15543

JPMorgan Fleming

Asset Management

JPMorgan Fleming American Investment Trust plc

ANNUAL REPORT & ACCOUNTS YEAR ENDED 31st DECEMBER 2003

Results.

+17.3%

Share price total return[1]

(2002: -42.1%)

+17.8%

Net asset value total return[2]

(2002: -35.7%)

+15.3%

Benchmark Index total return[3,4]

(2002: -29.8%)

6.80p

Dividend

(2002: 4.80p)

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

[2] Change in net asset value per share with net dividends (if any) reinvested.
(Source: AITC/Fundamental Data).

[3] Change in value with net dividends (if any) reinvested.
(Source: Standard & Poor's – www.funds-sp.com).

[4] The Company's benchmark is the S&P 500 Composite Index in sterling terms. This 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 'track' this benchmark and, consequently, there may be some divergence between its performance and that of the Company.

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Chairman's Statement

Hamish Buchan CHAIRMAN

I am pleased to introduce the 2003 Annual Report to shareholders. I became Chairman of your Company in April 2003 and would like to thank my predecessor, Nicholas Cosh, for his 20 years of valuable service to the Company. Last year was a busy one for the Company with some recovery in asset values and the appointment of two new members to the Board. I look forward to representing shareholders and hope to meet with many of you at the Annual General Meeting to be held on 23rd April 2004.

Investment Performance[1]

After nearly three years of declining asset values, 2003 reversed the bear market trend with stock markets in all the major economies showing positive returns. The S&P 500 Composite Index produced a return of 15.3% in sterling terms and both the Company's net asset value and share price rose by more than that figure. The early months of 2003 saw falls in the US equity markets as investors grew wary about the prospects of war in Iraq. From mid March onwards the speedy resolution of the major conflict in the Middle East coupled with extremely strong GDP growth in the US led the market to surge ahead for the remainder of the year.

Over the year, the Index rose by 28.2% in US$ and the Company's net asset value increased by 31.0%. For UK investors the weakness of the US$ meant that returns were reduced by 10.1%. The dollar began 2003 at a rate of 1.61 to Sterling and ended at 1.79. A currency hedge has been in place since 30th November 2000 to protect against any currency fluctuations in respect of the Company's existing £50 million debenture.

Your Company's net asset value rose by 17.8% in total return terms and the outperformance was attributable to strong returns from the smaller companies portfolio together with the effect of gearing, share buybacks and the currency hedge on our £50 million debenture. The larger companies portfolio underperformed the benchmark index due to the investment manager remaining committed to his policy of investing in larger, blue chip growth companies at a reasonable price. Your Board is supportive of this policy and believes that, as the economic recovery extends and deepens, these types of companies should regain their attractions to investors and produce sustained good returns. Full details of the activities of the Investment Managers are set out in their report on pages 6 to 10.

Gearing

The Company's gearing is managed on an active basis with the Board of Directors setting the overall strategic policy and guidelines. At present

[1]All figures calculated on a total return basis.

there is an upper limit of 20% of shareholders' funds and this can only be altered with Board consent.

During the year a US$40 million fixed loan matured and was repaid. Your Board with its managers reviewed the Company's gearing facilities and in August 2003 a new US$20 million flexible loan was arranged. Together with the existing £50 million debenture this provides the Company with potential gearing facilities of up to 19% of shareholders' funds at the year end. Due to the levels of cash held at the year end, the new facility was undrawn and the Company's net gearing level was 10.8% of shareholders' funds.

The active use of gearing, together with the appreciation of the currency hedge, contributed 3.7% towards the Company's overall return.

Investment Manager

The Company's objective is to provide Shareholders with capital growth from North American investments. During the year your Board has thoroughly reviewed the capabilities of the Investment Manager to assess whether JPMorgan Fleming Asset Management is the most appropriate manager of the Company's portfolio. In addition to the normally scheduled Board meetings, your Directors have engaged in extensive strategy and investment meetings with the named investment managers and their colleagues and we have been satisfied with the results achieved. Additional disciplines have been introduced to assist in decision making when the Board is considering gearing levels, risk management, tracking error and asset allocation. In addition, a new peer group has been established for comparative purposes. This new group includes large US listed closed-end funds, comparable unit trusts and OEICs. This is necessary as the Company has no directly comparable UK listed investment trusts in this sector. We now have concluded that the ongoing appointment of the existing Investment Manager is in the best interests of shareholders. These reviews will continue on an annual basis at which a determination as to the continuing appointment of the Investment Manager will be made.

