

Elect

Elect

# JPMorgan Elect plc

(formerly JPMorgan Fleming Elect plc)

ANNUAL REPORT & ACCOUNTS – YEAR ENDED 31st AUGUST 2006

# Features

JPMorgan Elect plc adopted its present structure as a result of the combination of JPMorgan Fleming Managed Growth plc and JPMorgan Fleming Managed Income plc and the subsequent capital reorganisation. The Company's name reflects the capital structure and the investment flexibility it offers to shareholders. There are three share classes, each with distinct investment policies, objectives and underlying investment portfolios. Each share class is listed separately and traded on the London Stock Exchange. This capital structure means that shareholders may benefit from greater investment flexibility in a tax-efficient manner.

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## OBJECTIVES

**Managed Growth** – Long term capital growth from investing in a range of investment trusts and open-ended funds managed principally by JPMorgan.

**Managed Income** – Growth of income with potential for long term capital growth by investing in equities, higher yielding shares of investment trusts and fixed income securities.

**Managed Cash** – Preservation of capital with a yield based on short term interest rates by investing in a range of liquidity funds.

The Board does not intend that any of the portfolios will use borrowings to increase the funds available for investment and it monitors closely the level of indirect gearing through the underlying investments.

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## BENCHMARKS

**Managed Growth:** A composite comprising 65% FTSE All-Share Index and 35% FTSE World Index (ex-UK).

**Managed Income:** A composite comprising 85% FTSE 350 High Yield Index and 15% Merrill Lynch Sterling Corporate Bond index.

**Managed Cash:** There is no benchmark for this portfolio.

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## CAPITAL STRUCTURE

**Managed Growth** share class has an authorised share capital of 160,000,000 ordinary shares, of which 51,990,259 were in issue at the year end.

**Managed Income** share class has an authorised share capital of 200,000,000 ordinary shares, of which 57,368,257 were in issue at the year end.

**Managed Cash** share class has an authorised share capital of 125,000,000 ordinary shares, of which 27,777,834 were in issue at the year end.

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## MANAGEMENT COMPANY

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

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## AIC

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

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# Contents

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Chairman’s Statement	2	<b>Managed Cash Portfolio</b>	
<b>Managed Growth Portfolio</b>		Results	22
Results	4	Investment Manager’s Report	23
Investment Manager’s Report	5	List of Investments	24
Ten Largest Investments	8	Portfolio Analysis	25
Portfolio Analysis	9	Shareholder Analysis	25
Investment Activity	9	Income Statement	26
List of Investments	10	Balance Sheet	27
Shareholder Analysis	11	<b>The Company</b>	
Income Statement	12	Board of Directors	28
Balance Sheet	13	Directors’ Report	29
<b>Managed Income Portfolio</b>		Corporate Governance	38
Results	14	Directors’ Remuneration Report	42
Investment Manager’s Report	15	Directors’ Responsibilities in Respect of the Accounts	43
Ten Largest Investments	17	Notice of Annual General Meeting	44
Portfolio Analysis	17	Independent Auditors’ Report	47
Investment Activity	17	Income Statement	48
List of Investments	18	Reconciliation of Movements in Shareholders’ Funds	49
Shareholder Analysis	19	Balance Sheet	50
Income Statement	20	Cash Flow Statement	51
Balance Sheet	21	Notes to the Accounts	52
		Information about the Company	66

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# Chairman's Statement



Ken Culley CHAIRMAN

## Performance

It gives me great pleasure to report another year of strong investment performance in the twelve months to 31st August 2006.

The Managed Growth portfolio produced a total return to shareholders of +22.1%, significantly ahead of its composite benchmark which returned +14.4%. The total return to Managed Income shareholders was +16.3%, compared with its benchmark, which returned +12.1%.

Since the Company's re-structure in January 2004, the Managed Growth and Managed Income portfolios have produced the following returns compared with their respective benchmarks:

### *Managed Growth:*

Share price total return:	+59.9%
Benchmark total return:	+49.6%

### *Managed Income:*

Share price total return:	+49.0%
Benchmark total return:	+41.6%

The Managed Cash portfolio has remained invested in sterling liquidity funds with a competitive yield and credit rating of AAA (or equivalent) and produced a total return to shareholders of +3.7% over the year.

The Investment Managers provide more detail on the activity within the Company's three portfolios and their outlook for markets and economies in their reports.

## Managed Growth Benchmark

The benchmark for the Managed Growth portfolio is a composite comprising 65% FTSE All Share and 35% FTSE World (ex-UK) Index. This was established when Managed Growth was launched in 1999 as a fund of JPMorgan managed investment trusts. In recent years, the investment remit has been broadened and a significant

proportion of the portfolio is now invested in JPMAM managed open ended and third party managed funds. The Board has therefore considered whether it would be appropriate to change the benchmark to a 50/50 weighting in order to more accurately reflect the underlying geographical exposure of the portfolio and is keeping this matter under review.

## Conversions

The Company's structure enables shareholders to benefit from a lower overall total expense ratio and greater investment flexibility, with the opportunity twice each year, on 31st May and 30th November, to convert part or all of their share holdings into shares of the Company's other share classes. Such conversions are not, under current law, treated as disposals for UK capital gains tax purposes.

The Board has considered offering shareholders more frequent conversion opportunities. However, given the current level of conversion activity, it has decided to retain the existing timetable, but reduce the conversion notice period from one month to two weeks prior to the conversion, with effect from the May 2007 conversion.

## Revenue and Dividends

### Managed Growth

During the year, interim dividends totalling 2.60 pence have been paid on the Managed Growth shares. The Directors have declared an interim dividend of 2.60 pence per Managed Growth share in respect of the three months to 31st August 2006, to be paid on 15th December 2006 to shareholders on the register at the close of business on 24th November 2006. The total dividend for the year of 5.20 pence compares with 3.72 pence in 2005. Interim dividends are paid on the Managed Growth shares in June and December each year. I would remind shareholders that the investment objective of the Managed Growth portfolio is long term capital growth and it is likely therefore that the rate of dividend will continue to fluctuate from year to year.

### Managed Income

During the year, dividends totalling 3.00 pence were paid on the Managed Income shares. A fourth quarterly dividend of 0.75 pence per Managed Income share was paid on 15th September 2006, bringing the total for the financial year to 3.75 pence (2005: 3.50 pence). It remains the Board's aim to provide a growing income together with the potential for long-term capital growth.

Dividends on the Managed Income shares are paid quarterly in March, June, September and December each year but, due to the frequency and timing of distributions from the underlying investments, the quarterly dividends are not of equal amounts.

### Managed Cash

During the year, dividends totalling 2.79 pence per Managed Cash share were paid. A fourth quarterly dividend of 0.94 pence per Managed Cash share was paid on 15th September 2006, bringing the total for the financial year to 3.73 pence (2005: 3.96 pence). Dividends on the Managed Cash shares are paid quarterly in March, June, September and December each year.

### Business Review

It is now a requirement that companies include a Business Review within the Directors' Report. The Company's Business Review for the year ended 31st August 2006 is on pages 29 to 34 and includes information on the measures that the Board uses to assess the Company's performance ("Key Performance Indicators") and the principal risks faced by the Company.

### Discount Management

The Company has authority to issue and repurchase new shares of each class and details of share issues and repurchases, together with the conversions between share classes, that have taken place during the year are given in the Business Review within the Directors' Report. The principal objective of the share issue and

repurchase programme is to ensure that the share price trades close to the net asset value of the underlying portfolio. The Board believes that its pro-active approach has been successful in achieving this objective, as demonstrated by the premium/discount ranges on the Company's shares during the year as follows:

Share Class	Premium/(Discount) Range 12 months to 31st August 2006
Managed Growth	(0.73)% to (2.48)%
Managed Income	0.72% to (2.51)%
Managed Cash	0.81% to (2.10)%

Authority will therefore be sought from shareholders at the forthcoming AGM to renew these powers.

### Annual General Meeting

I very much look forward to welcoming shareholders to the AGM which will be held at The Armourers' Hall, 81 Coleman Street, London EC2R 5BJ on Friday 15th December 2006 at 12.00 noon. In addition to the formal business of the meeting, the Investment Managers will make a presentation to shareholders, reviewing the year and commenting on the outlook. There will also be an opportunity to meet the Directors, Investment Managers and representatives of JPMorgan after the meeting. I look forward to welcoming as many of you as possible. Shareholders who are unable to attend the meeting are encouraged to use their proxy votes.

It would be helpful if shareholders could submit in writing any detailed or technical questions that they wish to raise at the AGM in advance to the Company Secretary at Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ.

**Ken Culley**  
Chairman

9th November 2006

# Results

## MANAGED GROWTH SHARE CLASS

**+22.1%** Return to shareholders<sup>1</sup> (2005: +31.4%)

**+22.6%** Return on net assets<sup>2</sup> (2005: +31.5%)

**+14.4%** Benchmark return<sup>3,4</sup> (2005: +22.5%)

**5.20p** Dividend<sup>5</sup> (2005: 3.72p)

	31st AUG 2006	31st AUG 2005 (Restated) <sup>6</sup>	% CHANGE
<b>FINANCIAL DATA</b>			
Total net assets (£'000)	<b>188,196</b>	170,065	<b>+10.7</b>
Number of shares in issue	<b>51,990,259</b>	56,400,970	<b>-7.8</b>
Net asset value per share	<b>362.0p</b>	301.5p	<b>+20.1</b>
Share price	<b>353.5p</b>	293.8p	<b>+20.3</b>
Discount of share price to net asset value	<b>2.3%</b>	2.6%	
<b>TOTAL EXPENSE RATIO<sup>7</sup></b>	<b>0.31%</b>	0.44%	

<sup>1</sup>Change in share price with net dividends reinvested. (Source: Standard & Poor's – www.funds-sp.com).

<sup>2</sup>Change in net asset value ('NAV') per share with net dividends reinvested.

(Source: Fundamental Data Ltd). NAV total returns are now calculated on a bid to bid basis. Historic NAVs have been adjusted to a bid basis by using an average factor compiled from the 12 month-end valuations in the year to 31st December 2005.

<sup>3</sup>The benchmark is a composite comprising 65% FTSE All Share Index & 35% FTSE World (ex-UK) Index.

This benchmark should not be taken as wholly representative of the investment universe. The investment strategy does not track this benchmark and consequently there may be a degree of divergence between its performance and that of the Managed Growth portfolio.

<sup>4</sup>Source: FTSE

<sup>5</sup>This represents dividends paid and proposed in respect of the financial year, rather than dividends paid during the financial year, as disclosed in the accounts in accordance with accounting standards.

<sup>6</sup>The results for the year ended 31st August 2005 have been restated in accordance with Financial Reporting Standard 21.

Further details can be found in note 1(i) on page 54.

<sup>7</sup>All operating expenses (including tax relief, where allowable, but excluding interest payments) expressed as a percentage of average net assets over the year.

# Investment Manager's Report



**Jonathan Lowe** has been managing the Managed Growth assets since January 2004, having assisted in the portfolio's management since 2002.

INVESTMENT MANAGER

## MANAGED GROWTH

### Review

In aggregate it has been a good year for equity markets and a year of strong performance for the Managed Growth portfolio. Over the past 12 months, equities have continued to benefit from a combination of good economic growth, relatively low interest rates and strong profitability and investors have enjoyed the full fruits of this. Indeed, market returns over the period have been surprisingly uniform with most producing a (sterling) return of between 15% and 20%. The main exception to this has been the US, which has lagged its international counterparts in both dollar and sterling terms.

Although the 12 month numbers remain strong, equity returns since the interim results have been less impressive, as investors have worried about inflation, interest rates and the durability of the cycle. Over this period, currency has been as big an influence on returns as have the underlying markets. Since the end of February, sterling has appreciated 8.6% against the US dollar, 10.2% against the Yen and 1.6% against the Euro. In spite of the fact that most equity markets are modestly higher over this period, this has not translated into positive sterling-based performances. Sterling's strength is resulting in a noticeable headwind for investors.

As return opportunities have diminished over the past six months, it is perhaps not surprising that investor risk appetites have also reduced. We can find anecdotal evidence for this from the sharp price corrections in the commodity markets, from the relative underperformance of the small cap sector and from reduced fund flows into emerging markets. Continued merger and acquisition activity, particularly from private equity funds, and historically narrow credit spreads show that risk appetites are still reasonable but animal spirits are clearly more subdued than they were at the interim stage.

The investment trust sector is perhaps as good a barometer as any in gauging the level of investor confidence. This can be seen from the performance of the sector against broader indices, from the average level of trust discounts and from the level of capital flows to and from the sector. Over the past six months, the FTSE investment trust sub index has underperformed the FTSE All Share index by over 6%, as interest has rotated away from more volatile asset classes (eg. emerging markets and small caps), which are heavily represented in the sector. At the same time average trust discounts have widened slightly (8% compared with 6.5% at the end of February) as increased market volatility has negatively impacted the sector's important retail shareholder base. Finally in terms of capital flows, the capital raised in the year to date for the sector (through new issues, secondary placements, warrant issues etc) has broadly offset capital redeemed (through tenders, buy-backs and liquidations). What is interesting, however, is the effect this is having on the sector's composition. Money raised is increasingly flowing into alternative investment mandates such as property and funds of hedge funds at the expense of both generalist and specialist equity funds. This would seem to confirm that a more cautious attitude prevails.

### Performance

It has been an excellent 12 months for the portfolio. The table below summarises the key performance data:

Total returns to 31st August 2006:

Months	3	6	12	24
NAV Return	+2.2%	-1.9%	+22.6%	+61.1%
Benchmark	+3.2%	+1.1%	+14.4%	+40.0%
FTSE All Share	+4.2%	+4.2%	+17.2%	+46.2%
FTSE World ex UK	+1.0%	-5.1%	+8.0%	+26.5%

Source: JPMAM/Bloomberg

## MANAGED GROWTH

Relative to the benchmark, there have been three main drivers behind the year's strong performance:

- Country positioning has added value over the period. Against its benchmark, the portfolio has benefited from overweight positions in Continental Europe, Japan and the Emerging Markets and its underweight position in the US. Offsetting this to some extent has been the portfolio's underweight position in the UK and the holding in cash. We estimate the combined effect of these decisions accounts for just over 1% of outperformance over the year.
- Discount contraction within our investment trust holdings remains a positive influence, although the effects of this are waning. Some of this is a cyclical influence thanks to the strong performance of equity markets, but there is a secular effect at work as well. Narrower discounts have been forced by aggressive shareholder action in seeking a tender or other form of restructuring, but a number of trusts have also been proactive in adopting formal discount controls. We estimate the effect of narrower discounts has added approximately 1.7% to the portfolio's relative return over the period.
- The vast majority of the portfolio's excess return has come from the performance of the underlying funds. Encouragingly, this has come from both our closed and open ended fund holdings and in a broad range of geographies. Cumulatively our fund holdings, accounting for more than 80% of the portfolio, outperformed their benchmarks over the period, thereby adding over 5% of excess return.

However, as can also be seen from the above table, performance over the past six months has

been more pedestrian. Country positioning has subtracted some value, particularly our underweight position in the UK and our overweight position in Japan. We have also suffered some widening in discounts from our trust holdings, although to be fair, discounts have not widened as much as they have done during previous bouts of investor caution. Finally, fund performance has slipped slightly from the impressive returns achieved in the early part of the year, although holdings accounting for close to 60% of the portfolio have either matched or outperformed their benchmarks at a time when market trends have been choppy and unhelpful.

### Portfolio Activity

At the end of August 2006 approximately 53% of the portfolio was invested in JPMorgan managed investment trusts, another 29% in JPMorgan managed open ended funds and just under 18% in investment trusts managed by third parties. Over the past year we have reduced the percentage of the portfolio invested in JPMorgan managed trusts and increased the amounts invested in both open ended funds and in externally managed trusts.

Significant transactions over the year included the reduction of our holding in JPMF Overseas Investment Trust, in response to the narrowing in that trust's discount. This came about as a result of a tender offer to shareholders (in which we participated) and the commitment of the Board to control the level of discount relatively close to NAV. We also took some profits in JPM Emerging Markets Investment Trust after a period of sustained outperformance. At the same time, we have added to our holding in JPM Asian Investment Trust following the widening of its discount beyond 10%.

New third party names added to the portfolio over the past six months include Melchior Japan

## Investment Manager's Report continued

### MANAGED GROWTH

Investment Trust, Finsbury Emerging Biotechnology Trust and Impax Environmental Markets, all of these have been by way of either primary or secondary placements.

