JPMorgan Fleming Mercantile Investment Trust plc

Annual Report & Accounts Year Ended 31st January 2008

JPMorgan
Asset Management

Features

Contents

Objective

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

Investment Philosophy

- 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 104,303,166 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 to manage its assets.

Financial Highlights

Total Returns (capital plus income)

–16.2%
Total return on net assets[1]
(2007: +30.2%)

–16.7%
Total return to shareholders[2]
(2007: +33.1%)

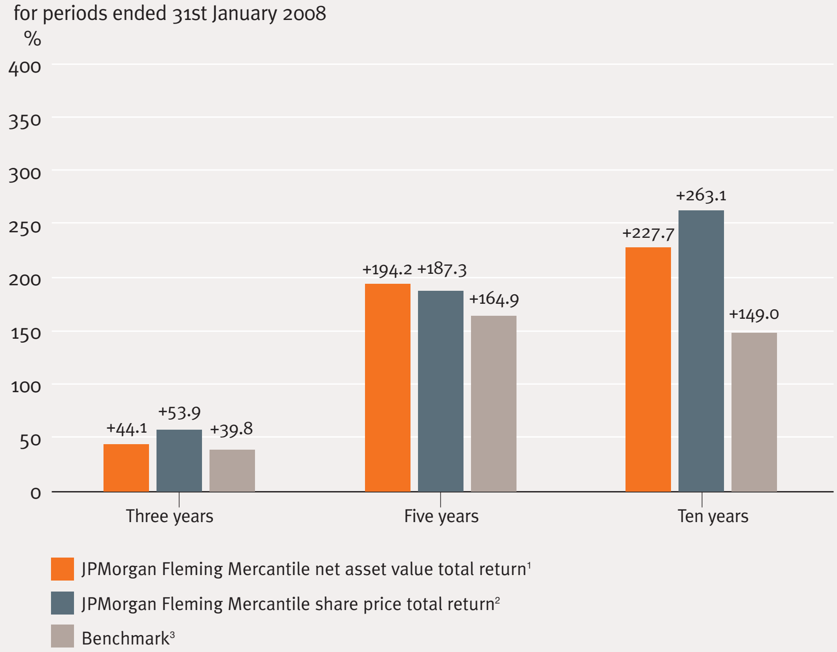
–12.7%
Benchmark return[3]
(2007: +24.3%)

38.0p
Dividend
(2007: 25.0p)

+52.0%
Dividend
(2008: 38.0p
2007: 25.0p)

Long Term Performance

for periods ended 31st January 2008



A glossary of terms and definitions is provided on page 54.

[1]Source: Fundamental Data - www.funddata.com

[2]Source: Standard & Poors – www.funds.morningstar.com

[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 - total return

Chairman's Statement

Over the year to 31st January 2008 the Company's total return on net assets (i.e. with net income reinvested) was –16.2%, which compares with a return of -12.7% on the same basis from the Company's benchmark index, the FTSE All-Share (excluding FTSE 100 constituents and investment trusts). As has been widely acknowledged, the last six months of the year to 31st January 2008 were difficult, volatile times for the market, particularly the small and mid cap sector. However, the underperformance against the benchmark in the current year should be viewed in the context of the overperformance achieved during the previous seven years.

Earnings and Dividends

Earnings per share increased by 44.6% for the year, from 27.51p to 39.79p partly due to the receipt of some special dividends, a higher level of interest income and the accrual of recoverable VAT.

The Company has paid three interim dividends of 5.5p per ordinary share, and the Directors have declared a fourth quarterly interim dividend of 17.5p and, in addition, reflecting the accrual of recoverable VAT, the Directors have declared a special dividend of 4.0p per ordinary share, giving a total dividend of 38.0p for the year, an increase of 52.0%. It is the Board's intention to continue to operate a progressive dividend policy and to increase the level of the first three quarterly dividends for the current financial year, thereby spreading the payment of the total dividend more evenly throughout the year.

Share Price Discount

The share price fell by 18.9% during the year and including dividends paid the total return to shareholders was –16.7%. The discount to net asset value widened during the year from 8.9% to 10.5% (with debt at fair value). The average weekly discount, with debt at fair value, during the year was 10.4%.

Share Repurchases

During the year under review a total of 20.756m shares were repurchased for cancellation, amounting to 16.6% of issued share capital, at a total cost of £271.07m. The purchase of 12.264m of these shares utilised authority granted at the 2006 AGM and the purchase of 8.492m of these shares utilised authority granted at the 2007 AGM. The Board continued to take a proactive approach towards share repurchases in order to enhance the net asset value and minimise the absolute level and volatility of the discount on the Company's shares. Share repurchases during the year under review have added approximately 28 pence to the net asset value per share.

The Board is therefore proposing that the authority be renewed at the forthcoming Annual General Meeting.

VAT case

Following HM Revenue & Customs' announcement in November 2007 that it was withdrawing its appeal in the case brought jointly by the AIC and JPMorgan Claverhouse Investment Trust plc challenging the imposition of VAT on management fees paid by investment trusts, the Company is no longer obliged to pay VAT on its management fees going forward and may be able to recover VAT paid by it on its management fees in the past. The Board has retained advisers to act on behalf of the Company in this matter. The Manager has undertaken to the Company to repay to it all amounts of VAT recovered by the Manager from HM Revenue & Customs in relation to management fees paid by the Company and, in any case, the Company expects that all VAT paid by the Company on its management fees from the turn of 2004/2005 onwards will be repaid to it. An amount of £5.8m (5.6p per share) (comprising approximately 4.8p per share in respect of the expected recovery of VAT from previous years and 0.8p per share in respect of the expected recovery of VAT over the year to 31st January 2008) is therefore included in the Company's net assets at the year end in respect of the period 1st February 2001 onwards, although the sum may not be received by the Company until recovery of certain sums is made from HM Revenue & Customs. Certain VAT in relation to earlier periods may also be recoverable and the Company is in discussions with its Manager in relation to the potential recovery of those sums.

Board

The Right Hon the Earl of Halifax was appointed a Director on 5th December 2007. He was 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. Having been appointed to the Board during the year, he will stand for re-election at the forthcoming AGM and if appointed will be eligible to serve for a three year term. The Directors retiring by rotation are Charles Peel and myself. If re-elected, Charles will serve for a further three year term. 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 only.

Investment Managers

During the year the Company's investment management team recruited Emel Akan.

Observer Money Annual Awards 2007

The Company was presented with the Best Large Trust award at the Observer Money Annual Awards in March 2007.

Change of Name

The Board believes that there are advantages to a Company of this size and sectoral importance of having its own named identity, and wishes to revert to a name which relates more closely to the original name of the Company. It is proposed in the Notice of Meeting that the Company name be altered to "The Mercantile Investment Trust plc".

Annual General Meeting

The Company's one hundred and twenty second Annual General Meeting will be held at Trinity House, Tower Hill, London EC3N 4DH on Wednesday 30th April 2008 at 12.00 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 JPMorgan. 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. Shareholders who are unable to attend the AGM in person are encouraged to use their proxy votes, and attention is drawn to the changes to the proxy voting regime following the introduction of the Companies Act 2006.

Chairman's Statement continued

Outlook

The condition of the UK stock market is dependent on the resolution over the coming months of the current turbulence which is adversely affecting financial markets globally. The Company has faced such conditions a number of times over the years and the Board believes that the Company can once again achieve positive returns for shareholders as market conditions gradually improve.

Hamish Leslie Melville
Chairman

27th March 2008

Investment Managers' Report

Performance attribution for the year to 31st January 2008

		1 Year %
Contributions to Total Returns		
Benchmark total return		**–12.7**
Allocation effect	+0.1	
Selection effect	–4.3	
Gearing/cash effect	+0.1	
Portfolio total return		**–16.8**
Fees/Expenses	–0.6	
Share buybacks	+1.9	
Residual	–0.7	
Net asset value total return		**–16.2**
Effect of decrease/ (increase) in discount	–0.5	
Share price total return		**–16.7**

Source: *Xamin/JPMAM/AIC/Fundamental Data Ltd.*

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 54.

Market Background

A bear market in UK small and mid sized companies started in mid-2007 and share prices continued to fall sharply towards the end of our financial year, 31st January 2008. November and December were the worst months for small cap performance since 1974. This was caused by fears of a global liquidity crisis resulting from the collapse of the US mortgage-backed securities market. Investors' demand for higher yield from securitised leveraged packages of low quality loans resulted in a credit crunch with banks becoming unable or unwilling to lend as some of the borrowers in these complex debt securities started to default on their interest payments. In the UK, this led to Northern Rock having to be rescued by the Government and the availability and cost of mortgages from other providers tightening markedly. Several hedge funds and other investors who were heavily geared into the market experienced difficulties and the resulting liquidation of their assets depressed market levels further. This was then exaggerated by the ability of other investors to sell short stocks they did not own in anticipation of further falls. The result was that the Company's benchmark Index, the FTSE All-Share (excluding FTSE-100 constituents and investment trusts) fell by 12.7% during the year ended 31st January 2008. This compared with a fall of 1.6% from the FTSE-100 Index which was buoyed up by a strong performance from natural resources stocks, especially mining companies.

That said, the reported earnings, and more especially dividends, from small and mid sized companies continued to be very strong as the UK economy recorded its 62nd consecutive quarter of GDP growth. The weak performance of the shares was in anticipation of profit forecasts for the coming year having to be reduced as forecasts for economic growth began to fall.

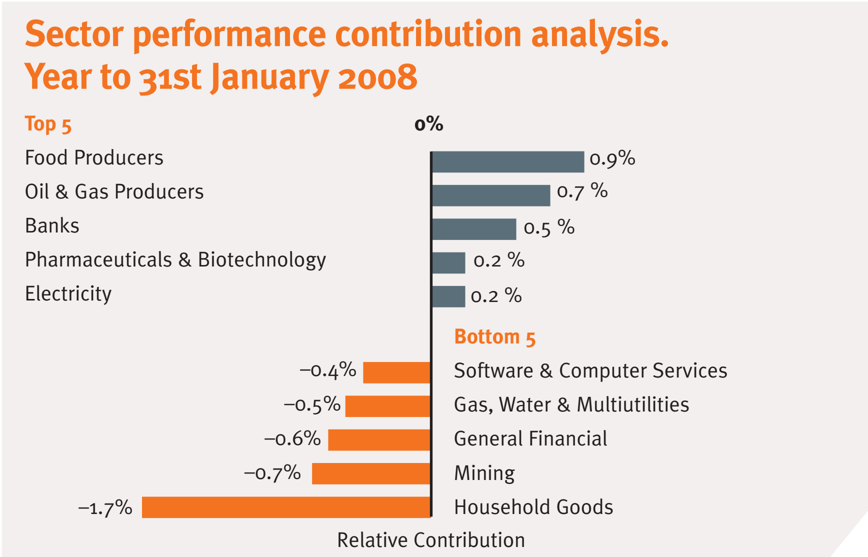
Performance

The Company's net asset value total return of –16.2% for the year ended 31st January 2008 compared with a return of –12.7% from the benchmark index. The underperformance is analysed in the table on the left. The total return to shareholders was –16.7% as the share price discount to net asset value (with debt at fair value) widened from 8.9% to 10.5% during the financial year.

The bar chart on page 6 shows the relative contributions to performance for the year from the five best and five worst sectors within the portfolio. The dark grey bars to the right show the positive contributions to performance relative to the benchmark index and reflect a combination of both sector weightings and stock selection. The orange bars to the left show a negative relative contribution.