Revenue Account and Dividends

Earnings per share for the year were 6.41p compared with 4.75p per share in 2002. This was mainly due to there being no tax allocation to the capital account because of the requirements of the new statement of recommended practice ('SORP') (please refer to note v. Taxation on page 39 for further details). The Company's policy is to distribute substantially all the available income and therefore the Board is proposing that a dividend of 6.80 pence per share (2002: 4.80p) be paid on 4th May 2004 to shareholders on the register on 2nd April 2004.

The earnings per share figure for the year is calculated on the average weekly shares in issue.

“. . . While we do not expect the gains to be as large as those in 2003 due to higher market valuations, decelerating profits growth and prospects for higher interest rates, the outlook for 2004 remains positive. . .”

Due to the timing of share repurchases during the year the earnings per share figure appears lower than our proposed final dividend. I can however confirm that the final dividend will be paid entirely out of earnings for the year.

Share Repurchases and Treasury Shares

The Company's shares continued to trade at a discount to net asset value during the year. The trading range was between 6.0% and 12.6%. Shareholders have granted the authority to allow the Company to repurchase up to 14.99% of the Ordinary Shares in issue and during the year 5,347,361 Ordinary Shares (9.1%) were repurchased at an average discount of 9.6%. The total cost of these repurchases was £26.9 million and this activity enhanced the net asset value by £2.8m, which is equivalent to an additional 1.0% in performance terms. At the Annual General Meeting Shareholders will be requested to allow the Company to continue the authority to repurchase shares.

Your Company has noted that legislation has now been passed that would allow the Company to seek Shareholder approval to hold Ordinary Shares in treasury with a view to either subsequent re-issue or cancellation. The Board has debated whether this matter should be included at this year's Annual General Meeting and has concluded that it is not yet appropriate to seek Shareholder approval to hold shares in treasury. This matter is being kept under review and we may revert to Shareholders at an appropriate time.

The Board

It is with deep regret that the Board learned of the death of Roger Palmer on 6th March 2004. Roger had been a Director of the Company since February 1998 and made a valuable contribution. The Board will miss his wise counsel.

Nicholas Cosh retired as Chairman and Director in April 2003 and the Board appointed an independent recruitment consultancy firm to assist in finding additional suitably qualified Directors. I am pleased to report that James Fox and James Williams were appointed to the Board in July 2003 and that they have already been valuable contributors to Board discussions. Both have considerable experience in the fund management industry and have worked directly in the US equity investment sector. At the forthcoming Annual General Meeting they will stand for re-election as is required under the Company's Articles of Association.

Your Board is cognisant of the revisions that have been made to the Combined Code and the AITC Code™ on Corporate Governance. After an extensive review, your Board intends to adopt procedures that will ensure that the principles of the revised Codes are put into place.

In respect of the Board of Directors, it has been agreed that those Directors who have served for a period greater than nine years from initial appointment will submit themselves for annual re-election. At this year's Annual General Meeting, therefore, Iain Saunders will submit himself for re-election, and annually thereafter. Iain Saunders has an extensive knowledge of the US market and has many years of experience in the affairs of investment companies and I believe his re-appointment will be of significant benefit to the Company.

An amendment to the Articles of Association has been included in the special business of the Annual General Meeting. This is a technical amendment to ensure that Directors submit themselves for re-election at least once every three years, and annually if they have served on the Board for a period exceeding nine years.

The Board has recently reviewed the level of Directors' fees paid and have agreed that fees should increase with effect from 1st May 2004. Remuneration levels for Directors have been unchanged since 1999 and the regulatory demands on Directors have increased substantially over that period. The Chairman's fee will rise to £30,000 per annum and the fees of the other Directors will increase to £20,000 per annum. The Chairman of the Audit Committee will receive an additional fee of £3,000 per annum to reflect the additional work undertaken. It is the Board's current intention not to review the fee levels again until 2007. Full details are set out in the Directors' remuneration report on page 30.

Shareholders will be requested to approve an increase in the aggregate level of Directors' fees payable at the Annual General Meeting. Your Board believes that it is important to set fee levels at an appropriate rate to retain and attract high calibre individuals to supervise the affairs of the Company.

