

# The Mercantile Investment Trust plc

Half Year Report & Accounts for the six months ended 31st July 2009



# Features

## Contents

### About the Company

- 1 Half Year Performance
- 2 Interim Management Report

### Investment Review

- 4 Forty Largest Investments
- 5 Portfolio Analyses

### Accounts

- 6 Income Statement
- 7 Reconciliation of Movements in Shareholders' Funds
- 8 Balance Sheet
- 9 Cash Flow Statement
- 10 Notes to the Accounts

### Shareholder Information

- 12 Information about the Company
- 13 Glossary of Terms

## 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 102,321,968 were in issue at the period 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.

# Half Year Performance

Total Returns (capital plus income)

**+41.9%**

Return to shareholders<sup>1</sup>

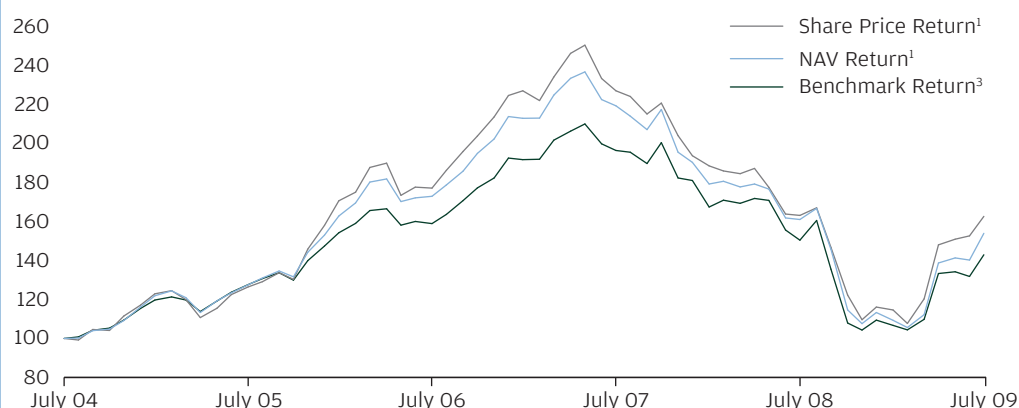
**+40.8%**

Return on net assets<sup>2</sup>

**+33.9%**

Benchmark return<sup>3,4</sup>

## 5 Year Performance (figures have been rebased to 100 as at 31st July 2004)



## Financial Data

|  | 31st July<br>2009 | 31st January<br>2009 | %<br>change |
|--|-------------------|----------------------|-------------|
| Shareholders' funds (£'000)  | 936,119           | 697,298              | +34.2       |
| Number of shares in issue  | 102,321,968       | 102,321,968          | –           |
| Net asset value per ordinary share<br>with debt at par value (p)               | 914.9             | 681.5                | +34.2       |
| Net asset value per ordinary share<br>with debt at fair value <sup>5</sup> (p) | 902.7             | 652.4                | +38.4       |
| Net asset value return with net<br>income reinvested                           | –                 | –                    | +40.8       |
| Share price (p)  | 816.0             | 592.5                | +37.7       |
| Share price discount to net asset<br>value with debt at par value              | 10.8%             | 13.1%                |             |
| Share price discount to net asset<br>value with debt at fair value             | 9.6%              | 9.2%                 |             |

A glossary of terms and definitions is provided on page 13.

<sup>1</sup>Source: Morningstar.

<sup>2</sup>Source: J.P. Morgan.

<sup>3</sup>Source: Russell/Mellon Caps.

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

<sup>5</sup>Market values have been used to determine the fair value of the perpetual debenture stock in issue. The fair value of the £175 million debenture issued by the Company has been calculated by reference to a similar dated gilt plus a margin based on the 5 year average for the AA Barclays sterling corporate bond spread.

# Interim Management Report



## Performance and Market Review

The Company's net asset value total return in the first six months to 31st July 2009 was +40.8% which was +6.9% ahead of the return of +33.9% from our benchmark index, the FTSE All Share excluding FTSE 100 constituents and investment trusts.

This represents a strong recovery in mid and small cap stocks which reached a low point in November 2008 following the precipitous fall in stockmarkets which began in July 2007.