This shows that the biggest contributor to underperformance was the Company's overweight stance in the household goods sector, that is housebuilders. Their share prices were hit hard as consumer confidence reduced in the face of the credit crunch and as the availability of mortgages reduced and their cost increased. The mining sector was the Company's next worst sector as the momentum behind the rising prices of gold and platinum drove Randgold Resources and Aquarius Platinum shares higher. We do not hold Aquarius and are underweight in Randgold. In General Financials we suffered relatively from not having London Stock Exchange, which was driven higher by the Sovereign Wealth Funds building positions, and also from setbacks in Investec and Shore Capital on reduced prospects in financial markets. That said, in the Banking sector we benefited relatively by not holding Bradford and Bingley when it was hit. We outperformed in

Investment Managers' Report continued



Source: Russell/Mellon Analytical Services.

Oil and Gas Producers as the volatile stock market gave us the opportunity to buy producing oil assets at below the level of recent industry deals. In particular, we benefited from the agreed bid from ENI for Burren Energy. However, Food Producers was the best performing sector, with the Company benefiting from not holding Premier Foods, which fell sharply on concerns over servicing its debt as raw materials prices, especially wheat, rose substantially. By the same token, we benefited from the strong increase in palm oil prices through our holdings in palm oil plantation companies MP Evans and New Britain Palm Oil.

Activity

Gearing was managed actively throughout the year. Having started the year with gearing of 2% this had been reduced to no gearing at the interim to reflect that markets had started to fall and at the year end we held 5% cash in order to preserve value in a falling market. The largest contributor to the cash raising was the reduction in exposure to housebuilders where more than £200m of housebuilding shares were sold between June and September. 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.

Corporate activity continued to be a feature during the year with the Company benefiting from holding more than half of the takeovers that occurred in the FTSE mid 250 index. Burren Energy was the biggest contributor to performance but others included Domestic and General, EMI, Kelda and London Merchant Securities.

Against a background where we were generally reducing our exposure to equities we neverthelsss made a number of new purchases last year as we continued to search for growth from smaller stocks. These included: Gem Diamonds, New Britain Palm Oil, Prezzo, GLG Partners, London and Stamford Property, China Real Estate and Hargreaves Lansdown.

The portfolio retains its style of broad diversification across all sectors, holding 150 stocks, of which 96 are mid sized and 54 smaller. By value, more than 80% of the portfolio is in mid sized stocks, which is close to the size split of the benchmark. The table below shows that the holding of companies of greater than £1.5bn market capitalisation is now lower than the index weighting. This reflects that throughout the year we have sold mid 250 stocks which have been promoted into the FTSE 100, but not bought many of those which were demoted, such as Punch Taverns, Mitchells and Butlers, Northern Rock and Tate and Lyle, none of which are held in the portfolio.

Market Capitalisation	% Index	% Mercantile	% Relative
More than £1.5bn	28.9	24.6	–4.3
£1bn to £1.5bn	22.1	25.1	3.0
£500m to £1bn	25.8	18.9	–6.9
£300m to £500m	10.7	11.0	0.3
£100m to £300m	11.0	15.5	4.5
£50m to £100m	1.4	3.7	2.3
Less than £50m	0.1	1.2	1.1
Total	**100.0**	**100.0**	**0.0**

We remain overweight in the very smallest companies, which are offering good growth prospects. Smaller companies are now more lowly rated than the rest of the market and therefore relatively more attractive.

Of the ten largest holdings as at 31st January 2008 (which are shown on page 12) only three, GKN, Daily Mail and Burberry were in the top ten last year. Drax and Segro were bought having been demoted from the FTSE 100 during the year and the remaining five were all held within the portfolio a year ago. By comparison, the top ten one year ago contained five housebuilders, none of which are in the top ten this year and also EMI which was sold on a takeover bid and Amec which was sold on promotion into the FTSE 100. We sell stocks which are promoted into the FTSE 100 within 18 months of promotion at the latest and never let the weighting in FTSE 100 stocks exceed 5% of the portfolio. Currently we hold no FTSE 100 stocks.

During the year we met or visited more than 250 companies and this remains a key component in our process of evaluating companies. We believe that properly targeted company meetings can help us analyse smaller growth companies that are often overlooked by the mainstream, evaluate management and resolve issues. Our fundamental analysis of companies is aided by JP Morgan's in-house proprietary screening process which helps us to identify companies that exhibit the best value and growth characteristics.

Investment Managers' Report continued

Outlook

The stockmarket is currently nervous, reflecting uncertainty; economic growth will slow and analysts profit forecasts for companies will have to be cut; more financial write downs will be needed, especially from the banks. This process has started but analysts' forecasts are still not low enough and banks have still not written off enough of their bad assets. However, the sharp fall seen in share prices means that equities are now good long term value. We shall continue to be rigorous in screening out losers and reducing portfolio risk, to reflect the uncertainty in markets, while searching out positive momentum as the next investment theme takes hold.

The table below shows the aggregate of stock market forecasts for the individual companies held within the portfolio and for reference we compare these with the corresponding figures for both our non-FTSE 100 benchmark Index and with the FTSE 100 Index.

	12 months Forward Price Earnings Ratio	Forecast Earnings Growth	12 months Forward Yield	Forecast Dividend Growth	Forecast Dividend Cover
JPMF Mercantile	10.4x	9.1%	4.2%	7.3%	2.2x
FTSE All-Share (ex FTSE 100 & investment trusts)	11.2x	7.3%	3.5%	5.4%	2.5x
FTSE-100	11.1x	5.5%	4.1%	6.6%	2.2x

Excluding loss making companies.
Source: UBS Global Research 31st January 2008/JPMorgan Asset Management.

This shows that the underlying holdings in the Mercantile portfolio currently stand on a 12 month forward PER of 10.4X and a dividend yield of 4.2%. This is good value. The PER for Mercantile is lower than that for the benchmark and for the FTSE 100. The yield is higher and both earnings and dividends are forecast to enjoy higher growth.

After the sharp fall in the stockmarket in January we have now reinvested some of the cash holding such that we currently have a neutral gearing position, that is no net cash or borrowings. The high level of volatility in the stockmarket gives us the opportunity to execute our consistent long term strategy of buying assets, such as land, property and oil, at a discount and reasonably priced growth, currently available in such sectors as aerospace, commodities and spread betting.

We continue to believe that small and mid sized equities are the most interesting asset class over the long term; a London Business School study shows that since 1955 they have outperformed in more than two years out of three. Despite the current economic uncertainties, small and mid sized equities are now offering higher forecast earnings growth than FTSE 100 companies, whilst trading at a similar PE ratio. That said, we expect the stockmarket to remain volatile until credit markets stabilise and as further economic and financial downgrades emerge. We plan to use that volatility to buy both assets and growth at attractive levels and small and mid sized companies offer good long term value at current levels.

Martin Hudson
Jane Lennard
Emel Akan
Investment Managers

27th March 2008

Summary of Results

	2008	2007	
Total Returns (capital plus income) for the year ended 31st January			
Return on net assets[1]	–16.2%	+30.2%	
Return to shareholders[2]	–16.7%	+33.1%	
Benchmark[3]	–12.7%	+24.3%	
Net Asset Value and Discount at 31st January			% change
Shareholders' funds (£'000)	1,208,150	1,743,848	–30.7
Net asset value per share with debt at par	1,158.3p	1,394.4p	–16.9
Net asset value per share with debt at fair value[4]	1,139.6p	1,381.1p	–17.5
Discount of net asset value to share price with debt at par	11.9%	9.8%	
Discount of net asset value to share price with debt at fair value[4]	10.5%	8.9%	
Market Data			
FTSE All-Share Index[5] (excluding FTSE 100 constituents and investment trusts)	2,012.4	2,357.5	–14.6
Share price	1,020.0p	1,258.0p	–18.9
Revenue for the year ended 31st January			
Net revenue available for shareholders (£'000)	44,345	35,043	+26.5
Return per share	39.79p	27.51p	+44.6
Dividend per share	38.0p	25.0p	+52.0
Total Expense Ratio (TER)[6]	0.59%	0.55%	
Actual Gearing Factor[7]	94.8%	102.0%	

A glossary of terms and definitions is provided on page 54.

[1]Source: Fundamental Data – www.funddata.com

[2]Source: Standard & Poor's – www.funds.morningstar.com

[3]Source: Russell/Mellon Caps.

[4]Market values have been used to determine the fair value of the debenture stock.

[5]Source: Datastream. Capital only.

[6]Management fees and all other operating expenses, excluding interest, expressed as a percentage of the average of the opening and closing net assets. The method of calculating the TER has been changed and prior years restated. Further details are given in the glossary of terms and definitions on page 54.

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

Performance

JPMorgan Fleming Mercantile – Net asset value total return

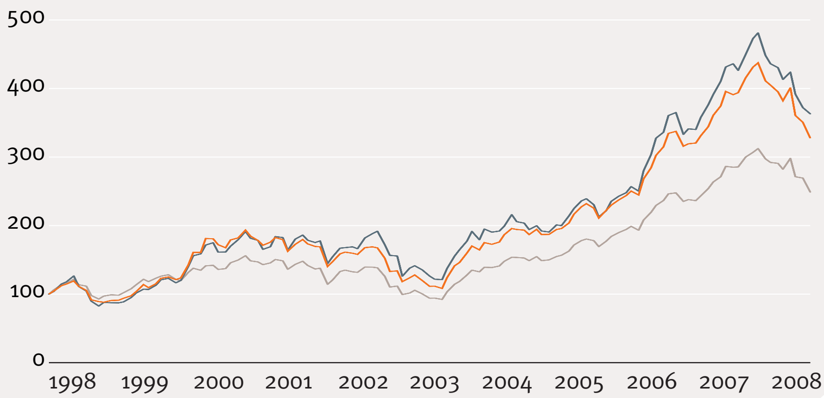
JPMorgan Fleming Mercantile – Share price total return

Benchmark

Source: Fundamental Data – www.funddata.com
Standard & Poor's – www.funds.morningstar.com/
Russell/Mellon Caps.

Ten Year Performance

Figures have been rebased to 100 at 31st January 1998



JPMorgan Fleming Mercantile – Net asset value total return

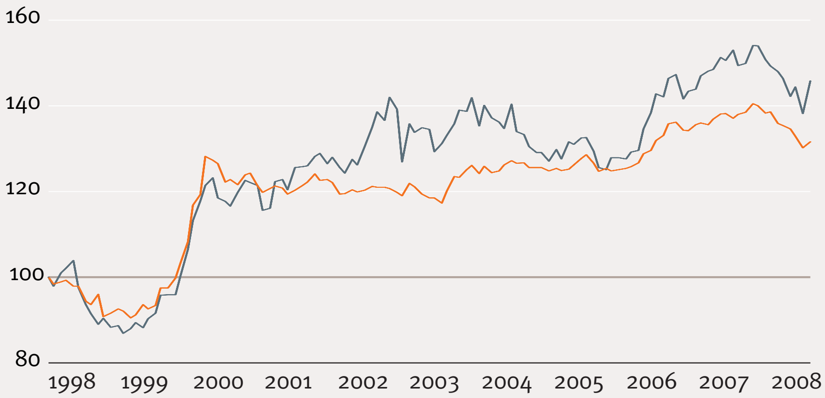
JPMorgan Fleming Mercantile – Share price total return

The benchmark is represented by the grey horizontal line

Source: Fundamental Data – www.funddata.com
Standard & Poor's – www.funds.morningstar.com/
Russell/Mellon Caps.

