

The Mercantile Investment Trust plc

Half Year Report & Accounts for the six months ended 31st July 2012



Features

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Objective

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

Investment Policy

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

Benchmark

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

Capital Structure

At 31st July 2012, the Company's issued share capital comprised 98,615,719 ordinary shares of 25p each.

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

Management Company

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

Half Year Performance

Total returns (includes dividends reinvested)

+6.6%

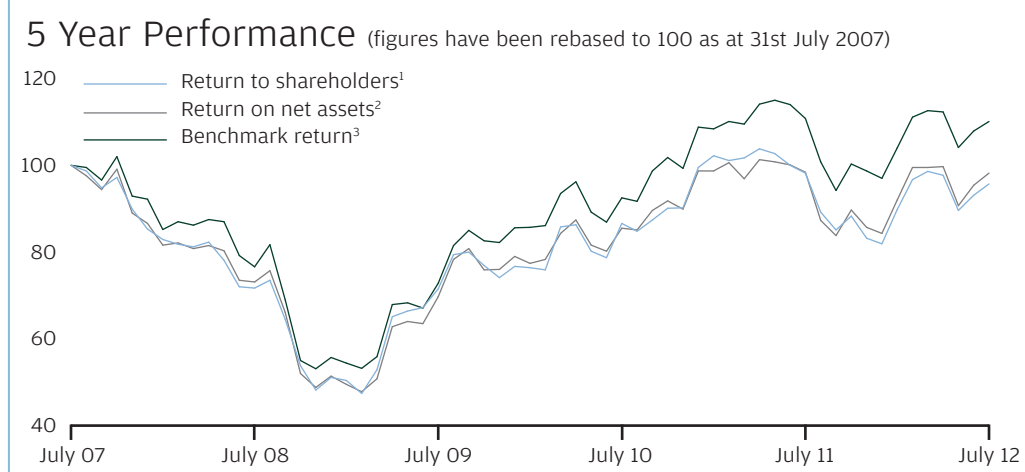
Return to shareholders¹

+6.7%

Return on net assets²

+5.9%

Benchmark return^{3,4}



Financial Data

	31st July 2012	31st January 2012	% change
Shareholders' funds (£'000)	1,160,237	1,110,361	+4.5
Number of shares in issue	98,615,719	98,710,719	-0.1
Net asset value per share with debt at par value (p)	1,176.5	1,124.9	+4.6
Net asset value per share with debt at fair value ⁵ (p)	1,130.5	1,088.2	+3.9
Net asset value return with dividends reinvested (%)	+6.7	-7.2	
Share price (p)	978.0	940.0	+4.0
Share price discount to net asset value per share with debt at par value	16.9%	16.4%	
Share price discount to net asset value per share with debt at fair value	13.5%	13.6%	
Actual Gearing Factor ⁶	103.2%	115.0%	

A glossary of terms and definitions is provided on page 16.

¹Source: Morningstar.

²Source: J.P. Morgan.

³Source: Russell/Mellon Caps.

⁴The Company's benchmark is the FTSE All-Share Index excluding constituents of the FTSE 100 Index and Investment trusts.

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

⁶Actual gearing means investments expressed as a percentage of shareholders' funds.

Chairman's Statement



Performance and Market Review

The Company's net asset value total return in the first six months to 31st July 2012 was 6.7% which was 0.8% ahead of the return of our benchmark index, the FTSE All-Share Index, excluding FTSE 100 constituents and investment trusts.

This represents a better result than that of the last full year, fuelled by the recovery in mid and small cap stocks over the period under review. The Managers continue to be proactive in managing the portfolio, taking advantage of market fluctuations and corporate activity.

Revenue

The income received from investments in the first half is marginally above that of the half year ended 31st July 2011, reflecting a gradual increase in dividend income for underlying investments.

Dividends

A second interim dividend of 6.0 pence per share has been declared by the Board, payable on 1st November 2012 to shareholders on the register at close of business on 5th October 2012. Together with the first interim dividend of 6.0 pence paid on 1st August 2012 this brings the total dividend for the year to date to 12.0 pence (2011: 12.0 pence). The Board anticipates that there will be a third dividend of 6.0 pence paid in early February 2013. However, as in previous years, the Board's decision as to the quantum of the fourth interim dividend will depend on the level of revenue received. The Board remains mindful of the substantial revenue reserve position that your Company enjoys.

