



# Annual Report 08

## JPMorgan European Fledgeling Investment Trust plc

Annual Report & Accounts for the year ended 31st March 2008

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## Objective

Capital growth from smaller European companies (excluding the UK).

## Investment Policies

- To invest in a diversified portfolio of smaller companies in Europe, excluding the United Kingdom.
- To manage liquidity and borrowings to increase potential returns to shareholders.
- To emphasise capital growth rather than income. Shareholders should not therefore expect a dividend.
- It should be noted that the Company invests in smaller companies which tend to be more volatile than larger companies and the Company's shares should therefore be regarded as carrying greater than average risk.
- To invest no more than 15% of gross assets in other UK listed investment companies (including investment trusts).

## Benchmark

HSBC Smaller European Companies (ex UK) Total Return Index in sterling terms.

## Capital Structure

The Company has an authorised share capital of 280,000,000 ordinary shares of 25p each, of which 51,350,198 were in issue at the year end. This includes 2,579,875 shares held in treasury.

## Management Company

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

# Financial Results

## Total Returns (capital plus income)

**-15.5%**

Return to shareholders<sup>1</sup>  
(2007: +26.6%)

**-8.4%**

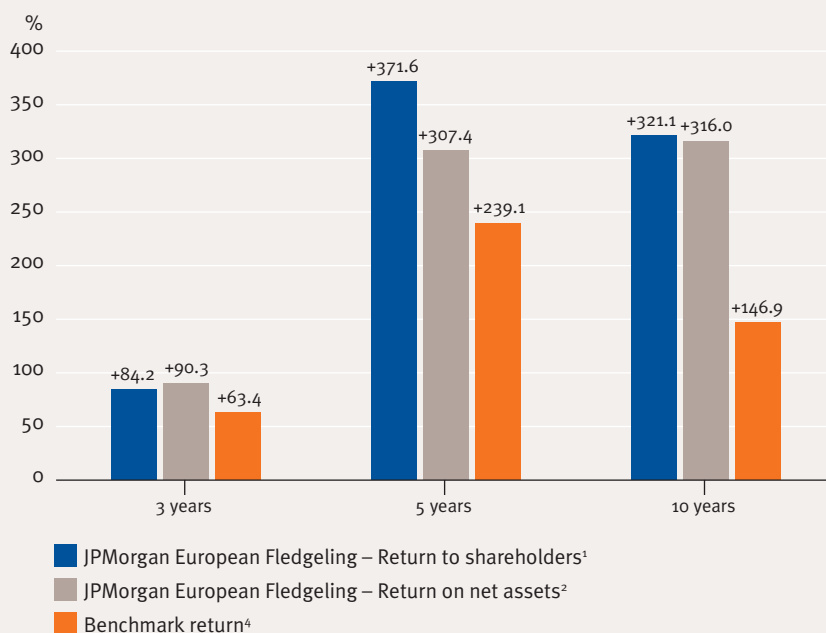
Return on net assets<sup>2,3</sup>  
(2007: +23.7%)

**-8.5%**

Benchmark return<sup>4</sup>  
(2007: +19.5%)

### Long Term Performance

for periods ended 31st March 2008



A glossary of terms and definitions is provided on page 56.

<sup>1</sup>Source: Standard & Poor's – [www.funds.morningstar.com](http://www.funds.morningstar.com)

<sup>2</sup>Fundamental Data – [www.funddata.com](http://www.funddata.com)

<sup>3</sup>The net asset value at the year end has been calculated on the assumption that the 2,579,875 shares held in Treasury were reissued at the closing mid price as at 31st March 2008.

<sup>4</sup>Source: HSBC. The Company's benchmark is the HSBC Smaller European Companies (ex UK) Index in sterling terms.

## Chairman's Statement



“The year ... was characterised by highly volatile, at times turbulent, financial markets giving our Investment Managers significant investment challenges.”

### Performance

The year to 31st March 2008 was characterised by highly volatile, at times turbulent, financial markets giving our Investment Managers significant investment challenges. Their achievement of a performance marginally ahead of benchmark, albeit a decline in absolute terms, reflects their considerable experience which has given them the capability to deal effectively with sudden adverse market conditions. Over the year the Company's total return on net assets (i.e. with net income reinvested) was -8.4%, which compares with a return of -8.5% on the same basis from the Company's benchmark, the HSBC Smaller European Companies (ex UK) Index in sterling terms.

We should set the current year in the context of longer term performance. Over the three, five and ten year periods to 31st March 2008, our Investment Managers have outperformed their benchmark in asset growth by aggregate amounts of 27%, 68% and 169% respectively, an outstanding track record. More details of the longer term performance is set out on page 1.

Along with many companies in the sector and reflecting the market conditions, the discount to asset value at which your Company trades widened significantly during the year. The discount to net asset value (assuming the shares held in Treasury had been reissued at the closing mid price as at 31st March 2008) widened from 8.0% to 15.1%. This resulted in a total return to shareholders of -15.5%. The average weekly discount during the year was 12.7%. Reducing this discount again will be one of the Company's ongoing tasks.

The Company's total return for the year can be analysed by looking at the performance attribution analysis set out in the table on page 4. This shows that, at the portfolio level, asset allocation and the use of gearing were positive contributors, whilst stock selection was marginally negative.

### Treasury Shares

At the previous three Annual General Meetings shareholders have approved a resolution to enable the Company to sell shares from Treasury at a discount to net asset value. Your Board believes that there are benefits in having the ability to reissue, rather than cancel, shares bought in the market. Its use can improve liquidity in the Company's shares, help manage any imbalance between the supply and demand, reduce the volatility and absolute levels of the discount and enhance the net asset value by selling shares at a narrower discount than that at which they were purchased.

During the year under review, your Board purchased a total of 2,579,875 shares to be held in Treasury. No shares were reissued from Treasury during the year and on 20th March 2008, 1,431,319 shares previously held in Treasury were cancelled.

Your Board is requesting that shareholders renew the authority for the use of Treasury shares at the forthcoming Annual General Meeting. It is important to note that, as previously, the Board will maintain its policy of restricting the Company's ability to sell Treasury shares, by imposing a strict limit to the dilution associated with the sale at a discount to a maximum of 0.5% of net asset value in any one year.

### Board and Manager Evaluation

The Nomination Committee carried out its annual evaluation of the Board, its Committees, the individual Directors and the Chairman earlier this year. The Board takes this review seriously and views it as an effective means of evaluating the continuing efficacy of the Board. In accordance with the Company's Articles of Association, Anthony Davidson and Federico Marescotti will retire by rotation at this year's AGM. Both Directors will offer themselves for re-election. The

Nomination Committee having considered their qualifications, performance and contribution to the Board and its committees, I confirm that both Directors continue to be effective and demonstrate commitment to the role and the Board recommends to shareholders that they be re-elected.

The Board also carried out a formal review of the Manager, JPMorgan Asset Management (UK) Limited ('JPMAM') during the year. This covered the investment management, company secretarial, administrative and marketing services provided to the Company by JPMAM and took into account their investment performance record, management processes, investment style, resources and risk control mechanisms. The Board is fully satisfied with the performance of the Manager and concluded that its continued appointment on the existing terms is very much in the interests of shareholders as a whole.

### Corporate Governance

The Company operates in accordance with corporate governance best practice and the Board is committed to the highest standards of corporate governance as applicable to investment trust companies. Comprehensive information can be found in the Corporate Governance section of this Report on pages 23 to 26.

### VAT

In June 2007, the European Court of Justice ruled in favour of the action brought by the Association of Investment Companies and JPMorgan Claverhouse that VAT should not be charged on management fees paid by investment trust companies. As a result, VAT has not been charged on the Company's management fees since 1st October 2007. This represents a cost saving to the Company and the Board will take steps to recover the VAT paid in previous years to the extent it can. However, the process is not straightforward and it may take some time for HM Revenue & Customs to make repayments and for the Company to recover the amounts due. More details are given in note 17 to the accounts.

### Annual General Meeting

Your Directors and I very much look forward to welcoming you to the Company's AGM which will be held at Trinity House, Tower Hill, London EC3N 4DH on Tuesday 8th July 2008 at 12.00 noon. The Investment Managers will make a presentation reviewing the past year and commenting on the outlook for the current year. As usual, 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 able to lodge their proxy votes electronically.

### Outlook

Our Investment Managers set out their views on the investment outlook on the next few pages. Your Board remains cautious on the outlook for the market in general until earnings visibility improves and particularly in the small cap asset class. However, it has considerable confidence that our Investment Managers will continue to add value over the long term through their investment management process.

**Elisabeth Airey**  
Chairman

29th May 2008

# Investment Managers' Report



Jim Campbell



Francesco Conte

## Performance attribution for the year to 31st March 2008

### Contributions to Total Returns

	%
Benchmark total return	<b>-8.5</b>
Asset allocation	+1.1
Stock selection	-0.3
Gearing/cash effect	+1.3
Currency	0.0
<b>Investment Manager contribution</b>	<b>+2.1</b>
<b>Portfolio total return</b>	<b>-6.4</b>
Management fees/ other expenses	-1.2
Share repurchases	+0.1
Residual*	-0.9
<b>Other effects</b>	<b>-2.0</b>
<b>Net asset value total return</b>	<b>-8.4</b>
Increase in discount	-7.1
<b>Share price total return</b>	<b>-15.5</b>

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

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

\* 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 dividend(s) paid by the Company (on the ex-dividend date).

A glossary of terms and definitions is provided on page 56.

## European Stockmarkets

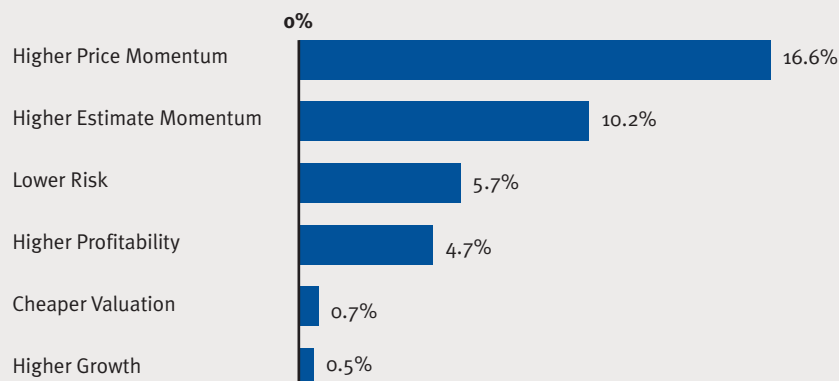
The twelve months to 31st March 2008 has been one of the most challenging periods in recent history with the markets swinging from extreme optimism to extreme pessimism. The reporting season for the first quarter of 2007 was very strong and representative of the optimism with which the year started.

Robust economies in Western Europe were sustained by strong demand for infrastructure by the new members of the European Union as well as Brazil, Russia, India, China and the Middle East. Western European industrial companies, as the predominant producers of many infrastructure products such as cranes, trains and power plants, were leading beneficiaries. Moreover, the trend to set up offshore manufacturing facilities in low cost countries continued, fuelling a virtuous cycle of non inflationary growth with ever growing profitability. As we wrote in last year's annual report, valuation was a concern at the time, which is why we reduced our gearing, but newsflow and momentum remained very strong.

The first cracks in the financial system emerged over the summer of 2007 and were initially limited to sub-prime loans. Following falls in US residential property values, defaults and foreclosures rose sharply, leading to mounting losses for the banking system. It became increasingly difficult for banks to finance themselves and those more dependent on short term wholesale financing, such as Northern Rock, had to be rescued. Banks tightened lending standards aggressively the world over, resulting in skyrocketing risk premia on all types of credit instruments. Ultimately, this made it more difficult and expensive for consumers and corporates to borrow money. The end of "easy" credit naturally resulted in slowing consumer demand towards the end of the year.

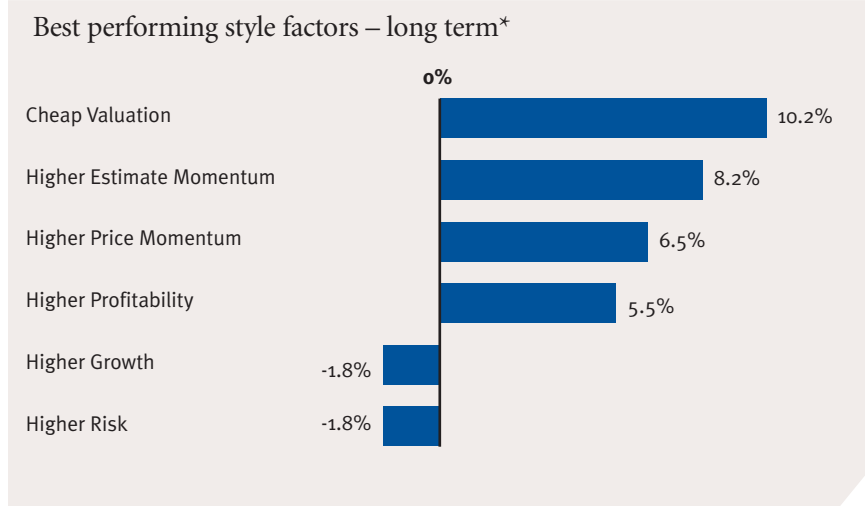
The flight away from assets perceived as risky led to the first year since 2000 where large caps outperformed small caps. Over the year, the blue-chip FTSE World Europe (ex UK) Index returned +2.5 per cent while the HSBC Smaller European Companies (ex UK) Index returned -8.5 per cent. The net asset value of the Company performed in line with the index, returning -8.4 per cent.

