

Annual Report 09  
JPMorgan Mid Cap  
Investment Trust plc

Annual Report & Accounts for the year ended 30th June 2009

# Features

## Contents

### About the Company

- 1 Financial Results
- 2 Chairman's Statement

### Investment Review

- 5 Investment Managers' Report
- 8 Summary of Results
- 9 Performance
- 10 Ten Year Financial Record
- 11 Ten Largest Equity Investments
- 12 Portfolio Analyses and Investment Activity
- 13 List of Investments

### Directors' Report

- 15 Board of Directors
- 16 Directors' Report
- 22 Corporate Governance

### Accounts

- 26 Directors' Remuneration Report
- 27 Directors' Responsibilities in Respect of the Accounts
- 28 Independent Auditors' Report
- 30 Income Statement
- 31 Reconciliation of Movements in Shareholders' Funds
- 32 Balance Sheet
- 33 Cash Flow Statement
- 34 Notes to the Accounts

### Shareholder Information

- 48 Shareholder Analysis
- 49 Notice of Meeting
- 52 Appendix
- 55 Glossary of Terms
- 57 Information about the Company

## Objective

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

## Investment Policies

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

## Benchmark

The FTSE 250 Index (excluding investment trusts).

## Capital Structure

- UK domiciled.
- Full listing on the London Stock Exchange.
- Authorised share capital of 48,000,000 (2008: 48,000,000) ordinary shares of 25p each, of which 25,311,680 (2008: 25,919,180) were in issue at 30th June 2009, excluding shares held in Treasury.

## Management Company

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

# Financial Results

Total Returns with dividends reinvested

**-29.7%**

Return to shareholders<sup>1</sup>  
(2008: -27.7%)

**-33.4%**

Return on net assets<sup>2,4</sup>  
(2008: -26.1%)

**-14.9%**

Benchmark return<sup>1,3</sup>  
(2008: -20.0%)

**17.0p ordinary  
4.9p special**

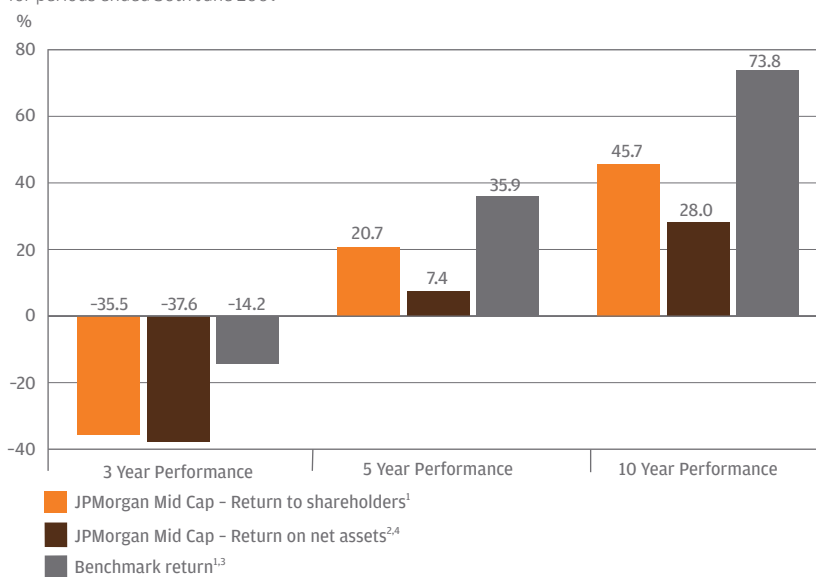
Dividend (2008: 16.5p  
ordinary)

**+3.0%**

Ordinary dividend increase  
(2008: +13.8%)

## Long Term Performance

for periods ended 30th June 2009



A glossary of terms and definitions is provided on page 55.

<sup>1</sup>Source: Morningstar.

<sup>2</sup>Source: J.P. Morgan.

<sup>3</sup>The Company's benchmark is the FTSE 250 Index (excluding investment trusts).

<sup>4</sup>Net asset value assuming the 820,500 (2008: 213,000) shares held in Treasury were reissued in accordance with the Board's current policy on the reissuance of Treasury shares.

# Chairman's Statement

## **Investment Performance**

It was one of the most challenging years for investors, certainly in living memory. A year now has elapsed since the implosion of Lehman Brothers which led to a major collapse in world stockmarkets and banking failures. Without prompt and forceful action by central banks and policy makers last October, panic would likely have continued to intensify, more major financial firms would have failed and the entire global financial system would have been at risk. Unprecedented monetary easing and fiscal expansion did not prevent a dramatic economic downturn, but they succeeded in stabilising the financial system, have stimulated a strong recovery in stockmarkets and more recently economic recovery, including in the UK.

For your Company, net assets per share (NAV) for the year to 30th June 2009 fell from 576.1p to 364.6p. Any fall in absolute return is disappointing, but what was particularly frustrating for your Board and for shareholders was that the fall in the NAV was significantly larger than the fall in the FTSE 250 index (excluding investment trusts) which is the key benchmark for measurement of the Company's performance. A summary of results is shown on page 8.

A review of the Company's performance is given in the Investment Managers' Report on pages 5 to 7. An attribution table appears on page 6. You will see there that the main factor leading to the underperformance was misjudgements in stock selection. We reviewed in detail with our Manager, JPMorgan Asset Management (UK) Limited ('JPMAM'), their investment approach and the reasons for the underperformance and, as a consequence, changes were made in the management team in May 2009 and explained below.

## **Investment Manager**

The objective we set our Manager remains the same: to achieve capital growth through investing in medium-sized UK companies. The main measurement of the Manager's performance continues to be the FTSE 250 index (excluding investment trusts). The current dividend policy, to increase dividends annually at least in line with inflation, as long as normal market conditions prevail, remains unaltered.

In May 2009, at the instigation of the Board, JPMAM changed the investment management arrangements for the Company when William Meadon and Jane Lennard took over responsibility from Jeremy Wells and Chris Llewellyn. William, who is Head of UK Specialist Equities at JPMAM, now oversees the Company's strategy and gearing, whilst Jane, who is a specialist manager of mid cap companies, is responsible for day-to-day stock selection.

The Board has been concerned about the under-performance of the portfolio in recent times and is pleased with the new team that has been appointed. In the past, stock selection was based primarily on JPMorgan's proprietary model which built a "barbell" portfolio of both value and growth stocks typically with a lower valuation than the benchmark, but with higher expected earnings growth. Although this barbell investment process produced good results for the FTSE 100, it was less successful for Mid Cap companies. The new team will still employ the model to identify cheap, fast-growing stocks, but will use it more as a screening mechanism and will then adopt a more proactive stock picking approach, with investment judgment placing even greater emphasis on fundamental analysis and company meetings. Having examined this approach in some detail, the Board is confident that the new team, employing a refined investment process, should be capable of delivering the returns that shareholders are entitled to expect. Their restructuring of the portfolio, which involved substantial changes, has now been largely completed.

JPMAM is a leading Manager in the investment trust sector and we believe that JPMAM, with their professionalism and commitment, should remain as the Company's Investment Manager and that their ongoing appointment is in the best interests of shareholders. The Board thoroughly and regularly reviews the appointment of the Manager and the investment strategy and process as detailed on pages 23 and 24 of these accounts.

#### **Revenue and Dividends**

Net revenue for the year was £4,758,000 (2008: £4,785,000) and revenue earnings per share, calculated on the average weekly number of shares in issue, were 18.74p (2008: 17.64p). This year's revenue included a significant non-recurring contribution of £1,233,000 in the first half from the VAT recovery, as referred to in the Half Year Report. At the half year stage, the Company paid a maintained dividend of 5.5p per share and, in addition, a special dividend of 4.9p per share representing the amount of the VAT recovery and the associated interest which was taken to income.

It is our intention to pay an increased final dividend of 11.5p per share (2008: 11.0p) making a total, excluding the special dividend which was of a one-off nature, of 17.0p (2008: 16.5p) which represents a 3.0% rise in the total dividend. The payment of the final dividend involves a transfer from revenue reserve of £785,000 and following its payment the revenue reserve will amount to £4,971,000, which is in excess of one year's total dividend. The dividend is payable on 19th November 2009 to shareholders on the register at the close of business on 23rd October 2009.

At this stage, it is very difficult for us to forecast the dividend income we expect to receive in the current financial year as the outlook for corporate profits remains uncertain; on current estimates dividend income for this financial year will be lower than that recorded in the year under review. However, the Board recognises the importance of income to shareholders and, if considered appropriate, we may draw on the strong revenue reserve to which we have regularly added.

#### **Gearing**

Although gearing has had an adverse impact on performance in the year under review, your Board believes in the benefits of gearing over the long term. The Company has an £8 million loan facility with the ING Bank and a £9.5 million debenture, redeemable at par in 2016 or at the option of the Company after 1st December 2011, which give the Managers the ability to gear tactically. The Board of Directors sets the overall gearing strategy and guidelines and reviews these at each meeting; gearing changes between meetings may be undertaken after consultation with the Board. At the year end gearing was 106.8% and at the time of writing the Company remains modestly geared.

#### **Discount Management**

It is the present intention of the Board to continue its policy of buying back shares, whether for cancellation or into Treasury, to assist in the maintenance of a stable discount and enhance the net asset value per share. This policy will be reviewed regularly in the light of market conditions. During the year under review, the Company repurchased into Treasury 607,500 shares, representing 2.3% of the issued share capital at the start of the year. This process added 0.1% to NAV return over the course of the year.

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

# Chairman's Statement continued

At recent Annual General Meetings, shareholders have approved the use of Treasury shares to improve further the liquidity of the Company's shares. The ability to buy shares into Treasury and then reissue them at a narrower discount to net asset value gives your Board a further tool to manage any imbalance between supply and demand. In seeking the renewal of shareholder approval for the reissue of shares from Treasury at a discount, the Board will maintain its strict limit to the dilution associated with any reissue to a maximum of 0.5% of net asset value in any one year. The Board recommends that shareholders renew the Company's authority to reissue shares from Treasury at a discount.

## **Board of Directors**

Your Board has put procedures in place to ensure that the Company complies fully with the Combined Code and the AIC Code on Corporate Governance. Full details are given in the Corporate Governance section of this report on pages 22 to 25.

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

## **Annual General Meeting**

This year's Annual General Meeting will be held on 18th November 2009 at 12.00 noon at The Salters' Hall, 4 Fore Street, London EC2Y 5DE. As in previous years, in addition to the formal part of the meeting, there will be a presentation from the Investment Managers who will answer questions on the portfolio and performance. There will also be an opportunity to meet the Board, the Investment Managers and representatives of JPMAM after the meeting. I look forward to welcoming as many of you as possible to this meeting.

If you have any detailed or technical questions, it would be helpful if you could raise these in advance of the meeting with the Company Secretary at Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ. Shareholders who are unable to attend the AGM are encouraged to use their proxy votes.

## **Prospects**

Here in the UK, economic recovery is fragile, but there are encouraging signs. While many questions remain about the sustainability of the recovery, it would be a major disappointment if the UK economy does not start to grow by the end of 2009. However, as long as policy remains supportive, the positive factors should outweigh the negatives. We believe a low growth, low interest rate environment can still be good for most assets. This includes equities and companies that can demonstrate above average growth.

Mid cap companies are proving adept at cutting costs out of their businesses. There is also a substantial amount of cash, earning very little on deposit, waiting to be re-deployed into the stockmarket. Although it must be remembered that the mid cap sector of the stockmarket has already risen by more than 50% from its low in March, we believe valuations are not unreasonable based on current forecasts.

**Andrew Barker**  
Chairman

9th October 2009

# Investment Managers' Report

## Performance and Market Background

Disappointingly, the Company's net asset value total return of -33.4% underperformed the Company's benchmark index, the FTSE 250 excluding investment trusts, which returned -14.9%. A narrowing of the discount from 15.2% to 11.6% resulted in a total return to shareholders of -29.7%.

The modestly geared position that the Company operated throughout the year proved to be a headwind in the falling markets that we suffered for much of the year. This detracted 2.8% from performance. The largest element of underperformance came from poor stock selection. This negatively impacted performance by 16.0%.

Over the year, the worst detractors from performance were Intermediate Capital Group, Randgold Resources and GKN. Intermediate Capital provides finance to companies for buyouts and expansions. Its share price fell dramatically as the market became concerned about default rates on the loans and consequently the value of its loan book. Randgold Resources, the African gold miner, performed well over the year under review as gold confirmed its safe haven status in times of economic uncertainty. This hurt relative performance as the Company did not hold the stock. GKN halved in price over the year under review as its end markets (automotive and aerospace) suffered the full force of the recession.

The stocks in the portfolio which were the largest contributors to performance over the year were Amlin, Halfords and Debenhams. Amlin, the Lloyds insurer, performed well with market participants pricing in the possibility of insurance premiums rising and profitability improving as capital was withdrawn from the insurance market as a whole. An overweight position in Halfords also contributed positively as the range of goods sold such as bicycles and car maintenance products proved to be relatively resilient to the consumer downturn. Another retailer, Debenhams, added to performance as sales beat market expectations and the market became more comfortable with the company's high level of debt.

This outcome was against a backdrop of continuing market weakness. The FTSE mid 250 index reached a low of 5,490 in November, having begun the Company's year at 9,145. It then rallied early in the calendar year, but took a further lurch down in the spring as the wider UK market hit its low in March 2009 (the FTSE 100 hit its low on 3rd March). The first half of the Company's financial year saw Lehman Brothers Holdings Inc, the US investment bank, file for bankruptcy. This failure led to a global freezing of credit markets and highlighted the interdependence of financial institutions around the world. Other banks were deemed too big to fail and Governments around the world stepped in to prevent a collapse of the international banking system.

The evaporation of confidence and limited availability of credit prompted companies and investors to focus on balance sheets. The market became very nervous of highly geared companies and, at the company level, finance directors looked to realise cash by reducing stock levels. This draw down of inventories coupled with reduced consumer confidence led to a dramatic drop in demand throughout the economy.

