The Mercantile Investment Trust plc

Annual Report & Accounts for the year ended 31st January 2010

J.P.Morgan
Asset Management

Features

Contents

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

The Company has an authorised share capital of 163,875,000 ordinary shares of 25p each, of which 101,947,968 were in issue at the year end.

In addition, the Company had at the year end £3,850,000 perpetual debenture stock and a £175 million debenture.

Management Company

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

Financial Highlights

Total Returns (capital plus income)

+56.3%
Return on net assets[1]
(2009: -39.3%)

+51.6%
Return to shareholders[2]
(2009: -39.2%)

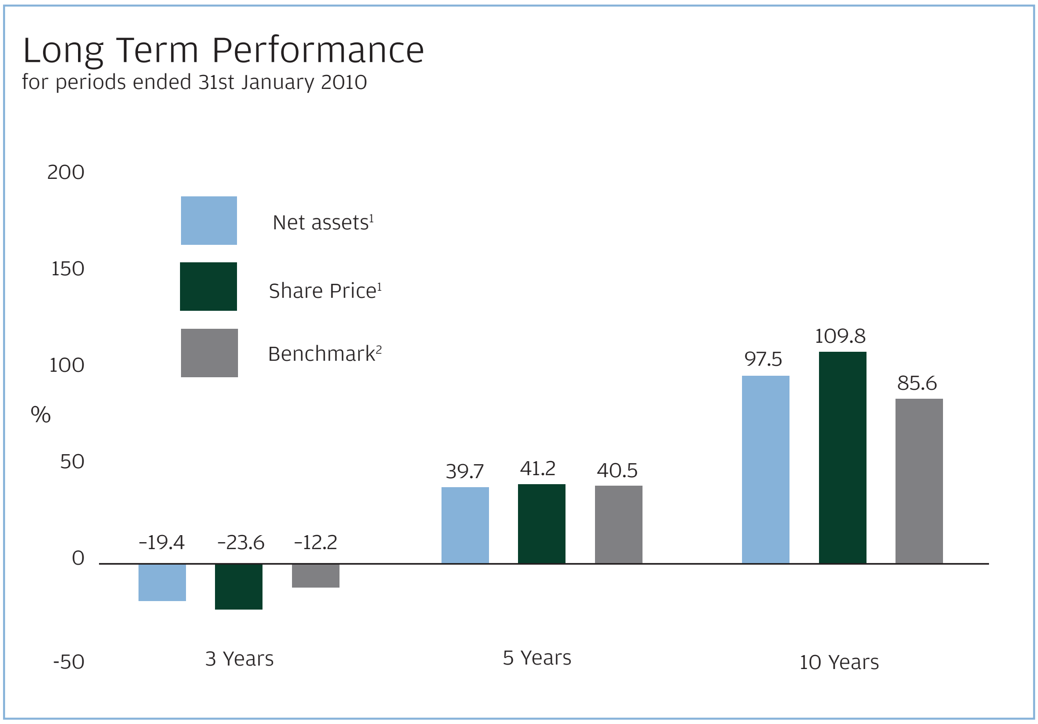
+57.6%
Benchmark return[3]
(2009: -36.2%)

36.0p
Dividend
(2009: 36.0p)

[1]Source: J.P. Morgan.

[2]Source: Morningstar.

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



A glossary of terms and definitions is provided on page 55.

[1]Source: Morningstar.

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

Chairman's Statement

Over the year to 31st January 2010, the 125th year since the Company was founded, the Company's total return on net assets (ie with net income reinvested) was 56.3%, which compares with a return of 57.6% from the Company's benchmark index, the FTSE All-Share (excluding FTSE 100 constituents and investment trusts).

Although this performance reflects a very substantial return, it is marginally behind the Company's performance benchmark. The reason for this is that dividends paid and accrued have necessitated a dip into reserves to the value of £13 million, which has reduced the total return on net assets by 2.0% thereby reducing the reported performance figure to a level below the benchmark.

As you will read in the Investment Managers' Statement, conditions in the financial markets globally have been extremely tough, though during the year the Stock Market has experienced its largest gain since 1993. The Company's performance has at certain points of the year looked strong against the benchmark, and at others, looked weak.

During the year Standard and Poor's reviewed the Company's credit rating in relation to its debenture and it remained unchanged at AA with a stable outlook reflecting the well diversified portfolio.

Returns and Dividends

Return per share decreased by 44.5% for the year, from 41.73p to 23.18p, due to a reduction in dividend income and a significantly lower level of deposit interest income. The successful underwriting of more than £300 million of new capital raisings assisted income by some £4.0 million (3.9p per share).

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 2011. 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 with regard to the Company's revenue reserve of 27.5p per share.

VAT Case

Following the recovery, in 2008, of just over £10 million, including interest, of VAT incorrectly paid to HMRC, there have been two further developments. A landmark case, VIC GLO, was decided in the High Court where the Court found that interest on incorrectly paid VAT should have been paid on a compound, rather than a simple basis, although in that particular case the taxpayer did not benefit owing to limitation issues. Given that some of your Company's refunds stretch back to 1990, the effect of compounding over such a long period, if the principles in the VIC GLO case are confirmed by higher courts, will add materially to the sums already recovered.

The second development has been the launch of an action against HMRC to recover the VAT that should never have been paid for the years 1997 to 2000 but which, so far, HMRC has refused to repay. Together with a number of other investment trusts, we are party to and are helping fund the action. As with the earlier case, it could well be five years or more before the matter is finally decided. Our costs are capped at a relatively modest fee, whilst the possible recovery could materially exceed £2 million plus interest. Although there is no guarantee of success, your Board decided that the risk/reward ratio was such that it was in the interests of shareholders to participate.

Share Price Discount

The share price rose by 45.1% during the year and, including dividends paid, the total return to shareholders was 51.6%. The discount to net asset value (with debt at fair value) at year end was 14.5% compared to 9.2% the previous year. The average daily discount, with debt at fair value, during the year, was 10.5%.

Share Repurchases

During the year under review a total of 374,000 shares were repurchased for cancellation, amounting to 0.37% of issued share capital at the beginning of the year, at a total cost of £3.3 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 111.9%. During the year the gearing varied between 104% and 114%. It is the Board's intention to continue to operate within the range of 90% to 120% invested, under normal market conditions, although at the present time, the Board is maintaining gearing at the lower end of the range.

Board

Following the vacancy created by the sad loss of Richard Hambro in April 2009, the Board appointed Sir Richard Beckett QC as a Director with effect from 1st September 2009. The shareholders will be asked to elect Sir Richard at the forthcoming AGM. Sir Richard brings his legal knowledge and experience to the Board's affairs and has already proved to be a valuable member of the team.

This year Sandy Nairn and Ian Russell offer themselves for re-election by the shareholders at the forthcoming AGM, having last been re-elected three years ago. Sandy has a wealth of investment experience, and Ian, as Chairman of the Audit Committee and a Director carries out his role extremely effectively. I thoroughly recommend their re-election. Having been a Director for more than nine years, in accordance with the Board's policy, I offer myself for re-election on an annual basis, and will accordingly stand for re-election at the AGM.

Chairman's Statement – continued

The Board undertakes a formal and rigorous evaluation of its performance, and that of the individual Directors including myself as the Chairman, and the Board's Committees. The Directors conduct an assessment of performance each year, which is compiled into a report to the Nomination Committee.

Investment Managers

The Company's investment management team comprises Martin Hudson, who was appointed in 1993, and Jane Lennard, who was appointed in 2006.

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

Annual General Meeting

The Company's one hundred and twenty fourth Annual General Meeting will be held at Trinity House, Tower Hill, London EC3N 4DH on Wednesday 19th May 2010 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 in writing any detailed questions that you wish to raise at the AGM to the Company Secretary at Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ or via the website at www.mercantileit.co.uk (click on "AGM calendar"). Shareholders who are unable to attend the AGM in person are encouraged to use their proxy votes.

Outlook

The UK stock market performed strongly during the year for reasons which have little to do with the economic climate in the UK, but are due more to the fact that the market had fallen to completely unrealistic levels and the fiscal stimulus and quantitative easing programmes that the government has undertaken. The performance was also partly due to the fact that the banking system globally has stabilised somewhat. The main factors likely to affect markets in the UK over the coming year are the probable weakness of Sterling due to continuing gross fiscal imbalance and a lack of political will to resolve the position. Paradoxically this may help equity markets in the UK. By contrast, the continuing reluctance of the banking system to lend money will tend to restrict the normal growth of companies in the UK.

Hamish Leslie Melville
Chairman 31st March 2010

For further information, please contact:
Juliet Dearlove
For and on behalf of
JPMorgan Asset Management (UK) Limited – Secretary
020 7742 6000

Investment Managers' Report

Performance attribution for the year ended 31st January 2010

	%	1 Year %
Contributions to Total Returns		
Benchmark total return		57.6
Allocation effect	-5.4	
Selection effect	2.8	
Gearing/cash effect	3.8	
Portfolio total return		58.8
Fees/Expenses	-0.6	
Share buybacks	0.1	
Proposed dividend	-2.0	
Net asset value total return		56.3
Effect of decrease/ (increase) in discount	-2.5	
Share price total return		51.6

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 55.

Market Background

During 2009 the UK stockmarket experienced its largest gain since 1993.

At the beginning of the year confidence remained low and fragile with the market fearing debt, depression and deflation. Global financial markets have endured the largest economic contraction since the Second World War. Since the onset of the crisis UK GDP has fallen by 6.2%, the most severe downturn since records began. Many jobs have been lost and the fiscal deficit in the UK has grown to £178 billion. However, fears of prolonged depression and deflation were exaggerated. The UK stockmarket raised £82 billion to repair the balance sheets of quoted companies. Wage freezes, cuts and reduced working hours meant that both employment and company profitability fell by less than expected. Governments and Central Banks around the World implemented stimulus packages and quantitative easing programmes. March 2009 signalled a turning point in investor risk appetite. As economic data improved and beat expectations the market built on its new found momentum.