Performance relative to Benchmark

Figures have been rebased to 100 at 31st January 1998



Ten Year Financial Record

As at 31st January	1998	1999	2000	2001	2002	2003	2004	2005[1]	2006	2007	2008
Total assets less current liabilities (£'m)	721.8	664.7	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
Net asset value per share (p)	**442.1**	**405.4**	**679.5**	**755.8**	**644.7**	**434.6**	**703.5**	**842.6**	**1,090.6**	**1,394.4**	**1,158.3**
Share price (p)	369.5	321.5	560.5	635.5	567.0	408.5	620.0	713.5	965.0	1,258.0	1,020.0
Year to 31st January											
Gross revenue (£'000)	25,371	26,068	26,556	34,391	39,435	34,584	34,050	34,970	39,899	45,493	51,684
Revenue available for shareholders (£'000)	15,938	16,541	19,177	24,124	28,364	24,169	24,555	24,820	29,373	35,043	44,345
Earnings per share (p)	11.0	11.5	13.4	17.6	20.9	17.8	18.1	18.3	21.8	27.5	39.8
Dividend per share (net) (p)	**10.0**	**11.0**	**12.3**	**14.8**	**17.5**	**18.0**	**18.8**	**19.8**	**21.8**	**25.0**	**38.0**
Discount	16.4	20.7	17.5	15.9	12.1	6.0	11.9	15.3	11.5	9.8	11.9
Actual gearing	114.5	115.9	113.6	114.0	110.0	113.1	112.6	115.5	111.2	102.0	94.8
Total expense ratio[2]	0.98	0.66	0.63	0.65	0.63	0.73	0.69	0.60	0.56	0.55	0.59
Rebased to 100 at 31st January 1998											
Net asset value per share	100.0	91.7	153.7	171.0	145.8	98.3	159.1	190.6	246.7	315.4	262.0
Net asset value per share – total return[3]	**100.0**	**94.0**	**160.8**	**182.6**	**159.7**	**111.4**	**186.7**	**227.4**	**302.5**	**391.0**	**327.7**
Share price	100.0	87.0	151.7	172.0	153.5	110.6	167.8	193.1	261.2	340.5	276.0
Share price – total return[3]	**100.0**	**88.7**	**158.8**	**184.0**	**169.0**	**126.4**	**199.2**	**236.0**	**327.6**	**436.1**	**363.1**
Benchmark[3]	100.0	102.1	134.8	150.5	132.6	94.0	147.9	178.1	229.4	285.1	249.0
Earnings per share	100.0	104.5	121.8	160.0	190.0	161.8	164.5	166.4	198.2	250.0	361.8
Dividend	100.0	110.0	123.0	148.0	175.0	180.0	188.0	198.0	218.0	250.0	380.0

[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]Management fees and all other operating expenses, excluding interest, expressed as a percentage of the average of the opening and closing net assets. The method of calculating the TER has been changed and prior years restated.

[3]Source: Standard & Poor's – www.funds.morningstar.com/Fundamental Data – www.funddata.com/Russell/Mellon Caps.

Ten Largest Investments

Company	As at 31st January 2008 Valuation £'000	%[1]	As at 31st January 2007 Valuation £'000	%
IG Group[2] Core businesses are spread betting and contracts for differences on financial markets. IG's other products and services include foreign exchange trading, binary betting and sports spread betting.	31,390	2.3	7,867	0.4
Ladbrokes[2] The world's largest fixed odds betting company, with over 2,600 betting shops in Europe. In addition to its retail operations the company also offers telephone and internet betting.	26,255	1.9	23,413	1.2
GKN Manufactures and provides driveline systems, vehicle chassis assemblies, sub-assemblies and power take-off shafts, in addition to aircraft components.	23,302	1.7	39,021	2.0
DRAX[3] Generates electricity. The company owns the largest coal-fired generating plant in the UK.	23,255	1.7	—	—
Millennium & Copthorne Hotels[2] Owns and/or operates over 110 hotels in 18 countries around the world. The group has two branded hotel chains, which operate under the Millennium Hotel and Copthorne Hotel logos. The group's hotels are located in the US, France, London, Germany, Hong Kong, Malaysia, Singapore, South Korea, Taiwan, the Philippines, Australia and New Zealand.	22,541	1.6	28,552	1.5
Segro[3] Invests in and owns real estate properties, including a portfolio of office and retail developments. The company acquires, develops, manages and owns properties in the UK, France, Belgium and Germany.	22,107	1.6	—	—
United Business Media[2] Provides business information services, market research, news distribution, publishing and events organising services to the technology, healthcare, media, automotive and financial services industries.	21,810	1.6	19,137	1.0
Daily Mail & General Trust Owns and administers a wide range of media interests. Specialises in the publication and printing of newspapers and periodicals. Active in radio, teletext, exhibitions and operates a number of internet sites.	21,775	1.6	40,011	2.1
Investec[2] An international investment and private banking group. Provides corporate and investment banking, private banking, securities trading, asset management, property trading and management and trade finance services.	19,531	1.4	19,130	1.0
Burberry Designs, manufactures and distributes luxury apparel and accessories. Their products include clothing for men, women and children, handbags, scarves, leather goods and fragrances under the Burberry brand name.	18,825	1.3	37,372	1.9
Total	230,791	16.7		

All of the above investments are listed in the UK.

[1]Based on total assets less current liabilities of £1,385m.

[2]Not included in the ten largest investments at 31st January 2007.

[3]Not held in the portfolio at 31st January 2007.

As at 31st January 2007, the value of the ten largest investments amounted to £358.8m representing 18.8% of total assets less current liabilities.

Portfolio Analyses

Listed Equity Market Capitalisation

at 31st January

	2008 %	2007 %
UK FTSE Mid 250 Companies	63.4	73.1
UK Smaller Companies	17.7	17.3
UK FTSE 100	0.7	2.1
UK Unquoted	0.1	0.1
Overseas Company[1]	0.8	—
Net Current Assets	17.3	7.4
	100.0	100.0

Based on total assets less current liabilities of £1,385m (2007: £1,920m).

[1]Listed on the NYSE.

Sector Analysis

at 31st January

	Portfolio 2008 %	Benchmark 2008 %	Portfolio 2007 %	Benchmark 2007 %
Financials	25.8	18.1	21.4	19.6
Industrials	19.3	29.9	19.5	29.6
Consumer Services	17.1	20.4	24.4	24.0
Consumer Goods	10.8	8.0	19.1	10.6
Oil & Gas	3.2	6.4	3.7	4.3
Basic Materials	2.7	4.7	0.6	1.8
Utilities	2.4	2.4	1.5	1.9
Technology	1.4	6.0	1.6	5.3
Telecommunications	—	1.4	0.6	1.1
Healthcare	—	2.7	0.2	1.8
Net Current Assets	17.3	—	7.4	—
	100.0	100.0	100.0	100.0

Based on total assets less current liabilities of £1,385m (2007: £1,920m).

List of Investments

at 31st January 2008

Company	£'000
United Kingdom	
Financials	
IG Group	31,390
Segro	22,107
Investec	19,531
Cazenove[2]	18,273
Close Brothers	16,641
Real Estate Opportunities	15,450
TR Property Investment Trust	13,087
Amlin	12,470
Aberdeen Asset Management	11,297
Quintain Estates & Development	10,811
Shore Capital	9,882
China Real Estate Opportunities	9,708
Bradford & Bingley	9,116
Puma Brandenburg[1]	8,216
Record	8,166
St James Place	8,051
Rathbone Brothers	7,688
Hiscox	7,643
Great Portland Estates	7,312
Mapeley	6,999
Daejan Holdings	6,990
Capital Management & Investment[1]	6,349
St Peter Port	6,125
Orchid Development[1]	6,087
Development Securities	5,946
Hargreaves Lansdown	5,403
Dawnay Day Treveria[1]	5,303
Brewin Dolphin	4,770
Helical Bar	4,223
New Star Asset Management	4,084
Mountview Estates	3,828
London & Stamford Property	3,573
Derwent London	3,551
Kiln	3,487
Songbird Estates[1]	3,376
Cenkos Securities[1]	2,969
Rensburg Sheppards	2,931
Tenon	2,867
Invista Real Estate Investment Management	2,622
Intermediate Capital	2,320
Sovereign Reversions[1]	1,987
CLS	1,362
Macau Property Opportunities Fund	1,156
Advance Aim Value Realisation[1]	869
	346,016
Industrials	
Cobham	18,367
Tomkins	16,467
Filtrona	14,541
Travis Perkins	14,519
Meggitt	12,950
VP	12,392
Invensys	12,251
Hays	11,561
Babcock International	11,466
IMI	10,631
Ricardo	10,581
Morgan Crucible	9,937
Ultra Electronics	9,887
BBA Aviation	9,144
Marshalls	8,660
Aggreko	7,738
Bunzl	7,394
Intertek	6,988
Serco	6,660
Henry Boot	5,799
Chemring	5,575
Electrocomponents	4,725
Homeserve	4,617
Spirax Sarco	4,167
Smiths News	4,042
Norcros	3,648
Fiberweb	3,623
Readymix	3,546
Speedy Hire	3,477
Balfour Beatty	2,627
Premier Farnell	2,568
Michael Page	2,530
Charter	2,513
Vebnet[1]	1,228
	266,819

Company	£'000
Consumer Services	
Ladbrokes	26,255
Millennium & Copthorne Hotels	22,541
United Business Media	21,810
Daily Mail & General Trust	21,775
Go-Ahead	17,529
Kesa Electricals	15,457
William Hill	15,078
Aer Lingus	12,762
Taylor Nelson	9,245
Arriva	8,794
Mothercare	8,746
The Hotel Corporation[1]	8,292
National Express	7,164
Euromoney Institutional	6,528
Arena Leisure	5,424
Bloomsbury Publishing	4,872
Young & Co's Brewery	4,120
SMG	4,109
Greggs	3,443
Debenhams	2,955
Avesco[1]	2,387
Peel Hotels[1]	1,860
GCAP Media	1,765
Chrysalis	1,664
Prezzo	950
Tottenham Hotspur[1]	943
Expomedia[1]	579
	237,047
Consumer Goods	
GKN	23,302
Burberry	18,825
AGA Foodservice	16,507
Bovis Homes	14,396
M P Evans[1]	14,350
Bellway	14,016
Berkeley Group Holdings	12,929
Redrow	12,051
Barratt Developments	10,324
New Britain Palm Oil	6,872
Taylor Wimpey	5,814
	149,386

Company	£'000
Oil & Gas	
Premier Oil	13,960
Hunting	8,751
Petrofac	6,580
Wellstream	4,833
John Wood	3,574
Dana Petroleum	2,913
Soco International	2,143
Venture Production	1,280
	44,034
Basic Materials	
Mondi	10,985
Victrex	6,818
Kazakhgold	6,791
Gem Diamonds	4,216
Rangold Resources	3,931
Yule Catto	2,921
Tennants Consolidated[2]	2,066
	37,728
Utilities	
Drax	23,255
Pennon	6,695
British Energy	3,860
	33,810
Technology	
Computacenter	7,535
Psion	4,493
Fidessa	3,842
Logica CMG	3,524
	19,394

United States

Company	£'000
Financials	
GLG Partners[3]	11,446
	11,446
Total Portfolio	**1,145,680**

[1]AIM listing.
[2]Includes unquoted/unlisted/suspended investments.
[3]NYSE listing.

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. He is Chairman of Mithras Investment Trust plc and a director of Persimmon plc.

Lord 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.

Richard Hambro

A Director since October 2006.

He is Chairman of JO Hambro Investment Management Limited, a subsidiary of Credit Suisse Private Bank. He is also Chairman of I Hennig & Co, Newmarket Racecourses Trust, Smiths Holdings Limited, The Money Portal plc, Wilton's (St. James's) Limited and The Joint British Cancer Charities.

