

Annual Report **2010**
JPMorgan Mid Cap
Investment Trust plc

Annual Report & Accounts for the year ended 30th June 2010

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Objective

JPMorgan Mid Cap Investment Trust plc (the 'Company') aims to achieve capital growth from investment in medium-sized UK companies. The Company specialises in investment in FTSE 250 companies, using long and short term borrowings to increase returns to shareholders.

Investment Policies

- To focus on FTSE 250 stocks that deliver strong capital growth and income.
- To have significant exposure to the UK economy.
- To seek out both value stocks and growth stocks to deliver strong performance throughout the market cycle.
- To use gearing to increase potential returns to shareholders.
- To invest no more than 15% of gross assets in other UK listed investment companies (including investment trusts).

Benchmark

The FTSE 250 Index (excluding investment trusts).

Capital Structure

UK domiciled.

Full Listing on the London Stock Exchange.

As at 30th June 2010, the Company had 25,086,680 (2009: 25,311,680) Ordinary shares of 25p each in issue, excluding 1,045,500 (2009: 820,500) shares held in Treasury.

Management Company

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

Financial Results

Total Returns (with dividends reinvested)

+18.5%

Return to
shareholders¹
(2009: -29.7%)

+25.1%

Portfolio return net of
fees and expenses^{2,3}
(2009: -32.8%)

+23.7%

Return on net assets^{2,4}
(2009: -33.4%)

+30.4%

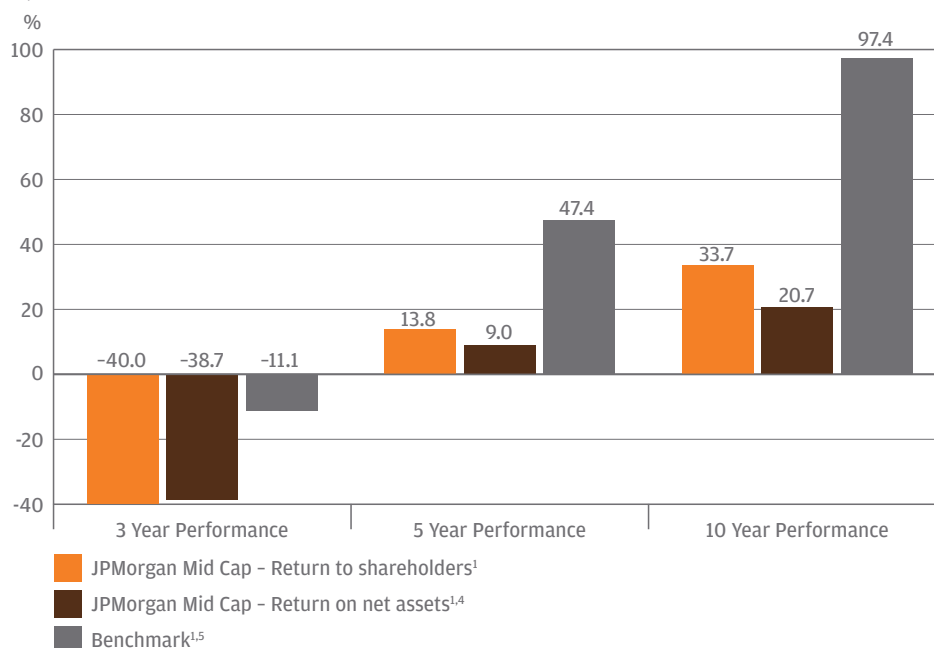
Benchmark return^{1,5}
(2009: -14.9%)

17.0p

Ordinary dividend
(2009: 17.0p ordinary
and 4.9p special)

Long Term Performance

for periods ended 30th June 2010



A glossary of terms and definitions is provided on page 52.

¹Source: Morningstar.

²Source: J.P. Morgan.

³Total return on net assets, net of management fees and administration expenses, but prior to the use of revenue reserves to finance the dividend.

⁴Net asset value assuming the 1,045,500 (2009: 820,500) shares held in Treasury were reissued in accordance with the Board's current policy on the reissuance of Treasury shares.

⁵The Company's benchmark is the FTSE 250 Index (excluding investment trusts).

Chairman's Statement

Investment Performance

In the second half of 2009, conditions for equity investors improved considerably and stock markets everywhere continued the strong rally that started earlier in the year following the depths of the credit crisis. In the first half of 2010 stock markets generally have consolidated, with investors becoming more concerned about the speed and lack of strength of the global economic recovery. Earlier in 2010, our benchmark, the FTSE 250 (excluding investment trusts), regained the levels it reached prior to the Lehman Brothers' collapse in September 2008. Furthermore, over the year, the mid cap index outperformed the FTSE All Share.

This year I am pleased to report to you a significant positive return for investors. The total return on net assets was 23.7%. However, a more meaningful measure of investment performance is the figure of 25.1% which was the total return on net assets prior to the drawdown on revenue reserves to meet this year's proposed final dividend. By comparison, our benchmark returned 30.4%. As mentioned, the net asset return was reduced by the decision to maintain the final dividend, which will necessitate a £1.3m drawdown on the revenue reserve, thus reducing the total return by 1.4%. After taking account of the change in share price, the dividend for the year and the widening of the discount to NAV, the total return to shareholders was 18.5%. A summary of results is shown on page 8.

I am disappointed with the relative return this year, although many other investment managers also experienced a very difficult year. A review of the Company's performance is given in the Investment Managers' Report on pages 5 to 7. A breakdown of contributions to performance is set out on page 6. In analysing the relative underperformance, the biggest factor working against us has been stock selection. Last year was challenging and it would be unreasonable to expect the changes introduced into the portfolio by the new team to bear fruit immediately. I am, however very encouraged by the recent improvement in relative performance and the fact that the Company has moved up the league table of our peer group of funds with a similar mandate.

The Board reviews thoroughly and regularly the appointment of the Manager and their investment strategy and process, as detailed on pages 23 and 24 of these accounts. We believe that JPMAM should remain as the Company's Investment Manager and that their ongoing appointment remains in the best interests of shareholders.

Revenue and Dividends

In my Half Year Report I highlighted the decrease in revenue received over the first half of the year. I have to report that the full year revenue figure was also significantly lower than last year, reflecting the dividend cuts made in the economic downturn. Net revenue for the year was £3,018,000 (2009: £4,758,000) and earnings per share, calculated on the average weekly number of shares in issue, were 11.94p (2009: 18.74p).

For the last five years the Board has indicated that it expects to increase dividends at least in line with inflation, as long as normal market conditions prevail. The last two years have been a highly volatile and atypical period and one where we would question whether normal market conditions prevailed. In the Half Year Report I stated that the Board recognised the importance of income to shareholders and that, in spite of the intense pressure on earnings and dividends, it proposed to

maintain the interim dividend of 5.50p per share. However, I also indicated that the forecast revenue for the year continued to be weak and that, although the Company has substantial revenue reserves, the Board would review the level of the final dividend in light of its assessment of the trends of dividend payouts by the midcap sector.

The Board also recognises that one of the advantages of the structure of an investment trust is its ability during good times to build up revenue reserves to be drawn on to smooth dividend payments during periods of underlying revenue volatility. The Board has therefore decided, that despite the decline in income received this year, to propose to pay a maintained final dividend of 11.50p per share (2009: 11.50p) making a total of 17.00p (2009: 17.00p ordinary dividend plus 4.90p special dividend). The payment of this dividend will require a transfer of £1,259,000 from revenue reserves, which following its payment, will amount to £3,712,000. The dividend is payable on 1st November 2010 to shareholders on the register at the close of business on 1st October 2010.

The Board believes that this is a constructive use of the Company's revenue reserves. Clearly, if earnings fail to grow sufficiently to cover a maintained dividend in future years, this policy will be unsustainable. It is encouraging to note that JPMAM's latest estimates suggest that there will be steady dividend growth in the midcap sector in 2010 and 2011. Assuming a return to a more normalised pattern of mid cap dividend growth thereafter, the Board is hopeful that drawdowns from reserves should be significantly reduced. However, I would add a note of caution that forecasting long term earnings growth is fraught with difficulty and, although at this stage the Board would look to continue to draw on reserves to fund future dividends, it will review each payment in the light of the actual and forecast revenue at that time.

Gearing

The tactical use of gearing over the last year has added 1.1% to the overall return and the Board continues to believe in the benefits of gearing over the long term. The Company has a £10 million loan facility with ING Bank and a £9.5 million debenture, redeemable at par in 2016 or at the option of the Company after 1st December 2011, which give the Manager the ability to gear tactically. The Board of Directors sets the overall gearing guidelines and reviews these at each meeting; gearing changes between meetings may be undertaken after consultation with the Board. At the year end gearing was 104.5% and at the time of writing the Company is ungeared.

Discount Management and Treasury Shares

It is the present intention of the Board to continue its policy of buying back shares, whether for cancellation or into Treasury, to assist in reducing the volatility of the discount and enhance the net asset value per share. This policy will be reviewed regularly in the light of market conditions including the levels of discounts in the wider investment trust sector. Subsequent to the year end, the Board has reviewed its policy regarding the re-issue of Treasury shares at a discount. As a result, the Company will henceforth only re-issue shares from Treasury at a premium to NAV.

During the year under review, the Company repurchased into Treasury 225,000 shares, representing 0.9% of the issued share capital at the start of the year. Since 30th June 2010, the Company has not bought back any further shares. The Company will continue to buy shares into Treasury up to a maximum of 5.0% of issued share capital. Shares bought back in excess of this level will be cancelled.

Chairman's Statement continued

Whilst the Company has not repurchased any shares for cancellation over the course of the year, the Directors continue to believe that this mechanism is of benefit to shareholders and therefore propose and recommend that powers to repurchase up to 14.99% of the Company's shares for cancellation be renewed for a further period.

Board of Directors

The Board has procedures in place to ensure that the Company complies fully with the Combined Code and the AIC Code on Corporate Governance. Full details are given in the Corporate Governance section of this report on pages 21 to 25.

In accordance with the Company's Articles of Association, the Director retiring by rotation and seeking re-election at this year's Annual General Meeting is Gordon McQueen. John Emly also retires on grounds of tenure (having served as a Director for fourteen years) and seeks re-election. The Nomination and Remuneration Committee has met to consider the attributes and contributions of the individuals concerned and, following this review, has no hesitation in recommending their re-election at the forthcoming Annual General Meeting. Brief biographical details are shown on page 15.

Change of Auditors

During the year the Board undertook a competitive tender process to review the provision of audit services. Following this process it was agreed that PricewaterhouseCoopers ('PwC') should replace Ernst & Young LLP ('E&Y') on completion of this year's audit. As a result, the incumbent statutory auditor, E&Y will resign following the completion of this year's audit. A resolution to appoint PwC as auditors to the Company is included in the Notice of Meeting of the Annual General Meeting.

Annual General Meeting

This year's Annual General Meeting will be held on Friday 29th October 2010 at 12.00 noon at The Library, JPMorgan's Offices, 60 Victoria Embankment, London EC4Y 0JP. As in previous years, in addition to the formal part of the meeting, there will be a presentation from the Investment Managers who will answer questions on the portfolio and performance. There will also be an opportunity to meet the Board, the Investment Managers and representatives of JPMAM after the meeting. I look forward to welcoming as many of you as possible to this meeting.

If you have any detailed or technical questions, it would be helpful if you could raise these in advance of the meeting with 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.

Prospects

The outlook is far from clear. Many mid cap companies were quick to react to the downturn, taking measures to protect their balance sheets and are thus in a strong position to benefit from any sustained upturn. However, the economic recovery faces strong headwinds, with governments and consumers around the world cutting their spending and thereby threatening economic growth. Despite this, there will be attractive investment opportunities and we share our Managers' confidence in their ability to pick stocks that can thrive in such an environment.

Andrew Barker
Chairman

22nd September 2010

Investment Managers' Report

Performance & Market Background

The portfolio's net asset value underperformed its benchmark the FTSE 250 Index excluding Investment Trusts, over the year under review. The total return for the underlying portfolio, net of fees and expenses, was 25.1% over the 12 months, compared with the benchmark total return of 30.4%. The proposed level of dividend has required the utilisation of some of the Company's revenue reserves, which has negatively impacted the net asset value by a further 1.4%, resulting in a return on net assets of 23.7% for the year. The discount on the Company's shares widened over the year resulting in a total return to shareholders of 18.5%.

Performance attribution is broken down on page 6. This illustrates that whilst gearing added 1.1% to performance over the financial year, stock and sector selection detracted 5.6% relative to the benchmark.