Performance

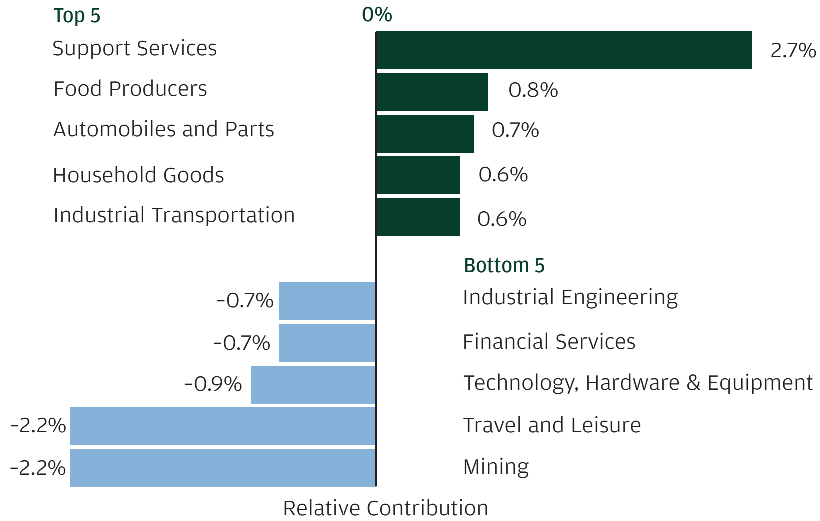
The performance of small and mid sized UK companies for the year was greater than that for the stockmarket as a whole as investors' risk appetite increased and as the reported profits from small and mid sized companies started to exceed forecasts, mainly as a result of actions taken to cut costs. Last year saw the biggest rise in your Company's small and mid cap benchmark index since its introduction in 1994.

The total net asset value return at the portfolio level was 58.3% for the year ended 31st January 2010 which was ahead of the Company's benchmark index, the FTSE All-Share excluding FTSE 100 constituents and investment companies, which returned 57.6%. However, this was reduced to 56.3% after taking into account the proposed payment of part of the final dividend from reserves. This compares with a return of 33.2% for the broader FTSE All-Share Index. The contributors to performance are analysed in the table to the left.

The bar chart below 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 the positive contributions to performance relative to the benchmark index and reflect both sector weightings and stock selection. The light blue bars to the left show the negative relative contributors.

Investment Managers' Report – continued

Sector performance contribution analysis.
Year to 31st January 2010



Source: Factset

This shows that the biggest contributor to performance was the Support Services sector. It is the biggest sector in our benchmark representing 15% of the index; many stocks in this sector are exposed to UK public sector spending. We have held an underweight position in the sector for the last two years, believing that these companies would not be as immune from the economic downturn as investors believed. During the year many Support Services companies lost their premium ratings as their earnings prospects deteriorated. The Food Producers and Industrial Transportation sectors benefited from strong contributions from Premier Foods and BBA respectively. Recapitalisations were a major theme last year and stocks such as GKN and Taylor Wimpey were strong contributors in the Automobiles and Parts and Household Goods sectors respectively. Mercantile participated in 24 sub-underwriting opportunities last year as £17 billion was raised in the stockmarket for small and mid sized UK companies. Because of the uncertainty in markets we were offered these opportunities on attractive terms of typically a 40% discount to the share price and we earned a sub-underwriting commission of 1.75%. This generated an income of £4 million for the Company.

Of the negative contributors to relative performance the worst sector was Mining where the majority of the underperformance was caused by not holding Lonmin which recovered very strongly and was promoted back into the FTSE 100 index in March. The portfolio was overweight in Travel and Leisure, which includes the bus and rail companies and Ladbrokes and William Hill the bookmakers. This detracted from performance as these stocks lagged the market recovery. The relative underperformance in the Technology, Hardware and Equipment sector resulted mainly from not holding ARM which was also promoted into the FTSE 100 index.

One of our advantages as an investment trust is to be able to use gearing, that is to invest borrowings in the stockmarket, and that added to performance last year as the stockmarket rose strongly.

Activity

Gearing was managed actively throughout the year. Having begun to reinvest our 10% net cash position in the stockmarket from September 2008 and starting this financial year with gearing of 103% we continued to increase gearing into the falling market in February believing the stockmarket was then fundamentally cheap and that long term value was present. By March we had increased gearing to 110% and it was then held in a range of approximately 110-112% for the remainder of the year. The investment managers have the flexibility to operate within a gearing range of 90%-120% invested and a more specific tactical range is agreed regularly with the Board.

The portfolio retains its style of board diversification across all sectors, and holds 120 stocks of which 80 are mid-sized and 40 are smaller companies. By value, approximately 80% of the portfolio is invested in mid sized stocks and 20% in smaller companies.

The table below shows that our holdings in companies which are larger than £1 billion in market capitalisation are greater than for the benchmark index. This reflects an overweight holding in those successful larger companies which are progressing towards inclusion in the FTSE 100 Index and also newer holdings in those out of favour companies which have recently fallen out of the FTSE 100 Index. The portfolio is also overweight in the very smallest companies. These can often offer the best growth opportunities.

Portfolio Size Distribution

Market capitalisation	Benchmark index weighting %	Fund weighting %	Relative weighting %
More than £1.5bn	24.6	27.5	2.9
£1.0bn to £1.5bn	28.1	33.8	5.7
£500m to £1.0bn	23.9	15.8	-8.1
£300m to £500m	11.7	9.2	-2.5
£100m to £300m	9.9	6.5	-3,4
£50m to £100m	1.6	4.9	3.3
Less than £50m	0.2	2.3	2.1
Total	**100.0**	**100.0**	**0.0**

As at 31st January 2010

Our ten largest holdings reflect a repositioning of the portfolio during the year. Of the ten largest holdings as at 31st January 2010 (which are shown on page 12) only one, ITV, was in the top ten last year. Two, GKN and Songbird, were held in the portfolio a year ago and our holdings in them were increased on their re-capitalisations; the new holdings in Imagination Technologies and Misys represent an increase in our emphasis on growth technology stocks; and the new holdings in Drax and Pennon, which were both demoted from the FTSE 100, represent an increase in our holdings in Utilities.

During the year we met or visited more than 250 companies and this remains a key component in our process of evaluating companies. We

Investment Managers' Report – continued

believe that properly targeted company meetings can help us to analyse smaller companies that are often overlooked by the mainstream, evaluate managements 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.

Takeover activity was relatively low during the year, although Venture Production which was in last years top ten holdings was taken over by Centrica and Puma Brandenburg was taken over by Shore Capital. We expect takeover activity to increase in the current year and recapitalisations and rescue rights issues, which dominated last year, to reduce. There were very few Initial Public Offerings last year and we expect the level of activity to increase this year although we shall continue to reject highly priced low growth offerings from Private Equity sellers.

Outlook

The risk of a long depression in economic activity that would have resulted from the collapse of the banking system now seems to have been averted by a concerted global policy response of lower interest rates and easier fiscal policy. This, together with the recapitalisation of companies achieved in the stockmarket, allowed equities to be valued on a forward looking rather than a fearful basis and allowed us to buy strong companies at good valuations.

However, economic recovery will be slow and painful with a danger of set backs. The financial system remains undercapitalised, weighted down with doubtful assets and still needs taxpayer support.

Since the Company's year end we have reduced gearing towards 100% invested to reflect the substantial rise in share prices of small and mid sized companies in the stockmarket last year. That said, interest rates are likely to stay low for some time, economic activity is continuing to beat expectations and aggressive cost cutting by companies has limited the reduction in margins and supported profits. As the economy continues to stabilise, companies' profits will be able to recover. We remain positive on small and mid sized companies and we see the year ahead as being full of opportunities.

Martin Hudson
Jane Lennard
Investment Managers 31st March 2010

Summary of Results

	2010	2009	
Total Returns (capital plus income) for the year ended 31st January			
Return on net assets[1]	+56.3%	-39.3%	
Return to shareholders[2]	+51.6%	-39.2%	
Benchmark[3]	+57.6%	-36.2%	
Net Asset Value and Discount at 31st January			% change
Shareholders' funds (£'000)	1,035,376	697,298	+48.5
Net asset value per share with debt at par value	1,015.6p	681.5p	+49.0
Net asset value per share with debt at fair value[4]	1,005.5p	652.4p	+54.1
Share price discount to net asset value with debt at par value	15.3%	13.0%	
Share price discount to net asset value with debt at fair value	14.5%	9.2%	
Market Data			
FTSE All-Share Index (capital only)[5] (excluding FTSE 100 Index constituents and investment trusts)	1,877.7	1,229.5	+52.7
Share price	860.0p	592.5p	+45.1
Revenue for the year ended 31st January			
Net revenue available for shareholders (£'000)	23,703	43,028	-44.9
Return per share	23.18p	41.73p	-44.5
Dividend per share	36.0p	36.0p	–
Total Expense Ratio (TER)[6]	0.57%	0.56%	
Actual Gearing Factor[7]	111.9%	102.8%	

A glossary of terms and definitions is provided on page 55.

[1]Source: J.P. Morgan.

[2]Source: Morningstar.

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

[4]The fair value of the Company's debenture has been calculated by reference to a similar dated gilt yield plus a margin based on the 5 year average for the AA Barclays Sterling Corporate Bond spread.

[5]Source: Datastream.

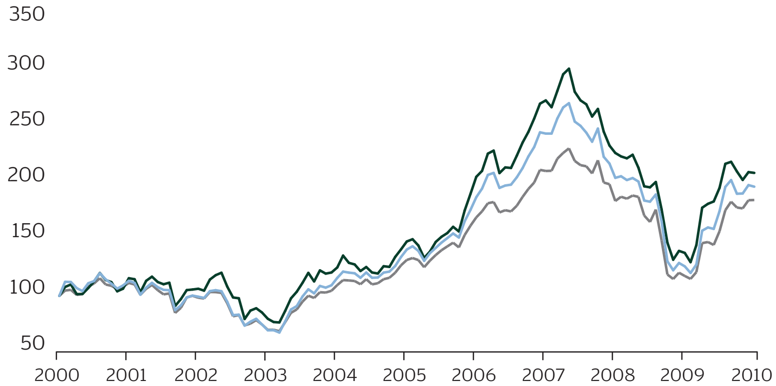
[6]Management fees and all other operating expenses, excluding interest, VAT recoverable on management fees and professional fees incurred in connection with those recoveries, expressed as a percentage of the average of the opening and closing net assets.

