

Annual Report 07

JPMorgan Claverhouse Investment Trust plc

Annual Report & Accounts for the year ended 31st December 2007

Features

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Objective

Capital and income growth from UK investments.

Investment Policies

- To invest in a portfolio consisting mostly of leading UK companies.
- To use long term gearing to increase potential returns to shareholders. The Company's gearing policy is to operate within a range of 95% to 120% invested in normal market conditions.
- To invest no more than 15% of assets in other UK listed investment companies (including investment trusts).
- To invest no more than 15% of assets in any individual investment (including unit trusts and open ended investment companies).

Further details on investment policies and risk management are given in the Directors' Report on page 19.

Benchmark

The FTSE All-Share Index.

Capital Structure

The Company has an authorised share capital of 156,000,000 ordinary shares of 25p each, of which 58,338,568 were in issue at the year end.

Management Company

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

AIC

The Company is a member of the Association of Investment Companies.

Financial Results

Total Returns (capital plus income)

-1.6%

Return to shareholders¹
(2006: +18.9%)

-0.2%

Return on net assets²
(2006: +19.2%)

+5.3%

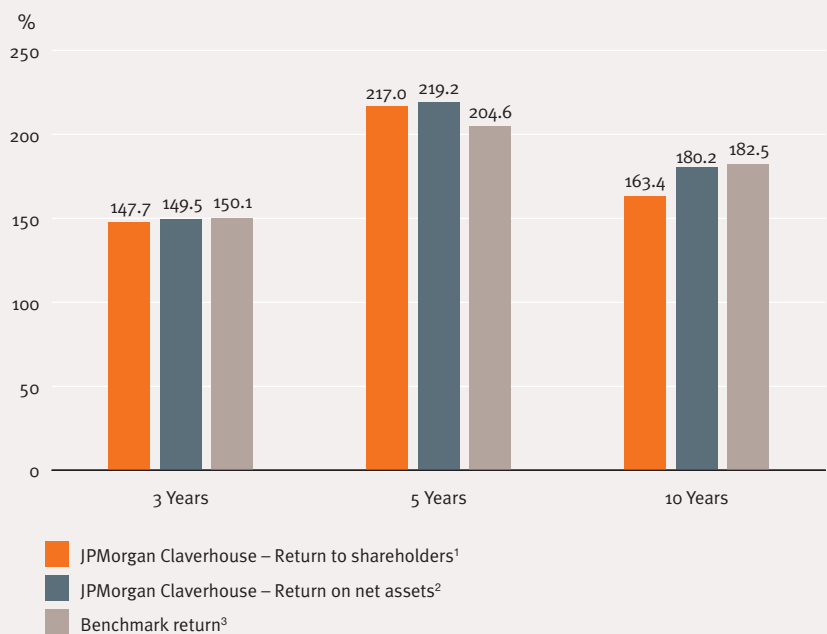
Benchmark return³
(2006: +16.8%)

15.30p

Dividend
(2006: 13.50p)

Long Term Performance

for periods ended 31st December 2007



A glossary of terms and definitions is provided on page 58.

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

²Source: Fundamental Data Ltd. – www.funddata.com

³Source: Datastream. The Company's benchmark is the FTSE All-Share Index.

Chairman's Statement



Performance and continuing appointment of the Manager

After four years of out-performance against the FTSE All-Share Index, I regret to report that 2007 was not a successful year for your Company. Total return to shareholders was -1.6% and the total return on net assets -0.2%, whereas the total return on the benchmark index was +5.3%. Underlying attribution data is shown on page 7.

2007 was a year in which our Manager's investment process did not deliver added value. When considering whether or not to recommend the continuing appointment of JPMorgan Asset Management ('JPMAM') as Manager of your Company, the Board considered in detail both the short term and long term results of JPMAM's investment process. The Board noted that over the last ten years it has added material value in six years, two years were flat and two years (2007 and 1998) significantly negative. The Board has reviewed and discussed with JPMAM the theory and practice and remains of the view that, over an investment cycle of three to five years, the outcome of this investment approach should continue to be positive for shareholders. That is supported by the results of the last five years which, even taking into account 2007, show annualised out-performance of +1.2%. Consequently, despite the disappointing 2007, the Board decided that the continuing appointment of JPMAM as Manager of your Company on the terms agreed is in the interests of shareholders as a whole.

Revenue and Dividends

Once again I am pleased to be able to report a strong revenue account where underlying dividend increases have been boosted by share buy-backs and the revenue per share has grown by 9.7%. Total dividends for the year have increased from 13.5p to 15.3p, an increase of 13.3%. Ten years ago the dividend was 6.8p per share. Although the Board expects some slowing of dividend growth in 2008 and 2009, the Company has a substantial revenue reserve and we expect to continue to increase your Company's dividend ahead of the rate of inflation.

VAT Case

Together with the Association of Investment Companies ('AIC'), your Company brought an action initially in the British courts and then in the European Court of Justice for a declaration that VAT should not be charged on management fees for investment trusts. The costs of this action were fully funded by the industry through the AIC.

I am pleased to report that in June 2007 the European Court of Justice ruled comprehensively in favour of the joint Claverhouse/AIC action and referred the matter back to the UK for determination. After four months, HM Revenue & Customs ('HMRC') confirmed in early November that VAT should not be charged on investment trust company management fees.

In the light of the ruling JPMAM ceased to charge VAT on management fees with effect from 1st October 2007. In the nine months to 30th September 2007 VAT of £493,000 was paid and in 2006 the total was £462,000.

So the position for the future is unequivocally good for your Company. There will be a significant saving in the costs levied for the management of the Company and the disadvantage at which investment trusts were placed in relation to unit trusts and open ended investment companies has been eliminated.

In addition, your Board is now taking steps to recover at least part of the VAT paid for the period running back, possibly as far as 1990. The sums are substantial and amount to over £4.5 million over that long period. It is unlikely that all of this will be recoverable. However, your Board will be disappointed if it is not possible to recover materially in excess of £2.5 million, although the timetable for recovery is, at present, uncertain. Further details are given in note 20 to the accounts.

"The Board... remains of the view that, over an investment cycle of three to five years, the outcome of (JPMAM's) investment approach should continue to be positive for shareholders."

It is probable that the process of recovery will be long and tortuous. Your Company may have a right of recovery direct against HMRC. In the first instance though, your Board is relying upon JPMAM to recover all it can from HMRC, together with interest, and to pass on that recovery to your Company. Unfortunately, the calculations and the legal position in relation to recovery of VAT paid between 1990 and 2007 are extremely complicated. Discussions with JPMAM are continuing. However, difficult uncertainties persist which will only be clarified once the outcome of another legal case currently before the UK courts is known.

Gearing

The Company ended the year 7.7% geared, its lowest level over the last ten years. During the year the gearing varied between this level and 12%. As reported last year, it is the Board's intention to keep gearing within the range of 0-15% under normal market conditions, whilst reserving the right to allow gearing to increase should a serious setback in markets provide a buying opportunity.

Share Repurchases

During the year the Company repurchased a total of 2,732,477 shares for cancellation, at an average discount to net asset value (with debt at par value) of 5.7%. This has added approximately 1.6p per share to net asset value for continuing shareholders. The Board's objective remains to use the share repurchase authority to manage any imbalance between supply and demand for the Company's shares, thereby minimising the volatility of the discount. At the year end the discount with debt valued at par was 6.3% and ranged between 3.9% and 7.8% during the year. With the Company's debt at market value, the discount at the year end was 5.2%.

Performance Fee

Under the arrangements whereby the payment of any performance fee earned is phased over three years and that due in years two and three can be clawed back in the event of underperformance, the accrual for the unpaid performance fee of £1.8m at 31st December 2006 has been reversed in its entirety. Indeed, there is now a negative balance of some £1.7m in the calculation of the performance fee, which will have to be made up in future by out-performance before any further performance fee can either be paid or accrued.

Board of Directors

The Nomination Committee meets annually to evaluate the performance of the Board, its Committees and the individual Directors.

Both Peter Lilley and I have served as Directors of your Company for more than ten years. There is then a significant gap to Virginia Holmes, who has served four years. With an eye to the future and to provide more balance to the spread of service, Peter Lilley will retire at the AGM. The Board has commenced the process of seeking a new director.

Peter Lilley will be a hard act to follow. His experience as a City analyst, followed by service as a Minister at the very highest levels of Government, have given him an insight into so much of what impinges on our affairs. He has provided wide counsel to colleagues and has steadfastly promoted shareholders' interests. On behalf of all shareholders I wish to thank Peter for his valuable contribution over such turbulent years in stock markets.

I became Chairman of your Company in April 2005. In my absence, the members of the Nomination Committee considered my service and confirmed that they recommend that I should continue as Chairman. As I have served as a Director for more than nine years, I am required to seek re-election on an annual basis and a resolution to that effect will be put to the AGM.

Chairman's Statement continued

Directors' fees were last increased with effect from 1st January 2006. The time commitment and the responsibility of directors do not reduce and fees paid to non-executive directors have increased materially since 2006. Under normal circumstances, the Board would have put a proposal to the AGM for an increase in Directors' fees. However, given the disappointing investment results of 2007, there will be no proposal to increase fees this year.

The Chairman of the Audit Committee, Virginia Holmes, and I have spent a considerable amount of time dealing with the VAT issue. In our absence the other Directors, led by the Senior Independent Director John Scott, decided that the VAT workload has been significantly beyond what would normally have been expected of a director and they have awarded Virginia and myself an extra payment of £5,000 each in recognition of our work to date. These payments do not require shareholders' approval but we will be happy to answer questions in relation to them at the AGM.

Companies Act 2006 and new Articles of Association

It is proposed that the Company adopts new Articles of Association in order to comply with the provisions of the Companies Act 2006 that have been brought into effect already and those that will be effective from 1st October 2008. The new Act is being introduced in stages and is expected to be fully enacted by 1st October 2009. More details on the proposed changes to the Articles are given in the Directors' Report on pages 23 and 24 and in the Appendix to the Notice of Meeting on pages 55 to 57. One of the principal changes will allow the Company to use electronic communications to send interim and annual reports to shareholders, although shareholders will have the right to opt to continue to receive hard copies if they wish and will continue to receive hard copy forms of proxy. The Board is also considering whether to take advantage of new regulations which allow companies not to post the interim report to shareholders, but instead direct shareholders to the Company's website. Both of these measures would reduce the Company's administrative expenses and the Board would welcome shareholder feedback on these possible changes.

Annual General Meeting

This year's AGM will be held at Trinity House, Tower Hill, London EC3N 4DH on Thursday 10th April 2008 at 12.00 noon. The Investment Managers will give a presentation to shareholders, reviewing the past year and commenting on the outlook for the current year. The meeting will be followed by a buffet lunch, providing shareholders the opportunity to meet the Directors and the Investment Managers.

Please submit in writing, or via the Company's website, any detailed questions that you wish to raise at the AGM to the Company Secretary at Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ. Shareholders who are unable to attend the AGM are encouraged to use their proxy votes. Shareholders who hold their shares through CREST are reminded that they are able to lodge their proxy votes electronically.

The Future

The uncertainty of last autumn has continued into 2008, with equity markets being extremely volatile. Where companies have disappointed in any way, their stock prices have been hit very hard. Even where there has been no visible disappointment, investors have been very wary of certain sectors, some of which, on any historic basis, look cheap. That is not to say they will not get cheaper until confidence returns.

The UK economy continues to grow, albeit at a slower pace than in recent years. That growth will probably continue, but the Government's recent management of events has shaken confidence in the UK, both at home and abroad. The combination of the mishandling of the Northern Rock crisis, the Capital Gains Tax changes that were so ill thought-out and the changes to taxation of people who are non-domiciled in the UK, have all conspired to make the UK appear a less attractive country in which to prosper in business than it has been for many years. Interest rates are expected to continue to fall in the US and in the UK. However, policymakers in both countries will need to keep a careful eye on inflation, the risks of which have increased.

I have written before that equities are a volatile asset class and I am afraid that is proving to be the case again at present. However, as an asset class, they are one of the few stores of long term value and your Board is confident that the Company will deliver shareholders long term performance, together with a rising dividend.

I look forward to meeting shareholders at the AGM.

Michael Bunbury
Chairman

5th March 2008

Investment Managers' Report



James Illsley



Sarah Emly

Market Background

2007 proved to be much more difficult for the UK stock market than the previous three years, as investors were faced with a stream of bad news. Risk aversion and nervous sentiment caused large cap stocks to outperform small cap over the year. The FTSE All-Share Index delivered a return of +5.3% over the year, while the FTSE 100 large-cap index delivered +7.4%, and the FTSE Mid 250 and Small Cap indices fell by 2.5% and 10.5% respectively.