The Bank of England responded by cutting interest rates to an unprecedented 0.5% in March 2009 and introduced a policy of 'quantitative easing'. The Government also

# Investment Managers' Report continued

## Performance attribution for the year ended 30th June 2009

	%	%
<b>Contributions to Total Returns</b>		
<b>Benchmark Total Return</b>		<b>-14.9</b>
Stock/Sector selection	-16.0	
Gearing/Cash	-2.8	
<b>Investment Manager Contribution</b>		<b>-18.8</b>
<b>Portfolio Total Return</b>		<b>-33.7</b>
Fees/Other expenses	-0.6	
VAT recovery	+1.1	
Share buybacks into		
Treasury	+0.1	
Residual*	-0.3	
<b>Other Effects</b>		<b>+0.3</b>
<b>Net Asset Value Return</b>		<b>-33.4</b>
<b>Share Price Total Return</b>		<b>-29.7</b>

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

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

\* The Residual arises principally from timing differences in the treatment of income flows.

The Xamin attribution system accounts for income on a received (on the xd date) basis whereas Morningstar calculates the Company's NAV Total Return using the actual dividend(s) paid by the Company (on the xd date).

introduced fiscal measures, such as the temporary reduction in VAT, in the hope that this would encourage consumer spending and stimulate the economy.

During the final three months of the financial year the catastrophic failure of the banking system that some had feared, began to look less likely. Companies from many different sectors saw demand stabilising as the savage de-stocking of inventories that had occurred after Lehman Brothers collapsed came to an end. Aggressive cost cutting has enabled many companies to report first half earnings that were better than expected. This has helped share prices to build on earlier gains and has maintained the positive momentum of the market.

### Recent Activity

Since the change of the management team on the 27th May 2009 there has been a major restructuring of the portfolio. During this process £40 million worth of stock has been bought and sold. The weighting in cyclical stocks has been increased. Many of these stocks had fallen more than the market and as economic prospects improve these stocks should perform well as a recovery in profits is priced in by the market. The largest buys have been Misys, (an IT software provider specialising in healthcare and banking markets), Drax (owner of a coal-fired electricity generating plant), Kesa (the owner of Comet in the UK), and Venture Production (a North Sea gas producer that has recently received a takeover bid from Centrica). The largest sells from the portfolio were Aggreko (a power generator & temperature control rental company), Tullett Prebon (a global inter-dealer broker), Wolseley (building and plumbing distributors) and Ashtead (UK and US plant hire).

As new managers, we are looking for attractively priced companies that have built market leading positions within their industries, have strong management teams, and an appropriate capital structure. The managers base their investment decisions on fundamental research and hold meetings with more than 250 companies each year. Portfolio construction is a very important part of the investment process and we aim to balance the portfolio with both growth stocks that offer genuine growth at an attractive price, and lowly valued, out of fashion companies that are likely to be re-rated as the market begins to appreciate future prospects.

The mid cap index is dynamic in that it offers both value opportunities as unloved stocks drop out of the FTSE 100 and exciting growth opportunities as successful companies are promoted to the FTSE 250 from the small cap index.

### Outlook

The FTSE 250 index has now risen 50% from its March nadir. Government intervention has averted a global collapse of the banking system, but this has come at a cost. Public sector spending in the developed world, and especially in the UK, will be constrained for some time as the budget deficits incurred by supporting banks and industry are unwound.

Unemployment will continue to hinder economic growth in the UK. Companies were quick to respond to this recession by cutting jobs at the beginning of the downturn,

which has in turn led to an increase in unemployment. The employment market is likely to deteriorate further as UK companies continue to rationalise their costs by shedding jobs and as public sector spending comes under pressure.

The high levels of debt that had sustained above average growth prior to the crisis are being withdrawn both from households and companies. This degearing process started in 2007 and is still not complete. It will be a long process.

Recent data suggests that the global economy is stabilising and that some areas are witnessing growth. With interest rates at historic lows, the economy is likely to be very sensitive to any upward move in interest rates. Markets will be monitoring monetary policy from Central Banks very carefully as tightening monetary policy too quickly may induce the deep recession they were trying to avoid, but the threat of inflation will mean that they will be wary of keeping interest rates too low for too long. Although the lows of the market have now almost certainly been seen, the uncertain outlook is likely to result in further volatility in share prices which should provide us with many attractive investment opportunities.

**Jane Lennard**  
**William Meadon**  
Investment Managers

9th October 2009

# Summary of Results

	2009	2008	
<b>Total Returns</b> for the year ended 30th June			
Return to shareholders <sup>1</sup>	<b>-29.7%</b>	-27.7%	
Return on net assets <sup>2,3</sup>	<b>-33.4%</b>	-26.1%	
Benchmark return <sup>1,4</sup>	<b>-14.9%</b>	-20.0%	
<b>Net Asset Value, Share Price and Discount</b> at 30th June			% change
Shareholders' funds (£'000)	<b>94,140</b>	150,912	-37.6
Net asset value per share with debt at par value	<b>371.9p</b>	582.2p	-36.1
Net asset value per share with debt at par value assuming reissuance of Treasury shares <sup>3</sup>	<b>370.8p</b>	581.8p	-36.3
Net asset value per share with debt at fair value <sup>5</sup>	<b>364.6p</b>	576.1p	-36.7
Net asset value per share with debt at fair value assuming reissuance of Treasury shares <sup>3,5</sup>	<b>363.7p</b>	575.6p	-36.8
Share price	<b>321.5p</b>	488.0p	-34.1
Share price discount to net asset value with debt at par value	<b>13.6%</b>	16.2%	
Share price discount to net asset value with debt at fair value assuming reissuance of Treasury shares <sup>3,5</sup>	<b>11.6%</b>	15.2%	
Shares in issue (excluding shares held in Treasury)	<b>25,311,680</b>	25,919,180	
<b>Revenue</b> for the year ended 30th June			
Net revenue attributable to shareholders (£'000)	<b>4,758</b>	4,785	-0.6
Return per share	<b>18.74p</b>	17.64p	+6.2
Dividend per share:			
Ordinary dividends	<b>17.0p</b>	16.5p	+3.0
Special dividend	<b>4.9p</b>	–	
<b>Total dividends per share</b>	<b>21.9p</b>	16.5p	
<b>Actual Gearing Factor</b> at 30th June	<b>106.8%</b>	106.8%	
<b>Total Expense Ratio</b> ("TER") <sup>6</sup>	<b>0.66%</b>	0.63%	

A glossary of terms and definitions is provided on page 55.

<sup>1</sup>Source: Morningstar.

<sup>2</sup>Source: J.P. Morgan.

<sup>3</sup>Net asset value assuming the 820,500 (2008: 213,000) shares held in Treasury were reissued in accordance with the Board's current policy on the reissuance of Treasury shares.

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

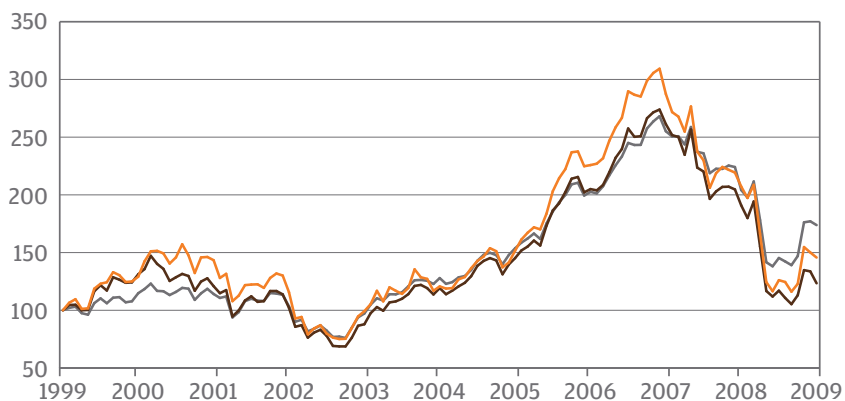
<sup>5</sup>The fair value of the £9.5m debenture issued by the Company has been calculated by reference to a similar dated gilt plus a margin based on the 5 year average for the AA Barclays sterling corporate bond spread. The carrying value of other debt is deemed to be equivalent to fair value.

<sup>6</sup>Management fees and all other operating expenses excluding interest and VAT recoverable, expressed as a percentage of the average of the opening and closing net assets.

# Performance

## Ten Year Performance

Figures have been rebased to 100 at 30th June 1999

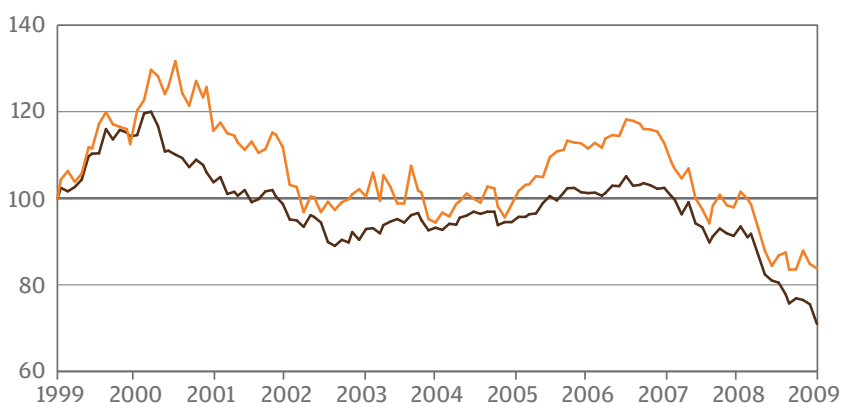


Source: Morningstar.

- JPMorgan Mid Cap - Share price
- JPMorgan Mid Cap - Net asset value
- Benchmark

## Performance Relative to Benchmark

Figures have been rebased to 100 at 30th June 1999



Source: Morningstar.

- JPMorgan Mid Cap - Share price
- JPMorgan Mid Cap - Net asset value
- The benchmark is represented by the grey horizontal line

# Ten Year Financial Record

<b>As at 30th June</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Shareholders' funds (£'m)	147.2	184.5	167.3	138.2	114.5	153.6	165.9	201.4	233.7	150.9	<b>94.1</b>
Net asset value per share (p)	367.9	476.4	433.6	358.3	296.9	398.1	473.5	647.4	799.3	582.2	<b>371.9</b>
Share price (p)	298.0	378.5	414.5	326.5	268.0	315.0	384.5	558.0	695.5	488.0	<b>321.5</b>
Discount (%)	19.0	20.5	4.4	8.9	9.7	20.9	18.8	13.8	13.0	16.2	<b>13.6</b>
Actual gearing factor (%)	119.0	119.5	122.2	118.5	124.8	117.1	110.7	114.0	112.8	106.8	<b>106.8</b>
<b>Year ended 30th June</b>											
Revenue attributable to shareholders (£'000)	1,517	2,730	2,921	3,828	4,366	3,364	4,383	4,380	4,689	4,785	<b>4,758</b>
Revenue return per share (p)	3.97	6.91	7.57	9.92	11.32	8.72	12.07	13.15	15.53	17.64	<b>18.74</b>
Dividend per share (p) <sup>1</sup>	5.30	6.00	7.00	9.50	10.75	9.75	11.30	12.50	14.50	16.50	<b>21.90</b>
Total expense ratio ('TER') (%) <sup>2</sup>	0.80	1.13	1.07	1.09	1.08	0.80	0.74	0.70	0.69	0.63	<b>0.66</b>
<b>Rebased to 100 at 30th June 1999</b>											
Return to shareholders <sup>3</sup>	100.0	129.1	143.4	115.6	99.2	120.7	151.6	225.8	287.4	207.2	<b>145.7</b>
Return on net assets <sup>3</sup>	100.0	131.2	120.9	102.1	87.9	119.2	145.2	205.0	261.3	192.2	<b>128.0</b>
Benchmark <sup>3</sup>	100.0	114.8	114.1	103.4	97.2	127.9	153.7	202.6	255.1	204.2	<b>173.8</b>

A glossary of terms and definitions is provided on page 55.

<sup>1</sup>2009 includes ordinary dividends of 17.0p and a special dividend of 4.9p.

<sup>2</sup>Management fees and all other operating expenses excluding interest and VAT recoverable, expressed as a percentage of the average of the opening and closing net assets.

<sup>3</sup>Source: Morningstar (Total returns with dividends reinvested).

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

at 30th June 2009

Company	Sector	2009 Valuation		2008 Valuation	
		£'000	% <sup>2</sup>	£'000	% <sup>2</sup>
<b>Investec<sup>3</sup></b> Investec is an international investment and private banking group. Investec provides corporate and investment banking, private banking, securities trading, asset management, proprietary trading and management and trade finance services.	Financials	3,029	2.9	2,905	1.8
<b>United Business Media<sup>3</sup></b> United Business Media is a global business information service provider. The group provides news distribution, events, online, business information and publishing services to the technology, healthcare, trade and transportation, pulp and paper and many other industries worldwide.	Consumer Services	2,472	2.4	2,680	1.7
<b>Micro Focus International<sup>4</sup></b> Micro Focus International provides business application management solutions. The company provides software solutions for assessing, managing and updating existing applications.	Technology	2,273	2.2	–	–
<b>Ladbrokes<sup>3</sup></b> Ladbrokes has diversified interests in betting ventures. The company operates betting shops and call centres in the UK, Ireland and Belgium.	Consumer Services	2,198	2.1	3,071	1.9
<b>Charter International</b> Charter International is an industrial group that manufactures rail track, working environment and welding consumables equipment, as well as air and gas handling equipment. The company maintains operations in Europe, North America, South America and the Asia/Pacific region.	Industrials	2,059	2.0	4,302	2.6
<b>Drax<sup>3</sup></b> Drax generates electricity and owns a coal-fired generating plant in the United Kingdom.	Utilities	1,898	1.8	1,089	0.7
<b>Venture Production<sup>4</sup></b> Venture Production produces oil and gas. The company acquires rights to oil fields with proven reserves that have not been fully exploited and revitalises the fields to produce the oil and gas. Venture Production operates in the North Sea and onshore and offshore in Trinidad.	Oil & Gas	1,856	1.8	–	–
<b>Hiscox<sup>3</sup></b> Hiscox operates in the United Kingdom insurance market. The group's services include underwriting managed syndicates, a range of personal and commercial insurance and other underwriting services.	Financials	1,854	1.8	439	0.3
<b>Debenhams<sup>4</sup></b> Debenhams operates department stores in the United Kingdom and Ireland. The company's stores retail men's, women's and children's clothes, cosmetics, electrical appliances, home furnishings, bicycles, luggage, garden products, flowers and giftware. Their stores are situated in high street locations and out of town retail parks.	Consumer Services	1,805	1.7	–	–
<b>Catlin<sup>3</sup></b> Catlin underwrites specialty insurance and reinsurance worldwide. The group specialises in property and casualty treaty reinsurance, structured risk and other coverages, as well as professional indemnity, property, general liability, D&O and commercial crime coverage for UK policyholders.	Financials	1,741	1.7	2,475	1.5
<b>Total</b>		21,185	20.4		

<sup>1</sup>Excluding the holding in the JPMorgan Sterling Liquidity Fund of £4.5m (2008: £0.7m).