The subsequent unprecedented co-ordinated intervention by Central Banks has steadied the global financial system. Recent data indicate the rate of decline in economic activity is moderating and, in addition, some company earnings have beaten market expectations. At the stockmarket levels seen in November 2008, which were revisited again in March this year, small and mid cap stocks had become extreme value. Having held net cash in the Company's portfolio since July 2007 in order to preserve value in a falling market, from the beginning of the year, the managers invested borrowings in the stockmarket, ending the period with gearing of 10%. This contributed to performance in a rising market, as did stock selection which concentrated on companies which had been hit too hard in the stockmarket and whose businesses had the potential to recover.

## Revenue

The income received from investments for the first half is significantly lower as a result of a substantial number of companies either reducing or passing their dividends because of the economic uncertainty. We expect the level of income to increase as companies begin to restore their profitability.

Interest received on bank deposits was substantially lower, owing to the sharp reduction in deposit interest rates and the level of cash held on deposit.

## Dividends

A second interim dividend of 6.0 pence per share has been declared by the Board, payable on 30th October 2009 to shareholders on the register as at the close of business on 2nd October 2009. Together with the first interim dividend of 6.0 pence paid on 31st July 2009, this brings the total dividend for the year to date to 12.0 pence (2008: 12.0 pence). This follows the Board's stated intention, in the Annual Report for the year ended 31st January 2009, of paying three dividends of 6.0 pence during the current financial year, followed by a fourth dividend based on the level of income received by the Company during the year and with regard to the Company's very strong revenue reserve.

### Share Repurchases

The Board has not made any share repurchases during the period under review. The discount, with debt at fair value, has ranged between 3.0% and 12.8% in the period from 1st February 2009 to 3rd September 2009, with the average discount during the period 6.9%.

### Board

As announced at the Annual General Meeting, it is with great regret that I must report the sad and untimely death of Richard Hambro, who, in his role as a Director, provided very considerable guidance and insight on all matters concerning the Company.

Sir Richard Beckett QC has joined the Board as a Director with effect from 1st September 2009.

### Principal Risks and Uncertainties

The principal risks and uncertainties faced by the Company fall into five broad categories: investment and strategy; accounting, legal and regulatory; corporate governance and shareholder relations; operational; and financial. Information on each of these areas is given in the Business Review within the Annual Report and Accounts for the year ended 31st January 2009.

### Related Parties' Transactions

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

### 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 yearly financial report has been prepared in accordance with the UK Accounting Standards Board's Statement 'Half-Yearly Financial Reports'; and
- (ii) the interim management report includes a fair review of the information required by DTR 4.2.7R and 4.2.8R.

### Outlook

Although the stockmarket has recovered from its lows the outlook remains difficult: the first quarter saw the worst economic performance in the UK for 50 years with a year on year contraction in GDP of 4.9%; unemployment is still rising; public sector spending will have to be cut; the high levels of indebtedness in both the public and private sectors will have to be reduced. Nevertheless, investors are right to be searching for companies which will benefit from stability or an improvement in the economic outlook and these are the sorts of stocks that the managers are concentrating on, within their balanced portfolio structure.

