).

Actual Gearing Factor

Investments expressed as a percentage of shareholders' funds. This shows the effect of gearing on the net asset value if the market value of the portfolio were to increase by 100%.

Share Price Discount/Premium to Net Asset Value ('NAV') per share

If the share price of an investment trust is lower than the NAV per share, the shares are said to be trading at a discount. The discount is shown as a percentage of the NAV per share. The opposite of a discount is a premium. It is more common for an investment trust's shares to trade at a discount than at a premium.

Performance Attribution

Analysis of how the Company achieved its recorded performance relative to its benchmark.

Performance Attribution Definitions:

Asset Allocation

Measures the impact of allocating assets differently to those in the benchmark, via the portfolio's weighting in different countries, sectors or asset types.

Stock Selection

Measures the effect of investing in securities to a greater or lesser extent than their weighting in the benchmark, or of investing in securities which are not included in the benchmark.

Cash Effect

Measures the impact on relative performance arising from holding cash balances.

Effect of Management Fee/Other Expenses

The payment of fees and expenses reduces the level of total assets, and therefore has a negative effect on relative performance.

Interest Expense

The payment of interest has a negative effect on relative performance.

Proposed Dividend - Use of Prior Year Revenue Reserve

Measures the negative effect on relative performance of making dividend distributions in excess of the revenue return after taxation for the year.

Gearing Effect

Measures the impact on relative performance arising from borrowings.

Information about the Company

Financial Calendar

Financial year end	31st January
Final results announced	April
Half year end	31st July
Half year results announced	September
Interim Management Statements announced	May/November
Dividends on ordinary shares paid to shareholders	*1st August, 1st November, 1st February, 1st May
Interest on 4.25% perpetual debenture stock paid	1st June, 1st December
Annual General Meeting	April/May

*or nearest following business day.

History

The Mercantile Investment & General Trust Company Limited was formed in December 1884 with issued capital of £500,000. The Company merged with three other investment trusts in 1960 under a scheme of arrangement and changed its name to The Mercantile Investment Trust Limited. In 1982 the Company became The Fleming Mercantile Investment Trust plc. JPMorgan has been the Company's manager and secretary since its appointment in 1976. In April 2008, the Company adopted its present name, The Mercantile Investment Trust plc.

A publication entitled 'The Mercantile Investment Trust plc 125 years' is available from the Company Secretary.

Company Numbers

Company Registration number: 20537
 London Stock Exchange number: 0579403
 ISIN: GB0005794036
 Bloomberg ticker: MRC LN

Market Information

The Company's shares are listed on the London Stock Exchange. The market price is shown daily in the Financial Times, The Guardian, The Times, The Daily Telegraph, The Independent, The Scotsman, and on the JPMorgan internet site at www.mercantileit.co.uk, where the share price is updated every fifteen minutes during trading hours.

Website

www.mercantileit.co.uk

Share Transactions

The Company's shares may be dealt in directly through a stockbroker or professional adviser acting on an investor's behalf. They may also be purchased and held through the J.P. Morgan Investment Account, J.P. Morgan ISA and J.P. Morgan SIPP. These products are all available on the online wealth manager service, J.P. Morgan WealthManager+ available at www.jpmorganwealthmanagerplus.co.uk.

Dividend Re-investment Plan

The Company operates a dividend re-investment plan. For further information please contact the Registrars (details below).

Manager and Secretary

JPMorgan Asset Management (UK) Limited

Company's Registered Office

Finsbury Dials
 20 Finsbury Street
 London EC2Y 9AQ
 Telephone number: 020 7742 4000

Please contact Juliet Dearlove for company secretarial and administrative matters.

Custodian

JPMorgan Chase Bank, N.A.
 125 London Wall
 London EC2Y 5AJ

Registrars

Equiniti Limited
 Reference 1101
 Aspect House
 Spencer Way
 Lancing
 West Sussex BN99 6DA
 Telephone number: 0871 384 2329

Calls to this number cost 8p per minute from a BT landline. Other providers' costs may vary. Lines open 8.30 am to 5.30 pm, Monday to Friday. The overseas helpline number is +44 (0)121 415 7047.

Notifications of changes of address and enquiries regarding share certificates or dividend cheques should be made in writing to the Registrar quoting reference 1101. Registered shareholders can obtain further details on their holdings on the internet by visiting www.shareview.co.uk.

Independent Auditors

PricewaterhouseCoopers LLP
 Chartered Accountants and Statutory Auditors
 7 More London Riverside
 London SE1 2RT

Brokers

Cenkos Securities plc
 6, 7, 8 Tokenhouse Yard
 London EC2R 7AS

Oriel Securities Limited
 125 Wood Street
 London EC2V 7AN

Savings Product Administrators

For queries on the J.P. Morgan Investment Account, J.P. Morgan ISA and J.P. Morgan SIPP, see contact details on the back cover of this report.



J.P. Morgan Helpline
Freephone 0800 20 40 20 or +44 (0)20 7742 9995

Your telephone call may be recorded for your security

www.mercantileit.co.uk