<sup>2</sup>Based on total assets less current liabilities of £103.6m (2008: £162.4m before deducting loan facilities repayable within one year).

<sup>3</sup>Not Included in the ten largest investments at 30th June 2008.

<sup>4</sup>Not held in the portfolio at 30th June 2008.

At 30th June 2008, the value of the ten largest investments amounted to £44,233,000 representing 27.3% of total assets less current liabilities before deducting loan facilities repayable within one year.

# Portfolio Analyses and Investment Activity

## Portfolio Analysis

	2009 %	2008 %
FTSE Mid 250 Index companies	95.5	95.5
FTSE 100 Index companies	1.3	2.8
Smaller companies	0.2	1.0
Liquidity fund	4.3	0.4
Net current (liabilities)/assets	(1.3)	0.3

Based on total assets less current liabilities of £103.6m (2008: £162.4m before deducting loan facilities repayable within one year).

## Sector Analysis

	Portfolio 2009 %	Benchmark 2009 %	Active position %	Portfolio 2008 %	Benchmark 2008 %	Active position %
Consumer Services	24.1	22.2	1.9	21.1	19.9	1.2
Industrials	23.7	26.8	(3.1)	34.1	32.1	2.0
Financials	16.9	18.1	(1.2)	19.7	16.1	3.6
Consumer Goods	12.3	10.9	1.4	5.3	7.6	(2.3)
Technology	7.9	6.8	1.1	2.5	5.3	(2.8)
Oil & Gas	7.2	7.0	0.2	11.0	8.1	2.9
Utilities	2.8	1.9	0.9	1.7	2.1	(0.4)
Basic Materials	1.9	3.8	(1.9)	3.9	6.3	(2.4)
Telecommunications	0.2	0.8	(0.6)	–	1.7	(1.7)
Healthcare	–	1.7	(1.7)	–	0.8	(0.8)
Liquidity fund	4.3	–	4.3	0.4	–	0.4
Net current (liabilities)/assets	(1.3)	–	(1.3)	0.3	–	0.3

Based on total assets less current liabilities of £103.6m (2008: £162.4m before deducting loan facilities repayable within one year).

## Investment Activity

	Value at 30th June 2008		Purchases	Sales	Change in classification <sup>1</sup>	Change in valuation	Value at 30th June 2009	
	£'000	%	£'000	£'000	£'000	£'000	£'000	%
FTSE Mid 250 Index companies	155,009	95.8	75,364	75,912	(10,284)	(45,221)	98,956	94.3
FTSE 100 Index companies	4,536	2.8	3,392	9,793	4,086	(909)	1,312	1.2
Smaller companies	1,610	1.0	3,213	4,722	6,198	(6,048)	251	0.2
Liquidity fund	700	0.4	25,482	21,682	–	–	4,500	4.3
<b>Total portfolio</b>	161,855	100.0	107,451	112,109	–	(52,178)	105,019	100.0

<sup>1</sup>Being the re-classification in the year of Autonomy, Balfour Beatty, Intertek and Pennon from Mid 250 to FTSE 100, Headlam, International Ferro, International Personal Finance, Senior, Speedy Hire, Trinity Mirror, Unite and WSP from Mid 250 to Smaller Companies and DRAX from FTSE 100 to Mid 250.

# List of Investments

at 30th June 2009

Company	Valuation £'000	Company	Valuation £'000
<b>Consumer Services</b>		Mitie	814
United Business Media	2,472	Filtrona	802
Ladbrokes	2,198	Keller	800
Debenhams	1,805	Chemring	776
Mitchells & Butlers	1,690	SIG	764
Kesa Electricals	1,681	Rentokil Initial	750
Halfords	1,469	Tomkins	707
Go-Ahead	1,295	eaga	650
Smith (WH)	1,239	Bodycote International	640
Informa	1,192	Melrose	595
Greene King	1,185	Babcock International	594
easyJet	1,143	Interserve	537
FirstGroup	1,115	Morgan Sindall	340
Aegis	1,092	Premier Farnell	262
William Hill	1,048	Kier	255
Arriva	1,002	PV Crystalox Solar	195
HMV	902	BSS	178
Stagecoach	645	RPS	82
ITV	639	<b>Total Industrials</b>	<b>24,529</b>
Marston's	536	<b>Financials</b>	
Daily Mail & General Trust	340	Investec	3,029
Game	277	Hiscox	1,854
<b>Total Consumer Services</b>	<b>24,965</b>	Catlin	1,741
<b>Industrials</b>		Big Yellow	1,505
Charter International	2,059	London Stock Exchange	1,312
VT	1,465	Amlin	1,197
Morgan Crucible	1,399	Provident Financial	1,153
Hays	1,181	IG	1,039
Cookson	1,168	Close Brothers	789
Weir	1,154	St James's Place	771
Travis Perkins	1,076	Brit Insurance	765
BBA Aviation	1,020	Savills	667
Qinetiq	939	Shaftesbury	628
IMI	878	Beazley	603
Spectris	819	Segro	290
Ultra Electronics Holdings	816	Henderson	140
De La Rue	814	<b>Total Financials</b>	<b>17,483</b>

# List of Investments continued

Company	Valuation £'000	Company	Valuation £'000
<b>Consumer Goods</b>		<b>Utilities</b>	
Tate & Lyle	1,703	Drax	1,898
Bellway	1,422	Northumbrian Water	1,016
Burberry	1,383		
Taylor Wimpey	1,246	<b>Total Utilities</b>	<b>2,914</b>
Britvic	1,040	<b>Basic Materials</b>	
Berkeley	1,033	Ferrexpo	831
Persimmon	1,025	Aquarius Platinum	630
SSL International	1,024	Hochschild Mining	534
Dairy Crest	864		
GKN	738	<b>Total Basic Materials</b>	<b>1,995</b>
McBride	605	<b>Telecommunications</b>	
Cranswick	437	Telecom Plus	251
Northern Foods	199		
<b>Total Consumer Goods</b>	<b>12,719</b>	<b>Total Telecommunications</b>	<b>251</b>
<b>Technology</b>		<b>Liquidity Fund</b>	
Micro Focus International	2,273	JPMorgan Sterling Liquidity Fund	4,500
Logica	1,425		
Misys	1,050	<b>Total Liquidity Funds</b>	<b>4,500</b>
AVEVA	1,009		
Pace	912	<b>Total Portfolio</b>	<b>105,019</b>
Computacenter	519		
ARM Holdings	327	The portfolio comprises equity shares and a liquidity fund.	
Fidessa	312		
Spirent	253		
CSR	158		
<b>Total Technology</b>	<b>8,238</b>		
<b>Oil &amp; Gas</b>			
Venture Production	1,856		
Premier Oil	1,443		
Heritage Oil	1,331		
Dana Petroleum	895		
JKX Oil & Gas	792		
Wood (John)	627		
Wellstream	481		
<b>Total Oil &amp; Gas</b>	<b>7,425</b>		

# Board of Directors



**Andrew Barker**\*†‡

**(Chairman of the Board and Nomination and Remuneration Committee)**

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

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



**John Emly**

**A Director since June 1996.**

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



**Michael Hughes CBE**\*†‡

**(Senior Independent Director)**

**A Director since May 2008.**

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



**Margaret Littlejohns**\*†‡

**A Director since July 2008.**

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



**Gordon McQueen**\*†‡

**(Chairman of the Audit Committee)**

**A Director since December 2004.**

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

\* Member of the Audit Committee

† Member of the Nomination and Remuneration Committee

‡ Member of the Management Engagement Committee

‡ Considered by the Board to be independent

# Directors' Report

The Directors present their report for the year ended 30th June 2009.

## 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 30th June 2008. In the opinion of the Directors, the Company has subsequently conducted its affairs so that it should continue to qualify as an investment trust company. The Company will continue to seek approval under Section 842 of the Income and Corporation Taxes Act 1988 each year.

Approval for the year ended 30th June 2008 is subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment.

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006. The Company is not a close company for taxation purposes.

A review of the Company's activities and prospects is given in the Chairman's Statement on pages 2 to 4, and in the Investment Managers' Report on pages 5 to 7.

### Objective

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

### Investment Policies and Risk Management

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

### Investment Limits and Restrictions

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

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

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

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

### Performance

In the year to 30th June 2009, the Company produced a total return to shareholders of -29.7% and a total return on net assets of -33.4%. This compares with the return on the Company's benchmark index of -14.9%. As at 30th June 2009, the value of the Company's investment portfolio was £105 million. The Investment Managers' Report on pages 5 to 7 includes a review of developments during the year as well as information on investment activity within the Company's portfolio.

### Total Return, Revenue and Dividends

Gross loss for the year totalled £48.1 million (2008: £55.7 million loss) and net loss after deducting interest, administrative expenses and taxation amounted to £48.6 million (2008: £58.9 million loss). Distributable income for the year totalled £4.8 million (2008: £4.8 million).

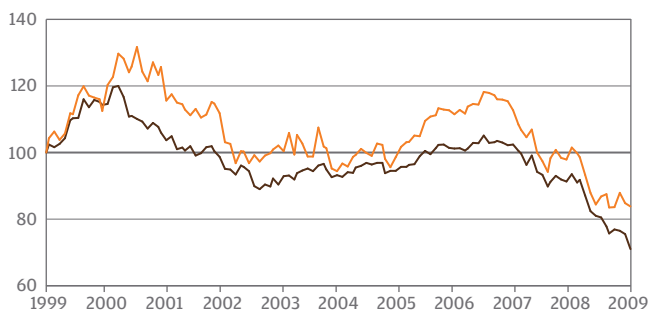
The Directors recommend a final dividend of 11.5p per share (2008: 11.0p) payable on 19th November 2009 to holders on the register at the close of business on 23rd October 2009. This distribution, will absorb £2,911,000. An interim dividend of 5.5p per share (2008: 5.5p) and a special dividend of 4.9p per share (2008: nil) were paid on 23rd April 2009. Following the payment of the final dividend, the revenue reserve will amount to 4,971,000.

### Key Performance Indicators ('KPIs')

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

## Performance Relative to Benchmark Index

Figures have been rebased to 100 at 30th June 1999

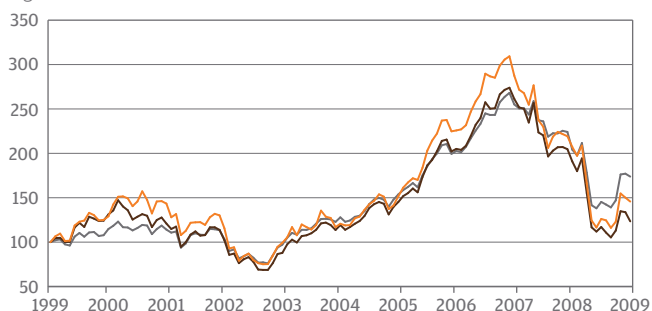


Source: Morningstar.

- JPMorgan Mid Cap - Share price
- JPMorgan - Net asset value
- The benchmark is represented by the grey horizontal line

## Ten Year Performance

Figures have been rebased to 100 at 30th June 1999



Source: Morningstar.

- JPMorgan Mid Cap - Share price
- JPMorgan Mid Cap - Net asset value
- Benchmark

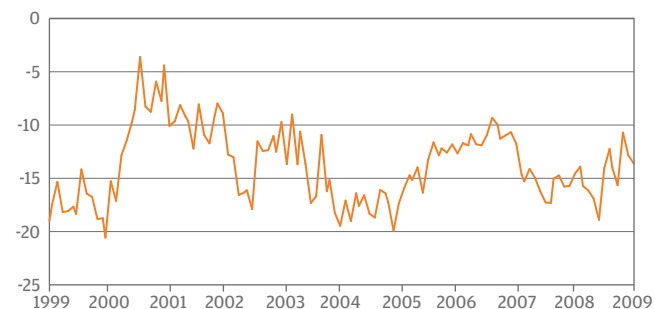
- **Performance against the benchmark index**  
This is the most important KPI by which performance is judged.
- **Performance against the Company's peers**  
The principal objective is to achieve capital growth relative to the benchmark. However, the Board also monitors the performance relative to a broad range of competitor funds.
- **Performance attribution**  
The purpose of performance attribution analysis is to assess how the Company achieved its performance relative to its benchmark index, i.e. to understand the impact on the Company's relative performance of the various

components such as stock and sector allocation. Details of the attribution analysis for the year ended 30th June 2009 are given in the Investment Managers' Report on page 6.

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

The Board has a share repurchase programme which seeks to address imbalances in supply of and demand for the Company's shares within the market and thereby minimise the volatility and absolute level of the discount to NAV at which the Company's shares trade in relation to its peers in the sector. In the year to 30th June 2009, the shares traded between a discount of 8.9% and 20.8% with debt at fair value and assuming the reissuance of shares held in Treasury.