Share Repurchases

The Board has maintained an active approach towards share repurchases in order to enhance the net asset value per share and minimise the absolute level and volatility of the discount on the Company's shares. In the six months to 31st July 2012, 95,000 shares were repurchased for cancellation at a total cost of £970,373. These purchases added approximately 1.3 pence to the net asset value per share. The discount, with debt at fair value, has ranged between 9.8% and 14.6% in the period from 1st February 2012 to 14th September 2012, with the average discount during the period of 12.9%.

Investment Managers

In the Annual Report and at the Annual General Meeting I made it clear that the Board was holding discussions with the Manager to ensure that the investment management of the trust was strengthened and improved after the trust's less than satisfactory performance over 1,3 and 5 years. I am glad to report that the Manager has acted expeditiously to carry out its commitment to the Board as described in the Manager's report. The Board will be engaged to ensure that the investment performance of the Company continues at its current improved level.

Outlook

Despite the ongoing macroeconomic uncertainty, equity markets have continued to move higher through the first half of the year, albeit on low volumes as investors have lacked conviction ahead of a resolution to the issues in Europe and lower global growth prospects. In this environment of low growth and investor uncertainty the Board feel that there are likely to be opportunities for stock pickers to outperform and are confident that the strengthened management team's approach, which relies heavily on meeting and engaging with company management teams, will be well placed to benefit from such conditions.

The Board continues to believe that UK mid and small cap equities remain attractively valued and will provide investors with solid returns over the long term.

For and on behalf of the Board

Hamish Leslie Melville

Chairman

26th September 2012

Investment Managers' Report

For the six months ended 31st July 2012 your Company's net asset value was ahead of its benchmark with a return of 6.7%. The benchmark, the FTSE All-Share Index excluding FTSE 100 constituents and investment trusts, returned 5.9%.

Although markets continued to be volatile during the first half of your Company's year, the absence of further unexpected bad macro economic news enabled the stockmarket to achieve a positive return. In particular, mid and small sized UK equities performed better than the broader stockmarket with a resurgence of takeover activity demonstrating that acquirers believe that there is real value in the stockmarket at current levels despite the generally subdued prospects for economic growth.

The strongest contributions to Mercantile's performance in the half year came from companies which recommended cash takeover bids at substantial premia. Mercantile benefited from such takeovers for Cove Energy, Cable and Wireless Worldwide, Logica, Misys, Aegis and Nautical Petroleum. That said, those sectors which were able to continue showing some progress despite the difficult economic background also performed well: the portfolio benefited from strong performance in the housebuilding and non-life insurance sectors. The poorest returns in the portfolio in the half year came from the mining sector where our holdings in Aquarius Platinum, African Barrick Gold and Petropavlovsk were hit by rising mining costs and falling platinum and gold prices. Resources and mining companies accounted for nearly half of all the mid 250 index company profit forecast downgrades recently and companies whose profit forecasts are reducing are generally continuing to underperform. Conversely, companies, such as housebuilders, whose profit forecasts are increasing are continuing to perform better than the stockmarket as a whole.

As economic growth has faltered, more companies have seen profit forecasts reduced than increased, but the rate of downgrades is now abating and, generally, the profits which companies have reported for the first half of the year have been better than feared. Stockmarket valuations are relatively low and, with some stability emerging, this has given corporates, and others, confidence to acquire quoted companies to help them achieve their own growth objectives. Acquisition targets often share the same characteristics which we look for in the companies in which we invest: substantial and growing market shares or asset bases, attractive prospects for cash generation and strong balance sheets and management teams.

Overall, we continue to believe that the stockmarket will tend to rise in response to looser monetary policy from central banks but will be prone to fall in response to bad news from the Eurozone or to deteriorating macro economic data. Having the flexibility to operate within a gearing range of 90% to 120% invested is a great advantage in volatile market conditions, enabling the investment managers to take the opportunity to increase their investment in the stockmarket when pessimism is high and valuations are low. Mercantile's gearing level is currently 105% invested reflecting a positive outlook for equity valuations but some caution that the structural issues within the Eurozone are still not resolved.