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

Performance

Ten Year Performance

Figures have been rebased to 100 at 31st January 2000



The Mercantile – Net asset value total return

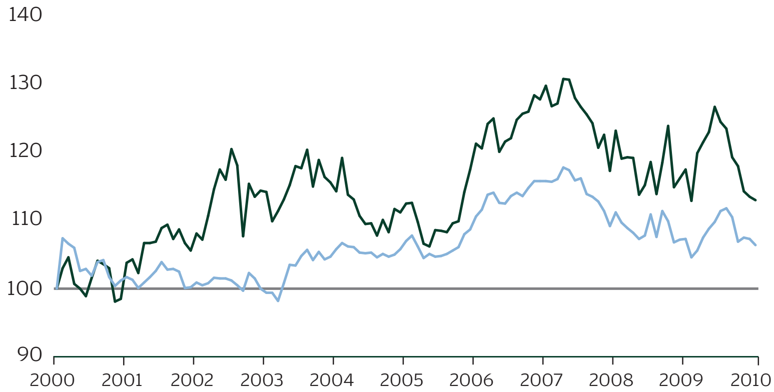
The Mercantile – Share price total return

Benchmark

Source: Morningstar, Russell/Mellon CAPS.

Performance relative to Benchmark

Figures have been rebased to 100 at 31st January 2000



The Mercantile – Net asset value total return

The Mercantile – Share price total return

The benchmark is represented by the grey horizontal line

Source: Morningstar, Russell/Mellon CAPS.

Ten Year Financial Record

At 31st January	2000	2001	2002	2003	2004	2005[1]	2006	2007	2008	2009	2010
Total assets less current liabilities (£'m)	1,068.3	1,153.3	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
Net asset value per share (p)	679.5	755.8	644.7	434.6	703.5	842.6	1,090.6	1,394.4	1,158.3	681.5	1,015.6
Share price (p)	560.5	635.5	567.0	408.5	620.0	713.5	965.0	1,258.0	1,020.0	592.5	860.0
Year to 31st January											
Gross revenue (£'000)	26,556	34,391	39,435	34,584	34,050	34,970	39,899	45,493	51,684	51,750	32,248
Revenue available for shareholders (£'000)	19,177	24,124	28,364	24,169	24,555	24,820	29,373	35,043	44,345	43,028	23,703
Earnings per share (p)	13.4	17.6	20.9	17.8	18.1	18.3	21.8	27.5	39.8	41.7	23.2
Dividend per share (net) (p)[2]	12.3	14.8	17.5	18.0	18.8	19.8	21.8	25.0	38.0	36.0	36.0
Discount	17.5	15.9	12.1	6.0	11.9	15.3	11.5	9.8	11.9	13.0	15.3
Actual gearing	113.6	114.0	110.0	113.1	112.6	115.5	111.2	102.0	94.8	102.8	111.9
Total expense ratio[3]	0.63	0.65	0.63	0.73	0.69	0.60	0.56	0.55	0.59	0.56	0.57
Rebased to 100 at 31st January 2000											
Net asset value per share	100.0	111.2	94.9	64.0	103.5	124.0	160.5	205.2	170.5	100.3	149.5
Net asset value per share – total return[4]	100.0	113.5	99.3	69.3	116.1	141.4	188.1	244.9	205.4	126.4	197.5
Share price	100.0	113.4	101.2	72.9	110.6	127.3	172.2	224.4	182.0	105.7	153.4
Share price – total return[4]	100.0	115.8	106.4	79.6	125.4	148.6	206.3	274.5	227.6	138.4	209.8
Benchmark[4]	100.0	111.6	98.4	69.7	109.7	132.1	170.1	211.5	184.7	117.8	185.6
Earnings per share	100.0	131.3	156.0	132.8	135.1	136.6	162.7	205.2	297.0	311.2	173.1
Dividend[2]	100.0	120.3	142.3	146.3	152.8	161.0	177.2	203.3	308.9	292.7	292.7

[1]The 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.

[2]2008 includes ordinary dividends of 34.0p and a special dividend of 4.0p.

[3]Management fees and all other operating expenses, excluding interest, VAT recoverable on management fees and professional fees incurred in connection with those recoveries, expressed as a percentage of the average of the opening and closing net assets.

[4]Source: Morningstar, Russell/Mellon CAPS.

Ten Largest Investments

Company	At 31st January 2010 Valuation £'000	%[1]	At 31st January 2009 Valuation £'000	%[1]
ITV A United Kingdom media company covering broadcasting, news and production. The company owns all of the regional Channel 3 licences in England and Wales. ITV owns ITV1, a commercial televison channel, as well as ITV2.	35,915	3.0	12,206	1.4
GKN[2] A leading supplier of technology-based, highly engineered products to the world's automotive, off-highway and aerospace manufacturers.	27,898	2.3	5,411	0.6
Premier Oil[2] A FTSE 250 upstream oil and gas company with current interests in nine countries around the world.	24,612	2.0	9,945	1.1
Songbird Estates[2] Specialises in integrated property development, investment and management at Canary Wharf and surrounding areas.	23,947	2.0	2,948	0.3
Pennon[3] Operates and invests in water and sewerage services, waste management and renewable energy.	23,754	2.0	–	–
Drax[3] Operator of the UK's largest power station.	23,117	1.9	–	–
Tomkins[2] A global engineering and manufacturing group, which manufactures a variety of products for the industrial, automotive and building products markets across North America, Europe, Asia and the rest of the world.	22,219	1.8	11,471	1.3
First Group[3] Passenger transport services. It operates in four divisions, UK bus, UK rail, North America and Greyhound.	21,304	1.7	–	–
Imagination Technologies[3] An international leader in the creation and licencing of semiconductor system-on-chip intellectual property.	20,703	1.7	–	–
Misys[3] An application software and services provider of innovative, integrated solutions to the financial services and healthcare industries.	20,536	1.7	–	–
Total[4]	**244,005**	**20.1**		

All of the above investments are listed in UK.

[1]Based on total assets less current liabilities of £1,212m (2009: £874m).

[2]Not Included in the ten largest investments at 31st January 2009.

[3]Not held in the portfolio at 31st January 2009.

[4]At 31st January 2009, the value of the ten largest investments amounted to £149m representing 17.0% of total assets less current liabilities.

Portfolio Analyses

Listed Equity Market Capitalisation

at 31st January

	2010 %	2009 %
UK FTSE Mid 250 Companies	77.1	62.5
UK Smaller Companies	16.0	16.3
UK FTSE 100	–	1.4
UK Unquoted	1.5	1.7
Overseas Companies	0.9	0.1
Net Current Assets	4.5	18.0
Total	100.0	100.0

Based on total assets less current liabilities of £1,212m (2009: £874m)

Sector Analysis

at 31st January

	Portfolio 2010 %	Benchmark 2010 %	Portfolio 2009 %	Benchmark 2009 %
Consumer Services	22.0	21.7	18.4	20.4
Financials	20.7	17.4	22.6	17.3
Industrials	17.1	28.3	18.2	31.1
Consumer Goods	14.0	9.4	9.2	8.6
Oil & Gas	6.4	4.6	9.2	6.7
Technology	5.6	8.2	1.6	6.1
Basic Materials	4.5	5.0	1.4	5.6
Utilities	4.5	2.3	0.8	0.8
Telecommunications	0.7	0.9	0.6	0.4
Healthcare	–	2.2	–	3.0
Net Current Assets	4.5	–	18.0	–
Total	100.0	100.0	100.0	100.0

Based on total assets less current liabilities of £1,212m (2009: £874m)

List of Investments

at 31st January 2010

Company	£'000
United Kingdom	
Consumer Services	
ITV	35,915
First Group	21,304
Mitchells & Butlers	16,527
Informa	16,234
United Business Media	16,071
William Hill	15,974
Aegis	15,560
Kesa Electricals	14,153
Ladbrokes	12,377
Go-Ahead	11,898
Pendragon	11,339
Daily Mail & General Trust	10,612
Rightmove	9,444
Carphone Warehouse	8,386
Bloomsbury Publishing	7,128
Mothercare	6,461
Dunelm	6,456
Young & Co's Brewery[1]	6,313
Arriva	6,229
HMV	5,101
The Hotel Corporation[1]	3,031
Pinewood Shepperton	2,673
Chrysalis	2,613
Trinity Mirror	2,436
Peel Hotels[1]	992
Avesco[1]	519
Inchcape	506
	266,252
Financials	
Songbird Estates[1]	23,947
Aberdeen Asset Management	19,905
Jardine Lloyd Thompson	17,792
Investec	16,511
JPMorgan Cazenove[2]	14,234
Amlin	13,884
Catlin	13,454
Close Brothers	11,884
Hiscox	11,356
Pearl[3]	11,278
Henderson	10,500
Shore Capital[1]	8,781
St James's Place	8,736
Shaftesbury	8,129
Provident	5,694
F&C Asset Management	5,192
Paragon Group of Companies	4,823
Rensburg Sheppards	4,357
Hardy	4,202
St Peter Port[1]	4,084
Hansteen	3,240
Savills	3,160
Rathbone Brothers	2,819
Cenkos Securities[1]	2,807
Mountview Estates	2,682
Real Estate Opportunities	2,550
London & Stamford Property[1]	2,382
Mapeley[2,4]	2,248
Invista Real Estate Investment Management[1]	2,194
Orchid Development[1]	1,673
Daejan Holdings	1,521
JPMorgan Cazenove Holdings[2]	1,385
Sovereign Reversions[1]	968
Tenon[1]	863
Vantis[1]	780
Capital Management & Investment[1]	673
Advance AIM Value Realisation[2]	14
	250,702
Industrials	
Tomkins	22,219
Rentokil Initial	20,470
Charter International	15,772
BBA Aviation	14,005
Babcock International	13,770
Morgan Crucible	13,426
Travis Perkins	12,834
IMI	12,442
Interserve	8,355
Smiths News	8,301
Xchanging	8,195
BSS	7,320
Ultra Electronics	7,111
VP	6,996
Robert Walters	6,942
Fiberweb	6,397
QinetiQ	5,926
Balfour Beatty	5,730
Hays	4,217
Spirax Sarco	2,849
Filtrona	2,664
SIG	2,057
	207,998

Company	£'000
Consumer Goods	
GKN	27,898
Tate & Lyle	19,268
Persimmon	17,312
Berkeley	15,592
New Britain Palm Oil	12,871
Taylor Wimpey	11,713
Premier Foods	11,587
M P Evans[1]	11,539
Bellway	10,090
Barratt Developments	8,721
Dairy Crest	6,526
AGA Rangemaster	5,046
Britvic	3,197
Landkom International[1]	2,625
Bovis Homes	2,322
SSL International	2,129
UNIQ	1,507
	169,943
Oil & Gas	
Premier Oil	24,612
Dana Petroleum	16,541
Heritage Oil	11,168
Soco International	8,771
JKX Oil & Gas	7,428
Cove Energy[1]	5,036
Resaca Exploitation[1]	1,431
Ithaca Energy[1]	1,188
Northern Petroleum[1]	788
IGAS Energy[1]	487
	77,450
Technology	
Imagination Technologies	20,703
Misys	20,536
Logica CMG	19,399
Blinkx[1]	2,513
Vislink	2,498
Kewill Systems	2,287
	67,936

Company	£'000
Basic Materials	
Mondi	13,455
Ferrexpo	9,839
Hochschild Mining	9,442
Centamin Egypt	7,684
Elementis	5,196
Aquarius Platinum	3,611
Croda International	3,177
Tennants Consolidated[2]	2,422
	54,826
Utilities	
Pennon	23,754
Drax	23,117
Northumbrian Water	7,825
	54,696
Telecommunications	
Avanti Communications[1]	5,796
Colt Telecom	2,637
	8,433
Total Portfolio[5]	**1,158,236**

[1]AIM listed investment.