Outlook

Last year turned out to be the classic recovery year with a rapid acceleration of profits growth, translating into very positive share price gains. Looking forward, we should continue to see positive developments in the US with the domestic economy firmly in recovery mode, interest rates remaining at historically low levels, benefits from the tax cuts increasing consumer's take home income and the decline of the US dollar, relative to the Euro and Yen, helping to boost profits growth. While we do not expect the gains to be as large as those in 2003 due to higher market valuations, decelerating profits growth and prospects for higher interest rates, the outlook for 2004 remains positive. We are anticipating better performance from the larger company part of our portfolio as we expect the overall rate of profits growth to slow, which should benefit larger, more stable companies. We will continue to utilise our valuation models to help us determine the most appropriate asset mix of large companies versus small companies, the extent to which we use our gearing and to monitor the tracking error.

Hamish Buchan
Chairman 11th March 2004

Investment Managers' Report

Garrett Fish INVESTMENT MANAGER

Tim Parton INVESTMENT MANAGER

Market Review

It was a rewarding year for the Company as markets had a strong recovery and the Company's net asset value ('NAV') outperformed the S&P 500 benchmark by a healthy margin of 2.5% (see table opposite). The three main drivers of the outperformance were the use of gearing, the allocation to small capitalisation companies and the effect of buying in shares. The large capitalisation portion of the Company did, however, detract from performance, as the Company is invested in high quality, blue chip type companies and this segment of the market, in the early stages of an economic recovery, tends to trail other more highly leveraged areas. Furthermore, the share buyback program was utilised during the year and this added to performance as the Company continued to purchase shares at a discount to the NAV.

2003 proved to be the year where the riskiest assets performed the best. If looked at by several measures: quality, market capitalisation, dividend yield and beta[1], the riskier the segment of the market the higher the performance. While not wholly uncharacteristic to have lower quality, higher beta[1] companies lead during a period of economic recovery, we believe that the balance has now reversed.

To put some of the information into US$ total return numbers, the 100 riskiest stocks, as defined by beta[1], climbed 52% for the year while the 100 least risky (the lowest beta[1]) increased by only 11%. The S&P 500 Composite Index itself rose by 28.2%.

The following table provides a breakdown, relative to the benchmark, of the contributions to total return.

Performance attribution for the year to 31st December 2003

	1 Year %
Net asset value total return (in sterling terms)	17.8
Benchmark total return (in sterling terms)	15.3
Relative return	2.5
Analysis of relative return	
Large cap portfolio	−2.6
Small cap portfolio	1.0
Gearing/Cash effect/Debenture hedging	3.7
Buybacks/Issues	1.0
Management fee and other expenses	−0.8
Residual item	0.2
Total	2.5

Source: *Frank Russell/JPMFAM/Fundamental Data/AITC.*

Definitions

Performance attribution: *Analyses how the Company achieved its recorded performance relative to its benchmark.*

Gearing/Cash effect/Debenture hedging: *Measures the impact of returns on borrowings or cash balances, cash substitutes and effects of currency hedges on the Company's relative performance.*

Buybacks/Issues: *Measures the net effect on relative performance of decreasing and increasing the number of shares in issue.*

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

Residual item: *Arises when there is a divergence between total return as calculated by the AITC/Fundamental Data, and total return as calculated by the attribution generating system. This is a result of methodology differences with respect to the treatment of income and cashflows, and timing differences.*

[1]Beta describes the sensitivity of a fund's return to the return of the market portfolio. The market has a beta of 1.0 as it moves in line with itself. A more aggressively positioned portfolio has a beta of greater than 1.0 so that if the market rises as expected, the fund will rise more than the market – a higher beta means higher potential returns, but also higher risk. A fund manager positions the portfolio with a beta of less than 1.0 if he thinks the market may fall so that the fund falls less than the market – a lower beta means lower expected returns, but also lower risk.

Furthermore the 100 highest dividend paying stocks in the S&P 500 lagged the rise in the index by more than 11% while the 129 stocks that do not pay a dividend rose on average more than 22% greater than the index. Lastly the 100 smallest capitalisation stocks in the S&P 500 rose 30% more than the index for the year while the 100 largest capitalisation stocks lagged the index by approximately 5%.