The year began with weak UK stock market performance in January and February, before rallying from March through until May, shrugging off a quarter point interest rate rise in May, which took interest rates to 5.5%. Strong merger and acquisition activity played a significant role in the stock market's rise, including a headline grabbing private equity bid for Alliance Boots. Indeed, the FTSE 100 reached a series of post-2000 highs in May, before retreating slightly in June as the first signs of credit market trouble emerged.

The real sell-off got underway in July and continued into August, when an increase in global risk aversion caused investors to take profits or close out positions in risky assets. The UK stock market, along with most other major equity markets, experienced a pronounced decline, with equities tumbling as problems related to the US sub-prime mortgage crisis spilled over into credit markets, causing liquidity to evaporate. However, the Bank of England raised interest rates by 0.25% in July to 5.75% as it deemed inflationary pressures to be significant and growth to be robust.

The sub-prime crisis led to a widening in credit spreads and, with banks' risk aversion rising, an increase in inter-bank lending rates. In the UK, the effects were embodied by the near collapse of Northern Rock amid scenes of investors queuing around the block to withdraw their savings from the mortgage bank. It was eventually bailed out by the Government after failing to raise capital in the money markets to continue its operations. The UK market then rallied through until mid October, as global equity markets were supported by expectations of reductions in US interest rates, which subsequently occurred for the first time in more than four years.

UK share prices declined sharply in November as fears surrounding the global credit crisis reasserted themselves, and doubts grew over the resilience of the UK economy as weak housing market data contributed to weak consumer confidence surveys. December was also volatile and the Bank of England finally changed its policy stance, cutting interest rates by 0.25% to 5.5%, despite inflationary concerns.

Performance Review

In the year to 31st December 2007 the Company produced a total return on net assets (growth in the value of net assets with dividends re-invested) of -0.2% against the total return of the benchmark FTSE All-Share Index of +5.3%. A detailed breakdown of the performance is given in the accompanying table. With the modest rise in the index, the effect of the Company's gearing was broadly neutral given the cost of the debt used to implement the gearing strategy. The majority of the performance shortfall was a result of the underlying underperformance of the equity portfolio.

2007 was a difficult year for our investment process, which combines both value and growth styles in the same portfolio, due to the severe underperformance of value stocks. Across a number of sectors, particularly those that were interest rate sensitive, stocks that were trading at low valuations underperformed the wider market. This

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Performance attribution for the year to 31st December 2007

Contributions to Total Return	%
Benchmark total return	5.3
Asset allocation	-1.5
Stock selection	-3.9
Gearing/cash	-0.3
Investment Manager contribution	-5.7
Portfolio total return	-0.4
Management fees/ other expenses	-0.8
Share repurchases	0.3
Performance fee write back	0.6
Residual*	0.1
Other effects	0.2
Net asset value total return	-0.2
Increase in discount	-1.4
Share price total return	-1.6

Source: Xamin/JPMAM/Fundamental Data
All figures are on a total return basis.

Performance attribution analyses how the Company achieved its recorded performance relative to its benchmark.

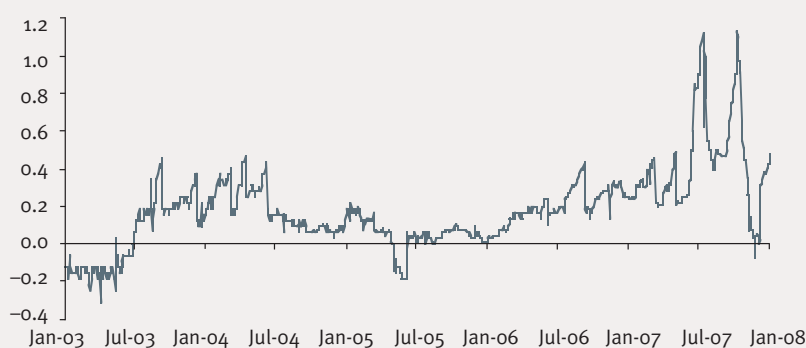
* The residual arises principally from timing differences in the treatment of income flows. The Xamin attribution system accounts for income on a received (on the ex-dividend date) basis whereas Fundamental Data calculates the Company's NAV Total Return using the actual dividends paid by the Company (on the ex-dividend date).

A glossary of terms and definitions is provided on page 58.

was most apparent in the case of financials and house builders, where cheaply rated stocks were significantly de-rated during the course of the year, especially after the difficulties faced by Northern Rock during the autumn of 2007. Unusually, the growth factors in our research process that normally act as a counterweight to the value stocks, have not offset the value underperformance. Indeed some of the more growth or momentum oriented stocks were also de-rated, due to fears over the economic outlook in both the UK and overseas. Notwithstanding the difficulties faced in 2007, our 'barbell' investment strategy, that combines both value and growth stocks in one portfolio, has added considerable value over the longer term with annualised outperformance of 1.2% over the last five years.

At a stock level the most significant detractors from performance included Northern Rock, which at the start of 2007 was attractively valued with strong earnings upgrades. However, by the middle of the year, as financial conditions rapidly deteriorated due to the emerging credit crunch, the company could no longer raise finance through the normal wholesale channels and in September management had to turn to the Bank of England for emergency funding. The degree of this strain can be seen in the chart below which shows the 'spread' or difference between the 3 month LIBOR rate (a benchmark interest rate at which banks will lend to each other) and the Bank of England base rate. In the summer of 2007 this spread spiked up to 1.15% and Northern Rock was no longer able to raise financing through this route.

Interbank spread: three month LIBOR less base rate (sterling)%



Source: Datastream. As at 3rd March 2008

Whilst Northern Rock was the highest profile casualty of the global credit problems experienced during the second half of 2007, investor fears over the outlook for growth meant that many economically sensitive, but cheaply valued stocks, underperformed on fears over their future profit delivery. The Company's holdings in other banking stocks, particularly domestic mortgage banks such as HBoS, suffered and house builders including Barratt Developments, also saw significant share price falls as investors worried that there might be a significant slowdown in the UK housing market in 2008 and 2009.

The mining stocks combine undemanding valuations with positive earnings momentum due to strong demand for commodities and rising commodity prices. Through the course of 2007 the Company's holdings in the sector outperformed. In particular, the diversified miner, BHP Billiton and the copper miner Antofagasta, performed strongly, contributing to performance. Energy stocks continued to

sub-prime write downs caused earnings expectations to fall and indeed resulted in asset write-downs in the second half of the year. Early in the year we reduced the Company's position in the real estate sector with sales of British Land, Hammerson and Big Yellow Group. These stocks had performed very strongly through 2006 and had moved onto premiums to their underlying asset values, thereby removing any further valuation upside.

The year saw most commodity prices continue to rise, driven by supply constraints and increasing demand from emerging economies such as China and India. Crude oil also saw significant price increases, rising from \$60 to over \$90 a barrel by the end of the year. Following its production problems in 2006, including the Thunder Horse project in the Gulf of Mexico, BP's operational performance in 2007 significantly improved. Combined with the benefits of the increased oil price, this led to earnings forecasts rising and we consequently added to our BP holding as well as the position in Royal Dutch Shell. Within the mining sector we also purchased Rio Tinto and Xstrata. Towards the end of the year consolidation within the sector moved into the large-cap arena, with BHP Billiton's approach to Rio Tinto. As mentioned in the Performance Review, companies that are supplying services and products into the oil and extractive industries are seeing very strong demand, leading to increased volumes and better pricing terms. To further exploit the growth opportunities on offer, purchases were made of Amec and Weir Group. Amec is a leading project manager in the oil and gas sector, whilst Weir is a global leader in the supply of pumps and valves, with a strong position in the energy sector.

For 2008 we continue to ensure that the Company's portfolio demonstrates those key characteristics that we seek: attractive valuation, superior earnings growth and positive newsflow from fundamentally sound companies.

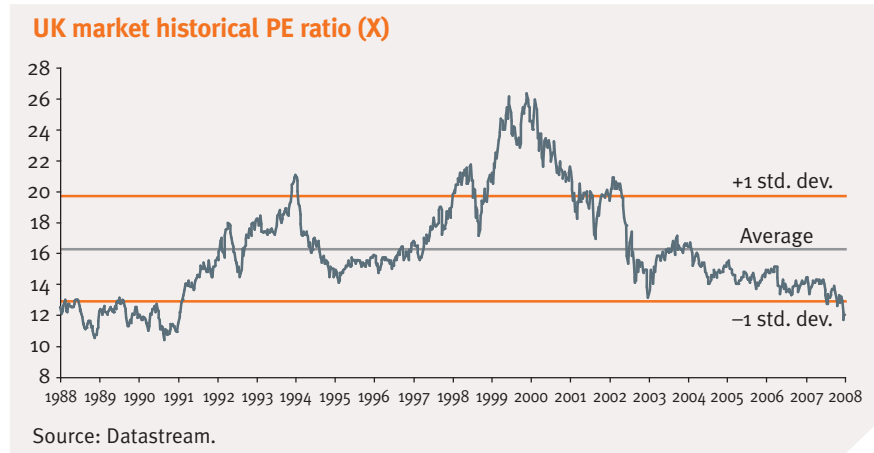
Market outlook

The outlook for investors in the UK stock market is becoming increasingly uncertain at the beginning of 2008. It is difficult to predict how long it will take for the current financial shocks to be absorbed by the economy and impossible to say at this stage when the tide of negative news will slow. Furthermore, no one can currently know the full extent of sub-prime related losses.

Whilst undoubtedly economic growth will ease in the near term, monetary authorities are already reducing interest rates. Indeed, so far in 2008, the US has reduced the Federal Reserve funds rate by 1.25% and the Bank of England has cut the UK base rate by another 0.25% to 5.25%. Clearly there is still a risk that the US will fall into recession despite these rate cuts and there are short term pressures on inflation in the UK.

Counterbalancing the uncertain economic outlook is the cheap rating of the UK equity market, both in absolute terms (a prospective price earnings ratio of 11.3x and a dividend yield of 3.6%) and relative to other assets such as bonds and international equity markets. This is demonstrated by the chart overleaf, which shows the UK market currently trading at a very attractive historic price earnings ratio, relative to its own historic valuation range.

Investment Managers' Report continued



As the chart illustrates, on an historical price earnings ratio ('PE') basis, the UK equity market is trading at its lowest valuation since the recession of the early 1990s, a time when unemployment touched 3 million (10% of the workforce) and interest rates were at 15%. This is in sharp contrast to the current economic situation, with today's much lower levels of unemployment (below 1 million) and base rates of 5.25%.

As economic growth forecasts are reduced, causing uncertainty in the outlook for corporate earnings growth, the most likely outcome in the short term is continued volatility, at least until lower interest rates begin to take effect later in the year. However, the UK market is still expected to deliver earnings and dividend growth in 2008, whilst being supported by the very undemanding valuation of UK companies. The UK equity market therefore continues to be an attractive investment for those investors prepared to look beyond any short term volatility and participate in the long term growth potential of the UK stock market.

James Illsley
Sarah Emly
 Investment Managers

5th March 2008

Summary of Results

	2007	2006	
Total Returns for the year ended 31st December			
Return to shareholders ¹	-1.6%	+18.9%	
Return on net assets ²	-0.2%	+19.2%	
Benchmark return ³	+5.3%	+16.8%	
Net Asset Value, Share Price and Discount at 31st December			
			% change
Shareholders' funds (£'000)	327,912	352,743	-7.0%
Net asset value per share with debt at par value	562.1p	577.6p	-2.7%
Net asset value per share with debt at fair value ⁴	555.0p	571.4p	-2.9%
Share price	521.5p	544.5p	-4.2%
Discount of share price to net asset value with debt at par value ⁵	6.3%	5.1%	
Discount of share price to net asset value with debt at fair value ^{4,5}	5.2%	4.0%	
Shares in issue	58,338,568	61,071,045	
Revenue for the year ended 31st December			
Gross revenue return (£'000)	12,220	11,538	+5.9%
Net revenue available to shareholders (£'000)	9,714	9,256	+4.9%
Revenue per share	16.28p	14.84p	+9.7%
Dividend per share	15.3p	13.5p	+13.3%
Actual Gearing Factor as at 31st December⁶			
	107.7%	112.2%	
Total Expense Ratio (TER)⁷			
	0.79%	0.75%	

A glossary of terms and definitions is provided on page 58.

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

²Source: Fundamental Data – www.funddata.com

³Source: Datastream. The Company's benchmark is the FTSE All-Share Index.

⁴The fair value of the £30m (2006: £30m) debenture issued by the Company has been calculated with reference to a similar dated gilt plus a margin. All other debt is deemed to be at fair value.