In August 2012 Guy Anderson joined the team, reporting to Martin Hudson, with specific responsibility for the General Retailers, Media, Financial Services and Technology sectors of the portfolio, as well as a shared oversight of the entire portfolio. Anthony Lynch, formerly the team's analyst, was promoted to the position of portfolio manager. We are confident that this is a strong team that is well placed to meet the Company's investment management requirements.

Martin Hudson
Guy Anderson
Anthony Lynch

26th September 2012

List of Investments

at 31st July 2012

Company	Sector	Value £'000	%
Jardine Lloyd Thompson	Financials	39,982	3.0
Persimmon	Consumer Goods	38,175	2.8
Cable & Wireless Communications	Telecommunications	30,176	2.2
Bovis Homes	Consumer Goods	28,181	2.1
Hiscox	Financials	24,752	1.8
Aegis	Consumer Services	24,187	1.8
Phoenix Holdings	Financials	22,881	1.7
Invensys	Technology	21,998	1.7
Berkeley Group	Consumer Goods	21,677	1.6
Catlin	Financials	20,228	1.5
Great Portland Estates	Financials	19,553	1.5
Barratt Developments	Consumer Goods	17,840	1.3
African Barrick Gold	Basic Materials	17,396	1.3
Bellway	Consumer Goods	17,200	1.3
Wood (John)	Oil & Gas	17,147	1.3
Balfour Beatty	Industrials	17,121	1.3
Premier Farnell	Industrials	16,720	1.3
Travis Perkins	Industrials	16,567	1.2
MP Evans ¹	Consumer Goods	16,529	1.2
Chemring	Industrials	16,493	1.2
Inchcape	Consumer Services	16,303	1.2
Amlin	Financials	16,239	1.2
Premier Oil	Oil & Gas	16,048	1.2
Mondi	Basic Materials	15,932	1.2
IG Group	Financials	15,712	1.1
Hays	Industrials	15,185	1.1
William Hill	Consumer Services	15,147	1.1
Taylor Wimpey	Consumer Goods	14,999	1.1
Mitchells & Butlers	Consumer Services	14,805	1.1
Songbird Estates ¹	Financials	14,728	1.1
Daily Mail ¹	Consumer Services	14,356	1.1
Man Group	Financials	13,789	1.0
Playtech	Technology	13,771	1.0
SIG	Industrials	13,729	1.0
TUI Travel	Consumer Services	13,516	1.0
Rentokil Initial	Industrials	13,350	1.0
Wolfson Microelectronics	Technology	13,292	1.0
Bwin.Party Digital Entertainment	Consumer Services	13,053	1.0
Cairn Energy	Oil & Gas	12,993	1.0
Derwent London	Financials	12,755	1.0
London Stock Exchange	Financials	12,664	1.0
Morgan Crucible	Industrials	12,494	0.9
Stagecoach	Consumer Services	12,137	0.9
Savills	Financials	12,081	0.9
Petropavlovsk	Basic Materials	11,446	0.9
Ricardo	Industrials	11,271	0.8
Investec	Technology	10,893	0.8
888	Consumer Services	10,602	0.8
Enquest	Oil & Gas	10,553	0.8
Big Yellow Group	Financials	10,476	0.8
Drax Group	Utilities	10,425	0.8