The year began with continued investor angst regarding corporate accounting scandals and increasing rhetoric regarding Iraq. The markets reached their lowest point for the year in early March, shortly before military action began. After initial fears of the use of guerilla tactics and the ensuing brutal ground campaign dissipated, the markets began to move higher from these depressed levels. The VIX index, which reflects a market estimate of future volatility, reached a level seen only a few times in the prior five years. When there is a high degree of uncertainty regarding the outlook for the markets the VIX index will be greater than 30 and in the early March the index nearly reached 35. By way of reference it ended the year below 18.

A further boost to the market was the passing of the tax relief programmes that lowered the top tax rate for US residents on long-term capital gains and dividends to 15%. The highest tax rate for dividends was as high as 39.6% before these new levels. This helped spur many companies to either initiate the payment of dividends for the first time or to increase the proportion of earnings paid out as dividends. While advantageous to the individual investor with lower tax rates, the share prices of the highest dividend yielding stocks lagged those with low or no dividends.

In June the Federal Reserve, in its only interest rate move for the year, lowered its target rate to 1%. The Federal Reserve lowered the rate to ensure that the unfolding economic recovery would strengthen as the year progressed. While interest rates were at their lowest rates since 1958 the inflation outlook continued to be very muted. The inflation rate for the year was only 1.1% and this was the lowest since 1960.

With inflation and interest rates low, consumers and businesses alike took the opportunity to refinance debt at much more attractive rates. The average 30-year mortgage rate hit a forty five year low of 5.21% in June. These rates helped propel new home sales to a record 6.1 million units, breaking the previous year's record high of 5.6 million units. Heavily indebted companies which were severely hurt due to the recent recession and weak equity markets were given a reprieve as investors' appetite for risk increased. This allowed companies to refinance at much lower rates and save on interest costs which, coupled with an improving economic outlook, led shares to respond very positively.

Economic and earnings growth, driven by robust productivity gains, led markets to finish the year on a very positive note.

As we look out to the year ahead we believe we will see a shift in the market to the high quality, large cap companies where we are well positioned to capture performance going forward. After the period of rapid earnings acceleration that we have just experienced, the outlook for the coming year, while still positive, is not as positive as 2003. This should favour our large cap style of high quality, financially sound growth companies at reasonable prices. We will continue to monitor the pace of the recovery and earnings growth rates to appropriately shift the assets of the Company to achieve the desired performance.

Large Companies' Portfolio

As mentioned in the Market Review, the market environment was not conducive to the large cap, blue chip growth at a reasonable price focus that we have utilised over the years. The biggest detractor from performance was our underweighting in the technology sector where we reduced our holdings early in the rally as their valuations started to look expensive relative to their historical rating. In some momentum driven sub-sectors, such as semiconductors, the earnings rebound contributed to substantial share price gains. We have remained underweight in cyclical technology leaders such as **Intel** and **Cisco** but continue overweight in **Microsoft**. We believe Microsoft is more attractively valued on forward prospects and its balance sheet remains extremely strong. Furthermore, Microsoft initiated an annual dividend during the year to distribute some of its US$50 billion cash pile to shareholders. While the technology sector overall was the largest detractor from performance for the year, two of the Company's top performers for the year were in this sector. **Qualcomm** performed very well as its proprietary wireless technology, based on the Code Division Multiple Access (CDMA), continues to gain market share in the US and Asia. Furthermore as the wireless industry moves closer to third generation (3G) applications, Qualcomm stands to benefit as their technology is better suited to these bandwidth intensive applications. The other strong performer in the technology sector for the year was **Lexmark**, one of the world's largest designers and manufacturers of printers. Lexmark continues to gain market share through its innovative designs and features and is benefiting from the very favourable economics in the inkjet and laser refill category. We added more shares of Lexmark during the year as the shares were weak after the second quarter earnings release, due to temporary weakness in the sales of new printers.