⁵Source: Bloomberg. The discount is calculated using the capital-only net asset value as at 31st December 2007.

⁶Actual gearing represents investments, excluding the Company's holding in the JPMorgan Sterling Liquidity Fund, expressed as a percentage of shareholders' funds.

⁷Management fees and all other operating expenses, excluding interest and performance fee payments, 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 58. The TER including performance fee payable for 2007 was 0.79% (2006: 1.28%).

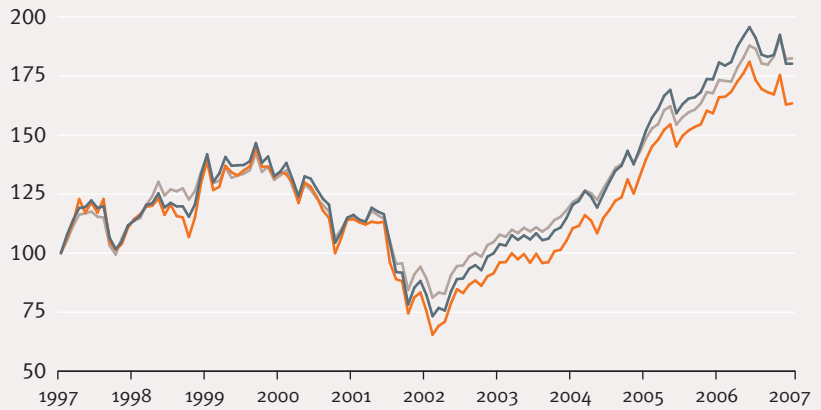
Performance

- JPMorgan Claverhouse – Share price
- JPMorgan Claverhouse – Net asset value (with debt at par value)
- Benchmark

Source: Standard & Poor's – www.funds.morningstar.com/
 Fundamental Data – www.funddata.com/
 Datastream. (Total return)

Ten Year Performance

Figures have been rebased to 100 as at 31st December 1997

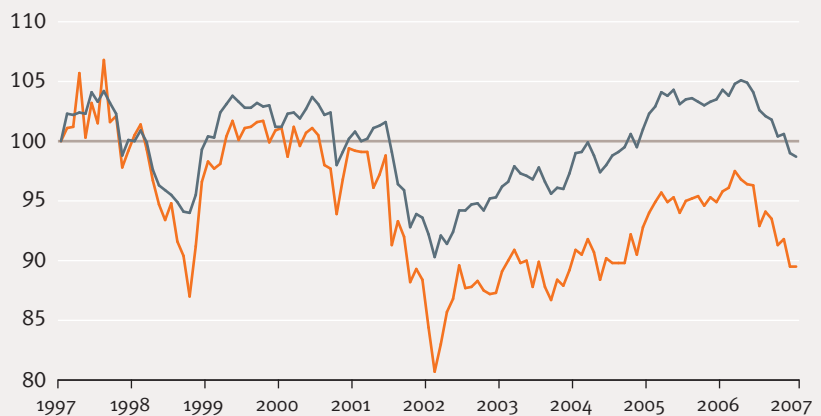


- JPMorgan Claverhouse – Share price
- JPMorgan Claverhouse – Net asset value (with debt at par value)
- The benchmark index is represented by the grey horizontal line

Source: Standard & Poor's – www.funds.morningstar.com/
 Fundamental Data – www.funddata.com/
 Datastream. (Total return)

Relative to Benchmark

Figures have been rebased to 100 as at 31st December 1997



Ten Year Financial Record

As at 31st December	1997	1998	1999	2000	2001	2002	2003	2004 ¹	2005	2006	2007
Total assets less											
current liabilities (£'000)	259,890	299,126	367,905	411,421	410,691	302,398	316,198	302,024	350,200	384,505	357,562
Net asset value per share (p) ²	388.7	435.2	533.5	498.6	422.7	291.4	355.8	403.8	495.9	577.6	562.1
Share price (p)	403.5	454.4	542.5	518.0	432.5	277.5	342.0	381.8	469.0	544.5	521.5
Premium/(discount) (%) ²	3.8	4.4	1.7	3.9	2.3	(4.8)	(3.9)	(5.4)	(5.4)	(6.3)	(5.1)
Actual gearing factor (%)	114.2	112.9	110.4	115.9	119.9	122.8	117.4	112.8	113.4	112.2	107.7
Total expense ratio (TER) (%) ³	0.82	0.86	0.80	0.88	0.99	1.01	0.92	0.90	0.84	0.75	0.79
Year ended 31st December											
Revenue attributable to											
shareholders (£'000)	4,230	4,031	4,990	5,934	8,070	8,938	8,721	7,653	8,359	9,256	9,714
Revenue per share (p)	7.21	6.66	7.96	8.75	9.83	10.73	11.25	10.59	12.76	14.84	16.28
Dividend per share (p)	6.80	7.00	7.30	7.80	8.50	9.65	10.20	10.65	11.50	13.50	15.30
Rebased to 100 at 31st December 1997											
Share price – total return ⁴	100.0	114.4	138.8	134.4	114.4	75.3	96.1	110.6	139.6	166.0	163.4
Net asset value per											
share – total return ⁵	100.0	113.7	141.8	134.5	116.2	82.2	103.8	120.5	151.8	180.6	180.2
FTSE All-Share Index –											
total return ⁶	100.0	113.8	141.3	132.9	115.3	89.2	107.8	121.6	148.5	173.3	182.5
Retail Price Index ⁶	100.0	102.8	104.6	107.6	108.4	111.6	114.7	118.7	121.3	126.7	131.1

A glossary of terms and definitions is provided on page 58.

¹The results for the year ended 31st December 2004 have been restated in accordance with Financial Reporting Standards 21, 25 and 26. Years prior to 2004 have not been restated.

²With debt at par value. From 2006 onwards premium/(discount) figures have been sourced from Bloomberg and are calculated using the capital-only net asset value as at the year end. Prior year figures have not been restated.

³Management fees and all other operating expenses, excluding interest and performance fee payments, 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 58.

⁴Source: Standard & Poor's – www.funds.morningstar.com

⁵Source: Fundamental Data Ltd. – www.funddata.com

⁶Source: Datastream.

Ten Largest Equity Investments¹

Company	Sector	As at 31st December 2007		As at 31st December 2006	
		Valuation £'000	% ¹	Valuation £'000	% ²
Royal Dutch Shell A major global oil company involved in the exploration, production and refining of petroleum. The group produces fuels, chemicals and lubricants and has gasoline filling stations worldwide.	Oil & Gas Producers	32,801	9.0	21,883	5.5
BP A major oil and petrochemicals company, operating in all aspects of the oil, natural gas and petrochemical businesses worldwide.	Oil & Gas Producers	23,090	6.4	16,237	4.1
Vodafone⁴ Vodafone Group is the world's leading mobile telecommunications company, with a significant presence in Europe, the Middle East, Africa, Asia Pacific and the United States.	Mobile Telecommunications	15,845	4.3	8,262	2.1
Rio Tinto⁴ One of the global leaders in the extraction and processing of the earth's mineral resources. Metals and minerals are its two core products and it has vast resources of industrial ores, such as talcum and borax, as well as coal, aluminium, copper, gold, diamond, iron and lead.	Mining	13,684	3.8	7,313	1.8
HSBC The group provides a comprehensive range of banking and related financial services throughout the world.	Banks	13,153	3.6	22,192	5.6
Lloyds TSB⁴ The group provides a comprehensive range of banking and related financial services throughout the United Kingdom.	Banks	11,415	3.1	1,885	0.5
BT A British provider of communication services.	Fixed Line Telecommunications	10,040	2.8	12,850	3.2
GlaxoSmithKline A global pharmaceutical company.	Pharmaceuticals & Biotechnology	10,039	2.8	12,988	3.2
BHP Billiton The company's principal business lines are mineral exploration and production, including coal, iron ore, gold, titanium, ferroalloys, nickel and copper concentrate, as well as petroleum exploration, production and refining.	Mining	9,605	2.6	11,201	2.8
BG⁴ A leading player in the global energy market, BG is a growing business with operations in some 25 countries over five continents.	Oil & Gas	9,545	2.6	5,837	1.5
Total		149,217	41.0		

¹Does not include the Company's investment in the JPMorgan Sterling Liquidity Fund.

²Based on total assets less current liabilities of £363.6m (2006: £399.5m). The £6.0m (2006: £15.0m) drawn down from the Company's £25.0m revolving credit facility has been treated as a long term liability for the purpose of this analysis.

³As at 31st December 2006, the value of the ten largest investments amounted to £154.7m representing 38.7% of total assets less current liabilities.

⁴Not included in the ten largest investments as at 31st December 2006.

Sector Analysis

	31st December 2007		31st December 2006	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
Resources	30.2	27.7	19.5	20.9
Financials	26.9	25.4	37.6	30.4
Non Cyclical Services	12.9	10.0	8.4	8.8
Non Cyclical Consumer Goods	8.6	14.4	9.0	15.4
General Industrials	6.7	4.1	1.1	2.8
Cyclical Services	5.6	10.3	11.0	12.4
Cyclical Consumer Goods	2.6	2.1	3.4	0.6
Basic Industrials	1.9	0.7	1.9	3.1
Utilities	1.6	4.4	7.1	4.6
Information Technology	0.2	0.9	—	1.0
Net Current Assets ¹	2.8	—	1.0	—

Based on total assets less current liabilities of £363.6m (2006: £399.5m). The £6.0m (2006: £15.0m) drawn down on the Company's £25.0m revolving credit facility has been treated as a long term liability for the purpose of this analysis.

¹Includes the Company's investment in the JPMorgan Sterling Liquidity Fund.

List of Investments

at 31st December 2007

Company	Valuation £'000	Company	Valuation £'000
Resources		Non Cyclical Services	
Oil & Gas Producers		Food & Drug Retailers	
Royal Dutch Shell	32,801	W Morrison	3,572
BP	23,090	J Sainsbury	1,876
BG	9,545	Greggs	852
JKX Oil & Gas	921	Fixed Line Telecommunications	
Oil Equipment, Services & Distribution		BT	10,040
Petrofac	2,852	Mobile Telecommunications	
Mining		Vodafone	15,845
Rio Tinto	13,684	Pharmaceuticals & Biotechnology	
BHP Billiton	9,605	GlaxoSmithKline	10,039
Anglo American	8,137	Shire	2,666
Antofagasta	5,033	AstraZeneca	1,832
Xstrata	2,858	Total Non Cyclical Services	46,722
Eurasian Natural Resources	1,142	Non Cyclical Consumer Goods	
Total Resources	109,668	Automobiles & Parts	
Financials		GKN	1,296
Banks		Beverages	
HSBC	13,153	SABMiller	4,778
Lloyds TSB	11,415	Food Producers	
Royal Bank of Scotland	7,498	Unilever	9,016
HBOS	6,604	Tobacco	
Barclays	6,554	Imperial Tobacco	8,768
Standard Chartered	1,664	British American Tobacco	7,555
Non-Life Insurance		Total Non Cyclical Consumer Goods	31,413
Amlin	4,017	General Industrials	
Beazley	2,228	Aerospace & Defence	
Catlin	1,134	BAE Systems	2,973
Life Insurance		Chemring	2,854
Legal & General	8,503	Industrial Engineering	
Prudential	3,024	Weir	3,845
Real Estate		Charter	1,114
British Land	2,334	Rotork	681
Hammerson	2,217	Support Services	
Big Yellow	1,555	Amec	3,440
General Financial		Michael Page	2,437
Man Group	4,375	Aggreko	2,164
Investec	3,231	Regus	1,452
Schroders	2,005	WSP	1,314
3i Group	1,526	RPS	1,246
Equity Investment Instruments		Babcock International	808
JPMorgan UK Smaller Companies Fund	9,367	Total General Industrials	24,328
JPMorgan Smaller Companies Investment Trust	5,304		
Total Financials	97,708		

Company	Valuation £'000	Company	Valuation £'000
Cyclical Services		Information Technology	
Travel & Leisure		Technology Hardware & Equipment	
FirstGroup	6,612	CSR	864
Stagecoach	3,991	Total Information Technology	864
Go-Ahead	2,766		
British Airways	857	Total Portfolio	363,519
Media			
Daily Mail & General Trust	1,381		
British Sky Broadcasting	1,037		
ITE	956		
United Business Media	787		
General Retailers			
Game	1,869		
Total Cyclical Services	20,256		
Liquidity Funds			
JPMorgan Sterling Liquidity Fund	10,289		
	10,289		
Cyclical Consumer Goods			
Household Goods			
Reckitt Benckiser	5,162		
Berkeley Group Holdings	2,756		
Headlam	416		
Personal Goods			
Burberry	1,055		
Total Cyclical Consumer Goods	9,389		
Basic Industrials			
Construction & Materials			
Keller	1,391		
Balfour Beatty	958		
Kier	619		
Morgan Sindall	460		
General Industrials			
Melrose	610		
Electronics & Electrical Equipment			
Spectris	1,775		
Morgan Crucible	1,199		
Total Basic Industrials	7,012		
Utilities			
Electricity			
British Energy	1,353		
Scottish & Southern Energy	1,258		
Gas, Water & Multiutilities			
Centrica	3,259		
Total Utilities	5,870		

The portfolio consists entirely of equity shares, equity investment instruments and liquidity funds.