#### Outlook

As noted above, investor risk appetites have moderated after the relative enthusiasm of the early part of the year. Given that we are three years into an economic recovery, that corporate profits are at cyclical highs and that most central banks are, or have been, raising interest rates, a degree of caution is not surprising. Having said that, we do not believe it is the end of this particular cycle.

In spite of the increased headwinds facing equities, we take confidence from the fact that valuations are relatively low, that the visibility of profits remains high and that there is continuing strong demand for equities from share buy backs and merger and acquisition activity. In the past, severe market downturns have been caused by explicit policy action – the need to slow growth through higher interest rates in order to reduce inflationary expectations and through over-investment and excessive debt build-up by the corporate sector. Both conditions are absent at this time.

Although I would caution that it would be unwise for shareholders to bet the farm on another year of 20% plus returns, I remain optimistic that we can continue to identify attractive opportunities from within our investment universe. Consequently, we look forward to being able to produce another satisfactory return from the Managed Growth portfolio over the coming 12 months.

#### Jonathan Lowe

Investment Manager 9th November 2006

# Ten Largest Investments

	At 31st August 2006		At 31st August 2005	
	Valuation		Valuation	
	£'000	% <sup>1</sup>	£'000	% <sup>2</sup> (Restated)
JPMorgan A UK Dynamic Fund 'A' <sup>3</sup>	20,985	11.2	17,790	10.5
JPMorgan Fleming Claverhouse Investment Trust plc	17,869	9.5	14,944	8.8
JPMorgan European Investment Trust plc (Growth Shares) <sup>4</sup>	14,602	7.8	13,833	8.1
JPMorgan UK Strategic Value Fund <sup>3</sup>	10,309	5.5	8,890	5.2
JPMorgan US Fund <sup>3,5</sup>	7,566	4.0	3,310	1.9
JPMorgan Fleming Mercantile Investment Trust plc	7,367	3.9	6,704	3.9
JPMorgan Asian Investment Trust plc <sup>5</sup>	6,590	3.5	4,737	2.8
JPMorgan UK Equity Fund <sup>3,5</sup>	5,426	2.9	4,918	2.9
JPMorgan Fleming Japanese Investment Trust plc	5,340	2.8	5,805	3.4
JPMorgan Fleming Smaller Companies Investment Trust plc <sup>5</sup>	5,148	2.7	5,168	3.1
<b>Total</b>	<b>101,202</b>	<b>53.8</b>		

<sup>1</sup>Based on total assets less current liabilities of £188.2m.

<sup>2</sup>Based on total assets less current liabilities of £170.1m.

<sup>3</sup>Open Ended Investment Companies.

<sup>4</sup>Formerly JPMorgan Fleming Continental European Investment Trust plc.

<sup>5</sup>Not included in the ten largest investments at 31st August 2005.

# Portfolio Analysis

as at 31st August

## Geographic Analysis (on a look through basis)

	2006		2005	
	Company	Benchmark	Company (Restated)	Benchmark
	%	%	%	%
UK	54.1	65.0	56.9	65.0
Continental Europe	14.9	5.3	11.6	7.2
North America	11.7	13.4	14.1	21.0
Japan	7.2	13.9	6.9	3.4
Net current assets	4.5	–	2.7	–
Other	4.5	1.3	5.2	1.0
Other Pacific	3.1	1.1	2.6	2.4
	100.0	100.0	100.0	100.0

Based on total assets less current liabilities of £188.2m (2005: £170.1m).

## Currency Exposure (on a look through basis)

GBP	USD	Euro	JPY	HKD	Other	TOTAL
57%	12%	16%	7%	3%	5%	100%

Based on country of listing.

## Investment Activity

during the year to 31st August 2006

	Value at 31st August 2005		Purchases	Sales	Change in valuation	Value at 31st August 2006	
	£'000	%				£'000	£'000
JPMorgan managed investment trusts	101,020	61.1	7,180	32,337	19,226	95,089	53.2
JPMorgan managed open ended investment companies ('OEICs')	45,013	27.2	2,323	4,317	8,820	51,839	29.0
Externally managed investment trusts	19,288	11.7	9,769	2,357	5,197	31,897	17.8
<b>Total Portfolio</b>	<b>165,321</b>	<b>100.0</b>	<b>19,272</b>	<b>39,011</b>	<b>33,243</b>	<b>178,825</b>	<b>100.0</b>

# List of Investments

as at 31st August 2006

Company	Value £'000	Company	Value £'000
<b>JPMorgan Managed Investment Trusts</b>		<b>Externally Managed Investment Trusts</b>	
JPMorgan Fleming Claverhouse	17,869	Hansa	3,232
JPMorgan European (Growth Shares) <sup>2</sup>	14,602	SVM UK Active	2,841
JPMorgan Fleming Mercantile	7,367	Scottish Mortgage	2,390
JPMorgan Asian	6,590	Schroder Japan Growth	2,300
JPMorgan Fleming Japanese	5,340	Utilico	2,280
JPMorgan Fleming Smaller Companies	5,148	Schroder UK Growth	2,074
JPMorgan Income & Capital (Units 2008)	4,907	Finsbury Emerging Biotechnology	2,072
JPMorgan Fleming Overseas	4,891	Templeton Emerging Markets	1,961
JPMorgan American	4,835	Aberforth Smaller Companies	1,938
JPMorgan Mid Cap	4,737	Edinburgh	1,919
JPMorgan European Fledgling	4,113	Impax Environmental Markets	1,919
JPMorgan Emerging Markets	4,041	Electric & General	1,901
JPMorgan US Discovery	3,863	Edinburgh Worldwide	1,605
JPMorgan Fleming Income & Growth (Capital 2006 Shares)	3,038	Melchior Japan	1,510
JPMorgan Fleming Japanese Smaller Companies	2,290	Gartmore Fledgling	1,197
JPMorgan Indian	1,251	Perpetual Income & Growth	350
JPMorgan Russian	207	Schroder Asia Pacific	296
		Aberdeen New Dawn	112
<b>Total JPMorgan Managed Investment Trusts</b>	<b>95,089</b>	<b>Total Externally Managed Investment Trusts</b>	<b>31,897</b>
<b>JPMorgan Managed Open Ended Investment Companies ('OEICS')</b>		<b>Total Portfolio</b>	<b>178,825</b>
JPMorgan UK Dynamic Fund 'A' <sup>1</sup>	20,985		
JPMorgan UK Strategic Fund <sup>1</sup>	10,309		
JPMorgan US Fund <sup>1</sup>	7,566		
JPMorgan UK Equity Fund <sup>1</sup>	5,426		
JPMorgan Europe Dynamic Fund (Ex UK) <sup>1</sup>	4,548		
JPMorgan Natural Resources Fund <sup>1</sup>	3,005		
<b>Total JPMorgan Managed OEICS</b>	<b>51,839</b>		

<sup>1</sup>Unlisted

<sup>2</sup>Formerly JPMorgan Fleming Continental European Investment Trust plc.

# Shareholder Analysis

as at 31st August 2006

	Number of shares	Holding %
Unit Trusts	2,372,725	4.5
Pensions	403,700	0.8
Other Institutions	32,879	0.1
<b>Total Institutions</b>	<b>2,809,304</b>	<b>5.4</b>
<b>Market Trading Accounts</b>	<b>239,118</b>	<b>0.5</b>
Individuals in the Investment Trust Share Plan <sup>1</sup>	17,704,055	34.0
Individuals in the Investment Trust Pension Account <sup>1</sup>	15,927,917	30.6
Private Client Brokers	8,896,430	17.1
Retail Investors holding shares directly or through nominee accounts <sup>2</sup>	3,936,913	7.6
Individuals in the Investment Trust Individual Savings Account <sup>1</sup>	1,961,224	3.8
Individuals in the Investment Trust Personal Equity Plan <sup>1</sup>	515,298	1.0
<b>Total Retail</b>	<b>48,941,837</b>	<b>94.1</b>
<b>Total Shares in Issue</b>	<b>51,990,259</b>	<b>100.0</b>

<sup>1</sup> Savings product managed by JPMorgan.

<sup>2</sup> Includes shares below threshold of 10,000 shares.

Source: Thomson Financial

# Income Statement

(Unaudited)

for the year ended 31st August 2006

	2006			2005 (Restated)		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Gains from investments held at fair value through profit or loss</b>						
	-	34,028	34,028	-	38,753	38,753
Income from investments	2,739	-	2,739	2,093	-	2,093
Other interest receivable and similar income	404	-	404	339	-	339
<b>Gross revenue and capital gains</b>	<b>3,143</b>	<b>34,028</b>	<b>37,171</b>	<b>2,432</b>	<b>38,753</b>	<b>41,185</b>
Management fee	(105)	(312)	(417)	(77)	(229)	(306)
Other administrative expenses	(316)	-	(316)	(379)	(53)	(432)
<b>Net return on ordinary activities before taxation</b>	<b>2,722</b>	<b>33,716</b>	<b>36,438</b>	<b>1,976</b>	<b>38,471</b>	<b>40,447</b>
Taxation	108	-	108	131	-	131
<b>Net return on ordinary activities after taxation</b>	<b>2,830</b>	<b>33,716</b>	<b>36,546</b>	<b>2,107</b>	<b>38,471</b>	<b>40,578</b>
<b>Return per Managed Growth share</b>	<b>5.23p</b>	<b>62.31p</b>	<b>67.54p</b>	<b>3.82p</b>	<b>69.82p</b>	<b>73.64p</b>

# Balance Sheet

(Unaudited)

as at 31st August 2006

	2006 Total £'000	2005 Total (Restated) £'000
<b>Non current assets</b>		
Investments at fair value through profit or loss	178,825	165,321
<b>Current assets</b>		
Debtors	868	599
Cash and short term deposits	10,678	4,354
	11,546	4,953
<b>Creditors:</b> amounts falling due within one year	(2,175)	(209)
<b>Net current assets</b>	9,371	4,744
<b>Total assets less current liabilities</b>	188,196	170,065
<b>Total net assets</b>	188,196	170,065
Net asset value per Managed Growth share	362.0p	301.5p

# Results

## MANAGED INCOME SHARE CLASS

**+16.3%** Return to shareholders<sup>1</sup> (2005: +28.3%)

**+15.8%** Return on net assets<sup>2</sup> (2005: +26.8%)

**+12.1%** Benchmark return<sup>3,4</sup> (2005: +22.4%)

**3.75p** Dividend<sup>5</sup> (2005: 3.50p)

	31st AUG 2006	31st AUG 2005 (Restated) <sup>6</sup>	% CHANGE
<b>FINANCIAL DATA</b>			
Total net assets (£'000)	<b>62,347</b>	54,691	<b>+14.0</b>
Number of shares in issue	<b>57,368,257</b>	56,264,144	<b>+2.0</b>
Net asset value per share	<b>108.7p</b>	97.2p	<b>+11.8</b>
Share price	<b>106.5p</b>	95.0p	<b>+12.1</b>
Discount of share price to net asset value	<b>2.0%</b>	2.3%	
<b>TOTAL EXPENSE RATIO<sup>7</sup></b>	<b>0.71%</b>	0.71%	

<sup>1</sup>Change in share price with net dividends reinvested. (Source: Standard & Poor's – www.funds-sp.com).

<sup>2</sup>Change in net asset value ('NAV') per share with net dividends reinvested.

(Source: Fundamental Data Ltd). NAV total returns are now calculated on a bid to bid basis. Historic NAVs have been adjusted to a bid basis by using an average factor compiled from the 12 month-end valuations in the year to 31st December 2005.

<sup>3</sup>The benchmark is a composite comprising of 85% FTSE 350 High Yield & 15% Merrill Lynch Sterling Corporate Bond Index. This benchmark should not be taken as wholly representative of the investment universe. The investment strategy does not track this benchmark and consequently there may be a degree of divergence between its performance and that of the Managed Income portfolio.

<sup>4</sup>Source: WM (World Markets)/Bloomberg

<sup>5</sup>This represents dividends paid and proposed in respect of the financial year, rather than dividends paid during the financial year, as disclosed in the accounts in accordance with accounting standards.

<sup>6</sup>The results for the year ended 31st August 2005 have been restated in accordance with Financial Reporting Standard 21. Further details can be found in note 1(i) on page 54.

<sup>7</sup>All operating expenses (including tax relief, where allowable, but excluding interest payments) expressed as a percentage of average net assets over the year.

# Investment Manager's Report



**Jamieson Streeter** has been responsible for management of the Managed Income assets since January 2004

INVESTMENT MANAGER

## MANAGED INCOME

### Market background

As suggested in the interim report, the UK equity market was not as strong over the second half of our financial year, although returns were still reasonable. Corporate bonds put in a more balanced performance over the year. The table below summarises the key performance data:

Total returns to 31st August 2006:

Months	3	6	12	24
NAV Return	+4.1%	+3.1%	+15.8%	+47.0%
Benchmark	+3.3%	+2.3%	+12.1%	+37.2%
FTSE 350				
High Yield	+3.6%	+2.7%	+13.8%	+41.5%
Merrill Lynch				
Sterling				
Corp Bond	+2.6%	+1.4%	+3.5%	+13.8%

Source: JPMAM and Fundamental Data

### Portfolio Activity

The main feature of the first half was the continued reinvestment of proceeds from the disposal of EIB bonds into higher yielding income shares such as Smaller Companies Value, bond funds such as City Merchants High Yield and funds with some gearing into markets and a high yield, such as Invesco Perpetual Recovery, Investec High Income and Blue Chip Value and Income ordinary shares. Other funds which brought either different asset classes or an innovative approach were Teesland Advantage Property Trust, Aberdeen Asian Income and BNP UK High Income fund. This latter fund was a new launch which offers a 7.5% gross yield, some upside participation in UK equity markets and also downside protection thanks to its use of systematic call option overwriting and put protection. As such it was an attractive alternative to bonds and delivered us a 9% total return in the nine months since we purchased it. In addition we

added to some attractive income stocks such as BAT, Weir and William Hill. In the second half of the year we continued to broaden and add innovative funds to the mix of holdings, this time funded from directly held equities. This featured additions to existing funds such as Framlington Income & Capital capital shares and Teesland Advantage Property in May and Schroder Split in August. New holdings of existing funds included Small Companies Dividend Trust ordinary shares.

Towards the end of our financial year we participated in three new trust launches to further diversify the source of our income. The first of these was the JPMF Continental European Investment Trust which split itself to offer an income share and a growth share. We picked up the old shares at a discount in the market and elected to receive the new income shares which should offer us a net yield of around 4% next year. The second issue was ACP Mezzanine, a fund designed to benefit from the arrangement and provision of mezzanine financing in Europe with a focus on small and mid-sized transactions. It is expected that when the portfolio is fully invested, it should provide us with a gross yield of around 10%. The third was a fund of hedge fund strategies, New Star Absolute Income, which is designed to provide absolute returns with low volatility and correlation to equity markets and a gross yield of 5%.

In directly held equities, the portfolio benefited from bids for BPB and Exel which saw these holdings exit the portfolio in this financial year. We also took money out of some of the more defensive, lower growth sectors, such as the food manufacturing and water sectors, with disposals of Devro, Premier Foods, RHM, Severn Trent and United Utilities.

## MANAGED INCOME

### Portfolio Performance

The activity referred to above, together with volatile market conditions, caused the portfolio to struggle somewhat in our second half, albeit after a particularly strong first half. This meant we gave back some of our relative gains achieved in the first six months, but nevertheless, over the year the portfolio delivered a good return of 15.8%, as measured by the net asset value with net income reinvested. This was again well ahead of the composite benchmark which returned 12.1% on the same basis. Meanwhile, shareholders achieved higher returns of 16.3% from the movement in the share price and dividends, the discount narrowing slightly over the year as the successful share buy back policy continued to restrict the discount and enhance the net asset value.

The portfolio benefited from gaining its fixed interest exposure via holdings in investment companies and the extra returns that these brought versus bond markets. Additionally, the small amount of gearing that the portfolio gets from those holdings also helped to boost our returns as equity markets again provided strong positive returns. Within the directly held equities, the main positives were from the portfolio's underweight position in the oil and gas sector and from good stock selection in other sectors with travel, leisure and transport stocks being particularly significant.