We were underweight in the utilities sector for the year and this also detracted from performance as several companies, which were on the verge of bankruptcy in 2002 and early 2003, were granted a reprieve due to investors' appetite for high yield bonds. Many distressed companies were able to refinance high cost debt at much lower rates. On the positive side, our holdings in the capital goods sector did very well for us. We continued to hold overweight positions in **United Technologies** and **Tyco** and added **General Dynamics** early in the year when its shares came under pressure due to weakness in the corporate aircraft market. General Dynamics owns Gulfstream Aircraft, a leader in corporate aircraft and specialty mission aircraft. Other major divisions are Marine, which manufactures ships and nuclear submarines, Combat Systems, which manufactures armoured vehicles and finally the Information Systems and Technology Group which designs, tests and manufactures secure communications networks and other command and control systems. Tyco, despite the overhang from the very public press coverage of its prior management's escapades and personal dealings, managed to have a very strong year as the new management team continue to focus on restoring the balance sheet and operational effectiveness. United Technologies, a long term holding of the Company, turned in another very strong year as management continued to drive for margin improvement in all of its main business lines: aircraft engines, aerospace systems, lifts/escalators and air conditioning units. During the year United Technologies completed the purchase of the UK based Chubb, adding to its portfolio of commercial and residential security systems.

During the year we continued to look for attractive new purchases as well as to add to our existing holdings if an opportunity presented itself. Two new holdings added during the year were **Mattel** and **Affiliated Computer Services (ACS)**. Mattel designs, manufactures and markets various toy products throughout the world. Its best-known product is the Barbie line of dolls as well as Fisher Price toys. The shares were beaten down during the year as concerns were felt over competition from a newer line of dolls. This provided an opportunity to purchase the shares near a multi-year valuation low. Mattel has a very strong management team, solid balance sheet and has substantially increased its dividend. ACS competes in the business process outsourcing (BPO) and information technology (IT) outsourcing sectors. It continues to gain market share through its innovative solutions and the increasing move by commercial and government sectors to outsource their systems to companies that can manage them more efficiently.

The three largest positions sold from the portfolio during the year were **PNC Financial Service Group (PNC), Brown Forman** and **The Hartford Financial Services Group**. All three were sold on the grounds that their valuations had reached the upper limits of their relative valuation bands and we felt it was prudent to sell our holdings and redeploy the assets elsewhere. PNC, a regional bank and asset manager, was sold later in the year as the shares recovered from earlier SEC investigations into the accounting treatment of some securities in its portfolio. Brown Forman is a producer and marketer of consumer products, including Jack Daniels whiskey, Bolla wines, Lenox tableware and Hartmann luggage, and was sold after the company completed an auction for its shares. Subsequently the shares rallied with improving results. As you may recall from last year's annual report we highlighted The Hartford as one of the stocks we sold during the 2002 calendar year because we thought the shares were overvalued. In early 2003 the shares retreated to a level where we thought they were attractive and purchased shares in this stock once more. The shares then began to rise as the variable annuities business recovered and we eventually sold the shares as the improved prospects were reflected in the share price.

Small Companies' Portfolio

The smaller companies' portfolio made a strong contribution to performance in 2003. Following the three year bear market, it was not surprising that the greatest potential for recovery resided among the smallest companies, where many were valued as if destined for bankruptcy. This played out in a script which had many similarities to 1991: both years marked recovery from recession and began with war in the Gulf, and in both years small cap stocks appreciated by more than forty percent. Technology was the best performing sector, but really the gains were very broadly spread. The very smallest companies did best, and in this regard the Company's exposure to the JPMorgan Fleming America Microcap Fund, which appreciated by more than fifty percent, was beneficial. Most active managers struggled to perform as the market rotated from safe, defensive, high quality companies, in favour of lower quality, sometimes unprofitable companies with balance sheet issues. The reopening of the capital markets allowed some such balance sheets to be repaired, including a deluge of low cost convertible debt offerings earlier in the year.

At the end of 2002 we implemented new procedures to more actively manage the Company's exposure to smaller companies. As a result, between zero and eleven percent of the Company's assets may now be invested in small growth companies, with the weighting determined by their relative valuation against large companies. In addition, between zero and four percent may be invested in microcap companies, so that in aggregate a maximum of fifteen percent of the assets may be invested in these two asset classes. In response to the strength of small companies during the year, our model has prompted us to shift assets to the large cap asset class, and we have adopted a neutral posture in the middle of the range. Our analysis confirms that in the proportions prescribed by this refined asset allocation model, the profile of the smaller companies portfolio (small, high growth) complements the profile of the large company portfolio (large, high quality, growth at a reasonable price), to actually reduce the risk of the portfolio versus our benchmark.