Board of Directors



Sir Michael Bunbury Bt., KCVO, DL*†
(Chairman of the Board and Nomination Committee)

Appointed a Director in December 1996 and Chairman in April 2005.

A consultant at Smith & Williamson, a Director of Foreign & Colonial Investment Trust plc, Invesco Perpetual Select Trust plc and Chairman of Harbour Vest Global Private Equity Limited. Formerly Chairman of the Council of the Duchy of Lancaster and Chairman of the Fleming High Income Investment Trust plc.



John Scott*†

Appointed a Director in October 2004 and Senior Independent Director in January 2006.

Chairman of Dunedin Income Growth Investment Trust PLC and Deputy Chairman of Endace Ltd. A Director of Martin Currie Pacific Trust plc, Schroder Japan Growth Fund plc, Scottish Mortgage Investment Trust PLC, Xaar plc and Miller Insurance Services Limited. Formerly an executive Director of Lazard Brothers & Co., Limited.



The Rt. Hon. Peter Lilley MP*†

Appointed a Director in November 1997.

Member of Parliament since 1983, currently representing the constituency of Hitchin and Harpenden. Non-Executive Director of IDOX plc, Melchior Japan Investment Trust plc and Deputy Chairman of Tethys Petroleum.



Virginia Holmes*†
(Chairman of the Audit Committee)

Appointed a Director in March 2004 and Chairman of the Audit Committee on 1st July 2005.

Non-Executive director and chair of the investment committee of Universities Superannuation Scheme and director of Alberta Investment Management Corporation. Formerly Chief Executive of AXA Investment Managers in the UK and Managing Director of Barclays Bank Trust Company.



Anne McMeehan*†

Appointed a Director in January 2006 .

A founder director of Cauldron Consulting, a City-based communications consultancy specialising in the provision of marketing and PR services to organisations operating in the financial arena. Formerly Director of Communications at AUTIF (now the Investment Management Association), the trade association for the UK Investment funds industry, she was previously a director of Framlington Group plc and Managing Director of its unit trust subsidiary.

* Member of the Audit Committee

‡ Member of the Nomination Committee

† Considered independent by the Board

Directors' Report

The Directors present their report for the year ended 31st December 2007.

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 December 2006. 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 December 2006 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 5 and in the Investment Managers' Report on pages 6 to 10.

Objective

The Company's objective is to achieve capital and income growth from UK investments.

Investment Policies and Risk Management

In order to achieve its investment objective and to seek to manage risk, the Company invests in a diversified portfolio consisting mostly of leading UK companies. It uses long-term gearing to increase potential returns to shareholders. The number of investments in the portfolio will normally range between 60 to 100.

The Company seeks to manage its risk relative to its benchmark index by limiting the active portfolio exposure to individual stocks and sectors. The maximum exposure to an investment will normally range between +/-3% relative to its weight in the FTSE 100 or FTSE 200 indices and normally between +/-1% in the FTSE Small Cap index. The maximum exposure to a sector will normally range between +/-5% relative to the benchmark index. Total exposure to small cap companies will normally range between +/-5% of the FTSE Small Cap Index weighting within the FTSE All-Share Index. These limits and restrictions may be varied by the Board at any time at its discretion. To gain the appropriate exposure, the Investment Managers are permitted to invest in pooled funds. The Company's assets are managed by two Investment

Managers based in London, supported by a 40 strong European equity team.

Investment Restrictions and Guidelines

The Board seeks to manage the Company's risk by imposing various investment limits and restrictions.

- The Company will not invest more than 15% of its assets in other UK listed investment companies.
- 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.
- The Company will not invest more than 15% of its assets in any one individual stock at the time of acquisition.
- The Company's gearing policy is to operate within a range of 95% to 120% invested in normal market conditions.
- All derivative transactions are subject to the prior approval of the Board.

Compliance with the Board's investment restrictions and guidelines is monitored continuously by the Manager and is reported to the Board on a monthly basis.

Performance

In the year to 31st December 2007, the Company produced a total return to shareholders of -1.6% and a total return on net assets of -0.2%. This compares with the return on the Company's benchmark index of +5.3%. As at 31st December 2007, the value of the Company's investment portfolio was £363,519,000. The Investment Managers' Report on pages 6 to 10 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 return for the year amounted to £2,980,000 (2006: £64,981,000) and net return after deducting the management fee, performance fee, other administrative expenses, finance costs and taxation amounted to a loss of £607,000 (2006: £57,804,000 profit). Distributable income for the year totalled £9,714,000 (2006: £9,256,000). The Directors declared a fourth quarterly interim dividend of 5.20 pence per share which was paid on 3rd March 2008 to shareholders on the register at the close of business on 8th February 2008. This, when added to the other three quarterly interim dividends paid during 2007, made a total dividend for the year of 15.30 pence (2006: 13.50 pence), costing £9,031,000 (2006: £8,322,000). Following payment of the fourth interim dividend, the revenue reserve amounts to £10,848,000.

Directors' Report continued

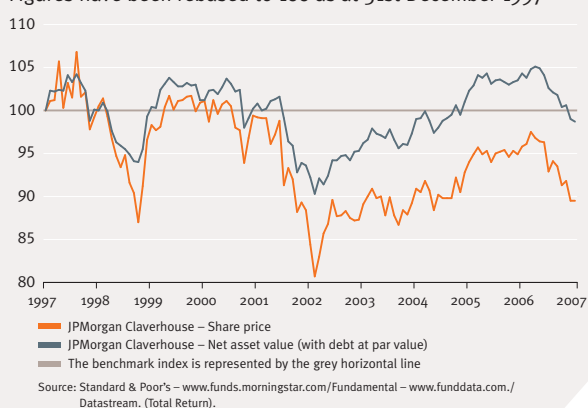
Key Performance Indicators ('KPIs')

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.

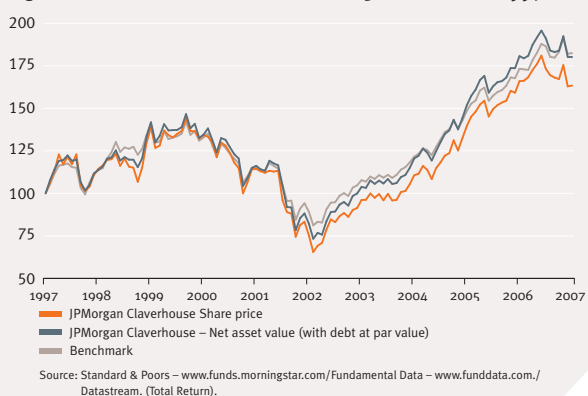
Performance Relative to Benchmark Index

Figures have been rebased to 100 as at 31st December 1997



Ten Year Performance

Figures have been rebased to 100 as at 31st December 1997

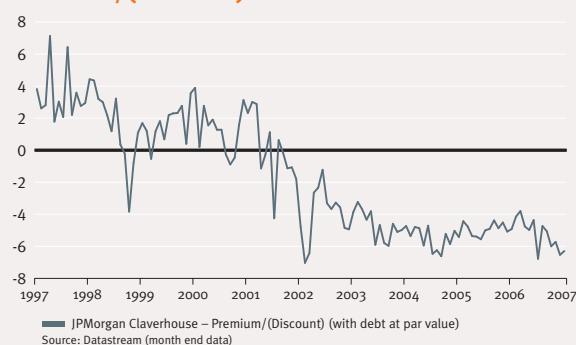


- **Performance against the Company's peers**
The principal objective is to achieve capital growth and out-performance relative to the benchmark. However, the Board also monitors the performance relative to a broad range of competitor funds.
- **Performance Attribution**
The purpose of performance attribution 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 December 2007 are given in the Investment Managers' Report on page 7.

- **Discount to net asset value ('NAV')**
The Board has for several years operated 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. In the year to 31st December 2007, the discount (with debt at par value) ranged between 3.9% and 7.8%.

Premium/(Discount)



- **Total expense ratio ('TER')**
The TER is an expression of the Company's management fees and all other operating expenses, excluding interest and performance fee payments, expressed as a percentage of the average of the opening and closing net assets. The TER for the year ended 31st December 2007 was 0.79% (2006: 0.75%). 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. The total expense ratio including the performance fee payable for 2007 was 0.79% (2006: 1.28%).

Share Capital

The Company has authority both to repurchase shares in the market for cancellation and issue new shares for cash.

During the year, the Company repurchased a total of 2,732,477 ordinary shares for cancellation, for a total consideration of £15,249,000. Since the end of the financial year the Company has repurchased a further 253,352 ordinary shares for cancellation at a total cost of £1,253,000.

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 new shares during the year.

The Company does not currently hold any shares in treasury and does not have authority to reissue shares from treasury at a discount to NAV.

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 within a strategic range set by the Board. The Board holds a separate meeting devoted to strategy each year.
- **Market:** Market risk arises from uncertainty about the future prices of the Company's investments. It represents the potential loss that the Company might suffer through holding investments in the face of negative market movements. The Board considers asset allocation, stock selection and levels of gearing on a regular basis and has set investment restrictions and guidelines, which are monitored and reported on by JPMAM. The Board monitors the implementation and results of the investment process with the Manager.
- **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, since its shares are listed on the London Stock Exchange, the UKLA Listing Rules. A breach of the Companies Act 1985 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, and its professional advisers to ensure compliance with The Companies Act 1985 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 25 to 28.
- **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 pages 27.
- **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 23 on pages 45 to 49.

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 pages 9 and 10.

Management of the Company

The Manager and Secretary is JPMorgan Asset Management (UK) Limited ('JPMAM'). JPMAM is employed under a contract which can be terminated on six months' notice in the event of the Board giving notice as a

Directors' Report continued

result of poor investment performance; the notice period is 12 months for all other circumstances, in both cases 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 is in the interests of shareholders as a whole. In arriving at this view, the Board considered the investment strategy and process of the Manager, noting performance against the benchmark over the long term and the support that the Company receives from JPMAM.

Management and Performance Fees

The management fee is charged at the rate of 0.55% of the value of the Company's market capitalisation. The fee is calculated and paid monthly in arrears. Investments on which JPMAM earns a management fee are excluded from the calculation and therefore attract no fee. In addition, the Company reimburses JPMAM for the costs of administering its shareholders who hold their shares through the JPMAM savings products.

A performance fee is calculated at 15% of the difference between the movement of the Company's total return compared to the total return of the Company's benchmark, the FTSE All-Share Index, plus a hurdle rate of 0.5%. The fee is calculated annually, with any underperformance carried forward and offset against any future out-performance. Any fee payable is charged to capital and spread evenly over three years. The actual amount paid in respect of performance fees in any one year is subject to a cap of 0.4% of total assets.

The results for the year to 31st December 2007 generated a negative performance fee for the year of £3,452,000. The cumulative performance fee is negative £1,722,000. No fee is payable in the current year. This negative balance will be carried forward and offset by future out-performance.

Going Concern

The Directors consider that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future. For these reasons, they 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 those terms. As at 31st December 2007, the Company had no outstanding trade creditors (2006: none).

Directors

The Directors of the Company who held office at the end of the year, together with their beneficial interests in the Company's shares, are shown below:

Directors	31st December 2007	1st January 2007
Sir Michael Bunbury Bt., KCVO, DL	9,250 ¹	9,250
Virginia Holmes	4,575	4,575
Rt. Hon. Peter Lilley MP	1,197	1,178
Anne McMeehan	2,330	1,837
John Scott	10,148	10,148

¹Sir Michael Bunbury also acquired a non-beneficial interest in 14,500 of the Company's shares during the year.

The following Directors have acquired shares in the Company since the year end:

Directors	Number of shares acquired
Rt. Hon. Peter Lilley MP	12
Anne McMeehan	131

No Director reported an interest in the Company's debenture during the year.

In accordance with the Company's Articles of Association the Directors retiring by rotation at the forthcoming Annual General Meeting will be John Scott and Sir Michael Bunbury. Having served as a Director for more than nine years, Sir Michael Bunbury stands for annual re-election. Being eligible, both offer themselves for re-election by shareholders. Peter Lilley will retire from the Board with effect from the conclusion of the AGM.