### Outlook

The good returns shown by equity indices disguise what was a slightly more volatile year. After a strong and steady rise from lows in October 2005, the market peaked in early May 2006. We then saw a sharp sell-off as investors responded to a withdrawal of liquidity by central banks around the world and reduced risk positions, as they started to worry about the growth and inflation mix. This also had a knock-on effect on bond valuations.

Markets have recovered somewhat since June and are now generally trading sideways, awaiting a clearer indication of the economic outlook.

Bond markets, which struggled over the year and have recovered recently, currently seem to be discounting a sharper slowdown in US growth than equity markets are expecting. However, the benefits to growth and inflation from the recent decline in oil prices may help to explain this. Thus, companies' 4th quarter trading and outlook statements will be crucial in determining the future direction of markets.

Our view is that we are seeing a mid-cycle slow down and that growth will continue into next year. This should lead to a peak in interest rates which will be conducive to further gains in equities. Given our view, we shall continue with our modest overweight allocation to equities via funds and continue to select directly held UK equities with an emphasis on those that offer the best combination of value, income and capital growth prospects.

### Jamieson Streeter

Investment Manager

9th November 2006

# Ten Largest Investments

	At 31st August 2006 Valuation		At 31st August 2005 Valuation	
	£'000	% <sup>1</sup>	£'000	% <sup>2</sup> (Restated)
JPMorgan Fleming Income & Growth Investment Trust plc (Capital 2006)	6,343	10.2	5,256	9.6
JPMorgan Fleming Income & Growth Investment Trust plc (Income 2006)	4,245	6.8	4,484	8.2
Royal Dutch Shell	3,044	4.9	2,320	4.2
HSBC	2,859	4.6	1,402	2.6
BP	2,734	4.4	2,895	5.3
HBOS	2,717	4.4	2,356	4.3
Barclays	1,925	3.1	1,206	2.2
JPMorgan Income & Capital Investment Trust plc (Ordinary 2008)	1,747	2.8	1,329	2.4
British American Tobacco <sup>3</sup>	1,339	2.1	893	1.6
Royal Bank of Scotland <sup>3</sup>	1,274	2.0	892	1.6
<b>Total</b>	<b>28,227</b>	<b>45.3</b>		

<sup>1</sup>Based on total assets less current liabilities of £62.3m.

<sup>2</sup>Based on total assets less current liabilities of £54.7m.

<sup>3</sup>Not included in the ten largest investments at 31st August 2005.

## Portfolio Analysis

as at 31st August 2006

Sector	2006		2005
	Company %	Benchmark %	Company % (Restated)
Investment Trusts <sup>1</sup>	43.9	–	34.8
Financials	23.1	32.7	17.2
Oil & Gas	9.3	23.2	10.2
Consumer Goods	6.7	7.3	7.3
Utilities	6.3	6.5	7.0
Consumer Services	4.7	5.0	7.1
Industrials	1.9	2.2	6.5
Healthcare	1.4	–	1.0
Net Current Assets	1.2	–	2.2
Fixed Interest	1.0	15.0	3.3
Basic Materials	0.5	–	1.5
Telecommunications	–	8.1	1.9
	<b>100.0</b>	<b>100.0</b>	100.0

Based on total assets less current liabilities of £62.3m (2005:£54.7m).

<sup>1</sup>This is made up of investment trusts managed by JPMorgan and third parties.

Note: no comparison to 2005 index to due sector reclassifications.

## Investment Activity

during the year to 31st August 2006

	Value at 31st August 2005		Purchases £'000	Sales £'000	Change in valuation £'000	Value at 31st August 2006	
	£'000	%				£'000	%
UK Equities	32,624	61.0	13,883	17,351	4,431	33,587	54.5
JPMorgan Managed Investment Trusts	12,076	22.6	573	–	1,318	13,967	22.7
Externally Managed Investment Trusts	6,967	13.0	6,279	416	592	13,422	21.8
Fixed Interest/Corporate Bonds	1,801	3.4	–	1,247	53	607	1.0
<b>Total Portfolio</b>	<b>53,468</b>	<b>100.0</b>	<b>20,735</b>	<b>19,014</b>	<b>6,394</b>	<b>61,583</b>	<b>100.0</b>



# Shareholder Analysis

as at 31st August 2006

	Number of shares	Holding %
Unit Trusts	1,187,287	2.1
UK Government	64,315	0.1
Pensions	12,532	0.0
Insurance	11,782	0.0
<b>Total Institutions</b>	<b>1,275,916</b>	<b>2.2</b>
<b>Market Trading Accounts</b>	<b>870,985</b>	<b>1.5</b>
Individuals in the Investment Trust Share Plan <sup>1</sup>	28,073,706	48.9
Private Client Brokers	17,821,677	31.1
Retail Investors holding shares directly or through nominee accounts <sup>2</sup>	4,515,193	7.9
Individuals in the Investment Trust Personal Equity Plan <sup>1</sup>	2,692,638	4.7
Individuals in the Investment Trust Individual Savings Account <sup>1</sup>	1,146,279	2.0
Individuals in the Investment Trust Pension Account <sup>1</sup>	971,863	1.7
<b>Total Retail</b>	<b>55,221,356</b>	<b>96.3</b>
<b>Total Shares in Issue</b>	<b>57,368,257</b>	<b>100.0</b>

<sup>1</sup> Savings product managed by JPMorgan.

<sup>2</sup> Includes shares below threshold of 10,000 shares.

Source: Thomson Financial

# Income Statement

(Unaudited)

for the year ended 31st August 2006

	2006			2005 (Restated)		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Gains from investments held at fair value through profit or loss</b>						
Income from investments	2,633	–	2,633	2,040	–	2,040
Other interest receivable and similar income	26	–	26	25	–	25
<b>Gross revenue and capital gains</b>	<b>2,659</b>	<b>6,690</b>	<b>9,349</b>	<b>2,065</b>	<b>7,671</b>	<b>9,736</b>
Management fee	(185)	(185)	(370)	(108)	(108)	(216)
Other administrative expenses	(91)	–	(91)	(83)	(17)	(100)
<b>Net return on ordinary activities before taxation</b>	<b>2,383</b>	<b>6,505</b>	<b>8,888</b>	<b>1,874</b>	<b>7,546</b>	<b>9,420</b>
Taxation	43	–	43	26	–	26
<b>Net return on ordinary activities after taxation</b>	<b>2,426</b>	<b>6,505</b>	<b>8,931</b>	<b>1,900</b>	<b>7,546</b>	<b>9,446</b>
<b>Return per Managed Income share</b>	<b>4.23p</b>	<b>11.33p</b>	<b>15.56p</b>	<b>4.35p</b>	<b>17.29p</b>	<b>21.64p</b>

# Balance Sheet

(Unaudited)

as at 31st August 2006

	<b>2006</b>	2005
	<b>Total</b>	Total
	<b>£'000</b>	(Restated) £'000
<b>Non current assets</b>		
Investments at fair value through profit or loss	<b>61,583</b>	53,468
<b>Current assets</b>		
Debtors	<b>449</b>	1,138
Cash and short term deposits	<b>427</b>	485
	<b>876</b>	1,623
<b>Creditors:</b> amounts falling due within one year	<b>(112)</b>	(400)
<b>Net current assets</b>	<b>764</b>	1,223
<b>Total assets less current liabilities</b>	<b>62,347</b>	54,691
<b>Total net assets</b>	<b>62,347</b>	54,691
Net asset value per Managed Income share	<b>108.7p</b>	97.2p

# Results

## MANAGED CASH SHARE CLASS

**+3.7%** Return to shareholders<sup>1</sup> (2005: +3.5%)

**+3.8%** Return on net assets<sup>2</sup> (2005: +4.1%)

**3.73p** Dividend<sup>3</sup> (2005: 3.96p)

There is no benchmark index for this share class.

	31st AUG 2006	31st AUG 2005 (Restated) <sup>4</sup>	% CHANGE
<b>FINANCIAL DATA</b>			
Total net assets (£'000)	<b>28,094</b>	25,091	<b>+12.0</b>
Number of shares in issue	<b>27,777,834</b>	24,792,429	<b>+12.0</b>
Net asset value per share	<b>101.1p</b>	101.2p	<b>-0.1</b>
Share price	<b>99.0p</b>	99.5p	<b>-0.5</b>
Discount of share price to net asset value	<b>2.1%</b>	1.7%	
<b>TOTAL EXPENSE RATIO<sup>5</sup></b>	<b>0.10%</b>	0.08%	

<sup>1</sup>Change in share price with net dividends reinvested.

(Source: Standard & Poor's – www.funds-sp.com).

<sup>2</sup>Change in net asset value ('NAV') per share with net dividends reinvested.

(Source: Fundamental Data Ltd).

NAV total returns are now calculated on a bid to bid basis. Historic NAVs have been adjusted to a bid basis by using an average factor compiled from the 12 month-end valuations in the year to 31st December 2005.

<sup>3</sup>This represents dividends paid and proposed in respect of the financial year, rather than dividends paid during the financial year, as disclosed in the accounts in accordance with accounting standards.

<sup>4</sup>The results for the year ended 31st August 2005 have been restated in accordance with Financial Reporting Standard 21. Further details can be found in note 1(i) on page 54.

<sup>5</sup>All operating expenses (including tax relief, where allowable, but excluding interest payments) expressed as a percentage of average net assets over the year.

# Investment Manager's Report



**Jonathan Lowe**  
INVESTMENT MANAGER

## MANAGED CASH

### Portfolio Activity

The Managed Cash portfolio is invested in sterling liquidity funds in broadly equal amounts. The portfolio is actively managed, with liquidity funds selected on the basis of their yield, credit rating (all AAA) and the competitive nature of their management fees. Based on these criteria, the significant transactions within the portfolio during the year were the sales of the holdings in the Merrill Lynch and JPMorgan liquidity funds and investment in the Insight liquidity fund. As at 31st August 2006, net yields to investors on these funds ranged from 4.45% to 4.56%<sup>1</sup>.

### Jonathan Lowe

Investment Manager

9th November 2006

<sup>1</sup> 1 year returns to 31st August 2006. Source: IMMFA Money Fund Report, iMoneyNet.

# List of Investments

	Yield % <sup>1</sup>	At 31st August 2006			At 31st August 2005	
		Rating <sup>2</sup>	£'000	Valuation % <sup>3</sup>	£'000	Valuation % <sup>4</sup> (Restated)
Fidelity Sterling Cash Fund	4.53	AAA	4,973	17.7	4,325	17.2
Insight Sterling Liquidity Fund <sup>5</sup>	4.55	AAA	4,685	16.7	–	–
Standard Life Sterling Liquidity Fund	4.56	AAA	4,685	16.7	4,325	17.2
Scottish Widows Global Sterling Liquidity Fund	4.45	AAA	4,685	16.7	4,325	17.2
Royal Bank of Scotland Sterling Global Treasury Fund	4.49	AAA	4,685	16.7	4,325	17.2
Barclays Global Investors Sterling Liquidity Fund	4.52	AAA	4,685	16.6	4,325	17.2
<b>Total</b>			<b>28,398</b>	<b>101.1</b>		

<sup>1</sup>1 year returns to 31st August 2006. Source: IMMFA Money Fund Report, iMoneyNet.

<sup>2</sup>Ratings given by recognised credit rating agencies.

<sup>3</sup>Based on total assets less current liabilities of £28.1m.

<sup>4</sup>Based on total assets less current liabilities of £25.1m.

<sup>5</sup>Not included in the list of investments at 31st August 2005.

# Portfolio Analysis

as at 31st August 2006

	2006 %	2005 % (Restated)
Sterling Liquidity Funds	101.1	101.6
Net current liabilities	(1.1)	(1.6)
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Based on total assets less current liabilities of £28.1m (2005: £25.1m).

# Shareholder Analysis

as at 31st August 2006

	Number of shares	Holding %
<b>Market Trading Accounts</b>	<b>19,120</b>	<b>0.1</b>
Retail Investors holding shares directly or through nominee accounts <sup>1</sup>	14,930,727	53.7
Individuals in the Investment Trust Share Plan <sup>2</sup>	8,829,006	31.8
Private Client Brokers	3,890,045	14.0
Individuals in the Investment Trust Personal Equity Plan <sup>2</sup>	75,003	0.3
Individuals in the Investment Trust Individual Savings Account <sup>2</sup>	33,933	0.1
<b>Total Retail</b>	<b>27,758,714</b>	<b>99.9</b>
<b>Total Shares in Issue</b>	<b>27,777,834</b>	<b>100.0</b>

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

<sup>2</sup>Savings product managed by JPMorgan.

Source: Thomson Financial

# Income Statement

(Unaudited)

for the year ended 31st August 2006

	2006			2005 (Restated)		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Gains from investments held at fair value through profit or loss</b>						
Income from investments	1,177	-	1,177	1,088	-	1,088
Other interest receivable and similar income	2	-	2	12	-	12
<b>Gross revenue and capital gains</b>	<b>1,179</b>	<b>-</b>	<b>1,179</b>	<b>1,100</b>	<b>-</b>	<b>1,100</b>
Other administrative expenses	(40)	-	(40)	(28)	-	(28)
<b>Net return on ordinary activities before taxation</b>	<b>1,139</b>	<b>-</b>	<b>1,139</b>	<b>1,072</b>	<b>-</b>	<b>1,072</b>
Taxation	(190)	-	(190)	(157)	-	(157)
<b>Net return on ordinary activities after taxation</b>	<b>949</b>	<b>-</b>	<b>949</b>	<b>915</b>	<b>-</b>	<b>915</b>
<b>Return per Managed Cash share</b>	<b>3.65p</b>	<b>-</b>	<b>3.65p</b>	<b>3.97p</b>	<b>-</b>	<b>3.97p</b>

# Balance Sheet

(Unaudited)

as at 31st August 2006

	2006 Total £'000	2005 Total (Restated) <sup>1</sup> £'000
<b>Non current assets</b>		
Investments at fair value through profit or loss	28,398	25,230
<b>Current assets</b>		
Debtors	110	98
Cash and short term deposits	10	–
	120	98
<b>Creditors: amounts falling due within one year</b>	<b>(424)</b>	<b>(237)</b>
<b>Net current liabilities</b>	<b>(304)</b>	<b>(139)</b>
<b>Total assets less current liabilities</b>	<b>28,094</b>	<b>25,091</b>
<b>Total net assets</b>	<b>28,094</b>	<b>25,091</b>
Net asset value per Managed Cash share	101.1p	101.2p

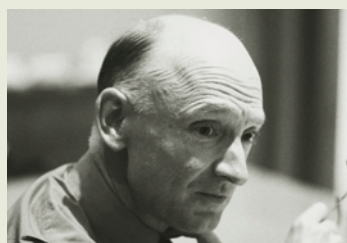
# Board of Directors



**Ken Culley CBE\*†† (Chairman)**

*A Director since 1999*

Chairman of Brit Insurance Limited, 1st Credit Limited and Marks and Spencer Financial Services plc. Formerly Chief Executive of the Portman Building Society and past Chairman of the Building Societies Association. Previously a Non-Executive Director of JPMorgan Fleming Managed Income plc.



**Simon Miller\*†† (Deputy Chairman)**

*A Director since 2004*

Chairman of Dunedin Capital Partners Limited. He is also Chairman of Artemis Alpha Trust and First State Aim VCT and a Non-Executive Director of Dunedin Enterprise Investment Trust plc, Adam & Company plc and Brewin Dolphin Holdings PLC. Previously Chairman of JPMorgan Fleming Managed Income plc.



**Nigel Sidebottom\*†† (Chairman of the Audit Committee)**

*A Director since 1999*

Investment Director of Premier Fund Managers Limited. Formerly a Director of BFS Investments plc, stockbrokers Gerrard Vivian Gray Limited and Greig Middleton and Co. Limited. He was also formerly a Non-Executive Director of INVESCO Continental Smaller Companies Trust PLC and The Monthly High Income Trust PLC.



**Robert Ottley\*††**

*A Director since 2004*

Chairman of The Zero Preference Growth Trust plc and a Director of Atlantis Asian Recovery Fund plc. Formerly Senior Investment Director, Investment Management, at HSBC Investment Management (formerly James Capel & Co), where he specialised in the selection of investment trusts and other collective investment schemes. Previously a Non-Executive Director of JPMorgan Fleming Managed Income plc, Greenwell Montagu Stockbrokers and a partner in W Greenwell & Co.

\* Member of the Audit Committee.

‡ Considered independent by the Board.

† Member of the Nomination Committee.

# Directors' Report

The Directors present their report for the year ended 31st August 2006.