The three stocks that contributed the most to relative performance over the year were Chloride, Morgan Crucible and Investec. Chloride, a market leader in uninterruptible power supplies, doubled over the year as Emerson, a US competitor, successfully bid for the Company. Morgan Crucible, a manufacturer of specialist ceramics, carbon and composites, outperformed as the company grew both revenue and margin throughout the downturn and trading proved to be more resilient than in previous recessions. Investec, the South African bank with global operations, was promoted to the FTSE 100 during the year and was subsequently sold. Profitability improved as banking markets recovered and Investec's strong capital position means it is well placed to take advantage of opportunities within the industry.

The worst performing stocks relative to the benchmark were MicroFocus, Trinity Mirror and HMV. In aggregate, these three stocks detracted 1.7% from relative performance. MicroFocus produces software for extending the life of legacy computer applications. At the time of the CEO's sudden departure we were overweight in the stock. His resignation, so soon after the company had made two significant acquisitions, prompted us to sell the stock; the shares subsequently rallied. However, following the Company's year end, MicroFocus has underperformed as the Finance Director also resigned and doubts over future growth rates surfaced. Trinity Mirror, the owner of national and regional newspaper titles, fell during the final quarter of the year, despite improving advertising trends and a lower cost base. The stock was subsequently demoted from the FTSE 250 Index as the market focussed on the structural issues the company faced, especially in its regional newsprint business. HMV was also demoted from the 250 Index in June. Despite its strong market position, continued fears over the viability of a high street retailer selling music and games when consumers are increasingly buying these products online sent shares in HMV to new lows.

Chloride was not the only stock in the portfolio to be the subject of corporate activity. The portfolio benefited from a number of stocks receiving bid approaches. Stocks in the portfolio that have either been taken over or are currently in a bid situation include Arriva, Brit Insurance, BSS, Chloride, Dana Petroleum, Dimension Data, SSL and Tomkins. The characteristics that we favour in companies such as market leading positions, undervalued assets and strong management teams are often the attributes other corporates look for when analysing potential mergers and acquisitions.

Investment Managers' Report continued

Performance attribution for the year ended 30th June 2010

	%	%
Contributions to total returns		
Benchmark		30.4
Stock/sector selection	-5.6	
Gearing/cash	1.1	
Investment manager contribution		-4.5
Portfolio total return		25.9
Fees/other expenses	-0.8	
Use of prior years' revenue reserve	-1.4	
Other effects		-2.2
Return on net assets		23.7
Return to shareholders		18.5

Source: Xamin, JPMAM and Morningstar. All figures are on a total return basis.

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

The mid cap market continued to rally during the first half of the Company's financial year as it built on the gains of the latter half of the previous financial year. At the half year stage the benchmark total return was 27.7%, compared with the full year performance of 30.4%.

The stock market continued to recover from a March 2009 level that had priced in global depression and a failure of the banking system. As credit markets reopened and Government stimulus packages took effect, the economy began to recover. Many companies were able to protect their margins by cutting costs rapidly, and as their revenues began to stabilise, profitability improved. On average, company results came in ahead of analysts' expectations and improving economic data led to improving corporate confidence and a rebuilding of inventories.

By April, fears were mounting that the sheer scale of governments' debt might lead to one or more governments in the European Union defaulting on their commitments, and thus threaten the very existence of the single currency. The panic in the Greek government bond market soon spread to other countries such as Spain, Italy, Portugal and Ireland. It was against this backdrop of rising sovereign bond yields in the peripheral European countries that the new UK Coalition Government was formed. Witnessing the speed and severity of the market's reaction to the unfolding Greek crisis, the new Government made the reduction of its own deficit its top priority, from which the gilt market took comfort.

As the Company's financial year ended, the trend of improving economic data had begun to stall and the market once again became increasingly worried about the prospect of a jobless recovery and the implications of that on future economic expansion.

Portfolio

In our first full year as managers we made a number of changes to the portfolio. Eight of the stocks featured in this year's ten largest investments were not in the ten largest investments last year. The two stocks on both lists are Drax, the owner of electricity generating plant in Yorkshire, and Charter International the engineering company with two divisions, welding and air and gas handling. Drax currently yields over 7% and is an important strategic asset generating 7% of the UK's power. Charter has benefited from an increase in demand in its end markets, particularly within the welding division.

New additions to the ten largest investments include Pennon, ITV and Dana Petroleum. Pennon is a defensive stock, providing water and sewerage services to the South West of England. ITV has benefited from an increase in advertising spend and an improvement in viewing figures. Consumer facing companies understand the importance of maintaining brand awareness and many are now increasing their marketing budgets. Television is still an important medium for advertisers and provides an efficient way of reaching an audience of millions. Dana Petroleum is currently the subject of a hostile bid from the Korean National Oil Corporation. The company has a strong portfolio of producing assets and a pipeline of exploration targets.

Having been successfully geared throughout the last financial year, the uncertain economic outlook has led us to eliminate the Company's gearing, at least on a temporary basis.

Outlook

Equities are likely to remain volatile in the short term given the uncertainty of the economic outlook.

In October, the Government will provide more detail regarding its planned expenditure cuts. As the full impact of the fiscal contraction is felt, it is likely that the economic recovery will slow and unemployment rise. We would expect this to shake further the confidence of the already fragile consumer, with a knock-on effect to spending and saving patterns. Moreover, the UK consumer is also facing the imminent prospect of VAT rising, higher energy prices together with significant increases in the price of basic food items such as grains and meat. In the short term, it is unlikely that wage increases will be enough to offset these inflationary pressures.

However, despite these economic headwinds, some companies will continue to trade well and grow their businesses. Corporate sector balance sheets are, in general, much stronger now compared with their position at the beginning of the downturn. The process of cost cutting and carrying lower stock levels has allowed many companies to de-gear their balance sheets whilst a large number of quoted companies raised more capital in order to strengthen their financial positions. As companies have seen their revenue stabilise and in some cases grow, we have witnessed an increase in corporate activity with companies using their cash to acquire other companies. We expect to see more takeover activity in the year ahead.

Investors continue to be nervous about the sustainability of the recovery. Many financial institutions still need to be supported and governments across the developed world face tough decisions as they look to reduce their fiscal deficits. However, double dip recessions are rare and all but the worst of investors' fears would appear to be already discounted in share prices: the FTSE 250 index currently trades on a 12 month forward P/E ratio of approximately 11.9x, (a 15% discount to its 10 year average) and its prospective dividend yield of 3.2% compares favourably with the yield currently available on cash. We expect mid cap companies to continue to increase dividend payments to shareholders.

Although the macro economic environment is likely to remain difficult, volatile markets will present us with many opportunities. We view the year ahead with cautious optimism.

Jane Lennard
William Meadon

Investment Managers

22nd September 2010

Summary of Results

	2010	2009	
Total returns for the year ended 30th June			
Return to shareholders ¹	+18.5%	-29.7%	
Return on net assets ^{2,3}	+23.7%	-33.4%	
Benchmark ^{1,4}	+30.4%	-14.9%	
			% change
Net asset value, share price and discount at 30th June			
Shareholders' funds (£'000)	110,643	94,140	+17.5
Net asset value per share with debt at par value	441.0p	371.9p	+18.6
Net asset value per share with debt at par value assuming reissuance of Treasury shares ³	439.2p	370.8p	+18.4
Net asset value per share with debt at fair value ⁵	436.4p	364.6p	+19.7
Net asset value per share with debt at fair value assuming reissuance of Treasury shares ^{3,5}	434.8p	363.7p	+19.5
Share price	364.5p	321.5p	+13.4
Share price discount to net asset value with debt at par value	17.3%	13.6%	
Share price discount to net asset value with debt at fair value assuming reissuance of Treasury shares ^{3,5}	16.2%	11.6%	
Shares in issue (excluding shares held in Treasury)	25,086,680	25,311,680	
Revenue for the year ended 30th June			
Net revenue attributable to shareholders (£'000)	3,018	4,758	-36.6
Return per share	11.94p	18.74p	-36.3
Dividend per share:			
Ordinary dividends	17.0p	17.0p	0.0
Special dividend in respect of VAT recovered on management fees	—	4.9p	—
Total dividends per share	17.0p	21.9p	
Actual gearing factor at 30th June ⁶	104.5%	106.8%	
Total expense ratio ⁷	0.74%	0.78%	

A glossary of terms and definitions is provided on page 52.

¹Source: Morningstar.

²Source: J.P. Morgan.

³Net asset value assuming the 1,045,500 (2009: 820,500) shares held in Treasury were reissued in accordance with the Board's current policy on the reissuance of Treasury shares.

⁴The Company's benchmark is the FTSE 250 Index (excluding investment trusts).

⁵The fair value of the £9.5m debenture issued by the Company has been calculated by reference to a similar dated gilt plus a margin based on the AA Barclays Sterling Corporate Bond spread. The carrying value of other debt is deemed to be equivalent to fair value.

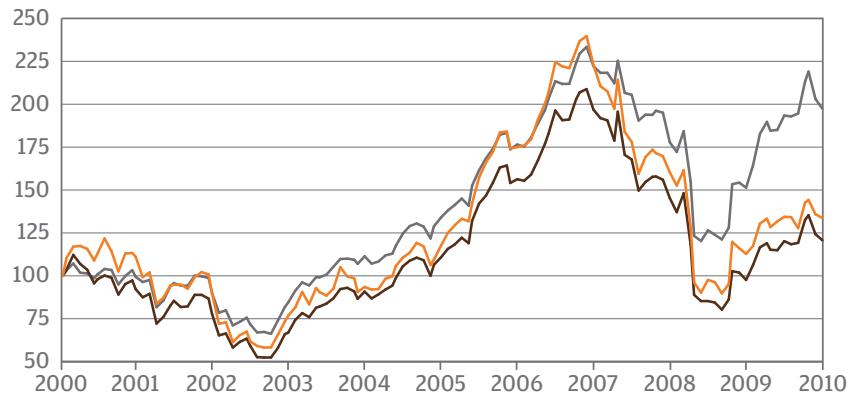
⁶Actual gearing represents investments excluding holdings in liquidity funds, expressed as a percentage of total net assets.

⁷Management fees and all other operating expenses excluding interest and VAT recoverable, expressed as a percentage of the average of the month end net assets during the year.

Performance

Ten Year Performance

Figures have been rebased to 100 at 30th June 2000

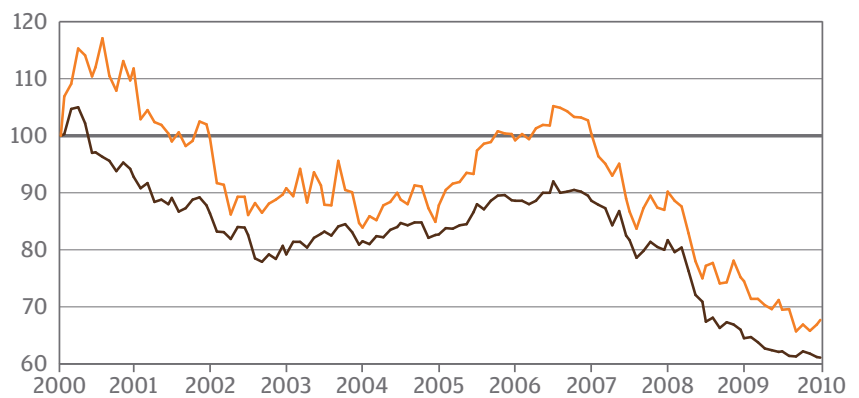


Source: Morningstar.

- JPMorgan Mid Cap - share price total return.
- JPMorgan Mid Cap - net asset value total return.
- Benchmark.

Performance Relative to Benchmark

Figures have been rebased to 100 at 30th June 2000



Source: Morningstar.

- JPMorgan Mid Cap - share price total return.
- JPMorgan Mid Cap - net asset value total return.
- The benchmark is represented by the grey horizontal line.