## Discount Performance



Source: Datastream

- JPMorgan Mid Cap - Discount

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

The TER represents management fees and all other operating expenses excluding interest and VAT recoverable, expressed as a percentage of the average of the opening and closing net assets. The TER for the year ended 30th June 2009 was 0.66% (2008: 0.63%). The Board reviews each year an analysis which shows a comparison of the Company's TER and its main expenses with those of its peers.

### Share Capital

The Company has authority to repurchase shares in the market either for cancellation or into Treasury and to issue new shares for cash. During the year the Company did not repurchase any ordinary shares for cancellation. No further shares have been bought back for cancellation since the year end.

During the year 607,500 shares were repurchased into Treasury, for a total consideration of £2,793,000, bringing the cumulative total of shares bought into treasury to 820,500

# Directors' Report continued

(3.1% of issue share capital). No further shares have been repurchased into Treasury since the year end.

Resolutions to renew the Company's authorities to repurchase shares for cancellation or into Treasury and to re-issue shares from Treasury at a discount, will be put to shareholders at the forthcoming Annual General Meeting.

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

## Principal Risks

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

- **Investment and Strategy:** An inappropriate investment strategy, for example asset allocation or the level of gearing, may lead to under-performance against the Company's benchmark index and peer companies, resulting in the Company's shares trading on a wider discount. The Board manages these risks by diversification of investments through its investment restrictions and guidelines which are monitored and reported. JPMAM provides the Directors with timely and accurate management information, including performance data and attribution analyses, revenue estimates, liquidity reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the Investment Managers, who attend all Board meetings, and reviews data which shows statistical measures of the Company's risk profile. The Investment Managers employ the Company's gearing tactically, within a strategic range set by the Board. The Board holds a separate meeting devoted to strategy each year.
- **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 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 may lose investment trust status and as a consequence capital gains within the Company's portfolio would be subject to Capital Gains Tax. The Section 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 2006 and, as its shares are listed on the London Stock Exchange, the UKLA Listing Rules. A breach of the Companies Act could result in the Company and/or the Directors being fined or the subject of criminal proceedings. A breach of the UKLA Listing Rules may result in the Company's shares being suspended from listing which in turn would breach Section 842. The Board relies on the services of its Company Secretary, JPMAM, and its professional advisers to ensure compliance with the Companies Act 1985, the relevant amendments in the Companies Act 2006 and the UKLA Listing Rules.
- **Corporate Governance and Shareholder Relations:** Details of the Company's compliance with Corporate Governance best practice, including information on relations with shareholders, are set out in the Corporate Governance report on pages 22 to 25.
- **Operational:** Disruption to, or failure of, JPMAM's accounting, dealing or payments systems or the custodian's records may prevent accurate reporting and monitoring of the Company's financial position. Details of how the Board monitors the services provided by JPMAM and its associates and the key elements designed to provide effective internal control are included within the Internal Control section of the Corporate Governance report on pages 24 and 25.
- **Financial:** The financial risks faced by the Company are disclosed in note 20 on pages 42 to 47.

## Future Developments

The future development of the Company is much dependent upon the success of the Company's investment strategy in the light of economic and equity market developments. The Investment Managers discuss the outlook in their report on pages 5 to 7.

## Management of the Company

The Manager and Secretary is JPMorgan Asset Management (UK) Limited (JPMAM). JPMAM is employed under a contract which can be terminated on six months notice, without penalty.

If the Company wishes to terminate the contract on shorter notice, the balance of remuneration is payable by way of compensation.

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

The Board has evaluated the performance of the Manager and, taking cognisance of the change in the team managing the portfolio noted in the Chairman's Statement, confirms that it is satisfied that the continuing appointment of the Manager is in the interests of shareholders as a whole. In arriving at this view, the Board also considered the investment strategy and process of the Investment Managers and the support that the Company receives from JPMAM.

#### Management and Performance Fee

The fixed basic annual management fee is 0.4% per annum of the Company's total assets less current liabilities. The management fee includes a contribution towards JPMAM's general marketing and client administration costs.

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

In addition to the basic annual management fee, a performance related fee is calculated at 17.5% of the outperformance of the Company's net asset value total return (excluding gearing and management fee) over the benchmark. The maximum total fee payable in any one year in respect of the fixed management fee and any performance fee is capped at 1.65% of the Company's total assets less current liabilities at the year end date. The performance fee will be calculated annually and paid within three months of the year end. An estimate is accrued monthly and reflected in the Company's published net asset value per share. The performance fee calculation restarts when outperformance of the benchmark has been achieved and a performance fee earned. This means that the performance fee is only payable when there has been positive relative performance since the last performance fee was paid. No performance fee was payable in the year to 30th June 2009 (2008: £nil).

#### Going Concern

The Directors believe that having considered the Company's investment objective (see page 16), risk management policies (see pages 42 to 46), capital management policies and

procedures (see page 47), the nature of the portfolio and expenditure projections, that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future. For these reasons, they consider that there is reasonable evidence to continue to adopt the going concern basis in preparing the accounts.

#### Payment Policy

It is the Company's policy to obtain the best terms for all business and therefore there are no standard payment terms. In general the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by those terms. As at 30th June 2009, the Company had no outstanding trade creditors (2008: none).

#### Directors

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

Directors	30th June 2009	1st July 2008 <sup>1</sup>
Andrew Barker	<b>8,000</b>	8,000
John Emly	<b>5,452</b>	5,107
Michael Hughes	<b>4,000</b>	4,000
Margaret Littlejohns <sup>2</sup>	<b>1,000</b>	1,000
Gordon McQueen	<b>1,500</b>	1,500

<sup>1</sup>1st July 2008 or date of appointment.

<sup>2</sup>Appointed 2nd July 2008.

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

In accordance with the Articles of Association and Combined Code on Corporate Governance, the Directors retiring at the forthcoming Annual General Meeting are John Emly and Andrew Barker. Andrew Barker retires by rotation and is standing for re-election. John Emly retires on grounds of tenure and is standing for re-election. Alex Scott retired as a Director on 11th November 2008.

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' Report continued

## Disclosure of information to Auditors

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

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

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

## Section 992 Companies Act 2006

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

### Capital Structure

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

### Voting Rights in the Company's shares

Details of the voting rights in the Company's shares as at the date of this report are given in note 11 to the Notice of AGM on page 51.

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

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

Shareholders	Number of voting rights	%
Chase Nominees <sup>1</sup>	6,593,914	26.1
Barclays plc	3,569,773	14.1
Insight Investment Management	1,529,238	6.0
Legal & General	1,207,149	4.6

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

## Independent Auditors

Ernst & Young LLP have expressed their willingness to continue in office as Auditors and a resolution proposing to

re-appointment them, and authorise the Directors to determine their remuneration for the ensuing year, will be put to shareholders at the Annual General Meeting.

## Annual General Meeting

NOTE: THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should seek your own personal financial advice from your stockbroker, bank manager, solicitor or other financial adviser authorised under the Financial Services and Markets Act 2000.

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

### (i) Authority to repurchase the Company's shares (resolution 7)

The authority to repurchase up to 14.99% of the Company's issued share capital, granted by shareholders at the 2008 AGM, will expire on 10th May 2010 unless renewed at the forthcoming AGM. The Directors consider that the renewal of the authority is in the interests of shareholders as a whole as the repurchase of shares at a discount to NAV enhances the NAV of the remaining shares. The Board will therefore seek shareholder approval at the AGM to renew this authority, which will last until 17th May 2011 or until the whole of the 14.99% has been acquired, whichever is the earlier. The full text of the resolution is set out in the Notice of Meeting on page 49. Repurchases will be made at the discretion of the Board, and will only be made in the market at prices below the prevailing NAV per share as and when market conditions are appropriate, thereby enhancing the NAV of the remaining shares.

### (ii) Treasury shares/disapplication of pre-emption rights (resolutions 8 and 9)

Under the Companies Act 2006, the Company is permitted to repurchase up to 10% of its own shares into Treasury for reissue or cancellation at a future date, as an alternative to repurchasing for immediate cancellation. The Board considers that circumstances could arise in which it would be in shareholders' interests for such powers to be exercised.

The Board believes that the effective use of Treasury shares assists the Company in improving liquidity in the Company's shares, helps the management of any imbalances between supply and demand and minimises the volatility and absolute level of the discount at which the Company's shares trade to their net asset value, for the benefit of shareholders.

Accordingly, shareholders will also be asked at the Annual General Meeting to approve resolutions 8 and 9 which allow the Company to reissue shares from Treasury at a discount to NAV and disapply statutory pre-emption rights respectively. This will enable the Company to reissue shares held in Treasury without having to make a pro rata offer to existing shareholders. Shares may be reissued at a price that is below the then current net asset value, but will not be reissued at a wider discount than the size weighted average buying-in level or below the prevailing bid price at that time. Reissues will also be limited so that in the year to the Company's 2010 Annual General Meeting, the aggregate dilution in net asset value per share arising on such reissues does not exceed 1.8 pence per share, being approximately 0.5% of the net asset value per share at 30th June 2009. The Board does not at present propose to set a time limit for cancellation of Treasury shares.

### **(iii) Adoption of New Articles of Association (resolution 10)**

The Company proposes to adopt new articles of association. These incorporate amendments to the current articles of association to reflect the changes in company law brought about by the 2006 Companies Act (the 'Act') which came into effect on 1st October 2009 and changes made to the 2006 Act in August 2009 to implement the EU Shareholder Rights Directive in the UK, as well as some minor technical or clarifying changes.

The principal changes in the new articles of association proposed to be adopted at the 2009 AGM relate to shareholder meetings and resolutions, the Company's constitution and share capital.

In August 2009, changes were made to the provisions in the 2006 Act on company meetings by The Companies (Shareholders' Rights) Regulations 2009 ('Shareholders' Rights Regulations') to implement the EU Shareholder Rights Directive in the UK. The new articles incorporate amendments in relation to meetings to ensure consistency with the 2006 Act (as amended by the Shareholders' Rights Regulations).

Under the 2006 Act all provisions of the Company's memorandum, but most significantly the objects clause, are deemed to form part of the Company's articles from 1st October 2009. It is possible for the objects clause to be removed or amended by amending the articles by special resolution. It is not necessary under the 2006 Act for a company to set out its objects. The 2006 Act provides that, unless the articles state otherwise, a company's objects will be unrestricted.

One of the other key provisions of the memorandum which is deemed to form part of the Company's articles from 1st October 2009 is the restriction created by the existing authorised share capital statement. The 2006 Act removes the requirement for a company to place limits on its authorised share capital.

By adopting the new articles which do not contain the objects clause or the authorised share capital statement, the Company will remove these provisions, which would otherwise be deemed to form part of the Company's articles under section 28 of the 2006 Act, from its articles.

For a more detailed explanation of these and other amendments please refer to the Appendix to this document on pages 52 to 54.

A copy of the current articles of association and the proposed new articles of association that reflect these amendments will be available for inspection during normal business hours (Saturdays, Sundays and public holidays excepted) at the offices of JPMAM, Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ up until the close of the AGM. Copies will also be available at The Salters' Hall, 4 Fore Street, London EC2Y 5DE, being the place of the AGM, for 15 minutes prior to, and during, the AGM.

### **Recommendation**

The Board considers that resolutions 7 to 10 are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings which amount in aggregate to 19,952 shares representing approximately 0.1% of the voting rights of the Company.

By order of the Board  
Andrew Norman, for and on behalf of  
JPMorgan Asset Management (UK) Limited,  
Secretary  
9th October 2009

# Corporate Governance

## Compliance

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

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

## Role of the Board

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

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

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

There is an agreed procedure for Directors to take independent professional advice in the furtherance of their duties and at the Company's expense. This is in addition to the access that every Director has to the advice and services of the Company Secretary, JPMAM, which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

## Board Composition

The Board, chaired by Andrew Barker, consists of five non-executive Directors, four of whom are considered to be independent of the Company's Manager. Given his employment until the year 2000 with the predecessor management company, John Emly is not deemed to be independent. The Board believes that it is appropriate to have a Senior Independent Director and Michael Hughes fulfils this role. He is available to shareholders if they have concerns that cannot be resolved through discussion with the Chairman. The Directors have a breadth of investment, business and financial skills and experience relevant to the Company's business and brief biographical details of each Director are set out on page 15.

The Company has complied with the provisions of the Combined Code and the AIC Code in regard to the re-election of Directors every three years. The Board does not consider that Directors should serve for a fixed period of time. However, in order to achieve a balance of skills, experience, ages and length of service, it is the Board's policy to refresh itself in an orderly manner over time.

## Tenure

Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be elected by shareholders. Thereafter, a Director's appointment will run for a maximum term of three years. A Director may thereafter be invited to serve for one or more further terms of three years, in every case subject to the normal requirements for re-election by shareholders at Annual General Meetings. The Board does not believe that length of service in itself necessarily disqualifies a Director from seeking re-election but, when making a recommendation, the Board will take into account the ongoing requirements of the Combined Code, including the need to refresh the Board and its Committees. Any Director who has served for a period of more than nine years will stand for annual re-election thereafter.

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

The Board recommends the re-election of John Emly, who requires annual re-election as he has served as a Director for a period in excess of nine years. The Board further recommends the re-election of Andrew Barker who retires by rotation at this

year's Annual General Meeting. Before recommending John Emly and Andrew Barker for re-election, the Nomination and Remuneration Committee conducted a thorough review of their performance and contribution and was satisfied that they continued to fulfill their roles in an effective manner.

### Meetings and Committees

The Board delegates certain responsibilities and functions to committees. Details of membership of committees are shown with the Directors' profiles on page 15. Directors who are not members of Committees may attend at the invitation of the Chairman.

The table below details the number of Board and Committee meetings attended by each Director. During the year there were 5 Board meetings, including a private meeting of the Directors to evaluate the Manager. In addition, a separate meeting devoted to strategy, two Audit Committee meetings, a meeting of the Nomination and Remuneration Committee and a Management Engagement Committee meeting were held.