Sandy Nairn

A Director since December 2003.

He is Chief Executive of Edinburgh Partners Ltd and a Director of Vebnet (Holdings) plc and Vebnet Ltd. Previously, he served on the board of 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 Ingenious Music VCT plc and Artemis Alpha Trust plc and is actively involved with a number of private companies. Previously, he 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 an advisor to 3i and the Clyde Bergemann Power Group, chairs Remploy and the advisory board of Advanced Power, and is a director of Johnston Press and Business in the Community. Previously, he held senior positions with Scottish Power, Tomkins and HSBC.

All Directors were members of the Audit and Nomination Committees throughout the year and all are considered independent of the Manager. With effect from 19th March 2008, Hamish Leslie Melville stood down from membership of the Audit Committee

Directors' Report

The Directors present their report for the year ended 31st January 2008.

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 2007. 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 2007 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 266 of the Companies Act 1985. 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 2008, the Company produced a total return to shareholders of –16.7% and a total return on net assets of –16.2%. This compares with the return on the Company's benchmark index of –12.7%. As at 31st January 2008, the value of the Company's investment portfolio was £1,145.7m. 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 loss for the year amounted to £219.4m (2007: return of £423.3m) and net total loss after deducting interest, management expenses and taxation amounted to £233.2m (2007: return of £403.2m). Distributable income for the year amounted to £44.3m (2007: £35.0m). The Directors have declared quarterly interim dividends totalling 38.0p per ordinary share (2007: 25.0p) for the year which totalled £40.1m (2007: £31.4m). The year end revenue reserve after allowing for these dividends will amount to £34.9m (2007: £30.0m).

Directors' Report continued

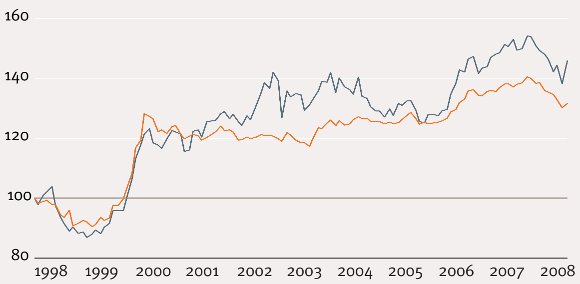
Key Performance Indicators ('KPIs')

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.

Performance relative to Benchmark Index

Figures have been rebased to 100 at 31st January 1998

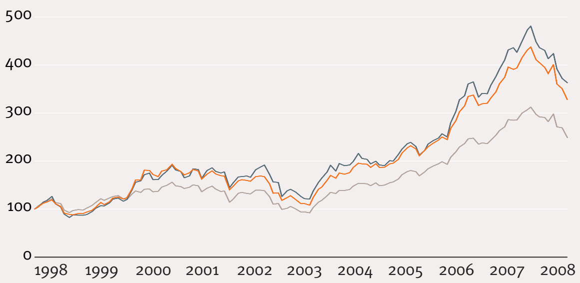


Source: Standard & Poor's – www.funds.morningstar.com/Fundamental Data – www.funddata.com/ Russell Mellon Caps

- JPMorgan Fleming Mercantile – Net asset value total return
- JPMorgan Fleming Mercantile – Share price total return
- Benchmark

Ten Year Performance

Figures have been rebased to 100 at 31st January 1998



Source: Standard & Poor's – www.funds.morningstar.com/Fundamental Data – www.funddata.com/ Russell Mellon Caps

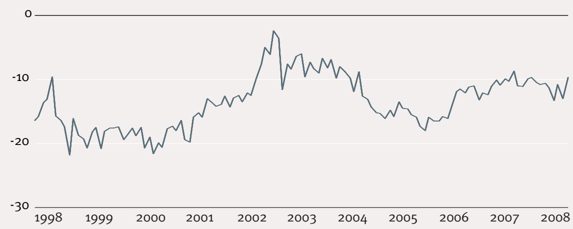
- JPMorgan Fleming Mercantile – Net asset value total return
- JPMorgan Fleming Mercantile – Share price total return
- Benchmark

- **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 2008 are given in the Investment Managers' Report on page 5.

- **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 minimise the volatility and absolute level of the discount to NAV at which the Company's shares trade.

Discount Performance



Source: Datastream

- JPMorgan Fleming Mercantile – Discount

- **Total expense ratio ('TER')**
The TER represents management fees and all other operating expenses excluding interest expressed as a percentage of the average of the opening and closing net assets. The TER for the year ended 31st January 2008 was 0.59% (2007: 0.55% as restated). 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 20,755,593 ordinary shares for cancellation. This amount represented 16.6% 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 not repurchased any further shares for cancellation since the year end.

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

The Company did not issue any shares during the year.

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 Act 1985 and 2006 and, since its shares are listed on the London Stock Exchange, the UKLA Listing Rules. A breach of the Companies Act 1985 or 2006 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 Act 1985 and 2006 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 24.
- 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. Further details are disclosed in note 24 on pages 41 to 45. Additional disclosures are provided this year for the first time in accordance with FRS 29.

Future Developments

Clearly, the future development of the Company is much 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.

Directors' Report continued

Management

The Manager and Secretary is JPMorgan Asset Management (UK) Limited ('JPMAM'). JPMAM is employed under a contract terminable on one year's 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 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 consider that the Company has adequate resources, an appropriate financial structure and suitable arrangements in place for its management to continue in operational existence for the foreseeable future. For these reasons, they 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 2008, the Company had no outstanding trade creditors.

Directors

Lord Halifax was appointed a Director on 5th December 2007.

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 2008	1st February 2007 or at date of appointment
Hamish Leslie Melville	30,000	30,000
Lord Halifax	2,000	nil
Richard Hambro	30,000	30,000
Sandy Nairn	5,000	5,000
Charles Peel	20,000	20,000
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, Lord Halifax, having been appointed since the previous AGM, offers himself for re-election. The Directors retiring by rotation at the forthcoming AGM will be Charles Peel and Hamish Leslie Melville. 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.

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	10,679,500	10.2
Puddle Dock Nominees[1]	7,217,956	6.9
Barclays plc	6,380,673	6.1
JPMorgan Asset Management (UK) Ltd[2]	5,443,766	5.2
Legal & General Group plc	4,319,223	4.1

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

[2]Includes 328,338 shares held in JPMorgan Elect plc.

Independent Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as Auditor 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 items of special business will be proposed at the forthcoming Annual General Meeting:

Change of Company name (resolution 7)

It is proposed to change the Company name to The Mercantile Investment Trust plc, reflecting more closely the historic name of the Company.

Repurchase of the Company's shares (resolution 8)

At the Annual General Meeting held in May 2007, 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 15th November 2008 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.

Adoption of new Articles of Association (resolution 9)

The Company proposes to adopt new Articles of Association. These incorporate amendments to the current Articles of Association to reflect the provisions of the Companies Act 2006 (the '2006 Act') and otherwise generally update the Articles of Association for current law, regulations and market practice. The 2006 Act came, or will come, into effect in 2007, 2008 and 2009. As the 2006 Act will not be fully in force until October 2009, it is not yet possible to fully reflect the 2006 Act changes, and it is anticipated that shareholders will be asked to approve further changes to the Articles of Association at the 2009 AGM.

The principal changes brought about by the new Articles of Association proposed to be adopted at the forthcoming AGM relate to electronic communication with shareholders, shareholder meetings and resolutions, directors' indemnities, transfers of shares and directors' conflicts of interest. For a more detailed explanation of these and other amendments please refer to the Appendix on pages 51 to 53.

Recommendation

The Board considers the resolutions 7 to 9 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 92,000 shares representing approximately 0.1% of the existing issued ordinary share capital of the Company. The full text of the resolutions is set out in the Notice of Meeting on page 49.

Statement under the Disclosure & Transparency Rules 4.1.12

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

a) the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit 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 they face.

By order of the Board
Juliet Dearlove, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary
27th March 2008

Corporate Governance

Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities on page 26, indicates how the Company has applied the principles of good governance of the Financial Reporting Council 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. 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 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 Lord Halifax, who was appointed since the last AGM, and of Charles Peel and Hamish Leslie Melville who retire by rotation at this year's AGM.

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.

In line with corporate governance guidance, the Chairman decided to stand down fom the Audit Committee with effect from 19th March 2008.

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

Director	Board Meetings Attended	Audit Committee Meetings Attended	Nomination Committee Meetings Attended
Hamish Leslie Melville	5	2	2
Nicholas Berry[1]	2	0	1
Lord Halifax[2]	1	n/a	n/a
Richard Hambro	4	2	1
Simon Keswick[1]	2	1	0
Sandy Nairn	4	1	2
Charles Peel	5	2	2
Lord Rothermere[1]	0	0	0
Ian Russell	5	2	2

[1]Retired as a Director on 16th May 2007.

[2]Appointed a Director on 5th December 2007.

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. External search consultants were not used in connection with the appointment of the one Director during the year.

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 (from 19th March 2008) 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, 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 on page 24.

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

Corporate Governance continued

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 47.

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 47 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 Bank, 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 2008, 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.

Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of Schedule 7A to the Companies Act 1985. 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 27.

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.

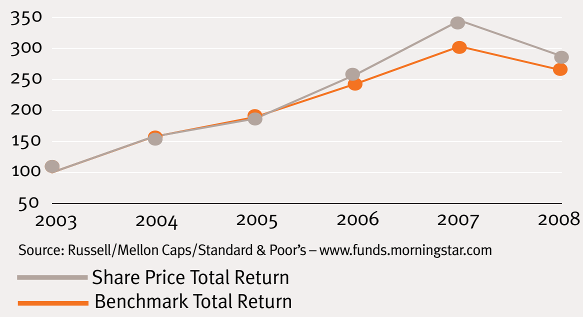
The Board's policy is that Directors' fees should properly reflect the time spent by the Directors on the Company's business and should be at a level to ensure that candidates of a high calibre are recruited to the Board. The Chairman of the Board and the Chairman of the Audit Committee (if this role is not undertaken by the Chairman of the Board) are paid higher fees than the other Directors, reflecting the greater time commitment involved in fulfilling those roles.

The terms and conditions of the Directors' appointments are set out in formal letters of appointment. Details of the Board's policy on tenure are set out on page 22.

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: Russell/Mellon Caps/Standard & Poor's – www.funds.morningstar.com

Directors' Remuneration

(Audited Information) Director's Name	2008 £	2007 £
Hamish Leslie Melville (Chairman)	40,969	35,000
Nicholas Berry[1]	7,635	25,000
Richard Hambro[2]	28,750	8,335
Simon Keswick[1]	7,635	25,000
Sandy Nairn	28,750	25,000
Charles Peel	28,750	25,000
Lord Rothermere[1]	7,635	25,000
Ian Russell[3]	34,532	2,083
Lord Halifax[4]	4,692	—
Total	189,348	170,418

[1] Retired as a Director on 16th May 2007.
[2] Appointed as a Director on 1st October 2006.
[3] Appointed as a Director on 1st January 2007.
[4] Appointed as a Director on 5th December 2007.

By order of the Board
Juliet Dearlove, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary
27th March 2008

Directors' Responsibilities in Respect of the Accounts

Company law requires the Directors to prepare accounts for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice which give a true and fair view of the state of affairs of the Company as at the end of the year and of the revenue 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

The Directors confirm that the accounts comply with the above requirements.

The Directors are responsible for ensuring that proper accounting records are kept 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 1985. 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 www.jpmorganassetmanagement.com website, which is maintained by the Company's investment 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. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the accounts since they were initially presented on the website. The accounts are prepared in accordance with UK legislation, which may differ from legislation in other jurisdictions.