[2]Unquoted investment.

[3]Listed overseas.

[4]Convertible bond.

[5]The portfolio comprises investments in equity shares and a convertible bond.

Board of Directors

Hamish Leslie Melville (Chairman)
A Director since 1996 and Chairman since September 2003.

He is a Managing Director and Chairman of the European Investment Banking Committee at Credit Suisse Securities (Europe) Limited and a director of Persimmon plc.

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.

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 a non-executive director of Artemis Alpha Trust plc and is actively involved with a number of private companies. Previously, he was 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 17th 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 director of British Assets Trust plc and an advisor to the Clyde Bergemann Power Group. Previously, he held senior positions with Scottish Power, Tomkins and HSBC.

All Directors were members of the Audit Committee throughout the year, with the exception of Hamish Leslie Melville, who stood down from membership of the Audit Committee on 19th March 2008 and Sir Richard Beckett, who joined the Audit Committee on 23rd September 2009.

All Directors were members of the Nomination Committee throughout the year.

All Directors are considered independent of the Manager.

Directors' Report

The Directors present their report for the year ended 31st January 2010.

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 842 of the Income and Corporation Taxes Act 1988 for the year ended 31st January 2009. In the opinion of the Directors, the Company has subsequently conducted its affairs so that it should continue to qualify. The Company will continue to seek approval under Section 842 of the Income and Corporation Taxes Act 1988 each year.

Approval for the year ended 31st January 2009 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 4, and in the Investment Managers' Report on pages 5 to 8.

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 2010, the Company produced a total return to shareholders of +51.6% and a total return on net assets of +56.3%. This compares with the return on the Company's benchmark index of +57.6%. As at 31st January 2010, the value of the Company's investment portfolio was £1,158 million. The Investment Managers' Report on pages 5 to 8 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 return for the year amounted to £394.2 million (2009: £437.0 million loss) and net total return after deducting interest, management expenses and taxation amounted to £378.2 million (2009: £452.4 million loss). Distributable income for the year amounted to £23.7 million (2009: £43.0 million). The Directors have declared quarterly interim dividends totalling 36.0p per ordinary share (2009: 36.0p) for the year which totalled £36.8 million (2009: £36.9 million). The year end revenue reserve after allowing for these dividends will amount to £28.0 million (2009: £41.0 million).

Key Performance Indicators ('KPIs')

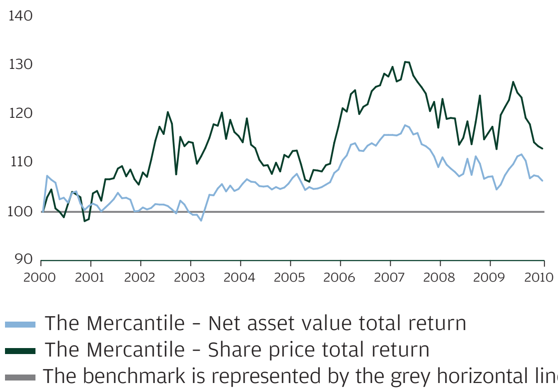
The Board uses a number of financial KPIs to monitor and assess the performance of the Company. The principal KPIs are:

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

Directors' Report – continued

Performance relative to Benchmark Index

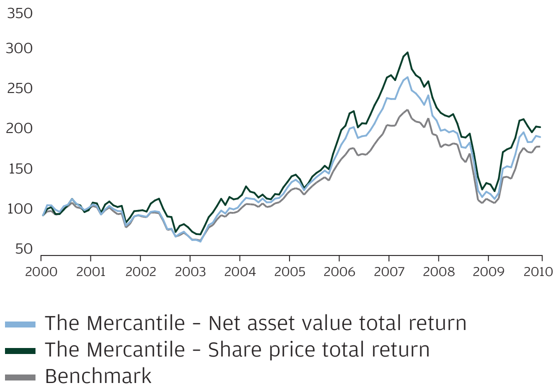
Figures have been rebased to 100 at 31st January 2000



Source: Morningstar, Russell/Mellon CAPS.

Ten Year Performance

Figures have been rebased to 100 at 31st January 2000



Source: Morningstar, Russell/Mellon CAPS.

- 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 2010 are given in the Investment Managers' Report on page 5.

- Share price discount to net asset value ('NAV')
  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

Source: Datastream

- Total expense ratio ('TER')
  The TER represents management fees and all other operating expenses excluding interest, VAT recoverable on management fees and professional fees incurred in connection with those recoveries, expressed as a percentage of the average of the opening and closing net assets. The TER for the year ended 31st January 2010 was 0.57% (2009: 0.56%). 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 374,000 ordinary shares for cancellation. This amount represented 0.37% 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 a further 2,019,249 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.

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 842 of the Income and Corporation Taxes Act 1988 ('Section 842'). Details of the Company's approval are given under 'Business of the Company' above. Were the Company to breach Section 842, 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 842 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 Acts and, since its shares are listed on the London Stock Exchange, the UKLA Listing Rules. A breach of the Companies Acts could result in the Company and/or the Directors being fined or the subject of criminal proceedings. Breach of the UKLA Listing Rules could result in the Company's shares being suspended from listing which in turn would breach Section 842. The Board relies on the services of its Company Secretary, JPMAM, to ensure compliance with The Companies Acts 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 22 to 25.
- 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 internal control are included within the Internal Control section of the Corporate Governance report on page 24.
- 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 45 to 48.

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 8.

Management

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 has evaluated the performance of the Manager 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. In arriving at this view, the Board considered the investment strategy and process of the Investment Managers, noting consistent outperformance of the benchmark over the long term and the support that the Company receives from JPMAM.

Management Fee

The management fee is charged at the rate of 0.5% of the value of the Company's market capitalisation

Directors' Report – continued

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 17), risk management policies (see page 45), capital management policies and procedures (see page 49), 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 2010, the Company had no outstanding trade creditors.

Directors

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

	31st January 2010	1st February 2009 or at date of appointment
Hamish Leslie Melville	30,000	30,000
Sir Richard Beckett	2,000	2,000
The Right Hon. The Earl of Halifax	2,000	2,000
Sandy Nairn	5,000	5,000
Charles Peel	33,100	33,100
Ian Russell	5,000	5,000

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

In accordance with the Company's Articles of Association, two of the Directors, being Sandy Nairn and Ian Russell are required to offer themselves for re-election. Sir Richard Beckett was appointed on 1st September 2009 and offers himself himself for election. Pursuant to the Financial Reporting Council Combined Code, having served as a Director for more than nine years, Hamish Leslie Melville is subject to annual re-election.

During the year an insurance policy has been maintained by the Company which indemnifies the Directors of the Company against certain liabilities arising in the conduct of their duties.

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:

(a) 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

(b) each of the Directors has taken all the steps that he ought to have taken as a Director in order to make himself 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.

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

Details of the voting rights in the Company's shares as at the date of this report are given in note 15 to the Notice of AGM on page 51.

Section 417(5)(b)(i)(ii) and (iii) Companies Act 2006

Information about environmental matters, and social and community issues is set out on the JPMAM website (see page 22). The Company has no employees.

Notifiable Interests in the Company's Voting Rights

At 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	11,836,086	11.84
Brewin Dolphin Ltd	6,787,863	6.79
Rathbone Investment Management Ltd	6,347,870	6.35
Chase Nominees Ltd[1]	5,999,431	6.00
JPMorgan Asset Management (UK) Ltd	5,826,442	5.83
Rensburg Sheppards Investment Management Ltd	4,149,740	4.15
Legal & General Group plc	4,074,676	4.08
Quilter	3,418,721	3.42

[1]Held on behalf of JPMAM Share Plan and ISA 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.

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 8 and 9)

The Directors will seek renewal of the authority at the AGM to issue up to 9,992,871 Ordinary shares for cash up to an aggregate nominal amount of £2,498,217.75 such amount being equivalent to 10% 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 page 51. This authority will expire on 18th May 2015 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 assets, 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.

Repurchase of the Company's shares (resolution 10)

At the Annual General Meeting held in April 2009, 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 29th October 2010 unless renewed by shareholders. The repurchase of shares at a discount to the underlying net asset value ('NAV') would enhance the NAV of the remaining shares.

Amendment to the Articles of Association (resolutions 11 and 12)

It is proposed in resolution 11 to adopt new articles of association (the 'New Articles') in order to update the Company's current articles of association (the 'Articles') to take account of the implementation on 1 October 2009 of the last parts of the Companies Act 2006 (the '2006 Act') in respect of, amongst other things, the Company's authorised share capital and its memorandum of association.

Directors' Report – continued

It is proposed in resolution 12 to approve an increase in the aggregate per annum that the directors may be paid.

A copy of the New Articles will be available for inspection at the offices of Dickson Minto W.S., Royal London House, 22/25 Finsbury Square, London EC2A 1DX during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of the notice of the AGM until the conclusion of the AGM and on the date of the AGM at the AGM from 15 minutes prior to the AGM until the conclusion of the AGM.

A summary of the material changes proposed to be brought about by the adoption of the New Articles is set out in the Appendix to the Notice of the AGM on page 54.

Recommendation

The Board considers resolutions 8-12 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 77,100 shares representing approximately 0.07% 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 page 51.

Corporate Governance

Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities on page 27, indicates how the Company has applied the principles of good governance of the Financial Reporting Council 2008 Combined Code (the 'Combined Code') and the AIC's Code of Corporate Governance, (the 'AIC Code'), which complements the Combined 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 Combined Code, other than in respect of the provision relating to the appointment of a senior independent director, and the AIC Code throughout the year under review.

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. The Company delegates responsibility for voting investee shares to JPMAM. Details of JPMAM's Voting Policy and Corporate Governance Guidelines (including Social and Environmental Policy) are available from JPMAM on request or can be accessed at www.jpmorganassetmanagement.co.uk/institutional. Within the "Commentary & Analysis" tab there is a section on Corporate Governance.

