

The Mercantile Investment Trust plc

(formerly JPMorgan Fleming Mercantile Investment Trust plc)

Half Year Report & Accounts for the six months ended 31st July 2008



Features

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Objective

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

Investment Policy

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

Benchmark

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

Capital Structure

The Company has an authorised share capital of 163,875,000 ordinary shares of 25p each, of which 102,610,765 were in issue at the period end.

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

Management Company

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

Half Year Performance

Total Returns (capital plus income)

-13.2%

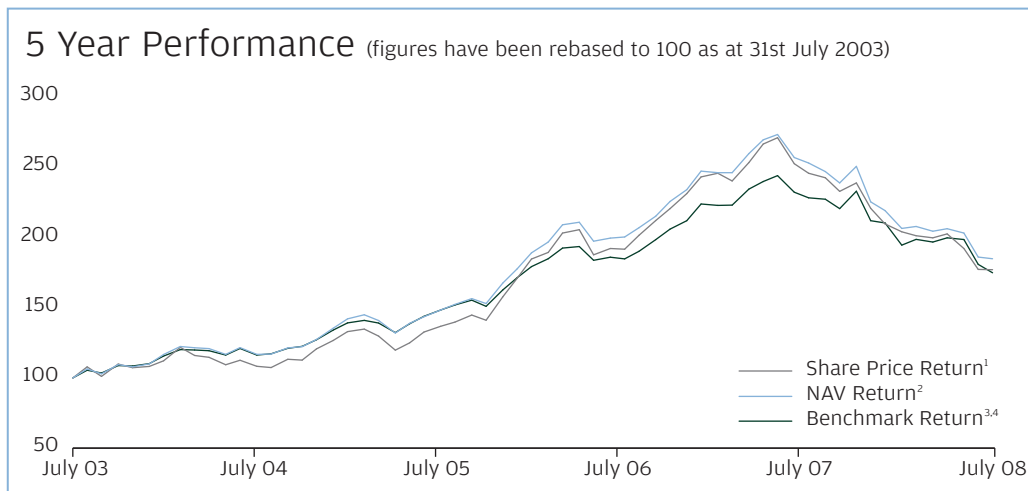
Return to shareholders¹

-10.4%

Return on net assets²

-10.2%

Benchmark return^{3,4}



Financial Data

	31st July 2008	31st January 2008	% change
Shareholders' funds (£'000)	1,026,259	1,208,150	-15.1
Number of shares in issue	102,610,765	104,303,166	
Net asset value per ordinary share with debt at par value (p)	1,000.1	1,158.3	-13.7
Net asset value per ordinary share with debt at fair value ⁵ (p)	989.3	1,139.6	-13.2
Share price (p)	858.0	1,020.0	-15.9
Discount of net asset value to share price with debt at par value	14.2%	11.9%	
Discount of net asset value to share price with debt at fair value	13.3%	10.5%	

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

¹Source: Standard & Poor's - www.funds.morningstar.com

²Source: Fundamental Data - www.funddata.com

³Source: Russell/Mellon Caps.

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

⁵Market values have been used to determine the fair value of the debenture stock.

Interim Management Report



Performance and Market Review

The Company's net asset value total return for the six months to 31st July, 2008 was -10.4%, 0.2% behind our benchmark.

The decline in the level of the stockmarket which began in July 2007 has continued despite some rallies throughout the period under review. Stockmarket volatility has increased as economic growth has slowed sharply and analysts' earnings projections for companies have been cut. The inability of banks to lend money due to the losses they have sustained and a lack of liquidity in the inter-bank market has exacerbated problems in the housing and some other markets. Economic activity is expected to continue to slow as the Bank of England remains constrained in its ability to cut interest rates due to inflation being above target.

During September, prior to the sign off of this Report, the authorities in the United States and in the United Kingdom and Europe have announced measures to free up liquidity within the global financial system. However, the effect that such measures may have on financial markets in the medium term is still unclear.

Since our year end we have, therefore, moved the portfolio so that at 31st July 2008, after offsetting the Company's long-term debenture, the Company held approximately 10% of its assets in cash on deposit. In order to protect the portfolio we have also bought a small position in a put option on the FTSE 100 index enabling us to sell at a set value should the stockmarket fall significantly.