Director	Board Meetings Attended	Audit Committee Meetings Attended
Andrew Barker	5	2
John Emly	5	2 <sup>1</sup>
Michael Hughes	5	2
Margaret Littlejohns <sup>2</sup>	5	2
Gordon McQueen	5	2
Alexander Scott <sup>3</sup>	1	—

<sup>1</sup>Attended by invitation of the Committee.

<sup>2</sup>Appointed 2nd July 2008.

<sup>3</sup>Retired 11th November 2008.

Director	Nomination & Remuneration Committee Meetings Attended	Management Engagement Committee Meetings Attended
Andrew Barker	1	1
John Emly	1 <sup>1</sup>	1 <sup>1</sup>
Michael Hughes	1	1
Margaret Littlejohns <sup>2</sup>	1	1
Gordon McQueen	1	1
Alexander Scott <sup>3</sup>	—	—

<sup>1</sup>Attended by invitation of the Committee.

<sup>2</sup>Appointed 2nd July 2008.

<sup>3</sup>Retired 11th November 2008.

### Training and Appraisal

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

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

### Board Committees

#### Nomination and Remuneration Committee

The Nomination and Remuneration Committee, which consists of all of the independent Directors and is chaired by Andrew Barker, meets at least annually to ensure that the Board has an appropriate balance of skills to carry out its fiduciary duties and to select and propose suitable candidates when necessary for appointment. A variety of sources, including the employment of external search consultants, are used to ensure that a wide range of candidates 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 membership of the Audit Committee, which is chaired by Gordon McQueen, and comprises four of the Directors is set out on page 15. The Committee meets at least twice each year. The members of the Committee consider that they have the requisite skills and financial experience to fulfil the responsibilities of the Committee.

The Committee reviews the actions and judgements of the Manager in relation to the interim and annual financial statements and the Company's compliance with the Combined Code. It reviews the terms of the management agreement and examines the effectiveness of the Company's internal control systems, receives information from the Manager's compliance department and reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors. Representatives of the

# Corporate Governance continued

Company's auditors attend the committee meeting at which the draft annual report and financial statements are considered. The Audit Committee have reviewed the independence and objectivity of the auditors of the Company and are satisfied that the auditors are independent. The Board reviews and approves any non-audit services provided by the independent auditors and assesses the impact of any non-audit work on the ability of the auditor to remain independent. Details of the auditors' fees charged for both audit and other services are disclosed in note 5 on page 36. The Directors' statement on the Company's system of internal control is set out below.

## Management Engagement Committee

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

All the Company's Committees have written terms of reference which define clearly their respective responsibilities, copies of which are available for inspection on the Company's website, on request at the Company's registered office and at the Annual General Meeting.

## Relations with Shareholders

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

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the Directors and representatives of the Manager are available in person to meet with and answer shareholders' questions. In addition, a presentation is given by the investment managers who review the Company's performance. During the year the Company's brokers, the investment managers and JPMAM hold regular discussions. The Directors are made fully aware of their views. The Chairman and Directors make themselves available as and when required to address shareholder queries. The Directors may be contacted through the Company Secretary whose details are shown on page 57.

The Company's Annual Report and Accounts are published in time to give shareholders at least 20 working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to write to the Company Secretary at the address shown on page 57.

Details of the proxy voting position on each resolution will be published on the Company's website shortly after the Annual General Meeting.

## Internal Control

The Combined Code requires the Directors, at least annually, to review the effectiveness of the Company's system of internal control and to report to shareholders that they have done so. This encompasses a review of all controls, which the Board has identified including business, financial, operational, compliance and risk management.

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

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

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

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

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

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

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

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

By the means of the procedures set out above, which accord with the Turnbull guidance on internal controls, the Board confirms that it has reviewed and is satisfied with the effectiveness of the Company's system of internal control for the year ended 30th June 2009, and to the date of approval of this Annual Report and Accounts.

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

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

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

from JPMAM on request, or can be downloaded from the internet as follows:

Go to [www.jpmorganassetmanagement.co.uk/institutional](http://www.jpmorganassetmanagement.co.uk/institutional) and within the 'Commentary Analysis' tab you will find a section on Corporate Governance.

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

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

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

#### **Corporate Social Responsibility**

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

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

# Directors' Remuneration Report

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

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

## Directors' Remuneration

(Audited Information)

Directors Name	2009 £	2008 £
Andrew Barker	28,000	26,000
John Emly	19,000	17,500
Michael Hughes <sup>1</sup>	19,740	1,862
Margaret Littlejohns <sup>2</sup>	19,000	–
Gordon McQueen	22,500	19,500
Alexander Scott <sup>3</sup>	6,845	17,500
<b>Total</b>	<b>115,085</b>	<b>82,362</b>

<sup>1</sup>Appointed as a Director on 8th May 2008. 2009 emoluments include £740 paid in relation to the previous period.

<sup>2</sup>Appointed as a Director on 2nd July 2008.

<sup>3</sup>Retired as a Director on 11th November 2008.

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

No amounts were paid to third parties in connection with Directors' remuneration (2008: nil).

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

The Board has established a Nomination and Remuneration Committee, which reviews fees on a regular basis. Fee levels are set with a view to the Company's ability to attract and retain Directors of a sufficiently high calibre. Reviews are based on information provided by the Manager, JPMorgan Asset

Management (UK) Limited, and industry research, on the level of fees paid to the directors of the Company's peers and within the investment trust industry generally. The Directors' fees are not performance-related. The Articles stipulate that aggregate fees must not exceed £150,000. Any increase in this amount requires both Board and Shareholder approval.

The terms and conditions of Directors' appointments are set out in formal letters of appointment. Details of the Board's policy on tenure are set out on pages 22 and 23.

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

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

## Five Year Share Price and Index Total Return to 30th June 2009



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

9th October 2009

# Directors' Responsibilities in Respect of the Accounts

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

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

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

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking

reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

Statement under the Disclosure & Transparency Rules 4.1.12

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

For and on behalf of the Board  
Andrew Barker  
Chairman

9th October 2009

# Independent Auditors' Report

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

We have audited the financial statements of JPMorgan Mid Cap Investment Trust plc for the year ended 30th June 2009 which comprise the Income Statement, Reconciliation of Movements in Shareholders Funds, Balance Sheet, Cash Flow Statement, and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Sections 495, 496 and 497 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

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

## Scope of the audit of the financial statements

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

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30th June 2009 and of its net loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook issued by the Financial Services Authority (information about internal control and risk management systems in relation to financial reporting processes and about share capital structures) is consistent with the Financial Statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Under the Listing Rules we are required to review:**

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

**Caroline Gulliver** (Senior statutory auditor)  
for and on behalf of  
Ernst & Young LLP, Statutory Auditor  
London

9th October 2009

# Income Statement

for the year ended 30th June 2009

	Notes	Revenue £'000	2009 Capital £'000	Total £'000	Revenue £'000	2008 Capital £'000	Total £'000
<b>Losses on investments held at fair value through profit or loss</b>							
	2	–	(52,973)	(52,973)	–	(61,675)	(61,675)
Income from investments	3	4,338	–	4,338	5,938	–	5,938
Other interest receivable and similar income	3	493	–	493	25	–	25
<b>Gross return/(loss)</b>		<b>4,831</b>	<b>(52,973)</b>	<b>(48,142)</b>	5,963	(61,675)	(55,712)
Management fee	4	(141)	(328)	(469)	(270)	(631)	(901)
VAT recoverable	4	766	819	1,585	–	–	–
Other administrative expenses	5	(339)	–	(339)	(306)	–	(306)
<b>Net return/(loss) on ordinary activities before finance costs and taxation</b>		<b>5,117</b>	<b>(52,482)</b>	<b>(47,365)</b>	5,387	(62,306)	(56,919)
Finance costs	6	(357)	(832)	(1,189)	(602)	(1,405)	(2,007)
<b>Net return/(loss) on ordinary activities before taxation</b>		<b>4,760</b>	<b>(53,314)</b>	<b>(48,554)</b>	4,785	(63,711)	(58,926)
Taxation	7	(2)	–	(2)	–	–	–
<b>Net return/(loss) on ordinary activities after taxation</b>		<b>4,758</b>	<b>(53,314)</b>	<b>(48,556)</b>	4,785	(63,711)	(58,926)
<b>Return/(loss) per share</b>	9	<b>18.74p</b>	<b>(209.97)p</b>	<b>(191.23)p</b>	17.64p	(234.86)p	(217.22)p

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

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

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

# Reconciliation of Movements in Shareholders' Funds

for the year ended 30th June 2009

	Called up share capital £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
<b>At 30th June 2007</b>	7,308	2,692	215,810	7,841	<b>233,651</b>
Shares bought back and cancelled	(775)	775	(18,594)	–	<b>(18,594)</b>
Repurchase of shares into Treasury	–	–	(1,140)	–	<b>(1,140)</b>
Net (loss)/return on ordinary activities	–	–	(63,711)	4,785	<b>(58,926)</b>
Dividends appropriated in the year	–	–	–	(4,079)	<b>(4,079)</b>
<b>At 30th June 2008</b>	6,533	3,467	132,365	8,547	<b>150,912</b>
Repurchase of shares into Treasury	–	–	(2,793)	–	<b>(2,793)</b>
Net (loss)/return on ordinary activities	–	–	(53,314)	4,758	<b>(48,556)</b>
Dividends appropriated in the year	–	–	–	(5,423)	<b>(5,423)</b>
<b>At 30th June 2009</b>	6,533	3,467	76,258	7,882	<b>94,140</b>

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

# Balance Sheet

at 30th June 2009

	Notes	2009 £'000	2008 £'000
<b>Fixed assets</b>			
Equity investments held at fair value through profit or loss		100,519	161,155
Investment in liquidity fund held at fair value through profit or loss		4,500	700
<b>Total investments</b>	10	<b>105,019</b>	161,855
<b>Current assets</b>			
Debtors	11	6,356	701
Cash and short term deposits		133	225
		6,489	926
<b>Current liabilities</b>			
<b>Creditors:</b> amounts falling due within one year	12	<b>(7,886)</b>	(2,395)
<b>Net current liabilities</b>		<b>(1,397)</b>	(1,469)
<b>Total assets less current liabilities</b>		<b>103,622</b>	160,386
<b>Creditors:</b> amounts falling due after more than one year	13	<b>(9,482)</b>	(9,474)
<b>Total net assets</b>		<b>94,140</b>	150,912
<b>Capital and reserves</b>			
Called up share capital	14	6,533	6,533
Capital redemption reserve	15	3,467	3,467
Capital reserves	15	76,258	132,365
Revenue reserve	15	7,882	8,547
<b>Shareholders' funds</b>		<b>94,140</b>	150,912
<b>Net asset value per share</b>	16	<b>371.9p</b>	582.2p

The accounts on pages 30 to 47 were approved and authorised for issue by the Directors on 9th October 2009 and were signed on their behalf by:

**Gordon McQueen**

Director

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

# Cash Flow Statement

for the year ended 30th June 2009

	Notes	2009 £'000	2008 £'000
<b>Net cash inflow from operating activities</b>	17	<b>6,034</b>	4,500
<b>Returns on investments and servicing of finance</b>			
Interest paid		(1,188)	(2,030)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(1,188)</b>	(2,030)
<b>Capital expenditure and financial investment</b>			
Purchases of investments		(99,846)	(198,285)
Sales of investments		106,023	240,526
Transaction costs		(782)	(1,566)
Other capital charges		(13)	(9)
<b>Net cash inflow from capital expenditure and financial investment</b>		<b>5,382</b>	40,666
<b>Dividends paid</b>		<b>(5,423)</b>	(4,079)
<b>Net cash inflow before financing</b>		<b>4,805</b>	39,057
<b>Financing</b>			
Repurchase of ordinary shares		(2,897)	(20,324)
Repayment of short term loans		(2,000)	(18,800)
<b>Net cash outflow from financing</b>		<b>(4,897)</b>	(39,124)
<b>Decrease in cash and cash equivalents</b>	18	<b>(92)</b>	(67)

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

# Notes to the Accounts

for the year ended 30th June 2009

## 1. Accounting policies

### (a) Basis of accounting

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

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

The accounts have been prepared on a going concern basis.

### (b) Valuation of investments

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information is provided internally on that basis to the Company's Board of Directors. Accordingly, upon initial recognition the investments are designated by the Company as 'held at fair value through profit or loss'. They are included initially at fair value which is taken to be their cost, excluding expenses incidental to purchase which are written off in the capital column of the income statement at the time of acquisition. Subsequently the investments are valued at fair value which is bid market price for listed investments.

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

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

### (c) Income

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

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

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

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

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

### (d) Expenses

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

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

**(e) Finance costs**

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

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

**(f) Financial instruments**

Cash and short term deposits may comprise cash and demand deposits which are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

Other receivables and payables do not carry any interest, are short term in nature and are accordingly stated at nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

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

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

**(g) Taxation**

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

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

**(h) Dividends**

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

**(i) VAT**

Irrecoverable VAT is included in the expense on which it has been suffered. The basis on which it has been calculated is the partial exemption method using the proportion of taxable supplies to non taxable supplies. Further information regarding VAT on management fees is given in note 4 on page 36.