Independent Auditors' Report[1]

To the shareholders of JPMorgan Fleming Mercantile Investment Trust plc

We have audited the accounts of JPMorgan Fleming Mercantile Investment Trust plc for the year ended 31st January 2008 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. These accounts have been prepared under the accounting policies set out therein.We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities. The Directors are also responsible for preparing the Directors' Remuneration Report.

Our responsibility is to audit the accounts and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 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.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the accounts. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and the Investment Managers' Report that is cross referenced from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code 2006 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not.We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. The other information comprises only the Financial Highlights, the Chairman's Statement, the Investment Managers' Report and the other elements of the Investment Review, the Directors' Report, the Corporate Governance Statement and the unaudited part of the Directors' Remuneration Report.We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31st January 2008 and of its net return and cash flows for the year then ended;
- the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the accounts.

PRICEWATERHOUSECOOPERS LLP
Chartered Accountants and Registered Auditors
London, 27th March 2008

[1]The accounts are published on the www.jpmfmercantile.co.uk website, which is a website maintained by the Company's Manager, JPMorgan Asset Management (UK) Limited ('JPMAM'). The maintenance and integrity of the website maintained by JPMAM or any of its subsidiaries is, so far as it relates to the Company, the responsibility of JPMAM. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website or any other website upon which the accounts may be published and accordingly, the auditors accept no responsibility for any changes that may occur to the accounts following presentation on a website. Visitors to any website containing the accounts need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the accounts may differ from legislation in their jurisdiction.

Income Statement

for the year ended 31st January 2008

	Notes	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000
(Losses)/gains on investments held at fair value through profit or loss	2	—	(271,045)	(271,045)	—	377,824	377,824
Net foreign currency losses		—	(42)	(42)	—	(56)	(56)
Income from investments	3	43,948	—	43,948	42,099	—	42,099
Other interest receivable and similar income	3	7,736	—	7,736	3,394	—	3,394
Gross return/(loss)		51,684	(271,087)	(219,403)	45,493	377,768	423,261
Management fee	4	(3,900)	(3,900)	(7,800)	(3,961)	(3,961)	(7,922)
Other administrative expenses	5	(842)	—	(842)	(821)	—	(821)
VAT recoverable	6	2,921	2,922	5,843	—	—	—
Net return/(loss) on ordinary activities before finance costs and taxation		49,863	(272,065)	(222,202)	40,711	373,807	414,518
Finance costs	7	(5,518)	(5,518)	(11,036)	(5,668)	(5,668)	(11,336)
Net return/(loss) on ordinary activities before taxation		44,345	(277,583)	(233,238)	35,043	368,139	403,182
Taxation	8	—	—	—	—	—	—
Net return/(loss) on ordinary activities after taxation		44,345	(277,583)	(233,238)	35,043	368,139	403,182
Return/(loss) per share	10	39.79p	(249.10)p	(209.31)p	27.51p	289.06p	316.57p

Dividends proposed in respect of the financial year ended 31st January 2008 total 38.0p per share (2007: 25.0p per share) costing £40,113,000 (2007: £31,363,000). More details can be found in note 9 on page 36.

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. 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 32 to 46 form an integral part of these accounts.

Reconciliation of Movements in Shareholders' Funds

for the year ended 31st January 2008

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 31st January 2006	33,123	23,459	3,647	1,346,761	38,004	1,444,994
Shares bought back and cancelled	(1,859)	—	1,859	(75,662)	—	(75,662)
Total return from ordinary activities	—	—	—	368,139	35,043	403,182
Dividends appropriated in the year	—	—	—	—	(28,666)	(28,666)
At 31st January 2007	31,264	23,459	5,506	1,639,238	44,381	1,743,848
Shares bought back and cancelled	(5,189)	—	5,189	(271,068)	—	(271,068)
Total (loss)/return from ordinary activities	—	—	—	(277,583)	44,345	(233,238)
Dividends appropriated in the year	—	—	—	—	(31,392)	(31,392)
At 31st January 2008	26,075	23,459	10,695	1,090,587	57,334	1,208,150

The notes on pages 32 to 46 form an integral part of these accounts.

Balance Sheet

at 31st January 2008

	Notes	2008 £'000	2007 £'000
Fixed assets			
Investments at fair value through profit or loss	11	1,145,680	1,778,500
Current assets	13		
Debtors		7,798	31,112
Cash and short term deposits		287,985	129,733
		295,783	160,845
Creditors: amounts falling due within one year	14	(56,604)	(18,884)
Net current assets		239,179	141,961
Total assets less current liabilities		1,384,859	1,920,461
Creditors: amounts falling due after more than one year	15	(176,709)	(176,613)
Total net assets		1,208,150	1,743,848
Capital and reserves			
Called up share capital	16	26,075	31,264
Share premium	17	23,459	23,459
Capital redemption reserve	17	10,695	5,506
Capital reserve	17	1,090,587	1,639,238
Revenue reserve	17	57,334	44,381
Shareholders' funds		1,208,150	1,743,848
Net asset value per share	18	1,158.3p	1,394.4p

The accounts on pages 28 to 46 were approved and authorised for issue by the Directors on 27th March 2008 and are signed on their behalf by:

Hamish Leslie Melville
Chairman

The notes on pages 32 to 46 form an integral part of these accounts.

Cash Flow Statement

for the year ended 31st January 2008

	Notes	2008 £'000	2007 £'000
Net cash inflow from operating activities	19	45,371	35,224
Servicing of finance			
Interest paid		(10,927)	(11,258)
Net cash outflow from servicing of finance		(10,927)	(11,258)
Financial investment			
Purchases of investments		(1,079,216)	(1,000,018)
Sales of investments		1,509,476	1,222,420
Other capital charges		(61)	(13)
Net cash inflow from financial investment		430,199	222,389
Total equity dividends paid		(31,392)	(28,666)
Net cash inflow before financing		433,251	217,689
Financing			
Repurchase of ordinary shares		(274,953)	(80,009)
Repayment of short term overdraft		—	(7,897)
Net cash outflow from financing		(274,953)	(87,906)
Increase in cash in the year	20	158,298	129,783

The notes on pages 32 to 46 form an integral part of these accounts.

Notes to the Accounts

for the year ended 31st January 2008

1. Accounting Policies

(a) Basis of accounting

The accounts are prepared in accordance with the Companies Act 1985, 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 AIC in December 2005. 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 has a dormant, wholly owned subsidiary 'The Mercantile Investment Trust Limited'. Consolidated accounts have not been prepared as exemption under S229 of the Companies Act 1985 has been exercised due to the immateriality of the subsidiary.

The Company has adopted FRS29: 'Financial Instruments: Disclosures' for the first time in these accounts. FRS 29 introduces new disclosure relating to financial instruments. This standard does not have any impact on the classification and/or valuation of the Company's financial instruments. The disclosures required by this standard are given in notes 23 to 25 on pages 41 to 46.

(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 '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 in the capital column of the income statement at the time of acquisition. Subsequently the investments are valued at fair value which is bid market price for listed investments. Unlisted and restricted investments are valued at fair value by the Board. In making its valuations, the Board takes into account, where appropriate, latest dealing prices, valuations from reliable sources, asset values and other relevant factors.

Changes in the fair value of investments held at fair value through profit or loss and gains or losses on disposal are included in the income statement within 'Gains from investments held at fair value through profit or loss'. Transaction costs incurred on the purchase and sale of investments are also included within this caption. All purchases and sales are accounted for on a trade date basis.

(c) Income

Dividends receivable from equity shares are included in the revenue column of the income statement 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 the capital column.

UK dividends are included net of any 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 the revenue column of the income statement. Any excess in the value of the shares received over the amount of the cash dividend is recognised in the capital column.

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

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

Stock lending income and underwriting commission are taken to the revenue column 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 the revenue column and 50% to the capital column 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 and sale of an investment are charged to the capital column. These expenses are commonly referred to as transaction costs and comprise brokerage commission and stamp duty. Details of transaction costs are given in note 11 on page 37.

(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 the revenue column of the income statement and 50% to the capital column 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 the capital column in accordance with the SORP.

(f) Financial instruments

Cash at bank and in hand 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.

All other current assets are classified as loans and receivables and 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

Irrecoverable VAT is expensed to capital or income in the proportions in which it has been suffered. The basis on which it has been calculated is the partial exemption method using the proportion of taxable supplies to non taxable supplies. Further information regarding VAT on management fees is given in notes 4 and 6 on pages 34 and 35.

(i) Functional currency

In accordance with FRS 23: 'The Effects of Changes in Foreign Currency', the Company is required to nominate a functional currency, being the currency in which the Company predominantly operates. The Board has determined that Sterling is the Company's functional currency, which is also the currency in which these accounts are presented.

Transactions denominated in foreign currencies are converted at actual exchange rates as at the date of the transaction or, where appropriate, at the rate of exchange in a related forward exchange contract. Assets and liabilities denominated in foreign currencies at the year end are translated at the rates of exchange prevailing at the year end or, where appropriate, at the rate of exchange in a related forward exchange contract.

Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the revenue column or capital column of the income statement, depending on whether the gain or loss is of a revenue or capital nature.

(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 paid.

Notes to the Accounts continued

	2008 £'000	2007 £'000
2. (Losses)/gains on investments held at fair value through profit or loss		
Gains on investments held at fair value through profit or loss based on historical cost	268,358	337,539
Amounts recognised as unrealised in the previous year	(271,828)	(204,893)
Realised (losses)/gains based on carrying value at previous balance sheet date	(3,470)	132,646
Net movement in unrealised losses/gains	(267,529)	245,209
Other capital charges	(46)	(31)
Total capital (losses)/gains on investments held at fair value through profit or loss	(271,045)	377,824

	2008 £'000	2007 £'000
3. Income		
Income from investments		
UK dividends	42,443	41,351
Property income distribution	21	—
Overseas dividends	1,484	748
	43,948	42,099
Other interest receivable and similar income		
Deposit interest	7,703	3,242
Underwriting commissions	33	152
	7,736	3,394
Total income	51,684	45,493
Analysis of income from investments:		
Listed in the UK	38,151	38,392
Unlisted	4,313	2,959
Listed overseas	1,484	748
	43,948	42,099

	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000
4. Management fee						
Management fee[1]	3,468	3,468	6,936	3,371	3,371	6,742
VAT thereon[2]	432	432	864	590	590	1,180
	3,900	3,900	7,800	3,961	3,961	7,922

[1]Details of the management fee are given in the Directors' Report on page 20.

[2]This represents VAT paid on management fees during the financial year in the period prior to HM Revenue & Customs' announcement in November 2007 that it was withdrawing its appeal in the case brought jointly by the AIC and JPMorgan Claverhouse Investment Trust plc challenging the imposition of VAT on management fees paid by investment trusts. The amounts of VAT shown above for the current year and prior year are included in the £5,843,000 VAT recoverable amount in the income statement. More details can be found in note 6 on page 35.

	2008 £'000	2007 £'000
5. Other administrative expenses		
Other management expenses	568	473
Directors' fees[1]	189	170
Savings products[2]	49	141
Auditors' remuneration for audit services[3]	35	35
Auditors' remuneration for all other services	1	2
	842	821

[1]Full disclosure is given in the Directors Remuneration Report on page 25.
[2]These fees were paid to JPMAM for the marketing of 'Wrapper' products.
[3]Includes £5,000 (2006: £5,000) irrecoverable VAT.