Dividends

A second interim dividend of 6.00 pence per share has been declared by the board, payable on 31st October 2008 to shareholders on the register as at the close of business on 3rd October 2008. Together with the first interim dividend of 6.00 pence paid on 1st August 2008, this brings the total dividend for the year to date to 12.00 pence (2007: 11.00 pence). The board has again increased the level of the first two interim dividends in order to distribute income to shareholders more evenly throughout the year.

Share Repurchases

The Board has maintained its active 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. In the six months to 31st July 2008, 1,692,401 shares were repurchased for

cancellation at a total cost of £15.4 million. Those purchases added approximately 2.2 pence to the net asset value per share. The discount, with debt at fair value, has ranged between 10.5% and 15.0% in the period from 1st February 2008 to 19th September 2008, with the average discount during the period 13.3%.

VAT Repayment

The position with regard to repayment of VAT remains as described in the Chairman's Statement in the Annual Report & Accounts 2008. We continue to work towards a settlement with the Manager and have retained Noble Grossart to act on our behalf to achieve the best result possible for our shareholders.

Principal Risks and Uncertainties

The principal risks and uncertainties faced by the Company fall into five broad categories: investment and strategy; accounting, legal and regulatory; corporate governance and shareholder relations; operational; and financial. Information on each of these areas is given in the Business Review within the Annual Report and Accounts for the year ended 31st January 2008.

Related Parties Transactions

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

Directors' Responsibilities

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

- (i) the condensed set of financial statements contained within the half yearly financial report has been prepared in accordance with the UK Accounting Standards Board's Statement 'Half-Yearly Financial Reports' and gives a true and fair view of the assets, liabilities, financial position and net return of the Company as required by the UK Listing Authority Disclosure and Transparency Rules ('DTR') 4.2.4R; and
- (ii) the interim management report includes a fair review of the information required by DTR 4.2.7R and 4.2.8R.

Outlook

The portfolio is conservatively positioned with £216 million of cash and gearing available to invest. Our Managers anticipate the current uncertainties will lead to substantial opportunities where companies with sound balance sheets and good future earnings visibility are undervalued by the market.

For and on behalf of the Board

Hamish Leslie Melville

Chairman

24th September 2008

Forty Largest Investments

at 31st July 2008

Company	Sector	Value £'000	% ¹
IG Group	Consumer Goods	26,214	2.2
National Express	Consumer Services	18,790	1.6
Pennon	Utilities	18,245	1.5
Ladbrokes	Consumer Goods	18,144	1.5
Go-Ahead	Consumer Services	17,814	1.5
GKN	Consumer Services	17,698	1.5
Stagecoach	Consumer Services	17,589	1.5
Provident	Financials	16,667	1.4
Autonomy	Technology	16,359	1.3
DSG	Consumer Services	15,701	1.3
Tate & Lyle	Consumer Goods	15,148	1.2
Segro	Financials	14,336	1.2
Arriva	Consumer Services	14,028	1.2
Northumbrian Water	Utilities	13,718	1.1
Cazenove	Financials	13,695	1.1
Balfour Beatty	Industrials	13,020	1.1
Ultra Electronics	Industrials	12,971	1.1
Real Estate Opportunities	Financials	12,712	1.0
Hunting	Oil & Gas	12,571	1.0
Amlin	Financials	12,264	1.0
Daily Mail & General Trust	Consumer Services	12,171	1.0
Qinetiq	Industrials	12,063	1.0
Close Brothers	Financials	12,052	1.0
Filtrona	Industrials	11,928	1.0
Morgan Crucible	Industrials	11,832	1.0
Premier Oil	Oil & Gas	11,696	1.0
William Hill	Consumer Services	11,673	1.0
Millennium & Copthorne Hotels	Consumer Services	11,279	0.9
Tomkins	Industrials	10,809	0.9
Burberry	Consumer Goods	10,656	0.9
M P Evans	Consumer Goods	10,601	0.9
Carillion	Industrials	10,402	0.9
Wellstream	Oil & Gas	9,934	0.8
Invensys	Industrials	9,619	0.8
Investec	Financials	9,409	0.8
Mitchells & Butlers	Consumer Services	9,240	0.8
VP	Industrials	9,192	0.8
Hiscox	Financials	8,749	0.7
Shore Capital	Financials	8,741	0.7
Aegis	Consumer Services	8,741	0.7
Total		528,471	43.9

¹Based on total assets less current liabilities of £1,203m.