	2009 £'000	2008 £'000
<b>2. Losses on investments held at fair value through profit or loss</b>		
(Losses)/gains on investments held at fair value through profit or loss based on historical cost	(49,655)	6,733
Amounts recognised in investment holding losses/(gains) in the previous year in respect of investments sold during the year	17,479	(34,249)
Losses on sales of investments based on the carrying value at the previous balance sheet date	(32,176)	(27,516)
Net movement in investment holding losses	(20,002)	(32,584)
Transaction costs	(782)	(1,566)
Other capital charges	(13)	(9)
Total capital losses on investments held at fair value through profit or loss	(52,973)	(61,675)

# Notes to the Accounts continued

	2009 £'000	2008 £'000
<b>3. Income</b>		
<b>Income from investments</b>		
UK dividend income	3,749	5,718
Overseas dividend income	478	71
Property income distribution	34	45
Income from liquidity fund	77	104
	<b>4,338</b>	<b>5,938</b>
<b>Other interest receivable and similar income</b>		
Deposit interest	9	21
Interest on VAT recovered	467	–
Underwriting commission	17	4
	<b>493</b>	<b>25</b>
<b>Total income</b>	<b>4,831</b>	<b>5,963</b>

	Revenue £'000	2009 Capital £'000	Total £'000	Revenue £'000	2008 Capital £'000	Total £'000
<b>4. Management fee</b>						
Management fee <sup>1</sup>	141	328	469	257	600	857
VAT thereon	–	–	–	13	31	44
	<b>141</b>	<b>328</b>	<b>469</b>	<b>270</b>	<b>631</b>	<b>901</b>
VAT recoverable <sup>2</sup>	(766)	(819)	(1,585)	–	–	–
	<b>(625)</b>	<b>(491)</b>	<b>(1,116)</b>	<b>270</b>	<b>631</b>	<b>901</b>

<sup>1</sup>Details of the management fee and performance fee are given in the Directors' Report on page 19.

<sup>2</sup>No VAT has been charged on management fees since November 2007 when HM Revenue & Customs announced acceptance that VAT was not chargeable on investment trust management fees. The Company has since recovered VAT amounting to £1,585,000 in respect of VAT paid in the past. This amount has been allocated between revenue and capital in the same proportions as it was originally expensed to revenue and capital. Interest amounting to £467,000 has also been received and allocated wholly to revenue in this year and is included within 'other interest receivable and similar income' in note 3 above.

	2009 £'000	2008 £'000
<b>5. Other administrative expenses</b>		
Other management expenses	198	199
Directors' fees <sup>1</sup>	115	82
Auditors' remuneration - for audit services <sup>2</sup>	25	24
Auditors' remuneration - for all other services	1	1
	<b>339</b>	<b>306</b>

<sup>1</sup>Full disclosure is given in the Directors' Remuneration Report on page 26.

<sup>2</sup>Includes £4,000 (2008: £3,000) irrecoverable VAT.

	Revenue £'000	2009 Capital £'000	Total £'000	Revenue £'000	2008 Capital £'000	Total £'000
<b>6. Finance costs</b>						
Interest on bank loans and overdrafts	41	95	136	286	668	954
Interest on debenture	316	737	1,053	316	737	1,053
	<b>357</b>	<b>832</b>	<b>1,189</b>	602	1,405	2,007

## 7. Taxation

### (a) Analysis of tax charge in the year

	2009 £'000	2008 £'000
UK corporation tax at 28% (2008: 29.5%)	–	–
Overseas withholding tax	2	–
Current tax charge for the year	<b>2</b>	–

### (b) Factors affecting current tax charge for the year

	Revenue £'000	2009 Capital £'000	Total £'000	Revenue £'000	2008 Capital £'000	Total £'000
Net return/(loss) on ordinary activities before taxation	4,760	(53,314)	(48,554)	4,785	(63,711)	(58,926)
Corporation tax at 28% (2008: 29.5%)	1,333	(14,928)	(13,595)	1,412	(18,795)	(17,383)
Effects of:						
Non taxable capital losses	–	14,832	14,832	–	18,194	18,194
Non taxable UK dividends	(1,050)	–	(1,050)	(1,672)	–	(1,672)
Brought forward excess expenses utilised	(187)	–	(187)	–	–	–
Overseas withholding tax	2	–	2	–	–	–
Tax relief on capitalised expenses	(96)	96	–	(601)	601	–
Unrelieved expenses and charges	–	–	–	861	–	861
Current tax charge for the year	<b>2</b>	–	<b>2</b>	–	–	–

The Company has an unrecognised deferred tax asset of £11,184,000 (2008: £11,371,000). This has arisen because deductible expenses have exceeded taxable income. This asset may be utilised in future years where there is an excess of taxable income over deductible expenses. Given the composition of the Company's portfolio, it is not likely that this asset will be utilised in the foreseeable future.

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

# Notes to the Accounts continued

## 8. Dividends

### (a) Dividends paid and proposed

	2009 £'000	2008 £'000
Unclaimed dividends refunded to the Company	–	(14)
2008 final dividend of 11.0p (2007: 9.5p) <sup>1</sup>	2,791	2,643
Interim dividend of 5.5p (2008: 5.5p)	1,392	1,450
Special dividend of 4.9p (2008: nil)	1,240	–
Total dividends paid in the year	5,423	4,079
2009 Final dividend proposed of 11.5p (2008: 11.0p)	2,911	2,851

<sup>1</sup>The final dividend proposed in respect of the year ended 30th June 2008 amounted to £2,851,000 (2007: £2,777,000). However, the amount paid amounted to £2,791,000 (2007: £2,643,000) due to share repurchases after the balance sheet date but prior to the record date.

The final dividend has been proposed in respect of the year ended 30th June 2009 and is subject to approval at the forthcoming Annual General Meeting. In accordance with the accounting policy of the Company, this dividend will be reflected in the accounts for the year ended 30th June 2010.

### (b) Dividends for the purposes of Section 842 of the Income and Corporation Taxes Act 1988

The requirements of Section 842 of the Income and Corporation Taxes Act 1988 are considered on the basis of dividends declared in respect of the financial year as follows:

	2009 £'000	2008 £'000
Interim dividend of 5.5p (2008: 5.5p)	1,392	1,450
Special dividend of 4.9p (2008: nil)	1,240	–
Final dividend of 11.5p (2008: 11.0p)	2,911	2,851
Total dividends for Section 842 purposes	5,543	4,301

The revenue available for distribution by way of dividend for the year is £4,758,000 (2008: £4,785,000).

## 9. Return/(loss) per share

The revenue return per share is based on the earnings attributable to the ordinary shares of £4,758,000 (2008: £4,785,000) and on the weighted average number of shares in issue during the year of 25,391,440 (2008: 27,127,678).

The capital loss per share is based on the capital loss attributable to the ordinary shares of £53,314,000 (2008: loss of £63,711,000) and on the weighted average number of shares in issue during the year of 25,391,440 (2008: 27,127,678).

Total loss per share is based on the total loss attributable to the ordinary shares of £48,556,000 (2008: loss of £58,926,000) and on the weighted average number of shares in issue during the year of 25,391,440 (2008: 27,127,678).

	2009 £'000	2008 £'000
<b>10. Investments</b>		
Investments listed on a recognised stock exchange <sup>1</sup>	105,019	161,855
Opening book cost	171,435	206,670
Opening investment holding (losses)/gains	(9,580)	57,253
Opening valuation	161,855	263,923
Movements in the year:		
Purchases at cost	107,451	198,341
Sales - proceeds	(112,109)	(240,309)
Losses on sales of investments based on the carrying value at the previous balance sheet date	(32,176)	(27,516)
Net movement in investment holding gains or losses	(20,002)	(32,584)
	105,019	161,855
Closing book cost	117,122	171,435
Closing investment holding losses	(12,103)	(9,580)
Total investments held at fair value	105,019	161,855

<sup>1</sup>Includes the investment in the JPMorgan Sterling Liquidity Fund.

Transaction costs on purchases during the year amounted to £558,000 (2008: £1,094,000) and on sales during the year amounted to £224,000 (2008: £472,000). These costs include stamp duty and brokerage commission.

During the year, prior year investment holding losses of £17,479,000 on listed investments have been transferred to gains and losses on sales of investments as disclosed in notes 2 and 15.

	2009 £'000	2008 £'000
<b>11. Current assets</b>		
<b>Debtors</b>		
Securities sold for future settlement	6,134	48
Dividends and interest receivable	186	617
Other debtors	36	36
	6,356	701

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

#### Cash and short term deposits

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

# Notes to the Accounts continued

	2009 £'000	2008 £'000
<b>12. Creditors:</b> amounts falling due within one year		
Securities purchased for future settlement	7,661	56
Interest payable	143	148
Short term loans	–	2,000
Repurchases of the Company's own shares for future settlement	–	104
Other creditors and accruals	82	87
	<b>7,886</b>	2,395

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

The £2,000,000 loan at 30th June 2008 comprised two short term loans drawn down on a facility with The Bank of Ireland which expired in April 2009. Further details of the Company's new loan facility are given in note 20a on page 43.

	2009 £'000	2008 £'000
<b>13. Creditors:</b> amounts falling due after more than one year:		
£9,500,000 11% debenture 2016	9,482	9,474

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

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

	2009 £'000	2008 £'000
<b>14. Called up share capital</b>		
Authorised:		
48,000,000 (2008: 48,000,000) ordinary shares of 25p each	12,000	12,000
Allotted:		
Ordinary shares of 25p each		
Opening balance of 25,919,180 (2008: 29,232,000) shares excluding shares held in Treasury	6,480	7,308
Purchase of 607,500 (2008: 213,000) shares into Treasury	(152)	(53)
Repurchase of nil (2008: 3,099,820) shares for cancellation	–	(775)
Subtotal	6,328	6,480
820,500 (2008: 213,000) shares held in Treasury	205	53
Closing balance <sup>1</sup>	6,533	6,533

<sup>1</sup>Represented by 26,132,180 (2008: 26,132,180) shares including 820,500 (2008: 213,000) shares held in Treasury.

During the year 607,500 shares were repurchased into Treasury for a total consideration of £2,793,000.

	2009 Capital reserves			
	Capital redemption reserve £'000	Holding gains and losses on investments £'000	Gains and losses on sales of investments £'000	Revenue reserve £'000
<b>15. Reserves</b>				
Opening balance	3,467	(9,580)	141,945	8,547
Losses on sales of investments based on the carrying value at the previous balance sheet date	—	—	(32,176)	—
Net movement in investment holding losses	—	(20,002)	—	—
Transaction costs	—	—	(782)	—
Transfer on disposal of investments	—	17,479	(17,479)	—
Management fee and finance costs charged to capital	—	—	(1,160)	—
VAT recovered and credited to capital	—	—	819	—
Repurchase of shares into Treasury	—	—	(2,793)	—
Other capital charges	—	—	(13)	—
Dividends appropriated in the year	—	—	—	(5,423)
Retained revenue for the year	—	—	—	4,758
Closing balance	3,467	(12,103)	88,361	7,882

#### 16. Net asset value per share

Net asset value per share is based on total shareholders' funds attributable to ordinary shareholders of £94,140,000 (2008: £150,912,000) and on the 25,311,680 (2008: 25,919,180) shares in issue at the year end, excluding shares held in Treasury.

	2009 £'000	2008 £'000
<b>17. Reconciliation of total loss on ordinary activities before finance costs and taxation to net cash inflow from operating activities</b>		
Net loss on ordinary activities before finance costs and taxation	(47,365)	(56,919)
Add back capital loss before finance costs and taxation	52,482	62,306
Decrease in accrued income	431	83
Increase in other debtors	—	(18)
Decrease in accrued expenses	(5)	(321)
Expenses credited/(charged) to capital	491	(631)
Net cash inflow from operating activities	6,034	4,500

# Notes to the Accounts continued

	At 30th June 2008 £'000	Cash flow £'000	Other movements £'000	At 30th June 2009 £'000
<b>18. Analysis of changes in net debt</b>				
Cash and short term deposits	225	(92)	–	133
Debt due within one year	(2,000)	2,000	–	–
Debt due after five years	(9,474)	–	(8)	(9,482)
Net debt	(11,249)	1,908	(8)	(9,349)

## 19. Transactions with JPMorgan

Details of the management contract (which includes a performance fee contract) are set out on page 19. The terms make allowance for the exclusion of management charges on investments held in funds on which JPMorgan earns a separate management fee. Details of the management fee payable for the year can be found in note 4 on page 36. No management fee (2008: £nil) was outstanding at 30th June 2009.

Safe custody fees and handling charges amounting to £10,000 (2008: £20,000) were payable to JPMorgan Chase of which £4,000 (2008: £13,000) was outstanding at the year end.

JPMAM carries out some of its investment activities through JPMorgan subsidiaries. These transactions are carried out at arm's length. The commission payable on transactions with JPMorgan subsidiaries was £88,000 (2008: £17,000) and £nil (2008: £nil) was outstanding at the year end.

The Company holds an investment in the JPMorgan Sterling Liquidity Fund. At 30th June 2009 this holding was valued at £4,500,000 (2008: £700,000). During the year the Company made purchases of this fund amounting to £25.5 million (2008: £56.3 million) and sales of £21.7 million (2008: £55.9 million). Income receivable from this fund amounted to £77,000 (2008: £104,000). JPMorgan earns no management fee on this fund.

At the year end a bank balance of £133,000 (2008: £225,000) was held with JPMorgan Chase. During the year ended 30th June 2009, a net amount of interest of £9,000 (2008: £21,000) was receivable from JPMorgan Chase.

## 20. Financial instruments' exposure to risk and risk management policies

As an investment trust, the Company invests in equities and other securities for the long term so as to secure its investment objective stated on the Features page. In pursuing this objective, the Company is exposed to a variety of risks that could result in a reduction in the Company's net assets or a reduction in the profits available for dividends. These risks include market risk (comprising interest rate risk and other price risk), liquidity risk and credit risk. The Directors' policy for managing these risks is set out below. The Manager, in close cooperation with the Board, coordinates the Company's risk management. The Company has no material direct exposure to foreign currencies.

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

The Company's financial instruments may comprise the following:

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

**(a) Market risk**

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

The Board reviews and agrees policies for managing these risks. These policies have remained unchanged from those applying in the comparative year. The Manager assesses the exposure to market risk when making each investment decision and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

**(i) Interest rate risk**

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

**Management of interest rate risk**

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

**Interest rate exposure**

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

	2009 £'000	2008 £'000
<b>Exposure to floating interest rates:</b>		
JPMorgan Sterling Liquidity Fund	4,500	700
Cash and short term deposits	133	225
Creditors: amounts falling due within one year - short term loans	–	(2,000)
Total exposure	4,633	(1,075)

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

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

In June 2009 the Company arranged a £8 million one year floating rate revolving loan facility with ING Bank, which expires on 8th June 2010. Under the terms of this agreement the Company may draw down up to £8 million at an interest rate of LIBOR as quoted in the market for the loan period plus a margin of 1.80% plus Mandatory Costs, which are the lenders' costs of complying with certain regulatory requirements of the Bank of England. This facility had not been utilised at 30th June 2009.