An insurance policy is maintained by the Company which indemnifies the Directors of the Company against certain liabilities arising in the conduct of their duties. There is no cover against fraudulent or dishonest actions.

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/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's Auditors are aware of that information.

The above confirmation is given and should be interpreted in accordance with the provision of Section 234 ZA of the Companies Act 1985.

Notifiable Share Interests

At the date of this report the following had declared a notifiable interest in the Company's voting rights:

Shareholders	Number of voting rights	%
Puddle Dock Nominees Limited ^{1,2}	26,601,664	45.8
JPMorgan Chase & Co. ²	3,577,337	6.1
<i>Included within this is the following:</i>		
JPMorgan Elect plc	3,577,337	6.1
Legal & General	2,842,406	4.9

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

²Non-beneficial.

Independent Auditors

Ernst & Young LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them and authorise the Directors to determine their remuneration for the ensuing year will be proposed at the AGM.

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 stockbroker, 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:

(i) Authority to Repurchase the Company's Shares (Resolution 6)

The authority to repurchase up to 14.99% of the Company's issued share capital, granted by shareholders at the 2007 AGM, will expire on 18th October 2008 unless renewed at the forthcoming AGM. The Directors consider that the renewal

of the authority is in the interests of shareholders as a whole as the repurchase of shares at a discount to NAV enhances the NAV of the remaining shares. The Board will therefore seek shareholder approval at the AGM to renew this authority, which will last until 9th October 2009 or until the whole of the 14.99 per cent has been acquired, whichever is the earlier. The full text of the resolution is set out in the Notice of Meeting on page 52. Repurchases will be made at the discretion of the Board, and will only be made in the market at prices below the prevailing NAV per share, thereby enhancing the NAV of the remaining shares, as and when market conditions are appropriate.

(ii) Authority to issue new shares for cash and disapply pre-emption rights (Resolutions 7 and 8)

The Directors will seek renewal of the authority at the AGM to issue up to 5,808,521 new ordinary shares for cash up to an aggregate nominal amount of £1,452,130, such amount being equivalent to approximately 10% of the present issued share capital. The full text of the resolutions is set out in the Notice of Meeting on pages 52 and 53.

It is advantageous for the Company to be able to issue new shares to participants purchasing shares through the JPMAM savings products and also to other investors when the Directors consider that it is in the best interests of shareholders to do so. Any such issues would only be made at prices greater than the NAV, thereby increasing the assets underlying each share and spreading the Company's administrative expenses, other than the management fee which is charged on the value of the Company's market capitalisation, over a greater number of shares. The issue proceeds would be available for investment in line with the Company's investment policies.

(iii) 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, regulation 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 expected 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,

Directors' Report continued

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 55 to 57.

A copy of the current Articles of Association and the proposed new Articles of Association will be available for inspection during normal business hours (Saturdays, Sundays and public holidays excepted) at the offices of JPMAM, Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ from the date of this report up until the close of the AGM. Copies will also be available at Trinity House, Tower Hill, London EC3N 4DH, being the place of the AGM, for 15 minutes prior to, and during, the meeting.

Recommendation

The Board considers that resolutions 6 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 27,643 shares representing approximately 0.05% of the existing issued ordinary share capital of the Company.

By order of the Board
Jonathan Latter, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary
5th 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 30, 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, insofar as they are relevant to the Company's business, 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 Board procedures are followed and that applicable rules and regulations are complied with.

Board Composition

The Board, chaired by Sir Michael Bunbury, consists of five non-executive Directors, all of whom are regarded by the Board as independent of the Company's Manager, including

the Chairman. The Directors have a breadth of investment knowledge, business and financial skills and experience relevant to the Company's business and brief biographical details of each Director are set out on page 18.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board, details of which may be found below. John Scott, as Senior Independent Director, leads the evaluation of the performance of the Chairman and may be contacted by shareholders if they have concerns that cannot be resolved through discussion with the Chairman.

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. The Board does not believe that length of service in itself necessarily disqualifies a Director from seeking re-election but, when making a recommendation, the Board will take into account the requirements of the Combined Code, including the need to refresh the Board and its Committees. The Company's Articles of Association require that Directors stand for re-election at least every three years. Any Director who has served for a period of more than nine years will stand 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 John Scott and Sir Michael Bunbury, who retire by rotation at this year's AGM. In accordance with the Company's Articles of Association, Sir Michael Bunbury stands for re-election annually, having served as a Director for more than nine years.

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 18. Directors who are not members of Committees may attend at the invitation of the Chairman.

The table below details the number of Board and Committee meetings attended by each Director. During the year there were six Board meetings, including a private meeting of the

Corporate Governance continued

Directors to evaluate the Manager, and a separate meeting devoted to strategy, three Audit Committee meetings and one meeting of the Nomination Committee.

Director	Board Meetings Attended	Audit Committee Meetings Attended	Nomination Committee Meetings Attended
Sir Michael Bunbury Bt., KCVO, DL	6	n/a	1
Virginia Holmes The Rt. Hon.	6	3	1
Peter Lilley MP	5	2	1
Anne McMeehan	6	3	1
John Scott	6	3	1

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 the Directors. Directors are encouraged to attend industry and other seminars covering issues and developments relevant to investment trusts.

The Board conducts a formal evaluation of the Manager, its own performance and of that of its committees and individual Directors. Questionnaires, drawn up by the Board, are completed by each Director. The responses are collated and then discussed at a private meeting. The evaluation of individual Directors is led by the Chairman who also meets with each Director. The Senior Independent 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 Sir Michael Bunbury, consists of all of the Directors and meets at least annually to ensure that the Board has an appropriate balance of skills and experience to carry out its fiduciary duties and to select and propose suitable candidates for appointment when necessary.

The Committee undertakes an annual performance evaluation 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 required.

Audit Committee

The Audit Committee, chaired by Virginia Holmes and whose membership is set out on page 18, meets on at least three occasions each year. The members of the Audit 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 the Directors' opinion the auditors are considered independent. Representatives of the Company's auditors attend the Audit 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 below.

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 the Company's website, on request at the Company's registered office and at the Company's Annual General Meeting.

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 quarterly each year by way of the annual report and accounts, the half year 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 are encouraged, to attend the Company's Annual General Meeting at which the Directors and representatives of the Manager are available to meet shareholders and answer their questions. In addition, a presentation is given by the Investment Managers who review the Company's performance. During the year the Company's brokers, the Investment Managers and JPMAM 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 50.

The Company's Annual Report and Accounts are 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 submit questions via the Company's website or write to the Company Secretary at the address shown on page 50.

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 misstatement 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 comprises 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. 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
- reviews every six months 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 December 2007, and to the date of approval of this Annual Report and Accounts.

Corporate Governance and Voting Policy

The Company delegates responsibility for voting to JPMAM. The following is a summary of JPMAM's policy statement on corporate governance and voting policy which has been noted by the Board. The full policy is available from JPMAM on request, or can be downloaded from the internet as follows:

go to www.jpmorganassetmanagement.co.uk/institutional and within the "Commentary & Analysis" tab you will find a section on Corporate Governance.

"JPMAM is committed to delivering superior investment performance to its clients worldwide. We believe that one of the drivers of investment performance is an assessment of the corporate governance principles and practices of the companies in which we invest our clients' assets and we expect those companies to demonstrate high standards of governance in the management of their business.

Corporate Governance continued

Proxy voting is an important part of the corporate governance process, and we view seriously our obligation to manage the voting rights of the shares entrusted to us as we would manage any other asset. It is the policy of JPMAM to vote in a prudent and diligent manner, based exclusively on our reasonable judgement of what will best serve the financial interests of our clients. So far as is practicable we will vote at all of the meetings called by companies in which we are invested.

In order to do this we have formulated detailed guidelines for each region, which set out our stance on a variety of key corporate governance issues, including disclosure and transparency, board composition and independence, control structures, remuneration, as well as social and environmental issues. These guidelines form the basis of our proxy voting decisions, although it should be noted that JPMAM makes all of its voting decisions on a case by case basis, taking into account the individual circumstances of each vote.”

Corporate Social Responsibility

The following is a summary of JPMAM’s policy statement on corporate social responsibility which has been noted by the Board:

“We believe it is our primary duty to act in the best financial interests of our clients and to achieve good financial returns consistent with an acceptable level of risk. We recognise that non-financial issues, such as social and environmental issues, can have an economic impact and that any company run in the long-term interests of its shareholders will need to manage effectively relationships with its employees, suppliers and customers, to behave ethically and to have regard to the environment and society as a whole. Our investment managers take these factors into account as part of any investment decision.”

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 shareholders 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 31.

Directors' Remuneration¹

Director's Name	2007 £	2006 £
Sir Michael Bunbury (Chairman)	24,000	24,000
Virginia Holmes	18,000	18,000
Rt. Hon. Peter Lilley MP	16,000	16,000
Anne McMeenan	16,000	16,000
John Scott	16,000	16,000
Total	90,000	90,000

¹Audited information.

The Directors' fees were last increased with effect from 1st January 2006. The Board is not recommending an increase in Directors' fees to shareholders at the forthcoming AGM. However, a committee of the Board, led by the Senior Independent Director, has decided that Sir Michael Bunbury and Virginia Holmes will each be paid an additional fee of £5,000 in recognition of their work on the VAT case to date.

The Board's policy for this and subsequent years is that Directors' fees should properly reflect the time spent by the Directors on the Company's business and should be at a level to ensure that candidates of a high calibre are recruited to the Board. The Chairman of the Board and the Chairman of the Audit Committee are paid higher fees than the other Directors, reflecting the greater time commitment involved in fulfilling those roles.

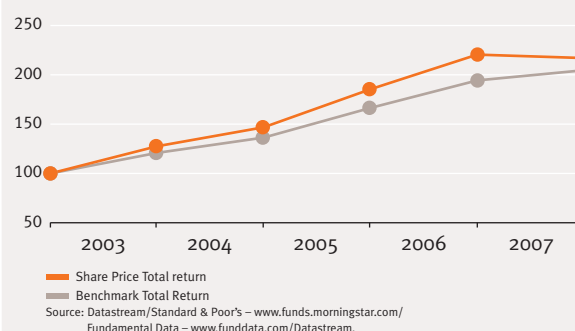
As all of the Directors are non-executive, the Board has not established a Remuneration Committee. Instead, the Nomination Committee reviews Directors' fees on a regular basis and makes recommendations to the Board as and when appropriate. Reviews are based on information provided by the Manager, JPMAM, and industry research carried out by 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 fees requires both Board and shareholder approval.

The terms and conditions of Directors' appointments are set out in formal letters of appointment. Details of the Board's policy on tenure are set out on page 25.

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. The Directors do not have service contracts and 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, the FTSE All-Share Index is shown below.

Five year share price and benchmark total return to 31st December 2007



The Company's benchmark is the FTSE All-Share Index. Comparison of the Company's performance is made with this benchmark. The benchmark should not be taken as wholly representative of the Company's investment universe. The Company's investment strategy does not track this benchmark and therefore there may be a degree of divergence between its performance and that of the Company.

By order of the Board
Jonathan Latter, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary
5th March 2008

Directors' Responsibilities in Respect of the Accounts

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The Directors confirm that they comply with these requirements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 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.jpmlclaverhouse.co.uk website, which is maintained by the Company's Manager, JPMorgan Asset Management (UK) Limited ('JPMAM'). The maintenance and integrity of the website maintained by JPMAM is, so far as it relates to the Company, the responsibility of JPMAM. 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

Independent Auditors' Report to the members of JPMorgan Claverhouse Investment Trust plc

We have audited the financial statements of JPMorgan Claverhouse Investment Trust plc for the year ended 31st December 2007 which comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet and Cash Flow Statement and the related notes 1 to 24. These financial statements 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.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

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

Our responsibility is to audit the financial statements 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).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements 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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 2006 Combined Code 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 financial statements. The other information comprises only the Financial Results, Chairman's Statement, Investment Managers' Report, Summary of Results, Performance, Ten Year Financial Record, Ten Largest Investments, Sector Analysis, List of Investments, Shareholder Analysis, Board of Directors, Directors' Report, Corporate Governance, the unaudited part of the Directors' Remuneration Report, Information about the Company, Shareholder Analysis, Notice of Meeting and Glossary of Terms. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. 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 financial statements 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 financial statements, 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 financial statements 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 financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements 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 December 2007 and of its net return for the year then ended;
- the financial statements 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 financial statements.