6. VAT recoverable

The VAT stated as recoverable represents VAT which it is expected with sufficient certainty is recoverable from the Manager in respect of the period from 1st February 2001 onwards including the expected recovery of all VAT paid on management fees from the turn of 2004/2005 onwards. The amounts may not actually be received by the Company from the Manager until HM Revenue & Customs refunds certain amounts to the Manager. The VAT expected to be recoverable has been allocated between income and capital in the proportions in which it was expensed to income and capital in each relevant period when it was paid by the Company. Certain VAT in relation to earlier periods may also be recoverable and the Company is in discussion with its Manager in relation to the potential recovery of those sums.

		2008			2007	
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
7. Finance costs						
Bank loans and overdrafts	29	29	58	179	179	358
Debentures	5,489	5,489	10,978	5,489	5,489	10,978
	5,518	5,518	11,036	5,668	5,668	11,336

	2008 £'000	2007 £'000
8. Taxation		
UK Corporation tax at 30% (2007: 30%)	—	—
Current tax	—	—

The tax charge for the year is lower than the standard rate of corporation tax in the UK of 30% (2007: 30%). The difference is explained below.

	2008 £'000	2007 £'000
Net (loss)/return on ordinary activities before taxation	(233,238)	403,182
Corporation tax at 30% (2007: 30%)	(69,971)	120,955
Effects of:		
Non taxable capital losses/(returns)	83,275	(110,442)
Non taxable UK dividend income	(12,739)	(12,405)
Tax relief on capitalised expenses	(2,825)	(2,889)
Unrelieved expenses	2,260	4,781
	—	—

The Company has an unrecognised deferred tax asset of £37,455,000 based on the prospective corporation tax rate of 28% (2007: £37,868,000 based on a corporation tax rate of 30%). This has arisen from deductible expenses exceeding 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 deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

Notes to the Accounts continued

	2008 £'000	2007 £'000
9. Dividends		
(a) Dividends paid and declared		
Unclaimed dividends refunded to the Company[1]	(38)	(43)
2007 fourth quarterly dividend of 11.5p (2006: 9.0p) paid in March[2]	13,742	11,728
First quarterly dividend of 5.5p (2007: 4.5p) paid in August	6,039	5,667
Second quarterly dividend of 5.5p (2007: 4.5p) paid in November	5,881	5,667
Third quarterly dividend of 5.5p (2007: 4.5p) paid in February	5,768	5,647
Total dividends paid in the year	31,392	28,666

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

[2]The fourth quarterly dividend in respect of the year ended 31st January 2007 amounted to £14,382,000 (2006: £11,924,000). However, the amount paid amounted to £13,742,000 (2006: £11,728,000) due to share repurchases after the balance sheet date but prior to the record date.

	2008 £'000	2007 £'000
Fourth quarterly dividend of 17.5p (2007: 11.5p) payable in May	18,253	14,382
Special dividend of 4.0p (2007: nil) payable in May	4,172	—
	22,425	14,382

The fourth quarterly dividend and special dividend have been declared in respect of the year ended 31st January 2008. In accordance with the accounting policy of the Company, these dividends will be reflected in the accounts for the year ending 31st January 2009.

(b) Dividend 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 £44,345,000 (2007: £35,043,000).

	2008 £'000	2007 £'000
First quarterly dividend of 5.5p (2007: 4.5p) paid in August	6,039	5,667
Second quarterly dividend of 5.5p (2007: 4.5p) paid in November	5,881	5,667
Third quarterly dividend of 5.5p (2007: 4.5p) paid in February	5,768	5,647
Fourth quarterly dividend of 17.5p (2007: 11.5p) payable in May	18,253	14,382
Special dividend of 4.0p (2007: nil) payable in May	4,172	—
	40,113	31,363

10. Return/(loss) per share

The revenue return per share is based on the earnings attributable to the ordinary shares of £44,345,000 (2007: £35,043,000) and on the weighted average number of ordinary shares in issue during the year of 111,433,402 (2007: 127,359,350).

The capital loss per share is based on the capital losses attributable to the ordinary shares of £277,583,000 (2007: return of £368,139,000) and on the weighted average number of ordinary shares in issue during the year of 111,433,402 (2007: 127,359,350).

The total loss per share is based on the total loss attributable to the ordinary shares of £233,238,000 (2007: return of £403,182,000) and on the weighted average number of ordinary shares in issue during the year of 111,433,402 (2007: 127,359,350).

	2008 £'000	2007 £'000
11. Investments		
Investments listed on a recognised stock exchange	1,049,100	1,635,236
Unlisted investments	96,580	143,264
	1,145,680	1,778,500

	Listed in UK £'000	Listed in Overseas £'000	Unlisted £'000	Total £'000
Opening book cost	1,208,709	—	96,976	1,305,685
Opening unrealised gains	426,527	—	46,288	472,815
Opening valuation	1,635,236	—	143,264	1,778,500
Movements in the year:				
Purchases at cost	1,085,984	12,001	23,429	1,121,414
Sales – proceeds	(1,418,581)	—	(64,654)	(1,483,235)
Sales – realised losses on investments	(2,245)	—	(1,225)	(3,470)
Net movement in unrealised gains/(losses)	(258,367)	(555)	(8,607)	(267,529)
	1,042,027	11,446	92,207	1,145,680
Closing book cost	1,126,673	12,001	73,548	1,212,222
Closing unrealised losses	(84,646)	(555)	18,659	(66,542)
	1,042,027	11,446	92,207	1,145,680

Transaction costs on purchases during the year amounted to £6,621,000 (2007: £5,821,000) and on sales during the year amounted to £2,125,000 (2007: £1,555,000). These costs comprise stamp duty and broker commission.

Unlisted investments include Alternative Investment Market stocks which are valued at £64,795,000 (2007: £126,110,000).

During the year, prior year unrealised gains have been transferred to realised as disclosed in note 17 on page 39. This was derived from the following sources:

	Listed in UK £'000	Listed in Overseas £'000	Unlisted £'000	Total £'000
	252,806	—	19,022	271,828

12. 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 are as follows:

Name of company	Country of registration	Class of share	% of class held
Tennants Consolidated	UK	15% Pref	24.89

In addition to the above, the Company has interests of 3% or more in the share capital of another 31 (2007: 32) 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 2008 was £218,166,000 (2007: £231,033,000).

Notes to the Accounts continued

	2008 £'000	2007 £'000
13. Current assets		
Debtors		
Securities sold awaiting settlement	223	26,464
Currency receivable	—	1,018
Amount due from subsidiary[1]	250	250
Dividends and interest receivable	1,433	3,325
VAT recoverable[2]	5,843	—
Other debtors	49	55
	7,798	31,112

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

[1]The Company has incorporated a wholly owned subsidiary, 'The Mercantile Investment Trust Limited', with share capital of £250,000. This amount was loaned back to the Company under commercial terms. This subsidiary is dormant.

[2]The timing of this recoverable is uncertain. Details of how this asset has arisen are given in note 21 on page 40.

Cash and short term deposits

Cash and short term deposits comprises bank balances and cash held by the Company, including short term bank 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.

	2008 £'000	2007 £'000
14. Creditors: amounts falling due within one year		
Securities purchased awaiting settlement	50,975	8,777
Currency payable	—	1,022
Repurchases of shares awaiting settlement	—	3,885
Loan due to subsidiary[1]	277	263
Other creditors and accruals	5,352	4,937
	56,604	18,884

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

The Company had a £70m 364 day revolving credit facility in place with Lloyds TSB, which was never drawn down and expired on 4th March 2008.

[1]Includes accrued interest payable on the loan due to the subsidiary. Further details are given in note 13.

	2008 £'000	2007 £'000
15. 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]	172,859	172,763
	176,709	176,613

[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.

	2008 £'000	2007 £'000
16. Called up share capital		
Authorised:		
163,875,000 ordinary shares of 25p each	40,969	40,969
Allotted and fully paid:		
Opening balance of 125,058,759 shares (2007: 132,494,142 shares)	31,264	33,123
Repurchase of 20,755,593 shares (2007: 7,435,383 shares)	(5,189)	(1,859)
Closing balance of 104,303,166 shares (2007: 125,058,759 shares)	26,075	31,264

During the year, the Company made market purchases of 20,755,593 of it own shares, nominal value £5,189,000, for cancellation, representing 16.6% of the shares outstanding at the beginning of the year. The total consideration paid for these shares was £271,068,000.

	Share premium £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £000	Revenue reserve £'000
17. Reserves					
Opening balance	23,459	5,506	1,166,427	472,811	44,381
Currency losses on cash and short term deposits held during the year	—	—	(42)	—	—
Realised losses on foreign currency contracts	—	—	(4)	4	—
Realised losses on investments	—	—	(3,470)	—	—
Net movement in unrealised losses	—	—	—	(267,529)	—
Transfer on disposal of investments	—	—	271,828	(271,828)	—
Repurchase and cancellation of shares	—	5,189	(271,068)	—	—
Management fee and finance costs charged to capital	—	—	(9,418)	—	—
Other capital charges	—	—	(46)	—	—
VAT recoverable	—	—	2,922	—	—
Dividends appropriated in the year	—	—	—	—	(31,392)
Retained revenue for the year	—	—	—	—	44,345
Closing balance	23,459	10,695	1,157,129	(66,542)	57,334

18. Net asset value per share

The net asset value per share is based on the net assets attributable to the ordinary shareholders of £1,208,150,000 (2007: £1,743,848,000) and on the 104,303,166 (2007: 125,058,759) shares in issue at the year end.

Notes to the Accounts continued

	2008 £'000	2007 £'000
19. Reconciliation of net return on ordinary activities before finance costs and taxation to net cash inflow from operating activities		
Total (loss)/return on ordinary activities before finance costs and taxation	(222,202)	414,518
Less capital loss/(return) before finance costs and taxation	272,065	(373,807)
Decrease/(increase) in accrued income	1,892	(1,586)
VAT recoverable	(5,843)	—
Decrease/(increase) in other debtors	6	(44)
Increase in accrued expenses	431	104
Expenses charged to capital	(978)	(3,961)
Net cash inflow from operating activities	45,371	35,224

	At 31st January 2007 £'000	Cash flow £'000	Other exchange movement £'000	Non cash movements £'000	At 31st January 2008 £'000
20. Analysis of changes in net (debt)/funds					
Cash and short term deposits	129,733	158,298	(46)	—	287,985
Debentures falling due after more than five years	(176,613)	—	—	(96)	(176,709)
Net (debt)/funds	(46,880)	158,298	(46)	(96)	111,276

21. Contingent liabilities and capital commitments

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

22. Transactions with JPMorgan

Details of the management contract are set out in the Directors' Report on page 20. The management fee payable to JPMorgan Asset Management (UK) Limited ('JPMAM') for the year was £6,936,000 excluding VAT (2007: £6,742,000) of which £456,000 (2007: £nil) was outstanding at the year end.

During the year £49,000 (2007: £141,000) was payable to JPMAM for the marketing of 'wrapper' products, of which £9,000 (2007: £60,000) was outstanding at the year end.

Included in other management expenses in note 5 on page 35 are safe custody fees amounting to £89,000 (2007: £81,000) payable to JPMorgan Chase Bank of which £25,000 (2007: £42,000) 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 £145,000 (2007: £22,000) of which £nil (2007: £nil) was outstanding at the year end.

During the year, commission on dealing transactions amounting to £1,275,000 (2007: £869,000) was paid to JPMorgan Cazenove of which £nil (2007: £nil) was outstanding at the year end.

Handling charges on dealing transactions amounting to £46,000 (2007: £31,000) were payable to JPMorgan Chase during the year of which £6,000 (2007: £20,000) was outstanding at the year end.