At 30th June 2008 the Company had drawn down £2 million on a £45 million loan facility with the Bank of Ireland at an interest rate of 5.9%. This facility expired on 24th April 2009.

# Notes to the Accounts continued

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

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

	2009 £'000	2008 £'000
Maximum debit interest rate exposure to floating rates - net loan balances	(625)	(22,331)
Maximum credit interest rate exposure to floating rates - net cash balances	7,134	2,779

### Interest rate sensitivity

The following table illustrates the sensitivity of the profit/(loss) after taxation for the year and net assets to a 1% (2008: 1%) increase or decrease in interest rates in regards to the Company's monetary financial assets and financial liabilities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's monetary financial instruments held at the balance sheet date, with all other variables held constant.

	2009		2008	
	1% Increase in rate £'000	1% Decrease in rate £'000	1% Increase in rate £'000	1% Decrease in rate £'000
<b>Income statement - return after taxation</b>				
Revenue return	46	(46)	3	(3)
Capital return	-	-	(14)	14
Total return after taxation for the year	46	(46)	(11)	11
Net assets	46	(46)	(11)	11

In the opinion of the Directors, the above sensitivity analysis is not representative of the whole year as the level of exposure changes frequently as borrowings are drawn down and repaid during the year. During the year, the amount drawn down on the loan facility fluctuated between £nil and £3 million and the interest rate on the drawings fluctuated between 5.8% and 6.5%.

### (ii) Other price risk

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

#### Management of other price risk

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

### Other price risk exposure

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

	2009 £'000	2008 £'000
Equity investments held at fair value through profit or loss	100,519	161,155

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

### Concentration of exposure to other price risk

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

### Other price risk sensitivity

The following table illustrates the sensitivity of profit/(loss) after taxation for the year and net assets to an increase or decrease of 10% (2008: 10%) in the fair value of the Company's equities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's equities and adjusting for change in the management fee, but with all other variables held constant.

	2009		2008	
	10% Increase in fair value £'000	10% Decrease in fair value £'000	10% Increase in fair value £'000	10% Decrease in fair value £'000
<b>Income statement - return after taxation</b>				
Revenue return	(12)	12	(19)	19
Capital return	10,024	(10,024)	16,070	(16,070)
Total return after taxation for the year	10,012	(10,012)	16,051	(16,051)
Net assets	10,012	(10,012)	16,051	(16,051)

### (b) Liquidity risk

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

#### Management of the risk

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

The Board's policy is for the Company to remain fully invested in normal market conditions and that short term borrowings be used to manage short term liabilities, working capital requirements and to gear the Company as appropriate. Details of the current loan facility are given in part (a) (i) to this note on page 43.

# Notes to the Accounts continued

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

### Liquidity risk exposure

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

	2009					2008				
	Within one year £'000	One to two years £'000	Two to five years £'000	More than five years £'000	Total £'000	Within one year £'000	One to two years £'000	Two to five years £'000	More than five years £'000	Total £'000
<b>Creditors: amounts falling due within one year</b>										
Securities purchased for future settlement	7,661	—	—	—	7,661	56	—	—	—	56
Purchases of the Company's own shares for future settlement	—	—	—	—	—	104	—	—	—	104
Short term loans and accruals	—	—	—	—	—	2,010	—	—	—	2,010
Other creditors and accruals	225	—	—	—	225	235	—	—	—	235
<b>Creditors: amounts falling due after more than one year</b>										
£9,500,000 11% debenture 2016	1,045	1,045	3,135	11,068	16,293	1,045	1,045	3,135	12,113	17,338
	<b>8,931</b>	<b>1,045</b>	<b>3,135</b>	<b>11,068</b>	<b>24,179</b>	<b>3,450</b>	<b>1,045</b>	<b>3,135</b>	<b>12,113</b>	<b>19,743</b>

### (c) Credit risk

Credit risk is the risk that the counterparty to a transaction fails to discharge its obligations under that transaction which could result in a loss to the Company.

#### Management of credit risk

##### Portfolio dealing

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

##### Cash

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

##### Exposure to JPMorgan Chase

The Company's investment assets are clearly ring-fenced in client designated accounts. Therefore, in the event that JPMorgan Chase were to cease trading, these assets would be protected.

#### Credit risk exposure

The amounts shown in the balance sheet under debtors and cash and short term deposits represent the maximum exposure to credit risk at the current and comparative year ends.

Cash and short term deposits comprises balances held at banks that have a minimum rating of A1/P1 from Standard & Poor's and Moody's respectively.

**(d) Fair values of financial assets and financial liabilities**

All financial assets and liabilities are either included in the balance sheet at fair value or the carrying amount in the balance sheet is a reasonable approximation of fair value except for the debenture disclosed below. The fair value of the £9.5 million debenture issued by the Company has been calculated by reference to a similar dated gilt yield plus a margin based on the 5 year average for the AA Barclays sterling corporate bond spread.

	Accounts value		Fair value	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Debenture	9,482	9,474	11,341	11,079

**21. Capital management policies and procedures**

The Company's capital comprises the following:

	2009 £'000	2008 £'000
<b>Debt</b>		
Short term loan	—	2,000
£9,500,000 11% debenture 2016	9,500	9,500
	9,500	11,500
<b>Equity</b>		
Share capital	6,533	6,533
Reserves	87,607	144,379
	94,140	150,912
Total capital	103,640	162,412

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

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

	2009 £'000	2008 £'000
Investments excluding liquidity fund holdings	100,519	161,155
Total net assets	94,140	150,912
Gearing	106.8%	106.8%

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

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

# Shareholder Analysis

at 30th June 2009

	Number of shares	% Holding
Unit Trusts	1,705,225	6.5
Investment Trusts	1,621,442	6.2
Other Institutions	1,277,930	4.9
Pension Funds	781,405	3.0
Insurance Companies	669,187	2.6
Charities	106,400	0.4
<b>Total Institutions</b>	<b>6,161,589</b>	<b>23.6</b>
Private Client Brokers	7,384,945	28.3
Retail investors holding shares directly or through nominee accounts <sup>1</sup>	4,797,908	18.4
Individuals in the Investment Trust Share Plan <sup>2</sup>	3,722,346	14.2
Individuals in the Investment Trust ISA <sup>2</sup>	2,897,887	11.1
Individuals in the Investment Trust Pension Scheme <sup>3</sup>	347,005	1.3
<b>Total Retail Holdings</b>	<b>19,150,901</b>	<b>73.3</b>
Treasury shares	820,500	3.1
<b>Total Shares in Issue</b>	<b>26,132,180</b>	<b>100.0</b>

Nominee accounts have been allocated to their appropriate category.

<sup>1</sup>Includes shares below threshold.

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

Source: Thomson Financial.

# Notice of Meeting

Notice is hereby given that the thirty-seventh Annual General Meeting of JPMorgan Mid Cap Investment Trust plc will be held at the The Salters' Hall, 4 Fore Street, London EC2Y 5DE on 18th November 2009 at 12.00 noon for the following purposes:

- 1 To receive the Directors' Report, the Annual Accounts and the Auditors' Report for the year ended 30th June 2009.
- 2 To approve the Directors' Remuneration Report for the year ended 30th June 2009.
- 3 To approve a final dividend.
- 4 To re-elect John Emly as a Director of the Company.
- 5 To re-elect Andrew Barker as a Director of the Company.
- 6 To re-appoint Ernst & Young LLP as auditors to the Company and to authorise the Directors to determine their remuneration.

## Special Business

To consider the following resolutions:

### Authority to repurchase the Company's shares – Special Resolution

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

PROVIDED ALWAYS THAT

- (i) the maximum number of shares hereby authorised to be purchased shall be 3,796,919 or, if less, that number of shares which is equal to 14.99% of the Company's issued share capital as at the date of the passing of this Resolution;
- (ii) the minimum price which may be paid for a share shall be 25p;
- (iii) the maximum price which may be paid for a share shall be an amount equal to the highest of (a) 105% of the average of the middle market quotations for a 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 share is purchased or (b) the price of the last independent trade; or (c) the highest current independent bid;

- (iv) any purchase of shares will be made in the market for cash at prices below the prevailing net asset value per share (as determined by the Directors) at the date following not more than seven days before the date of purchase;
- (v) the authority hereby conferred shall expire on 17th May 2011 unless the authority is renewed at the Company's Annual General Meeting in 2010 or at any other general meeting prior to such time; and
- (vi) the Company may make a contract to purchase shares under the authority hereby conferred prior to the expiry of such authority and may make a purchase of shares pursuant to any such contract notwithstanding such expiry.

### Authority to reissue shares from Treasury – Special Resolution

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

- (i) up to an aggregate nominal amount of £623,792, representing approximately 10% of the total share capital in issue as at the date of the passing of this resolution;
- (ii) the reissue of shares which immediately before such reissue, were held by the Company as treasury shares; and
- (iii) such number of shares and such reissue prices that, in the year to the Company's 2010 Annual General Meeting, the aggregate dilution associated with all the reissues does not exceed 1.8 pence per share, being approximately 0.5% of the net asset value per share at 30th June 2009.

# Notice of Meeting continued

## **Authority to disapply pre-emption rights on sale of shares from Treasury – Special Resolution**

9 THAT subject to the passing of resolution 8 set out above, the Directors of the Company be and they are hereby empowered pursuant to Section 573 of the Act to allot (within the meaning of Section 560(2)(b) of the Act) equity securities (within the meaning of Section 560(1) of the Act) wholly for cash as if Section 560(1) of the Act did not apply to any such sale, provided that this power shall be limited to the allotment (within the meaning of Section 560(2)(b) of the Act) of equity securities for cash out of Treasury up to an aggregate nominal amount of £632,792, representing approximately 10% of the Company's total share capital in issue as at the date of the passing of this resolution and shall expire on 17th May 2011 unless the authority is renewed at the Company's Annual General Meeting in 2010 or at any other general meeting prior to such time.

## **Adoption of new Articles of Association – Special Resolution**

10 THAT

- (i) the Articles of Association of the Company be amended by deleting all the provisions of the Company's Memorandum of Association which, by virtue of Section 28 of the Companies Act 2006, are to be treated as provisions of the Company's Articles of Association; and
- (ii) the Articles of Association produced to the meeting and initialled by the chairman of the meeting for the purpose of identification be adopted as the new Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.

By order of the Board  
Andrew Norman, for and on behalf of  
JPMorgan Asset Management (UK) Limited,  
Secretary  
9th October 2009

## **Notes**

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

1. A member entitled to attend and vote at the Meeting may appoint another person(s) (who need not be a member of the Company) to exercise all or any of his rights to attend, speak and vote at the Meeting. A member can appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him.
2. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Your proxy could be the Chairman, another Director of the Company or another person who has agreed to attend to represent you. Details of how to appoint the Chairman or another person(s) as your proxy or proxies using the proxy form are set out in the notes to the proxy form. If a voting box on the proxy form is left blank, the proxy or proxies will exercise his/their discretion both as to how to vote and whether he/they abstain(s) from voting. Your proxy must attend the Meeting for your vote to count. Appointing a proxy or proxies does not preclude you from attending the Meeting and voting in person. If you attend the Meeting in person, your proxy appointment will automatically be terminated.
3. Any instrument appointing a proxy, to be valid, must be lodged in accordance with the instructions given on the proxy form.
4. You may change your proxy instructions by returning a new proxy appointment. The deadline for receipt of proxy appointments also applies in relation to amended instructions. Any attempt to terminate or amend a proxy appointment received after the relevant deadline will be disregarded. Where two or more valid separate appointments of proxy are received in respect of the same share in respect of the same Meeting, the one which is last received (regardless of its date or the date of its signature) shall be treated as replacing and revoking the other or others as regards that share; if the Company is unable to determine which was last received, none of them shall be treated as valid in respect of that share.
5. To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members as at 6.00 p.m. two days prior to the Meeting (the 'specified time'). If the Meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original Meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned Meeting. If however the Meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members as at 6.00 p.m. two days prior to the adjourned Meeting or, if the Company gives notice of the adjourned Meeting, at the time specified in that notice. Changes to entries on the register after this time shall be disregarded in determining the rights of persons to attend or vote at the Meeting or adjourned Meeting.

6. Entry to the Meeting will be restricted to shareholders and their proxy or proxies, with guests admitted only by prior arrangement.
7. A corporation, which is a shareholder, may appoint an individual(s) to act as its representative(s) and to vote in person at the Meeting (see instructions given on the proxy form). In accordance with the provisions of the Companies Act 2006, each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative.  
Representatives should bring to the Meeting evidence of their appointment, including any authority under which it is signed.
8. Members that satisfy the thresholds in Section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to (a) the audit of the Company's accounts (including the Auditors' report and the conduct of the audit) that are to be laid before the AGM; or (b) any circumstances connected with Auditors of the Company ceasing to hold office since the previous AGM, which the members propose to raise at the Meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement placed on the website must also be sent to the Company's Auditors no later than the time it makes its statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required to publish on its website pursuant to this right.
9. Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the Meeting except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the Meeting or if it would involve the disclosure of confidential information.
10. Under sections 338 and 338A of the 2006 Act, members meeting the threshold requirements in those sections have the right to require the Company (i) to give, to members of the Company entitled to receive notice of the Meeting, notice of a resolution which those members intend to move (and which may properly be moved) at the Meeting; and/or (ii) to include in the business to be dealt with at the Meeting any matter (other than a proposed resolution) which may properly be included in the business at the Meeting. A resolution may properly be moved, or a matter properly included in the business unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise); (b) it is defamatory of any person; or (c) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person(s) making it and must be received by the Company not later than the date that is six clear weeks before the Meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.
11. A copy of this notice has been sent for information only to persons who have been nominated by a member to enjoy information rights under Section 146 of the Companies Act 2006 (a 'Nominated Person'). The rights to appoint a proxy can not be exercised by a Nominated Person: they can only be exercised by the member. However, a Nominated Person may have a right under an agreement between him and the member by whom he was nominated to be appointed as a proxy for the Meeting or to have someone else so appointed. If a Nominated Person does not have such a right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.
12. In accordance with Section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM, the total voting rights members are entitled to exercise at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website [www.jpmergingmarkets.co.uk](http://www.jpmergingmarkets.co.uk).
13. The register of interests of the Directors and connected persons in the share capital of the Company and the Directors' letters of appointment are available for inspection at the Company's registered office during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted). It will also be available for inspection at the Annual General Meeting. No Director has any contract of service with the Company.
14. You may not use any electronic address provided in this Notice of Meeting to communicate with the Company for any purposes other than those expressly stated.
15. As at 9th October 2009 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 25,311,680 Ordinary shares (excluding treasury shares) carrying one vote each. Therefore the total voting rights in the Company are 25,311,680.