For and on behalf of the Board

Hamish Leslie Melville

Chairman

23rd September 2009

# Forty Largest Investments

at 31st July 2009

| Company               | Sector            | Value<br>£'000 | % <sup>1</sup> |
|-----------------------|-------------------|----------------|----------------|
| Taylor Wimpey         | Consumer Goods    | 38,866         | 3.5            |
| GKN                   | Consumer Goods    | 30,860         | 2.8            |
| Venture Production    | Oil & Gas         | 29,522         | 2.6            |
| ITV                   | Consumer Services | 27,530         | 2.5            |
| Premier Oil           | Oil & Gas         | 25,305         | 2.3            |
| Tomkins               | Industrials       | 22,625         | 2.0            |
| Bellway               | Consumer Goods    | 19,365         | 1.7            |
| Pendragon             | Consumer Services | 19,092         | 1.7            |
| Drax                  | Utilities         | 18,830         | 1.7            |
| United Business Media | Consumer Services | 17,468         | 1.6            |
| Mitchells & Butlers   | Consumer Services | 16,780         | 1.5            |
| Investec              | Financials        | 16,763         | 1.5            |
| Logica CMG            | Technology        | 16,716         | 1.5            |
| Berkeley              | Consumer Goods    | 16,109         | 1.4            |
| Misys                 | Technology        | 15,776         | 1.4            |
| SIG                   | Industrials       | 15,489         | 1.4            |
| Kesa Electricals      | Consumer Services | 15,434         | 1.4            |
| Burberry              | Consumer Goods    | 15,294         | 1.4            |
| Dana Petroleum        | Oil & Gas         | 15,261         | 1.4            |
| Liberty Acquisition   | Financials        | 15,075         | 1.4            |
| William Hill          | Consumer Services | 14,862         | 1.3            |
| Morgan Crucible       | Industrials       | 13,503         | 1.2            |
| Persimmon             | Consumer Goods    | 13,378         | 1.2            |
| BBA Aviation          | Industrials       | 12,955         | 1.2            |
| Dairy Crest           | Consumer Goods    | 12,814         | 1.2            |
| Charter International | Industrials       | 12,690         | 1.1            |
| Informa               | Consumer Services | 12,460         | 1.1            |
| Catlin                | Financials        | 12,278         | 1.1            |
| Heritage Oil          | Oil & Gas         | 12,257         | 1.1            |
| Amlin                 | Financials        | 11,825         | 1.1            |
| John Wood             | Oil & Gas         | 11,714         | 1.1            |
| Travis Perkins        | Industrials       | 11,676         | 1.0            |
| Babcock International | Industrials       | 11,536         | 1.0            |
| Paragon               | Financials        | 11,038         | 1.0            |
| New Britain Palm Oil  | Consumer Goods    | 11,034         | 1.0            |
| Marston's             | Consumer Services | 10,963         | 1.0            |
| M.P. Evans            | Consumer Goods    | 10,959         | 1.0            |
| London Stock Exchange | Financials        | 10,610         | 0.9            |
| Go-Ahead              | Consumer Services | 10,576         | 0.9            |
| Big Yellow            | Financials        | 9,893          | 0.9            |
| <b>Total</b>          |                   | <b>647,181</b> | <b>58.1</b>    |

<sup>1</sup>Based on total assets less current liabilities of £1,113m.

# Portfolio Analyses

## Sector Analysis

|                    | at 31st July 2009 |              | at 31st January 2009 |              |
|--------------------|-------------------|--------------|----------------------|--------------|
|                    | Portfolio %       | Benchmark %  | Portfolio %          | Benchmark %  |
| Consumer Services  | 22.5              | 21.5         | 18.4                 | 20.4         |
| Financials         | 19.1              | 18.6         | 22.6                 | 17.3         |
| Consumer Goods     | 18.7              | 10.8         | 9.2                  | 8.6          |
| Industrials        | 16.6              | 26.8         | 18.2                 | 31.1         |
| Oil & Gas          | 10.0              | 6.1          | 9.2                  | 6.7          |
| Technology         | 4.3               | 7.3          | 1.6                  | 6.1          |
| Utilities          | 1.7               | 1.4          | 0.8                  | 0.8          |
| Telecommunications | 0.6               | 0.9          | 0.6                  | 0.4          |
| Healthcare         | 0.3               | 2.4          | –                    | 3.0          |
| Basic Materials    | 0.3               | 4.2          | 1.4                  | 5.6          |
| Net Current Assets | 5.9               | –            | 18.0                 | –            |
| <b>Total</b>       | <b>100.0</b>      | <b>100.0</b> | <b>100.0</b>         | <b>100.0</b> |

Based on total assets less current liabilities of £1,113m (31st January 2009: £874m).

## Listed Equity Market Capitalisation

|                           | 31st July 2009 % | 31st January 2009 % |
|---------------------------|------------------|---------------------|
| UK FTSE Mid 250 Companies | 72.5             | 62.5                |
| UK Smaller Companies      | 19.5             | 16.3                |
| UK FTSE 100               | 1.0              | 1.4                 |
| UK Unquoted               | 1.0              | 1.7                 |
| Overseas Company          | 0.1              | 0.1                 |
| Net Current Assets        | 5.9              | 18.0                |
| <b>Total</b>              | <b>100.0</b>     | <b>100.0</b>        |

Based on total assets less current liabilities of £1,113m (31st January 2009: £874m).