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.

The Board has procedures in place to deal with potential conflicts of interest and 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 consists of six 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 page 16.

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

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, a Director's appointment will run for a term of three years. Subject to the performance evaluation carried out each year, the Board will agree whether it is appropriate for the Director to seek an additional term. Any Director who has served for a period of more than nine years will submit himself for annual re-election thereafter.

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 re-election of Hamish Leslie Melville, Sandy Nairn and Ian Russell who retire by rotation at this year's AGM. The Board recommends the election of Sir Richard Beckett, who was appointed as a Director on 1st September 2009.

Meetings and Committees

The Board delegates certain responsibilities and functions to committees. Details of membership of committees are shown with the Directors' profiles on page 16. 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 seven Board meetings, two Audit Committee meetings and two Nomination Committee meeting.

Director	Board Meetings Attended	Audit Committee Meetings Attended	Nomination Committee Meetings Attended
Hamish Leslie Melville	7	2*	2
Sir Richard Beckett	2	1	1
The Right Hon. The Earl of Halifax	7	2	2
Richard Hambro[1]	–	–	–
Sandy Nairn	6	1	2
Charles Peel	6	2	1
Ian Russell	6	2	1

*Attended by invitation
[1]Died on 25th April 2009

Training and Appraisal

On appointment, the Manager and Company Secretary provide all Directors with induction training. Thereafter regular briefings are provided on changes in regulatory requirements that affect the Company and Directors. Directors are encouraged to attend industry and other seminars covering issues and developments relevant to investment trusts.

The Board has undertaken an evaluation of the Manager, its own performance and that of its committees and individual Directors. The evaluation of individual Directors is led by the Chairman and another Director leads the evaluation of the Chairman's performance. The Board as a whole evaluates the Manager, its own performance and that of its committees.

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 to carry out its fiduciary duties and to select and propose suitable candidates when necessary for appointment.

The Committee undertakes an annual performance evaluation, as described above, 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.

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.

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 Combined Code. It reviews the terms of the management agreement and examines the effectiveness of the Company's 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 order to safeguard the Auditors' objectivity and independence, any significant

Directors' Report – continued

non-audit services are carried out through a partner other than the audit engagement partner. 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 internal control is set out later on this page.

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 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.

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 write to the Company Secretary at the address shown on page 57 or via the website.

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

Internal Control

The Combined Code requires the Directors, at least annually, to review the effectiveness of the Company's system of 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 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 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. 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 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 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 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 internal controls and the operations of its custodian, JPMorgan Chase & Co., which is itself independently reviewed; and
- the Directors review on a regular basis an independent report on the 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 internal control for the year ended 31st January 2010, and to the date of approval of this Annual Report and Accounts.

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

By order of the Board
Juliet Dearlove, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary
31st March 2010

Copies of the Combined 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 28.

With effect from 1st May 2007 Directors' fees were raised from the rate of £35,000 per annum to the rate of £45,000 per annum for the Chairman and from the rate of £25,000 per annum to the rate of £30,000 per annum for the other Directors. With effect from 17th May 2007 the fee received by the Chairman of the Audit Committee was increased from the rate of £30,000 per annum to the rate of £35,000 per annum.

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 fulfiling those roles.

At the forthcoming AGM the Board will seek shareholder approval to increase the maximum aggregate amount payable to the Board of Directors from £200,000 p.a. to £300,000 p.a. The aim of this proposed amendment is to avoid further changes to the Articles of Association in the near future. The current maximum has been in place since 2006. There are no immediate plans to increase the level of fees paid to Directors.

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 23.

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.

Five year share price and benchmark total return to 31st January

Source: Morningstar, Russell/Mellon CAPS.

Directors' Remuneration

(Audited Information) Director's Name	2010 £	2009 £
Hamish Leslie Melville (Chairman)	45,000	45,000
Sir Richard Beckett[1]	12,500	–
Richard Hambro[2]	7,077	30,000
Sandy Nairn	30,000	30,000
Charles Peel	30,000	30,000
Ian Russell	35,000	35,000
The Right Hon. The Earl of Halifax	30,000	30,000
Total	**189,577**	**200,000**

[1]Appointed on 1st September 2009.

[2]Died on 25th April 2009.

By order of the Board
Juliet Dearlove, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary
31st March 2010

Directors' Responsibilities in Respect of the Accounts

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 accounts for each financial year. Under that law, the Directors have elected to prepare the accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The accounts are required by law to give a true and fair view of the state of affairs of the Company as at the end of the year and of the total return for the year. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they comply with these requirements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts 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.

The accounts are published on the Company's website at www.mercantileit.co.uk, which is maintained by the Company's Manager, JPMorgan Asset Management (UK) Limited ('JPMAM'). The maintenance and integrity of the website maintained by JPMAM is, so far as it relates to the Company, the responsibility of JPMAM.

Statement under the Disclosure & Transparency Rules 4.1.12

The Directors each confirm to the best of their knowledge that:

(a) the accounts, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and return or loss of the Company; and

(b) this Annual 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
31st March 2010

Independent Auditors' Report

To the members of The Mercantile Investment Trust plc

We have audited the accounts of The Mercantile Investment Trust plc for the year ended 31st January 2010 which comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement and the related notes to the accounts. 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 Directors' Responsibilities Statement set out on page 27, the Directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit the accounts 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 Sections 495 to 497 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 accounts

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts 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 accounts.

Opinion on accounts

In our opinion the accounts:

- give a true and fair view of the state of the Company's affairs as at 31st January 2010 and of its net return 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 accounts are prepared is consistent with the accounts.

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 accounts 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 20, in relation to going concern; and
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the 2008 Combined Code specified for our review.

Ian Armfield (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors,
London

31st March 2010

Notes:

(a) The maintenance and integrity of The Mercantile Investment Trust plc website (www.mercantileit.co.uk) is the responsibility of the Directors; 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.

(b) Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

Income Statement

for the year ended 31st January 2010

	Notes	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Gains/(losses) on investments held at fair value through profit or loss	2	–	362,020	362,020	–	(488,753)	(488,753)
Net foreign currency losses		–	(78)	(78)	–	(26)	(26)
Income from investments	3	27,899	–	27,899	39,601	–	39,601
Other interest receivable and similar income	3	4,349	–	4,349	12,149	–	12,149
Gross return/(loss)		32,248	361,942	394,190	51,750	(488,779)	(437,029)
Management fee	4	(1,971)	(1,971)	(3,942)	(2,187)	(2,187)	(4,374)
VAT recoverable	4	–	–	–	1,130	1,069	2,199
Other administrative expenses	5	(1,022)	–	(1,022)	(2,144)	–	(2,144)
Net return/(loss) on ordinary activities before finance costs and taxation		29,255	359,971	389,226	48,549	(489,897)	(441,348)
Finance costs	6	(5,489)	(5,489)	(10,978)	(5,502)	(5,502)	(11,004)
Net return/(loss) on ordinary activities before taxation		23,766	354,482	378,248	43,047	(495,399)	(452,352)
Taxation	7	(63)	–	(63)	(19)	–	(19)
Net return/(loss) on ordinary activities after taxation		23,703	354,482	378,185	43,028	(495,399)	(452,371)
Return/(loss) per share	9	23.18p	346.63p	369.81p	41.73p	(480.45)p	(438.72)p

Dividends declared in respect of the financial year ended 31st January 2010 total 36.0p per share (2009: 36.0p per share) costing £36,753,000 (2009: £36,898,000). Further information on dividends is given in note 8 on page 39.

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 34 to 49 form an integral part of these accounts.

Reconciliation of Movements in Shareholders' Funds

for the year ended 31st January 2010

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31st January 2008	26,075	23,459	10,695	1,090,587	57,334	1,208,150
Repurchase and cancellation of the Company's own shares	(495)	–	495	(17,586)	–	(17,586)
Net (loss)/return on ordinary activities	–	–	–	(495,399)	43,028	(452,371)
Dividends appropriated in the year	–	–	–	–	(40,895)	(40,895)
At 31st January 2009	25,580	23,459	11,190	577,602	59,467	697,298
Repurchase and cancellation of the Company's own shares	(93)	–	93	(3,299)	–	(3,299)
Net return on ordinary activities	–	–	–	354,482	23,703	378,185
Dividends appropriated in the year	–	–	–	–	(36,808)	(36,808)
At 31st January 2010	25,487	23,459	11,283	928,785	46,362	1,035,376

The notes on pages 34 to 49 form an integral part of these accounts.

Balance Sheet

at 31st January 2010

	Notes	2010 £'000	2009 £'000
Fixed assets			
Investments held at fair value through profit or loss	10	1,158,236	716,891
Current assets	12		
Debtors		19,647	1,786
Cash and short term deposits		40,225	171,392
		59,872	173,178
Creditors: amounts falling due within one year	13	(5,831)	(15,966)
Net current assets		54,041	157,212
Total assets less current liabilities		1,212,277	874,103
Creditors: amounts falling due after more than one year	14	(176,901)	(176,805)
Total net assets		1,035,376	697,298
Capital and reserves			
Called up share capital	15	25,487	25,580
Share premium	16	23,459	23,459
Capital redemption reserve	16	11,283	11,190
Capital reserves	16	928,785	577,602
Revenue reserve	16	46,362	59,467
Shareholders' funds		1,035,376	697,298
Net asset value per share	17	1,015.6p	681.5p

The accounts on pages 30 to 49 were approved and authorised for issue by the Directors on 31st March 2010 and are signed on their behalf by:

Hamish Leslie Melville
Chairman

The notes on pages 34 to 49 form an integral part of these accounts.

The Mercantile Investment Trust plc
Company Number 20537

Cash Flow Statement

for the year ended 31st January 2010

	Notes	2010 £'000	2009 £'000
Net cash inflow from operating activities	18	25,045	54,483
Servicing of finance			
Interest paid		(10,882)	(10,898)
Net cash outflow from servicing of finance		(10,882)	(10,898)
Taxation			
Overseas tax recovered		–	16
Financial investment			
Purchases of investments		(1,019,054)	(1,320,325)
Sales of investments		912,996	1,217,694
Settlement of option contracts		–	975
Other capital charges		(24)	(31)
Net cash outflow from financial investment		(106,082)	(101,687)
Total dividends paid		(36,820)	(40,895)
Net cash outflow before financing		(128,739)	(98,981)
Financing			
Repurchase and cancellation of the Company's own shares		(2,350)	(17,586)
Net cash outflow from financing		(2,350)	(17,586)
Decrease in cash in the year	19	(131,089)	(116,567)

The notes on pages 34 to 49 form an integral part of these accounts.