## **Business Review**

### **Business of the Company**

The Company carries on business as an investment trust and was approved by HM Revenue & Customs as an investment trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31st August 2005. In the opinion of the Directors, the Company has subsequently conducted its affairs so that it should continue to qualify. The Company will continue to seek approval under Section 842 of the Income and Corporation Taxes Act 1988 each year. Approval for the year ended 31st August 2005 is subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment. The Company is an investment company within the meaning of Section 266 of the Companies Act 1985. The Company is not a close company for taxation purposes.

### **Investment Objectives and Policies**

#### *Managed Growth:*

The objective of the Managed Growth portfolio is to achieve capital growth from investments in closed and open-ended funds managed principally by JPMorgan.

#### *Managed Income:*

The objective of the Managed Income portfolio is to achieve a growing income with potential for long-term capital growth by investing in equities, higher yielding shares of investment trusts and fixed income securities, with the flexibility to move between equities and bonds to achieve the most attractive risk-adjusted yield throughout the market cycle.

#### *Managed Cash:*

The objective of the Managed Cash share class is to provide preservation of capital with a yield based on short-term interest rates by investing in a range of liquidity funds, selected for their yield and credit rating.

## **Performance**

### *Managed Growth:*

In the year to 31st August 2006, the Managed Growth portfolio produced a total return to shareholders of +22.1% and a total return on net assets of +22.6%. This compares with the return on the composite benchmark of +14.4%. As at 31st August 2006, the value of the Managed Growth portfolio was £178.8m. The Investment Manager's Report on pages 5 to 7 includes a review of developments during the year as well as information on investment activity within the Managed Growth portfolio.

### *Managed Income:*

In the year to 31st August 2006, the Managed Income portfolio produced a total return to shareholders of +16.3% and a total return on net assets of +15.8%. This compares with the return on the composite benchmark of +12.1%. As at 31st August 2006, the value of the Managed Income portfolio was £61.6m. The Investment Manager's Report on pages 15 to 16 includes a review of developments during the year as well as information on investment activity within the Managed Income portfolio.

### *Managed Cash:*

In the year to 31st August 2006, the Managed Cash portfolio produced a total return to shareholders of +3.7% and a total return on net assets of +3.8%. There is no benchmark index for this share class. As at 31st August 2006, the value of the Managed Cash investment portfolio was £28.4m. The Investment Manager's Report on page 23 provides information on investment activity within the Managed Cash portfolio.

**Total Return, Revenue and Dividends**

Gross total return for the year totalled £47,699,000 (2005: £52,021,000) and net total return after deducting interest, administrative expenses and taxation amounted to £46,426,000 (2005: £50,939,000).

**Managed Growth:**

Net revenue return for the year available for distribution by way of dividend amounted to £2,830,000 (2005: £2,109,000). Total dividends paid and proposed in respect of the year are 5.20p per share (2005: 3.72p per share), costing £2,743,000 (2005: £2,109,000). An interim dividend of 2.00p (2005: 1.50p) for the six months ended 28th February 2006 was paid on 16th June 2006. An interim dividend of 0.60p (2005: nil), for the three months ended 31st May 2006, was also paid on 16th June 2006. The Directors have declared an interim dividend of 2.60p per share (2005: 2.22p) for the three months ended 31st August 2006, payable on 15th December 2006 to shareholders on the register at the close of business on 24th November 2006, costing £1,352,000 (2005: £1,252,000). The balance on the revenue reserve at the year end is £2,108,000 (2005: £1,902,000 as restated) and after transfer of the interim dividend for the three months ended 31st August 2006 will be £756,000 (2005: £650,000).

**Managed Income:**

Net revenue return for the year available for distribution by way of dividend amounted to £2,426,000 (2005: £1,900,000). Total dividends paid in respect of the year were 3.75p per share (2005: 3.50p per share), costing £2,154,000 (2005: £1,482,000). The balance on the revenue reserve at the year end is £1,255,000 (2005: £916,000 as restated) and after payment of the fourth quarter dividend is £824,000 (2005: £550,000).

**Managed Cash:**

Net revenue return for the year available for distribution by way of dividend amounted to £949,000 (2005: £915,000). Total dividends paid in respect of the year were 3.73p per share (2005: 3.96p per share), costing £960,000 (2005: £914,000). The balance on the revenue reserve at the year end is £269,000 (2005: £279,000 as restated) and after payment of the fourth quarter dividend is £8,000 (2005: £19,000).

It should be noted that, in accordance with Financial Reporting Standard 21: 'Events after the Balance Sheet date', dividends declared but not paid are not accrued in the accounts. As a result, the dividends paid after the financial year end will be accounted for in the period in which they are paid. This has led to an increase in assets as at 31st August 2005 and 31st August 2004. Further details can be found in Note 7(a) on page 57.

**Key Performance Indicators ('KPIs')**

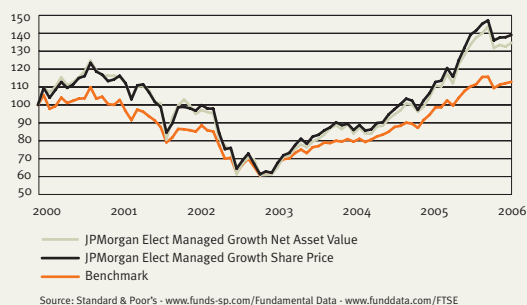
The Board uses a number of financial KPIs to monitor and assess the performance of the Company. The principal KPIs are:

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

**Managed Growth:**

**NAV, Share Price and Benchmark Performance to 31st August 2006 (Total Return)**

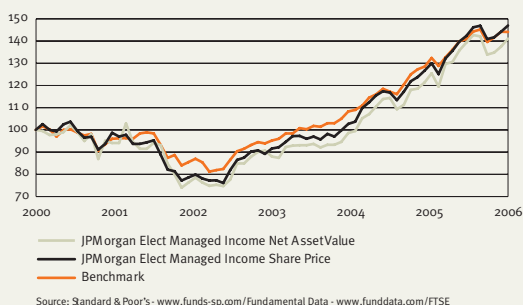
Figures have been rebased to 100 as at 30th November 1999



*Managed Income:*

**NAV, Share Price and Benchmark Performance to 31st August 2006 (Total Return)**

Figures have been rebased to 100 as at 31st December 2000



*Managed Cash:*

There is no benchmark for the Managed Cash share class.

- Performance against the Company's peers**

The principal objective of the Managed Growth share class is to achieve capital growth relative to the benchmark. The principal objective of the Managed Income share class is to achieve growing income plus capital growth relative to the benchmark. However, the Board also monitors the performance of the Managed Growth and Managed Income share classes relative to a broad range of competitor funds.

- Performance Attribution**

The purpose of performance attribution analysis is to assess how each share class achieved its performance relative to its benchmark index, i.e. to understand the impact on the Managed Growth and Managed Income portfolios' relative performance of the various components, such as stock selection and sector allocation. However, given that the two portfolios are invested in other funds, rather than entirely in conventional equities, it is difficult to produce precise, verifiable performance attribution data. Therefore the Investment Managers comment

on the factors that have significantly impacted on performance in their reports on page 6 (Managed Growth) and page 16 (Managed Income).

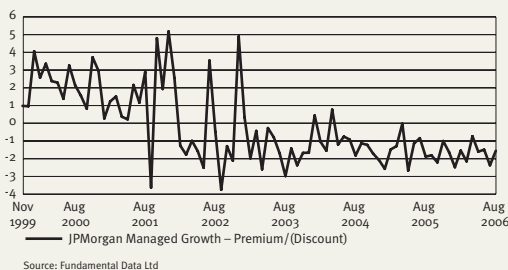
- Discount to net asset value ('NAV')**

The Board has active share issue and repurchase programmes which seek to address imbalances in the supply of and demand for the Company's shares within the market. This minimises the volatility and absolute level of the discount to NAV at which the Company's shares trade.

*Discount Performance*

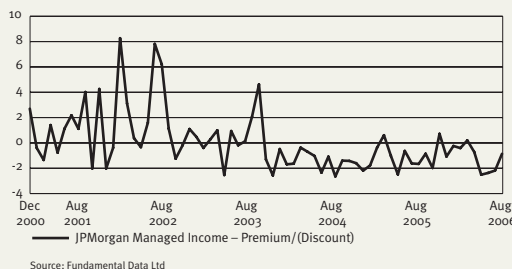
*Managed Growth:*

In the year to 31st August 2006, the discount on the Managed Growth shares ranged between 2.48% and 0.73%,



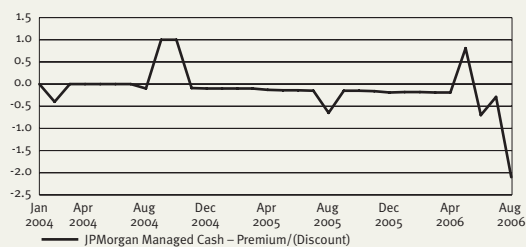
*Managed Income:*

In the year to 31st August 2006, the shares traded between a premium of 0.72% and a discount of 2.51%.



*Managed Cash:*

In the year to 31st August 2006, the shares traded between a premium of 0.81% and a discount of 2.10%.



Source: Fundamental Data Ltd

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

The total expense ratio ('TER') is an expression of the Company's management fees and all other operating expenses (including tax relief, where allowable, but excluding interest payments) as a percentage of average net assets over the year. The Managed Growth TER for the year ended 31st August 2006 was 0.31% (2005: 0.44%), the Managed Income TER was 0.71% (2005: 0.71%) and the Managed Cash TER was 0.10% (2005: 0.08%). The Board reviews each year an analysis which shows a comparison of each portfolio's TER and its main expenses with those of its peers.

**Share Capital**

**Share Issues**

In the year to 31st August 2006, the Company issued a total of 100,000 Managed Growth shares for cash for a total consideration of £346,000 and 224,438 new Managed Income shares for cash for a total consideration of £220,000. The Company did not issue any Managed Cash shares during the year. Issues are only made at a premium to net asset value, thereby enhancing net asset value and benefiting existing shareholders.

Since the year end and as at the date of this report, the Company has not issued any further shares.

**Share Repurchases**

The Company repurchased a total of 2,324,500 Managed Growth shares in the market for cancellation during the year, representing 4.1% of the shares in issue at the beginning of the year, at a total cost of £8,530,883. Since the Company's year end a further 348,000 Managed Growth shares have been repurchased for cancellation, at a total cost of £1,255,493.

The Company repurchased a total of 650,000 Managed Income shares in the market for cancellation during the year, representing 1.2% of the shares in issue at the beginning of the year, at a total cost of £656,131. Since the Company's year end a further 368,000 Managed Income shares have been repurchased for cancellation, at a total cost of £393,471.

The Company repurchased a total of 2,461,000 Managed Cash shares in the market for cancellation during the year, representing 9.9% of the shares outstanding at the beginning of the year, at a total cost of £2,324,715. Since the Company's year end a further 440,210 Managed Cash shares have been repurchased for cancellation, at a total cost of £438,862.

Resolutions to renew the Company's authority to issue and repurchase Managed Growth, Managed Income and Managed Cash shares will be put to shareholders for approval at the forthcoming Annual General Meeting as detailed on pages 44 and 45.

**Conversions**

The Company's capital structure allows shareholders the opportunity, twice each year, to convert part or all of their share holdings into shares of the Company's other share classes without such conversions being treated, under current law, as a disposal for UK capital gains tax purposes. More details are given on page 66.

## Directors' Report continued

During the year two conversions took place, on 1st December 2005 and on 1st June 2006. The net result of those conversions was a reduction in the Managed Growth issued share capital of 2,186,211 shares, and an increase in the Managed Income and Managed Cash issued share capital of 1,529,675 and 5,978,189 respectively. In addition, a total of 531,784 Managed Cash shares were repurchased on the two conversion dates.

### 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 Strategy:** An inappropriate investment strategy, for example asset allocation or the level of indirect gearing may lead to under-performance against the relevant 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 on. JPMorgan Asset Management (UK) Limited ('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 Board does not intend that any of the Company's portfolios will use borrowings to increase the funds available for investment and it monitors closely the level of indirect gearing through the underlying investments.
- **Market:** Market risk arises 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 indirect 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.
- **Accounting, Legal and Regulatory:** In order to qualify as an investment trust, the Company must comply with Section 842 of the Income and Corporation Taxes Act 1988 ('Section 842'). Details of the Company's approval are given under "Business of the Company" above. Should the Company breach Section 842, it could lose investment trust status and as a consequence gains within the Company's portfolios would be subject to Capital Gains Tax. The Section 842 qualification criteria are continually monitored by JPMAM and the results reported to the Board each month. The Company must also comply with the provisions of the Companies Act 1985 and, 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. Breach of the UKLA Listing Rules might result in the Company's shares being suspended from listing which in turn would breach Section 842. The Board relies on the services of its Company Secretary, JPMAM, and its professional advisers to ensure compliance with The Companies Act 1985 and the UKLA Listing Rules.

- Corporate Governance and Shareholder Relations: Details of the Company's compliance with Corporate Governance best practice, including information on relations with shareholders, are set out in the Corporate Governance report on pages 38 to 41.
- 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 pages 40 and 41.
- Financial: The financial risks faced by the Company are disclosed in note 18 on pages 64 and 65.

#### **Future Developments**

Clearly the future development of the Company is much dependent upon the success of the Company's investment strategies in the light of economic and equity market developments. The Board holds a separate meeting each year devoted to the strategy of the Company and its investment portfolios given potential future developments. The Investment Managers discuss the outlook in their reports on pages 7 (Managed Growth) and 16 (Managed Income).

#### **Management**

The Manager and Secretary, JPMorgan Asset Management (UK) Limited ('JPMAM') is a wholly-owned subsidiary of JPMorgan Chase Bank which, through other subsidiaries, also provides banking, dealing and custodian services to the Company.

The Board has evaluated the performance of the Manager and confirms that it is satisfied that the continuing appointment of the Manager is in the interests of shareholders as a whole. In arriving at this view, the Board has reviewed the performance

of the Investment Managers, their investment style and process, resources and risk controls. It also reviewed the administrative support provided by JPMorgan.

#### **Management Fee**

JPMAM is employed under separate contracts for each portfolio of assets, each contract being terminable on one year's notice, without penalty. If the Company wishes to terminate any of the contracts on less than one year's notice, the balance of the year's remuneration is payable by way of compensation.

The management fee is calculated and paid quarterly in arrears and is charged at the following rates:

- Managed Growth and Managed Income assets: 0.3% per annum on assets invested in JPMorgan managed funds and 0.6% on assets invested in externally managed funds and direct investments;
- Managed Cash assets: no management fee charged.

#### **Going Concern**

The Directors consider that the Company has adequate resources, an appropriate financial structure and suitable arrangements in place for its management to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

#### **Payment Policy**

It is the Company's policy to obtain the best terms for all business and therefore there are no standard payment terms. In general the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by these terms. As at 31st August 2006, the Company had no outstanding trade creditors.

## Directors' Report continued

### Notifiable Share Interests

At the date of this report the Company had been notified of the following interests in excess of 3% of its issued share capital:

Shareholders	Number of shares held	%
<b>Managed Growth:</b>		
Puddledock Nominees Ltd <sup>1</sup>	20,023,044	38.8
Forest Nominees Ltd <sup>2</sup>	15,914,243	30.8
<b>Managed Income:</b>		
Puddledock Nominees Ltd <sup>1</sup>	31,923,799	56.0
<b>Managed Cash:</b>		
Puddledock Nominees Ltd <sup>1</sup>	8,697,956	31.8

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

<sup>2</sup> Held on behalf of JPMAM Pension participants.

### Directors

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

Since the year end, Ken Culley has notified a further beneficial interest of 1,224 Managed Growth and 305 Managed Income shares, Robert Ottley, 206 Managed Income shares and Simon Miller, 141 Managed Income shares.

In accordance with the Company's Articles of Association, Ken Culley retires by rotation at the following AGM. Being eligible he offers himself for re-election.

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.

Directors	31st August 2006			1st September 2005		
	Managed Growth Shares	Managed Income Shares	Managed Cash Shares	Managed Growth Shares	Managed Income Shares	Managed Cash Shares
Ken Culley	27,008	44,024	–	22,391	42,526	–
Simon Miller	–	20,338	–	–	19,646	–
Robert Ottley	29,754	29,960	–	10,332	–	–
Nigel Sidebottom	6,679	–	–	6,679	–	–

### Disclosure of information to Auditors

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

- so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act) of which the Company's auditors are unaware, and
- each of the Directors has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

### Independent Auditors

Ernst & Young LLP have expressed their willingness to continue in office as Auditors to the Company and a resolution proposing their re-appointment, and to authorise the Directors to determine their remuneration for the ensuing year, will be put to shareholders at the Annual General Meeting.