Ten Year Financial Record

At 30th June	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Shareholders' funds (£'m)	184.5	167.3	138.2	114.5	153.6	165.9	201.4	233.7	150.9	94.1	110.6
Net asset value per share (p)	476.4	433.6	358.3	296.9	398.1	473.5	647.4	799.3	582.2	371.9	441.0
Share price (p)	378.5	414.5	326.5	268.0	315.0	384.5	558.0	695.5	488.0	321.5	364.5
Discount (%)	20.5	4.4	8.9	9.7	20.9	18.8	13.8	13.0	16.2	13.6	17.3
Actual gearing factor (%)	119.5	122.2	118.5	124.8	117.1	110.7	114.0	112.8	106.8	106.8	104.5
Year ended 30th June											
Revenue attributable to shareholders (£'000)	2,730	2,921	3,828	4,366	3,364	4,383	4,380	4,689	4,785	4,758	3,018
Revenue return per share (p)	6.91	7.57	9.92	11.32	8.72	12.07	13.15	15.53	17.64	18.74	11.94
Dividend per share (p) ¹	6.00	7.00	9.50	10.75	9.75	11.30	12.50	14.50	16.50	21.90	17.00
Total expense ratio (%) ²	1.13	1.07	1.09	1.08	0.80	0.74	0.70	0.69	0.63	0.78	0.74
Rebased to 100 at 30th June 2000											
Return to shareholders ³	100.0	111.1	89.6	76.8	93.5	117.5	175.0	222.7	160.3	112.8	133.7
Return on net assets ³	100.0	92.2	77.8	67.0	90.8	110.7	156.3	196.8	145.3	97.6	120.7
Benchmark ³	100.0	99.4	90.0	84.6	111.4	133.9	176.5	222.1	177.8	151.4	197.4

A glossary of terms and definitions is provided on page 52.

¹2009 includes ordinary dividends of 17.0p and a special dividend of 4.9p.

²Management fees and all other operating expenses excluding interest and VAT recoverable, expressed as a percentage of the average of the month end net assets during the year (2008 and prior years: the average of the opening and closing net assets).

³Source: Morningstar. Total returns with dividends reinvested.

Ten Largest Equity Investments

at 30th June 2010

Company	Sector	2010 Valuation		2009 Valuation	
		£'000	% ¹	£'000	% ¹
FirstGroup² FirstGroup is an international passenger company which has bus and rail operations in the United Kingdom and North America. The company's operations comprise bus and passenger rail franchises, in addition to transit management, school bus operations, and fleet maintenance.	Consumer Services	3,365	2.8	1,115	1.1
Pennon³ Pennon operates and invests primarily in the areas of water and sewerage services and waste management. Pennon's principal subsidiary, SouthWest Water Limited, holds the water and sewerage appointments for Devon, Cornwall and parts of Somerset and Dorset.	Utilities	3,363	2.8	–	–
Drax Drax generates electricity and owns a coal-fired generating plant in the United Kingdom.	Utilities	3,333	2.8	1,898	1.8
Cable & Wireless Communications³ Cable & Wireless Communications is a global provider of telecommunications and Internet services. The company's global communication services offer internet protocol, data, voice and hosting services to businesses located in the UK, USA, Europe and Japan.	Telecommunications	2,970	2.5	–	–
Misys² Misys provides industry specific software. The company develops and markets integrated solutions to the international financial services and health care industries and serves the ambulatory sector of the US healthcare market with electronic health records and related solutions.	Technology	2,891	2.4	1,050	1.0
ITV² ITV is a United Kingdom media company covering broadcasting, news, and production. The company owns all of the regional Channel 3 licences in England and Wales. ITV1, ITV2, and a partial interest in GMTV.	Consumer Services	2,694	2.2	639	0.6
Dana Petroleum² Dana Petroleum is an independent oil and gas exploration and production company. The company owns oil producing assets in the North Sea and Russia and offshore exploration interests in the North Sea, West Africa, Kenya and eastern Australia.	Oil & Gas	2,683	2.2	895	0.9
Rentokil Initial² Rentokil Initial is a global business services company. The company structures its business into the areas of hygiene, security, facilities management, and parcels delivery. The company operates in Europe, North America, Asia Pacific and Africa.	Industrials	2,550	2.1	750	0.7
Charter International Charter International is an industrial company that manufactures rail track, working environment and welding consumables equipment, as well as air and gas handling equipment. The company operates in Europe, North America, South America and the Asia/Pacific region.	Industrials	2,459	2.1	2,059	2.0
Babcock International² Babcock International offers support services to public sector institutions. The company offers facilities management, training, and support services to defence, rail transportation, marine, and other public sector organisations. Babcock serves customers in Europe, Africa, and North America.	Industrials	2,420	2.0	594	0.6
Total		28,728	23.9		

¹Based on total assets less current liabilities of £120.1m (2009: £103.6m).

²Not Included in the ten largest investments at 30th June 2009.

³Not held in the portfolio at 30th June 2009.

At 30th June 2009, the value of the ten largest equity investments amounted to £21,185,000 representing 20.4% of total assets less current liabilities.

Portfolio Analyses and Investment Activity

Portfolio Analysis	2010 %	2009 %
FTSE 250 Index companies	96.1	95.5
FTSE 100 Index companies	–	1.3
Smaller companies	0.1	0.2
Liquidity fund	1.0	4.3
Net current assets/(liabilities)	2.8	(1.3)

Based on total assets less current liabilities of £120.1m (2009: £103.6m).

Sector Analysis	Portfolio	Benchmark	Active	Portfolio	Benchmark	Active
	2010 %	2010 %	position %	2009 %	2009 %	position %
Consumer Services	22.4	21.5	0.9	24.1	22.2	1.9
Industrials	21.5	28.4	(6.9)	23.7	26.8	(3.1)
Financials	14.8	16.8	(2.0)	16.9	18.1	(1.2)
Consumer Goods	9.1	9.0	0.1	12.3	10.9	1.4
Technology	8.3	6.5	1.8	7.9	6.8	1.1
Utilities	6.6	2.7	3.9	2.8	1.9	0.9
Oil & Gas	5.6	5.7	(0.1)	7.2	7.0	0.2
Basic Materials	4.4	6.5	(2.1)	1.9	3.8	(1.9)
Telecommunications	2.5	1.5	1.0	0.2	0.8	(0.6)
Health Care	1.0	1.4	(0.4)	–	1.7	(1.7)
Liquidity fund	1.0	–	1.0	4.3	–	4.3
Net current assets/(liabilities)	2.8	–	2.8	(1.3)	–	(1.3)

Based on total assets less current liabilities of £120.1m (2009: £103.6m).

Investment Activity	Value at 30th June 2009		Purchases £'000	Sales £'000	Change in classification ¹ £'000	Change in valuation £'000	Value at 30th June 2010	
	£'000	%					£'000	%
FTSE 250 Index companies	98,956	94.3	99,028	96,356	(5,889)	19,786	115,525	98.9
FTSE 100 Index companies	1,312	1.2	141	7,190	3,717	2,020	–	–
Smaller companies	251	0.2	3,373	4,473	2,172	(1,243)	80	0.1
Liquidity fund	4,500	4.3	43,315	46,615	–	–	1,200	1.0
Total portfolio	105,019	100.0	145,857	154,634	–	20,563	116,805	100.0

¹Being the re-classification in the year of ARM Holdings, Burberry, Investec and Segro from FTSE 250 to FTSE 100, HMV, Interserve, Morgan Sindall and Northern Foods from FTSE 250 to Smaller Companies and London Stock Exchange from FTSE 100 to FTSE 250.

List of Investments

at 30th June 2010

Company	Valuation £'000	Company	Valuation £'000
Consumer Services		Financials	
FirstGroup	3,365	Aberdeen Asset Management	2,038
ITV	2,694	Jardine Lloyd Thompson	1,992
Mitchells & Butlers	2,365	Resolution	1,853
Aegis	2,071	Catlin	1,840
Dunelm	1,902	Close Brothers	1,661
William Hill	1,896	Hiscox	1,544
Thomas Cook	1,376	Shaftesbury	1,216
Go-Ahead	1,354	Tullet Prebon	1,057
Marston's	1,339	International Personal Finance	1,013
United Business Media	1,318	Unite	966
Daily Mail & General Trust	1,241	Brit Insurance	912
Informa	1,228	London Stock Exchange	845
Greggs	1,139	St James's Place	827
Ladbrokes	1,119		
Debenhams	1,043	Total Financials	17,764
Supergroup	814	Consumer Goods	
Punch Taverns	590	Tate & Lyle	1,916
Trinity Mirror	80	GKN	1,839
Total Consumer Services	26,934	Britvic	1,758
Industrials		Bovis Homes	1,484
Rentokil Initial	2,550	Bellway	1,035
Charter International	2,459	Cranswick	957
Babcock International	2,420	Premier Foods	716
Meggitt	1,940	Dairy Crest	682
Tomkins	1,733	SSL International	335
Halma	1,723	Persimmon	237
IMI	1,686	Total Consumer Goods	10,959
Morgan Crucible	1,321	Technology	
Chloride	1,265	Misys	2,891
Spectris	1,245	Imagination Technologies	2,207
Xchanging	1,210	CSR	1,742
Shanks	1,143	Dimension Data	1,735
Spirax-Sarco Engineering	1,124	Pace	859
Forth Ports	941	Micro Focus International	611
Senior	857	Total Technology	10,045
SIG	764		
Carillion	608		
Kier	552		
Ultra Electronics	275		
Total Industrials	25,816		

List of Investments continued

Company	Valuation £'000
Utilities	
Pennon	3,363
Drax	3,333
Northumbrian Water	1,205
Total Utilities	7,901
Oil & Gas	
Dana Petroleum	2,683
Premier Oil	2,248
Soco International	1,249
Heritage Oil	591
Total Oil & Gas	6,771
Basic Materials	
Centamin Egypt	2,337
Mondi	1,336
Talvivaara Mining	811
Hochschild Mining	795
Total Basic Materials	5,279
Telecommunications	
Cable & Wireless Communications	2,970
Total Telecommunications	2,970
Health Care	
Genus	1,166
Total Health Care	1,166
Liquidity Fund	
JPMorgan Sterling Liquidity Fund	1,200
Total Liquidity Funds	1,200
Total Portfolio	116,805

The portfolio comprises equity shares and a liquidity fund investment.

Board of Directors



Andrew Barker*†‡

(Chairman of the Board and Nomination and Remuneration Committee)

A Director since October 2004 and appointed Chairman in April 2005.

Chairman of British Portfolio Trust plc, International Biotechnology Trust plc and Morant Wright Japan Income Trust PLC. Mr Barker is also a Director of Renaissance US Growth Investment Trust plc.



John Emly

A Director since June 1996.

Retired from Robert Fleming & Co in 2000 after 25 years' service and was appointed Investment Director of The Civil Aviation Authority's Pension Fund in September 2000. He is a Director of F&C Capital & Income Investment Trust plc and a Director of Shaftesbury plc.



Michael Hughes CBE*†‡

(Senior Independent Director)

A Director since May 2008.

A Director of Baring Asset Management Limited from 1998 and Chief Investment Officer from 2000 until his retirement in 2007. Prior to this, he was a Managing Director of Barclays Capital (previously BZW) and Chairman of their Board of pension trustees. Before 'Big Bang' he was a Partner at stockbrokers de Zoete and Bevan. He is currently a Director of T. Bailey Asset Management Limited and acts as an investment consultant to various family offices and charities.



Margaret Littlejohns*†‡

A Director since July 2008.

Founder and Finance Director of The Space Place, a self storage company in the Midlands. Before this, she spent 18 years working for Citigroup Inc, specialising in risk management and derivatives. She is also a Director of Henderson High Income Trust plc and a trustee of two lymphatic cancer charities.



Gordon McQueen*†‡

(Chairman of the Audit Committee)

A Director since December 2004.

Served as the Finance Director of Bank of Scotland plc and on the Board of HBOS plc and Halifax plc until the end of 2003. Mr McQueen is a Director of Scottish Mortgage Investment Trust plc and Shaftesbury plc.

* Member of the Audit Committee

† Member of the Nomination and Remuneration Committee

‡ Member of the Management Engagement Committee

§ Considered by the Board to be independent

Directors' Report

The Directors present their report for the year ended 30th June 2010.

Business Review

Business of the Company

The Company carries on business as an investment trust and was approved by HM Revenue & Customs as an investment trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988 (replaced on 1st April 2010 by Section 1158 of the Corporation Tax Act 2010) for the year ended 30th June 2009. In the opinion of the Directors, the Company has subsequently conducted its affairs so that it should continue to qualify as an investment trust company. The Company will continue to seek approval under Section 1158 of the Corporation Tax Act 2010 each year.

Approval for the year ended 30th June 2009 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 to 4, and in the Investment Managers' Report on pages 5 to 7.

Objective

The Company's objective is to achieve capital growth from investment in medium-sized UK companies. The Company specialises in investment in FTSE 250 companies, using long and short term borrowings to increase returns to shareholders.

Investment Policies and Risk Management

In order to achieve its objective, the Company invests in a diversified portfolio, concentrating on FTSE 250 companies with the most attractive prospects. The Company makes use of long and short-term borrowings to increase returns and does not invest more than 15% of its gross assets in other UK listed investment companies (including investment trusts).