Notes to the Accounts

for the year ended 31st January 2010

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' (the 'SORP') issued by the Association of Investment Companies ('AIC') 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.

The Company had a dormant, wholly owned subsidiary 'Mercantile Management Limited', which was dissolved on 27th October 2009. The results of the subsidiary for the period prior to its dissolution have not been consolidated as exemption under Section 405 of the Companies Act 2006 has been exercised due to the immateriality of the subsidiary.

(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.

Gains and losses on sales of investments including the related foreign exchange gains and losses of a capital nature, foreign exchange gains and losses on cash and deposit balances and other capital receipts and payments are dealt with in capital reserves within 'Gains and losses on sales of investments'. Increases and decreases in the valuation of investments held at the year end, including the related gains and losses arising from changes in foreign exchange rates, are dealt with in capital reserves within 'Holding gains and losses on investments'.

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

(c) 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 rate of those securities.

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

Underwriting commission is taken to revenue on a receipts basis.

(d) 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:

- management fees are allocated 50% to revenue and 50% 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 40.

(e) Finance costs

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

Finance costs are allocated 50% to revenue and 50% 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.

(f) 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 receivables and payables do not carry any interest, are short term in nature and are accordingly stated at nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

The debentures in issue, bank loans and overdrafts are classified as loans and receivables and 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 rate method.

(g) Taxation

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.

(h) VAT

Expenses are disclosed inclusive of the related irrecoverable VAT. The basis on which it has been calculated is the partial exemption method using the proportion of taxable supplies to non taxable supplies. VAT recovered on management fees has been credited to income and capital in the same proportion as those management fees were originally charged to income and capital.

(i) Foreign currency

In accordance with FRS23: 'The effects of changes in Foreign Currency 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 the 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.

Foreign exchange gains and losses on cash and deposit balances are dealt with in capital reserves within 'Gains and losses on sales of investments'. Gains and losses on investments held at the year end arising from changes in foreign exchange rates are included in capital reserves within 'Holding gains and losses on investments'.

(j) 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 approved by shareholders.

Notes to the Accounts – continued

	2010 £'000	2009 £'000
2. Gains/(losses) on investments held at fair value through profit or loss		
Losses on investments held at fair value through profit or loss based on historical cost	(62,046)	(206,024)
Amounts recognised in investment holding losses in the previous year in respect of investments sold during the year	211,772	61,592
Gains/(losses) on sales of investments based on carrying value at previous balance sheet date	149,726	(144,432)
Net movement in investment holding gains and losses	212,317	(345,265)
Gains on option contracts	–	975
Other capital charges	(23)	(31)
Total capital gains/(losses) on investments held at fair value through profit or loss	362,020	(488,753)

	2010 £'000	2009 £'000
3. Income		
Income from investments		
UK dividends	23,817	36,918
UK bond interest	451	–
Property income distributions	575	910
Overseas dividends	3,056	1,773
	27,899	39,601
Other interest receivable and similar income		
Deposit interest	323	9,853
Interest on VAT recovered[1]	–	2,090
Underwriting commission	3,989	206
Distribution on dissolution of subsidiary	37	–
	4,349	12,149
Total income	32,248	51,750

[1]This represents interest on VAT recovered relating to management fees paid in the past, following HM Revenue & Customs' acceptance in 2007 that VAT was not chargeable on investment trust management fees.

	2010			2009		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
4. Management fee						
Management fee[1]	1,971	1,971	3,942	2,187	2,187	4,374
VAT recoverable[2]	–	–	–	(1,130)	(1,069)	(2,199)
	1,971	1,971	3,942	1,057	1,118	2,175

[1]Details of the management fee are given in the Directors' Report on page 19.

[2]This represents VAT relating to management fees paid in the past, following HM Revenue & Customs' acceptance in 2007 that VAT was not chargeable on investment trust management fees.

	2010 £'000	2009 £'000
5. Other administrative expenses		
Other management expenses[1]	534	1,796
Directors' fees[2]	190	200
Savings scheme expenses[3]	164	113
Auditors' remuneration for audit services[4]	35	34
Auditors' remuneration for all other services[5]	99	1
	1,022	2,144

[1]Other management expenses for the year ended 31st January 2009 includes professional fees amounting to £1,165,000 incurred in connection with VAT recoveries.

[2]Full disclosure is given in the Directors' Remuneration Report on page 26.

[3]These fees were paid to JPMAM for the marketing of 'Wrapper products'.

[4]Includes £5,000 (2009: £5,000) irrecoverable VAT.

[5]Includes £13,000 (2009: £nil) irrecoverable VAT. Comprises £98,000 payable in respect of an action against HMRC to recover VAT and £1,000 for other services.

	2010			2009		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
6. Finance costs						
Interest on bank loans and overdrafts	–	–	–	13	13	26
Debenture interest	5,441	5,441	10,882	5,441	5,441	10,882
Amortisation of debenture issue costs	48	48	96	48	48	96
	5,489	5,489	10,978	5,502	5,502	11,004

Notes to the Accounts – continued

	2010 £'000	2009 £'000
7. Taxation		
(a) Analysis of tax charge in the year		
UK Corporation tax at 28% (2009: 28.32%)	–	–
Overseas withholding tax	63	–
Prior year adjustment	–	19
Current tax charge for the year	63	19

	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
(b) Factors affecting current tax charge for the year						
Net return/(loss) on ordinary activities before taxation	23,766	354,482	378,248	43,047	(495,399)	(452,352)
Net return/(loss) on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax of 28% (2009: 28.32%)	6,655	99,255	105,910	12,191	(140,297)	(128,106)
Effect of:						
Non taxable UK dividend income	(6,669)	–	(6,669)	(10,455)	–	(10,455)
Non taxable overseas dividend income	(392)	–	(392)	–	–	–
Non taxable capital (return)/loss	–	(101,344)	(101,344)	–	138,422	138,422
Excess capital expense arising in the year	–	2,089	2,089	–	1,875	1,875
Unrelieved expenses	406	–	406	(1,736)	–	(1,736)
Overseas withholding tax	63	–	63	–	–	–
Prior year adjustment	–	–	–	19	–	19
	63	–	63	19	–	19

The Company has an unrecognised deferred tax asset of £40,248,000 (2009: £37,592,000). This 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.

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.

8. Dividends

(a) Dividends paid and declared

	2010 £'000	2009 £'000
Unclaimed dividends refunded to the Company[1]	(12)	(10)
2009 fourth quarterly dividend of 18.0p (2008: 17.5p) paid to shareholders in May	18,418	18,253
2008 Special dividend of 4.0p paid to shareholders in May	–	4,172
First quarterly dividend of 6.0p (2009: 6.0p) paid to shareholders in August	6,139	6,186
Second quarterly dividend of 6.0p (2009: 6.0p) paid to shareholders in November	6,139	6,147
Third quarterly dividend of 6.0p (2009: 6.0p) paid to shareholders in February[2]	6,124	6,147
Total dividends paid in the year	36,808	40,895

[1] Represents dividends which remain unclaimed after a period of 12 years and thereby become the property of the Company.
[2] Paid on 29th January.

	2010 £'000	2009 £'000
Fourth quarterly dividend of 18.0p (2009: 18.0p) payable to shareholders in May	18,351	18,418

The fourth quarterly dividend has been declared in respect of the year ended 31st January 2010. In accordance with the accounting policy of the Company, this dividend will be reflected in the accounts for the year ending 31st January 2011.

(b) Dividends for the purposes of section 842 of the Income and Corporation Taxes Act 1988

The requirements of section 842 of the Income and Corporation Taxes Act 1988 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 £23,703,000 (2009: £43,028,000).

	2010 £'000	2009 £'000
First quarterly dividend of 6.0p (2009: 6.0p) paid in August	6,139	6,186
Second quarterly dividend of 6.0p (2009: 6.0p) paid in November	6,139	6,147
Third quarterly dividend of 6.0p (2009: 6.0p) paid in February	6,124	6,147
Fourth quarterly dividend of 18.0p (2009: 18.0p) payable in May	18,351	18,418
	36,753	36,898

9. Return/(loss) per share

The revenue return per share is based on the earnings attributable to the ordinary shares of £23,703,000 (2009: £43,028,000) and on the weighted average number of ordinary shares in issue during the year of 102,264,780 (2009: 103,110,703).

The capital return per share is based on the capital return attributable to the ordinary shares of £354,482,000 (2009: £495,399,000 loss) and on the weighted average number of ordinary shares in issue during the year of 102,264,780 (2009: 103,110,703).

The total return per share is based on the total return attributable to the ordinary shares of £378,185,000 (2009: £452,371,000 loss) and on the weighted average number of ordinary shares in issue during the year of 102,264,780 (2009: 103,110,703).

Notes to the Accounts – continued

	2010 £'000	2009 £'000
10. Investments		
Investments listed on a recognised stock exchange	1,046,524	651,722
Unlisted investments	111,712	65,169
	1,158,236	716,891

	Listed in UK £'000	Listed Overseas £'000	Unlisted £'000	Total £'000
Opening book cost	955,034	5,605	106,467	1,067,106
Opening investment holding losses	(304,370)	(4,547)	(41,298)	(350,215)
Opening valuation	650,664	1,058	65,169	716,891
Movements in the year:				
Purchases at cost	949,393	16,041	44,352	1,009,786
Sales - proceeds	(903,290)	(857)	(26,337)	(930,484)
Gains/(losses) on sales based on fair value at the previous balance sheet date	163,780	(4,747)	(9,307)	149,726
Net movement in investment holding gains and losses	174,699	(217)	37,835	212,317
	1,035,246	11,278	111,712	1,158,236
Closing book cost	961,114	16,041	107,207	1,084,362
Closing investment holding gains/(losses)	74,132	(4,763)	4,505	73,874
Total investments at fair value	1,035,246	11,278	111,712	1,158,236

Transaction costs on purchases during the year amounted to £4,884,000 (2009: £7,449,000) and on sales during the year amounted to £1,257,000 (2009: £1,547,000). These costs comprise stamp duty and brokerage commission.

Unlisted investments include Alternative Investment Market stocks which are valued at £91,409,000 (2009: £50,096,000).