ERNST & YOUNG LLP

Registered Auditor
London

5th March 2008

Income Statement

for the year ended 31st December 2007

	Notes	Revenue £'000	2007 Capital £'000	Total £'000	Revenue £'000	2006 Capital £'000	Total £'000
(Losses)/gains from investments held at fair value through profit or loss	2	—	(9,234)	(9,234)	—	53,443	53,443
Net foreign currency losses		—	(6)	(6)	—	—	—
Income from investments	3	12,198	—	12,198	11,436	—	11,436
Other interest receivable and similar income	3	22	—	22	102	—	102
Gross return/(loss)		12,220	(9,240)	2,980	11,538	53,443	64,981
Management fee	4	(679)	(1,261)	(1,940)	(669)	(1,242)	(1,911)
Performance fee writeback/(charge)	4	—	2,138	2,138	—	(1,777)	(1,777)
Other administrative expenses	5	(752)	—	(752)	(602)	—	(602)
Net return/(loss) on ordinary activities before finance costs and taxation		10,789	(8,363)	2,426	10,267	50,424	60,691
Finance costs	6	(1,054)	(1,958)	(3,012)	(1,010)	(1,876)	(2,886)
Net return/(loss) on ordinary activities before taxation		9,735	(10,321)	(586)	9,257	48,548	57,805
Taxation	7	(21)	—	(21)	(1)	—	(1)
Net return/(loss) on ordinary activities after taxation		9,714	(10,321)	(607)	9,256	48,548	57,804
Return/(loss) per share	9	16.28p	(17.30)p	(1.02)p	14.84p	77.81p	92.65p
Dividend per share	8			15.30p			13.50p

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 36 to 49 form an integral part of these accounts.

Reconciliation of Movements in Shareholders' Funds

for the year ended 31st December 2007

	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 31st December 2005	16,053	149,641	4,819	136,377	11,564	318,454
Repurchase and cancellation of shares	(785)	—	785	(15,838)	—	(15,838)
Total return from ordinary activities	—	—	—	48,548	9,256	57,804
Dividends appropriated in the year	—	—	—	—	(7,677)	(7,677)
At 31st December 2006	15,268	149,641	5,604	169,087	13,143	352,743
Repurchase and cancellation of shares	(683)	—	683	(15,249)	—	(15,249)
Total (loss)/return from ordinary activities	—	—	—	(10,321)	9,714	(607)
Dividends appropriated in the year (note 8)	—	—	—	—	(8,975)	(8,975)
At 31st December 2007	14,585	149,641	6,287	143,517	13,882	327,912

The notes on pages 36 to 49 form an integral part of these accounts.

Balance Sheet

at 31st December 2007

	Notes	2007 £'000	2006 £'000
Non current assets			
Investments at fair value through profit and loss	10	363,519	400,902
Current assets			
Debtors	11	807	998
Cash at bank and in hand		24	99
		831	1,097
Creditors: amounts falling due within one year	12	(6,788)	(17,494)
Net current liabilities		(5,957)	(16,397)
Total assets less current liabilities		357,562	384,505
Creditors: amounts falling due after more than one year	13	(29,650)	(29,624)
Provisions for liabilities and charges	14	—	(2,138)
Total net assets		327,912	352,743
Capital and reserves			
Called up share capital	15	14,585	15,268
Share premium	16	149,641	149,641
Capital redemption reserve	16	6,287	5,604
Capital reserve	16	143,517	169,087
Revenue reserve	16	13,882	13,143
Shareholders' funds		327,912	352,743
Net asset value per share	17	562.1p	577.6p

The accounts on pages 32 to 49 were approved and authorised for issue by the Directors on 5th March 2008 and signed on its behalf by:

Sir Michael Bunbury Bt., KCVO, DL
Director

The notes on pages 36 to 49 form an integral part of these accounts.

Cash Flow Statement

for the year ended 31st December 2007

	Notes	2007 £'000	2006 £'000
Net cash inflow from operating activities	18	7,951	7,516
Returns on investments and servicing of finance			
Interest paid		(3,028)	(2,838)
Taxation			
Overseas tax recovered		—	1
Capital expenditure and financial investment			
Purchases of investments		(262,276)	(237,635)
Sales of investments		290,434	251,319
Other capital charges – handling charges		(9)	(3)
Net cash inflow from capital expenditure and financial investment		28,149	13,681
Dividends paid		(8,975)	(7,677)
Net cash inflow before financing		24,097	10,683
Financing			
Repurchase of shares		(15,166)	(16,507)
Repayment of short term loan		(15,000)	—
Drawdown of short term loan		6,000	—
Net cash outflow from financing activity		(24,166)	(16,507)
Decrease in cash for the year	19	(69)	(5,824)

The notes on pages 36 to 49 form an integral part of these accounts.

Notes to the Accounts

for the year ended 31st December 2007

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 Company has adopted FRS 29: 'Financial Instruments: Disclosures' for the first time in these accounts. The disclosures required by this standard are given in notes 22 to 24.

(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 capital column of the Income Statement within 'Gains or losses 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 are included in revenue on an ex-dividend basis except where, in the opinion of the Board, the dividend is capital in nature, in which case it is taken to capital.

UK dividends are included net of any tax credits and unfranked income gross of any income tax. 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 as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital return.

Deposit interest receivable and stock lending income are taken to revenue on an accruals basis.

(d) Expenses

All expenses are accounted for on an accruals basis. Expenses are allocated wholly to revenue with the following exceptions:

- performance fees are allocated 100% to capital;
- management fees are allocated 35% to revenue and 65% to capital in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio;
- expenses incidental to the purchase and sale of an investment are charged to capital. These expenses are commonly referred to as transaction costs and comprise broker commission and stamp duty. In accordance with the SORP, disclosure of transaction costs is now required and can be found in note 10.

(e) Finance costs

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

Finance costs are allocated 35% to revenue and 65% to capital in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.

Breakage costs incurred on the repurchase of the Company's debenture or on the early repayment of loans are charged 100% to capital in accordance with the SORP.

Notes to the Accounts continued

(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.

Other receivables 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 debenture in issue, bank loans and overdrafts are recorded at the proceeds received net of direct issue amortised cost. Premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in profit or loss 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 capital 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 capital.

(h) 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.

(i) 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.

	2007 £'000	2006 £'000
2. (Losses)/gains from investments held at fair value through profit or loss		
Realised gains from investments held at fair value through profit or loss based on historical cost	34,600	33,348
Amounts recognised as unrealised in the previous year in respect of investments sold during the year	(43,183)	(26,310)
Realised (losses)/gains based on fair value at previous balance sheet date	(8,583)	7,038
Net movement in unrealised (losses)/gains	(642)	46,408
Other capital charges – handling charges	(9)	(3)
Total capital (losses)/gains from investments held at fair value through profit or loss	(9,234)	53,443

Notes to the Accounts continued

	2007 £'000	2006 £'000
3. Income		
Income from investments		
Franked dividends	11,463	11,195
Unfranked dividends from OEICs and REITs	53	53
Income from liquidity fund	483	110
Overseas dividends	199	—
Scrip dividends from listed UK investments	—	78
	12,198	11,436
Other interest receivable and similar income		
Deposit interest	15	99
Stock lending fees	7	3
	22	102
Total income	12,220	11,538

	Revenue £'000	2007 Capital £'000	Total £'000	Revenue £'000	2006 Capital £'000	Total £'000
4. Management fee						
Management fee	599	1,113	1,712	569	1,057	1,626
VAT thereon	80	148	228	100	185	285
Total	679	1,261	1,940	669	1,242	1,911
Performance fee						
Performance fee (writeback)/charge	—	(1,820)	(1,820)	—	1,512	1,512
VAT (writeback)/charge	—	(318)	(318)	—	265	265
	—	(2,138)	(2,138)	—	1,777	1,777

Details of the management fee and performance fee are given in the Directors' Report on page 22.

Further details regarding VAT chargeable on management fees are given in note 20.

	2007 £'000	2006 £'000
5. Other administrative expenses¹		
Other management expenses	342	183
Directors' fees ²	90	90
Savings Products ³	287	296
Auditors' remuneration ⁴		
— for audit services	24	22
— for all other services	9	11
	752	602

¹ Expenses include the related VAT.

² Full disclosure is given in the Directors' Remuneration Report on page 29.

³ These fees were paid to JPMAM for the administration of "wrapper" products in line with the change to the management fee arrangements negotiated in 2006.

⁴ Includes £5,000 VAT (2006: £5,000).

	Revenue £'000	2007 Capital £'000	Total £'000	Revenue £'000	2006 Capital £'000	Total £'000
6. Finance costs						
Bank loans and overdrafts	310	576	886	266	494	760
Debenture stock	744	1,382	2,126	744	1,382	2,126
	1,054	1,958	3,012	1,010	1,876	2,886

	2007 £'000	2006 £'000
7. Taxation		
Overseas withholding tax	21	1
Current tax	21	1

The tax charge for the year is lower than the standard rate of corporation tax in the UK of 30% (2006: 30%). The difference is explained below.

	2007 £'000	2006 £'000
Net revenue return on ordinary activities before taxation	9,735	9,257
Net revenue return on ordinary activities before taxation, multiplied by the standard rate of corporation tax of 30% (2006: 30%)	2,921	2,777
Non-taxable UK dividend income	(3,439)	(3,359)
Tax relief on capitalised expenses	(966)	(1,469)
Unrelieved expenses	1,484	2,074
Non taxable scrip dividends	—	(23)
Overseas withholding tax	21	1
	21	1

The Company has an unrecognised deferred tax asset of £20,611,000 (2006: £19,107,000). 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

8. Dividends

	2007 £'000	2006 £'000
(a) Dividends paid and declared		
2006 Fourth quarterly dividend of 4.9p (2005: 3.7p) paid in March 2007 ¹	2,978	2,347
First quarterly dividend of 3.3p (2006: 2.8p) paid in June	1,987	1,752
Second quarterly dividend of 3.3p (2006: 2.8p) paid in September	1,953	1,736
Third quarterly dividend of 3.5p (2006: 3.0p) paid in December	2,057	1,842
Total dividends paid in the year	8,975	7,677

¹ The fourth quarterly dividend declared in respect of the year ended 31st December 2006 amounted to £2,992,000 (2005: £2,362,000). However, the amount paid amounted to £2,978,000 (2005: £2,347,000) due to share repurchases after the balance sheet date but prior to the record date.

	2007 £'000	2006 £'000
Fourth quarterly dividend of 5.2p (2006: 4.9p) paid in March	3,034	2,992

The fourth quarterly dividend has been declared and paid in respect of the year ended 31st December 2007. In accordance with the accounting policy of the Company, this dividend will be reflected in the accounts for the year ending 31st December 2008.

(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 £9,714,000 (2006: £9,256,000).

	2007 £'000	2006 £'000
First quarterly dividend of 3.3p (2006: 2.8p) paid in June	1,987	1,752
Second quarterly dividend of 3.3p (2006: 2.8p) paid in September	1,953	1,736
Third quarterly dividend of 3.5p (2006: 3.0p) paid in December	2,057	1,842
Fourth quarterly dividend of 5.2p (2006: 4.9p) paid in March	3,034	2,992
	9,031	8,322

9. Return/(loss) per ordinary share

The revenue return per ordinary share is based on the earnings attributable to the ordinary shares of £9,714,000 (2006: £9,256,000) and on the weighted average number of shares in issue during the year of 59,675,969 (2006: 62,389,503).

The capital return per ordinary share is based on the capital loss attributable to the ordinary shares of £10,321,000 (2006: £48,548,000 gain) and on the weighted average number of shares in issue during the year of 59,675,969 (2006: 62,389,503).

The total return per ordinary share is based on the total loss attributable to the ordinary shares of £607,000 (2006: £57,804,000 gain) and on the weighted average number of shares in issue during the year of 59,675,969 (2006: 62,389,503).

	2007 £'000	2006 £'000
10. Investments		
Investments listed on a recognised stock exchange ¹	363,519	400,902
	2007 £'000	
Opening book cost	310,908	
Opening unrealised gains	89,994	
Opening valuation	400,902	
Movements in the year:		
Purchases at cost	262,276	
Sales – proceeds	(290,434)	
Sales – realised losses	(8,583)	
Net movement in unrealised loss ²	(642)	
Closing valuation	363,519	
Closing book cost	317,350	
Closing unrealised gains	46,169	
Closing valuation	363,519	

¹ The Company's investments in the JPMorgan UK Smaller Companies Fund, an open ended investment company and JPMorgan Sterling Liquidity Fund are included in investments listed on a recognised stock exchange.

² During the year, prior year unrealised gains amounting to £43,183,000 were transferred to realised gains as disclosed in note 16.

Transaction costs on purchases during the year amounted to £1,496,000 (2006: £1,532,000) and on sales during the year amounted to £481,000 (2006: £475,000). These costs comprise broker commission and stamp duty.