List of Investments continued

Company	Sector	Value £'000	%
Millennium & Copthorne Hotels	Consumer Services	9,788	0.7
Electrocomponents	Industrials	9,626	0.7
Colt Telecom	Telecommunications	9,488	0.7
Debenhams	Consumer Services	9,297	0.7
Pennon	Utilities	9,096	0.7
Lonmin	Basic Materials	9,024	0.7
Fenner	Industrials	8,827	0.7
Vernalis ¹	Health Care	8,804	0.7
Beazley	Financials	8,722	0.6
Brewin Dolphin	Financials	7,897	0.6
Xchanging	Industrials	7,612	0.6
Imagination Technologies	Technology	7,585	0.6
Fidessa Group	Technology	7,584	0.6
Ithaca Energy ¹	Oil & Gas	7,530	0.6
VP	Industrials	7,362	0.6
Young & Co's Brewery ¹	Consumer Services	7,263	0.5
RPC Group	Industrials	7,162	0.5
WH Smith	Consumer Services	7,102	0.5
Chime Communications	Consumer Services	6,882	0.5
Bumi	Basic Materials	6,821	0.5
CVS ¹	Consumer Services	6,481	0.5
Kier	Industrials	5,861	0.4
Cobham	Industrials	5,744	0.4
Hansteen	Financials	5,674	0.4
Spirit Pub	Consumer Services	5,614	0.4
Carphone Warehouse Group ¹	Consumer Services	5,608	0.4
Ferrexpo	Basic Materials	5,563	0.4
Senior	Industrials	5,541	0.4
Sportech	Consumer Services	5,325	0.4
Cranswick	Consumer Goods	4,977	0.4
Rathbone Brothers	Financials	4,937	0.4
AGA Rangemaster	Consumer Goods	4,813	0.4
Nautical Petroleum ¹	Oil & Gas	4,544	0.3
M&C Saatchi ¹	Consumer Services	4,422	0.3
R.E.A. ¹	Consumer Goods	4,214	0.3
Shaftesbury	Financials	3,986	0.3
London & Stamford	Financials	3,883	0.3
Renold	Industrials	3,732	0.3
Cape	Oil & Gas	3,623	0.3
Shore Capital ¹	Financials	3,610	0.3
International Personal Finance	Financials	3,463	0.3
Valiant Petroleum ¹	Oil & Gas	3,420	0.3
Renovo ¹	Health Care	3,325	0.3
Tullett Prebon	Financials	3,315	0.3
Anglo-Eastern Plantations	Consumer Goods	3,224	0.2
Vectura	Health Care	3,064	0.2
Camellia	Financials	2,941	0.2
Sphere Medical Holding ¹	Health Care	2,941	0.2
Aquarius Platinum	Basic Materials	2,860	0.2
Amerisur Resources ¹	Oil & Gas	2,837	0.2
BBA Aviation	Industrials	2,823	0.2

Company	Sector	Value £'000	%
Mountview Estates	Financials	2,817	0.2
Tennants Consolidated ^{2,3}	Industrials	2,628	0.2
Helical Bar	Financials	2,614	0.2
Ashley (Laura)	Consumer Services	2,509	0.2
Cazenove Capital ²	Financials	2,454	0.2
BTG	Health Care	2,271	0.2
Sports Direct International	Consumer Services	2,238	0.2
Oxford Catalysts ¹	Industrials	2,218	0.2
Channel Islands Property	Financials	2,148	0.2
National Express	Consumer Services	2,125	0.2
United Business Media	Consumer Services	2,071	0.2
Faroe Petroleum ¹	Oil & Gas	1,956	0.2
Marwyn Management Partners ¹	Financials	1,800	0.1
Oxford Biomedica	Health Care	1,752	0.1
Puma Brandenburg ²	Financials	1,631	0.1
Exillon Energy	Oil & Gas	1,622	0.1
Cenkos Securities ¹	Financials	1,237	0.1
Panmure Gordon ¹	Financials	1,217	0.1
WH Ireland ¹	Financials	1,180	0.1
H.R.Owen ¹	Consumer Services	1,128	0.1
ACAL	Industrials	888	0.1
Infrastrata ¹	Oil & Gas	817	0.1
Peel Hotels ¹	Consumer Services	459	0.0
Cluff Natural Resources ¹	Financials	457	0.0
Brookwell ¹	Financials	272	0.0
Net current assets		139,486	10.4
Total		1,337,379	100.0

¹AIM listed investment.

²Unquoted investment.

³Includes a fixed interest investment.

Portfolio Analyses

Listed Equity Market Capitalisation	31st July 2012 %	31st January 2012 %
UK FTSE Mid 250 Companies	74.3	78.1
UK Smaller Companies	14.1	19.3
UK FTSE 100	0.7	1.0
Unquoted	0.5	0.5
Overseas Companies	–	0.3
Net current assets	10.4	0.8
Total	100.0	100.0

Based on total assets less current liabilities of £1,337m (31st January 2012: £1,287m).