During the year, prior year investment holding losses have been transferred to gains on sales of investments as disclosed in note 16 on page 42. This was derived from the following sources:

	Listed in UK £'000	Listed Overseas £'000	Unlisted £'000	Total £'000
	203,803	–	7,969	211,772

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
M P Evans	UK	Ordinary	6.5
Pendragon	UK	Ordinary	6.5
Imagination Technologies Group	UK	Ordinary	3.2
Morgan Crucible	UK	Ordinary	3.1

The Company has interests of 3% or more in the share capital of 32 (2009: 45) 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 2010 was £162,488,000 (2008: £143,173,000)

	2010 £'000	2009 £'000
12. Current assets		
Debtors		
Securities sold awaiting settlement	17,727	239
Amount due from subsidiary[1]	–	250
Dividends and interest receivable	1,788	1,193
Other debtors	132	104
	19,647	1,786

[1]The Company's subsidiary, 'Mercantile Management Limited', was dissolved on 27th October 2009.

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.

	2010 £'000	2009 £'000
13. Creditors: amounts falling due within one year		
Repurchases of the Company's own shares awaiting settlement	949	–
Securities purchased awaiting settlement	–	9,268
Loan to subsidiary[1]	–	287
Other creditors and accruals	4,882	6,411
	5,831	15,966

[1]The Company's subsidiary, Mercantile Management Limited, was dissolved on 27th October 2009.

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

	2010 £'000	2009 £'000
14. Creditors: amounts falling due after more than one year		
Falling due after more than five years		
4.25% perpetual debenture stock[1]	3,850	3,850
6.125% debenture stock[2]	173,051	172,955
	176,901	176,805

[1]The 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 security is enforced.

[2]The 6.125% debenture stock is repayable on 25th February 2030 and is secured by a floating charge over the assets of the Company.

Notes to the Accounts – continued

	2010 £'000	2009 £'000
15. Called up share capital		
Authorised:		
163,875,000 (2009: 163,875,000) ordinary shares of 25p each	40,969	40,969
Allotted and fully paid:		
Opening balance of 102,321,968 (2009: 104,303,166) shares	25,580	26,075
Repurchase of 374,000 (2009: 1,981,198) shares	(93)	(495)
Closing balance of 101,947,968 (2009: 102,321,968) shares	25,487	25,580

During the year, the Company made market purchases of 374,000 of it own shares, nominal value £93,000, for cancellation, representing 0.37% of the shares outstanding at the beginning of the year. The total consideration paid for these shares was £3,299,000.

			Capital reserves		
	Share premium £'000	Capital redemption reserve £'000	Gains and losses on sales of investments £'000	Holding gains and losses on investments £000	Revenue reserve £'000
16. Reserves					
Opening balance	23,459	11,190	927,817	(350,215)	59,467
Net currency losses on cash and short term deposits held during the year	–	–	(78)	–	–
Gains on sales of investments based on fair value at the previous balance sheet date	–	–	149,726	–	–
Net movement in investment holding gains and losses	–	–	–	212,317	–
Transfer on disposal of investments	–	–	(211,772)	211,772	–
Repurchase and cancellation of the Company's own shares	–	93	(3,299)	–	–
Management fee and finance costs charged to capital	–	–	(7,460)	–	–
Other capital charges	–	–	(23)	–	–
Dividends appropriated in the year	–	–	–	–	(36,808)
Retained revenue for the year	–	–	–	–	23,703
Closing balance	23,459	11,283	854,911	73,874	46,362

17. Net asset value per share

The net asset value per share is based on the net assets attributable to the ordinary shareholders of £1,035,376,000 (2009: £697,298,000) and on the 101,947,968 (2009: 102,321,968) shares in issue at the year end.

	2010 £'000	2009 £'000
18. Reconciliation of net return/(loss) on ordinary activities before finance costs and taxation to net cash inflow from operating activities		
Total return/(loss) on ordinary activities before finance costs and taxation	389,226	(441,348)
Less capital (return)/loss on ordinary activity before finance costs and taxation	(359,971)	489,897
(Increase)/decrease in accrued income	(595)	240
Decrease in VAT recoverable	–	5,843
Increase in other debtors	(16)	(90)
(Decrease)/increase in accrued expenses	(1,529)	1,059
Expenses charged to capital	(1,971)	(1,118)
Overseas withholding tax	(62)	–
Distribution on dissolution of subsidiary	(37)	–
Net cash inflow from operating activities	25,045	54,483

	At 31st January 2009 £'000	Cash flow £'000	Other exchange movement £'000	Non cash movements £'000	At 31st January 2010 £'000
19. Analysis of changes in net debt					
Cash and short term deposits	171,392	(131,089)	(78)	–	40,225
Debentures falling due after more than five years	(176,805)	–	–	(96)	(176,901)
Net debt	(5,413)	(131,089)	(78)	(96)	(136,676)

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 19. The management fee payable to JPMorgan Asset Management (UK) Limited ('JPMAM') for the year was £3,942,000 (2009: £4,374,000) of which £nil (2009: £262,000) was outstanding at the year end.

During the year £164,000 (2009: £113,000) was payable to JPMAM for the marketing of 'wrapper' products, of which £nil (2009: £28,000) was outstanding at the year end.

Included in other management expenses in note 5 on page 37 are safe custody fees amounting to £26,000 (2009: £11,000) payable to JPMorgan Chase of which £10,000 (2009: £6,000) was outstanding at the year end.

JPMAM may carry out some of its dealing transactions through group subsidiaries. These transactions are carried out at arm's length. The commission payable to JPMorgan Securities for the year was £19,000 (2009: £32,000) of which £nil (2009: £nil) was outstanding at the year end.

During the year, commission on dealing transactions amounting to £537,000 (2009: £926,000) was paid to JPMorgan subsidiaries of which £nil (2009: £nil) was outstanding at the year end.

Handling charges on dealing transactions amounting to £23,000 (2009: £29,000) were payable to JPMorgan Chase during the year of which £8,000 (2009: £8,000) was outstanding at the year end.

At the year end, a bank balance of £40.2 million (2009: £171.4 million) was held with JPMorgan Chase. A net amount of interest of £0.3 million (2009: £7.3 million) was receivable by the Company during the year from JPMorgan Chase of which £7,000 (2009: £185,000) was outstanding at the year end.

The Company holds an investment in JPMorgan Cazenove, a joint venture between JPMorgan Holdings and the Cazenove Group. In November 2009, JPMorgan Holdings announced that it would acquire the balance of JPMorgan Cazenove. At the year end, this investment is included in the Company's portfolio at £14.2 million, which is valued at the cash offer from JPMorgan Holdings.

Notes to the Accounts – continued

22. Disclosures regarding financial instruments measured at fair value

The disclosures required by the amendment to FRS 29: 'Improving Disclosures about Financial Instruments' are given below. The Company's financial instruments within the scope of FRS 29 that are held at fair value comprise its investment portfolio. The Company currently holds no derivative financial instruments and its liabilities are not held at fair value.

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

Level 1 – valued using quoted prices in active markets for identical assets.

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 on page 34.

The following table sets out the fair value measurements using the FRS 29 hierarchy:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets held at fair value through profit or loss at 31st January 2010				
Equity investments	1,137,933	–	17,961	1,155,894
Fixed interest investments	–	–	2,342	2,342
Total	1,137,933	–	20,303	1,158,236

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

	Equity investments £'000	Fixed interest investments £'000	Total £'000
Level 3 financial assets held at fair value through profit or loss at 31st January 2010			
Opening balance	16,492	94	16,586
Sales – proceeds	(4,928)	–	(4,928)
Transfers into Level 3	119	2,248	2,367
Gains on sales based on the fair value at the previous balance sheet date	1,154	–	1,154
Net movement in investment holding gains and losses	5,124	–	5,124
Closing balance	17,961	2,342	20,303

The transfers into Level 3 relate to one stock which has been de-listed from the Alternative Investment Market and a corporate bond which was acquired as part of a company reconstruction.

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 financial risks is set out below. The Company Secretary, in close cooperation with the Board and the Manager, coordinates the Company's risk management. 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.

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.

Therefore the Company would not normally have any significant exposure to interest rate risk. However the Company was holding high levels of cash and short term deposits at the comparative year end due to unusual market conditions. The Company's exposure to cash flow interest rate risk due to cash and deposit balances at the year end was as follows:

	2010 £'000	2009 £'000
Exposure to floating interest rates		
Cash at bank and short term deposits	40,225	171,392

Interest receivable on cash balances, or paid on overdrafts, is at a margin below or above LIBOR respectively (2009: same).

Notes to the Accounts – continued

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

(i) Interest rate risk – continued

The above year end amounts are not representative of the exposure to interest rates during the year as the level of cash balances has fluctuated. The maximum and minimum cash balances during the year are as follows:

	2010 £'000	2009 £'000
Maximum cash at bank and short term deposits	149,565	292,272
Minimum cash at bank and short term deposits	33,036	143,647

Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 1% (2009: 1%) increase or decrease in interest rates applied to the Company's cash balances. 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 cash balances at the balance sheet date with all other variables held constant.

	2010		2009	
	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	201	(201)	857	(857)
Capital return	201	(201)	857	(857)
Total return after taxation	402	(402)	1,714	(1,714)
Net assets	402	(402)	1,714	(1,714)

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:

	2010 £'000	2009 £'000
Equity investments held at fair value through profit or loss	1,155,894	716,891

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 14 to 15 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% (2009: 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.

	2010		2009	
	10% Increase in fair value £'000	10% Decrease in fair value £'000	20% Increase in fair value £'000	20% Decrease in fair value £'000
Income statement – return after taxation				
Revenue return	(289)	289	(358)	358
Capital return	115,300	(115,300)	143,020	(143,020)
Total return after taxation	115,011	(115,011)	142,662	(142,662)
Net assets	115,011	(115,011)	142,662	(142,662)

(b) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management of the risk

Liquidity risk is not significant as the Company's assets comprise mainly readily realisable securities, which can be sold to meet funding requirements if necessary. Short term flexibility is achieved through the use of overdraft facilities.

The Board's policy is for the Company to remain fully invested in normal market conditions and that short term borrowings be used to manage short term liabilities and working capital and to gear the Company as appropriate.

	2010			2009			
	Three months or less £'000	More than one year £'000	Total £'000	Three months or less £'000	Not more than one year £'000	More than one year £'000	Total £'000
Creditors: amounts falling due after more than one year							
Debenture stock	–	176,901	176,901	–	–	176,805	176,805
Creditors: amounts falling due within one year							
Repurchases of the Company's own shares awaiting settlement	949	–	949	–	–	–	–
Securities purchased awaiting settlement	–	–	–	9,268	–	–	9,268
Loan from subsidiary	–	–	–	–	287	–	287
Other creditors and accruals	4,882	–	4,882	6,411	–	–	6,411
	5,831	176,901	182,732	15,679	287	176,805	192,771

(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.