## Best performing style factors – 12 months to 31st March 2008



Source: Citigroup Smith Barney

“Unusually, buying cheap stocks relative to the market did not contribute significantly to performance this year.”



Source: Citigroup Smith Barney

\*Since 1990 to March 2008

As economies slowed, the sectors that had been the best performing, such as construction and industrials, went into sharp reversal. Therefore it was not surprising that the investment style factors which worked best in smaller companies were holding stocks with earnings upgrades and high price momentum, i.e. growth stocks. Unusually, buying cheap stocks relative to the market did not contribute significantly to performance this year.

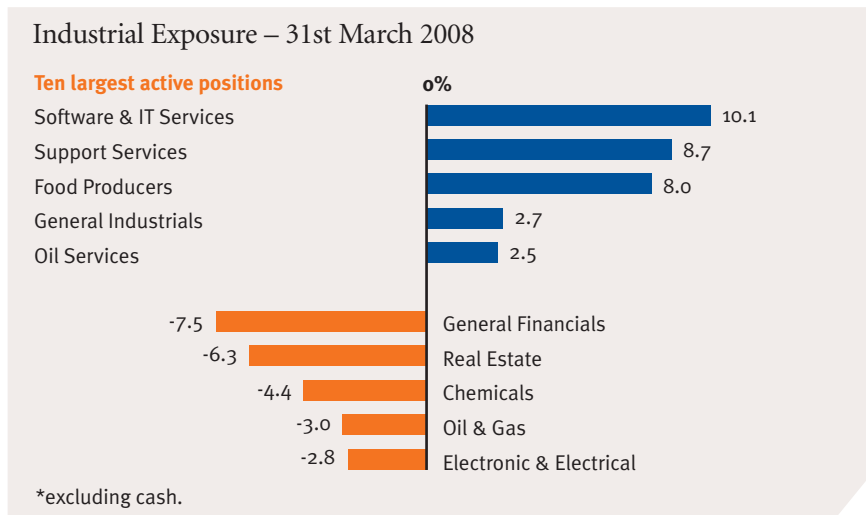
### Investment Process

The objective of the Company is to achieve capital growth from a portfolio of quoted smaller companies in Europe, excluding the United Kingdom. The investment universe is defined at the time of purchase by the countries and market capitalisation range of the constituents of the benchmark index which, at the end of March 2008, consisted of 1,000 companies with a market value of between £63m and £2.6bn across 15 countries.

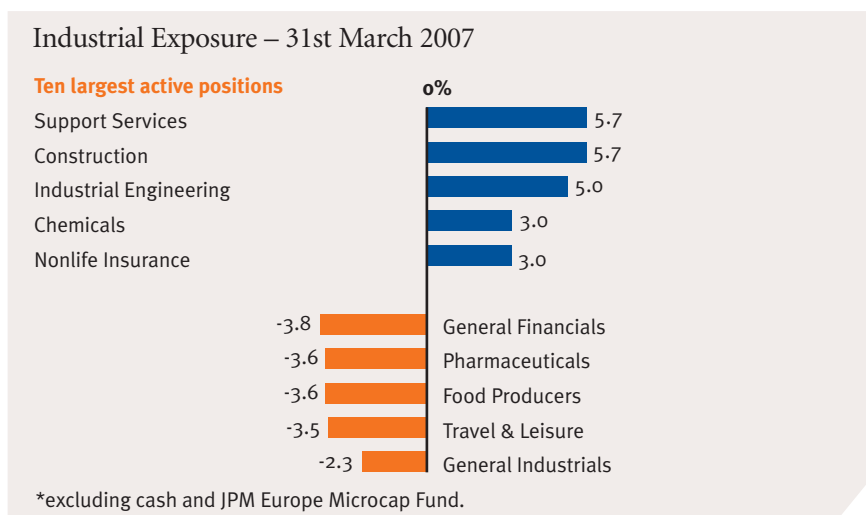
The investment process is driven by bottom-up stock selection, focusing on a combination of growth companies with strong operational momentum and value companies with a catalyst for re-rating. The large universe of potential investments is screened using a proprietary multi-factor model to the results of which we apply extensive fundamental analysis.

The portfolio is constructed within a framework where risk is managed in terms of investment style factors relative to the benchmark index. Investments are sold when there is a fundamental negative change in business prospects, the valuation is regarded as excessive or the market capitalisation has outgrown significantly the benchmark index. The policy is not to hedge the currency exposure of the portfolio's assets. The Board has set a liquidity range of 10 per cent cash to 20 per cent gearing within which the Managers may invest.

# Investment Managers' Report continued



Source: JPMorgan Asset Management, Factset, HSBC.



Source: JPMorgan Asset Management, Factset, HSBC.

### Portfolio Performance

While the Company had benefited the preceding year from being geared, the biggest contributor to performance this year was our cautious approach, which led us to run with 10 per cent cash for much of the year. Due to the volatility of the market, good sector performance came from both defensives and cyclicals at the same time. Successful stock selection in defensive names included Grifols in Spain, a medical products provider and Nutreco, a Dutch producer of fish and animal feed, while top selections amongst global infrastructure suppliers included Dutch maritime services provider Smit Internationale, Swiss farm equipment group Bucher and Italian oil drilling equipment manufacturer and operator Trevi. The biggest negative contributors to performance were companies exposed to the consumer cycle such as luxury goods companies IT Holding and Aeffe in Italy. The market significantly de-rated the value of both companies ahead of any real downgrades materialising.

### Portfolio Positioning

The portfolio ended the year with a total of 80 holdings, compared with 52 the previous year. Of these, approximately 90% is invested in 45 holdings.

The remainder is held in relatively small microcap holdings. During the year, the Company exited its investment in the JPM Europe Micro Cap Fund, also managed by your Managers. In October 2007, this fund became pan-European (to include the UK) and was deemed an inappropriate investment vehicle for the Company, which invests in Continental Europe only. However, given that over time microcaps tend to outperform, we have maintained approximately 10 per cent of the portfolio invested directly in microcaps. Perceived as high risk, microcaps have performed poorly in the last twelve months.

During the year, we moved away from the construction and engineering sectors, which have served us well over the last few years. Included amongst these sales were long time favourites such as JM, the Swedish house-builder, Cementos Portland, a Spanish cement producer, and Andritz, an Austrian manufacturer of paper making machinery. The proceeds mostly have been invested in growth sectors that should be able to offset the worst of an economic slowdown such as business software or defensive sectors with visible earnings growth such as food and support services. With large software investments last made at the time of the "millennium bug", many companies are once again in the process of updating their systems, benefiting companies such as Unit 4 and Exact in Holland and Temenos in Switzerland. An example of investments in support services is the Spanish security services provider Prosegur. Food investments include animal feed producer Nutreco in Holland and seed producer Vilmorin in France.

### Outlook

Thanks to unprecedented injections of liquidity by central banks, disaster in the financial system has been averted and there have been no major banks going bankrupt. Moreover, most large financial institutions, such as Citigroup, UBS and RBS, have refinanced themselves. Credit spreads are still high but appear to be trending downwards. Small cap valuations relative to their large cap peers have reverted to their long term average, absolute valuation levels are supportive and interest rates have fallen sharply in the US. Despite the ECB remaining reluctant to lower rates, it has substantial room for cutting rates to ease any sharp decline in economic activity.

However, since the bank problems persisted for so long and have attracted so much publicity, consumer confidence has suffered and at this time it is difficult to estimate the length and depth of any downturn. Moreover high oil and food prices have reduced consumer spending power and European corporates have to contend with an ever appreciating Euro. So while earnings expectations are more realistic than they were six months ago, they are likely still too high and until that gap is closed it is difficult for markets to mount a sustained rally.

In summary, the balance of risks is more evenly weighted than it has been since the sub-prime crisis started: valuations are becoming more attractive but the earnings outlook is deteriorating. We remain cautious, awaiting improved visibility on earnings.

**Jim Campbell**

**Francesco Conte**

Investment Managers

29th May 2008

## Summary of Results

	2008	2007	
<b>Total Returns</b> for the year ended 31st March			
Return to shareholders <sup>1</sup>	-15.5%	+26.6%	
Return on net assets <sup>2,3</sup>	-8.4%	+23.7%	
Benchmark return <sup>4</sup>	-8.5%	+19.5%	
<b>Net Asset Value, Share Price, Discount and Market Data</b> as at 31st March			
			% change
Shareholders' funds (£'000)	393,957	450,244	-12.5
Net asset value per share	807.8p	876.8p	-7.9
Net asset value per share assuming reissue of treasury shares <sup>3</sup>	801.4p	874.9p	-8.4
Share price	680.0p	805.0p	-15.5
Discount of share price to net asset value	15.8%	8.2%	
Discount of share price to net asset value assuming reissue of treasury shares	15.1%	8.0%	
Shares in issue	51,350,198	52,781,517	
HSBC Smaller European Companies (ex UK) Index in sterling terms (capital only) <sup>4</sup>	299.1	331.7	-9.8
<b>Revenue</b> for the year ended 31st March			
Gross revenue return (£'000)	6,149	7,767	-20.8
Net (loss)/revenue available for shareholders (£'000)	(376)	1,279	-129.4
(Loss)/revenue per share	(0.75)p	2.49p	-130.1
<b>Actual Gearing Factor</b> at 31st March <sup>5</sup>	100.9%	96.2%	
<b>Total Expense Ratio (TER)</b> <sup>6</sup>	1.33%	1.21%	

A glossary of terms and definitions is provided on page 56.

<sup>1</sup>Source: Standard & Poor's – [www.funds.morningstar.com](http://www.funds.morningstar.com)

<sup>2</sup>Source: Fundamental Data – [www.funddata.com](http://www.funddata.com)

<sup>3</sup>Net asset value assuming the 2,579,875 shares held in Treasury were reissued at the closing mid price as at 31st March 2008.

<sup>4</sup>Source: HSBC.

<sup>5</sup>Actual gearing represents investments, excluding the Company's liquidity fund holding, expressed as a percentage of shareholders' funds.

<sup>6</sup>Management fees and all other operating expenses, excluding interest, expressed as a percentage of the average of the opening and closing net assets. The method of calculating the TER has been changed and prior years restated. Further details are given in the glossary of terms and definitions on page 56.