Investment Limits and Restrictions

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

- The Company will not invest more than 15% of its assets in other UK listed investment companies.

- No more than 10% of the portfolio should be invested outside the FTSE 250 Index.
- The Company will not invest more than 10% of assets in companies that themselves may invest more than 15% of gross assets in UK listed investment companies.
- The Company will not invest more than 15% of its assets in any one individual stock at the time of acquisition.
- The Company's gearing policy is to operate within a range of 95% to 120% invested in normal market conditions.

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

Performance

In the year to 30th June 2010, the Company produced a total return to shareholders of 18.5%, a total return on net assets of 23.7% and a portfolio return of 25.1% net of fees and expenses. This compares with the return on the Company's benchmark index of 30.4%. As at 30th June 2010, the value of the Company's investment portfolio was £116.8 million. The Investment Managers' Report on pages 5 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 return for the year amounted to £23.7 million (2009: £48.1 million loss) and net total return after deducting finance costs, management fees, administrative expenses and taxation amounted to £21.7 million (2009: £48.6 million loss). Distributable income for the year amounted to £3.0 million (2009: £4.8 million).

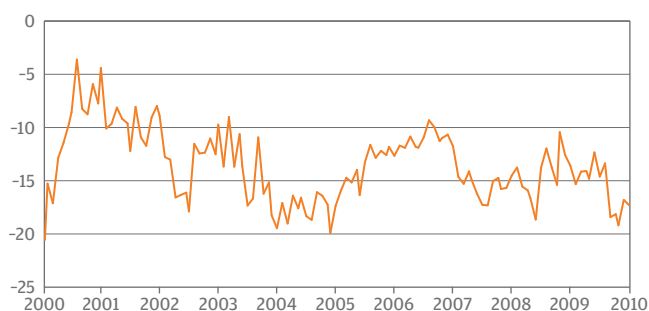
The Directors recommend a final dividend of 11.5p (2009: 11.5p) per share payable on 1st November 2010 to shareholders on the register at the close of business on 1st October 2010. This distribution, will amount to £2,885,000 (2009: £2,911,000). An interim dividend of 5.5p per share (2009: 5.5p and a special dividend of 4.9p per share) was paid on 8th April 2010. Following the payment of the final dividend, the revenue reserve will amount to £3,712,000 (2009: £4,971,000).

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 (see graphs on page 9).
- Performance against the Company's peers**
 The principal objective is to achieve capital growth 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 stock and sector allocation. Details of the attribution analysis for the year ended 30th June 2010 are given in the Investment Managers' Report on page 6.
- Discount to net asset value ('NAV')**
 The Board has a share repurchase programme which seeks to address imbalances in supply of and demand for 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 relation to its peers in the sector. In the year to 30th June 2010, the shares traded between a discount of 12.3% and 19.2% to the net asset value with debt at par value.

Discount Performance



Source: Datastream

— JPMorgan Mid Cap - Discount with debt at par value.

- Total expense ratio ('TER')**
 The TER represents management fees and all other operating expenses, excluding interest and VAT recoverable, expressed as a percentage of the average of the month end net assets during the year. The TER for the

year ended 30th June 2010 was 0.74% (2009: 0.78%). 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 repurchase shares in the market either for cancellation or into Treasury and to issue new shares for cash. During the year the Company did not repurchase any ordinary shares for cancellation. No further shares have been bought back for cancellation since the year end.

During the year 225,000 shares were repurchased into Treasury, for a total consideration of £856,000, bringing the cumulative total of shares bought into Treasury to 1,045,500 (4.2% of issued share capital). No further shares have been repurchased into Treasury since the year end.

Special Resolutions to renew the Company's authorities to issue and repurchase shares will be put to shareholders at the forthcoming Annual General Meeting.

The Company did not issue any new shares during the year.

Principal Risks

With the assistance of the Manager, the Board has drawn up a risk matrix which identifies the key risks to the Company. These key risks fall broadly under the following categories:

- Investment and Strategy:** An inappropriate investment strategy, for example asset allocation or the level of gearing, may lead to 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. JPMAM provides the Directors with timely and accurate management information, including performance data and attribution analyses, revenue estimates, liquidity reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the Investment Managers, who attend all Board meetings, and reviews data which shows statistical measures of the Company's risk profile. The Investment Managers employ the Company's gearing tactically, within a strategic range set by the Board. The Board holds a separate meeting devoted to strategy each year.

Directors' Report continued

- **Financial:** The Company is exposed to market risk, liquidity risk and credit risk. The principal financial risk facing the Company is market risk arising from uncertainty about the future prices of the Company's investments. It represents the potential loss 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 Investment Managers. The other financial risks faced by the Company are disclosed in note 22 on pages 42 to 47.
- **Accounting, Legal and Regulatory:** In order to qualify as an investment trust, the Company must comply with Section 1158 of the Income and Corporation Tax Act 2010 ('Section 1158'). Details of the Company's approval are given under "Business of the Company" above. Should the Company breach Section 1158, it may lose investment trust status and as a consequence capital gains within the Company's portfolio would be subject to Capital Gains Tax. The Section 1158 qualification criteria are continually monitored by JPMAM and the results reported to the Board each month. The Company must also comply with the provisions of the Companies Act 2006 and, as its shares are listed on the London Stock Exchange, the UKLA Listing Rules. A breach of the Companies Act could result in the Company and/or the Directors being fined or the subject of criminal proceedings. A breach of the UKLA Listing Rules may result in the Company's shares being suspended from listing which in turn would breach Section 1158. The Board relies on the services of its Company Secretary, JPMAM, and its professional advisers to ensure compliance with the Companies Act 2006 and the UKLA Listing Rules.
- **Corporate Governance and Shareholder Relations:** Details of the Company's compliance with Corporate Governance best practice, including information on relations with shareholders, are set out in the Corporate Governance report on pages 21 to 25.
- **Operational:** Disruption to, or failure of, JPMAM's accounting, dealing or payments systems or the custodian's records may prevent accurate reporting and monitoring of the Company's financial position. Details of how the Board monitors the services provided by JPMAM and its associates and the key elements designed to provide effective internal control are included within the Internal Control section of the Corporate Governance report on page 24.

Future Developments

The future development of the Company is much dependent upon the success of the Company's investment strategy in the light of economic and equity market developments. The Investment Managers discuss the outlook in their report on pages 5 to 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 six months 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 marketing, 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 also considered the investment strategy and process of the Investment Managers and the support that the Company receives from JPMAM.

Management and Performance Fee

The fixed basic annual management fee is 0.4% per annum of the Company's total assets less current liabilities.

The terms of the management contract make allowance for the exclusion of management charges on investments held in funds on which JPMAM earns a management fee.

In addition to the basic annual management fee, a performance related fee is calculated at 17.5% of the outperformance of the Company's net asset value total return (excluding gearing and management fee) over the benchmark. The maximum total fee payable in any one year in respect of the fixed management fee and any performance fee is capped at 1.65% of the Company's total assets less current liabilities at the year end date. The performance fee will be calculated annually and paid within three months of the year end. An estimate is accrued monthly and reflected in the Company's published net asset value per share. The performance fee calculation restarts when outperformance of the benchmark has been achieved and a performance fee earned. This means that the performance fee is only payable when there has been positive relative performance since the last performance fee was paid. No performance fee was payable in the year to 30th June 2010 (2009: £nil).

Going Concern

The Directors believe that having considered the Company's investment objective (see page 16), risk management policies (see pages 42 to 47), liquidity risk (see note 22(b) on pages 45 and 46), capital management policies and procedures (see page 47), the nature of the portfolio and expenditure projections, 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 consider that there is reasonable evidence to 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 30th June 2010, the Company had no outstanding trade creditors (2009: none).

Directors

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

Directors	30th June 2010	1st July 2009
Andrew Barker	20,000	8,000
John Emly	5,686	5,452
Michael Hughes	4,000	4,000
Margaret Littlejohns	1,000	1,000
Gordon McQueen	1,500	1,500

No changes in the above holdings have been notified by any Director between the year end and the date of this report.

In accordance with the Articles of Association and Combined Code on Corporate Governance, the Directors retiring at the forthcoming Annual General Meeting are John Emly and Gordon McQueen. Gordon McQueen retires by rotation and is standing for re-election. John Emly retires on grounds of tenure and is standing for re-election.

Director Indemnification and Insurance

As permitted by the Company's Articles of Association, the Directors have the benefit of an indemnity as defined by Section 234 of the Companies Act 2006. The indemnities were executed on 9th September 2010 and are currently in force.

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.

Disclosure of information to Auditors

In the case of each of the persons who are Directors of the Company at the time when this report was approved:

- (a) so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act) of which the Company's auditors are unaware, and

Directors' Report continued

(b) each of the Directors has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

The above confirmation is given and should be interpreted in accordance with the provision of Section 418(2) of the Companies Act 2006.

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 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 15 to the Notice of AGM on page 51.

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	%
Chase Nominees ^{1,2}	6,741,526	26.9
Lloyds Banking Group plc	1,445,654	5.8
1607 Capital Partners LLC	1,308,384	5.2
Legal & General	1,019,562	4.1

¹Held on behalf of JPMAM Investment Account, ISA and SIPP participants.

²Non-beneficial.

Independent Auditors

A resolution to appoint PricewaterhouseCoopers LLP as the Company's auditors will be put to shareholders at the Annual General Meeting.

Annual General Meeting

NOTE: THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should seek your own personal financial advice from your stockbroker, bank manager, solicitor or other financial adviser 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 relevant securities and disapply pre-emption rights (resolutions 7 & 8)

The Directors will seek renewal of the authority to issue up to 1,254,320 new shares or shares held in Treasury other than by a pro rata issue to existing shareholders up to an aggregate nominal amount of £313,580, such amount being equivalent to approximately 5% of the current issued share capital. The full text of the resolutions is set out in the Notice of Meeting on pages 49 and 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 interest 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.

(ii) Authority to repurchase the Company's shares (resolution 9)

The authority to repurchase up to 14.99% of the Company's issued share capital, granted by shareholders at the 2009 AGM, will expire on 17th May 2011 unless renewed at the forthcoming AGM. The Directors consider that the renewal of the authority is in the interests of shareholders as a whole as the repurchase of shares at a discount to NAV enhances the NAV of the remaining shares. The Board will therefore seek shareholder approval at the AGM to renew this authority, which will last until 28th April 2012 or until the whole of the 14.99% has been acquired, whichever is the earlier. The full text of the resolution is set out in the Notice of Meeting on pages 49 and 50. 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 as and when market conditions are appropriate, thereby enhancing the NAV of the remaining shares.

Recommendation

The Board considers that resolutions 7 to 9 are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings which amount in aggregate to 32,186 shares representing approximately 0.1% of the voting rights of the Company.

Corporate Governance

Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities in respect of the accounts on page 27, indicates how the Company has applied the principles of good governance of the Financial Reporting Council 2008 Combined Code (the 'Combined Code') and the AIC's Code of Corporate Governance (the 'AIC Code'), which complements the Combined Code and provides a framework of best practice for investment trusts.

The Board is responsible for ensuring the appropriate level of corporate governance and considers that the Company has complied with the best practice provisions of the Combined Code, insofar as they are relevant to the Company's business, and the AIC Code throughout the year under review.

Role of the Board

A management agreement between the Company and JPMAM sets out the matters over which the Manager has authority. This includes management of the Company's assets and the provision of accounting, company secretarial, administration and some marketing services. All other matters are reserved for the approval of the Board. A formal schedule of matters reserved to the Board for decision has been approved. This includes determination and monitoring of the Company's investment objectives and policy and its future strategic direction, gearing policy, management of the capital structure,

appointment and removal of third party service providers, review of key investment and financial data and the Company's corporate governance and risk control arrangements.

The Board has procedures in place to deal with potential conflicts of interest and confirms that the procedures have operated effectively during the year under review.

The Board meets at least quarterly during the year and additional meetings are arranged as necessary. Full and timely information is provided to the Board to enable it to function effectively and to allow Directors to discharge their responsibilities.

There is an agreed procedure for Directors to take independent professional advice in the furtherance of their duties 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 Andrew Barker, consists of five non-executive Directors, four of whom are considered to be independent of the Company's Manager. Given his employment until the year 2000 with the predecessor management company and his length of service, John Emly is not deemed to be independent. Notwithstanding this fact, the Board believes he is independent in character and judgement and in view of his substantial investment experience and other attributes he makes a particularly valuable contribution to the Board. The Board believes that it is appropriate to have a Senior Independent Director and Michael Hughes fulfils this role. He is available to shareholders if they have concerns that cannot be resolved through discussion with the Chairman. The Directors have a breadth of investment, business and financial skills and experience relevant to the Company's business and brief biographical details of each Director are set out on page 15.