# Income Statement

for the six months ended 31st July 2009

|   | (Unaudited)<br>Six months ended<br>31st July 2009 |                  |                | (Unaudited)<br>Six months ended<br>31st July 2008 |                  |                  | (Audited)<br>Year ended<br>31st January 2009 |                  |                  |
|---|---|------------------|----------------|---|------------------|------------------|--|------------------|------------------|
|   | Revenue<br>£'000                                  | Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000                                  | Capital<br>£'000 | Total<br>£'000   | Revenue<br>£'000                             | Capital<br>£'000 | Total<br>£'000   |
| Gains/(losses) on investments held at fair value through profit or loss           | –   | 253,126          | 253,126        | –   | (158,315)        | (158,315)        | –  | (488,753)        | (488,753)        |
| Net foreign currency losses   | –   | (113)            | (113)          | –   | (21)             | (21)             | –  | (26)             | (26)             |
| Income from investments   | 14,828  | –                | 14,828         | 22,829  | –                | 22,829           | 39,601                                       | –                | 39,601           |
| Other interest receivable and similar income                                      | 3,228   | –                | 3,228          | 6,105   | –                | 6,105            | 12,149                                       | –                | 12,149           |
| <b>Gross return/(loss)</b>  | <b>18,056</b>                                     | <b>253,013</b>   | <b>271,069</b> | <b>28,934</b>                                     | <b>(158,336)</b> | <b>(129,402)</b> | <b>51,750</b>                                | <b>(488,779)</b> | <b>(437,029)</b> |
| Management fee  | (859)   | (859)            | (1,718)        | (1,260)   | (1,260)          | (2,520)          | (2,187)                                      | (2,187)          | (4,374)          |
| VAT recoverable   | –   | –                | –              | –   | –                | –                | 1,130  | 1,069            | 2,199            |
| Other administrative expenses   | (434)   | –                | (434)          | (397)   | –                | (397)            | (2,144)                                      | –                | (2,144)          |
| <b>Net return/(loss) on ordinary activities before finance costs and taxation</b> | <b>16,763</b>                                     | <b>252,154</b>   | <b>268,917</b> | <b>27,277</b>                                     | <b>(159,596)</b> | <b>(132,319)</b> | <b>48,549</b>                                | <b>(489,897)</b> | <b>(441,348)</b> |
| Finance costs   | (2,745)   | (2,745)          | (5,490)        | (2,756)   | (2,756)          | (5,512)          | (5,502)                                      | (5,502)          | (11,004)         |
| <b>Net return/(loss) on ordinary activities before taxation</b>                   | <b>14,018</b>                                     | <b>249,409</b>   | <b>263,427</b> | <b>24,521</b>                                     | <b>(162,352)</b> | <b>(137,831)</b> | <b>43,047</b>                                | <b>(495,399)</b> | <b>(452,352)</b> |
| Taxation (note 4)   | (48)  | –                | (48)           | (21)  | –                | (21)             | (19)   | –                | (19)             |
| <b>Net return/(loss) on ordinary activities after taxation</b>                    | <b>13,970</b>                                     | <b>249,409</b>   | <b>263,379</b> | <b>24,500</b>                                     | <b>(162,352)</b> | <b>(137,852)</b> | <b>43,028</b>                                | <b>(495,399)</b> | <b>(452,371)</b> |
| <b>Return/(loss) per share (note 5)</b>   | <b>13.65p</b>                                     | <b>243.75p</b>   | <b>257.40p</b> | <b>23.60p</b>                                     | <b>(156.41)p</b> | <b>(132.81)p</b> | <b>41.73p</b>                                | <b>(480.45)p</b> | <b>(438.72)p</b> |