**Accounting Policies**

From 1st January 2005, International Financial Reporting Standards ('IFRS') came into force for all listed companies that prepare group accounts. All other companies were permitted to adopt these standards voluntarily. As a Company that does not produce group accounts, rather than adopt IFRS, the Company has continued to follow the UK accounting framework, albeit amended for new accounting standards which were released by the UK Accounting Standards Board as the first part of an IFRS convergence programme. This approach is consistent with that of most other investment trust companies that do not prepare group accounts.

The main difference to prior years is that the Company no longer accrues dividends declared but not paid. This has resulted in an increase in net assets at both year ends reported in these accounts. Other changes include investments to be valued at "fair value", which for listed investments means bid price instead of last trade price. The accounts also include a new primary statement, the Reconciliation of Movements in Shareholders' Funds, which can be found on page 49. Further details can be found in the accounting policies note on pages 52 to 54 and in note 7(a) on page 57.

**Annual General Meeting**

Resolutions relating to the following items of special business will be proposed at the forthcoming Annual General Meeting:

- (i) *Authority to increase the maximum aggregate Directors' fees (resolution 5)*

To allow for Board succession planning, the Directors recommend that, in accordance with Article 105 of the Company's Articles of Association, the permitted maximum aggregate of Directors' fees payable be increased from £100,000 to £200,000 per annum.

- (ii) *Authority to issue the Company's shares for cash and disapply pre-emption rights (resolutions 6 and 7)*

The Companies Act 1985 requires that the Directors of a company be authorised by shareholders to allot shares. It also requires that new shares issued by a company for cash be offered first to existing shareholders in proportion to their existing shareholdings. However, shareholders can, by special resolution, authorise Directors to allot shares otherwise than by a pro rata issue to existing shareholders.

Resolutions 6 and 7 in the Notice of Annual General Meeting on page 44 will give the Directors specific authority to allot new shares, otherwise than by a pro rata issue to existing shareholders, for cash up to an aggregate nominal amount of approximately £785 representing 5,164,225 Managed Growth shares, 5,700,025 Managed Income shares and 2,733,762 Managed Cash shares, such amounts being approximately equivalent to 10% of the present issued share capital of each share class.

The Board believes that, should the Company's shares move to a premium to net asset value, it would be in the interests of existing shareholders for the Company to be able to issue new shares to investors. As such issues would only be made at prices greater than net asset value, they would increase the assets underlying each share and spread the administrative expenses, other than those fees charged as a percentage of assets, over a greater number of shares. The issue proceeds would be available for investment in line with the Company's investment objectives. No issue of shares will be made which would effectively alter the control of the Company without the prior approval of shareholders in general meeting.

## Directors' Report continued

### *(iii) Authority to Repurchase the Company's Shares (resolution 8)*

At the Annual General Meeting of the Company held on 7th December 2005 shareholders gave authority to the Board to repurchase up to 14.99 per cent of the shares of any class of the Company's then issued share capital. The Board will seek shareholder approval at the AGM to renew this authority. The authority for all three share classes will last until 14th June 2008 or until the whole of the 14.99 per cent has been acquired, whichever is the earlier. The full text of the resolution is set out in the Notice of Annual General Meeting on page 45. Repurchases will be made at the discretion of the Board and will only be made in the market at prices below the prevailing net asset value per share as and when market conditions are appropriate.

### *(iv) Approval of the proposed Contingent Purchase Contract (resolution 9)*

This resolution gives the Company authority to buy its Managed Cash shares, Repurchase shares and Deferred shares arising on conversion of any of the ordinary shares into another class of ordinary shares. This resolution follows the requirements of Sections 164 and 165 of the UK Companies Act 1985. The purchase contract is part of the mechanism by which shareholders are entitled to require the Company to repurchase Managed Cash shares. The Deferred shares are repurchased for nominal consideration (as they have no economic value) in order to keep the balance sheet manageable. By law the Company can only purchase these shares off-market if such purchase is pursuant to a contract in the form approved at a general meeting of the Company.

By order of the Board

JM Latter, for and on behalf of

JPMorgan Asset Management (UK) Limited,  
Secretary

9th November 2006

# Corporate Governance

## Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities on page 43, indicates how the Company has applied the principles of good governance of the updated Combined Code published in June 2006 (the 'Combined Code') and the AIC's Code of Corporate Governance, also published in 2003 (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

Management agreements between the Company and JPMAM set out the matters over which the Manager has authority. This includes management of the Company's assets and the provision of accounting, company secretarial, administration, and some marketing services. All other matters are reserved for the approval of the Board. A formal schedule of matters reserved to the Board for decision has been approved. This includes determination and monitoring of the Company's investment objectives and policy and its future strategic direction, gearing policy, management of the capital structure, appointment and removal of third party service providers, review of key investment and financial data and the Company's corporate governance and risk control arrangements.

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

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access that every Director has to the advice and services of the Company Secretary, JPMAM, which is responsible to the Board for ensuring that Board

procedures are followed and that applicable rules and regulations are complied with.

## Board Composition

The Board consists of four non-executive Directors, all of whom are regarded by the Board as independent of the Company's Manager, including the Chairman. The Directors have a breadth of investment, business and financial skills and experience relevant to the Company's business and brief biographical details of each Director are set out on page 28.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board, details of which may be found below. The Board has considered whether a senior independent director should be appointed and has concluded that, as the Board comprises entirely of non-executive directors, this is unnecessary at present. However, the Deputy Chairman leads the evaluation of the performance of the Chairman and is available to shareholders if they have concerns that cannot be resolved through discussion with the Chairman.

## Tenure

Directors are initially appointed until the following AGM when, under the Company's Articles of Association, it is required that they be re-elected by shareholders. Thereafter, a Director's appointment will run for a term of three years. Subject to the performance evaluation carried out each year, the Board will agree whether it is appropriate for the Director to seek an additional term. A Director's continuing appointment is subject to re-election by shareholders on retirement by rotation in accordance with the Company's Articles of Association, which require that one third of the Board must retire by rotation each year.

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 takes into account the ongoing requirements of the Combined Code, including the need to refresh the Board and its committees.

## Corporate Governance continued

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.

As a result of the Board's evaluation process described below, it confirms that Ken Culley, who retires by rotation at this year's AGM, continues to be an effective Director and demonstrates commitment to the role and the Board recommends his re-election.

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

The table below details the number of Board and Audit and Nomination Committee meetings attended by each Director. During the year there were six Board meetings, including a private meeting of the Directors to evaluate the Manager and a separate meeting devoted to strategy, two Audit Committee meetings and one Nomination Committee meeting.

Director	Board meetings attended	Audit Committee meetings attended	Nomination Committee meetings attended
Ken Culley	6	2	1
Simon Miller	6	2	1
Robert Ottley	6	2	1
Nigel Sidebottom	6	2	1

### Training and Appraisal

The Manager and Company Secretary provides all new Directors with induction training on appointment. 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 evaluated the Manager, its own performance and that of its committees and the individual Directors as follows: a questionnaire, drawn up by an independent industry consultant, was reviewed by the Directors to prompt discussions on the relevant areas.

The evaluation of individual Directors is led by the Chairman who meets with each Director; the other Directors evaluate the Chairman's performance; and the Board as a whole evaluates the Manager, its own performance and that of its committees.

### Board Committees

#### Nomination Committee

The Nomination Committee, which consists of all of the Directors, 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 use of external search consultants, may be used to ensure that a wide range of candidates are 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 Audit Committee, chaired by Nigel Sidebottom and which comprises all of the Directors, meets at least twice each year. The members of the Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee.

The Committee reviews the actions and judgements of the Manager in relation to the 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; in the Directors' opinion, the auditors are independent. Representatives of the Company's auditors attend the Committee meeting at which the draft annual report and financial statements are considered. The Directors' statement on the Company's system of internal control is set out below.

Both the Nomination Committee and the Audit Committee have written terms of reference which define clearly their respective responsibilities, copies of which are available for inspection on request at the Company's registered office, on the Company's web site and at the AGM.

#### **Relations with Shareholders**

The Board regularly monitors the shareholder profile of the Company. It aims to provide shareholders with a full understanding of the Company's activities and performance and reports formally to shareholders twice a year by way of the Annual Report and Accounts and the Interim Report. This is supplemented by the daily publication, through the London Stock Exchange, of the net asset value of the Company's shares.

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the Directors and representatives of the Manager are available in person to meet with and answer shareholders' questions. In addition, presentations are given by the Investment Managers who review the Company's performance. During the year the Company's brokers, the Investment Managers and JPMAM hold regular discussions with larger shareholders. The Directors are made fully aware of their views. The Chairman and Directors make themselves available as and when required to address shareholder queries. The Directors may be contacted through the Company Secretary whose details are shown on page 67.

The Company's Annual Report and Accounts is published in time to give shareholders at least 20 working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to write to the Company Secretary at the address shown on page 67. Details of the proxy voting position on each Resolution will be published on the Company web site shortly after the AGM.

#### **Internal Control**

The Combined Code requires the Directors, at least annually, to review the effectiveness of the Company's system of internal control and to report to

shareholders that they have done so. This encompasses a review of all controls, which the Board has identified as including business, financial, operational, compliance and risk management.

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

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

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

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

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

## Corporate Governance continued

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

The Board 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:

- the Board, through the Audit Committee, reviews the terms of the management agreements and receives regular reports from JPMAM's Compliance department;
- the Board reviews the report on the internal controls and the operations of its custodian, JPMorgan Chase Bank, which is itself independently reviewed; and
- the Directors review every six months an independent report on the internal controls and the operations of JPMAM.

By the means of the procedures set out above, the Board confirms that, in accordance with the Turnbull guidance, it has reviewed the effectiveness of the Company's system of internal control for the year ended 31st August 2006, and to the date of approval of this Annual Report and Accounts.

### **Corporate Governance and Voting Policy**

The Company delegates responsibility for voting to JPMAM. The following is a summary of JPMAM's policy statement on corporate governance and voting policy which has been noted by the Board. The full policy is available from JPMAM on request, or can be downloaded from [www.jpmorgan.com](http://www.jpmorgan.com):

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

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

*In order to do this we have formulated detailed guidelines for each region, which set out our stance on a variety of key corporate governance issues, including disclosure and transparency, board composition and independence, control structures, remuneration, as well as social and environmental issues (see below).*

*These guidelines form the basis of our proxy voting decisions, although it should be noted that JPMAM makes all of its voting decisions on a case by case basis, taking into account the individual circumstances of each vote.*

### **Corporate Social Responsibility**

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

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

# Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of Schedule 7A to the Companies Act 1985. An ordinary resolution to approve this report will be put to 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 47.

With effect from 1st July 2006 fees have been paid at the rate of £30,000 for the Chairman, £22,000 for the Chairman of the Audit Committee and £20,000 for the other Directors.

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

Director	2006 £	2005 £
Ken Culley	25,625	25,000
Simon Miller	18,250	18,000
Nigel Sidebottom	20,250	20,000
Robert Ottley	18,250	18,000

<sup>1</sup> Audited information.

The total Directors' fees of £82,375 (2005: £81,000) comprise £62,125 (2005: £61,000) in respect of aggregate emoluments paid to Directors and £20,250 paid to third parties for making available the services of one Director (2005: £20,000, one Director).

As all of the Directors are non-executive, the Board has not established a Remuneration Committee. Instead, the Nomination Committee reviews Directors' fees on a regular basis and makes recommendations to the Board as and when

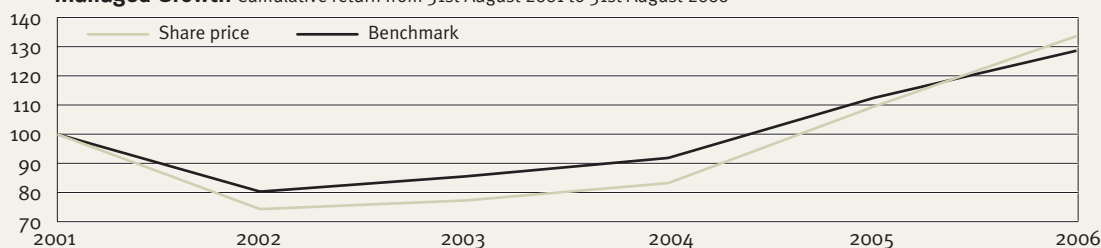
appropriate. Reviews are based on information provided by the Manager, JPMAM, and relevant third parties on the level of fees paid to the directors of the Company's peers and within the investment trust industry generally. The Directors' fees are not performance-related. In aggregate, fees must not exceed £100,000 per annum. Any increase in the maximum aggregate amount requires both Board and shareholder approval. The Board will seek shareholder approval at the forthcoming AGM to increase the maximum aggregate amount payable per annum to £200,000. The Directors do not have service contracts with the Company.

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.

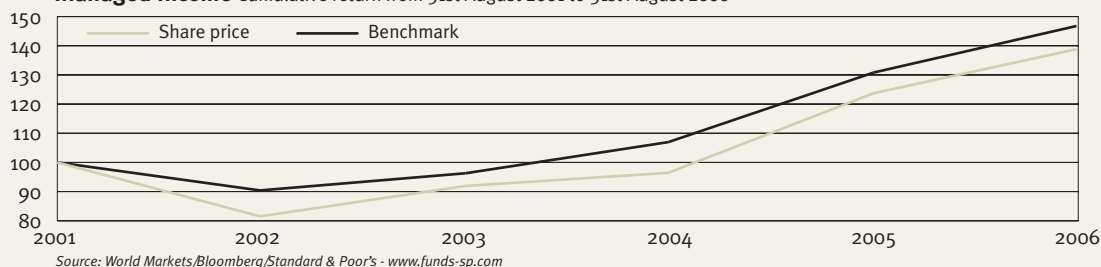
Line graphs showing the share price total returns compared to their benchmark indices for the Managed Growth and Managed Income share classes over the last five years are shown below. There is no benchmark index for the Managed Cash share class.

By order of the Board  
JM Latter, for and on behalf of  
JPMorgan Asset Management (UK) Limited  
Secretary  
9th November 2006

**Managed Growth** Cumulative return from 31st August 2001 to 31st August 2006



**Managed Income** Cumulative return from 31st August 2001 to 31st August 2006



The Managed Growth benchmark is a composite comprising 65% FTSE All-Share Index and 35% FTSE World Index (ex-UK). The Managed Income benchmark is a composite comprising 85% FTSE 350 High Yield Index and 15% Merrill Lynch Sterling Corporate Bond Index. Comparisons of the Managed Growth and Managed Income performance are made with these benchmarks. These benchmarks are recognised indices of stocks which should not be taken as wholly representative of the Managed Growth and Managed Income investment universe. The Managed Growth and Managed Income investment strategies do not follow or track these indices and, consequently, there may be some divergence between their performance and that of these share classes.

# Directors' Responsibilities in Respect of the Accounts

Company law requires the Directors to prepare accounts for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice which give a true and fair view of the state of affairs of the Company as at the end of the year and of the total return for the year. In preparing those accounts, the Directors are required to:

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

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Notice of Annual General Meeting

Notice is hereby given that the seventh Annual General Meeting of JPMorgan Elect plc will be held at The Armourers' Hall, 81 Coleman Street, London EC2R 5BJ on Friday 15th December 2006 at 12.00 noon for the following purposes:

- 1 To receive the Directors' Report, the Annual Accounts and the Auditors' Report for the year ended 31st August 2006.
- 2 To approve the Directors' Remuneration Report for the year ended 31st August 2006.
- 3 To re-elect Ken Culley as a Director of the Company.
- 4 To re-appoint Ernst & Young LLP as auditors of the Company and to authorise the Directors to determine their remuneration.

#### **Special Business:**

To consider the following resolutions:

#### **Authority to increase the maximum aggregate Directors' fees – Ordinary Resolution**

- 5 THAT in accordance with Article 105 of the Company's Articles of Association, the maximum aggregate Directors' fees payable be increased from £100,000 to £200,000 per annum with immediate effect.