After two years in which the hoped for year end recovery did not transpire, it finally did materialise in 2003. The key impact for investors was that business confidence began to recover, visibility of revenues and earnings began to improve and a long awaited recovery in capital spending hesitantly commenced. This has powerful implications in many sectors, not least technology, where costs have been slashed dramatically, a lot of competition and capacity has disappeared, and there appears to be considerable pent up demand. As usual, the persistent slide in prices of technology products, a reflection of Moore's Law (that the number of transistors on an integrated circuit doubles approximately every eighteen months), has stimulated demand and steadily absorbed the industry's oversupply. Inventories of parts are very lean, and already some shortages have become apparent. Although in many cases the market has anticipated this recovery, a further leg up is likely if earnings continue to exceed expectations. If 2004 follows the model described by 1992, we would expect to see further, but more modest gains, with smaller companies continuing to outperform.

Garrett Fish
Timothy Parton 11th March 2004
Investment Managers

Report & Accounts.

Facts.

OBJECTIVE

Capital growth from North American investments.

POLICIES

- To invest in US companies including, when appropriate, exposure to small and micro capitalisation sectors.
- To emphasise capital growth rather than income.
- To use gearing when appropriate to increase potential returns to shareholders; the Company's gearing policy is to operate within a range of 95% to 120% invested.
- To invest no more than 15% of gross assets in other UK listed investment companies (including investment trusts).

BENCHMARK

The S&P 500 Composite Index expressed in sterling terms.

CAPITAL STRUCTURE

- Authorised share capital of 90,904,952 ordinary shares of 25p each, of which 53,396,302 were in issue at the year end.
- £50 million debenture at a fixed rate of 6.875%, repayable in June 2018.
- US$20 million revolving credit facility, currently undrawn.

WIND-UP DATE

The Company has no fixed duration.

MANAGEMENT COMPANY

The Company employs JPMorgan Fleming Asset Management ('JPMFAM') to manage its assets. JPMFAM has established a global presence as a leader in the asset management industry. They manage nearly US$500 billion for their clients worldwide and employ over 780 investment professionals based in 40 different locations.

The US equity management team consists of 66 investment professionals and manages around US$100 billion for their clients worldwide.

AITC

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

Figures.

Summary of Results

	31ST DECEMBER 2003	31ST DECEMBER 2002	
TOTAL RETURN for the year to 31st December			
Return to ordinary shareholders[1]	**+17.3%**	−42.1%	
Net asset value per ordinary share[2]	**+17.8%**	−35.7%	
S&P 500 Composite Index in £[3,4]	**+15.3%**	−29.8%	
ASSETS at 31st December			% CHANGE
Total assets less current liabilities (£'000)	**362,656**	344,644	–
Net assets for ordinary shareholders (£'000)	**313,077**	295,093	–
Net asset value per ordinary share	**586.3p**	502.3p	+16.7
MARKET DATA for year to 31st December			
Market cap. (£'000)	**288,340**	273,158	–
Ordinary share price	**540.0p**	465.0p	+16.1
S&P 500 Composite Index in £ (Capital only)[8]	**621.1**	546.5	+13.7
Exchange rate	**£1=$1.7901**	£1=$1.6099	−10.1
Discount of share price to net asset value	**7.9%**	7.4%	
REVENUE for the year ended 31st December			
Gross revenue (£'000)	**6,168**	6,481	−4.8
Net revenue available for ordinary shareholders (£'000)	**3,629**	2,872	+26.4
Earnings per ordinary share	**6.41p**	4.75p	+34.9
Dividend per ordinary share	**6.80p**	4.80p	+41.7
TOTAL EXPENSE RATIO[5]	**0.51%**	0.53%	
MANAGEMENT FEE[6]	**0.50%**	0.50%	
ACTUAL GEARING FACTOR at 31st December[7]	**110.8**	118.6	

[1] *Change in share price with net dividends reinvested. (Source: Standard & Poor's – www.funds-sp.com).*

[2] *Change in net asset value per share with net dividends (if any) reinvested. (Source: AITC/Fundamental Data).*

[3] *Change in value with net dividends (if any) reinvested. (Source: Standard & Poor's – www.funds-sp.com).*

[4] *The Company's benchmark is the S&P 500 Composite Index in sterling terms. This 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 'track' this benchmark and, consequently, there may be some divergence between its performance and that of the Company.*

[5] *Management fees and all other operating expenses (including tax relief, where allowable, but excluding interest payments) expressed as a percentage of average shareholders funds over the year.*