The Company has complied with the provisions of the Combined Code and the AIC Code in regard to the re-election of Directors every three years. The Board does not consider that Directors should serve for a fixed period of time. However, in order to achieve a balance of skills, experience, ages and

Directors' Report continued

length of service, it is the Board's policy to refresh itself in an orderly manner over time.

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. A Director may thereafter be invited to serve for one or more further terms of three years, in every case subject to the normal requirements for re-election by shareholders at Annual General Meetings. 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 ongoing requirements of the Combined Code, including the need to refresh the Board and its Committees. Any Director who has served for a period of more than nine years will stand for annual re-election thereafter.

The terms and conditions of Directors' appointments are set out in formal letters of appointment, copies of which are available for inspection on request at the Company's registered office and at the AGM.

The Board recommends the re-election of John Emly, who requires annual re-election as he has served as a Director for a period in excess of nine years. The Board further recommends the re-election of Gordon McQueen who retires by rotation at this year's Annual General Meeting. Before recommending John Emly and Gordon McQueen for re-election, the Nomination and Remuneration Committee conducted a thorough review of their performance and contribution and was satisfied that they continued to fulfill their roles in an effective manner.

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 15. 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 5 Board meetings, including a private meeting of the Directors to evaluate the Manager. In addition, a separate meeting

devoted to strategy, three Audit Committee meetings, a meeting of the Nomination and Remuneration Committee and a Management Engagement Committee meeting were held.

Director	Board Meetings Attended	Audit Committee Meetings Attended
Andrew Barker	5	3
John Emly	5	3 ¹
Michael Hughes	5	3
Margaret Littlejohns	5	3
Gordon McQueen	5	3

¹Attended by invitation of the Committee.

Director	Nomination & Remuneration Committee Meetings Attended	Management Engagement Committee Meetings Attended
Andrew Barker	1	1
John Emly	1 ¹	1 ¹
Michael Hughes	1	1
Margaret Littlejohns	1	1
Gordon McQueen	1	1

¹Attended by invitation of the Committee.

Training and Appraisal

On appointment, the Manager and Company Secretary provide all Directors with induction training. Thereafter regular briefings are provided on changes in regulatory requirements that affect the Company and Directors. Directors are encouraged to attend industry and other seminars covering issues and developments relevant to investment trusts.

The Board conducts a formal evaluation of the Manager, its own performance and that of its committees and individual Directors. The responses to questionnaires drawn up by the Board are discussed at a private meeting. The evaluation of individual Directors is led by the Chairman, and the Senior Independent Director leads the evaluation of the Chairman's performance.

Board Committees

Nomination and Remuneration Committee

The Nomination and Remuneration Committee consists of all of the independent Directors and is chaired by Andrew Barker.

The Board believes that this is appropriate as it is a combined committee. The Committee meets at least annually to ensure that the Board has an appropriate balance of skills to carry out its fiduciary duties and to select and propose suitable candidates when necessary for appointment. A variety of sources, including the employment of external search consultants, are used to ensure that a wide range of candidates is considered.

The Committee undertakes an annual performance evaluation, as described above, to ensure that all members of the Board have devoted sufficient time and contributed adequately to the work of the Board. The Committee also reviews Directors' fees and makes recommendations to the Board as and when required.

Audit Committee

The membership of the Audit Committee, which is chaired by Gordon McQueen, and comprises four of the Directors is set out on page 15. The Committee meets at least twice each year. The members of the Committee consider that they have the requisite skills and financial experience to fulfil the responsibilities of the Committee.

The Committee reviews the actions and judgements of the Manager in relation to the interim and annual financial statements and the Company's compliance with the Combined Code. It reviews the terms of the management agreement and examines the effectiveness of the Company's internal control systems, receives information from the Manager's compliance department and reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors. Representatives of the Company's auditors attend the committee meeting at which the draft annual report and financial statements are considered. The Audit Committee has reviewed the independence and objectivity of the auditors of the Company and is satisfied that the auditors are independent. The Board reviews and approves any non-audit services provided by the independent auditors and assesses the impact of any non-audit work on the ability of the auditor to remain independent.

Details of the auditors' fees charged for both audit and other services are disclosed in note 5 on page 35. The Directors' statement on the Company's system of internal control is set out below.

Management Engagement Committee

The membership of the Management Engagement Committee consists of all the independent Directors and is chaired by Andrew Barker. The Committee meets at least once a year to review the terms of the management agreement between the Company and the Manager, to review the performance of the Manager, to review the notice period that the Board has with the Manager and to make recommendations to the Board.

All the Company's Committees have written terms of reference which define clearly their respective responsibilities, copies of which are available for inspection on the Company's website, on request at the Company's registered office and at the 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 to shareholders quarterly by way of the Annual Report and Accounts, the Half Year Report and two interim management statements. This is supplemented by the daily publication, through the London Stock Exchange, of the net asset value and share price of the Company's shares.

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the Directors and representatives of the Manager are available in person to meet with and answer shareholders' 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. 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 53.

The Company's Annual Report and Accounts are published in time to give shareholders at least 20 working days' notice of

Directors' Report continued

the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to write to the Company Secretary at the address shown on page 53.

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 including business, financial, operational, compliance and risk management.

The Directors are responsible for the Company's system of internal control which is designed to safeguard the Company's assets, maintain proper accounting records and ensure that financial information used within the business, or published, is reliable. However, such a system can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and therefore can only provide reasonable, but not absolute, assurance against fraud, material misstatement or loss.

Since investment management, custody of assets and all administrative services are provided to the Company by JPMAM and its associates, the Company's system of internal control mainly comprises monitoring the services provided by JPMAM and its associates, including the operating controls established by them, to ensure they meet the Company's business objectives. The Company does not have an internal audit function of its own, but relies on the internal audit department of JPMAM. The key elements designed to provide effective internal control are as follows:

Financial Reporting - Regular and comprehensive review by the Board of key investment and financial data, including management accounts, revenue projections, analysis of transactions and performance comparisons.

Management Agreement - Appointment of a manager and custodian, with responsibilities clearly defined in a written agreement and regulated by the Financial Services Authority (FSA).

Management Systems - The Manager's system of internal control includes organisational agreements which clearly define the lines of responsibility, delegated authority, control procedures and systems. These are monitored by JPMAM's compliance department which regularly monitors compliance with FSA rules.

Investment Strategy - Authorisation and monitoring of the Company's investment strategy and exposure limits by the Board.

The Board, either directly or through the Audit Committee, keeps under review the effectiveness of the Company's system of internal control by monitoring the operation of the key operating controls of the Manager and its associates as follows:

- reviews the terms of the management agreement and receives regular reports from JPMAM's compliance department;
- reviews the report on the internal controls and the operations of its custodian, JPMorgan Chase Bank, which is itself independently reviewed; and
- reviews every six months an independent report on the internal controls and the operations of JPMAM.

By the means of the procedures set out above, which accord with the Turnbull guidance on internal controls, the Board confirms that it has reviewed and is satisfied with the effectiveness of the Company's system of internal control for the year ended 30th June 2010, 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 and Voting Policy

The Company delegates responsibility for voting in respect of investee Company shares to JPMAM. The text below is a summary of JPMAM's policy statement on corporate governance and voting policy which has been noted by the Board.

"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. 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."

The full policy is available from JPMAM on request, or can be downloaded from the internet as follows:

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

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."

By order of the Board
Andrew Norman, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary
22nd September 2010

Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of Schedule 7A to the Companies Act 2006. An ordinary resolution to approve this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on page 28.

Directors' Remuneration

(Audited Information)

Directors' Name	2010 £	2009 £
Andrew Barker (Chairman)	28,000	28,000
John Emly	19,000	19,000
Michael Hughes ¹	19,000	19,740
Margaret Littlejohns	19,000	19,000
Gordon McQueen	22,500	22,500
Alexander Scott ²	—	6,845
Total	107,500	115,085

¹2009 emoluments include £740 paid in relation to 2008.

²Retired as a Director on 11th November 2008.

For the year under review Directors' fees were paid at the fixed rate of £28,000 for the Chairman, £22,500 for the Chairman of the Audit Committee and £19,000 for the other Directors.

No amounts were paid to third parties in connection with Directors' remuneration (2009: nil).

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 these roles.

The Board has established a Nomination and Remuneration Committee, which reviews fees on a regular basis. Fee levels are set with a view to the Company's ability to attract and retain Directors of a sufficiently high calibre. Reviews are based on information provided by the Manager, JPMorgan Asset Management (UK) Limited, and industry research, 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 £150,000. Any increase in this 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 22.

The Company does not operate any type of incentive or pension scheme and therefore no Directors receive bonus payments or pension contributions from the Company or hold options to acquire shares in the Company. Directors are not paid compensation for loss of office. No other payments are made to Directors, other than the reimbursement of reasonable out-of-pocket expenses incurred in connection with attending the Company's business.

A graph showing the Company's share price total return compared with its benchmark, the FTSE 250 Index (excluding investment trusts) is shown below.

Five Year Share Price and Index Total Return to 30th June 2010



By order of the Board
Andrew Norman, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary

22nd September 2010

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 financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements 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.

Under applicable law and regulations the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Statement of Corporate Governance that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement under the Disclosure & Transparency Rules 4.1.12

- (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 it faces.

For and on behalf of the Board
Andrew Barker
Chairman

22nd September 2010

Independent Auditors' Report

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

We have audited the financial statements of JPMorgan Mid Cap Investment Trust plc for the year ended 30th June 2010 which comprise the Income Statement, Balance Sheet, Reconciliation of Movements in Shareholders' Funds, Cash Flow Statement, and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 27, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30th June 2010 and of its net return for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 19, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Caroline Gulliver (Senior statutory auditor)

for and on behalf of

Ernst & Young LLP, Statutory Auditor

London

22nd September 2010

Income Statement

for the year ended 30th June 2010

	Notes	Revenue £'000	2010 Capital £'000	Total £'000	Revenue £'000	2009 Capital £'000	Total £'000
Gains/(losses) on investments held at fair value through profit or loss							
	2	–	19,812	19,812	–	(52,973)	(52,973)
Income from investments	3	3,795	–	3,795	4,338	–	4,338
Other interest receivable and similar income	3	51	–	51	493	–	493
Gross return/(loss)		3,846	19,812	23,658	4,831	(52,973)	(48,142)
Management fee	4	(147)	(343)	(490)	(141)	(328)	(469)
VAT recoverable	4	–	–	–	766	819	1,585
Other administrative expenses	5	(325)	–	(325)	(339)	–	(339)
Net return/(loss) on ordinary activities before finance costs and taxation		3,374	19,469	22,843	5,117	(52,482)	(47,365)
Finance costs	6	(354)	(825)	(1,179)	(357)	(832)	(1,189)
Net return/(loss) on ordinary activities before taxation		3,020	18,644	21,664	4,760	(53,314)	(48,554)
Taxation	7	(2)	–	(2)	(2)	–	(2)
Net return/(loss) on ordinary activities after taxation		3,018	18,644	21,662	4,758	(53,314)	(48,556)
Return/(loss) per share	9	11.94p	73.73p	85.67p	18.74p	(209.97)p	(191.23)p

Details of dividends are given in note 8 on page 37.

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

The notes on pages 33 to 47 form an integral part of these accounts.

Reconciliation of Movements in Shareholders' Funds

for the year ended 30th June 2010

	Called up share capital £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 30th June 2008	6,533	3,467	132,365	8,547	150,912
Repurchase of shares into Treasury	–	–	(2,793)	–	(2,793)
Net (loss)/return on ordinary activities	–	–	(53,314)	4,758	(48,556)
Dividends appropriated in the year	–	–	–	(5,423)	(5,423)
At 30th June 2009	6,533	3,467	76,258	7,882	94,140
Repurchase of shares into Treasury	–	–	(856)	–	(856)
Net return on ordinary activities	–	–	18,644	3,018	21,662
Dividends appropriated in the year	–	–	–	(4,303)	(4,303)
At 30th June 2010	6,533	3,467	94,046	6,597	110,643

The notes on pages 33 to 47 form an integral part of these accounts.