Portfolio Analyses

Sector Analysis

	at 31st July 2008		at 31st January 2008	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
Financials	21.6	24.7	25.8	18.1
Consumer Services	19.0	18.1	17.1	20.4
Industrials	17.1	28.8	19.3	29.9
Consumer Goods	5.5	6.9	10.8	8.0
Oil & Gas	4.6	5.0	3.2	6.4
Utilities	2.7	1.7	2.4	2.4
Technology	2.7	6.2	1.4	6.0
Basic Materials	1.5	5.0	2.7	4.7
Telecommunications	0.4	1.6	–	1.4
Healthcare	–	2.0	–	2.7
Net Current Assets ¹	24.9	–	17.3	–
Total	100.0	100.0	100.0	100.0

Based on total assets less current liabilities of £1,203m (2008: £1,385m).

Listed Equity Market Capitalisation

	31st July 2008 %	31st January 2008 %
UK FTSE Mid 250 Companies	63.2	63.4
UK Smaller Companies	10.5	17.7
UK FTSE 100	0.8	0.7
UK Unquoted	0.6	0.1
Overseas Company ²	–	0.8
Net Current Assets ¹	24.9	17.3
Total	100.0	100.0

Based on total assets less current liabilities of £1,203m (2008: £1,385m).

¹For the purpose of these analyses, the Company's debenture has been excluded from the above information.

²Listed on the NYSE.

Income Statement

for the six months ended 31st July 2008

	(Unaudited) Six months ended 31st July 2008			(Unaudited) Six months ended 31st July 2007			(Audited) Year ended 31st January 2008		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains from investments held at fair value through profit or loss	–	(158,315)	(158,315)	–	8,187	8,187	–	(271,045)	(271,045)
Net foreign currency losses	–	(21)	(21)	–	(15)	(15)	–	(42)	(42)
Income from investments	22,829	–	22,829	28,656	–	28,656	43,948	–	43,948
Other interest receivable and similar income	6,105	–	6,105	2,538	–	2,538	7,736	–	7,736
Gross return/(loss)	28,934	(158,336)	(129,402)	31,194	8,172	39,366	51,684	(271,087)	(219,403)
Management fee	(1,260)	(1,260)	(2,520)	(2,269)	(2,269)	(4,538)	(3,900)	(3,900)	(7,800)
Other administrative expenses	(397)	–	(397)	(504)	–	(504)	(842)	–	(842)
VAT recoverable	–	–	–	–	–	–	2,921	2,922	5,843
Net return/(loss) on ordinary activities before finance costs and taxation	27,277	(159,596)	(132,319)	28,421	5,903	34,324	49,863	(272,065)	(222,202)
Finance costs	(2,756)	(2,756)	(5,512)	(2,763)	(2,763)	(5,526)	(5,518)	(5,518)	(11,036)
Net return/(loss) on ordinary activities before taxation	24,521	(162,352)	(137,831)	25,658	3,140	28,798	44,345	(277,583)	(233,238)
Taxation (note 4)	(21)	–	(21)	–	–	–	–	–	–
Net return/(loss) on ordinary activities after taxation	24,500	(162,352)	(137,852)	25,658	3,140	28,798	44,345	(277,583)	(233,238)
Return/(loss) per share (note 5)	23.60p	(156.41)p	(132.81)p	21.97p	2.69p	24.66p	39.79p	(249.10)p	(209.31)p

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

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

Reconciliation of Movements in Shareholders' Funds

for the six months ended 31st July 2008 (unaudited)

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 31st January 2008	26,075	23,459	10,695	1,090,587	57,334	1,208,150
Shares bought back and cancelled	(422)	–	422	(15,438)	–	(15,438)
Total (loss)/return from ordinary activities	–	–	–	(162,352)	24,500	(137,852)
Dividends appropriated in the period	–	–	–	–	(28,601)	(28,601)
At 31st July 2008	25,653	23,459	11,117	912,797	53,233	1,026,259