#### **Electronic appointment – CREST members**

CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. See further instructions on the proxy form.

# Appendix

The Companies Act 2006 (the '2006 Act'), which is replacing the Companies Act 1985 (the '1985 Act') has been implemented in stages but is fully in force from 1st October 2009. In addition, the Shareholders' Rights Regulations which amend certain provisions of the 2006 Act relating to meetings of the Company came into force in August 2009. Under Resolution 10, the Company is adopting new Articles of Association (the 'Articles') which will reflect the changes in company law brought about by the Shareholders' Rights Regulations and by the provisions of the 2006 Act which came into effect on or before 1st October 2009. The Articles also include some other modernising and clarifying amendments, including, where appropriate, adopting the wording of the new model form articles for public companies contained in Schedule 3 to the Companies (Model Articles) Regulations 2008 (the 'model form articles'), which are replacing the Table A articles under the 1985 Act on which many of the Company's current articles are based. Set out below is a summary of the principal changes.

## 1. The Company's objects

The 2006 Act significantly reduces the constitutional significance of a company's memorandum. The provisions governing the operations of the Company are currently set out in both its memorandum of association and its articles of association. Under the 2006 Act, the memorandum no longer contains an objects clause and simply records the names of the subscribers and the number of shares which each subscriber agreed to take in the Company. Under section 28 of the 2006 Act, the objects clause and all other provisions in the memorandum are treated as part of the articles with effect from 1st October 2009 but the Company can remove these provisions by special resolution. Unless the articles provide otherwise, the Company's objects will be unrestricted. The Company is proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the 2006 Act, are treated as forming part of the Company's articles of association as of 1st October 2009. Resolution 10 confirms the removal of these provisions and adopts the new Articles.

## 2. Limited liability (Article 3)

Under the 2006 Act, the memorandum of association also no longer contains a clause stating that the liability of the members of a company is limited. For existing companies, this statement is automatically treated as having moved into the articles on 1st October 2009. As noted in paragraph 1 above, Resolution 10 confirms the removal, from the Company's articles of association, of the provisions of the Company's

memorandum of association which are treated as forming part of the Company's articles of association by virtue of Section 28 of the 2006 Act, which includes the statement of limited liability. An explicit statement of the members' limited liability is therefore included in the new Articles.

## 3. Authorised share capital and unissued shares

The 2006 Act abolishes the concept of authorised share capital and under the 2006 Act, the memorandum of association no longer contains a statement of the Company's authorised share capital. For existing companies, this statement is deemed to be a provision of the Company's articles of association setting out the maximum amount of shares that may be allotted by the Company. The adoption of the new Articles by the Company will have the effect of removing this provision relating to the maximum amount. Directors will still need to obtain the usual shareholders' authorisation in order to allot shares.

References to authorised share capital and to unissued shares have therefore been removed from the new Articles.

## 4. Redeemable shares (Article 5)

Under the 2006 Act, the articles of association need not include the terms on which redeemable shares may be redeemed. The Directors may determine the terms, conditions and manner of redemption of redeemable shares provided they are authorised to do so by the articles. The new Articles contain such authorisation.

## 5. Share certificates (Article 12)

The new Articles contain new provisions for the issue of consolidated share certificates, in line with the model form articles.

## 6. Transfer of shares (Articles 30 and 31)

The provision which gave the ability to suspend the registration of transfers of shares for periods not exceeding 30 days in any one year has been removed from the new Articles as there is no ability under the 2006 Act to close the register.

## 7. Authority to purchase own shares, consolidate and sub-divide shares, and reduce share capital (Article 40)

Under the 1985 Act, a company required specific authorisations in its articles of association to purchase its own shares, to consolidate or sub-divide its shares and to reduce its share capital. Under the 2006 Act, public companies do not require specific authorisations in their articles of association to undertake these actions; but shareholder authority is still required. Amendments have been made to the new Articles to reflect these changes.

#### **8. Participation in meetings at different places and by electronic means (Article 51)**

Amendments made to the 2006 Act by the Shareholders' Rights Regulations specifically provide for the holding and conducting of electronic meetings. The new Articles include amendments to provide greater scope for members to participate in meetings of the Company even if they are not present in person at the principal place where the meeting is being held. The amendments allow for members to participate not only by attendance at satellite meeting locations, but also by any other electronic means of participation.

#### **9. Adjournments (Article 53)**

The Shareholders' Rights Regulations add a provision to the 2006 Act which requires that, when a general meeting is adjourned due to lack of quorum, at least ten days' notice must be given to reconvene the meeting. The new Articles include amendments to the provisions dealing with notice of adjourned meetings to make them consistent with this new requirement.

#### **10. Removal of chairman's casting vote**

Pursuant to changes brought about by the Shareholders' Rights Regulations, a traded company is no longer permitted to allow the chairman to have a casting vote in the event of an equality of votes. Accordingly, this provision has been removed in the new Articles.

#### **11. Voting rights (Article 62)**

The Shareholders' Rights Regulations clarify the various powers of proxies and representatives of corporate members in respect of resolutions taken on a show of hands. Where a proxy has been duly appointed by one member, he has one vote on a show of hands unless he has been appointed by more than one member in which case the proxy has one vote for and one vote against if the proxy has been appointed by more than one member to vote for the resolution and by more than one member to vote against the resolution. Where a corporate member appoints representatives to attend meetings on its behalf, each representative duly appointed by a corporate member has one vote on a show of hands. The new Articles contain provisions which clarify these rights and also clarify how the provisions giving a proxy a second vote on a show of hands should apply to discretionary powers.

#### **12. Voting record date (Article 63)**

The new Articles include a new provision which was not previously in the Company's articles of association, dealing with the method for determining which persons are allowed to attend or vote at a general meeting of the Company and how

many votes each person may cast. Under this new provision, when convening a meeting the Company may specify a time, not more than 48 hours before the time of the meeting (excluding any part of a day that is not a working day), by which a person must be entered on the register of members in order to have the right to attend or vote at the meeting. This new provision is in line with a requirement for listed companies introduced by the Shareholders' Rights Regulations.

#### **13. Validity of votes (Article 67)**

Following the implementation of the Shareholders' Rights Regulations, proxies are expressly required to vote in accordance with instructions given to them by members. The new Articles contain a provision stating that the Company is not required to enquire whether a proxy or corporate representative has voted in accordance with instructions given to him and that votes cast by a proxy or corporate representative will be valid even if he has not voted in accordance with his instructions.

#### **14. Termination of proxy authority (Article 73)**

Article 73 provides that the termination of a proxy's authority should be in writing as this is required by the Shareholders' Rights Regulations.

#### **15. Corporate representatives (Article 75)**

The new Articles provide that the Company can require a corporate representative to produce a certified copy of the resolution appointing him before permitting him to exercise his powers.

#### **16. Retirement of directors by rotation (Articles 81 and 82)**

The new Articles have been redrafted in order to make it clearer and to ensure (as far as possible) a regular number of retiring directors each year, with the number to retire being the number nearest to one-third of the board. Article 81 continues to comply with Combined Code provision A.7.1 which recommends that all directors should be subject to re-election at intervals of no more than three years. New Article 82 requires any non-executive director (other than the chairman) who has held office for nine years or more to put himself up for re-election at each annual general meeting. This is in line with Combined Code provision A.7.2.

#### **17. Alternate directors (Articles 88, 90 and 94)**

Article 88 now clarifies that an alternative director is entitled to be paid expenses (but not directors' fees). Article 90 is a new provision which effectively applies the provisions of Article 86, regarding removal of directors, to alternate

# Appendix continued

directors. Article 92(c) makes it clear that an alternate is subject to the same restrictions as the director who appointed him.

## 18. Borrowing powers (Article 94)

A number of presentational and descriptive amendments have been made to the borrowing powers provision:

- (i) Article 94(1)(a) – a reference has been added to amounts “credited as paid up” on share capital to clarify that these should be included as well as amounts actually paid up.
- (ii) Article 94(1)(b) – this has been amended to refer to total of “any credit balance on the distributable and undistributable reserves of the Group”, to clarify that all reserves of the Group will be relevant for the calculation and to reflect the language used by those preparing the accounts. The reference to “including share premium account, capital redemption reserve and credit balance on the profit and loss account reserve” has therefore been deleted.
- (iii) Article 94(1) – the last paragraph has been amended to allow the company also to adjust for variations in its capital redemption reserve since the balance sheet date as the directors may reasonably consider to be appropriate.
- (iv) Articles 94(1)(a) and 94(3)(e) – additional wording has been included to clarify how any preference shares that might be issued should be treated for the purposes of the borrowing powers. Under IFRS and UK GAAP preference shares are now treated as a debt on a company’s balance sheet, rather than equity. The additional wording included in Articles 94(1)(a) and 94(3)(e) reflects this accounting treatment. The effect of this wording is to *exclude* the amount of any preference share capital from the calculation of the Company’s share capital and reserves and to *include* such amount in the calculation of the Company’s borrowings.

## 19. Delegation to persons or committees (Article 95)

Article 95 follows the new, simplified approach to delegation adopted in the model form articles, allowing the directors to delegate as they decide appropriate.

## 20. Directors’ appointments, interests and conflicts of interest (Article 100)

Article 100, which is the provision for dealing with conflicts in our current articles, allowing directors to be interested in transactions and to be an officer of or employed by or interested in a body corporate in which the company is interested provided that he has disclosed his interest in

accordance with the articles and the provisions of the Acts, has been amended so that it contains provisions relating to confidential information, attendance at board meetings and availability of board papers to protect a director from being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict falls within the situations covered by Article 100.

## 21. Procedures regarding board meetings & resolution in writing (Articles 102 & 105)

The provisions of Article 102 have been amended to make it clear that notice of a board meeting may be given personally, by telephone, in hard copy or in electronic form. The requirements for giving notice to directors who are not in the United Kingdom have also been clarified. In order to clarify the procedure for written resolutions of directors, Article 105 has been amended so that, rather than referring to a resolution in writing by all directors, a resolution in writing will be valid and effectual as if it had been passed at a meeting if executed by all the directors entitled to receive notice of the meeting and who would have been entitled to vote (and whose vote would have been counted) on a resolution at a meeting.

## 22. Quorum (Article 106)

The proposed amendment to Article 106, which deals with the quorum requirement for board meetings, clarifies that a director cannot count in the quorum for a matter or resolution on which he is not entitled to vote (or when his vote cannot be counted) but he may count in the quorum for the other matters or resolutions to be considered or voted on at the meeting.

## 23. Permitted interests and voting (article 107)

Article 107 has been amended to allow a director to vote on a resolution which relates to giving him an indemnity or funding for expenditure incurred in defending proceedings provided all the other directors have been given or are to be given arrangements on substantially the same terms. This exception has become a common exception for listed companies to include.

## 24. The seal (Articles 136 and 137)

Article 136 provides that instruments (other than share certificates) to which the seal is affixed shall be signed by one authorised person in the presence of a witness, whereas previously the requirement was for signature by either a director and the secretary or two directors.

# Glossary of Terms

## **Return to Shareholders**

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

## **Return on Net Assets**

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

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

## **Benchmark Return**

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

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

## **Net asset value per share assuming the reissue of Treasury shares**

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

## **Actual Gearing Factor**

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

## **Total Expense Ratio (TER)**

Management fees and all other operating expenses excluding interest and VAT recoverable, expressed as a percentage of the average of the opening and closing net assets.

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

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

## **Performance Attribution**

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

## **Performance Attribution Definitions:**

### **Stock/Sector Selection**

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

### **Gearing/Cash**

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

### **Fees/Other Expenses**

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

### **VAT Recovery**

In 2007, HM Revenue & Customs announced acceptance that VAT was not chargeable on investment trust management fees. The Company has since been able to recover VAT and interest thereon on management fees paid in the past.

### **Share buy-backs into Treasury**

Measures the effect on relative performance of decreasing the number of shares used for the purpose of calculating the NAV per share.

### **Residual**

Arises when there is a divergence between total return as calculated by Morningstar and total return from JPMAM attribution systems which is a result of different methodologies and timing differences.

# Notes

# Information about the Company

## Financial Calendar

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

## History

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

## Company Numbers

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

## Market Information

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

## Website

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

## Share Transactions

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

## Manager and Company Secretary

JPMorgan Asset Management (UK) Limited

## Company's Registered Office

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

Please contact Andrew Norman for company secretarial and administrative matters.

## Registrars

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

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

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

## Savings Product Administrators

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

## Auditors

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

## Brokers

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

**aic**

The Association of  
Investment Companies

A member of the AIC

JPMorgan Helpline  
Freephone 0800 40 30 30 or 020 7742 9999  
8.30 am to 6.00 pm Monday to Friday

Your telephone call may be recorded for your security

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