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 2009 (unaudited)

|   | Called up<br>share<br>capital<br>£'000 | Share<br>premium<br>£'000 | Capital<br>redemption<br>reserve<br>£'000 | Capital<br>reserves<br>£'000 | Revenue<br>reserve<br>£'000 | Total<br>£'000 |
|---|--|---------------------------|---|------------------------------|-----------------------------|----------------|
| <b>At 31st January 2009</b>   | 25,580                                 | 23,459                    | 11,190                                    | 577,602                      | 59,467                      | 697,298        |
| Repurchase and cancellation of<br>the Company's own shares <sup>1</sup> | –                                      | –                         | –   | (1)                          | –                           | (1)            |
| Total return from ordinary activities                                   | –                                      | –                         | –   | 249,409                      | 13,970                      | 263,379        |
| Dividends appropriated in the period                                    | –                                      | –                         | –   | –                            | (24,557)                    | (24,557)       |
| <b>At 31st July 2009</b>  | 25,580                                 | 23,459                    | 11,190                                    | 827,010                      | 48,880                      | 936,119        |

<sup>1</sup>Comprises stamp duty on shares repurchased in the preceding period.

Six months ended 31st July 2008 (unaudited)

|  | Called up<br>share<br>capital<br>£'000 | Share<br>premium<br>£'000 | Capital<br>redemption<br>reserve<br>£'000 | Capital<br>reserves<br>£'000 | Revenue<br>reserve<br>£'000 | Total<br>£'000 |
|--|--|---------------------------|---|------------------------------|-----------------------------|----------------|
| <b>At 31st January 2008</b>                                | 26,075                                 | 23,459                    | 10,695                                    | 1,090,587                    | 57,334                      | 1,208,150      |
| Repurchase and cancellation of<br>the Company's own shares | (422)                                  | –                         | 422                                       | (15,438)                     | –                           | (15,438)       |
| Total (loss)/return from ordinary<br>activities            | –                                      | –                         | –   | (162,352)                    | 24,500                      | (137,852)      |
| Dividends appropriated in the period                       | –                                      | –                         | –   | –                            | (28,601)                    | (28,601)       |
| <b>At 31st July 2008</b>                                   | 25,653                                 | 23,459                    | 11,117                                    | 912,797                      | 53,233                      | 1,026,259      |

Year ended 31st January 2009 (audited)

|  | Called up<br>share<br>capital<br>£'000 | Share<br>premium<br>£'000 | Capital<br>redemption<br>reserve<br>£'000 | Capital<br>reserves<br>£'000 | Revenue<br>reserve<br>£'000 | Total<br>£'000 |
|--|--|---------------------------|---|------------------------------|-----------------------------|----------------|
| <b>At 31st January 2008</b>                                | 26,075                                 | 23,459                    | 10,695                                    | 1,090,587                    | 57,334                      | 1,208,150      |
| Repurchase and cancellation of<br>the Company's own shares | (495)                                  | –                         | 495                                       | (17,586)                     | –                           | (17,586)       |
| Total (loss)/return from ordinary<br>activities            | –                                      | –                         | –   | (495,399)                    | 43,028                      | (452,371)      |
| Dividends appropriated in the year                         | –                                      | –                         | –   | –                            | (40,895)                    | (40,895)       |
| <b>At 31st January 2009</b>                                | 25,580                                 | 23,459                    | 11,190                                    | 577,602                      | 59,467                      | 697,298        |