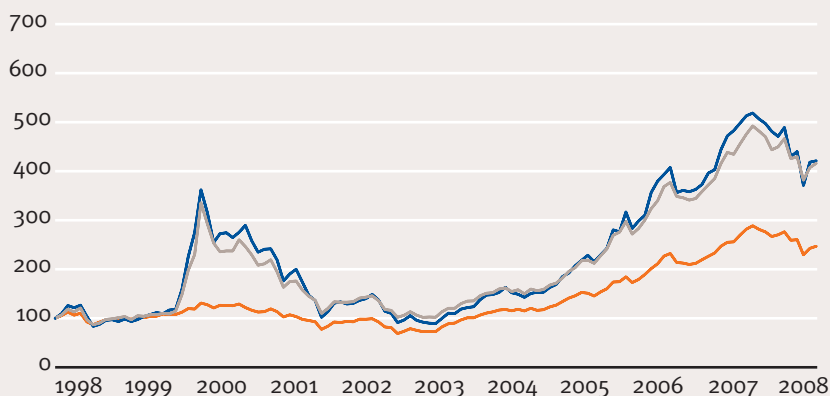
# Performance

- JPMorgan European Fledgeling – Share price
- JPMorgan European Fledgeling – Net asset value
- Benchmark

Source: Standard & Poor's – [www.funds.morningstar.com/](http://www.funds.morningstar.com/)  
 Fundamental Data – [www.funddata.com/HSBC](http://www.funddata.com/HSBC).  
 (Total Return)

## Ten Year Performance

Figures have been rebased to 100 as at 31st March 1998

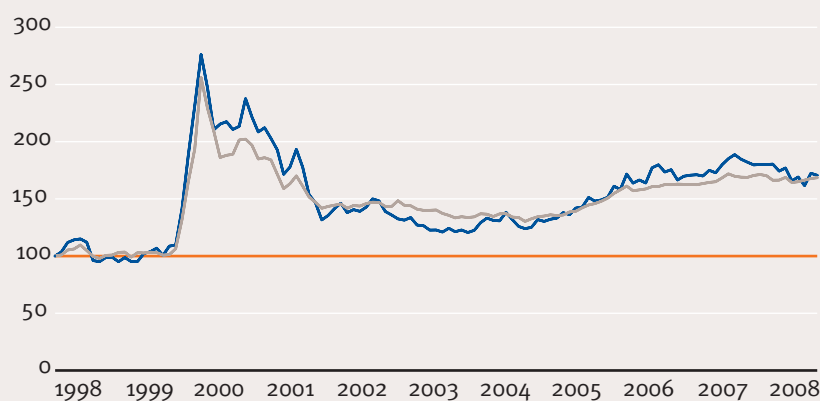


- JPMorgan European Fledgeling – Share price
- JPMorgan European Fledgeling – Net asset value
- Benchmark

Source: Standard & Poor's – [www.funds.morningstar.com/](http://www.funds.morningstar.com/)  
 Fundamental Data – [www.funddata.com/HSBC](http://www.funddata.com/HSBC).  
 (Total Return)

## Performance Relative to Benchmark

Figures have been rebased to 100 as at 31st March 1998



## Ten Year Financial Record

<b>As at 31st March</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Total assets less current liabilities (£m)	129.9	140.3	412.9	221.9	181.9	116.0	162.6	225.9	373.0	450.2	394.0
Net asset value per share (p)	192.9	187.4	564.8	314.9	272.4	196.9	298.2	421.8	709.0	876.8	807.8
Share price (p)	161.8	151.0	511.0	285.0	221.0	144.5	246.0	369.8	636.0	805.0	680.0
Discount (%)	16.1	19.4	9.5	9.5	18.9	26.6	17.5	12.3	10.3	8.2	15.8
Actual gearing factor	114.6	117.1	118.7	114.1	110.7	104.9	107.8	104.9	103.8	96.2	100.9
<b>Year ended 31st March</b>											
Revenue attributable to shareholders (£'000)	1,661	2,494 <sup>1</sup>	1,641	2,074	2,779	3,572	3,446	4,218	4,898	7,767	6,149
(Loss)/revenue per share (p)	(0.99)	(0.32)	(3.93)	(8.26)	(2.94)	0.48	1.59	0.17	0.41	2.49	(0.75)
Total expense ratio (TER) (%) <sup>2</sup>	1.07	1.25	0.99	1.35	1.35	1.39	1.46	1.20	1.25	1.21	1.33
<b>Rebased to 100 at 31st March 1998</b>											
Share price total return <sup>3</sup>	100.0	93.4	315.8	176.2	136.6	89.3	152.1	228.6	393.3	498.3	421.1
Net asset value total return <sup>3</sup>	100.0	97.1	292.8	163.2	141.2	102.1	154.6	218.6	368.5	451.6	416.0
Benchmark <sup>3</sup>	100.0	98.1	127.6	102.7	98.2	72.8	115.3	151.1	226.8	269.7	246.9

A glossary of terms and definitions is provided on page 56.

<sup>1</sup>Figures have been restated where necessary to comply with FRS16. The figures for 1998 have not been restated.

<sup>2</sup>Management fees and all other operating expenses, excluding interest, expressed as a percentage of the average of the opening and closing net assets. The method of calculating the TER has been changed and prior years restated. Further details are given in the glossary of terms and definitions on page 56.

<sup>3</sup>Source: Standard & Poor's – [www.funds.morningstar.com/Fundamental Data](http://www.funds.morningstar.com/Fundamental Data) – [www.funddata.com/HSBC](http://www.funddata.com/HSBC).

## Ten Largest Investments<sup>1</sup>

Company	Business	As at 31st March 2008		As at 31st March 2007	
		Valuation £'000	% <sup>2</sup>	Valuation £'000	%
<b>Trevi Finanziaria Industriale</b>	Drilling Equipment	12,886	3.3	7,936	1.8
<b>Vilmorin<sup>3</sup></b>	Seed Producer	12,790	3.2	–	–
<b>Gemalto<sup>3</sup></b>	Smart Cards	12,518	3.2	–	–
<b>Smit</b>	Maritime Services	11,863	3.0	7,926	1.8
<b>FLSmidth</b>	Plant Engineer	11,192	2.8	9,823	2.2
<b>Nokian Renkaat<sup>3</sup></b>	Tyre Producer	10,899	2.8	–	–
<b>Grifols</b>	Plasma Derivatives	10,858	2.8	10,460	2.3
<b>Prosegur Compañia Seguridad</b>	Security Services	10,846	2.8	8,163	1.8
<b>Modern Times Group<sup>3</sup></b>	Media	10,827	2.7	–	–
<b>Tecnicas Reunidas</b>	Plant Engineer	10,818	2.7	10,392	2.3
<b>Total<sup>4</sup></b>		115,497	29.3		

<sup>1</sup>Excluding the holding in the JPMorgan Euro Liquidity Fund.

<sup>2</sup>Based on total assets less current liabilities of £394.0m (2007: £450.2m).

<sup>3</sup>Not included in the ten largest investments as at 31st March 2007.

<sup>4</sup>As at 31st March 2007 the value of the ten largest investments amounted to £138.1m, representing 30.7% of total assets less current liabilities.

# Portfolio Analyses

## Geographical Analysis

	31st March 2008		31st March 2007	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
Italy	15.7	11.9	9.4	12.8
Netherlands	14.8	6.0	16.7	6.6
Spain	13.4	8.9	12.8	6.7
France	12.8	11.8	11.7	12.0
Switzerland	11.9	8.8	6.7	9.3
Germany	6.0	13.8	10.2	12.9
Finland	5.7	4.0	9.1	4.8
Sweden	5.5	8.1	3.4	8.6
Austria	3.0	3.5	4.0	3.4
Denmark	2.8	4.5	6.6	5.2
Ireland	2.8	2.1	2.2	2.0
Greece	2.5	5.8	2.5	4.4
Belgium	1.2	3.4	–	3.4
Norway	0.2	5.3	0.3	6.1
Portugal	–	1.7	–	1.7
Luxembourg	–	0.4	–	0.1
Total equities	98.3	100.0	95.6	100.0
Liquidity fund	2.5	–	2.8	–
Net current (liabilities)/assets	(0.8)	–	1.6	–
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Based on total assets less current liabilities of £394.0m (2007: £450.2m).

## Sector Analysis

Sector	31st March 2008		31st March 2007	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
Industrials	29.7	26.8	37.4	26.1
Information Technology	15.7	6.5	4.8	6.9
Consumer Discretionary	14.3	16.9	7.7	16.8
Consumer Staples	14.2	6.5	–	6.0
Health Care	9.8	7.3	4.3	7.6
Materials	4.0	8.7	6.3	8.9
Financials	3.5	18.5	26.1	17.9
Utilities	3.5	2.5	–	1.7
Telecommunication Services	2.3	0.9	2.1	1.6
Other	1.3	–	–	0.2
Energy	–	5.4	7.5	6.3
Total equities	98.3	100.0	96.2	100.0
Liquidity fund	2.5	–	2.8	–
Net current (liabilities)/assets	(0.8)	–	1.0	–
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Based on total assets less current liabilities of £394.0m (2007: £450.2m).

## Investment Activity

during the year to 31st March 2008

	Value as at 31st March 2007		Purchases £'000	Sales £'000	Changes in value £'000	Value as at 31st March 2008	
	£'000	%				£'000	%
Netherlands	71,610	15.9	110,856	125,758	1,532	58,240	14.8
Spain	57,701	12.8	61,642	75,379	9,023	52,987	13.5
Luxembourg	45,254	10.0	–	47,148	1,894	–	–
France	45,166	10.0	91,662	77,382	(8,870)	50,576	12.8
Germany	39,955	8.9	89,331	95,441	(10,201)	23,644	6.0
Finland	37,632	8.4	57,128	74,176	1,688	22,272	5.7
Italy	34,159	7.6	122,682	74,907	(20,223)	61,711	15.7
Denmark	29,752	6.6	18,204	35,334	(1,400)	11,222	2.8
Switzerland	25,590	5.7	68,410	49,966	2,795	46,829	11.9
Austria	18,225	4.0	31,216	33,131	(4,451)	11,859	3.0
Sweden	10,683	2.4	40,505	24,181	(5,175)	21,832	5.5
Ireland	8,893	2.0	30,745	26,218	(2,516)	10,904	2.8
Greece	8,599	1.9	25,769	20,097	(4,349)	9,922	2.5
Portugal	–	–	5,919	4,847	(1,072)	–	–
Norway	–	–	8,497	7,276	(318)	903	0.2
Belgium	–	–	11,959	5,990	(1,289)	4,680	1.2
Total portfolio	433,219	96.2	774,525	777,231	(42,932)	387,581	98.4
Liquidity Fund	12,736	2.8	253,943	260,743	3,814	9,750	2.5
Net current assets/(liabilities)	4,289	1.0	–	–	–	(3,374)	(0.9)
<b>Total net assets</b>	<b>450,244</b>	<b>100.0</b>	<b>1,028,468</b>	<b>1,037,974</b>	<b>(39,118)</b>	<b>393,957</b>	<b>100.0</b>

Based on total assets less current liabilities of £394.0m (2007: £450.2m)

# List of Investments

at 31st March 2008

Company	Valuation £'000	Company	Valuation £'000
<b>Italy</b>		<b>France</b>	
Trevi Finanziaria Industriale	12,886	Vilmorin	12,790
Gruppo Coin	8,796	Bureau Veritas	8,761
Parmalat	8,424	Ingenico	7,415
Ansaldo STS	8,271	Eurofins Scientific	7,082
Recordati	8,160	Rubis	6,027
Enia	7,879	Adenclassifieds	894
Aeffe	2,201	LVL Medical	816
Reply	1,142	Oberthur Technologies	789
Cobra	874	Audika	765
Marr	862	1000Mercis	760
Brembo	766	Business & Decision	723
Screen Service Broadcasting	589	Leguide	705
Zignago Vetro	548	Outremer Telecom	669
Safilo	313	Avenir Telecom	575
<b>Total</b>	<b>61,711</b>	Ginger	458
		Parrot	449
		Acadomia	321
		C.E.G.I.D.	302
		Homair	275
		<b>Total</b>	<b>50,576</b>
<b>Netherlands</b>		<b>Switzerland</b>	
Gemalto	12,518	Bucher Industries	10,457
Smit	11,863	Vetropack	9,870
Unit 4 Agresso	9,605	Temenos	9,255
Nutreco	9,007	Dufry	8,045
Exact	8,045	Straumann	6,273
Sligro Food	6,797	Bachem	1,818
Grontmij	405	Medisize	1,111
<b>Total</b>	<b>58,240</b>	<b>Total</b>	<b>46,829</b>
		<b>Germany</b>	
		Vossloh	10,560
		Krones	8,862
		Wirecard	947
		D&S Europe	916
		Gerry Weber International	800
		Gildemeister	794
		Medion	765
		<b>Total</b>	<b>23,644</b>
<b>Spain</b>			
Grifols	10,858		
Prosegur Compañía Seguridad	10,846		
Tecnicas Reunidas	10,818		
Indra Sistemas	10,535		
Grupo Catalana Occidente	8,974		
Laboratorios Farmaceuticos Rovi	956		
<b>Total</b>	<b>52,987</b>		

Company	Valuation £'000	Company	Valuation £'000
<b>Sweden</b>		<b>Greece</b>	
Modern Times Group	10,827	Intralot	9,135
Swedish Match	8,340	Sarantis	787
Peab	944	<b>Total</b>	<b>9,922</b>
Peab Industries	903	<b>Belgium</b>	
HIQ International	818	Ackermans	4,680
<b>Total</b>	<b>21,832</b>	<b>Total</b>	<b>4,680</b>
<b>Austria</b>		<b>Norway</b>	
Österreichische Post	6,642	Veidekke	903
MM Karton	5,217	<b>Total</b>	<b>903</b>
<b>Total</b>	<b>11,859</b>	<b>Liquidity Fund</b>	
<b>Denmark</b>		JPM Euro Liquidity Fund	9,750
FLSmidth	11,192	<b>Total</b>	<b>9,750</b>
Auriga Industries	30	<b>Total Portfolio</b>	
<b>Total</b>	<b>11,222</b>	<b>397,331</b>	
<b>Finland</b>		<hr/>	
Nokian Renkaat	10,899		
Elisa	8,547		
Stockmann	2,826		
<b>Total</b>	<b>22,272</b>		
<b>Ireland</b>			
Kerry	9,015		
United Drug	962		
Paddy Power	927		
<b>Total</b>	<b>10,904</b>		

## Board of Directors



### **Elisabeth Airey (Chairman of the Board and Nomination Committee)**

A Director since January 2000. Appointed Chairman in 2006.