During the year, the Company ceased stock lending. Consequently, there were no securities on loan at 31st December 2007. The maximum value of stocks on loan during the year amounted to £8,000,000. Collateral with a value equivalent to a minimum of 105% of the outstanding value of stocks on loan is obtained by JPMorgan Chase & Co. Limited as agent for the Company. Collateral is held in the form of certificates of deposit, letters of credit or bonds.

	2007 £'000	2006 £'000
11. Current assets		
Debtors		
Dividends and interest receivable	793	996
Other debtors	4	2
Overseas tax receivable	10	—
	807	998

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

Cash and short term deposits

Cash and short term deposits comprise bank balances and cash held by the Company, including short term deposits. The carrying amount of these balances approximates to their fair value. Cash balances in excess of a predetermined amount are placed on short term deposit at market rates of interest.

Notes to the Accounts continued

	2007 £'000	2006 £'000
12. Creditors: amounts falling due within one year:		
Bank loan	6,000	15,000
Repurchase of shares for future settlement	83	—
Performance fee payable	—	1,787
Other creditors and accruals	705	707
	6,788	17,494

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

The £6 million bank loan was drawn down from the Company's £25 million floating rate facility established with Lloyds TSB on 21st August 2007. The £15 million bank loan drawn from the £20 million facility provided by ING was repaid on 21st August 2007 when that facility expired. Details of the interest rate payable on loans are given in note 23(a).

	2007 £'000	2006 £'000
13. Creditors: amounts falling due after more than one year:		
Falling due after more than five years		
£30,000,000 7% debenture stock 30th March 2020	29,650	29,624

The debenture is secured by a floating charge over the assets of the Company.

	2007 £'000	2006 £'000
14. Provisions for liabilities and charges		
Performance fee		
Provision brought forward at the beginning of the year	1,820	1,829
Provision for performance fee earned during the year	—	1,512
Writeback of performance fee	(1,820)	—
Amount payable this year	—	(1,521)
	—	1,820
Provision carried forward at the end of the year	—	1,820
Provision for VAT on performance fee brought forward	318	—
Provision for VAT on performance fee carried forward	—	318
Writeback of VAT	(318)	—
	—	2,138

Details of the performance fee are given in the Directors' Report on page 22.

	2007 £'000	2006 £'000
15. Share capital		
Authorised:		
156,000,000 ordinary shares of 25p each (2006: same)	39,000	39,000
Allotted and fully paid:		
Opening balance of 61,071,045 shares (2006: 64,212,361)	15,268	16,053
Repurchase of 2,732,477 shares (2006: 3,141,316)	(683)	(785)
Closing balance of 58,338,568 shares (2006: 61,071,045)	14,585	15,268

During the year the Company repurchased 2,732,477 ordinary shares for cancellation, representing 4.5% of the shares outstanding at the beginning of the year. The total consideration paid for these shares was £15,249,000 and the reason for the repurchases was to seek to manage the volatility of the share price discount to net asset value.

	Share premium £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
16. Reserves					
Opening balance	149,641	5,604	81,231	87,856	13,143
Realised losses on investments	—	—	(8,583)	—	—
Realised foreign currency losses on cash and short term deposits	—	—	(6)	—	—
Net movement in unrealised losses	—	—	—	(642)	—
Transfer on disposal of investments	—	—	43,183	(43,183)	—
Repurchase and cancellation of shares	—	683	(15,249)	—	—
Performance fee writeback	—	—	—	1,820	—
Writeback of VAT on performance fee	—	—	—	318	—
Management fee and finance costs charged to capital	—	—	(3,219)	—	—
Other capital charges – handling charges	—	—	(9)	—	—
Dividends appropriated in the year	—	—	—	—	(8,975)
Retained revenue for the year	—	—	—	—	9,714
Closing balance	149,641	6,287	97,348	46,169	13,882

17. Net asset value per share

Net asset value per share is based on the net assets attributable to the ordinary shareholders of £327,912,000 (2006: £352,743,000) and on the 58,338,568 (2006: 61,071,045) shares in issue at the year end.

	2007 £'000	2006 £'000
18. Reconciliation of total return on ordinary activities before finance costs and taxation to net cash inflow from operating activities		
Net total return on ordinary activities before finance costs and taxation	2,426	60,691
Less net capital loss/(return) before finance costs and taxation	8,363	(50,424)
Decrease/(increase) in accrued income	203	(216)
Increase/(decrease) in accrued expenses	38	(20)
Scrip dividends received as income	—	(78)
Expenses charged to capital	(1,261)	(1,242)
Performance fee paid including VAT	(1,787)	(1,194)
Overseas withholding tax	(31)	(1)
Net cash inflow from operating activities	7,951	7,516
Reconciliation of net cash flow to movement in net debt		
Decrease in cash for the year	(69)	(5,824)
Cash inflow from changes in net debt	9,000	—
Changes in net debt arising from cash flows	8,931	(5,824)
Net debt at beginning of the year	(44,525)	(38,674)
Net foreign currency losses	(6)	—
Amortisation of issue expenses	(26)	(27)
Closing net debt	(35,626)	(44,525)

Notes to the Accounts continued

	At 31st December 2006 £'000	Cash flow £'000	Exchange movements £'000	Other movements £'000	At 31st December 2007 £'000
19. Analysis of changes in net debt					
Cash and short term deposits	99	(69)	(6)	—	24
Bank loans falling due within one year	(15,000)	9,000	—	—	(6,000)
Debenture falling due after more than five years	(29,624)	—	—	(26)	(29,650)
Net debt	(44,525)	8,931	(6)	(26)	(35,626)

20. Contingent assets/liabilities and capital commitments

In 2004 the Company lodged a joint appeal for the payment of investment trust management fees to be exempt from VAT. In June 2007 the European Court of Justice found in favour of the appellants and in November 2007 HM Revenue and Customs ('HMRC') announced their withdrawal from the case. This means that, henceforth, VAT will no longer be charged on investment management fees and that the Company is entitled to seek reimbursement of VAT paid in the past. The Manager ceased charging VAT on management fees with effect from 1st October 2007 and has filed protective claims for the period subsequent to 1st February 2001 and, as a result, an amount in excess of £2.5 million is potentially recoverable for this period. Furthermore a decision in the House of Lords has opened the possibility for additional VAT recovery from HMRC for the period from 1st January 1990 to 4th December 1996. It is unlikely that there will be a potential claim for the intervening period from 5th December 1996 to 31st January 2001.

In the absence of a definitive agreement with the Manager or specific guidance from HMRC as to how the reclaims will be effected, there is not yet certainty as to the amount or timing of any recovery. Accordingly no asset has been recognised in the accounts at 31st December 2007.

At the balance sheet date there were no contingent liabilities or capital commitments (2006: none).

21. Transactions with the Manager

Details of the management contract are set out in the Directors' Report on pages 21 and 22. The management fee payable to JPMorgan Asset Management (UK) Limited ('JPMAM') for the year was £1,712,000 excluding VAT (2006: £1,626,000) of which £nil (2006: £nil) was outstanding at the year end.

Included in other management expenses in note 5 on page 38 are safe custody fees amounting to £17,000 (2006: £16,000) payable to JPMorgan Worldwide Securities Services of which £4,000 (2006: £nil) 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. No commission was payable to JPMorgan Securities for the year (2006: £2,000) and £nil (2006: £nil) was outstanding at the year end.

During the year, broker commission on share repurchases amounting to £5,000 (2006: £31,000) was paid to JPMorgan Cazenove and £nil (2006: £nil) was outstanding at the year end. With effect from 1st March 2007, it was agreed that an annual fee of £20,000 be paid to JPMorgan Cazenove and no commission on share repurchases.

The Company holds investments in The JPMorgan UK Smaller Companies Fund and The JPMorgan Smaller Companies Investment Trust which are managed by JPMAM. At the year end these were valued at £14.7 million (2006: £22.9 million) and represented 4.0% of the Company's investment portfolio (2006: 6.0%). During the year the Company made £nil purchases of such investments (2006: £nil) but did make sales with a total value of £6.2 million (2006: £1.4 million). Income amounting to £187,000 (2006: £57,000) was received from these investments during the year.

The Company also holds an investment in The JPMorgan Sterling Liquidity Fund, managed by JPMAM. At the year end this was valued at £10.3 million (2006: £5.0 million) and represented 2.8% of the Company's investment portfolio (2006: 2.0%). During the year the Company made purchases with a total value of £46.1 million (2006: £17.2 million) and sales with a total value of £40.9 million (2006: £12.2 million). Income amounting to £483,000 (2006: £110,000) was received from this investment during the year.

Handling charges on dealing transactions amounting to £9,000 (2006: £3,000) were payable to JPMorgan Chase during the year of which £1,000 (2006: £2,000) was outstanding at the year end.

21. Transactions with the Manager continued

The Company received £7,000 (2006: £3,000) from stock lending transactions during the year. JPMAM received commissions amounting to £2,000 (2006: £1,000) in respect of these transactions.

At the year end, a bank balance of £24,000 (2006: £99,000) was held with JPMorgan Chase. A net amount of interest of £92,000 (2006: £101,000) was received by the Company during the year from JPMorgan Chase.

22. 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 36 and 37 explain how the various categories of financial instrument are measured.

	2007 £'000	2006 £'000
Financial assets		
Financial assets at fair value through profit or loss		
Fixed asset investments – designated as such upon initial recognition	363,519	400,902
Loans and receivables		
Debtors	807	998
Cash and short term deposits	24	99
	831	1,097
Financial liabilities		
Measured at amortised cost		
Creditors: amounts falling due within one year		
Bank loan	6,000	15,000
Creditors: amounts falling due after more than one year		
Debenture stock	29,650	29,624
Accruals		
Performance fee payable	—	1,787
Other creditors and accruals	788	707
Provisions for liabilities and charges	—	2,138
	36,438	49,256

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

As an investment trust the Company invests in equities and other securities for the long term so as to secure its investment objective stated on page 19. In pursuing this objective, the Company is exposed to a variety of risks that could result in a reduction in the Company's net assets or a reduction in the profits available for dividends.

These risks include market risk (comprising interest rate risk and other price risk), liquidity risk and credit risk. The Directors' policy for managing these risks is set out below. The Company has no material exposure to foreign exchange risk. The Company Secretary, in close co-operation with the Board and the Manager, co-ordinates the Company's risk management.

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 UK equity shares, which are held in accordance with the Company's investment objective;
- short term debtors, creditors and cash arising directly from its operations;
- a debenture issued by the Company, the purpose of which is to finance the Company's operations; and
- a sterling bank loan, the purpose of which is to finance the Company's operations.

Notes to the Accounts continued

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

(a) Market price 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 other price risk. Information to enable an evaluation of the nature and extent of these two elements of market price risk is given in parts (i) and (ii) to this note, together with sensitivity analysis where appropriate. The Board reviews and agrees policies for managing these risks; such 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 the Company's variable rate cash borrowings.

Management of interest rate risk

The possible effects on cash flows that could arise as a result of changes in interest rates are taken into account when borrowing on the loan facility. However, amounts drawn down on this facility are for short term periods and therefore exposure to interest rate risk is not material. The Company does not normally hold significant cash balances. An overdraft facility is used when required. The Company finances part of its activities through borrowings at levels approved and monitored by the Board. Derivatives are not used to hedge against the exposure to interest rate risk.

Interest rate exposure

The Company has a £30 million 7% debenture in issue which is repayable on 30th March 2020. The Company has no other financial assets or liabilities carrying fixed rates of interest. The exposure of financial assets and liabilities to floating interest rates, giving cash flow interest rate risk when rates are re-set, is shown below.

	2007 Within one year £'000	2006 Within one year £'000
Exposure to floating interest rates:		
Cash at bank	24	99
Creditors: amounts falling due within one year		
– borrowings on the loan facility	(6,000)	(15,000)
Total exposure	(5,976)	(14,901)

Interest receivable and finance costs are at the following rates:

- Interest receivable on cash balances is at a margin over LIBOR.
- Interest payable on borrowings on the loan facility is at a margin over LIBOR as offered in the market for the loan period plus the 'mandatory costs' rate, which is the cost of complying with certain regulatory requirements. At 31st December 2007, the Company had drawn down £6 million on a floating rate facility with Lloyds TSB, repayable on 21st February 2008 at an interest rate of 6.832%. At 31st December 2006, the Company had drawn down £15 million on a floating rate facility with ING, repayable on 21st February 2007 at an interest rate of 5.53%.