Balance Sheet

at 30th June 2010

	Notes	2010 £'000	2009 £'000
Fixed assets			
Equity investments held at fair value through profit or loss		115,605	100,519
Investment in liquidity fund held at fair value through profit or loss		1,200	4,500
Total investments	10	116,805	105,019
Current assets			
Debtors	11	3,917	6,356
Cash and short term deposits		73	133
		3,990	6,489
Current liabilities			
Creditors: amounts falling due within one year	12	(662)	(7,886)
Net current assets/(liabilities)		3,328	(1,397)
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	13	(9,490)	(9,482)
Total net assets		110,643	94,140
Capital and reserves			
Called up share capital	14	6,533	6,533
Capital redemption reserve	15	3,467	3,467
Capital reserves	15	94,046	76,258
Revenue reserve	15	6,597	7,882
Shareholders' funds		110,643	94,140
Net asset value per share	16	441.0p	371.9p

The accounts on pages 29 to 32 were approved and authorised for issue by the Directors on 22nd September 2010 and were signed on their behalf by:

Gordon McQueen

Director

The accompanying notes on pages 33 to 47 form an integral part of these accounts.

Company registration number: 1047690.

Cash Flow Statement

for the year ended 30th June 2010

	Notes	2010 £'000	2009 £'000
Net cash inflow from operating activities	17	2,573	6,034
Returns on investments and servicing of finance			
Interest paid		(1,171)	(1,188)
Net cash outflow from returns on investments and servicing of finance		(1,171)	(1,188)
Capital expenditure and financial investment			
Purchases of investments		(152,975)	(99,846)
Sales of investments		157,417	106,023
Transaction costs		(733)	(782)
Other capital charges		(16)	(13)
Net cash inflow from capital expenditure and financial investment		3,693	5,382
Dividends paid		(4,303)	(5,423)
Net cash inflow before financing		792	4,805
Financing			
Repurchase of shares into Treasury		(852)	(2,897)
Net repayment of short term loans		–	(2,000)
Net cash outflow from financing		(852)	(4,897)
Decrease in cash and cash equivalents	18	(60)	(92)

The accompanying notes on pages 33 to 47 form an integral part of these accounts.

Notes to the Accounts

for the year ended 30th June 2010

1. Accounting policies

(a) Basis of accounting

The accounts are prepared in accordance with the Companies Act 2006, United Kingdom Generally Accepted Accounting Practice ('UK GAAP') and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (the 'SORP') issued by the AIC in January 2009.

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

The accounts have been prepared on a going concern basis.

The policies applied in these accounts are consistent with those applied in the preceding year. There has been an amendment to FRS 29 in respect of fair value disclosures and the details of this are given in note 21 on page 42.

(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 'held at fair value through profit or loss'. They are included initially at fair value which is taken to be their cost, excluding expenses incidental to purchase which are written off in the capital column of the income statement at the time of acquisition. Subsequently the investments are valued at fair value which are quoted bid prices for investments traded in active markets.

Gains and losses on sales of investments, transaction costs, management fee and finance costs charged to capital, repurchases of the Company's own shares and other capital receipts and payments, are dealt with in capital reserves within 'Gains and losses on sales of investments'. Increases and decreases in the valuation of investments held at the year end are accounted for in capital reserves within 'Holding gains and losses on investments'.

All purchases and sales are accounted for on a trade date basis.

(c) Income

Dividends receivable are included in revenue on an ex-dividend basis except where, in the opinion of the Board, the dividend is capital in nature, in which case it is included in capital.

UK dividends are accounted for net of tax credits. Overseas dividends are shown gross of any withholding tax.

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

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.

Underwriting commission is recognised in revenue where it relates to shares that the Company is not required to take up. Where the Company is required to take up a proportion of the shares underwritten, the same proportion of commission received is deducted from the cost of the shares taken up, with the balance taken to revenue.

(d) Expenses

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

- performance related fees are allocated 100% to capital.
- management fees are allocated 30% to revenue and 70% to capital in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.
- expenses incidental to the purchase and sale of an investment are charged to capital. These expenses are commonly referred to as transaction costs and include items such as stamp duty and brokerage commission.

Notes to the Accounts continued

1. Accounting policies continued

(e) Finance costs

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

Finance costs are allocated 30% to revenue and 70% to capital in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.

(f) Financial instruments

Cash and short term deposits 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 and payables 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.

Debenture issues, bank loans and overdrafts are recorded at the proceeds received net of direct issue costs. Finance costs, including any premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in profit or loss using the effective interest rate method.

The Company has not utilised any derivative financial instruments in the current or comparative year.

(g) Taxation

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

Deferred tax is provided on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax liabilities are recognised for all taxable timing differences but deferred tax assets are only recognised to the extent that it is more likely than not that taxable profits will be available against which those timing differences can be utilised.

(h) Dividends

In accordance with FRS 21: 'Events after the Balance Sheet Date', dividends are included in the accounts in the year in which they are approved by shareholders.

(i) VAT

Irrecoverable VAT is included in the expense on which it has been suffered. VAT recoverable is calculated using the partial exemption method based on the proportion of zero rated supplies to total supplies.

	2010 £'000	2009 £'000
2. Gains/(losses) on investments held at fair value through profit or loss		
Gains/(losses) on investments held at fair value through profit or loss based on historical cost	1,372	(49,655)
Amounts recognised in investment holding gains and losses in the previous year in respect of investments sold during the year	12,749	17,479
Gains/(losses) on sales of investments based on the carrying value at the previous balance sheet date	14,121	(32,176)
Net movement in investment holding gains and losses	6,442	(20,002)
Transaction costs	(733)	(782)
Other capital charges	(18)	(13)
Total gains/(losses) on investments held at fair value through profit or loss	19,812	(52,973)

	2010 £'000	2009 £'000
3. Income		
Income from investments		
UK dividend income	3,043	3,749
Scrip dividends	110	–
Overseas dividend income	613	478
Property income distribution	16	34
Income from liquidity fund	13	77
	3,795	4,338
Other interest receivable and similar income		
Underwriting commission	50	17
Deposit interest	1	9
Interest on VAT recovered	–	467
	51	493
Total income	3,846	4,831

	Revenue £'000	2010 Capital £'000	Total £'000	Revenue £'000	2009 Capital £'000	Total £'000
4. Management fee						
Management fee ¹	147	343	490	141	328	469
VAT recoverable ²	–	–	–	(766)	(819)	(1,585)
	147	343	490	(625)	(491)	(1,116)

¹Details of the management fee and performance fee are given in the Directors' Report on pages 18 and 19.

²This represents VAT relating to management fees paid in the past, following HM Revenue & Customs' acceptance in 2007 that VAT was not chargeable on investment trusts' management fees.

	2010 £'000	2009 £'000
5. Other administrative expenses		
Other administration expenses	190	198
Directors' fees ¹	108	115
Auditors' remuneration - for audit services ²	27	25
Auditors' remuneration - for all other services	–	1
	325	339

¹Full disclosure is given in the Directors' Remuneration Report on page 26.

²Includes £4,000 (2009: £4,000) irrecoverable VAT.

Notes to the Accounts continued

	Revenue £'000	2010 Capital £'000	Total £'000	Revenue £'000	2009 Capital £'000	Total £'000
6. Finance costs						
Interest on bank loans and overdrafts	38	88	126	41	95	136
Interest on debenture	316	737	1,053	316	737	1,053
	354	825	1,179	357	832	1,189

7. Taxation

(a) Analysis of tax charge in the year

	2010 £'000	2009 £'000
UK corporation tax at 28% (2009: 28%)	—	—
Overseas withholding tax	2	2
Current tax charge for the year	2	2

(b) Factors affecting current tax charge for the year

The tax assessed for the year is lower (2009: higher) than the standard rate of corporation tax in the UK of 28% (2009: 28%). The factors affecting the current tax charge for the year are as follows:

	Revenue £'000	2010 Capital £'000	Total £'000	Revenue £'000	2009 Capital £'000	Total £'000
Net return/(loss) on ordinary activities before taxation	3,020	18,644	21,664	4,760	(53,314)	(48,554)
Corporation tax at 28% (2009: 28%)	846	5,220	6,066	1,333	(14,928)	(13,595)
Effects of:						
Non taxable capital (gains)/losses	—	(5,547)	(5,547)	—	14,832	14,832
Non taxable UK dividends	(852)	—	(852)	(1,050)	—	(1,050)
Non taxable overseas dividends	(172)	—	(172)	—	—	—
Non taxable scrip dividends	(31)	—	(31)	—	—	—
Unrelieved expenses and charges	536	—	536	—	—	—
Tax relief on capitalised expenses	(327)	327	—	(96)	96	—
Overseas withholding tax	2	—	2	2	—	2
Brought forward excess expenses utilised	—	—	—	(187)	—	(187)
Current tax charge for the year	2	—	2	2	—	2

The Company has an unrecognised deferred tax asset of £11,720,000 (2009: £11,184,000) based on a prospective corporation tax rate of 28% (2009: 28%). This asset has accumulated because deductible expenses have exceeded taxable income in past years. No asset has been recognised in the accounts because, given the composition of the Company's portfolio, it is not likely that this asset will be utilised in the foreseeable future.

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

8. Dividends

(a) Dividends paid and proposed

	2010 £'000	2009 £'000
2009 Final dividend of 11.5p (2008: 11.0p)	2,911	2,791
Interim dividend of 5.5p (2009: 5.5p)	1,392	1,392
2009 special dividend of 4.9p	–	1,240
Total dividends paid in the year	4,303	5,423
2010 Final dividend proposed of 11.5p (2009: 11.5p)	2,885	2,911

The final dividend has been proposed in respect of the year ended 30th June 2010 and is subject to approval at the forthcoming Annual General Meeting. In accordance with the accounting policy of the Company, this dividend will be reflected in the accounts for the year ending 30th June 2011.

(b) Dividends for the purposes of Section 1158 of the Corporation Tax Act 2010

The requirements of Section 1158 of the Corporation Tax Act 2010 are considered on the basis of dividends declared in respect of the financial year as follows:

	2010 £'000	2009 £'000
Interim dividend of 5.5p (2009: 5.5p)	1,392	1,392
2009 special dividend of 4.9p	–	1,240
Final dividend of 11.5p (2009: 11.5p)	2,885	2,911
Total dividends for Section 1158 purposes	4,277	5,543

The revenue available for distribution by way of dividend for the year is £3,018,000 (2009: £4,758,000).

9. Return/(loss) per share

The revenue return per share is based on the earnings attributable to the ordinary shares of £3,018,000 (2009: £4,758,000) and on the weighted average number of shares in issue during the year of 25,286,774 (2009: 25,391,440).

The capital return per share is based on the capital return attributable to the ordinary shares of £18,644,000 (2009: loss of £53,314,000) and on the weighted average number of shares in issue during the year of 25,286,774 (2009: 25,391,440).

Total return per share is based on the total return attributable to the ordinary shares of £21,662,000 (2009: loss of £48,556,000) and on the weighted average number of shares in issue during the year of 25,286,774 (2009: 25,391,440).

Notes to the Accounts continued

	2010 £'000	2009 £'000
10. Investments		
Investments listed on a recognised stock exchange ¹	116,805	105,019
Opening book cost	117,122	171,435
Opening investment holding losses	(12,103)	(9,580)
Opening valuation	105,019	161,855
Movements in the year:		
Purchases at cost	145,857	107,451
Sales - proceeds	(154,634)	(112,109)
Gains/(losses) on sales of investments based on the carrying value at the previous balance sheet date	14,121	(32,176)
Net movement in investment holding gains and losses	6,442	(20,002)
	116,805	105,019
Closing book cost	109,717	117,122
Closing investment holding gains/(losses)	7,088	(12,103)
Total investments held at fair value	116,805	105,019

¹Includes the investment in the JPMorgan Sterling Liquidity Fund which is not listed.

Transaction costs on purchases during the year amounted to £597,000 (2009: £558,000) and on sales during the year amounted to £136,000 (2009: £224,000). These costs include stamp duty and brokerage commission.

During the year, prior year investment holding losses of £12,749,000 on listed investments have been transferred to gains and losses on sales of investments as disclosed in notes 2 and 15.

	2010 £'000	2009 £'000
11. Current assets		
Debtors		
Securities sold awaiting settlement	3,352	6,134
Dividends and interest receivable	527	186
Other debtors	38	36
	3,917	6,356

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 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.

	2010 £'000	2009 £'000
12. Creditors: amounts falling due within one year		
Securities purchased awaiting settlement	433	7,661
Interest payable	143	143
Other creditors and accruals	86	82
	662	7,886

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

	2010 £'000	2009 £'000
13. Creditors: amounts falling due after more than one year:		
£9,500,000 11% debenture 2016	9,490	9,482

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

The debenture must be redeemed at par on 1st January 2016. However, the whole amount may be redeemed at par at the option of the Company at any time after 1st December 2011.