A Director of AMEC plc, Dunedin Enterprise Investment Trust plc and Tate and Lyle plc. Chairman of Zetex plc.



### **Anthony Davidson (Chairman of the Audit Committee)**

A Director since May 2005

Director of Shires Income plc, Sun Life Assurance Company of Canada (UK) Limited and a number of life companies within The Pearl Group. Formerly Chief Executive of Provincial Insurance plc.



### **Paul Manduca**

A Director since December 2005

Director of WM Morrison Supermarkets plc and Kazmunaigaz plc. Chairman of Henderson Diversified Income Investment Trust plc, UNIQ Pension Scheme Trustees Limited and Director of Development Securities plc and Aon (UK) Limited. Formerly the Chief Executive Officer of Deutsche Asset Management Europe Limited.



### **Federico Marescotti**

A Director since December 2005

A Managing Partner of Vela Capital and Executive Chairman of Friulia, Italy. A Director of Ecofin Water & Power Opportunities plc.



### **Michael Wrobel**

A Director since April 2003

Group Advisor Pension Investments at Rio Tinto plc. Formerly a Director of Gartmore Investment Management plc and Head of Investment Trusts at F&C Management.

All Directors are members of the Audit and Nomination Committees and are considered independent of the Manager.

# Directors' Report

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

## Business Review

### Business of the Company

The Company carries on business as an investment trust and was approved by HM Revenue and Customs as an investment trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31st March 2007. In the opinion of the Directors, the Company has subsequently conducted its affairs so that it should continue to qualify. The Company will continue to seek approval under Section 842 of the Income and Corporation Taxes Act 1988 each year.

Approval for the year ended 31st March 2007 is subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment.

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006. 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 and 3, and in the Investment Managers' Report on pages 4 to 7.

### Objective

The Company's objective is to achieve capital growth from smaller European companies (excluding the UK).

### Investment Policies and Risk Management

In order to achieve the investment objective and to seek to manage risk, the Company invests in a diversified portfolio of smaller companies in Europe, excluding the UK.

The investment universe is defined at the time of purchase by the countries and market capitalisation range of the constituents of the benchmark index which, at the end of March 2008, consisted of 1,000 companies with a market value of between £63m and £2.6bn across 15 countries.

The Company manages liquidity and borrowings to increase potential sterling returns to shareholders; the Board has set a normal range of 90-120% invested. The Company borrows in Euros in order to hedge the currency risk in respect of the geared portion of the portfolio.

The investment policy emphasises capital growth rather than income and shareholders should not therefore expect a dividend.

The Board has set no minimum or maximum limits on the number of investments in the portfolio but in the year under review, the number of investments ranged between approximately 50 to 90. To gain the appropriate exposure, the Investment Managers are permitted to invest in pooled funds. JPMAM is responsible for management of the Company's assets. On a day-to-day basis the assets are managed by two investment managers based in London, supported by a 40 strong European equity team.

It should be noted that the Company invests in smaller companies which tend to be more volatile than larger companies and the Company's shares should therefore be regarded as greater than average risk.

### Investment Restrictions and Guidelines

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

- As an investment trust, the Company cannot invest more than 15% of its assets in any one investment, at the time of acquisition. The Company will not invest more than 12.5% of its total assets in any one individual stock at the time of acquisition. However, the Board's current investment guideline is a maximum of 5%, excluding liquidity funds used to hold cash.
- The Company does not normally invest in unquoted investments and to do so requires prior Board approval.
- No more than 25% of the Company's assets may be invested in the aggregate of (i) securities not listed on a recognised exchange; and (ii) holdings in which the Company has 20% or more of the issued equities. It is unlikely that the Company would invest in companies that fall into either of these categories and did not do so in the year under review.
- In accordance with the Listing Rules of the UK Listing Authority, the Company will not invest more than 15% of its gross assets in other UK listed investment companies and will not invest more than 10% of its gross assets in companies that themselves may invest more than 15% of gross assets in UK listed investment companies.
- The Company does not normally enter into derivative transactions and to do so requires prior Board approval.

These limits and restrictions may be varied by the Board at any time at its discretion.

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.

## Directors' Report continued

### Performance

In the year to 31st March 2008, the Company produced a total return to shareholders of -15.5% and a total return on net assets of -8.4%. This compares with the return on the Company's benchmark index of -8.5%. As at 31st March 2008, the value of the Company's investment portfolio was £397.3m. The Investment Managers' Report on pages 4 to 7 includes a review of developments during the year as well as information on investment activity within the Company's portfolio.

### Total Return, Revenue and Dividends

Gross total loss for the year amounted to £30.9m (2007: return of £90.1m) and net loss after deducting the management fee, other administrative expenses, finance costs and taxation amounted to £37.4m (2007: return of £83.6m). Net revenue for the year totalled a deficit of £0.4m (2007: net revenue of £1.3m). The Company is unable to pay a dividend due to a £7.8m (2007: £7.4m) deficit on the revenue account.

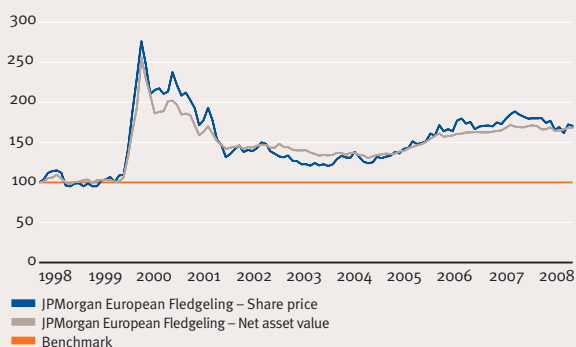
### Key Performance Indicators ('KPIs')

The Board uses a number of financial KPIs to monitor and assess the performance of the Company. The principal KPIs are:-

- **Performance against the benchmark index**  
This is the most important KPI by which performance is judged.

#### Performance relative to Benchmark Index

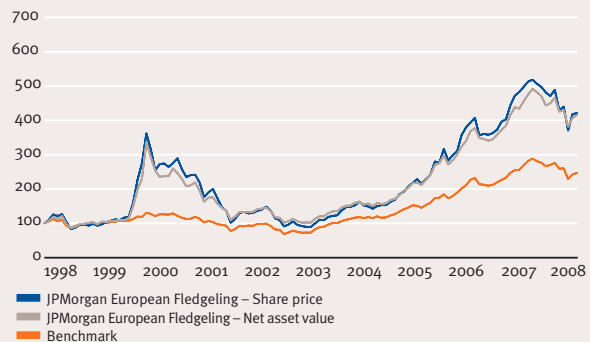
Figures have been rebased to 100 at 31st March 1998



Source: Standard & Poor's - [www.funds.morningstar.com/FundamentalData](http://www.funds.morningstar.com/FundamentalData) - [www.funddata.com/HSBC](http://www.funddata.com/HSBC). (Total Return)

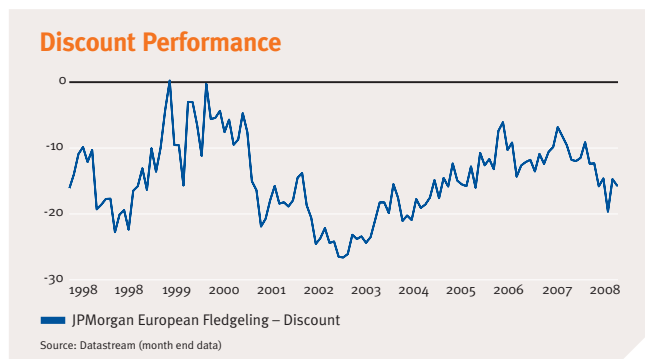
#### Ten Year Performance

Figures have been rebased to 100 at 31st March 1998



Source: Standard & Poor's - [www.funds.morningstar.com/FundamentalData](http://www.funds.morningstar.com/FundamentalData) - [www.funddata.com/HSBC](http://www.funddata.com/HSBC). (Total Return)

- **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 March 2008 are given in the Investment Managers' Report on page 4.
- **Discount to net asset value ('NAV')**  
The Board has for several years operated a share repurchase programme which 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 March 2008, the discount (with debt at par value) ranged between -18.88% and -6.85%.  
  
The Board also has the ability to purchase shares into Treasury and to issue them at a later date at a narrower discount. Further details on Treasury shares can be found in the Chairman's Statement on page 2 and in this Directors' Report on page 19.



- **Total expense ratio ('TER')**

The TER is an expression of the Company's management fees and all other operating expenses, excluding interest, expressed as a percentage of the average of the opening and closing net assets. The TER for the year ended 31st March 2008 was 1.33% (2007: 1.21%, as restated). The Board reviews each year an analysis which shows a comparison of the Company's TER and its main expenses with those of its peers.

### Share Capital

The Company has authority to issue new shares, to repurchase shares into Treasury and to repurchase shares for cancellation.

During the year the Company purchased a total of 2,579,875 shares into Treasury and cancelled 1,431,319 shares purchased in previous years and held in Treasury. Since the year end, the Company has purchased a further 203,000 shares into Treasury.

During the year the Company did not repurchase any shares for cancellation. Since the year end, the Company has repurchased 57,000 shares.

The Company did not issue any new shares during the year or since the Company's year end until the date of this report.

Resolutions to renew the authority to issue new shares, repurchase shares and to sell shares from Treasury at a discount to NAV will be put to shareholders at the forthcoming Annual General Meeting. The full text of these resolutions are set out in the Notice of Meeting on pages 50 and 51.

### 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 under-performance 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 review 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 Acts and, since its shares are listed on the London Stock Exchange, the UKLA Listing Rules. A breach of the Companies Acts could result in the Company and/or the Directors being fined or the subject of criminal proceedings. Breach of the UKLA Listing Rules could result in the Company's shares being suspended from listing which in turn would breach Section 842. The Board relies on the services of its Company Secretary, JPMAM to ensure compliance with The Companies Acts and the UKLA Listing Rules.

## Directors' Report continued

- **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 23 to 26.
- **Operational:** Loss of key staff by JPMAM, such as the Investment Managers, could affect the performance of the Company. 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 with the Internal Control section of the Corporate Governance report on page 25.
- **Financial:** The financial risks faced by the Company include market price risk, interest rate risk, liability risk and credit risk. Further details are disclosed in note 19 on pages 42 to 47. Additional disclosures are provided this year for the first time in accordance with FRS29.

### Future Developments

Clearly, the future development of the Company is much dependent upon the success of the Company's investment strategy in the light of economic and equity market developments. The Investment Managers discuss the outlook in their report on page 7.

### 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 one year's notice, without penalty. If the Company wishes to terminate the contract on shorter notice, the balance of remuneration is payable by way of compensation.

JPMAM is a wholly-owned subsidiary of JPMorgan Chase Bank which, through other subsidiaries, also provides banking, dealing and custodian services to the Company.

The Board has evaluated the performance of the Manager and confirms that it is satisfied that the continuing appointment of the Manager 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 quality of the support that the Company receives from JPMAM.

### Management Fee

The management fee is charged at the rate of 1.3% of the value of the Company's market capitalisation and is calculated and paid monthly in arrears. Investments in funds on which JPMAM charges a management fee are excluded from the calculation.

### 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 March 2008, the Company had no outstanding trade creditors (2007: 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 March 2008	1st April 2007
Elisabeth Airey	18,538	18,538
Anthony Davidson	4,011	4,011
Paul Manduca	1,000	1,000
Federico Marescotti	1,222	1,222
Michael Wrobel	5,000	5,000

No changes in the above holdings have been recorded as at the date of this report.

In accordance with the Company's Articles of Association, the Directors retiring by rotation at the forthcoming Annual General Meeting will be Anthony Davidson and Federico Marescotti who, being eligible, offer themselves for re-election by shareholders.

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:

- 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
- 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.

### Section 992 Companies Act 2006

The following disclosures are made in accordance with Section 992 Companies Act 2006.

#### Capital Structure

The Company's capital structure is summarised on the inside front cover of this report.

#### Voting Rights in the Company's shares

Details of the voting rights in the Company's shares as at the date of this report are given in note 11 to the Notice of AGM on page 52.

#### Notifiable Interests in the Company's Voting Rights

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

Shareholders	Number of voting rights	%
Puddle Dock Nominees Limited <sup>1,2</sup>	5,570,328	11.41
JPMorgan Asset Management (UK) Ltd	3,310,222	6.27
National Grid UK Pension Scheme	2,852,879	5.84
Royal County of Berkshire Pension Fund	2,500,000	5.12
Legal & General Investment Management	2,452,104	4.78
Lazard Asset Management LLC	2,162,200	4.43
East Riding of Yorkshire Council	1,600,000	3.28

<sup>1</sup> Held on behalf of JPMAM ISA and Share Plan participants.