Six months ended 31st July 2007 (unaudited)

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 31st January 2007	31,264	23,459	5,506	1,639,238	44,381	1,743,848
Shares bought back and cancelled	(4,350)	–	4,350	(233,601)	–	(233,601)
Total return from ordinary activities	–	–	–	3,140	25,658	28,798
Dividends appropriated in the period	–	–	–	–	(19,776)	(19,776)
At 31st July 2007	26,914	23,459	9,856	1,408,777	50,263	1,519,269

Year ended 31st January 2008 (audited)

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
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

Balance Sheet

as at 31st July 2008

	(Unaudited) 31st July 2008 £'000	(Unaudited) 31st July 2007 £'000	(Audited) 31st January 2008 £'000
Fixed assets			
Investments at fair value through profit or loss	903,748	1,624,441	1,145,680
Current assets			
Debtors	40,127	4,779	7,798
Derivative financial instruments	3,064	–	–
Cash and short term deposits	263,619	88,719	287,985
	306,810	93,498	295,783
Creditors: amounts falling due within one year	(7,542)	(22,009)	(56,604)
Net current assets	299,268	71,489	239,179
Total assets less current liabilities	1,203,016	1,695,930	1,384,859
Creditors: amounts falling due after more than one year	(176,757)	(176,661)	(176,709)
Total net assets	1,026,259	1,519,269	1,208,150
Capital and reserves			
Called up share capital	25,653	26,914	26,075
Share premium	23,459	23,459	23,459
Capital redemption reserve	11,117	9,856	10,695
Capital reserve	912,797	1,408,777	1,090,587
Revenue reserve	53,233	50,263	57,334
Shareholders' funds	1,026,259	1,519,269	1,208,150
Net asset value per share (note 6)	1,000.1p	1,411.2p	1,158.3p

Cash Flow Statement

for the six months ended 31st July 2008

	(Unaudited) Six months ended 31st July 2008 £'000	(Unaudited) Six months ended 31st July 2007 £'000	(Audited) Year ended 31st January 2008 £'000
Net cash inflow from operating activities (note 7)	23,971	27,236	45,371
Net cash outflow from servicing of finance	(5,457)	(5,472)	(10,927)
Taxation recovered	16	–	–
Net cash inflow from capital expenditure and financial investment	574	190,943	430,199
Dividends paid	(28,601)	(19,776)	(31,392)
Net cash outflow from financing	(14,844)	(233,926)	(274,953)
(Decrease)/increase in cash for the period	(24,341)	(40,995)	158,298
Reconciliation of net cash flow to movement in net funds/(debt)			
(Decrease)/increase in cash for the period	(24,341)	(40,995)	158,298
Exchange movements	(25)	(19)	(46)
Other movements	(48)	(48)	(96)
Changes in net (debt)/funds arising from cash flows	(24,414)	(41,062)	158,156
Net funds/(debt) at the beginning of the period	111,276	(46,880)	(46,880)
Net funds/(debt) at the end of the period	86,862	(87,942)	111,276
Represented by:			
Cash and short term deposits	263,619	88,719	287,985
Debt due after more than five years	(176,757)	(176,661)	(176,709)
Net funds/(debt)	86,862	(87,942)	111,276

Notes to the Accounts

for the six months ended 31st July 2008

1. Financial Statements

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

The figures and financial information for the year ended 31st January 2008 are extracted from the latest published accounts of the Company and do not constitute statutory accounts (as defined in section 434(3) of the Companies Act 2006) for that year. Those accounts have been delivered to the Registrar of Companies and included the report of the auditors which was unqualified and did not contain a statement under either section 237(2) or 237(3) of the Companies Act 1985 (as amended).

2. Accounting policies

The accounts have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' dated 31st December 2005.

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

The accounting policies applied to these interim accounts are consistent with those applied in the accounts for the year ended 31st January 2008.