#### **Authority to allot new shares – Ordinary Resolution**

- 6 THAT the Board be and is hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of approximately £785 (being approximately 10% of the issued share capital of the Managed Growth, Managed Income and Managed Cash share classes of the Company as at 7th November 2006) provided that this authority shall expire on 14th March 2008 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-emptive rights on allotment of new shares – Special Resolution**

- 7 THAT, subject to the passing of resolution 6 set out above, the Directors of the Company be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 (the 'Act') to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority conferred by Resolution 6 as if sub section (1) of Section 89 of the Act did not apply to any such allotment, provided that this power shall be limited to:
  - (a) the allotment of equity securities in the Company by way of rights issue, open offer or otherwise to holders of Managed Growth shares, Managed Income shares and Managed Cash shares where the equity securities respectively attributable to the interest of all Managed Growth shares, Managed Income shares and Managed Cash shares are proportionate to the respective numbers of Managed Growth shares, Managed Income shares and Managed Cash shares held by them subject to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or local or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange or any territory or otherwise howsoever; and/or
  - (b) the allotment (otherwise than pursuant to sub paragraph (a) above) of equity securities up to an aggregate nominal value of approximately £785 (being approximately 10% of the total issued share capital as at 31st October 2006) at a price not less than the net asset value per share; and shall expire on 14th March 2008 unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers, agreements or arrangements which would or might require equity securities to be allotted after such

## Notice of Annual General Meeting continued

expiry and the Board may allot equity securities in pursuance of such offers, agreements or arrangements as if the power conferred hereby had not expired.

### **Authority to Repurchase the Company's Shares – Special Resolution**

8 THAT the Company be generally and, subject as hereinafter appears, unconditionally authorised in accordance with Section 166 of the Companies Act 1985 (the 'Act') to make market purchases (within the meaning of Section 163 of the Act) of its issued Managed Growth shares, Managed Income shares and Managed Cash shares (all being classes of ordinary shares in the capital of the Company) PROVIDED ALWAYS THAT

- (i) the maximum number of Managed Growth, Managed Income and Managed Cash shares hereby authorised to be purchased shall be 7,741,174, 8,544,338 or 4,097,909 respectively, or, if different, that number of Managed Growth, Managed Income and Managed Cash shares which is equal to 14.99% of the issued share capital of the relevant share class as at the date of the passing of this Resolution;
- (ii) the minimum price which may be paid for an ordinary share shall be 0.01p;
- (iii) the maximum price which may be paid for an ordinary share shall be an amount equal to 105% of the average of the middle market quotations for an ordinary share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased or (b) the price of the last independent trade; or (c) the highest current independent bid;
- (iv) any purchase of ordinary shares will be made in the market for cash at prices below the prevailing net asset value per ordinary share (as determined by the Directors) at the date following not more than seven days before the date of purchase;

- (v) the authority hereby conferred shall expire on 14th June 2008 unless the authority is renewed at the Company's Annual General Meeting in 2007 or at any other general meeting prior to such time; and
- (vi) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority and may make a purchase of ordinary shares pursuant to any such contract notwithstanding such expiry.

### **Authority to Make Off-market Purchases – Special Resolution**

9 THAT the proposed Contingent Purchase contract between Winterflood Securities Limited and JPMorgan Elect plc to enable the Company to make off-market purchases of its own securities pursuant to Sections 164 and 165 of the Companies Act 1985 in the form produced at the meeting and initialled by the Chairman, be and is hereby approved and the Company be and is hereby authorised to enter into and perform such contract, but so that the approval and authority conferred by this resolution shall expire on the day immediately preceding the date which is 18 months after the passing of this resolution or, if earlier, the next annual general meeting of the Company.

By order of the Board  
JM Latter, for and on behalf of  
JPMorgan Asset Management (UK) Limited,  
Secretary  
9th November 2006

**Notes**

- 1 A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and on a poll vote on their behalf. A proxy need not be a member of the Company. The lodging of a form of proxy does not prevent a member from attending and voting if he so wishes.
- 2 Any instrument appointing a proxy, to be valid, must be lodged at the Company's Registrar not less than 48 hours before the time of the meeting.
- 3 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. on 13th December 2006 (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.
- 4 Entry to the above Meeting will be restricted to shareholders, with guests admitted only by prior arrangement.  
  
A corporation, which is a shareholder, may appoint an individual to act as its representative and to vote in person at the meeting. The appointment must comply with section 375 of the Companies Act 1985. The representative should bring to the meeting evidence of his or her appointment, including any authority under which it is signed, unless previously given to the Company's registrars.
- 5 The register of interests of the Directors and connected persons in the share capital of the Company is available for inspection at the Company's registered office during usual business hours on any weekday (Saturdays and public holidays excepted). It will also be available for inspection at the Annual General Meeting.
- 6 No Director has any contract of service with the Company.

*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. CREST personal members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s) who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's CREST Manual. The CREST message must be transmitted so as to be received by the issuer's agent (ID7RAo1) by not later than 48 hours before the time appointed for the holding of the meeting or the adjourned meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the CREST message by the CREST Applications Host) from which the issuer's agent is able to retrieve the CREST message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s), should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timing and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member(s) is/are a CREST personal member or sponsored member or has appointed (a) voting service provider(s), to procure that the CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a CREST message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) is/are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001.

# Independent Auditors' Report

## Independent Auditors' Report to the members of JPMorgan Elect plc

We have audited the financial statements of JPMorgan Elect plc for the year ended 31st August 2006 which comprise the Income Statement, Balance Sheet, Reconciliation of Movements in Shareholders' Funds, Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

### Respective responsibilities of Directors and Auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view, the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and the information given in the Directors' Report is consistent with the financial statements.

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

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Features, Chairman's Statement, Results, Investment Managers' Reports, Ten Largest Investments, Portfolio Analysis, Investment Activity, List of Investments, Shareholder Analysis, Portfolio Income Statements, Portfolio Balance Sheets, Board of Directors, Directors' Report, Corporate Governance, the unaudited part of the Directors' Remuneration Report, Directors' Responsibilities, Notice of Annual General Meeting and the Information about the Company. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

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

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

### Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31st August 2006 and of its net return for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

**ERNST & YOUNG LLP**

Registered Auditor

London, 9th November 2006

# Income Statement

for the year ended 31st August 2006

	Notes	2006			2005 (Restated) <sup>1</sup>		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Gains from investments held at fair value through profit or loss</b>							
	2	–	40,718	40,718	–	46,424	46,424
Income from investments	3	6,549	–	6,549	5,221	–	5,221
Other interest receivable and similar income	3	432	–	432	376	–	376
<b>Gross revenue and capital gains</b>		<b>6,981</b>	<b>40,718</b>	<b>47,699</b>	<b>5,597</b>	<b>46,424</b>	<b>52,021</b>
Management fee	4	(290)	(497)	(787)	(185)	(337)	(522)
Other administrative expenses	5	(447)	–	(447)	(490)	(70)	(560)
<b>Net return on ordinary activities before taxation</b>		<b>6,244</b>	<b>40,221</b>	<b>46,465</b>	<b>4,922</b>	<b>46,017</b>	<b>50,939</b>
Taxation	6	(39)	–	(39)	–	–	–
<b>Net return on ordinary activities after taxation</b>		<b>6,205</b>	<b>40,221</b>	<b>46,426</b>	<b>4,922</b>	<b>46,017</b>	<b>50,939</b>
<b>Return per ordinary share:</b>							
<b>Managed Growth</b>	8	<b>5.23p</b>	<b>62.31p</b>	<b>67.54p</b>	3.82p	69.82p	73.64p
<b>Managed Income</b>	8	<b>4.23p</b>	<b>11.33p</b>	<b>15.56p</b>	4.35p	17.29p	21.64p
<b>Managed Cash</b>	8	<b>3.65p</b>	–	<b>3.65p</b>	3.97p	–	3.97p

Details of dividends paid and declared are given in note 7(b).

<sup>1</sup>Restatements and prior year adjustments resulting from the adoption of new accounting policies are detailed in notes 1(b) on page 52 and 1(i) on page 54. All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the year. The total column of this statement is the profit and loss account of the Company and the revenue and capital columns represent supplementary information. The total column represents all the information that is required to be disclosed in a "Statement of Total Recognised Gains and Losses" ("STRGL"). For this reason a STRGL has not been presented.

The notes on pages 52 to 65 form part of these accounts.

# Reconciliation of Movements in Shareholders' Funds

for the year ended 31st August 2006

	Called up share capital £'000	Share premium account £'000	Other reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
<b>At 31st August 2004 (as restated)<sup>1</sup></b>	<b>24</b>	<b>8,639</b>	<b>213,582</b>	<b>(45,795)</b>	<b>2,115</b>	<b>178,565</b>
Shares bought back and cancelled	–	–	(10,123)	–	–	(10,123)
Shares issued	–	34,406	–	–	–	34,406
Total return from ordinary activities	–	–	–	46,017	4,922	50,939
Dividends appropriated in the year	–	–	–	–	(3,940)	(3,940)
<b>At 31st August 2005 (as restated)<sup>1</sup></b>	<b>24</b>	<b>43,045</b>	<b>203,459</b>	<b>222</b>	<b>3,097</b>	<b>249,847</b>
Adjustment to opening shareholders' funds at 1st September 2005 to reflect the adoption of bid prices	–	–	–	(1,047)	–	(1,047)
Shares bought back and cancelled	–	–	(22,641)	–	–	(22,641)
Shares issued	–	11,722	–	–	–	11,722
Total return from ordinary activities	–	–	–	40,221	6,205	46,426
Dividends appropriated in the year <sup>2</sup>	–	–	–	–	(5,670)	(5,670)
<b>At 31st August 2006</b>	<b>24</b>	<b>54,767</b>	<b>180,818</b>	<b>39,396</b>	<b>3,632</b>	<b>278,637</b>

<sup>1</sup>Restatements and prior year adjustments resulting from the adoption of new accounting policies are detailed in notes 1(i) on page 54 and 7(a) on page 57.

<sup>2</sup>Details of dividends are given in note 7(b) on page 58.

*The notes on pages 52 to 65 form part of these accounts.*

# Balance Sheet

as at 31st August 2006

		2006			2005 Total (Restated) <sup>1</sup> £'000
	Notes	Growth £'000	Income £'000	Cash £'000	Total £'000
<b>Non current assets</b>					
Investments at fair value through profit or loss	9	178,825	61,583	28,398	268,806
<b>Current assets</b>					
Debtors	10	868	449	110	1,427
Cash and short term deposits		10,678	427	10	11,115
		11,546	876	120	12,542
<b>Creditors: amounts falling due within one year</b>	11	(2,175)	(112)	(424)	(2,711)
<b>Net current assets/(liabilities)</b>		9,371	764	(304)	9,831
<b>Total assets less current liabilities</b>		188,196	62,347	28,094	278,637
<b>Total net assets</b>		188,196	62,347	28,094	278,637
<b>Capital and reserves</b>					
Called up share capital	12	18	4	2	24
Share premium account	13	16,945	25,493	12,329	54,767
Other reserve	13	143,459	21,865	15,494	180,818
Capital reserve	13	25,666	13,730	–	39,396
Revenue reserve	13	2,108	1,255	269	3,632
<b>Shareholders' funds</b>		188,196	62,347	28,094	278,637

		2006		2005 (Restated) <sup>1</sup>	
		Net asset value per share (pence)	Net assets attributable £'000	Net asset value per share (pence)	Net assets attributable £'000
<b>Managed Growth</b>	14	362.0	188,196	301.5	170,065
<b>Managed Income</b>	14	108.7	62,347	97.2	54,691
<b>Managed Cash</b>	14	101.1	28,094	101.2	25,091

<sup>1</sup>Restatements and prior year adjustments resulting from the adoption of new accounting policies are detailed in notes 1(i) on page 54 and 7(a) on page 57.

The accounts on pages 48 to 65 were approved by the Directors and authorised for issue on 9th November 2006

Ken Culley

Director

*The notes on pages 52 to 65 form part of these accounts.*

# Cash Flow Statement

for the year ended 31st August 2006

	Notes	31st August 2006 £'000	31st August 2005 £'000
<b>Net cash inflow from operating activities</b>	15	<b>5,428</b>	4,331
<b>Taxation recovered</b>		<b>24</b>	–
<b>Capital expenditure and financial investment</b>			
Purchases of investments		<b>(50,254)</b>	(56,868)
Sales of investments		<b>67,495</b>	52,472
Other capital items		<b>30</b>	(5)
<b>Net cash inflow/(outflow) from capital expenditure and financial investment</b>		<b>17,271</b>	(4,401)
Dividends paid		<b>(5,670)</b>	(3,940)
<b>Net cash inflow/(outflow) before financing</b>		<b>17,053</b>	(4,010)
<b>Financing</b>			
Issue of ordinary shares		<b>11,722</b>	11,609
Repurchase of ordinary shares		<b>(22,498)</b>	(10,123)
<b>Net cash (outflow)/inflow from financing</b>		<b>(10,776)</b>	1,486
<b>Increase/(decrease) in cash and cash equivalents</b>	16	<b>6,277</b>	(2,524)

The notes on pages 52 to 65 form part of these accounts.

# Notes to the Accounts

at 31st August 2006

## 1. Accounting policies

### (a) Basis of accounting

The accounts are prepared in accordance with the Companies Act 1985, United Kingdom Generally Accepted Accounting Practice (“UK GAAP”) and with the Statement of Recommended Practice “Financial Statements of Investment Trust Companies” (the “SORP”) issued by the AIC in December 2005. Further details can be found on this and the following page as well as in note 7(a). The Company has adopted certain new accounting policies following the issue of new financial reporting standards (“FRSs”). All of the Company’s operations are of a continuing nature.

### (b) Changes in presentation

The new financial reporting standards, the Listing Rules and the revised SORP have given rise to some changes in presentation. The Statement of Total Return is now called the Income Statement and the total column, as opposed to the revenue column, is now the profit and loss account of the Company. Dividends paid to equity shareholders are no longer reflected in the Income Statement, although they continue to be shown in the Reconciliation of Movements in Shareholders’ Funds which is now presented as a primary statement.

### (c) Valuation of investments

Investments are designated as “held at fair value through profit or loss” in accordance with FRS 26 : “Financial Instruments: Measurement”. Listed investments are valued at bid market prices. This represents a change in accounting policy, however in accordance with paragraph 108D of FRS 26, comparatives have not been restated. In prior periods, listed investments were valued at last trade prices. As a consequence, the adoption of bid prices on 1st September 2005 decreased the value of investments by £1,047,000 as shown in note 9.

Investments in Open Ended Investment Companies are valued at quoted bid prices.

Changes in the fair value of investments held at fair value through profit or loss and gains or losses on disposal are included in the income statement within “Gains from investments held at fair value through profit or loss”. All purchases and sales are accounted for on a trade date basis.

### (d) Income

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

UK dividends are accounted for net of any tax credits.

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 forgone is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital.

## Notes to the Accounts continued

### (e) Expenses

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

- the management fee on the Managed Growth pool of assets is allocated 25% to revenue and 75% to capital in line with the Board's expected split of revenue and capital return from the Managed Growth investment portfolio;
- the management fee on the Managed Income pool of assets is allocated 50% to revenue and 50% to capital in line with the Board's expected split of revenue and capital return from the Managed Income investment portfolio;
- expenses incidental to the purchase of an investment are charged to capital and those incidental to the sale are deducted from the sales proceeds. These expenses are commonly referred to as transaction costs and include items such as stamp duty and broker commissions. In accordance with the SORP, disclosure of transaction costs is required and can be found in note 9.

Expenses charged to the Company, common to all pools (Managed Growth, Managed Income and Managed Cash) are apportioned to the revenue account of each pool in the same proportion as their net assets at the month end immediately preceding the date on which the cost is to be accounted for.

Expenses charged to the Company in relation to a specific pool are allocated directly to that pool, with the other two pools remaining unaffected. Losses of one pool are not borne by another.

### (f) Finance costs

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

- Finance costs on the Managed Growth pool of assets are allocated 25% to revenue and 75% to capital in line with the Board's expected split of revenue and capital return from the Managed Growth investment portfolio.
- Finance costs on the Managed Income pool of assets are allocated 50% to revenue and 50% to capital in line with the Board's expected split of revenue and capital return from the Managed Income investment portfolio;
- Finance costs on the Managed Cash pool are allocated 100% to revenue.

### (g) Financial instruments

Cash at bank and in hand may comprise cash and demand deposits which are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value. Other receivables do not carry any interest, are short term in nature and are accordingly stated at nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Interest bearing 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 instruments in the year under review or the comparative year.