<sup>2</sup> Non-beneficial.

The rules concerning the appointment and replacement of Directors, amendment of the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Acts 1985 and 2006.

There are no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; no agreements which the Company is party to that affect its control following a takeover bid; and no agreements between the Company and its directors concerning compensation for loss of office.

#### Independent Auditors

PricewaterhouseCoopers 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 Annual General Meeting.

#### Annual General Meeting

**NOTE: THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should seek your own personal financial advice from your 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 issue new shares for cash and disapply pre-emption rights (resolutions 6 and 7)

The Directors will seek renewal of the authority at the AGM to issue up to 2,567,509 new shares for cash up to an aggregate nominal amount of £641,877, such amount being equivalent to approximately 5% of the present issued share capital. The full text of the resolutions is set out in the Notice of Meeting on page 50.

It is advantageous for the Company to be able to issue new shares to investors 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.

##### (ii) Authority to repurchase the Company's shares (resolution 8)

The authority to repurchase up to 14.99% of the Company's issued share capital, renewed by shareholders at the 2007 Annual General Meeting, will expire on 12th January 2009 unless renewed at the forthcoming Annual General Meeting. 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 Annual General Meeting to renew this authority, which will last until 7th January 2010 or until the whole of the 14.99 per cent has been acquired, whichever is

## Directors' Report continued

the earlier. The full text of the resolution is set out in the Notice of Meeting on pages 50 and 51. 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.

### (iii) Treasury shares/disapplication of pre-emption rights (resolutions 9 and 10)

The Company is permitted to purchase up to 10% of its own shares into Treasury (for sale or cancellation at a future date) as an alternative to immediate cancellation. The Board considers that circumstances could arise in which it would be in shareholders' interests for such powers to be exercised. This 10 per cent. would form part of the 14.99 per cent. referred to in (ii) above.

The Board continues to believe that the effective use of Treasury shares assists the Company in managing any imbalance between supply and demand, thereby minimising the volatility and absolute level of the discount at which the Company's shares trade to their net asset value, for the benefit of shareholders.

Accordingly, shareholders will also be asked at the Annual General Meeting to approve resolutions 9 and 10 which will allow the Company to sell shares from Treasury at a discount to net asset value and disapply the statutory pre-emption rights respectively. This will enable the Company to sell shares held in Treasury without having to first make a pro rata offer to existing shareholders.

Should the resolutions be passed by shareholders, shares would be sold from Treasury when market demand is identified. Sales would only be made at a discount narrower than the weighted average discount of the shares held in Treasury at that time. This process ensures that the enhancement in net asset value associated with share purchases exceeds the dilution in net asset value associated with the sale of Treasury shares at a discount.

The Board is mindful that shareholders may be concerned about the dilution in net asset value associated with the sale of Treasury shares at a discount. It is therefore proposed that the sale of shares from Treasury at a discount be limited so that in the year to the Company's 2009 Annual General Meeting, the aggregate dilution in net asset value per share arising on such sales does not exceed 4.00 pence per share, being approximately 0.5% of the net asset value per ordinary share as at 31st March 2008.

### (iv) Adoption of new Articles of Association (Resolution 11)

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 Annual General Meeting.

The principal changes brought about by the new Articles of Association proposed to be adopted at the forthcoming Annual General Meeting relate to electronic communication with shareholders, shareholder meetings and resolutions, directors' indemnities, transfers of shares and directors' conflicts of interest. For a more detailed explanation of these and other amendments please refer to the Appendix on pages 53 to 55.

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 Annual General Meeting, for 15 minutes prior to, and during, the meeting.

### Recommendation

The Board considers that resolutions 6 to 11 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, where voting rights are exercisable, in respect of their own beneficial holdings which amount in aggregate to 29,771 shares representing approximately 0.1% of the existing issued share capital of the Company.

By order of the Board  
Jonathan Latter, for and on behalf of  
JPMorgan Asset Management (UK) Limited,  
Secretary  
29th May 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 28, indicates how the Company has applied the principles of good governance of the Financial Reporting Council Combined Code (the 'Combined Code') and the AIC's Code of Corporate Governance (the 'AIC Code'), which complements the Combined Code and provides a framework of best practice for investment trusts.

The Board is responsible for ensuring the appropriate level of corporate governance and considers that the Company has complied with the best practice provisions of the Combined Code, other than in respect of the provision relating to the appointment of a senior independent director, and the AIC Code throughout the year under review.

## Role of the Board

A management agreement between the Company and JPMAM sets out the matters over which the Manager has authority. This includes management of the Company's assets and the provision of accounting, company secretarial, administration and some marketing services. All other matters are reserved for the approval of the Board. A formal schedule of matters reserved for Board 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 five times 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 Elisabeth Airey, consists of five non-executive Directors, all of whom are regarded by the Board as independent, 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 16.

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. The Board has considered whether a senior independent director should be appointed and has concluded that, as the Board comprises entirely of non-executive directors, this is unnecessary. The Chairman of the Audit Committee leads the evaluation of 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 maximum 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 Annual General Meeting.

The Board confirms that Anthony Davidson and Federico Marescotti, who retire by rotation at this year's Annual General Meeting, continue to be effective Directors and demonstrate commitment to their role and therefore recommends their re-election.

## Corporate Governance continued

### Meetings and Committees

The Board delegates certain responsibilities and functions to committees. Details of membership of committees are shown with the Directors' profiles on page 16. Directors who are not members of Committees may attend at the invitation of the Chairman.

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

Director	Board Meetings Attended	Audit Committee Meetings Attended	Nomination Committee Meeting Attended
Elisabeth Airey	5	2	1
Anthony Davidson	5	2	1
Jacques Drossaert <sup>†</sup>	1	–	–
Paul Manduca	5	2	1
Federico Marescotti	5	2	1
Michael Wrobel	5	2	–

<sup>†</sup>Retired as a Director on 13th July 2007.

### Training and Appraisal

On appointment, the Manager and Company Secretary provide all Directors with induction training. Thereafter regular briefings are provided on changes in regulatory requirements that affect the Company and 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. The Audit Committee Chairman 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 Elisabeth Airey, 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 Anthony Davidson, consists of all the Directors and meets at least twice 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 Managers' 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 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 financial report and two interim management statements. This is supplemented by the daily publication, through the London Stock Exchange, of the net asset value of the Company's shares.

All shareholders are encouraged to attend the Company's Annual General Meeting at which the Directors and representatives of the Manager are available in person to meet 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 48.

The Company's Annual Report and Accounts is published in time to give shareholders at least 20 working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to submit questions via the Company's website or write to the Company Secretary at the address shown on page 48.

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 which reports any material failings or weaknesses. 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 Managers' 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 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 March 2008 and to the date of approval of this Annual Report and Accounts.

During the course of its review of the system of internal control, the Board has not identified or been advised of any failings or weaknesses which it has determined to be significant.

## Corporate Governance continued

### 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](http://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.

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 (see below). 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 29.

### Directors' Remuneration<sup>1</sup>

Director's Name	2008 £	2007 £
Elisabeth Airey	27,500	23,044
Anthony Davidson	21,500	20,000
Jacques Drossaert <sup>2</sup>	5,493	18,000
Michael Hart <sup>3</sup>	–	7,269
Paul Manduca	19,000	18,000
Federico Marescotti	19,000	18,000
Michael Wrobel	19,000	18,000
<b>Total</b>	<b>111,493</b>	<b>122,313</b>

<sup>1</sup>Audited information.

<sup>2</sup>Retired as a Director on 17th July 2007.

<sup>3</sup>Retired as a Director on 12th July 2006.

In the year under review Directors' fees were paid at the following rates: Chairman £27,500 per annum; Audit Committee Chairman £21,500 per annum; and other Directors £19,000 per annum. With effect from 1st April 2008, fees have been increased to £29,000, £22,500 and £20,000 respectively.

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.

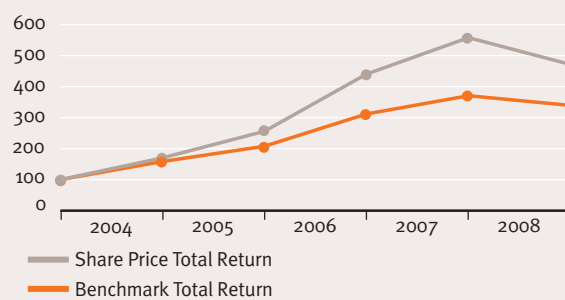
As all of the Directors are non-executive, the Board has not established a Remuneration Committee. Instead, the Nomination Committee reviews Directors' fees on a regular basis and makes recommendations to the Board as and when appropriate. Reviews are based on information provided by the Manager, JPMAM, 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. The Articles stipulate that aggregate fees must not exceed £175,000 per annum. Any increase in the maximum aggregate amount 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 23.

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. 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 HSBC Smaller European Companies (ex UK) Index, is shown below.

### Five year share price and benchmark total return to 31st March 2008



Source: Standard & Poor's – [www.funds.morningstar.com/HSBC](http://www.funds.morningstar.com/HSBC)

By order of the Board  
Jonathan Latter, for and on behalf of  
JPMorgan Asset Management (UK) Limited, Secretary  
29th May 2008

## Directors' Responsibilities in Respect of the Accounts

The Directors are responsible for preparing the annual report and the accounts 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 accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The accounts 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 2006. 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.jpmeuropeanfledgeling.co.uk](http://www.jpmeuropeanfledgeling.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.

### Statement under the Disclosure & Transparency Rules 4.1.12

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

- a) the accounts, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- b) this Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board  
 Elisabeth Airey  
 Chairman  
 29th May 2008

# Independent Auditors' Report<sup>1</sup>

## To the shareholders of JPMorgan European Fledgeling Investment Trust plc

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

## Respective Responsibilities of Directors and Auditors

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

Our responsibility is to audit the accounts and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

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

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

form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

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

## Basis of Audit Opinion

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

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

## Opinion

In our opinion:

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

## PRICEWATERHOUSECOOPERS LLP

Chartered Accountants and Registered Auditors  
London

29th May 2008

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

# Income Statement

for the year ended 31st March 2008

	Notes	Revenue £'000	2008 Capital £'000	Total £'000	Revenue £'000	2007 Capital £'000	Total £'000
(Losses)/gains from investments held at fair value through profit or loss	2	–	(39,175)	(39,175)	–	82,133	82,133
Net foreign currency gains		–	2,107	2,107	–	234	234
Income from investments	3	5,890	–	5,890	7,660	–	7,660
Other interest receivable and similar income	3	259	–	259	107	–	107
<b>Gross return/(loss)</b>		6,149	(37,068)	(30,919)	7,767	82,367	90,134
Management fee	4	(4,992)	–	(4,992)	(4,372)	–	(4,372)
Other administrative expenses	5	(617)	–	(617)	(613)	–	(613)
<b>Net return/(loss) on ordinary activities before finance costs and taxation</b>		540	(37,068)	(36,528)	2,782	82,367	85,149
Finance costs	6	(394)	–	(394)	(924)	–	(924)
<b>Net return/(loss) on ordinary activities before taxation</b>		146	(37,068)	(36,922)	1,858	82,367	84,225
Taxation	7	(522)	–	(522)	(579)	–	(579)
<b>Net (loss)/return on ordinary activities after taxation</b>		(376)	(37,068)	(37,444)	1,279	82,367	83,646
<b>(Loss)/return per share</b>	8	(0.75)p	(73.57)p	(74.32)p	2.49p	160.58p	163.07p

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 prepared under guidance published by the Association of Investment Companies. The 'Total' column represents all the information that is required to be disclosed in a Statement of Total Recognised Gains and Losses ('STRGL'). For this reason a STRGL has not been presented.

The notes on pages 34 to 47 form an integral part of these accounts.

## Reconciliation of Movements in Shareholders' Funds

for the year ended 31st March 2008

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Other reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
<b>At 31st March 2006</b>	13,195	91	2,441	26,851	339,075	(8,683)	372,970
Repurchase of shares into Treasury	–	–	–	(11,195)	–	–	(11,195)
Sale of shares from Treasury	–	1,221	–	3,602	–	–	4,823
Total return on ordinary activities	–	–	–	–	82,367	1,279	83,646
<b>At 31st March 2007</b>	13,195	1,312	2,441	19,258	421,442	(7,404)	450,244
Repurchase of shares into Treasury	–	–	–	(18,843)	–	–	(18,843)
Cancellation of shares held in Treasury	(358)	–	358	–	–	–	–
Total loss on ordinary activities	–	–	–	–	(37,068)	(376)	(37,444)
<b>At 31st March 2008</b>	12,837	1,312	2,799	415	384,374	(7,780)	393,957

The notes on pages 34 to 47 form an integral part of these accounts.