The exposure during the current year fluctuated as borrowings were drawn down and repaid as follows:

	2007 Within one year £'000	2006 Within one year £'000
Maximum interest rate exposure to floating rates	(16,645)	(17,648)
Minimum interest rate exposure to floating rates	(5,976)	(9,077)

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

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 in regards to the Company's monetary financial assets and financial liabilities. 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 monetary financial instruments held at the balance sheet date, with all other variables held constant.

	2007		2006	
	Increase in rate £'000	Decrease in rate £'000	Increase in rate £'000	Decrease in rate £'000
Income statement – profit after taxation				
Revenue return (decrease)/increase	(6)	6	(15)	15
Capital return (decrease)/increase	(54)	54	(136)	136
Total (decrease)/increase in profit after taxation for the year	(60)	60	(151)	151
Equity (decrease)/increase	(60)	60	(151)	151

In the opinion of the Directors, this sensitivity analysis is not representative of the whole year due to fluctuations in the level of borrowings.

(ii) *Other price risk*

Other price risks include changes in market prices, other than those arising from interest rate risk, which may affect the value of equity investments.

Management of other 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 objectives and seeks to ensure that individual stocks meet an acceptable risk reward profile.

Other price risk exposure

The Company's total exposure to other changes in market prices at 31st December comprises its holdings in equity investments as follows:

	2007 £'000	2006 £'000
Equity investments at fair value through profit or loss	353,230	395,862

The above data is broadly representative of the exposure to other price risk during the current and comparative years.

Concentration of exposure to other price risk

An analysis of the Company's investments is given on pages 14 to 17. This shows that all 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.

Other 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 market values. 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.

	2007		2006	
	Increase in fair value £'000	Decrease in fair value £'000	Increase in fair value £'000	Decrease in fair value £'000
Income statement – profit after taxation				
Revenue return - (decrease)/increase	(68)	68	(76)	76
Capital return – increase/(decrease)	35,107	(35,107)	39,444	(39,444)
Total profit after taxation and equity – increase/(decrease)	35,039	(35,039)	39,368	(39,368)

Notes to the Accounts continued

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

(b) Liquidity risk

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

Management of the risk

Liquidity risk is not significant as the Company's assets comprise 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 requirements.

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:

	2007			2006		
	Three months or less £'000	More than one year £'000	Total £'000	Three months or less £'000	More than one year £'000	Total £'000
Creditors: amounts falling due after more than one year						
Debtenture stock	—	30,000	30,000	—	30,000	30,000
Provisions for liabilities and charges	—	—	—	—	2,138	2,138
Creditors: amounts falling due within one year						
Bank loan	6,000	—	6,000	15,000	—	15,000
Performance fee payable	—	—	—	1,787	—	1,787
Other creditors	788	—	788	707	—	707
	6,788	30,000	36,788	17,494	32,138	49,632

(c) Credit risk

Credit risk is the risk that the counterparty to a transaction fails to discharge its obligations under that transaction which 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 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:

	2007		2006	
	Balance sheet £'000	Maximum exposure £'000	Balance sheet £'000	Maximum exposure £'000
Fixed assets – investments at fair value through profit or loss	363,519	10,289	400,902	5,040
Current assets				
Debtors – amount due from brokers, dividends and interest receivable	807	807	998	998
Cash at bank	24	24	99	99
	364,350	11,120	401,999	6,137

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

(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 carrying amount in the balance sheet 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	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
£30 million 7% debenture stock June 2020	29,650	29,624	33,789	33,400

24. 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.

Composition of the Company's capital	2007 £'000	2006 £'000
Debt:		
Bank loan	6,000	15,000
£30 million 7% debenture stock June 2020	30,000	30,000
	36,000	45,000
Equity:		
Equity share capital	14,585	15,268
Reserves	312,327	337,475
	326,912	352,743
Total capital	362,912	397,743
Debt as a percentage of total capital	9.9%	11.3%

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 for cancellation, which takes into account the share price discount or premium;
- the need for issues of new shares; 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 December
Half year results announced	July/August
Final results announced	March
Interim Management Statements	April and October
Quarterly interim dividends on ordinary shares paid	First business day of June, September, December, March
7% Debenture Stock 2020 interest paid	30th September, 30th March
Annual General Meeting	April

History

The Company was launched as Claverhouse Investment Trust Limited in 1963 with assets of £5 million and managed by Robert Fleming & Co. The Company took its name from Viscount Claverhouse ('Bonnie Dundee') who was killed at the Battle of Killiecrankie in 1689 whilst leading a rebellion against William and Mary. The name was chosen to commemorate the Company's link with Dundee, where Flemings originated in 1873. The Company changed its name to The Fleming Claverhouse Investment Trust plc in 1983, to JPMorgan Fleming Claverhouse Investment Trust plc in 2003 and adopted its present name in 2007.

Company Numbers

Company registration number: 754577
London Stock Exchange code: 0342218

Market Information

The Company's net asset value ('NAV') is published daily, via the London Stock Exchange. 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 Herald, The Scotsman, BBC Ceefax and on the JPMorgan Internet site at www.jpmlclaverhouse.co.uk, where the share price is updated every fifteen minutes during trading hours.

Share Transactions

The Company's 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), Personal Equity Plan (PEP) and the Pension Account.

Taxation

For capital gains tax purposes, the base cost of the Company's shares at 31st March 1982 was 32.125p. This figure has been adjusted for the subdivision of each 50 pence share into two 25 pence shares on 4th March 1986 and the capitalisation issue on 25th March 1993 whereby shareholders were issued with one extra share for each share they held.

Manager and Company Secretary

JPMorgan Asset Management (UK) Limited

Company's Registered Office

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

Please contact Jonathan Latter for company secretarial and administrative matters.

Registrars

Equiniti
Reference 1079
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone: 0871 384 2318

Notifications of changes of address and enquiries regarding share certificates or dividend cheques should be made in writing to the Registrars quoting reference 1079.

Registered shareholders can obtain further details on their holdings on the internet by visiting www.shareview.co.uk.

Savings Product Administrators

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

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Brokers

JPMorgan Cazenove
20 Moorgate
London EC2R 6DA

aic

The Association of
Investment Companies A member of the AIC

Shareholder Analysis

at 31st December 2007

	Number of shares	% holding
Individuals in the Investment Trust Share Plan ¹	12,699,968	21.8
Individuals in the Investment Trust Personal Equity Plan ¹	11,789,381	20.2
Private Client Brokers	8,812,419	15.1
Retail Investors ²	8,624,341	14.8
JPMorgan Elect plc	3,577,337	6.1
Individuals in the Investment Trust Pension Account ¹	2,503,645	4.3
Individuals in the Investment Trust Individual Savings Account ¹	2,282,895	3.9
Total Retail	50,289,986	86.2
Unit trusts	3,417,985	5.8
Pension funds	2,781,692	4.7
Other Institutions	917,747	1.6
Insurance companies	791,386	1.4
Foreign government	70,541	0.1
Investment trusts	37,704	0.1
Charities	31,527	0.1
Total Institutions	8,048,582	13.8
Total Shares in Issue	58,338,568	100.0

Nominee accounts have been allocated to their appropriate category.

¹ Savings products managed by JPMorgan.

² Includes shareholders below 10,000 threshold.

Source: Thomson Financial.

Notice of Meeting

Notice is hereby given that the forty fifth Annual General Meeting of JPMorgan Claverhouse Investment Trust plc will be held at Trinity House, Tower Hill, London EC3N 4DH on Thursday 10th 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 December 2007.
- 2 To approve the Directors' Remuneration Report for the year ended 31st December 2007.
- 3 To re-elect John Scott as a Director.
- 4 To re-elect Sir Michael Bunbury as a Director.
- 5 To re-appoint Ernst & Young LLP as Auditors to the Company and to authorise the Directors to determine their remuneration.

Special Business

To consider the following resolutions:

Authority to Repurchase shares – Special Resolution

- 6 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 25 pence each in the capital of the Company.

PROVIDED ALWAYS THAT

- (i) the maximum number of ordinary shares hereby authorised to be purchased shall be 8,706,973 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 25 pence;
- (iii) the maximum price which may be paid for an ordinary share shall be an amount equal to the highest of (a) 105% of the average of the middle market quotations for an ordinary share taken from and calculated 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 9th 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.

Authority to allot new shares – Ordinary Resolution

- 7 THAT the Directors of the Company be and they are hereby generally and unconditionally authorised, (in substitution of any authorities previously granted to the Directors), pursuant to Section 80 of the Companies Act 1985 (the 'Act') to exercise all the powers for the Company to allot relevant securities (within the meaning of Section 80 of the Act) up to an aggregate nominal amount of £1,452,130, representing approximately 10% of the Company's issued ordinary share capital as at the date of the passing of this resolution and shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2009 unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers, agreements or arrangements which would or might require relevant securities to be allotted after such expiry and so that the Directors of the Company may allot relevant securities in pursuance of such offers, agreements or arrangements as if the authority conferred hereby had not expired.

Authority to disapply pre-emption rights on allotment of new ordinary shares – Special Resolution

- 8 THAT subject to the passing of Resolution 7 set out above, the Directors of the Company be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 (the 'Act') to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the authority conferred by Resolution 7 as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £1,452,130, representing approximately 10% of the total ordinary share capital as at the date of the passing of this resolution at a price of not less than the net asset value per

share and shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2009 unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers, agreements or arrangements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuance of such offers, agreements or arrangements as if the power conferred hereby had not expired.

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

Jonathan Latter, for and on behalf of

JPMorgan Asset Management (UK) Limited, Secretary
5th March 2008

Notes

These notes should be read in conjunction with the notes on the reverse of the proxy form.

- 1 A member entitled to attend and vote at the Meeting may appoint another person(s) (who need not be a member of the Company) to exercise all or any of his rights to attend, speak and vote at the Meeting. A member can appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him.
- 2 A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Your proxy could be the Chairman, another director of the Company or another person who has agreed to attend to represent you. Details of how to appoint the Chairman or another person(s) as your proxy or proxies using the proxy form are set out in the notes to the proxy form. If a voting box on the proxy form is left blank, the proxy or proxies will exercise his/their discretion both as to how to vote and whether he/they abstain(s) from voting. Your proxy must attend the Meeting for your vote to count. Appointing a proxy or proxies does not preclude you from attending the Meeting and voting in person. If you attend the Meeting in person, your proxy appointment will automatically be terminated.
- 3 A copy of this notice has been sent for information only to persons who have been nominated by a member to enjoy information rights under section 146 of the Companies Act 2006 (a 'Nominated Person'). The rights to appoint a proxy can not be exercised by a Nominated Person: they can only be exercised by the member. However, a Nominated Person may have a right under an agreement between him and the member by whom he was nominated to be appointed as a proxy for the Meeting or to have someone else so appointed. If a Nominated Person does not have such a right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.
- 4 Any 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 instructions 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 of 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.

Notice of Meeting continued

- 10 No Director has any contract of service with the Company.
- 11 As at 3rd March 2008 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 58,085,216 ordinary shares, carrying one vote each. Therefore the total voting rights in the Company are 58,085,216.

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.

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. This ensures that such failure does not invalidate proceedings at the meeting in question.

4. Quorum (Article 49)

Article 49 amends the quorum requirement for a general meeting from three persons to two persons and, further, makes it clear that two persons who are proxies for the same member or representatives of the same body corporate can constitute 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 gives 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 104 and 105)

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

Appendix continued

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

Article 104 is the provision for dealing with conflicts, 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. It confirms that such interests, offices or employment will not infringe the conflicts duty as codified in the 2006 Act.

Article 105 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 105 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 114)

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 118)

Article 118 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 120 and 121)

Article 120 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. Notices and other communications (Articles 76, 136-145)

The 2006 Act enables companies to communicate with their members by electronic communication to a greater extent than previously permitted. Article 137 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 137(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 137(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 137(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 144 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 145 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.

14. Power to indemnify directors (Article 148)

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 director's 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 the time the shares were quoted ex-dividend.

Benchmark Return

Total return on the benchmark, on a mid-market value to mid-market value basis, assuming that all dividends received (net of tax) 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.

Actual Gearing Factor

Investments expressed as a percentage of shareholders' funds. This shows the effect of gearing on the NAV 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 and performance fee payments, 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 allowable, but excluding interest and performance fee payments) expressed as a percentage of the average of the month end net assets over the year. The reason for the change was to bring the method into line with industry practice and to make the calculation more transparent, as all the figures 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 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:

Stock Selection/Asset Allocation

Measures the effect of investing in securities/sectors to a greater or lesser extent than their weighting in the benchmark, or of investing in securities outside of the benchmark.

Gearing/Cash

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

Management Fees/Other Expenses

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

Share Repurchases

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

Residual

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

JPMorgan Helpline

Freephone 0800 40 30 30 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.jpmlaverhouse.co.uk