**(h) Taxation**

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

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

Tax is computed for each portfolio separately. Where unrelieved expenses in one portfolio are utilised in another portfolio, a credit is made in the donor portfolio and charge in the recipient portfolio, based on the value of those expenses to the Company as a whole.

**(i) Dividends**

In accordance with FRS 21: "Events after the Balance Sheet Date", dividends should not be accrued in the accounts unless they have been approved by shareholders before the balance sheet date. Dividends payable to equity shareholders are recognised in the Reconciliation of Movements in Shareholders' Funds when they have been approved by shareholders and become a liability of the Company. This has led to an increase in net assets at 31st August 2005 and 31st August 2004. Further details are given in note 7(a).

	2006 £'000	2005 £'000
<b>2. Gains from investments held at fair value through profit or loss</b>		
Gains from investments held at fair value		
through profit or loss based on historical cost	13,434	12,470
Net discount on debt securities allocated to income	4	-
Amounts recognised as unrealised in the previous year	(5,146)	(8,273)
Realised gains based on carrying value at previous balance sheet date	8,292	4,197
Net movement in unrealised gains	32,396	42,273
Net losses on foreign currency	(1)	(7)
Other capital items	31	(39)
<b>Total capital gains from investments held at fair value through profit or loss</b>	<b>40,718</b>	<b>46,424</b>

	JPM Elect Managed Growth 2006 £'000	JPM Elect Managed Income 2006 £'000	JPM Elect Managed Cash 2006 £'000	Total 2006 £'000	Total 2005 £'000
<b>3. Income</b>					
<b>Income from investments</b>					
UK dividend income	2,686	2,486	-	5,172	4,008
UK unfranked investment income	53	103	-	156	60
UK interest income	-	44	-	44	61
Overseas dividends <sup>1</sup>	-	-	1,177	1,177	1,088
Scrip dividends	-	-	-	-	4
	2,739	2,633	1,177	6,549	5,221
<b>Other income</b>					
Deposit interest	404	23	2	429	376
Other income	-	3	-	3	-
<b>Total income</b>	<b>3,143</b>	<b>2,659</b>	<b>1,179</b>	<b>6,981</b>	<b>5,597</b>

<sup>1</sup>The overseas dividends represent distributions from liquidity funds, one of which is domiciled in Luxembourg, with the others domiciled in Ireland.

## Notes to the Accounts continued

	JPM Elect Managed Growth 2006 £'000	JPM Elect Managed Income 2006 £'000	JPM Elect Managed Cash 2006 £'000	<b>Total 2006 £'000</b>	Total 2005 £'000
<b>4. Management fee</b>					
<i>Charged to revenue:</i>					
Management fee	78	159	–	<b>237</b>	153
Irrecoverable VAT thereon	27	26	–	<b>53</b>	32
<b>Total Revenue</b>	<b>105</b>	<b>185</b>	<b>–</b>	<b>290</b>	<b>185</b>
<i>Charged to capital:</i>					
Management fee	232	159	–	<b>391</b>	270
Irrecoverable VAT thereon	80	26	–	<b>106</b>	67
<b>Total Capital</b>	<b>312</b>	<b>185</b>	<b>–</b>	<b>497</b>	<b>337</b>
<b>Total</b>	<b>417</b>	<b>370</b>	<b>–</b>	<b>787</b>	<b>522</b>

	JPM Elect Managed Growth 2006 £'000	JPM Elect Managed Income 2006 £'000	JPM Elect Managed Cash 2006 £'000	<b>Total 2006 £'000</b>	Total 2005 £'000
<b>5. Other administrative expenses:<sup>1</sup></b>					
<i>Charged to revenue:</i>					
Other management expenses	125	46	26	<b>198</b>	266
Directors fees <sup>2</sup>	57	18	8	<b>82</b>	81
Savings products <sup>3</sup>	120	22	4	<b>146</b>	124
Auditors remuneration	14	5	2	<b>21</b>	19
<b>Total Revenue</b>	<b>316</b>	<b>91</b>	<b>40</b>	<b>447</b>	<b>490</b>
<i>Charged to capital:</i>					
Other management expenses	–	–	–	<b>–</b>	70 <sup>4</sup>
<b>Total Capital</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>70</b>
<b>Total</b>	<b>316</b>	<b>91</b>	<b>40</b>	<b>447</b>	<b>560</b>

<sup>1</sup> Expenses have been adjusted to include the related irrecoverable VAT.

<sup>2</sup> Full disclosure is given in the Directors' Remuneration Report on page 42.

<sup>3</sup> Paid to JPMAM for the marketing of 'wrapper' products.

<sup>4</sup> Includes £70,000 payable to JPMAM in respect of a proportion of the reconstruction costs of the Company.

Please refer to note 1(e) for details on how expenses are apportioned between each portfolio.

Notes to the Accounts continued

	JPM Elect Managed Growth 2006 £'000	JPM Elect Managed Income 2006 £'000	JPM Elect Managed Cash 2006 £'000	<b>Total 2006 £'000</b>	Total 2005 £'000
<b>6. Taxation</b>					
<i>Charged to revenue:</i>					
UK corporation tax at 30% (2005: 30%)	–	–	39	<b>39</b>	–
Tax allocation re “group relief” <sup>1</sup>	(108)	(43)	151	–	–
Tax allocation to capital	–	–	–	–	–
<b>Total Revenue</b>	<b>(108)</b>	<b>(43)</b>	<b>190</b>	<b>39</b>	–
<i>Charged to capital:</i>					
Tax allocation to capital	–	–	–	–	–
<b>Total Capital</b>	–	–	–	–	–
<b>Total</b>	<b>(108)</b>	<b>(43)</b>	<b>190</b>	<b>39</b>	–

<sup>1</sup> Managed Growth and Managed Income generate tax deductible expenses in excess of their taxable revenue, which benefits the Company's overall tax position. To compensate Managed Growth and Managed Income for their contributions in reducing the tax burden of the Company, amounts are transferred from Managed Cash. The amounts are calculated as half the tax savings which arise in Managed Cash, and ensure that the relief is calculated at half of the effective rate for each.

The tax charge for the year is lower than the standard rate of corporation tax in the UK of 30% (2005: 30%). The difference is explained below:

	<b>2006 £'000</b>	2005 £'000
Net revenue return on ordinary activities before taxation	<b>6,244</b>	4,922
Net revenue return on ordinary activities before taxation multiplied by the standard rate of corporation tax of 30% (2005: 30%)	<b>1,873</b>	1,477
Non taxable UK dividends	<b>(1,552)</b>	(1,202)
Income taxed in different periods	–	1
Tax relief on capitalised expenses	<b>(149)</b>	(122)
Prior year expenses utilised	<b>(133)</b>	(154)
	<b>39</b>	–

The Company had no unrecognised deferred tax assets at 31st August 2006. The unrecognised deferred tax asset at 31st August 2005 of £143,000 arose from deductible expenses excluding taxable income and it was all utilised in the current year.

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

## Notes to the Accounts continued

### 7. Dividends

#### (a) Change in presentation and restatement

The income statement no longer reflects payment of dividends; these are now shown in the Reconciliation of Movements in Shareholders' Funds in the period in which they are approved by shareholders or, if shareholder approval is not required, in the period in which they are paid by the Company. The Income Statement, Balance Sheet and Reconciliation of Movements in Shareholders' Funds for the year ended 31st August 2005 have been restated accordingly.

	JPM Elect Managed Growth £'000 per share		JPM Elect Managed Income £'000 per share		JPM Elect Managed Cash £'000 per share		<b>Total £'000</b>
<b>The effect on the Balance Sheet at 31st August 2005</b>							
Net assets at 31st August 2005							
previously stated	168,813	299.31p	54,325	96.55p	24,831	100.16p	<b>247,969</b>
Add back 2005 Managed Growth final dividend approved on 7th December 2005	1,252	2.22p	–	–	–	–	<b>1,252</b>
Add back 2005 Managed Income 4th quarterly dividend paid 15th September 2005	–	–	366	0.65p	–	–	<b>366</b>
Add back 2005 Managed Cash 4th quarterly dividend paid 15th September 2005	–	–	–	–	260	1.05p	<b>260</b>
<b>Restated net assets at 31st August 2005</b>	<b>170,065</b>	<b>301.53p</b>	<b>54,691</b>	<b>97.20p</b>	<b>25,091</b>	<b>101.21p</b>	<b>249,847</b>

	JPM Elect Managed Growth £'000 per share		JPM Elect Managed Income £'000 per share		JPM Elect Managed Cash £'000 per share		<b>Total £'000</b>
<b>The effect on the Balance Sheet at 31st August 2004</b>							
Net assets at 31st August 2004							
previously stated	126,507	230.24p	29,195	79.10p	21,541	100.10p	<b>177,243</b>
Add back 2004 Managed Growth final dividend approved on 25th November 2004	769	1.40p	–	–	–	–	<b>769</b>
Add back 2004 Managed Income 3rd quarterly dividend paid 20th September 2004	–	–	370	1.00p	–	–	<b>370</b>
Add back 2004 Managed Cash 3rd quarterly dividend paid 20th September 2004	–	–	–	–	183	0.85p	<b>183</b>
<b>Restated net assets at 31st August 2004</b>	<b>127,276</b>	<b>231.64p</b>	<b>29,565</b>	<b>80.10p</b>	<b>21,724</b>	<b>100.95p</b>	<b>178,565</b>

Notes to the Accounts continued

**7. Dividends (continued)**

	JPM Elect Managed Growth 2006 £'000	JPM Elect Managed Income 2006 £'000	JPM Elect Managed Cash 2006 £'000	<b>Total 2006 £'000</b>	Total 2005 £'000
<b>(b) Dividends paid and declared</b>					
<b>Dividends paid</b>					
Managed Growth Shares final of 2.22p (2004: 1.40p) <sup>1</sup>	1,233	–	–	<b>1,233</b>	760
Managed Growth Shares 1st interim of 2.00p (2005: 1.50p)	1,070	–	–	<b>1,070</b>	857
Managed Growth Shares 2nd interim of 0.60p (2005: nil)	321	–	–	<b>321</b>	–
Managed Income Shares 4th quarterly dividend of 0.65p (2004: 1.00p) <sup>1</sup>	–	364	–	<b>364</b>	370
Managed Income Shares 1st quarterly dividend of 0.75p (2005: 1.15p)	–	423	–	<b>423</b>	421
Managed Income Shares 2nd quarterly dividend of 0.85p (2005: 0.90p)	–	491	–	<b>491</b>	326
Managed Income Shares 3rd quarterly dividend of 1.40p (2005: 0.80p)	–	809	–	<b>809</b>	369
Managed Cash Shares 4th quarterly dividend of 1.05p (2004: 0.85p)	–	–	260	<b>260</b>	183
Managed Cash Shares 1st quarterly dividend of 0.91p (2005: 0.95p)	–	–	225	<b>225</b>	204
Managed Cash Shares 2nd quarterly dividend of 0.96p (2005: 0.95p)	–	–	243	<b>243</b>	203
Managed Cash Shares 3rd quarterly dividend of 0.92p (2005: 1.01p)	–	–	231	<b>231</b>	247
<b>Total dividends paid in the year</b>	<b>2,624</b>	<b>2,087</b>	<b>959</b>	<b>5,670</b>	<b>3,940</b>
<b>Dividends declared</b>					
Managed Growth Shares third interim dividend of 2.60p (2005: 2.22p)	1,352	–	–	<b>1,352</b>	1,252
Managed Income Shares 4th quarterly dividend of 0.75p (2005: 0.65p) paid 15th September 2006	–	431	–	<b>431</b>	366
Managed Cash Shares 4th quarterly dividend of 0.94p (2005: 1.05p) paid 15th September 2006	–	–	261	<b>261</b>	260
<b>Total dividends payable<sup>2</sup></b>	<b>1,352</b>	<b>431</b>	<b>261</b>	<b>2,044</b>	<b>1,878</b>

<sup>1</sup>The total dividend payment is less than the amount shown in the accounts due to repurchase of shares between the previous year end and the record date.

<sup>2</sup>In accordance with the revised accounting policy of the Company, these dividends will be reflected in the accounts for the year ending 31st August 2007.

## Notes to the Accounts continued

### 7. Dividends (continued)

#### (c) Dividends for the purpose of section 842 of the Income and Corporation Taxes Act 1988

The requirements of section 842 of the Income and Corporation Tax Act 1988 are considered on the basis of dividends paid and proposed in respect of the financial year, as follows:

	2006 £'000	2005 £'000
Managed Growth interim dividends paid of 2.60p per share (2005: 1.50p per share)	1,391	857
Managed Income interim dividends paid of 3.00p per share (2005: 2.85p per share)	1,723	1,116
Managed Cash interim dividends paid of 2.79p per share (2005: 2.91p per share)	699	654
Managed Growth third interim dividend proposed of 2.60p per share (2005: 2.22p per share)	1,352	1,252
Managed Income fourth quarterly dividend proposed of 0.75p per share (2005: 0.65p per share)	431	366
Managed Cash fourth quarterly dividend proposed of 0.94p per share (2005: 1.05p per share)	261	260
	<b>5,857</b>	<b>4,505</b>

The revenue available for distribution by way of dividend for the year is £6,205,000 (2005: £4,922,000).

### 8. Return per ordinary share

#### Managed Growth

The return per ordinary share is based on the weighted average number of ordinary shares during the year of 54,106,947 (2005: 55,102,410) and the following figures:

	2006			2005		
	Revenue	Capital	Total	Revenue	Capital	Total
Attributable to ordinary shareholders (£'000)	2,830	33,716	36,546	2,107	38,471	40,578
Return per ordinary share (pence)	5.23	62.31	67.54	3.82	69.82	73.64

#### Managed Income

The return per ordinary share is based on the weighted average number of ordinary shares during the year of 57,390,085 (2005: 43,655,643) and the following figures:

	2006			2005		
	Revenue	Capital	Total	Revenue	Capital	Total
Attributable to ordinary shareholders (£'000)	2,426	6,505	8,931	1,900	7,546	9,446
Return per ordinary share (pence)	4.23	11.33	15.56	4.35	17.29	21.64

#### Managed Cash

The return per ordinary share is based on the weighted average number of ordinary shares during the year of 26,007,274 (2005: 23,042,194) and the following figures:

	2006			2005		
	Revenue	Capital	Total	Revenue	Capital	Total
Attributable to ordinary shareholders (£'000)	949	-	949	915	-	915
Return per ordinary share (pence)	3.65	-	3.65	3.97	-	3.97

Notes to the Accounts continued

			Total 2006 £'000
<b>9. Investments</b>			
Investments listed on a recognised investment exchange			<b>216,967</b>
Unlisted investments			<b>51,839</b>
			<b>268,806</b>
	Listed £'000	Unlisted <sup>1</sup> £'000	Total 2006 £'000
Opening book cost	158,600	57,759	<b>216,359</b>
Opening unrealised gains	15,176	12,484	<b>27,660</b>
Opening valuation	173,776	70,243	<b>244,019</b>
<i>Movements in the year:</i>			
Adjustment to bid valuation	(1,037)	(10)	<b>(1,047)</b>
Purchases at cost	35,811	16,078	<b>51,889</b>
Sales – proceeds	(50,886)	(15,853)	<b>(66,739)</b>
– realised gains on sales	6,268	2,020	<b>8,288</b>
Net movement in unrealised gains	24,637	7,759	<b>32,396</b>
	188,569	80,237	<b>268,806</b>
Closing book cost	153,716	61,227	<b>214,943</b>
Closing unrealised gains	34,853	19,010	<b>53,863</b>
Closing valuation	188,569	80,237	<b>268,806</b>

<sup>1</sup>Unlisted investments comprise investments in Open Ended Investment Companies and are held within the Managed Growth portfolio only. For details please refer to the list of investments on page 10.

During the year, £5,146,000 of prior years' unrealised gains have been transferred to realised as disclosed in note 13.

Transaction costs on purchases during the year amounted to £171,000 (2005: £216,000) and on sales during the year amounted to £67,000 (2005: £61,000). These costs include stamp duty and broker commission.