# Balance Sheet

at 31st March 2008

	Notes	2008 £'000	(Restated – see note 1(f)) 2007 £'000
<b>Fixed assets</b>			
Investments at fair value through profit or loss		387,581	433,219
Investment in liquidity fund at fair value through profit or loss		9,750	12,736
<b>Total investments</b>	9	397,331	445,955
<b>Current assets</b>			
Debtors	10	6,582	9,924
Cash and short term deposits		2,456	305
Derivative financial instrument: Forward currency contract at fair value through profit or loss		2	–
<b>Creditors: amounts falling due within one year</b>	11	9,040 (12,414)	10,229 (5,939)
Derivative financial instrument: Forward currency contract at fair value through profit or loss		–	(1)
<b>Net current (liabilities)/assets</b>		(3,374)	4,289
<b>Total assets less current liabilities</b>		393,957	450,244
<b>Total net assets</b>		393,957	450,244
<b>Capital and reserves</b>			
Called up share capital	12	12,837	13,195
Share premium	13	1,312	1,312
Capital redemption reserve	13	2,799	2,441
Other reserve	13	415	19,258
Capital reserve	13	384,374	421,442
Revenue reserve	13	(7,780)	(7,404)
<b>Shareholders' funds</b>		393,957	450,244
<b>Net asset value per share</b>	14	807.8p	876.8p

The accounts on pages 30 to 47 were approved and authorised for issue by the Directors on 29th May 2008 and are signed on their behalf by:

**Paul Manduca**  
Director

The notes on pages 34 to 47 form an integral part of these accounts.

# Cash Flow Statement

for the year ended 31st March 2008

	Notes	2008 £'000	2007 £'000
<b>Net cash (outflow)/inflow from operating activities</b>	15	(1,083)	1,848
<b>Returns on investments and servicing of finance</b>			
Interest paid		(395)	(925)
<b>Net cash outflow from returns on investments and servicing of finance</b>		(395)	(925)
<b>Taxation</b>			
Overseas tax recovered		216	124
<b>Capital expenditure and financial investment</b>			
Purchases of investments		(1,021,420)	(781,633)
Sales of investments		1,040,421	796,336
Other capital charges		(49)	(53)
<b>Net cash inflow from capital expenditure and financial investment</b>		18,952	14,650
<b>Net cash inflow before financing</b>		17,690	15,697
<b>Financing</b>			
Net drawdown/(repayment) of loans		99	(10,241)
Repurchase of shares into treasury		(18,843)	(11,195)
Sale of shares from treasury		1,200	3,623
<b>Net cash outflow from financing</b>		(17,544)	(17,813)
<b>Increase/(decrease) in cash for the year</b>	16	146	(2,116)

The notes on pages 34 to 47 form an integral part of these accounts.

# Notes to the Accounts

for the year ended 31st March 2008

## 1. Accounting policies

### (a) Basis of accounting

The accounts are prepared in accordance with the Companies Act 1985, United Kingdom Generally Accepted Accounting Practice ('UK GAAP') and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (the 'SORP') issued by the AIC in December 2005. All of the Company's operations are of a continuing nature.

The accounts have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of investments and derivative financial instruments at fair value.

The Company has adopted FRS 29: 'Financial Instruments: Disclosures' for the first time in these accounts. FRS 29 introduces new disclosure requirements relating to financial instruments. This standard does not have any impact on the classification and/or valuation of the Company's financial instruments. The disclosures required by this standard are given in notes 19 and 20 on pages 42 to 47.

### (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 to capital at the time of acquisition. Subsequently the investments are valued at fair value which is bid market price for listed investments.

Changes in the fair value of investments held at fair value through profit or loss and gains or losses on disposal are included in capital, within 'Gains/(losses) from investments held at fair value through profit or loss'. Expenses incidental to the purchase and sale of investments are also included within this caption. All purchases and sales are accounted for on a trade date basis.

### (c) Income

Dividends receivable from equity shares are included in 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.

Overseas dividends are included gross of withholding tax.

Where the Company has elected to receive scrip dividends in the form of additional shares rather than in cash, the amount of the cash dividend foregone is recognised in revenue. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital.

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

Stock lending income is taken to revenue on a receipts basis.

### (d) Expenses

All expenses are accounted for on an accruals basis. Expenses are allocated wholly to revenue except for expenses incidental to purchases and sales of investments which are written off to capital. These expenses are commonly referred to as transaction costs and comprise mainly broker commission. In accordance with the SORP, disclosure of transaction costs is required and can be found in note 9.

### (e) Finance costs

Finance costs are accounted for on an accruals basis and in accordance with the provisions of FRS 25 'Financial Instruments: Presentation' and FRS 26 'Financial Instruments: Measurement'.

Finance costs are allocated wholly to revenue.

**(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.

Derivative financial instruments are valued at fair value and are included in current assets or current liabilities in the balance sheet in accordance with FRS26: 'Financial Instruments: Measurement'.

Short term forward currency contracts are classified as derivative financial instruments and the net unrealised gain or loss is included in debtors or creditors respectively. This represents a change in accounting policy from the prior year where the amount receivable under these contracts and the amount payable was included separately in debtors and creditors respectively. The prior year accounts have been restated, however this adjustment has no effect on the net assets of the Company.

**(g) Foreign currency**

In accordance with FRS23: 'The effects of changes in Foreign Currency Exchange Rates' the Company is required to nominate a functional currency, being the currency in which the Company predominantly operates. The Board, having regard to the currency of the Company's share capital and the predominant currency in which its shareholders operate, has determined that Sterling is the functional currency. Sterling is also the currency in which the accounts are presented.

Transactions denominated in foreign currencies are converted at actual exchange rates as at the date of the transaction. Assets and liabilities denominated in foreign currencies at the year end are translated at the rates of exchange prevailing at the year end.

Any gain or loss on monetary assets arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in revenue or capital, depending on whether the gain or loss is of a revenue or capital nature. Gains and losses on investments arising from a change in exchange rates are included in (losses)/gains from investments held at fair value through profit or loss.

**(h) Taxation**

Deferred taxation is accounted for in accordance with FRS 19: 'Deferred Tax'.

Deferred taxation is provided on all timing differences that have originated but not reversed by the balance sheet date.

Deferred taxation liabilities are recognised for all taxable timing differences but deferred taxation 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.

**(i) VAT**

Irrecoverable VAT is expensed to capital or revenue in the proportions in which it has been suffered. The basis on which it has been calculated is the partial exemption method using the proportion of taxable supplies to non taxable supplies.

Further information regarding VAT on management fees is given in note 17 on page 41.

	2008 £'000	2007 £'000
<b>2. (Losses)/gains from investments held at fair value through profit or loss</b>		
Gains from investments held at fair value through profit or loss based on historical cost	48,204	87,603
Amounts recognised as unrealised in the previous year	(108,992)	(80,617)
Realised (losses)/gains based on carrying value at previous balance sheet date	(60,788)	6,986
Net movement in unrealised gains	21,670	75,192
Other capital charges	(57)	(45)
Total capital (losses)/gains from investments held at fair value through profit or loss	(39,175)	82,133

## Notes to the Accounts continued

	2008 £'000	2007 £'000
<b>3. Income</b>		
Income from investments		
Dividends from investments listed overseas	4,586	7,583
Income from liquidity fund	710	–
Scrip dividends	594	77
	5,890	7,660
Other income		
Deposit interest	113	43
Stocklending fees	146	64
	259	107
<b>Total income</b>	<b>6,149</b>	<b>7,767</b>

	2008 £'000	2007 £'000
<b>4. Management fee</b>		
Management fee	4,634	3,806
VAT thereon	358	566
	4,992	4,372

	2008 £'000	2007 £'000
<b>5. Other administrative expenses</b>		
Other management expenses	367	343
Directors' fees <sup>1</sup>	111	122
Savings product <sup>2</sup>	118	125
Auditors' remuneration for audit services <sup>3</sup>	21	20
Auditors' remuneration for all other services <sup>3</sup>	–	3
	617	613

<sup>1</sup>Full disclosure is given in the Directors' Remuneration Report on page 27.

<sup>2</sup>Paid to JPMAM for the marketing of 'wrapper' products.

<sup>3</sup>Includes £3,000 (2007: £3,000) irrecoverable VAT.

	2008 £'000	2007 £'000
<b>6. Finance costs</b>		
Bank loans and overdrafts	394	924

	2008 £'000	2007 £'000
<b>7. Taxation</b>		
UK corporation tax at 30% (2007: 30%)	532	677
Double taxation relief	(532)	(677)
Overseas withholding tax	522	683
Prior year adjustment	–	(104)
Current tax	522	579

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

	2008 £'000	2007 £'000
Net (loss)/return on ordinary activities before taxation	(36,922)	84,225
Net (loss)/return on ordinary activities before taxation multiplied by the standard rate of corporation tax of 30% (2007: 30%)	(11,077)	25,267
Non taxable capital losses/(returns)	11,120	(24,710)
Non taxable scrip dividends	(178)	(23)
Income taxed in different periods	(110)	47
Unrelieved expenses and charges	777	96
Overseas taxation	522	683
Relief for overseas taxation	(532)	(677)
Prior year adjustment	–	(104)
	522	579

The Company has an unrecognised deferred taxation asset of £4,050,000 based on a prospective corporation tax rate of 28% (2007: £3,440,000 based on a corporation tax rate of 30%). This has arisen from deductible expenses exceeding taxable income. Given the composition of the Company's portfolio, it is not likely that this asset will be utilised in the foreseeable future.

Given the Company's status as an investment trust company, and the intention to continue meeting the conditions required to obtain approval, the Company has not provided deferred taxation on any capital gains or losses arising on the revaluation or disposal of investments.

#### 8. (Loss)/return per share

The revenue (loss)/return per share is based on the loss attributable to the ordinary shares of £376,000 (2007: return of £1,279,000) and on the weighted average number of shares in issue during the year of 50,380,312 (2007: 51,293,172).

The capital (loss)/return per ordinary share is based on the capital loss attributable to the ordinary shares of £37,068,000 (2007: return of £82,367,000) and on the weighted average number of shares in issue during the year of 50,380,312 (2007: 51,293,172).

The total (loss)/return per ordinary share is based on the total loss attributable to the ordinary shares of £37,444,000 (2007: return of £83,646,000) and on the weighted average number of shares in issue during the year of 50,380,312 (2007: 51,293,172).

## Notes to the Accounts continued

### 9. Investments

#### (a) Analysis of investments

	2008 £'000	2007 £'000
Investments listed on a recognised investment exchange	397,331	445,955
		<b>2008 Total £'000</b>
Opening book cost		328,513
Opening unrealised gains		117,442
Opening valuation		445,955
Movement in the year:		
Purchases at cost		1,028,468
Sales – proceeds		(1,037,974)
Sales – realised losses on investments		(60,788)
Net movement in unrealised gains		21,670
		397,331
Closing book cost		367,211
Closing unrealised gains		30,120
		397,331

Transaction costs on purchases during the year amounted to £1,548,000 (2007: £1,201,000) and on sales during the year amounted to £1,229,000 (2007: £1,097,000). These costs comprise mainly broker commission.

During the year, prior year unrealised gains amounting to £108,992,000 have been transferred to realised gains as disclosed in note 13.

#### (b) Stocklending details

	2008 £'000	2007 £'000
Net fee income from stocklending during the year	146	64

The aggregate value of securities on loan at 31st March 2008 amounted to £43,937,000 (2007: £28,169,000) and the maximum value of stock on loan during the year amounted to £48,556,000 (2007: £28,169,000). Collateral with a value equivalent to a minimum of 105% of the value of stocks on loan is obtained by JPMorgan Chase & Co. as agent for the Company. Collateral is held in the form of certificates of deposit, letters of credit or bonds.

#### (c) Significant interests

At 31st March 2007 the Company held 34% of the units of JPM Europe Micro Cap Fund which was registered in Luxembourg. This did not represent a participating interest. During the year JPM Europe Micro Cap Fund changed its investment objective to that of a pan-European fund. Consequently, the Company's units were exchanged for an in specie transfer of the underlying investments. The Company's micro cap investments are now held directly.