Sector Analysis	at 31st July 2012		at 31st January 2012	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
Financials	22.6	20.8	22.6	19.8
Consumer Services	15.9	20.3	16.1	18.1
Industrials	15.2	26.2	15.9	24.2
Consumer Goods	12.8	6.4	12.0	5.7
Oil & Gas	6.2	6.7	8.7	5.5
Technology	5.6	7.9	8.7	11.7
Basic Materials	5.2	6.0	6.5	8.8
Telecommunications	3.0	2.7	5.0	2.4
Health Care	1.6	2.1	1.4	1.8
Utilities	1.5	0.9	2.3	2.0
Net current assets	10.4	–	0.8	–
Total	100.0	100.0	100.0	100.0

Based on total assets less current liabilities of £1,337m (31st January 2012: £1,287m).

Income Statement

for the six months ended 31st July 2012

	(Unaudited) Six months ended 31st July 2012			(Unaudited) Six months ended 31st July 2011			(Audited) Year ended 31st January 2012		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments held at fair value through profit or loss	–	62,354	62,354	–	(25,646)	(25,646)	–	(108,508)	(108,508)
Net foreign currency losses	–	(163)	(163)	–	(6)	(6)	–	(6)	(6)
Income from investments	20,155	–	20,155	18,285	–	18,285	36,700	–	36,700
Other interest receivable and similar income	494	–	494	496	–	496	684	–	684
Gross return/(loss)	20,649	62,191	82,840	18,781	(25,652)	(6,871)	37,384	(108,514)	(71,130)
Management fee	(723)	(1,687)	(2,410)	(813)	(1,897)	(2,710)	(1,496)	(3,492)	(4,988)
Other administrative expenses	(412)	–	(412)	(387)	–	(387)	(900)	–	(900)
Net return/(loss) on ordinary activities before finance costs and taxation	19,514	60,504	80,018	17,581	(27,549)	(9,968)	34,988	(112,006)	(77,018)
Finance costs	(1,646)	(3,843)	(5,489)	(1,697)	(3,962)	(5,659)	(3,389)	(7,907)	(11,296)
Net return/(loss) on ordinary activities before taxation	17,868	56,661	74,529	15,884	(31,511)	(15,627)	31,599	(119,913)	(88,314)
Taxation (note 4)	–	–	–	(61)	–	(61)	(44)	–	(44)
Net return/(loss) on ordinary activities after taxation	17,868	56,661	74,529	15,823	(31,511)	(15,688)	31,555	(119,913)	(88,358)
Return/(loss) per share (note 5)	18.11p	57.44p	75.55p	15.98p	(31.82)p	(15.84)p	31.88p	(121.13)p	(89.25)p

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

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.

Reconciliation of Movements in Shareholders' Funds

for the six months ended 31st July 2012 (unaudited)

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31st January 2012	24,678	23,459	12,092	1,016,809	33,323	1,110,361
Repurchase and cancellation of the Company's own shares	(24)	–	24	(980)	–	(980)
Net return on ordinary activities	–	–	–	56,661	17,868	74,529
Dividends appropriated in the period	–	–	–	–	(23,673)	(23,673)
At 31st July 2012	24,654	23,459	12,116	1,072,490	27,518	1,160,237

Six months ended 31st July 2011 (unaudited)

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31st January 2011	24,759	23,459	12,011	1,139,698	37,339	1,237,266
Net (loss)/return on ordinary activities	–	–	–	(31,511)	15,823	(15,688)
Dividends appropriated in the period	–	–	–	–	(23,698)	(23,698)
At 31st July 2011	24,759	23,459	12,011	1,108,187	29,464	1,197,880

Year ended 31st January 2012 (audited)

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31st January 2011	24,759	23,459	12,011	1,139,698	37,339	1,237,266
Repurchase and cancellation of the Company's own shares	(81)	–	81	(2,976)	–	(2,976)
Net (loss)/return on ordinary activities	–	–	–	(119,913)	31,555	(88,358)
Dividends appropriated in the year	–	–	–	–	(35,571)	(35,571)
At 31st January 2012	24,678	23,459	12,092	1,016,809	33,323	1,110,361