At the year end, a bank balance of £113,985,000 (2007: £1,133,000) was held with JPMorgan Chase. A net amount of interest of £264,000 (2007: £105,000) was received by the Company during the year from JPMorgan Chase.

23. Summary of financial assets and financial liabilities by category.

The carrying amounts of the Company's financial assets and financial liabilities at the balance sheet date are as follows. The accounting policies on pages 32 and 33 explain how the various categories of financial instrument are measured.

	2008 £'000	2007 £'000
Financial assets		
Financial assets at fair value through profit or loss		
Fixed asset investments - designated as such upon initial recognition	1,145,680	1,778,500
Loans and receivables		
Debtors (amounts due from brokers, income receivable, prepayments and VAT recoverable)	7,548	29,844
Amount due from subsidiary	250	250
Cash and short term deposits	287,985	129,733
At fair value through profit or loss – classified as held for trading		
Forward currency contract	—	1,018
	295,783	160,845

	2008 £'000	2007 £'000
Financial liabilities		
Measured at amortised cost		
Creditors: amounts falling due within one year		
Loan due to subsidiary	277	263
Due to brokers	50,975	12,662
Other creditors and accruals	5,352	4,937
Creditors: amounts falling due after more than one year		
Debenture stock	176,709	176,613
At fair value through profit or loss – classified as held for trading		
Forward currency contract	—	1,022
	233,313	195,497

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

As an investment trust the Company invests in equities for the long term so as secure its investment objective stated on page 17. 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 material exposure to foreign currencies.

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, 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.

Notes to the Accounts continued

24. Financial instruments' exposure to risk and risk management policies continued

(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 analysis where appropriate. The Board reviews and agrees policies for managing these risks, which 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 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 with an overdraft facility used 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 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:

	2008 £'000	2007 £'000
Exposure to floating interest rates		
Cash at bank and short term deposits	287,985	129,733

Interest received on cash balances, or paid on overdrafts, is at a margin over LIBOR (2007: same).

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:

	2008 £'000	2007 £'000
Maximum cash at bank and short term deposits	287,985	132,350
Minimum cash at bank and short term deposits	20,583	2

Interest rate sensitivity

The following table illustrates the sensitivity of the profit after taxation for the year and equity to a 1.0% increase or decrease in interest rates applied to the Company's cash balances. This level of change is considered to be reasonably possible based on observation of current conditions. The change is based on the Company's cash balances at the balance sheet date with all other variables held constant.

	2008		2007	
	Increase in rate £'000	Decrease in rate £'000	Increase in rate £'000	Decrease in rate £'000
Income statement - profit after taxation				
Revenue return	1,440	(1,440)	648	(648)
Capital return	1,440	(1,440)	649	(649)
Total profit after taxation for the year	2,880	(2,880)	1,297	(1,297)
Equity	2,880	(2,880)	1,297	(1,297)

The above sensitivity analysis is not representative of the year as a whole as the level of cash balances has fluctuated.

24. Financial instruments' exposure to risk and risk management policies continued

(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 December comprises its holdings in equity investments as follows:

	2008 £'000	2007 £'000
Equity investments at fair value through profit or loss	1,145,680	1,778,500

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 12 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's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country.

Market price risk sensitivity

The following table illustrates the sensitivity of the profit after taxation for the year and the equity to an increase or decrease of 10% in the fair values of the Company's equities. This level of change is considered to be reasonably possible based on observation of current market conditions. The sensitivity analysis is based on the Company's equities with all other variables held constant.

	2008		2007	
	10% Increase in fair value £'000	10% Decrease in fair value £'000	10% Increase in fair value £'000	10% Decrease in fair value £'000
Income statement – profit after taxation				
Revenue return – (decrease)/increase	(286)	286	(445)	445
Capital return - increase/(decrease)	114,282	(114,282)	177,405	(177,405)
Total profit after taxation – increase/(decrease)	113,996	(113,996)	176,960	(176,960)
Equity - increase/(decrease)	113,996	(113,996)	176,960	(176,960)

(b) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities.

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.

Notes to the Accounts continued

24. Financial instruments' exposure to risk and risk management policies continued

Liquidity risk exposure

Contractual maturities of the financial liabilities at the year end, based on the earliest date on which payment can be required are as follows:-

	2008				2007			
	Three months or less £'000	Not more than one year £'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	—	—	176,709	176,709	—	—	176,613	176,613
Creditors : amounts falling due within one year								
Amounts due to brokers	50,975	—	—	50,975	12,662	—	—	12,662
Loan from subsidiary	—	277	—	277	—	263	—	263
Other creditors	5,352	—	—	5,352	4,937	—	—	4,937
Forward currency contract	—	—	—	—	1,022	—	—	1,022
	56,327	277	176,709	233,313	18,621	263	176,613	195,497

(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

This risk is not significant and is managed as follows:

- by only dealing with brokers which have been approved by JPMAM and banks with high credit ratings assigned by international credit rating agencies; and
- by setting limits as to the maximum exposure to any one counterparty at any time.

Credit risk exposure

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

	2008		2007	
	Balance sheet £'000	Maximum exposure £'000	Balance sheet £'000	Maximum exposure £'000
Fixed assets – investments at fair value through profit or loss	1,145,680	—	1,778,500	—
Current assets				
Debtors – amount due from brokers, income receivable, prepayments and VAT recoverable	7,548	7,548	29,844	29,844
Amount due from subsidiary	250	—	250	—
Forward currency contract	—	—	1,018	1,018
Cash and short term deposits	287,985	287,985	129,733	129,733
	1,441,463	295,533	1,939,345	160,595

24. Financial instruments' exposure to risk and risk management policies continued

(c) Credit risk (continued)

Cash and short term deposits comprises balances held at banks with the following credit ratings:

	2008 Balances deposited £'000	2007 Balances deposited £'000
Balances with banks with a AA credit rating	287,985	30,133
Balances with banks with a AAA credit rating	—	58,100
Balances with banks with a AA– credit rating	—	12,500
Balances with banks with a A+ credit rating	—	29,000
	287,985	129,733

(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 comparison with the market value of an instrument carrying a similar interest rate, risk rating and repayment date, as follows:

	Accounts value		Fair value	
	2008 £m	2007 £m	2008 £m	2007 £m
£175 million 6.125% debenture stock 25th February 2030	172.9	172.8	193.4	190.6
£3.85 million 4.25% irredeemable debenture stock	3.8	3.8	2.8	2.7
	176.7	176.6	196.2	193.3

Notes to the Accounts continued

25. Capital management policies and procedures

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 balance of equity capital and debt.

The policy is that debt should be between 0% and 17% of total capital.

	2008 £'000	2007 £'000
Debt		
£175 million 6.125% debenture stock 25th February 2030	172,859	172,763
£3.85 million 4.25% irredeemable debenture stock	3,850	3,850
	176,709	176,613
Equity		
Equity share capital	26,075	31,264
Reserves	1,182,075	1,712,584
	1,208,150	1,743,848
Total capital	1,384,859	1,920,461
Debt as a percentage of total capital	12.8%	9.2%

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, or sale of shares from treasury; and
- the extent to which revenue in excess of that which is required to be distributed should be retained.

Information about the Company

Financial Calendar

Financial year end	31st January
Interim results announced	September
Final results announced	March/April
Dividends on ordinary shares paid	First business day of August, November, February, May
Interest on 4.25% perpetual debenture stock paid	1st June, 1st December
Annual General Meeting	April/May
Interim Management Statements	May and November

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 Fleming has been the Company's manager and secretary since its appointment in 1976. In June 2004, the Company adopted its present name, JPMorgan Fleming Mercantile Investment Trust plc.

Company Numbers
Company Registration number: 20537
London Stock Exchange number: 0579403
Bloomberg ticker: JFM LN

Market Information
The Company's shares are listed on the London Stock Exchange. The market price of the ordinary shares 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.jpmfmercantile.co.uk, where the share price is updated every fifteen minutes during trading hours.

Web Site
www.jpmfmercantile.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 Investment Trust Share Plan, Individual Savings Account (ISA), Personal Equity Plan (PEP) and the Pension Account.

aic
The Association of Investment Companies
A member of the AIC

Manager and Secretary
JPMorgan Asset Management (UK) Limited

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Please contact Juliet Dearlove for company secretarial and administrative matters.

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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
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1 Hay's Lane
London SE1 2RD

Brokers
JPMorgan Cazenove
20 Moorgate
London EC2R 6DA

Dresdner Kleinwort
30 Gresham Street
London EC2V 7PG

Savings Products Administrators
For queries on the JPMorgan ISA, PEP, Share Plan or Pension Account, see contact details on the back cover of this report.

Shareholder Analysis

at 31st January 2008

	Number of shares	% holding
Pensions	13,815,248	13.2
Unit Trusts	10,579,704	10.1
Insurance Companies	8,411,718	8.1
Other institutions	6,362,097	6.1
Investment Trusts[1]	2,579,836	2.5
Charities	888,978	0.9
Total Institutions	42,637,581	40.9
Private Client Brokers	38,072,411	36.5
Retail investors holding shares directly or through nominee accounts[2]	16,103,187	15.4
Individuals in the Investment Trust Personal Equity Plan[3]	3,039,143	2.9
Individuals in the Investment Trust Share Plan[3]	2,863,878	2.7
Individuals in the Investment Trust Individual Savings Account[3]	1,111,560	1.1
Individuals in the Investment Trust Pension Account[3]	475,406	0.5
Total Retail Holdings	61,665,585	59.1
Total Shares in Issue	104,303,166	100.0

Nominee accounts have been allocated to their appropriate category.

[1]Includes 328,338 shares held by JPMorgan Elect plc.

[2]Includes shares below 10,000 threshold.

[3]Savings products managed by JPMorgan.

Notice of Meeting

Notice is hereby given that the one hundred and twenty second Annual General Meeting of JPMorgan Fleming Mercantile Investment Trust plc will be held at Trinity House, Tower Hill, London EC3N 4DH on Wednesday 30th April 2008 at 12.00 noon for the following purposes:

1 To receive the Directors' Report, the Annual Accounts and the Auditors' Report for the year ended 31st January 2008.

2 To approve the Directors' Remuneration Report for the year ended 31st January 2008.

3 To re-elect Hamish Leslie Melville a Director of the Company.

4 To re-elect Charles Peel a Director of the Company.

5 To re-elect Lord Halifax a Director of the Company.

6 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 resolutions:

Change of Company name - Special Resolution

7 THAT the name of the Company be changed to The Mercantile Investment Trust plc.

Authority to repurchase the Company's shares – Special Resolution

8 THAT the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with Section 166 of the Companies Act 1985 (the 'Act') to make market purchases (within the meaning of Section 163 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 15,635,044 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 (a) 105 per cent of the average of the middle market quotations for an ordinary share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is 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 30th October 2009 unless the authority is renewed at the Company's Annual General Meeting in 2009 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 and may make a purchase of ordinary shares pursuant to any such contract notwithstanding such expiry.

Adoption of new Articles of Association - Special Resolution

9 THAT the Articles of Association, contained in the document produced to the meeting and signed by the Chairman for the purposes of identification, be approved and adopted as the new Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association, with effect from the conclusion of the 2008 Annual General Meeting.

By order of the Board
JPMorgan Asset Management (UK) Limited,
Secretary
27th March 2008

Notice of Meeting continued

Notes

These notes should be reading 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, 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 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 note 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.

4 An instrument appointing a proxy, to be valid, must be lodged in accordance with the instructions given on the proxy form.

5 You may change your proxy instruction by returning a new proxy appointment. The deadline for receipt of proxy appointments (see above) 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 sent shall be treated as replacing and revoking the other or others.

6 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.