	2008 £'000	(Restated – see note 1(f)) 2007 £'000
<b>10. Current assets</b>		
<b>Debtors</b>		
Securities sold for future settlement	5,676	8,123
Sale of shares from treasury for future settlement	–	1,200
Dividends and interest receivable	569	213
Overseas tax recoverable	243	323
Other debtors	94	65
	6,582	9,924

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

#### Cash and short term deposits

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

	2008 £'000	(Restated – see note 1(f)) 2007 £'000
<b>11. Creditors:</b> amounts falling due within one year		
Securities purchased for future settlement	12,245	5,791
Other creditors and accruals	169	148
	12,414	5,939

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

	2008 £'000	2007 £'000
<b>12. Called up share capital</b>		
Authorised:		
280,000,000 ordinary shares of 25p each	70,000	70,000
Issued and fully paid:		
Opening balance of 52,781,517 (2007: 52,781,517) shares	13,195	13,195
Repurchase of 2,579,875 (2007: 1,881,319) shares into Treasury	(645)	(470)
Sale of nil (2007: 625,000) shares from Treasury	–	156
Subtotal	12,550	12,881
Repurchase of 2,579,875 (2007: 1,881,319) shares into Treasury	645	470
Cancellation of 1,431,319 shares held in Treasury (2007: nil)	(358)	–
Sale of nil (2007: 625,000) shares from Treasury	–	(156)
Closing balance <sup>1</sup>	12,837	13,195

<sup>1</sup>Represented by 51,350,198 (2007: 52,781,517) ordinary shares of 25p each including 2,579,875 (2007: 1,431,319) shares held in Treasury.

Further details of transactions in the Company's share capital during the year are given in the Directors' Report on page 19.

## Notes to the Accounts continued

	Called up share capital £'000	Share redemption premium £'000	Capital reserve £'000	Other reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	Total £'000
<b>13. Reserves</b>								
Opening balance	13,195	1,312	2,441	19,258	304,001	117,441	(7,404)	450,244
Realised foreign currency gains on cash and short term deposits	–	–	–	–	2,105	–	–	2,105
Unrealised gains on foreign currency contracts	–	–	–	–	–	2	–	2
Unrealised losses on foreign currency contracts now realised	–	–	–	–	(1)	1	–	–
Realised losses on investments	–	–	–	–	(60,788)	–	–	(60,788)
Unrealised gains on investments	–	–	–	–	–	21,670	–	21,670
Transfer on disposal of investments	–	–	–	–	108,992	(108,992)	–	–
Repurchase of shares into Treasury	–	–	–	(18,843)	–	–	–	(18,843)
Cancellation of shares held in Treasury	(358)	–	358	–	–	–	–	–
Other capital charges	–	–	–	–	(57)	–	–	(57)
Retained loss for the year	–	–	–	–	–	–	(376)	(376)
Closing balance	12,837	1,312	2,799	415	354,252	30,122	(7,780)	393,957

The Company may only distribute accumulated “realised” profits. The Institute of Chartered Accountants in England and Wales, has issued guidance (TECH 01/08), stating that profits arising out of a change in fair value of assets, recognised in accordance with Accounting Standards, may be distributed, provided the relevant assets can be readily converted into cash. Securities listed on a recognised stock exchange are generally regarded as being readily convertible into cash and hence unrealised profits less losses amounting to £30,120,000 currently included within the Capital reserve – unrealised, may be regarded as distributable under Company Law.

#### 14. Net asset value per share

The net asset value per share is based on the net assets attributable to the ordinary shareholders of £393,957,000 (2007: £450,244,000) and on the 48,770,323 (2007: 51,350,198) shares in issue at the year end, excluding shares held in treasury.

	2008 £'000	2007 £'000
<b>15. Reconciliation of total (loss)/return on ordinary activities before finance costs and taxation to net cash inflow from operating activities</b>		
Total (loss)/return on ordinary activities before finance costs and taxation	(36,528)	85,149
Less capital loss/(return) before finance costs and taxation	37,068	(82,367)
Scrip dividends received as income	(594)	(77)
(Increase)/decrease in accrued income	(356)	145
Increase in other debtors	(29)	(18)
Increase in accrued expenses	13	25
Overseas withholding tax	(657)	(1,009)
Net cash (outflow)/inflow from operating activities	(1,083)	1,848

	At 31st March 2007 £'000	Cash flow £'000	Exchange movement £'000	At 31st March 2008 £'000
<b>16. Analysis of changes in net funds</b>				
Cash and short term deposits	305	146	2,005	2,456
Bank loans falling due within one year	–	(99)	99	–
Net funds	305	47	2,104	2,456

### 17. Contingent assets/liabilities and capital commitments

In 2004 the AIC 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 certain 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 £2.3m is potentially recoverable for this period. A decision in the Court of Appeal has opened the possibility for additional VAT recovery from HMRC for the period from 1st January 1990 to 4th December 1996.

In the absence of a definitive agreement with the Manager, 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 March 2008.

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

### 18. Transactions with the Manager

Details of the management contract are set out in the Directors' Report on page 20. The management fee payable to JPMorgan Asset Management (UK) Limited ('JPMAM') for the year was £4,634,000 excluding VAT (2007: £3,806,000) of which £nil (2007: £nil) was outstanding at the year end.

During the year £102,000 excluding VAT (2007: £109,000) was payable to JPMAM for the marketing of 'wrapper' products, of which £nil (2007: £26,000) was outstanding at the year end.

Included in other management expenses in note 5 on page 36 are safe custody fees amounting to £154,000 excluding VAT (2007: £133,000) of which £70,000 (2007: £29,000) was outstanding at the year end. These fees were paid to third party custodians by JPMAM on behalf of the Company and reimbursed to JPMAM.

JPMAM may carry out some of its dealing transactions through group subsidiaries. These transactions are carried out at arm's length. The commission payable to JPMorgan Securities for the year was £nil (2007: £8,000) of which £nil (2007: £nil) was outstanding at the year end. The Company has been informed that certain of its dealing transactions may be subject to soft commission arrangements.

At the beginning of the year the Company held an investment in JPM Europe Micro Cap Fund, managed by JPMAM, valued at £45.2m and representing 10.1% of the Company's investment portfolio. During the year, the Company disposed of this investment for £47.1m and stocks held by the fund to this value were transferred to the Company as consideration. No other transactions in this investment were made prior to this disposal. No income (2007: £137,000) was received from this investment during the year.

During the year the Company made purchases and sales of units in the JPM Euro Liquidity Fund, which is managed by JPMAM. At the year end, the Company's investment in this fund amounted to £9.8m (2007: £12.7m) or 2.4% (2007: 2.9%) of the Company's investments. Income amounting to £710,000 (2007: £313,000) was receivable from this investment during the year.

The Company received £146,000 (2007: £64,000) from stocklending transactions during the year. JPMAM commissions in respect of such transactions amounted to £36,000 (2007: £16,000).

Handling charges payable on dealing transactions undertaken by overseas sub custodians on behalf of the Company during the year amounted to £38,000 (2007: £45,000) of which £15,000 (2007: £6,000) was outstanding at the year end.

At the year end, a bank balance of £941,000 (2007: £305,000) was held with JPMorgan Chase. A net amount of interest of £43,000 (2007: £5,000) was received by the Company during the year from JPMorgan Chase.

## Notes to the Accounts continued

### 19. 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 secure its investment objective stated on page 17. 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 currency risk, 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 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 financial instruments may comprise the following:

- investments in equity shares of European companies and a Euro liquidity fund which are both held in accordance with the Company's investment objective;
- short term debtors, creditors and cash arising directly from its operations; and
- short term forward currency contracts for the purpose of settling short term liabilities.

#### (a) Market risk

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – currency risk, interest rate risk and other price risk. Information to enable an evaluation of the nature and extent of these three elements of market price risk is given in parts (i) to (iii) of this note, together with sensitivity analysis where appropriate. The Board reviews and agrees policies for managing these risks, which policies have remained unchanged from those applying in the comparative year. The Manager assesses the exposure to market risk when making each investment decision and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

#### (i) Currency risk

Certain of the Company's assets, liabilities and income are denominated in currencies other than sterling (the Company's functional currency and the currency in which it reports). As a result, movements in exchange rates may affect the sterling value of those items.

##### **Management of currency risk**

The Manager monitors the Company's exposure to foreign currencies on a daily basis and reports to the Board, which meets on at least five occasions each year. The Manager measures the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value and income of a movement in the rates of exchange to which the Company's assets, liabilities, income and expenses are exposed. Foreign currency borrowing may be used to limit the Company's exposure to anticipated changes in exchange rates which might otherwise adversely affect the sterling value of the portfolio of investments. This borrowing is limited to currencies and amounts commensurate with the asset exposure to those currencies. Income denominated in foreign currencies is converted to sterling on receipt. The Company may use short term forward currency contracts to manage working capital requirements.

## 19. Financial instruments' exposure to risk and risk management policies continued

### (i) Currency risk continued

#### Foreign currency exposure

The fair values of the Company's monetary items that have foreign currency exposure at 31st March are shown below. Where the Company's equity investments (which are not monetary items) are priced in a foreign currency, they have been included separately in the analysis so as to show the overall level of exposure.

	2008					2007				
	Euro £'000	Swiss francs £'000	Swedish krona £'000	Other £'000	Total £'000	Euro £'000	Swiss francs £'000	Swedish krona £'000	Other £'000	Total £'000
Investments at fair value through profit or loss that are monetary items	9,750	–	–	–	9,750	12,736	–	–	–	12,736
Net current assets	8,702	–	–	1,060	9,762	8,337	121	–	1,522	9,980
Creditors	(12,151)	(776)	–	(141)	(13,068)	(5,791)	–	–	–	(5,791)
Foreign currency exposure on net monetary items	6,301	(776)	–	919	6,444	15,282	121	–	1,522	16,925
Investments at fair value through profit or loss that are equities	306,794	46,830	21,832	12,125	387,581	367,194	25,590	10,683	29,752	433,219
Total net foreign currency exposure	313,095	46,054	21,832	13,044	394,025	382,476	25,711	10,683	31,274	450,144

In the opinion of the Directors, the above year end amounts are broadly representative of the exposure to foreign currency risk during the year.

#### Foreign currency sensitivity

The following tables illustrate the sensitivity of return after taxation for the year and net assets with regard to the Company's monetary financial assets and financial liabilities and exchange rates. The sensitivity analysis is based on the Company's monetary currency financial instruments held at each balance sheet date and assumes a 5% appreciation or depreciation in sterling against the Euro, Swiss Franc, Swedish Kroner and the other currencies to which the Company is exposed, which is deemed reasonable based on the volatility of exchange rates during the year.

If sterling had strengthened this would have had the following effect:

	2008 £'000	2007 £'000
Income statement return after taxation		
Revenue return	(295)	(383)
Capital return	(322)	(846)
Total return after taxation for the year	(617)	(1,229)
Net assets	(617)	(1,229)

# Notes to the Accounts continued

## 19. Financial instruments' exposure to risk and risk management policies continued

### (i) Currency risk continued

#### Foreign currency sensitivity continued

Conversely, if sterling had weakened this would have had the following effect:

	2008 £'000	2007 £'000
Income statement return after taxation		
Revenue return	295	383
Capital return	322	846
Total return after taxation for the year	617	1,229
Net assets	617	1,229

In the opinion of the Directors, the above sensitivity analysis is broadly representative of the whole year.

### (ii) 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 Company does not normally hold significant cash balances. Short term borrowings are used when required. The Company may finance part of its activities through borrowings at levels approved and monitored by the Board.

The possible effects on cash flows that could arise as a result of changes in interest rates are taken into account when the Company borrows on the multi currency loan facility. However, amounts drawn down on this facility are for short term one month periods and therefore there is limited exposure to interest rate risk.

Derivatives are not used to hedge against the exposure to interest rate risk.

#### Interest rate exposure

The Company has no financial assets or liabilities carrying fixed rates of interest. The exposure of financial assets and liabilities to floating interest rates using the year end figures, giving cash flow interest rate risk when rates are re-set, is shown below.

	2008 £'000	2007 £'000
Amounts exposed to floating interest rates:		
Cash at bank	2,456	305
JPM Euro Liquidity Fund	9,750	12,736
Total exposure	12,206	13,041

Interest receivable on cash balances is at a margin over LIBOR.

The target interest earned on the JPMorgan Euro Liquidity Fund is the 7 day Euro London Interbank Bid Rate.

In November 2007, the Company arranged a Euro 70 million 364 day Floating Rate Loan Facility with ING Bank NV. The facility expires in November 2008. Under the terms of this agreement the Company may draw down up to Euro 70 million at an interest rate of LIBOR as offered in the market for the relevant period, plus a margin of 0.375% per annum plus the 'mandatory cost' rate, which is the cost of complying with the regulatory requirements of the Bank of England and other regulatory bodies during the term of the advance. The Company made drawings on this facility up to Euro 51 million during the year, however it was undrawn at the year end.

In the prior year, the Company utilised a similar facility with ING Bank NV but which was undrawn at the year end.

## 19. Financial instruments' exposure to risk and risk management policies continued

### (ii) Interest rate risk continued

The exposure to floating interest rates has fluctuated during the year between net loan balances and net cash balances as follows:

	2008 £'000	2007 £'000
Maximum interest rate exposure to floating rates – net loan balances	(25,584)	(47,619)
Minimum interest rate exposure to floating rates – net cash balances	40,198	22,676

### Interest rate sensitivity

The following table illustrates the sensitivity of return after taxation for the year and net assets 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.