3. Dividends

	(Unaudited) Six months ended 31st July 2008 £'000	(Unaudited) Six months ended 31st July 2007 £'000	(Audited) Year ended 31st January 2008 £'000
Unclaimed dividends refunded to the Company	(10)	(5)	(38)
Fourth quarterly dividend of 17.5p paid 1st May (2007: 11.5p)	18,253	13,742	13,742
Special dividend 4.0p paid 1st May (2007: nil)	4,172	–	–
First quarterly dividend of 6.0p paid 1st August (2007: 5.5p)	6,186	6,039	6,039
Second quarterly dividend of 5.5p paid 1st November 2007	n/a	n/a	5,881
Third quarterly dividend of 5.5p paid 1st February 2008	n/a	n/a	5,768
	28,601	19,776	31,392

A second quarterly dividend of 6.0p per share, amounting to £6,156,000, has been declared payable in respect of the six months ended 31st July 2008.

4. Effective Tax Rate

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

5. Return/(loss) per share

	(Unaudited) Six months ended 31st July 2008 £'000	(Unaudited) Six months ended 31st July 2007 £'000	(Audited) Year ended 31st January 2008 £'000
Return/(loss) per share is based on the following:			
Revenue return	24,500	25,658	44,345
Capital (loss)/return	(162,352)	3,140	(277,583)
Total (loss)/return	(137,852)	28,798	(233,238)
Weighted average number of shares in issue	103,793,098	116,758,372	111,433,402
Revenue return per share	23.60p	21.97p	39.79p
Capital (loss)/return per share	(156.41)p	2.69p	(249.10)p
Total (loss)/return per share	(132.81)p	24.66p	(209.31)p

6. Net asset value per share

Net asset value per share is calculated by dividing shareholders' funds by the number of shares in issue as at 31st July 2008 of 102,610,765 (31st July 2007: 107,659,958; and 31st January 2008: 104,303,166).

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

	(Unaudited) Six months ended 31st July 2008 £'000	(Unaudited) Six months ended 31st July 2007 £'000	(Audited) Year ended 31st January 2008 £'000
Net (loss)/return before finance costs and taxation	(132,319)	34,324	(222,202)
Add back capital loss/return before finance costs and taxation	159,596	(5,903)	272,065
(Increase)/decrease in net debtors and accrued income	(1,541)	1,082	1,898
VAT recoverable	–	–	(5,843)
(Decrease)/increase in accrued expenses	(505)	2	431
Expenses charged to capital	(1,260)	(2,269)	(978)
Net cash inflow from operating activities	23,971	27,236	45,371

Information about the Company

Financial Calendar

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

History

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

Directors

Hamish Leslie Melville (Chairman)
Lord Halifax
Richard Hambro
Sandy Nairn
Charles Peel
Ian Russell

Company Numbers

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

Market Information

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

Website

www.mercantileit.co.uk

Share Transactions

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

Manager and Secretary

JPMorgan Asset Management (UK) Limited

Company's Registered Office

Finsbury Dials
20 Finsbury Street
London EC2Y 9AQ
Telephone number: 020 7742 6000

Please contact Juliet Dearlove for company secretarial and administrative matters.

Registrars

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

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

Auditors

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

Brokers

JPMorgan Cazenove
20 Moorgate
London EC2R 6DA

Savings Product Administrators

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



The Association of
Investment Companies

A member of the AIC

Glossary of Terms

Total Return to Shareholders

Total return to the investor, on a mid-market price to mid-market price basis, assuming that all dividends received were reinvested in the shares of the Company at the time the shares were quoted ex-dividend. Transaction costs of reinvestment are not taken into account.

Total 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 NAV of the Company at time the shares were quoted ex-dividend.

The Total Return on Net Assets is calculated on a basis that assumes that any dividend payable in respect of a period is deducted from the closing NAV of that period. This treatment differs from that required under UK GAAP.

Benchmark Total Return

Total return on the benchmark, on a mid-market value to mid-market value basis, assuming that all dividends received were reinvested in the shares of the underlying companies at the time the shares were quoted ex-dividend.

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

Discount/Premium

If the share price of an investment company is lower than the 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 trust company to trade at a discount than a premium.

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.mercantileit.co.uk