Balance Sheet

at 31st July 2012

	(Unaudited) 31st July 2012 £'000	(Unaudited) 31st July 2011 £'000	(Audited) 31st January 2012 £'000
Fixed assets			
Investments held at fair value through profit or loss	1,197,892	1,274,196	1,276,856
Current assets			
Debtors	21,884	28,173	2,115
Cash and short term deposits	125,464	91,563	18,447
	147,348	119,736	20,562
Creditors: amounts falling due within one year	(7,861)	(19,006)	(9,963)
Net current assets	139,487	100,730	10,599
Total assets less current liabilities	1,337,379	1,374,926	1,287,455
Creditors: amounts falling due after more than one year	(177,142)	(177,046)	(177,094)
Net assets	1,160,237	1,197,880	1,110,361
Capital and reserves			
Called up share capital	24,654	24,759	24,678
Share premium	23,459	23,459	23,459
Capital redemption reserve	12,116	12,011	12,092
Capital reserves	1,072,490	1,108,187	1,016,809
Revenue reserve	27,518	29,464	33,323
Shareholders' funds	1,160,237	1,197,880	1,110,361
Net asset value per share (note 6)	1,176.5p	1,209.5p	1,124.9p

Company registration number 20537

Cash Flow Statement

for the six months ended 31st July 2012

	(Unaudited) Six months ended 31st July 2012 £'000	(Unaudited) Six months ended 31st July 2011 £'000	(Audited) Year ended 31st January 2012 £'000
Net cash inflow from operating activities (note 7)	13,849	10,951	30,632
Net cash outflow from servicing of finance	(5,441)	(5,627)	(11,216)
Taxation recovered	8	9	30
Net cash inflow/(outflow) from capital expenditure and financial investment	124,405	35,404	(37,962)
Dividends paid	(23,673)	(23,698)	(35,571)
Net cash outflow from financing	(1,968)	(15,000)	(16,990)
Increase/(decrease) in cash in the period	107,180	2,039	(71,077)
Reconciliation of net cash flow to movement in net funds/debt			
Increase/(decrease) in cash in the period	107,180	2,039	(71,077)
Bank loans repaid in the period	–	15,000	15,000
Exchange movements	(163)	(7)	(6)
Other movements	(48)	(48)	(97)
Changes in net funds/debt arising from cash flows	106,969	16,984	(56,180)
Net debt at the beginning of the period	(158,647)	(102,467)	(102,467)
Net debt at the end of the period	(51,678)	(85,483)	(158,647)
Represented by:			
Cash and short term deposits	125,464	91,563	18,447
Debentures falling due after more than five years	(177,142)	(177,046)	(177,094)
Net debt	(51,678)	(85,483)	(158,647)

Notes to the Accounts

for the six months ended 31st July 2012

1. Financial Statements

The information contained within the accounts in this half year report has not been audited or reviewed by the Company's auditors.

The figures and financial information for the year ended 31st January 2012 are extracted from the latest published accounts of the Company and do not constitute statutory accounts for that year. Those accounts have been delivered to the Registrar of Companies and included the report of the auditors which was unqualified and did not contain a statement under either section 498(2) or 498(3) of the Companies Act 2006.

2. Accounting policies

The accounts have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice and with the Statement of Recommend Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in January 2009.

All of the Company's operations are of a continuing nature.

The accounting policies applied to these interim accounts are consistent with those applied in the accounts for the year ended 31st January 2012.

3. Dividends

	(Unaudited) Six months ended 31st July 2012 £'000	(Unaudited) Six months ended 31st July 2011 £'000	(Audited) Year ended 31st January 2012 £'000
Unclaimed dividends refunded to the Company	–	(70)	(70)
Fourth quarterly dividend of 18.0p (2011: 18.0p) paid to shareholders in April	17,756	17,826	17,826
First quarterly dividend of 6.0p (2011: 6.0p) paid to shareholders in July	5,917	5,942	5,942
Second quarterly dividend of 6.0p paid to shareholders in November	n/a	n/a	5,942
Third quarterly dividend of 6.0p paid to shareholders in February	n/a	n/a	5,931
	23,673	23,698	35,571

A second quarterly dividend of 6.0p (2011: 6.0p) per share, amounting to £5,917,000 (2011: £5,942,000), has been declared payable in respect of the six months ended 31st July 2012.

4. Taxation

The Company's effective corporation tax rate is nil, as deductible expenses exceed taxable income. The tax charge comprises overseas withholding tax.