	2010 £'000	2009 £'000
14. Called up share capital		
Allotted and fully paid:		
Ordinary shares of 25p each		
Opening balance of 25,311,680 (2009: 25,919,180) shares excluding shares held in Treasury	6,328	6,480
Repurchase of 225,000 (2009: 607,500) shares into Treasury	(56)	(152)
Subtotal 25,086,680 (2009: 25,311,680) shares	6,272	6,328
1,045,500 (2009: 820,500) shares held in Treasury	261	205
Closing balance ¹	6,533	6,533

¹Represented by 26,132,180 (2009: 26,132,180) shares including 1,045,500 (2009: 820,500) shares held in Treasury.

During the year 225,000 shares with a nominal value of £56,000, were repurchased into Treasury, representing 0.9% of shares outstanding at the beginning of the year, for a total consideration of £856,000.

Notes to the Accounts continued

	2010 Capital reserves			Revenue reserve £'000
	Capital redemption reserve £'000	Gains and losses on sales of investments £'000	Holding gains and losses on investments £'000	
15. Reserves				
Opening balance	3,467	88,361	(12,103)	7,882
Gains on sales of investments based on the carrying value at the previous balance sheet date	–	14,121	–	–
Net movement in investment holding gains and losses	–	–	6,442	–
Transfer on disposal of investments	–	(12,749)	12,749	–
Transaction costs	–	(733)	–	–
Repurchase of shares into Treasury	–	(856)	–	–
Management fee and finance costs charged to capital	–	(1,168)	–	–
Other capital charges	–	(18)	–	–
Dividends appropriated in the year	–	–	–	(4,303)
Retained revenue for the year	–	–	–	3,018
Closing balance	3,467	86,958	7,088	6,597

16. Net asset value per share

Net asset value per share is based on total shareholders' funds attributable to ordinary shareholders of £110,643,000 (2009: £94,140,000) and on the 25,086,680 (2009: 25,311,680) shares in issue at the year end, excluding shares held in Treasury.

	2010 £'000	2009 £'000
17. Reconciliation of total return/(loss) on ordinary activities before finance costs and taxation to net cash inflow from operating activities		
Net return/(loss) on ordinary activities before finance costs and taxation	22,843	(47,365)
Capital (return)/loss before finance costs and taxation	(19,469)	52,482
Scrip dividends received as income	(110)	–
(Increase)/decrease in accrued income	(341)	431
Decrease in other debtors	2	–
Decrease in accrued expenses	(4)	(5)
Tax on unfranked investment income	(5)	–
Expenses (charged)/credited to capital	(343)	491
Net cash inflow from operating activities	2,573	6,034

	At 30th June 2009 £'000	Cash flow £'000	Other movements £'000	At 30th June 2010 £'000
18. Analysis of changes in net debt				
Cash and short term deposits	133	(60)	–	73
Debt due after five years	(9,482)	–	(8)	(9,490)
Net debt	(9,349)	(60)	(8)	(9,417)

19. Capital commitments and contingent liabilities

At the balance sheet date there were no capital commitments or contingent liabilities (2009: none).

20. Transactions with JPMorgan

Details of the management contract (which includes a performance fee contract) are set out on page 18. The terms make allowance for the exclusion of management charges on investments held in funds on which JPMorgan earns a separate management fee. Details of the management fee payable for the year can be found in note 4 on page 35. No management fee (2009: £nil) was outstanding at 30th June 2010.

Safe custody fees and handling charges amounting to £20,000 (2009: £10,000) were payable to JPMorgan Chase of which £6,000 (2009: £4,000) was outstanding at the year end.

JPMAM carries out some of its investment activities through JPMorgan subsidiaries. These transactions are carried out at arm's length. The commission payable on transactions with JPMorgan subsidiaries was £37,000 (2009: £88,000) of which £1,000 (2009: £nil) was outstanding at the year end.

The Company holds an investment in the JPMorgan Sterling Liquidity Fund. At 30th June 2010 this holding was valued at £1.2 million (2009: £4.5 million). During the year, the Company made purchases of this fund amounting to £43.3 million (2009: £25.5 million) and sales of £46.6 million (2009: £21.7 million). Income receivable from this fund amounted to £13,000 (2009: £77,000) of which £1,000 (2009: £2,000) was outstanding at the year end. JPMorgan earns no management fee on this fund.

At the year end a bank balance of £73,000 (2009: £133,000) was held with JPMorgan Chase. During the year ended 30th June 2010, a net amount of interest of £1,000 (2009: £9,000) was receivable from JPMorgan Chase of which £nil (2009: £nil) was outstanding at the year end.

Notes to the Accounts continued

21. Disclosures regarding financial instruments measured at fair value

The disclosures required by the amendment to FRS 29: 'Improving Disclosures about Financial Instruments' are given below. The Company's financial instruments within the scope of FRS 29 that are held at fair value comprise its investment portfolio. The Company currently holds no derivative financial instruments and its liabilities are not held at fair value.

The investments are categorised into a hierarchy consisting of the following three levels:

Level 1 - valued using quoted prices in active markets for identical assets.

Level 2 - valued by reference to valuation techniques using observable inputs other than quoted market prices included within Level 1.

Level 3 - valued by reference to valuation techniques using inputs that are not based on observable market data.

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset.

Details of the valuation techniques used by the Company are given in note 1(b) on page 33.

The following table sets out the fair value measurements using the FRS 29 hierarchy:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets held at fair value through profit or loss at 30th June 2010				
Equity investments	115,605	–	–	115,605
Liquidity funds	1,200	–	–	1,200
Total	116,805	–	–	116,805

There have been no transfers between Levels 1, 2 or 3 during the year.

22. 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 in order to secure its investment objective stated on the Features page. 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 equity price risk and interest rate risk), liquidity risk and credit risk. The Directors' policy for managing these risks is set out below. The Manager, in close cooperation with the Board, coordinates the Company's risk management policy. The Company has no significant direct exposure to foreign currencies.

The objectives, policies and processes for managing the risks and the methods used to measure the risks that are set out below have not changed from those applying in the comparative year.

The Company's financial instruments may comprise the following:

- Investments in equity shares of UK companies and a sterling liquidity fund. These are held in accordance with the Company's investment objective;
- Short term debtors, creditors and cash arising directly from its operations; and
- Sterling bank loans and debenture stock, the purpose of which is to raise finance for the Company's operations.

(a) Market risk

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises two elements – equity price risk and interest rate risk. Information to enable an evaluation of the nature and extent of these two elements of market risk is given in parts (i) to (ii) of this note, together with sensitivity analyses where appropriate.

The Board reviews and agrees policies for managing these risks. These 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) Equity price risk

Equity price risk arises from fluctuations in the market prices of equities which may affect the value of the Company's investments.

Management of equity price risk

The Board meets on at least four occasions each year to consider the asset allocation of the portfolio and the risk associated with particular industry sectors. The investment management team has responsibility for monitoring the portfolio, which is selected in accordance with the Company's investment objectives and seeks to ensure that individual stocks meet an acceptable risk reward profile.

Equity price risk exposure

The Company's exposure to changes in market prices at 30th June comprises its holdings in equity investments as follows:

	2010 £'000	2009 £'000
Equity investments held at fair value through profit or loss	115,605	100,519

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

Concentration of equity price risk

An analysis of the Company's investments by industry sector is given on page 12. All of the investments' value is in the UK. Accordingly there is a concentration of exposure to the UK. However, it should be noted that an investment may not be wholly exposed to the economic conditions in its country of domicile or of listing.

Equity price risk sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to an increase or decrease of 10% (2009: 10%) in the fair value of the Company's equities. This level of change is considered to be a reasonable illustration 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.

	2010		2009	
	10% Increase in fair value £'000	10% Decrease in fair value £'000	10% Increase in fair value £'000	10% Decrease in fair value £'000
Income statement – return after taxation				
Revenue return	(14)	14	(12)	12
Capital return	11,528	(11,528)	10,024	(10,024)
Total return after taxation for the year	11,514	(11,514)	10,012	(10,012)
Net assets	11,514	(11,514)	10,012	(10,012)

Notes to the Accounts continued

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

(a) Market risk continued

(ii) Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits and the liquidity fund, and the interest payable on the Company's variable rate cash borrowings when rates are re-set.

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 loan facility. However, amounts drawn down on this facility are for short term periods and therefore exposure to interest rate risk is not significant.

Interest rate exposure

The exposure of financial assets and liabilities to floating interest rates, giving cash flow interest rate risk when rates are re-set, is shown below. The £9.5 million debenture in issue carries a fixed rate of interest and therefore has no debt service cost exposure to interest rate movements.

	2010 £'000	2009 £'000
Exposure to floating interest rates:		
JPMorgan Sterling Liquidity Fund	1,200	4,500
Cash and short term deposits	73	133
Total exposure	1,273	4,633

The target interest rate earned on the JPMorgan Sterling Liquidity Fund is the 7 day sterling London Interbank Bid rate.

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

In June 2010, the Company arranged a new £10 million unsecured one year floating rate revolving loan facility with ING Bank. Under the terms of this agreement, the Company may draw down up to £10 million at an interest rate of LIBOR as quoted in the market for the loan period, plus a margin of 1.60%, plus Mandatory Costs, which are the lender's costs of complying with certain regulatory requirements of the Bank of England. This facility had not been utilised at 30th June 2010. Prior to this, the Company had a similar £8 million one year loan facility with ING Bank which was utilised during the year and which expired on 8th June 2010.

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

	2010 £'000	2009 £'000
Maximum debit interest rate exposure to floating rates - net loan balances	(3,954)	(625)
Maximum credit interest rate exposure to floating rates - net cash balances	5,310	7,134

Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 1% (2009: 1%) 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 a reasonable illustration 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.

	2010		2009	
	1% Increase in rate £'000	1% Decrease in rate £'000	1% Increase in rate £'000	1% Decrease in rate £'000
Income statement - return after taxation				
Revenue return	13	(13)	46	(46)
Capital return	—	—	—	—
Total return after taxation for the year	13	(13)	46	(46)
Net assets	13	(13)	46	(46)

In the opinion of the Directors, the above sensitivity analysis may not be representative of the Company's future exposure to interest rate changes due to fluctuation in the level of cash balances, investment in the JPMorgan Sterling Liquidity Fund and drawings on the loan facility.

(b) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management of the risk

Liquidity risk is not significant as the Company's assets comprise readily realisable securities, which can be sold to meet funding requirements if necessary. Short term flexibility is achieved through the use of overdraft facilities.

The Board's policy is for the Company to remain fully invested in normal market conditions and that short term borrowings be used to manage short term liabilities, working capital requirements and to gear the Company as appropriate. Details of the current loan facility are given in part (a)(ii) to this note on page 44.

Notes to the Accounts continued

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

(b) Liquidity risk continued

Liquidity risk exposure

Contractual maturities of the financial liabilities at the year end are as follows. The table includes the principal amounts repayable and finance costs, from the balance sheet date to the earliest dates on which payment can be required.

	2010					2009				
	Within one year	One to two years	Two to five years	More than five years	Total	Within one year	One to two years	Two to five years	More than five years	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Creditors: amounts falling due within one year										
Securities purchased awaiting settlement	433	—	—	—	433	7,661	—	—	—	7,661
Interest payable	143	—	—	—	143	143	—	—	—	143
Other creditors and accruals	86	—	—	—	86	82	—	—	—	82
Creditors: amounts falling due after more than one year										
£9,500,000 11% debenture 2016	1,045	1,045	3,135	10,023	15,248	1,045	1,045	3,135	11,068	16,293
	1,707	1,045	3,135	10,023	15,910	8,931	1,045	3,135	11,068	24,179

(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 a loss to the Company.

Management of credit risk

Portfolio dealing

The Company invests in markets that operate DVP (Delivery Versus Payment) settlement. The process of DVP mitigates the risk of losing the principal of a trade during the settlement process. The Manager continuously monitors dealing activity to ensure best execution, a process that involves measuring various indicators including the quality of trade settlement and incidence of failed trades. Counterparty lists are maintained and adjusted accordingly.

Cash

Counterparties are subject to daily credit analysis by the Manager and trades can only be placed with counterparties that have a minimum rating of A1/P1 from Standard & Poor's and Moody's respectively.

Exposure to JPMorgan Chase

The Company's investment assets are ring-fenced in client designated accounts. Therefore, the holding structure of these assets is designed to protect them from creditors in the event that JPMorgan Chase were to cease trading. However, no absolute guarantee can be given to investors on the protection of all assets of the Company.

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 a AAA (2009: AAA) credit rating.