7 Entry to the Meeting will be restricted to shareholders, with guests admitted only by prior arrangement.

8 A corporation, which is a shareholder, may appoint individuals to act as its representatives and to vote in person at the Meeting (see instructions given on the proxy form).

In order to facilitate voting by corporate representatives at the Meeting, arrangements will be put in place at the Meeting so that (i) if a corporate shareholder has appointed the Chairman of the Meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all the other corporate representatives for that shareholder at the Meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the Meeting but the corporate shareholder has not appointed the Chairman of the Meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.

Representatives should bring to the Meeting evidence of their appointment, including any authority under which it is signed.

9 The register of interests of the Directors and connected persons in the share capital of the Company is 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.

10 No Director has any contract of service with the Company.

11 As at 19th March 2008 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 104,303,166 ordinary shares, carrying one vote each. Therefore the total voting rights in the Company are 104,303,166.

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

Explanatory Notes to Resolution 9

The Companies Act 2006 (the '2006 Act'), which is replacing the Companies Act 1985 (the '1985 Act') is being implemented in stages and will be fully in force by 1st October 2009. Under resolution 9, the Company is proposing to adopt new Articles of Association (the 'new Articles') which will reflect the changes in company law brought about by the 2006 Act which are already in force or which are to come into effect on 1st October 2008, as well as some minor technical or clarifying changes. The new Articles will also generally update the Articles of Association for current law, regulation and market practice.

1. Transfer of shares (Articles 31 and 32)

Under the 2006 Act, a company must either register a transfer or give the transferee notice of, and reasons for, its refusal to register the transfer. Any registration of a transfer or notice of refusal must be made or given as soon as practicable and in any event within two months from the date that the transfer is lodged with the Company. The new Articles reflect these requirements.

2. Disclosure of interests (Article 40)

The provisions relating to the disclosure of interests in shares contained in the 1985 Act, including Section 212 on company investigation powers, were repealed in January 2007. Section 793 and related sections in Part 22 of the 2006 Act, which contain the corresponding company investigation powers previously contained in Section 212, were brought into force simultaneously. Article 40 reflects the replacement of Section 212 of the 1985 Act with Section 793 of the 2006 Act.

3. Notice of general meetings (Articles 46 and 47)

The provisions in the new Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are in line with the relevant provisions of the 2006 Act. In particular, a general meeting (other than the annual general meeting) to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required.

The amendment to Article 47 deals with situations where, because of a postal strike or similar situation beyond the control of the Company, a notice of meeting is not received by a shareholder. The amendment will ensure that such failure does not invalidate proceedings at the meeting in question.

4. Quorum (Article 49)

Article 49 has been amended to make it clear that two or more persons who are proxies for the same member or representatives of the same body corporate can both/all count towards a quorum.

5. Attending and speaking at meetings (Article 55)

Article 55 of the new Articles now provides that the Chairman of the meeting may permit non-members or persons who are not entitled to exercise the rights of members to attend and, at the Chairman's discretion, speak at a general meeting.

6. Polls (Article 61)

Article 61 clarifies that a poll may be demanded before a show of hands, as well as immediately after the result of a show of hands, and to give the Directors the right to demand a poll as well as the Chairman of the meeting.

7. Votes of members, proxies and corporate representatives (Articles 68, 73 and 80)

Under the 2006 Act, proxies are entitled to vote on a show of hands as well as on a poll, and members may appoint a proxy to exercise all or any of their rights to attend, speak and vote at meetings. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share or shares. The new Articles reflect these new proxy rights. The 2006 Act also provides for multiple corporate representatives to be appointed and the Articles therefore refer to the right to appoint multiple corporate representatives.

8. Receipt of appointments of proxy and termination of proxy authority (Articles 77 and 78)

Article 77 provides that proxies for a poll to be taken after the date of a meeting or adjourned meeting must be received not less than 24 hours, or such shorter time as the Directors may determine, before the time of the poll. The deadlines for receipt of termination of proxy authority have been brought into line with the deadlines for receipt of proxies. Article 77 also permits the Directors to specify, in a notice of meeting, that in determining the time for delivery of proxies, no account shall be taken of non-working days.

9. Directors' appointments, interests and conflicts of interest (Articles 103 and 104)

The 2006 Act sets out Directors' general duties which largely codify the existing law but with some changes. Under the 2006 Act, from 1st October 2008 a Director has a statutory duty to avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. The requirement is very broad and could apply, for example, if a Director becomes a director of another company or a trustee of another organisation. The 2006 Act allows Directors of public companies to authorise conflicts and potential conflicts where appropriate, if the articles of association contain a provision to this effect. The 2006 Act also allows the articles to contain other provisions

Appendix continued

for dealing with Directors' conflicts of interest to avoid a breach of duty.

Article 103, which is the provision for dealing with conflicts in our current articles, allowing Directors to be interested in transactions and to be an officer of or employed by or interested in a body corporate in which the Company is interested, confirms that such interests, offices or employment will not infringe the conflicts duty as codified in the 2006 Act.

Article 104 gives the Directors authority to approve conflict situations including other directorships held by the Company's Directors and include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards that will apply when Directors decide whether to authorise a conflict or potential conflict. First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

The proposed Article 104 also contains provisions relating to confidential information, attendance at board meetings and availability of board papers to protect a Director from being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the Directors.

It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers of authorisation of conflicts are operated effectively and that the procedures have been followed.

10. Permitted interests and voting (Article 113)
The provisions which previously deemed certain interests of a Director's connected persons to be the interests of the Director himself for the purposes of this article have been deleted. There is no requirement in the 2006 Act to include such a provision and the 2006 Act contains a much wider definition of "connected person" of a Director. The Director and the Company must still take a view each time a matter is being considered as to whether the interests of the Director's connected persons mean that the Director should be treated as interested for the purposes of this article.

11. Making and retention of minutes (Article 116)
Article 116 contains a new provision to the effect that minutes must be retained for at least 10 years, reflecting the relevant provision of the 2006 Act. (No minimum retention time was previously specified.)

12. The seal (Articles 118 and 119)
Article 118 provides that instruments (other than share certificates) to which the seal is affixed shall be signed by two authorised persons or by a Director in the presence of a witness, whereas previously the requirement was for signature by either the Director and secretary or two Directors.

13. Removal of age limit for Directors
The provision requiring a Director's age to be disclosed, in a notice of meeting at which that Director is to be appointed or reappointed, if that Director has attained the age of 70 years or more, has been removed from the new Articles to reflect the repeal of the previous provisions regarding Directors over 70 from the 1985 Act.

14. Notices and other communications (Articles 76, 135-143)
The 2006 Act enables companies to communicate with their members by electronic communication to a greater extent than previously permitted. Article 135 will provide the Company with a general power to send or supply any notice, document or information to any member by a variety of methods – in person, by post or in electronic form (such as by email), or by making it available on the Company's website. In addition to any notice, document or information which is specifically required to be sent or supplied under the 2006 Act, the Company will also be able to send any other document or information to members using this variety of methods.

Article 76 allows proxies to be sent or supplied in electronic form and, where the Company gives an electronic address in a form of proxy, shareholders may send the appointment of proxy to that electronic address, subject to any conditions or limitations specified in the relevant notice of meeting.

The Company may ask each member for his or her consent to receive communications from the Company via its website. If the member does not respond to the request for consent within 28 days, the Company may take that as consent by the member to receive communications in this way. If the Company sends or supplies any notice, document or information to members by making it available on the Company's website, it must notify each member who has consented (or is deemed to have consented) to receive documents via the website, either by post or by email (if the member has specifically agreed to receive communications in electronic form), that the notice, document or information has been placed on the website. A member who has consented or is deemed to have consented to receive communications via the website can request a hard copy of any document at any time. Members can also revoke their consent to receive electronic communications at any time by giving notice in writing to the Company.

In relation to joint holders of shares, Article 135(3) provides that the agreement of the first-named holder on the register of members to accept notices, documents or information electronically or via a website shall be binding on the other joint holders. Article 135(4) permits the Company not to send or supply any notice, document or information to a member whose registered address is not in the United Kingdom unless that member gives a non-electronic address in the United Kingdom.

Article 135(5) and (6) cater for situations where the provision of corporate information in electronic form or via a website may amount to a breach of securities laws of another jurisdiction. The Company may send hard copies if it needs to restrict the circulation of information in certain circumstances, such as for US securities law reasons.

Article 142 deals with notices, documents or information sent by the Company to a member which have been returned undelivered on three consecutive occasions. The member will only be entitled to be sent further communications upon provision of a new postal or electronic address to the Company.

Article 143 is included to deal with the validation of documents in electronic form by members where required by the Articles. In the case of notices of meetings or proxies, any validation requirements must be specified in the notice.

15. Power to indemnify Directors (Article 146)

The law governing the giving by a company of indemnities to Directors of that company or an associated company was amended in 2005 and further amended by the 2006 Act. In particular, a company may now, *inter alia*, do the following: (i) in the case of liabilities arising from actions brought by third parties (other than regulatory authorities or criminal prosecutors), both the costs (of the Director and of the third party) and any damages may be paid by the company even if the judgement goes against the Director; (ii) in the case of liabilities arising from actions brought by the company or an associated company, the company will not be able to indemnify a Director against damages awarded to the Company itself but may pay the Directors' defence costs as they are incurred (although a Director would be liable to repay his defence costs if his defence was to be unsuccessful); (iii) the company will not be permitted to indemnify Directors against criminal fines, fines by regulators or the legal costs of successful criminal proceedings against Directors; and (iv) a company may, subject to the provisions of the 2006 Act, indemnify a Director of an associated company that is the trustee of an occupational pension scheme, taking advantage of the qualifying pension scheme indemnity provision in the 2006 Act.

As a result of the above, the Directors' indemnity provisions of the Articles of Association have been amended. Article 146 has now been drafted as a permissive provision that gives the Company a broad power to indemnify a Director, subject to the provisions of the 2006 Act. Article 146 also permits the maintenance by the Company of liability insurance for Directors and it specifically makes it clear that the Company may, subject to the provisions of the 2006 Act, indemnify a Director of an associated company that is the trustee of an occupational pension scheme, taking advantage of the qualifying pension scheme indemnity provision in the 2006 Act.

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 (net of tax) 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 (net of tax) were reinvested in the shares of the Company at 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 (net of tax) were reinvested 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 stated index.

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 was to increase by 100%.

Total Expense Ratio (TER)
Management fees and all other operating expenses excluding interest, expressed as a percentage of the average of the opening and closing net assets. The method of calculating the TER has been changed and prior years restated. In prior years the TER was: Management fees and all other operating expenses (including tax relief where applicable but excluding interest) expressed as a percentage of the average month end net assets over the year. The reason for the change is to bring the method into line with industry practice and to make the calculation more transparent, as all the numbers now used in the calculation are extracted from the audited accounts.

Discount/Premium
If the share price of an investment company is lower than the net asset value (NAV) per share, the trust is 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 to trade at a discount than 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 outside of 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.

Residual
Arises when there is a divergence between total return as calculated by Fundamental Data (includes dividends paid out by the Investment Trust) and total return from the attribution systems (includes dividend income received in on the stocks held by the Investment Trust). This is a result of methodologies and timing differences.

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

Notes

Notes

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JPMorgan Helpline
Freephone 0800 20 40 20 or 0207 742 9999
9.00 am to 5.30 pm Monday to Friday

JPMorgan Pension Helpline
Freephone 0800 41 31 76 or 0172 241 4888
9.00 am to 5.00 pm Monday to Friday
Please use this number if you have any queries relating to the Pension Account.

Your telephone call may be recorded for your security

www.jpmfmercantile.co.uk