Notes to the Accounts continued

5. Return/(loss) per share

	(Unaudited) Six months ended 31st July 2012 £'000	(Unaudited) Six months ended 31st July 2011 £'000	(Audited) Year ended 31st January 2012 £'000
Return per share is based on the following:			
Revenue return	17,868	15,823	31,555
Capital return/(loss)	56,661	(31,511)	(119,913)
Total return/(loss)	74,529	(15,688)	(88,358)
Weighted average number of shares in issue	98,647,972	99,035,719	98,998,335
Revenue return per share	18.11p	15.98p	31.88p
Capital return/(loss) per share	57.44p	(31.82)p	(121.13)p
Total return/(loss) per share	75.55p	(15.84)p	(89.25)p

6. Net asset value per share

Net asset value per share is calculated by dividing shareholders' funds by the number of shares in issue at 31st July 2012 of 98,615,719 (31st July 2011: 99,035,719 and 31st January 2012: 98,710,719).

7. Reconciliation of net return/(loss) on ordinary activities before finance costs and taxation to net cash inflow from operating activities

	(Unaudited) Six months ended 31st July 2012 £'000	(Unaudited) Six months ended 31st July 2011 £'000	(Audited) Year ended 31st January 2012 £'000
Total return/(loss) on ordinary activities before finance costs and taxation	80,018	(9,968)	(77,018)
Less capital (return)/loss on ordinary activities before finance costs and taxation	(60,504)	27,549	112,006
Scrip dividends included in income	(352)	(678)	(1,440)
(Increase)/decrease in net debtors and accrued income	(3,178)	(3,965)	196
(Decrease)/increase in accrued expenses	(448)	(68)	403
Management fee charged to capital	(1,687)	(1,897)	(3,492)
Overseas withholding tax	–	(22)	(23)
Net cash inflow from operating activities	13,849	10,951	30,632

Interim Management Report

The Company is required to make the following disclosures in its half year report.

Principal Risks and Uncertainties

The principal risks and uncertainties faced by the Company fall into the following broad categories: investment and strategy; market; accounting, legal and regulatory; corporate governance and shareholder relations; operational and financial. Information on each of these areas is given in the Directors' Report within the Annual Report and Accounts for the year ended 31st January 2012.

Related Parties Transactions

During the first six months of the current financial year, no transactions with related parties have taken place which have materially affected the financial position or the performance of the Company.

Going Concern

The Directors believe, having considered the Company's investment objectives, risk management policies, capital management policies and procedures, 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 there is sufficient evidence to continue to adopt the going concern basis in preparing the accounts.

Directors' Responsibilities

The Board of Directors confirms that, to the best of its knowledge:

- (i) the condensed set of financial statements contained within the half year financial report has been prepared in accordance with the Accounting Standards Board's Statement 'Half Year Financial Reports'; and
- (ii) the interim management report includes a fair review of the information required by 4.2.7R and 4.2.8R of the UK Listing Authority Disclosure and Transparency Rules.

For and on behalf of the Board.

Hamish Leslie Melville
Chairman

26th September 2012

Glossary of Terms and Definitions

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.

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 per share when calculating the total return on net assets.

Benchmark Total 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 the time the shares were quoted ex-dividend.

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

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

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

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	*1st August, 1st November, 1st February, 1st May
Interest on 4.25% perpetual debenture stock paid	1st June, 1st December
Annual General Meeting	April/May

*or nearest following business day.

History

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

A publication entitled "The Mercantile Investment Trust plc 125 Years" is available from the Secretary.

Directors

Hamish Leslie Melville (Chairman)
 Sir Richard Beckett
 Helen James
 Sandy Nairn
 Ian Russell
 Jeremy Tighe (appointed 26th March 2012)

Company Numbers

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

Market Information

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

Website

www.mercantileit.co.uk

Share Transactions

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

Dividend Re-investment Plan

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

Manager and Company Secretary

JPMorgan Asset Management (UK) Limited

Company's Registered Office

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

Please contact Juliet Dearlove for company secretarial and administrative matters.

Custodian

JPMorgan Chase Bank, N.A.
 25 Bank Street
 Canary Wharf
 London E14 5JP

Registrars

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

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

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

Independent Auditors

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

Brokers

Cenkos Securities plc
 6, 7, 8 Tokenhouse Yard
 London EC2R 7AS
 Oriel Securities Limited
 125 Wood Street
 London EC2V 7AN

Savings Product Administrators

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



JPMorgan Helpline
Freephone 0800 20 40 20 or +44 (0)20 7742 9995

Your telephone call may be recorded for your security

www.mercantileit.co.uk