Cash and short term deposits comprises balances held at banks that have a minimum rating of A1/P1 from Standard & Poor's and Moody's respectively (2009: 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 except for the debenture disclosed below. The fair value of the £9.5 million debenture issued by the Company has been calculated by reference to a similar dated gilt yield plus a margin based on the AA Barclays Sterling Corporate Bond spread.

	Accounts value		Fair value	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Debenture	9,490	9,482	10,650	11,341

23. Capital management policies and procedures

The Company's capital comprises the following:

	2010 £'000	2009 £'000
Debt		
£9,500,000 11% debenture 2016	9,500	9,500
Equity		
Share capital	6,533	6,533
Reserves	104,110	87,607
	110,643	94,140
Total capital	120,143	103,640

The Company's capital management objectives are to ensure that it will continue as a going concern and to maximise capital return to its equity shareholders through an appropriate level of gearing.

The Board's policy is to limit gearing within the range 95% to 120%. Gearing for this purpose is defined as investments excluding liquidity fund holdings, expressed as a percentage of total net assets.

	2010 £'000	2009 £'000
Investments excluding liquidity fund holdings	115,605	100,519
Total net assets	110,643	94,140
Gearing	104.5%	106.8%

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.

Shareholder Analysis

at 30th June 2010

	Number of shares	% Holding
Pension Funds	1,720,150	6.6
Unit Trusts	1,699,150	6.5
Investment Trusts	1,350,000	5.2
Insurance Companies	497,637	1.9
Other Institutions	464,218	1.8
Charities	204,624	0.8
Total Institutions	5,935,779	22.8
Private Client Brokers	7,685,430	29.4
Individuals in the Investment Trust Investment Account ²	5,374,096	20.6
Retail investors holding shares directly or through nominee accounts ¹	4,589,651	17.6
Individuals in the Investment Trust ISA ²	1,425,752	5.5
Individuals in the Investment Trust SIPP ²	23,022	0.1
Total Retail Holdings	19,150,901	73.2
Treasury shares ³	1,045,500	4.0
Total Shares in Issue	26,132,180	100.0

Nominee accounts have been allocated to their appropriate category.

¹Includes holdings of below 10,000 shares.

²Savings Products managed by JPMorgan.

³Shares held in Treasury do not carry voting rights.

Source: Thomson Financial.

Notice of Meeting

Notice is hereby given that the thirty-eighth Annual General Meeting of JPMorgan Mid Cap Investment Trust plc will be held at The Library, JPMorgan's Offices, 60 Victoria Embankment, London EC4Y 0PJ on 29th October 2010 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 30th June 2010.
- 2 To approve the Directors' Remuneration Report for the year ended 30th June 2010.
- 3 To approve a final dividend.
- 4 To re-elect John Emly as a Director of the Company.
- 5 To re-elect Gordon McQueen as a Director of the Company.
- 6 To 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

- 7 THAT the Directors of the Company be and they are hereby generally and unconditionally authorised, (in substitution of any authorities previously granted to the Directors), pursuant to Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers for the Company to allot relevant securities (within the meaning of Section 551 of the Act) up to an aggregate nominal amount of £313,580, representing approximately 5% of the Company's issued ordinary share capital as at the date of the passing of this resolution, provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2011 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 relevant securities – Special Resolution

- 8 THAT subject to the passing of Resolution 7 set out above, the Directors of the Company be and they are hereby empowered pursuant to Section 570 and 573 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by Resolution 9 or by way of a sale of Treasury shares as if Section 561(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 £313,580, representing approximately 5% of the issued 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 upon the expiry of the general authority conferred by Resolution 7 above, save that the Company may before such expiry make offers, or agreements 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, or agreements as if the power conferred hereby had not expired.

Authority to repurchase the Company's shares – Special Resolution

- 9 THAT the Company be generally and, subject as hereinafter appears, unconditionally authorised in accordance with Section 701 of the Companies Act 2006 (the 'Act') to make market purchases (within the meaning of Section 693 of the Act) of its issued shares of 25p each in the capital of the Company

PROVIDED ALWAYS THAT

- (i) the maximum number of shares hereby authorised to be purchased shall be 3,760,490 or, if less, that number of 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 a share shall be 25 pence;
- (iii) the maximum price which may be paid for a share shall be an amount equal to the highest of: (a) 105% of the average of the middle market quotations for an share

Notice of Meeting continued

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 share is purchased; or (b) the price of the last independent trade; or (c) the highest current independent bid;

- (iv) any purchase of shares will be made in the market for cash at prices below the prevailing net asset value per share (as determined by the Directors) at the date following not more than seven days before the date of purchase;
- (v) the authority hereby conferred shall expire on 28th April 2012 unless the authority is renewed at the Company's Annual General Meeting in 2011 or at any other general meeting prior to such time; and
- (vi) the Company may make a contract to purchase shares under the authority hereby conferred prior to the expiry of such authority and may make a purchase of shares pursuant to any such contract notwithstanding such expiry.

By order of the Board
Andrew Norman, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary
22nd September 2010

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. Any instrument appointing a proxy, to be valid, must be lodged in accordance with the instructions given on the proxy form.
4. You may change your proxy instructions by returning a new proxy appointment. The deadline for receipt of proxy appointments 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 received (regardless of its date or the date of its signature) shall be treated as replacing and revoking the other or others as regards that share; if the Company is unable to determine which was last received, none of them shall be treated as valid in respect of that share.
5. 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. Changes to entries on the register after this time shall be disregarded in determining the rights of persons to attend or vote at the Meeting or adjourned Meeting.

6. Entry to the Meeting will be restricted to shareholders and their proxy or proxies, with guests admitted only by prior arrangement.
7. A corporation, which is a shareholder, may appoint an individual(s) to act as its representative(s) and to vote in person at the Meeting (see instructions given on the proxy form). In accordance with the provisions of the Companies Act 2006, each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative.

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

8. Members that satisfy the thresholds in Section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to: (a) the audit of the Company's accounts (including the Auditors' report and the conduct of the audit) that are to be laid before the AGM; or (b) any circumstances connected with Auditors of the Company ceasing to hold office since the previous AGM, which the members propose to raise at the Meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement placed on the website must also be sent to the Company's Auditors no later than the time it makes its statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required to publish on its website pursuant to this right.
9. Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the Meeting except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the Meeting or if it would involve the disclosure of confidential information.
10. Under Sections 338 and 338A of the 2006 Act, members meeting the threshold requirements in those sections have the right to require the Company: (i) to give, to members of the Company entitled to receive notice of the Meeting, notice of a resolution which those members intend to move (and which may properly be moved) at the Meeting; and/or (ii) to include in the business to be dealt with at the Meeting any matter (other than a proposed resolution) which may properly be included in the business at the Meeting. A resolution may properly be moved, or a matter properly included in the business unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise); (b) it is defamatory of any person; or (c) it is frivolous or vexatious. A request made pursuant to this right may be in hard

copy or electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person(s) making it and must be received by the Company not later than the date that is six clear weeks before the Meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

11. 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.
12. In accordance with Section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM, the total voting rights members are entitled to exercise at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website www.jpmmidcap.co.uk.
13. The register of interests of the Directors and connected persons in the share capital of the Company and the Directors' letters of appointment are 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. No Director has any contract of service with the Company.
14. You may not use any electronic address provided in this Notice of Meeting to communicate with the Company for any purposes other than those expressly stated.
15. As at 21st September 2010 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 25,086,680 Ordinary shares (excluding treasury shares) carrying one vote each. Therefore the total voting rights in the Company are 25,086,680.

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.

Glossary of Terms and Definitions

Return to Shareholders

Total return to the investor, on a mid-market price to mid-market price basis, assuming that all dividends received were reinvested, without transaction costs, in the shares of the Company at the time the shares were quoted ex-dividend.

Portfolio Return Net of Fees and Expenses

Total return on net assets, net of management fees and administration expenses but prior to the use of revenue reserves to finance the dividend.

Return on Net Assets

Total return on net asset value ('NAV') per share, on a bid value to bid value basis, assuming that all dividends paid out by the Company were reinvested in the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend.

In accordance with industry practice, dividends payable which have been declared but which are unpaid at the balance sheet date are deducted from the NAV when calculating the total return on net assets.

Benchmark Return

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

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

Net Asset Value ('NAV') per Share Assuming Reissuance of Treasury Shares

The resulting 'diluted' NAV per share assuming that all shares held in Treasury have been reissued in accordance with the Board's current policy on the reissuance of Treasury shares. Until 17th September 2010 it was the Board's policy not to reissue Treasury shares unless the shares were trading at a discount to NAV which was 5% narrower than the weighted average discount at which those shares were repurchased into Treasury. Accordingly the diluted NAV per share is calculated on the assumption that all shares held in Treasury have been reissued at a price equal to the current NAV per share less a discount which is 5% narrower than the weighted average discount at which those shares were repurchased into Treasury.

Actual Gearing Factor

Investments excluding holdings in liquidity funds, expressed as a percentage of shareholders' funds. This shows the effect of gearing on the NAV if the market value of the portfolio were to increase by 100%.

Total Expense Ratio

Management fees and all other operating expenses excluding interest and VAT recoverable, expressed as a percentage of the average of the month end net assets during the year (2008 and prior years: the average of the opening and closing net assets).

Share Price Discount/Premium to Net Asset Value ('NAV')

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

Active Position

The active position shows the difference between the Company's holding of an individual stock or sector compared with that stock or sector's weighting in the Company's benchmark index. A positive number indicates an active decision by the Manager to own more of (i.e. be overweight) a particular stock or sector versus the benchmark and a negative number indicates a decision to hold less of (i.e. be underweight) a particular stock or sector versus the benchmark.

Performance Attribution

Analysis of how the Company achieved its recorded performance relative to its benchmark.

Performance Attribution Definitions:

Stock/Sector Selection

Measures the effect of investing in securities/sectors to a greater or lesser extent than their weighting in the benchmark, or of investing in securities which are not included in the benchmark.

Gearing/Cash

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

Fees/Other Expenses

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

Information about the Company

Financial Calendar

Financial year end	30th June
Final results announced	September
Half year end	December
Half year results announced	February
Interim Management Statements	April and October
Half yearly dividends on ordinary shares paid	November, April
11% Debenture Stock 2016 interest paid	1st June, 1st December
Annual General Meeting	November

History

JPMorgan Mid Cap Investment Trust plc was launched in 1972 as Crossfriars Trust Limited and raised £10 million by a public offer of shares. Its original policy was to invest up to 25% of its assets in UK unquoted shares. The Company changed its name to The Fleming Enterprise Investment Trust in 1982. It adopted its current investment policy of concentrating on FTSE 250 companies in 1993 and reaffirmed this policy in February 1997. The Company changed its name to The Fleming Mid Cap Investment Trust plc in October 1998, to JPMorgan Fleming Mid Cap Investment Trust plc in November 2001 and adopted its present name in November 2005.

Company Numbers

Company registration number: 1047690
London Stock Exchange number: 0235761
ISIN: GB0002357613
Bloomberg code: JMF LN

Market Information

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

Website

www.jpmmidcap.co.uk

Share Transactions

The Company's shares may be dealt in directly through a stockbroker or professional adviser acting on an investor's behalf. They may also be purchased and held through the J.P. Morgan Investment Account, J.P. Morgan ISA and J.P. Morgan SIPP. These products are all available on the online wealth manager service, J.P. Morgan WealthManager+ available at www.jpmmorganwealthmanagerplus.co.uk

Manager and Company Secretary

JPMorgan Asset Management (UK) Limited

aic

The Association of
Investment Companies

A member of the AIC

Company's Registered Office

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

Please contact Andrew Norman for company secretarial and administrative matters.

Registrars

Equiniti
Reference 1082
The Causeway
Worthing
West Sussex BN99 6DA
Telephone: 0871 384 2321

Calls to this number cost 8p per minute from a BT landline, other providers' costs may vary. Lines open 8.30 a.m. to 5.30 p.m. Monday to Friday. The overseas helpline number is +44 (0)121 415 7047.

Notifications of changes of address and enquiries regarding share certificates or dividend cheques should be made in writing to the Registrar quoting reference 1082.

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

Savings Product Administrators

For queries on the J.P. Morgan Investment Account, J.P. Morgan ISA and J.P. Morgan SIPP, see contact details on the back cover of this report.

Independent Auditors

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

Brokers

Numis Securities Ltd
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

JPMorgan Helpline
Freephone 0800 20 40 20 or +44 (0)20 7742 9995

Your telephone call may be recorded for your security

www.jpmmidcap.co.uk