## Notes to the Accounts continued

	Total 2006 £'000	Total 2005 £'000
<b>10. Current assets</b>		
<b>Debtors</b>		
Securities sold for future settlement	–	756
Dividends and interest receivable	989	767
UK tax recoverable	16	40
Share class tax allocation	375	224
Other debtors	47	48
	<b>1,427</b>	<b>1,835</b>

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

### Cash and short term deposits

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

	Total 2006 £'000	Total 2005 (Restated) <sup>1</sup> £'000
<b>11. Creditors: amounts falling due within one year</b>		
Securities purchased for future settlement	1,937	302
Share class tax allocation	375	224
Repurchase of shares for settlement	184	–
Other creditors and accruals	215	320
	<b>2,711</b>	<b>846</b>

<sup>1</sup>See notes 1(i) and 7(a).

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

	Total 2006 £'000	Total 2005 £'000
<b>12. Share capital</b>		
<b>AUTHORISED SHARE CAPITAL</b>		
160,000,000 Managed Growth shares of 0.01p each	16	16
125,000,000 Managed Growth C shares of £1 each	125,000	125,000
200,000,000 Managed Income shares of 0.01p each	20	20
125,000,000 Managed Income C shares of £1 each	125,000	125,000
125,000,000 Managed Cash shares of 0.01p each	13	13
50,000 Founder shares £1 each	50	50
300,000,000 Redeemable shares of £1 each	300,000	300,000
300,000,000 Repurchase shares of 0.01p each	30	30
	<b>550,129</b>	<b>550,129</b>

Notes to the Accounts continued

	Total 2006 £'000	Total 2005 £'000
<b>12. Share capital (continued)</b>		
<b>ISSUED AND FULLY PAID</b>		
<b>Managed Growth</b>		
56,400,970 ordinary shares at beginning of period (2005: 54,944,812)	5	5
Issue of 100,000 ordinary shares (2005: 4,349,321)	–	–
Net share conversion reduction of 2,186,211 (2005: reduction of 142,163)	–	–
Share repurchase of 2,324,500 ordinary shares (2005: 2,751,000)	–	–
Total 51,990,259 ordinary shares in issue at end of period	5	5
<b>Founder Shares</b>		
50,000 Founder Shares of £1 each 25p partly paid	13	13
	<b>18</b>	<b>18</b>
<b>Managed Income</b>		
56,264,144 ordinary shares at the beginning of the period (2005: 36,886,870)	4	4
Issue of 224,438 ordinary shares (2005: 20,050,170)	–	–
Net share conversion increase of 1,529,675 (2005: increase of 585,104)	–	–
Repurchase of 650,000 ordinary shares (2005: 1,258,000)	–	–
Total 57,368,257 ordinary shares in issue at end of period	4	4
<b>Managed Cash</b>		
24,792,429 ordinary shares at the beginning of the period (2005: 21,521,415)	2	2
Issue of nil ordinary shares (2005: 4,647,754)	–	–
Net share conversion increase of 5,446,405 (2005: reduction of 361,572)	–	–
Repurchase of 2,461,000 ordinary shares (2005: 1,015,168)	–	–
Total 27,777,834 ordinary shares in issue at end of period	2	2
<b>Total</b>	<b>24</b>	<b>24</b>

Shareholders are entitled to convert some or all of their holdings in any of these share classes into one or more of the other two share classes on 31st May and 30th November each year (or, if such days are not business days, the next business day), which, under current law, is exempt from UK capital gains tax.

	Share premium £'000	Other reserve £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Revenue Reserve £'000
<b>13. Reserves</b>					
Opening balance (as restated)	43,045	203,459	(27,438)	27,660	3,097
Adjustment to opening shareholders' funds at 1st September 2005 to reflect the adoption of bid prices	–	–	–	(1,047)	–
Currency loss on cash and short term deposits held during the year	–	–	(1)	–	–
Realised gains on investments	–	–	8,288	–	–
Transfer on disposal of investments	–	–	5,146	(5,146)	–
Net movement in unrealised gains	–	–	–	32,396	–
Net discount on debt securities allocated to income	–	–	4	–	–
Premium on shares issued	11,722	–	–	–	–
Cost of share buybacks	–	(22,641)	–	–	–
Other capital items	–	–	31	–	–
Expenses charged to capital	–	–	(497)	–	–
Dividends appropriated in the year	–	–	–	–	(5,670)
Retained revenue for the year	–	–	–	–	6,205
<b>Closing balance</b>	<b>54,767</b>	<b>180,818</b>	<b>(14,467)</b>	<b>53,863</b>	<b>3,632</b>

## Notes to the Accounts continued

### 14. Net asset value per ordinary share

The net asset values per ordinary share at the year end are calculated as follows:

	2006			JPM Elect Managed Growth	2005 (Restated) <sup>1</sup>	
	JPM Elect Managed Growth	JPM Elect Managed Income	JPM Elect Managed Cash		JPM Elect Managed Income	JPM Elect Managed Cash
Net assets attributable (£'000)	<b>188,196</b>	<b>62,347</b>	<b>28,094</b>	170,065	54,691	25,091
Ordinary shares in issue at the year end	<b>51,990,259</b>	<b>57,368,257</b>	<b>27,777,834</b>	56,400,970	56,264,144	24,792,429
Net asset value per share (pence)	<b>362.0</b>	<b>108.7</b>	<b>101.1</b>	301.5	97.2	101.2

<sup>1</sup>See notes 1(i) and 7(a).

	2006 £'000	2005 £'000
<b>15. Reconciliation of total return on ordinary activities before taxation to net cash flow from operating activities</b>		
Total return on ordinary activities before taxation	<b>46,465</b>	50,939
Capital return before finance costs and taxation	<b>(40,221)</b>	(46,017)
Scrip dividends received as income	-	(4)
Increase in accrued income	<b>(221)</b>	(153)
Decrease/(increase) in other debtors	<b>1</b>	(40)
(Decrease)/increase in accrued expenses	<b>(103)</b>	13
Expenses charged to capital	<b>(497)</b>	(407)
Net premium on debt securities allocated to income	<b>4</b>	-
<b>Net cash inflow from operating activities</b>	<b>5,428</b>	4,331

	31st Aug 2005 £'000	Cash flow Movement £'000	Exchange Movement £'000	31st Aug 2006 £'000
<b>16. Analysis of changes in funds</b>				
Cash at bank and in hand	4,839	6,277	(1)	<b>11,115</b>
<b>Net funds</b>	4,839	6,277	(1)	<b>11,115</b>

## 17. Transactions with JPMorgan Chase

Details of the management fee contracts are set out in the Directors' Report on page 34. The total amount payable to JPMAM for the year in respect of these contracts was £628,000 (2005: £423,000), excluding VAT, of which £nil (2005: £nil) was outstanding at the year end. In addition £125,000 (2005: £109,000), excluding VAT, was payable to JPMAM for the marketing and administration of 'wrapper' products of which £84,000 (2005: £93,000) was outstanding at the year end.

Other management expenses for the year ended 31st August 2005 included an accrual of £70,000 payable to JPMAM for reimbursement of a proportion of the reconstruction costs of the Company. The whole of this amount was paid in the current year.

Custody fees amounting to £9,000 (2005: £3,000) were payable to third party custodians by JPMorgan Chase & Co on behalf of the Company, of which £1,000 (2005: £3,000) was outstanding at the year end.

JPMAM carries out some of its dealing transactions through group subsidiaries. These transactions are carried out at arm's length. The commission payable to JPMorgan Securities for the year was £54,000 (2005: £26,000) of which £nil (2005: £nil) was outstanding at the year end. The Company has been informed that certain of its dealing transactions may be subject to commission sharing arrangements. Handling charges payable on dealing transactions undertaken by overseas sub-custodians on behalf of the Company during the year amounted to £3,000 (2005: £4,000) of which £nil (2005: £1,000) was outstanding at the year end.

At the year end, a bank balance of £751,000 (2005: £165,000) was held with JPMorgan Chase. Interest amounting to £24,000 (2005: £22,000), was received by the Company during the year from JPMorgan Chase.

## 18. Financial instruments

### (a) Management of risk

The Company's financial instruments comprise:

- Investments in equity shares with UK exposure
- Investments in Investment Trusts, Open Ended Investment Companies and liquidity funds with UK and International exposure.

These are held in accordance with the Company's investment objective and policies:

- Short term debtors, creditors and cash amounts arising directly from its operations.

As an investment trust, the Company invests in securities for the long term. It is the Company's policy that no short term trading in investments or other financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are market price risk, which incorporates interest rate risk, liquidity risk and foreign currency risk. The Board's policy for managing these risks is summarised below.

#### **Market price risk and interest rate risk**

Market risk arises mainly from uncertainty about future prices of financial instruments held.

It represents the potential loss the Company might suffer through holding market positions in the face of price movements or changes in interest rates.

The Board meets at least quarterly to consider the asset allocation of the portfolio. An individual fund manager has responsibility for monitoring the existing portfolio selected in accordance with the Company's investment objectives and seeks to ensure that individual stocks meet an acceptable risk reward profile.

#### **Liquidity risk**

The Company's assets comprise mainly realisable securities, which can be sold to meet funding requirements if necessary. Short term flexibility is achieved through the use of overdraft facilities.

## Notes to the Accounts continued

### 18. Financial instruments (continued)

#### (a) Management of risk (continued)

##### Foreign currency risk

Some of the Company's investments have exposure to overseas markets and therefore the income and capital value can be affected by exchange rate movements. This exposure is part of the risk reward inherent in a company that invests overseas.

#### (b) Interest rate risk profile of financial assets and financial liabilities

##### Financial assets

The Company's financial assets comprise investments, debtors and cash. The investments comprise equity shares, open ended investment companies and liquidity funds, which neither pay interest nor have a maturity date and fixed interest securities with various redemption dates. The Company's debtors comprise unsettled broker balances for securities sold, dividends receivable, prepayments and other small balances on which no interest accrues.

Cash balances in excess of a predetermined amount are placed on short term deposit and earn market rates of interest.

The interest rate profile of the Company's financial assets at 31st August is:

	2006 £m	2005 £m
Financial assets on which no interest accrues	269.6	244.1
Financial assets earning a fixed rate of interest	0.6	1.8
Financial assets earning a floating rate of interest	11.1	4.8
	<b>281.3</b>	250.7

The weighted average interest rate of the financial assets earning a fixed rate of interest is 6.17% (2005: 5.20%). The average period for which the interest rate is fixed is 5 years (2005: 7 years).

##### Financial liabilities

The Company's liabilities comprise unsettled broker balances for securities purchased and other accruals on which no interest is payable.

#### (c) Maturity of the Company's financial liabilities

	2006 £'000	2005 (Restated) <sup>1</sup> £'000
Falling due in one year or less or on demand	2,336	622

<sup>1</sup>See notes 1(i) and 7(a).

#### (d) Fair values of financial instruments

All financial assets and liabilities are included in the balance sheet at fair values.

# Information about the Company

JPMorgan Elect plc adopted its present structure as a result of the combination of JPMorgan Fleming Managed Growth plc and JPMorgan Fleming Managed Income plc and the subsequent capital reorganisation. The Company's name reflects the capital structure and the investment flexibility it offers to shareholders. There are three share classes, each with distinct investment policies, objectives and underlying investment portfolios. Each share class is listed separately and traded on the London Stock Exchange. This capital structure means that shareholders may benefit from greater investment flexibility in a tax-efficient manner.

## Capital Structure

### • Managed Growth Shares

Designed to provide a high return, predominantly in the form of long term capital growth by investing in a range of closed and open-ended funds managed principally by JPMorgan.

### • Managed Income Shares

Designed to provide a growing income together with the potential for long term capital growth by investing in equities and higher yielding shares of investment trusts and fixed income securities.

### • Managed Cash Shares

Designed to preserve capital and deliver a yield based on short term interest rates by investing in five or more AAA rated sterling liquidity funds.

## Repurchase of Managed Cash shares

In order to mitigate the impact of the market spread on the Managed Cash shares it is also possible for holders of Managed Cash shares to elect to have all or part of their holding of such shares repurchased by the Company for cash at a price close to net asset value on each conversion date (see below).

## Conversion Opportunities

Shareholders in any of the three share classes are able to convert some or all of their shares into shares of the other classes without such conversion being treated, under current law, as a disposal for UK capital gains tax purposes.

The conversion mechanism allows shareholders to alter their investment profile to match their changing investment needs in a tax-efficient

manner. Conversion dates will arise every six months on 30th November and 31st May (if such a date is not a business day, then the conversion date will move to the next business day).

The Company, or its Manager, will make no administrative charge for any of the above conversions.

## Conversion between the share classes

Those who hold shares through the JPM Investment Trust Share Plan/PEP/ISA or Pension Account must submit a conversion instruction form which can be found at [www.jpmelect.com](http://www.jpmelect.com). Instructions for CREST holders can also be found at this address. Those who hold shares in certificated form on the main register must complete the conversion notice printed on the reverse of their certificate.

**Instructions must be received no earlier than 60 and no later than 30 days before a chosen conversion date.**

The number of shares that will arise upon conversion will be determined on the basis of the relative net asset values of each share class, taking into account the costs of the conversion process. Conversion will not affect the net asset value per share of those shares held by any shareholder who does not convert.

With regard to those who hold shares through the JPM Investment Trust Share Plan/PEP/ISA or Pension Account, the minimum number of shares of any class which may be converted is 1,000 shares (to a minimum value of £500). Conversion of fewer shares may only take place if the number to be converted constitutes the shareholder's entire holding in that class. Please note that shareholders cannot convert into Managed Cash shares within the Pension Account.

Shareholders who hold shares in certificated form on the main register or those who hold their shares in electronic form through CREST may convert a minimum of 1,000 shares or, if lower, their entire holding.

More details concerning conversion dates and conversion instruction forms can be found on the Company's web site: [www.jpmelect.com](http://www.jpmelect.com).

## Information about the Company continued

### FINANCIAL CALENDAR

<b>Financial year end</b>	31st August
<b>Interim results announced</b>	April/May
<b>Final results announced</b>	October/November
<b>Dividend payable (if any)</b>	
<b>Managed Growth</b>	June and December
<b>Managed Income and Managed Cash</b>	March, June, September and December
<b>Annual General Meeting</b>	December

### History

The Company was incorporated on 16th September 1999 and launched as an investment trust on 24th November 1999 with assets of £28m. The Company changed its name to JPMorgan Fleming Managed Growth plc on 5th December 2002. The Company's name was changed to JPMorgan Fleming Elect plc on 14th January 2004 following the capital reorganisation and combination of JPMorgan Fleming Managed Growth plc and JPMorgan Fleming Managed Income plc. The Company adopted its present name on 2nd February 2006.

### Company Numbers

Company registration number: 3845060  
London Stock Exchange Sedol numbers:  
Growth 0852814, Income 3408021, Cash 3408009  
Bloomberg codes:  
Growth JPE LN, Income JPEI LN, Cash JPEC LN  
Reuters codes:  
Growth JPE.L, Income JPEI.L, Cash JPEC.L

### Market Information

The Company's net asset values are published daily, via the London Stock Exchange.

The Company's shares are listed on the London Stock Exchange. The market prices are shown daily in The Daily Telegraph, the Financial Times, The Independent, The Herald, The Times, The Scotsman, on BBC Ceefax and on the Company website at [www.jpmelect.com](http://www.jpmelect.com), where the share prices are updated every fifteen minutes during trading hours.

### Share Transactions

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

### Manager and Secretary

JPMorgan Asset Management (UK) Limited

### Company's Registered Office

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

*For company secretarial and administrative matters, please contact Jonathan Letter.*

### Registrar

Lloyds TSB Registrars  
Reference 2018,  
The Causeway  
Worthing  
West Sussex BN99 6DA  
Telephone: 0870 600 3984

*Notifications of changes of address and enquiries regarding certificates or dividend cheques should be made in writing to the Registrar quoting reference 2018.*

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

### Savings Product Administrators

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

### Independent Auditors

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

### Brokers

Winterflood Securities Limited  
The Atrium Building  
Cannon Bridge  
25 Dowgate Hill  
London EC4R 2GA  
Telephone: 020 7621 0004



The Association of  
Investment Companies





## **JPMorgan Helpline**

**Freephone 0800 40 30 30** or 020 7742 9999

**8.30 am to 5.30 pm Monday to Friday**

## **JPMorgan Pension Helpline**

**Freephone 0800 413 176** or 01722 414 888

**9.00 am to 5.00 pm Monday to Friday**

Please use this service if you have any queries relating to the Pension Account.

Your telephone call may be recorded for your security.

**[www.jpmelect.com](http://www.jpmelect.com)**