# Balance Sheet

at 31st July 2009

|  | (Unaudited)<br>31st July<br>2009<br>£'000 | (Unaudited)<br>31st July<br>2008<br>£'000 | (Audited)<br>31st January<br>2009<br>£'000 |
|--|---|---|--|
| <b>Fixed assets</b>  |   |   |  |
| Investments held at fair value through profit or loss          | 1,047,151                                 | 903,748                                   | 716,891                                    |
| <b>Current assets</b>  |   |   |  |
| Debtors  | 10,445                                    | 40,127                                    | 1,786                                      |
| Derivative financial instruments                               | –   | 3,064                                     | –  |
| Cash and short term deposits                                   | 72,114                                    | 263,619                                   | 171,392                                    |
|  | 82,559                                    | 306,810                                   | 173,178                                    |
| <b>Creditors: amounts falling due within one year</b>          | (16,737)                                  | (7,542)                                   | (15,966)                                   |
| <b>Net current assets</b>                                      | 65,822                                    | 299,268                                   | 157,212                                    |
| <b>Total assets less current liabilities</b>                   | 1,112,973                                 | 1,203,016                                 | 874,103                                    |
| <b>Creditors: amounts falling due after more than one year</b> | (176,854)                                 | (176,757)                                 | (176,805)                                  |
| <b>Total net assets</b>  | 936,119                                   | 1,026,259                                 | 697,298                                    |
| <b>Capital and reserves</b>                                    |   |   |  |
| Called up share capital  | 25,580                                    | 25,653                                    | 25,580                                     |
| Share premium  | 23,459                                    | 23,459                                    | 23,459                                     |
| Capital redemption reserve                                     | 11,190                                    | 11,117                                    | 11,190                                     |
| Capital reserves   | 827,010                                   | 912,797                                   | 577,602                                    |
| Revenue reserve  | 48,880                                    | 53,233                                    | 59,467                                     |
| <b>Shareholders' funds</b>                                     | 936,119                                   | 1,026,259                                 | 697,298                                    |
| <b>Net asset value per share (note 6)</b>                      | 914.9p                                    | 1,000.1p                                  | 681.5p                                     |

# Cash Flow Statement

for the six months ended 31st July 2009

|   | (Unaudited)<br>Six months ended<br>31st July<br>2009<br>£'000 | (Unaudited)<br>Six months ended<br>31st July<br>2008<br>£'000 | (Audited)<br>Year ended<br>31st January<br>2009<br>£'000 |
|---|---|---|--|
| Net cash inflow from operating activities (note 7)                          | 13,054  | 23,971  | 54,483   |
| Net cash outflow from servicing of finance                                  | (5,441)   | (5,457)   | (10,898)   |
| Taxation recovered  | –   | 16  | 16   |
| Net cash (outflow)/inflow from capital expenditure and financial investment | (82,220)  | 574   | (101,687)  |
| Dividends paid  | (24,557)  | (28,601)  | (40,895)   |
| Net cash outflow from financing   | (1)   | (14,844)  | (17,586)   |
| <b>Decrease in cash for the period</b>                                      | <b>(99,165)</b>   | <b>(24,341)</b>   | <b>(116,567)</b>   |
| <b>Reconciliation of net cash flow to movement in net (debt)/funds</b>      |   |   |  |
| Decrease in cash for the period   | (99,165)  | (24,341)  | (116,567)  |
| Exchange movements  | (113)   | (25)  | (26)   |
| Other movements   | (49)  | (48)  | (96)   |
| Changes in net (debt)/funds arising from cash flows                         | (99,327)  | (24,414)  | (116,689)  |
| Net (debt)/funds at the beginning of the period                             | (5,413)   | 111,276   | 111,276  |
| <b>Net (debt)/funds at the end of the period</b>                            | <b>(104,740)</b>  | <b>86,862</b>   | <b>(5,413)</b>   |
| <b>Represented by:</b>  |   |   |  |
| Cash and short term deposits  | 72,114  | 263,619   | 171,392  |
| Debt due after more than five years   | (176,854)   | (176,757)   | (176,805)  |
| <b>Net (debt)/funds</b>   | <b>(104,740)</b>  | <b>86,862</b>   | <b>(5,413)</b>   |

# Notes to the Accounts

for the six months ended 31st July 2009

## 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 2009 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 Recommended Practice 'Financial Statements of Investment Trust Companies' 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 2009.

## 3. Dividends

|   | (Unaudited)<br>Six months ended<br>31st July 2009<br>£'000 | (Unaudited)<br>Six months ended<br>31st July 2008<br>£'000 | (Audited)<br>Year ended<br>31st January 2009<br>£'000 |
|---|--|--|---|
| Unclaimed dividends refunded to the Company                                   | —  | (10)   | (10)  |
| Fourth quarterly dividend of 18.0p (2008: 17.50p) paid to shareholders in May | 18,418   | 18,253   | 18,253  |
| Special dividend of nil (2008: 4.0p) paid to shareholders in May              | —  | 4,172  | 4,172   |
| First quarterly dividend of 6.0p (2008: 6.0p) paid to shareholders in August  | 6,139  | 6,186  | 6,186   |
| Second quarterly dividend of 6.0p paid to shareholders in November            | n/a  | n/a  | 6,147   |
| Third quarterly dividend of 6.0p paid to shareholders in February             | n/a  | n/a  | 6,147   |
|   | 24,557   | 28,601   | 40,895  |

A second quarterly dividend of 6.0p (2008: 6.0p) per share, amounting to £6,136,000 (2008: £6,147,000), has been declared payable in respect of the six months ended 31st July 2009.