	2008		2007	
	Increase in rate £'000	Decrease in rate £'000	Increase in rate £'000	Decrease in rate £'000
Income statement – return after taxation				
Revenue return increase/(decrease)	122	(122)	130	(130)
Capital return	–	–	–	–
Total increase/(decrease) in return after taxation for the year	122	(122)	130	(130)
Net assets increase/(decrease)	122	(122)	130	(130)

In the opinion of the Directors, the above sensitivity analysis is not representative of the whole year as the level of exposure changes frequently as borrowings are drawn down and repaid during the year. During the year the highest amount drawn down on the loan facility amounted to Euro 51 million and the interest rate on the drawings fluctuated between 4.2% and 4.8%.

### (iii) Other price risk

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

#### Management of other price risk

The Board meets on at least five 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 exposure to changes in market prices at 31st March comprises its holdings in equity investments as follows:

	2008 £'000	2007 £'000
Equity investments at fair value through profit or loss	387,581	433,219

The above data is broadly representative of the exposure to other price risk during the year.

## Notes to the Accounts continued

### 19. Financial instruments' exposure to risk and risk management policies continued

#### Concentration of exposure to other price risk

An analysis of the Company's investments is given on pages 11 to 15. This shows that nearly all of the investments' value is in European equities and there is no concentration of exposure to any one country. It should also 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 return after taxation for the year and net assets to an increase or decrease of 10% in the fair value of the Company's equities. This level of change is considered to be reasonably possible based on observation of current market conditions. The sensitivity analysis is based on the Company's equities and adjusting for change in the management fee, but with all other variables held constant.

	2008		2007	
	Increase in fair value £'000	Decrease in fair value £'000	Increase in fair value £'000	Decrease in fair value £'000
Income statement – revenue after taxation				
Revenue return – (decrease)/increase	(504)	504	(563)	563
Capital return – increase/(decrease)	38,758	(38,758)	43,322	(43,322)
Total revenue after taxation and net assets – increase/(decrease)	38,254	(38,254)	42,759	(42,759)

### (b) Liquidity risk

This is the risk that the Company will encounter difficulty in settling financial liabilities as they fall due.

#### Management of the risk

Liquidity risk is not significant as the Company's assets comprise readily realisable securities, the liquidity of which in normal markets is frequently tested by the Investment Managers and 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. Details of the current loan facility are given in part (a) (ii) to this note on page 44.

#### Liquidity risk exposure

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

	2008		2007	
	Three months or less £'000	Total £'000	Three months or less £'000	Total £'000
Creditors: amounts falling due within one year				
Amounts due to brokers	12,245	12,245	5,791	5,791
Other creditors	169	169	148	148
Derivative financial instrument	–	–	1	1
	12,414	12,414	5,940	5,940

## 19. Financial instruments' exposure to risk and risk management policies continued

### (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 considered not to be significant and is managed by:

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

#### Credit risk exposure

The amounts shown in the balance sheet under investment in liquidity fund, debtors and cash and short term deposits represent the maximum exposure to credit risk at the current and comparative year ends. The liquidity fund has an AAA credit rating (2007: same).

Cash at bank comprises balances held at banks with an AA credit rating (2007: same).

### (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.

## 20. 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 Company had not drawn down any debt at the current or comparative year ends. The policy is that debt should be between 0% and 17% of total capital.

<b>Composition of the Company's capital</b>	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
Equity		
Equity share capital	12,837	13,195
Reserves	381,120	437,049
Total capital	393,957	450,244
Debt as a percentage of total capital	0.0%	0.0%

The Board, with the assistance of the Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the planned level of gearing, which takes into account the Manager's views on the market;
- the need to buy back equity shares, either for cancellation or to hold in Treasury, which takes into account the share price discount or premium; and
- the need for issues of new shares, including issues from Treasury.

# Information about the Company

## Financial Calendar

Financial year end	31st March
Final results announced	June
Half year end	September
Half year results announced	November
Interim Management Statements announced	July/January
Annual General Meeting	July

## History

On 24th April 1990, the Company acquired the undertaking and assets of Fleming European Fledgeling Fund Limited (the 'Fund') in exchange for the issue of its shares and warrants. The Fund was an open-ended, unquoted investment company based in Jersey and formed in June 1987 with the same objectives and investment policies as the Company. The Company adopted its present name in July 2006.

## Company Numbers

Company registration number: 2431143  
 London Stock Exchange number: 0341969  
 ISIN: GB0003419693  
 Bloomberg code: JEF LN

## 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 Times, The Daily Telegraph, The Scotsman, The Independent and on the JPMorgan Internet site at [www.jpmeuropeanfledgeling.co.uk](http://www.jpmeuropeanfledgeling.co.uk), where the share price is updated every fifteen minutes during trading hours.

## Website

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

## 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) and the Pension Account.

## Manager and Company Secretary

JPMorgan Asset Management (UK) Limited

## Company's Registered Office

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

For company secretarial issues and administrative matters, please contact Jonathan Latter.

## Registrars

Equiniti  
 Reference 1083  
 Aspect House  
 Spencer Road  
 Lancing  
 West Sussex BN99 6DA  
 Telephone number: 0871 384 2325

Notifications of changes of address and enquiries regarding share certificates or dividend cheques should be made in writing to the Registrar quoting reference 1083.

Registered shareholders can obtain further details on their holdings on the internet by visiting [www.shareview.co.uk](http://www.shareview.co.uk)

## Auditors

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

## Brokers

Cenkos Securities plc  
 6.7.8 Tokenhouse Yard  
 London EC2R 7AS

## Savings Products Administrators

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



The Association of  
 Investment Companies A member of the AIC

# Shareholder Analysis

at 31st March 2008

	Number of shares	% Holding
Pension Funds	12,254,739	23.9
Unit Trusts	7,267,232	14.2
Investment Trusts <sup>2</sup>	2,205,518	4.3
Other Institutions	2,196,786	4.3
Insurance Companies	1,536,297	3.0
Government	532,274	1.0
Charities	447,049	0.9
<b>Total Institutions</b>	<b>26,439,895</b>	<b>51.5</b>
Private Client Brokers	10,722,137	20.9
Retail Investors holding shares directly or through nominee accounts <sup>1</sup>	5,860,448	11.4
Individuals in the Investment Trust Share Plan <sup>3</sup>	3,086,843	6.0
Individuals in the Investment Trust Personal Equity Plan <sup>3</sup>	1,177,143	2.3
Individuals in the Investment Trust Individual Savings Account <sup>3</sup>	870,540	1.7
Individuals in the Investment Trust Pension Account <sup>3</sup>	613,317	1.2
<b>Total Retail Holdings</b>	<b>22,330,428</b>	<b>43.5</b>
<b>Treasury Shares*</b>	<b>2,579,875</b>	<b>5.0</b>
<b>Total shares in issue<sup>2</sup></b>	<b>51,350,198</b>	<b>100.0</b>

Nominee accounts have been allocated to their appropriate category.

<sup>1</sup>Includes shares below threshold of 10,000 shares

<sup>2</sup>Includes 428,000 shares held by JPMorgan Elect plc

<sup>3</sup>Savings products managed by JPMorgan

\*Shares held in Treasury do not carry any voting rights.

Source: Thomson Financial

# Notice of Meeting

Notice is hereby given that the nineteenth Annual General Meeting of JPMorgan European Fledgeling Investment Trust plc will be held at Trinity House, Tower Hill, London EC3N 4DH on Tuesday 8th July 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 March 2008.
- 2 To approve the Directors' Remuneration Report for the year ended 31st March 2008.
- 3 To re-elect Anthony Davidson as a Director of the Company.
- 4 To re-elect Federico Maescotti as a Director of the Company.
- 5 To re-appoint PricewaterhouseCoopers LLP as Auditors to the Company and to authorise the Directors to determine their remuneration.

## Special Business

To consider the following resolutions:

### Authority to allot new shares – Ordinary Resolution

- 6 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 £641,877, representing approximately 5% 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 shares – Special Resolution

- 7 THAT subject to the passing of Resolution 6 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 6 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 £641,877, representing approximately 5% 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.

### Authority to repurchase shares – Special Resolution

- 8 THAT the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with Section 166 of the Companies Act 1985 (the 'Act') to make market purchases (within the meaning of Section 163 of the Act) of its issued ordinary shares of 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 7,688,850 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
  - (a) 105 per cent of the average of the middle market quotations for an ordinary share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased or
  - (b) the price of the last independent trade; or
  - (c) the highest current independent bid;

- (iv) any purchase of ordinary shares will be made in the market for cash at prices below the prevailing net asset value per ordinary share (as determined by the Directors);
- (v) the authority hereby conferred shall expire on 7th January 2010 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 sell shares from Treasury – Special Resolution

9 THAT the Directors of the Company be authorised, for the purposes of paragraph 12.6 of the Listing Rules of the United Kingdom Listing Authority, to sell ordinary shares of 25 pence each in the capital of the Company at a price below the net asset value per share of the existing ordinary shares in issue, provided always that such issue will be limited to:

- (i) up to an aggregate nominal amount of £1,282,329, representing approximately 10% of the total ordinary share capital in issue as at the date of the passing of this resolution;
- (ii) the sale of shares which, immediately before such sale, were held by the Company as Treasury shares; and
- (iii) such number of ordinary shares and such reissue prices that, in the year to the Company's 2009 Annual General Meeting, the aggregate dilution associated with all the reissues does not exceed 4.00 pence per share, being approximately 0.5% of the net asset value per share as at 31st March 2008.

#### Authority to disapply pre-emption rights on sale of shares from Treasury

10 That subject to the passing of resolution 9 set out above, the Directors of the Company be and they are hereby empowered pursuant to Section 95 of the Act to allot (within the meaning of Section 94(3A) of the Act) equity securities (within the meaning of Section 94(2) of the Act) wholly for cash as if Section 89(1) of the Act did not apply to any such sale, provided that this power shall be limited to the allotment (within the meaning of Section 94(3A) of the Act) of equity securities for cash out of Treasury up to an aggregate nominal amount of £1,282,329, representing approximately 10% of the Company's total ordinary share capital in issue 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 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

11 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  
29th May 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.

## Notice of Meeting continued

- 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](http://www.icsa.org.uk)) for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.  
  
Representatives should bring to the Meeting evidence of their appointment, including any authority under which it is signed.
- 9 The register of interests of the Directors and connected persons in the share capital of the Company is available for inspection at the Company's registered office during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted). It will also be available for inspection at the Annual General Meeting.
- 10 No Director has any contract of service with the Company.
- 11 As at 28th May 2008 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 51,293,198 ordinary shares, carrying one vote each. Therefore the total voting rights in the Company are 48,510,323. (The shares held in Treasury, totalling 2,782,875, do not carry voting rights).

### 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 11

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 11, 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 47 and 48)

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 48 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 now 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. Power to convert into stock

Provisions within the articles of association concerning the conversion of shares into stock have been deleted as such conversion is no longer possible under the Companies Act 2006.

### 6. 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.

### 7. 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.

### 8. 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.

### 9. 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.

### 10. Directors' appointments, interests and conflicts of interest (Articles 102 and 103)

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

## Appendix continued

apply, for example, if a director becomes a director of another company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts where appropriate, if the articles of association contain a provision to this effect. The 2006 Act also allows the articles to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty.

Article 102 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 103 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 103 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.

### 11. Permitted interests and voting (Article 112)

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.

### 12. Making and retention of minutes (Article 115)

Article 115 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.)

### 13. The seal (Articles 117 and 118)

Article 117 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.

### 14. Notices and other communications (Articles 76, 132-141)

The 2006 Act enables companies to communicate with their members by electronic communication to a greater extent than previously permitted. Article 133 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 133(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 133(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 133(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 140 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 141 is included to deal with the validation of documents in electronic form by members where required by the Articles. In the case of notices of meetings or proxies, any validation requirements must be specified in the notice.

#### **15. Power to indemnify directors (Article 144)**

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 144 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 144 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 market value to bid market 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 net asset value if the market value of the portfolio was to increase by 100%.

## Total Expense Ratio (TER)

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

## Discount/Premium

If the share price of an investment company is lower than the net asset value (NAV) per share, the Company's shares are said to be trading at a discount. The discount is shown as a percentage of the NAV. The opposite of a discount is a premium. It is more common for an investment company's shares 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:

### Asset Allocation

Measures the impact of allocating assets differently to those in the benchmark, via the portfolio's weighting in different countries, sectors or asset types.

### Stock Selection

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

### Gearing/Cash

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.

### Residual

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

### Share Buyback/Issuance

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

# Notes

JPMorgan Helpline

Freephone 0800 20 40 20 or 0207 742 9999

9.00 am to 5.30 pm Monday to Friday

JPMorgan Pension Helpline

Freephone 0800 41 31 76 or 0172 241 4888

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