Notes to the Accounts – continued

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

(c) Credit risk – continued

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

The Company's assets are clearly ring-fenced in client designated accounts. Therefore, in the event that JPMorgan Chase were to cease trading, these assets would be protected.

Credit risk exposure

Compared to the balance sheet the maximum exposure to credit risk at the year end was as follows:

	2010		2009	
	Balance sheet £'000	Maximum exposure £'000	Balance sheet £'000	Maximum exposure £'000
Fixed assets – investments held at fair value through profit or loss	1,158,236	2,248	716,891	–
Current assets				
Debtors – securities sold awaiting settlement, dividends and interest receivable and other debtors	19,647	19,647	1,536	1,536
Loan to subsidiary	–	–	250	–
Cash and short term deposits	40,225	40,225	171,392	171,392
	1,218,108	62,120	890,069	172,928

The maximum credit risk exposure of fixed asset investments comprises a holding in an unrated corporate bond.

Cash and short term deposits comprises balances held at banks that have a minimum credit rating of A1/P1 from Standard & Poor's and Moody's respectively (2009: same).

(d) Fair values of financial assets and financial liabilities

All financial assets and liabilities are either included 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 by reference to a similar dated gilt yield plus a margin based on the 5 year average for the AA Barclays Sterling Corporate Bond spread.

	Accounts value		Fair value	
	2010 £'m	2009 £'m	2010 £'m	2009 £'m
£175 million 6.125% debenture stock 25th February 2030	173.1	173.0	184.5	203.5
£3.85 million 4.25% perpetual debenture stock	3.9	3.9	2.7	3.0
	177.0	176.9	187.2	206.5

24. Capital management policies and procedures

The Company's capital comprises the following:

	2010 £'000	2009 £'000
Debt		
£175 million 6.125% debenture stock 25th February 2030	173,051	172,955
£3.85 million 4.25% irredeemable debenture stock	3,850	3,850
	176,901	176,805
Equity		
Equity share capital	25,487	25,580
Reserves	1,009,889	671,718
	1,035,376	697,298
Total capital	1,212,277	874,103

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 a total net assets.

	2010 £'000	2009 £'000
Investments at fair value	1,158,236	716,891
Net assets	1,035,376	697,298
Gearing	111.9%	102.8%

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 need for issues of new shares, including issues from Treasury; and
- the extent to which revenue in excess of that which is required to be distributed should be retained.

Shareholder Analysis

at 31st January 2010

	Number of shares	% holding
Pensions	13,514,382	13.24
Insurance Companies	9,308,046	9.12
Unit Trusts	9,029,143	8.85
Other institutions	4,904,140	4.81
Investment Trusts	2,758,374	2.70
Charities	1,561,560	1.53
Total Institutions	41,075,645	40.25
Private Client Brokers	35,503,122	34.79
Retail investors holding shares directly or through nominee accounts[1]	17,797,248	17.44
Individuals in the Investment Trust Investment Account[2]	6,140,506	6.01
Individuals in the Investment Trust Individual Savings Account[1,2]	1,389,621	1.36
Individuals in the Investment Trust Pension Account[2]	150,826	0.15
Total Retail Holdings	60,981,323	59.75
Total Shares in Issue	102,056,968	100.0

Nominee accounts have been allocated to their appropriate category.

[1]Includes shares below 10,000 threshold.

[2]Savings products managed by JPMorgan.

Source: Thomson Financial.

Notice of Meeting

Notice is hereby given that the one hundred and twenty fourth Annual General Meeting of The Mercantile Investment Trust plc will be held at Trinity House, Tower Hill, London EC3N 4DH on 19th May 2010 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 2010.
2. To approve the Directors' Remuneration Report for the year ended 31st January 2010.
3. To re-elect Hamish Leslie Melville as a Director of the Company.
4. To re-elect Sandy Nairn as a Director of the Company.
5. To re-elect Ian Russell as a Director of the Company.
6. To elect Sir Richard Beckett as a Director of the Company.
7. To re-appoint 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

8. 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 up to an aggregate nominal amount of £2,498,217.75, representing approximately 10% of the Company's issued Ordinary share capital as at the date of the passing of this resolution, provided that this authority shall expire on 18th May 2015 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

9. THAT subject to the passing of Resolution 8 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 8 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 £2,498,217.75 representing approximately 10% of the issued Ordinary 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 8 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 pursuant of such offers or agreements as if the power conferred hereby had not expired.

Authority to repurchase the Company's shares – Special Resolution

10. 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 ordinary shares of 25p each in the capital of the Company.

    PROVIDED ALWAYS THAT

    (i) the maximum number of ordinary shares hereby authorised to be purchased shall be 14,979,314 or if less, that number of ordinary 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

Notice of Meeting – continued

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 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 18th November 2011 unless the authority is renewed at the Company's Annual General Meeting in 2011 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.

Amendments to the Articles of Association – Special Resolution

11. THAT:

(i) the articles of association of the Company be amended by deleting all of the provisions of the Company's Memorandum of Association which, by virtue of section 28 of the Companies Act 2006, are to be treated as part of the Company's articles of association;

(ii) the articles of association of the Company be amended by deleting all the provisions referred to in paragraph 42 of schedule 2 of the Companies Act 2006 (Commencement No. 8, Transitional Provisions and Savings) Order 2008 (Statutory Instrument 2008 No. 2860); and

(iii) the draft regulations produced to the meeting and, for the purposes of identification, initialled by the Chairman of the meeting be adopted as the articles of association of the Company in substitution for, and to, the entire exclusion of the existing articles of association of the Company.

Authority to increase the maximum aggregate Directors fees – Ordinary Resolution

12. THAT in accordance with Article 81(1) of the Company's new Articles of Association, the maximum aggregate Director's fees payable be increased from £200,000 to £300,000 per annum with immediate effect.

By order of the Board
JPMorgan Asset Management (UK) Limited,
Secretary
31st March 2010

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. If you attend the Meeting in person, your proxy appointment will automatically be terminated.
3. Any instrument appointing a proxy, to be valid, must be lodged in accordance with the instructions given on the proxy form.
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 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 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 at 31st March 2010 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 99,928,719 Ordinary shares, carrying one vote each. Therefore the total voting rights in the Company are 99,928,719.

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.

Appendix

The principal changes which would arise from the adoption of the New Articles are set out below.

The Company's memorandum of association

The provisions regulating the operations of the Company are currently set out in the Company's memorandum and articles of association. The Memorandum contains, among other things, the objects clause which sets out the scope of the activities the Company is authorised to undertake.

The 2006 Act significantly reduces the constitutional significance of a company's memorandum. The 2006 Act provides that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the 2006 Act, the objects clause and all other provisions which were contained in a company's memorandum, for existing companies at 1st October 2009, are now deemed to be contained in a company's articles but the company can remove these provisions by special resolution.

In addition, the 2006 Act states that unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. The Company is therefore, proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the 2006 Act, would otherwise be treated as forming part of the Articles as of 1st October 2009.

Limited liability of shareholders

The liability of the Company's shareholders will continue to be limited to the amount, if any, unpaid on the shares held by them.

Authorised share capital and unissued shares

The 2006 Act abolishes the requirement for a company to have an authorised share capital. The Company is proposing changes to its Articles to reflect this. The Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the 2006 Act.

Chairman's casting vote

Provisions in the current Articles giving the Chairman a casting vote at shareholders' meetings became ineffective from 1 October 2007, but companies with a casting vote provision in their articles on that date were, broadly, allowed to keep it. However the EU Shareholders Rights Directive requires that all shareholders be treated equally and therefore The Companies (Shareholders' Rights) Regulations 2009 (the "Regulations") remove this saving provisions for UK traded companies such that the casting vote provision in the Company's Articles became redundant on 3 August 2009.

Directors' fees

It is proposed to increase the aggregate amount per annum that the directors may be paid, out of the funds of the Company, by way of fees for their services as directors from £200,000 to £300,000.

Adjournments for lack of quorum

Under the 2006 Act as amended by the Regulations, general meetings adjourned for lack of quorum must be held at least 10 clear days after the original meeting. The New Articles reflect this requirement.

Voting Rights

The Shareholders' Rights Regulations clarify the various powers of proxies and representatives of corporate members in respect of resolutions taken on a show of hands. Where a proxy has been duly appointed by one member, he has one vote on a show of hands unless he has been appointed by more than one member in which case the proxy has one vote for and one vote against if the proxy has been appointed by one or more member to vote for the resolution and by one or more member to vote against the resolution. Where a corporate member appoints one or more representatives to attend meetings on its behalf, each representative duly appointed by a corporate member has one vote on a show of hands. The New Articles reflect the revised position under the 2006 Act.

Additional content requirements for notices of meetings

The 2006 Act provides that certain additional information must now be included in notices of general meetings. The New Articles contain a list of such information.

Glossary of Terms

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 in 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 when calculating the total 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, in 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, in 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 follow or '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 fees and all other operating expenses excluding interest. VAT recoverable on management fees and professional fees incurred in connection with those VAT recoveries, expressed as a percentage of 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
If the share price of an investment company is lower than the net asset value (NAV) per share, the shares are said to be trading at a discount. The discount is shown as a percentage of the NAV. The opposite of a discount is a premium. It is more common for an investment company'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:
Allocation Effect
Measures the impact of allocating assets differently to those in the benchmark, via the portfolio's weighting in different countries, sectors or asset types.

Selection Effect
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.

Gearing/Cash Effect
Measures the impact on returns of borrowings or cash balances on the Company's relative performance.

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

Share Buybacks
Measures the effect on relative performance of decreasing the number of shares in issue.

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.

Directors
Hamish Leslie Melville (Chairman)
Sir Richard Beckett
The Right Hon. The Earl of Halifax
Sandy Nairn
Charles Peel
Ian Russell

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 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.

Manager and Secretary
JPMorgan Asset Management (UK) Limited

Company's Registered Office
Finsbury Dials
20 Finsbury Street
London EC2Y 9AQ
Telephone number: 020 7742 6000

Please contact Juliet Dearlove for company secretarial and administrative matters.

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

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.

Auditors
PricewaterhouseCoopers LLP
Hay's Galleria
1 Hay's Lane
London SE1 2RD

Brokers
JPMorgan Cazenove
20 Moorgate
London EC2R 6DA

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

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.

aic
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A member of the AIC

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Your telephone call may be recorded for your security

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