## 4. Effective Tax Rate

The Company's effective tax rate is nil, as deductible expenses exceed taxable income.

## 5. Return/(loss) per share

|  | (Unaudited)<br>Six months ended<br>31st July 2009<br>£'000 | (Unaudited)<br>Six months ended<br>31st July 2008<br>£'000 | (Audited)<br>Year ended<br>31st January 2009<br>£'000 |
|--|--|--|---|
| Return/(loss) per share is based on the following: |  |  |   |
| Revenue return                                     | 13,970   | 24,500   | 43,028  |
| Capital return/(loss)                              | 249,409  | (162,352)  | (495,399)   |
| <b>Total return/(loss)</b>                         | <b>263,379</b>   | <b>(137,852)</b>   | <b>(452,371)</b>                                      |
| Weighted average number of shares in issue         | 102,321,968  | 103,793,098  | 103,110,703   |
| Revenue return per share                           | 13.65p   | 23.60p   | 41.73p  |
| Capital return/(loss) per share                    | 243.75p  | (156.41)p  | (480.45)p   |
| <b>Total return/(loss) per share</b>               | <b>257.40p</b>   | <b>(132.81)p</b>   | <b>(438.72)p</b>                                      |

## 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 2009 of 102,321,968 (31st July 2008: 102,610,765; and 31st January 2009: 102,321,968).

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

|  | (Unaudited)<br>Six months ended<br>31st July 2009<br>£'000 | (Unaudited)<br>Six months ended<br>31st July 2008<br>£'000 | (Audited)<br>Year ended<br>31st January 2009<br>£'000 |
|--|--|--|---|
| Net return/(loss) before finance costs and taxation              | 268,917  | (132,319)  | (441,348)   |
| Add back capital (return)/loss before finance costs and taxation | (252,154)  | 159,596  | 489,897   |
| (Increase)/decrease in debtors and accrued income                | (1,303)  | (1,541)  | 150   |
| Decrease in VAT recoverable                                      | –  | –  | 5,843   |
| (Decrease)/increase in accrued expenses                          | (1,499)  | (505)  | 1,059   |
| Expenses charged to capital                                      | (859)  | (1,260)  | (1,118)   |
| Tax on unfranked investment income                               | (48)   | –  | –   |
| <b>Net cash inflow from operating activities</b>                 | <b>13,054</b>  | <b>23,971</b>  | <b>54,483</b>   |

# 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.

## Directors

Hamish Leslie Melville (Chairman)  
 Sir Richard Beckett  
 Lord 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 JPMorgan Internet site at [www.mercantileit.co.uk](http://www.mercantileit.co.uk), where the share price is updated every fifteen minutes during trading hours.

## Website

[www.mercantileit.co.uk](http://www.mercantileit.co.uk)

## Share Transactions

The shares may be dealt in directly through a stockbroker or through a professional adviser acting on an investor's behalf. They may also be purchased and held through the JPMorgan Investment Trust Share Plan, Individual Savings Account (ISA) and Pension Account.

## 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](http://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 JPMorgan ISA, Share Plan or Pension Plan, see contact details on the back cover of this report.



The Association of  
 Investment Companies

A member of the AIC

# Glossary of Terms

## **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 in the shares of the Company at the time the shares were quoted ex-dividend. Transaction costs of reinvestment are not taken into account.

## **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.

## **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 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 follow or '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**

If the share price of an investment company 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. The opposite of a discount is a premium. It is more common for an investment trust company's shares to trade at a discount than at a premium.

JPMorgan Helpline  
Freephone 0800 20 40 20 or 020 7742 9999  
9.00 am to 5.30 pm Monday to Friday

Your telephone call may be recorded for your security

[www.mercantileit.co.uk](http://www.mercantileit.co.uk)