[6] *If applicable, a performance fee may be payable by the Company. Full details of the management and performance fees are given on page 25.*

[7] *Actual gearing means total investments expressed as a percentage of ordinary shareholders' funds and therefore takes into account the Company's current liquidity and treats holdings in liquidity stocks as cash.*

[8] *Source: Datastream – capital only.*

Ten Largest Investments

at 31st December 2003

Company	Sector	Valuation £'000	%[1]
Pfizer Pfizer Inc. discovers, develops, manufactures and markets medicines. With the acquisition of Warner-Lambert Co. in 2000, Pfizer now ranks as the worlds' largest prescription pharmaceuticals company.	Pharmaceuticals	**14,878**	**4.1**
Citigroup Citigroup is the largest diversified financial services holding company in the world. It provides a broad range of financial services to consumer and corporate customers around the globe. The Company's services include investment banking, retail brokerage, corporate banking, insurance and cash management products and services. With such broadly diversified revenue streams, Citigroup offers earnings and profitability stability well above that of its peers throughout the economic cycle.	Insurance/ financials	**11,238**	**3.1**
Microsoft Microsoft, the dominant player in the PC software market, rose to prominence on the popularity of its operating systems software. The company dominates the business applications software market and has set its sights on becoming the leading provider of software and services for the Internet.	Information technology	**10,524**	**2.9**
General Electric General Electric Company manufactures products for the electricity market. In addition its subsidiary, General Electric Capital Services, offers a variety of financial services. General Electric also owns the National Broadcasting Company (NBC).	Diversified industrials	**10,138**	**2.8**
Exxon Mobil Exxon Mobil operates petroleum and petrochemicals businesses on a worldwide basis. The company's operations include exploration and production of oil and gas, electric power generation and both coal and minerals operations. With substantial scale efficiencies and broadly-diversified reserves and production capabilities, Exxon Mobil are leading the industry.	Oil and gas	**9,655**	**2.7**
IBM Provides customer solutions through the use of advanced information technology.	Information technology hardware	**9,050**	**2.5**
American International Group AIG Inc., through its subsidiaries, provides a variety of insurance and insurance-related services. The company writes property, casualty and life insurance, as well as providing financial services.	Insurance	**8,129**	**2.2**
Johnson & Johnson Johnson & Johnson encompasses three main business lines: a consumer business, a focused pharmaceuticals portfolio and a fast growing medical technologies business. The company continues to generate consistent growth at a reasonable valuation.	Pharmaceuticals	**7,597**	**2.1**
JPMF America Micro-Cap Fund Diversified fund investing in microcap sector of the market, defined as companies under $500m in market cap.	Small company fund	**7,474**	**2.1**
Fleming US Discovery Fund III* A fund investing in the private securities of small public companies.	Small company fund	**7,419**	**2.0**
Total		**96,102**	**26.5**

[1]Based on total assets less current liabilities of £362.7m.

*Unquoted.

Financial Record

As at 31st December	1993[1]	1994	1995	1996	1997	1998	1999[2]	2000	2001	2002	**2003**
Total assets less current liabilities (£m)	273.7	269.5	345.5	344.5	451.3	534.1	601.4	604.7	556.8	344.6	**362.7**
Net assets for ordinary shareholders (£m)	251.1	229.7	344.5	344.5	451.3	534.1	601.4	528.5	479.8	295.1	**313.1**
Net asset value per ordinary share (p)[3]	326.7	299.9	392.1	438.7	605.8	692.0	830.6	880.0	786.9	502.3	**586.3**
Share price (p)	315.5	282.5	286.5	386.5	545.0	610.5	734.0	876.0	808.0	465.0	**540.0**
Exchange rate (£1=US$)	1.4795	1.5645	1.5526	1.7113	1.6454	1.6638	1.6117	1.4938	1.4554	1.6099	**1.7901**
(Discount)/premium (%)[3]	(3.4)	(5.7)	(26.9)	(11.9)	(10.0)	(11.8)	(11.6)	(0.4)	2.7	(7.4)	**(7.9)**
Actual gearing[4]	101.9	94.7	100.7	106.3	102.5	103.4	103.7	107.0	106.9	118.6	**110.8**
Total expense ratio[4,6]	0.58	0.54	0.49	0.57	0.55	0.46	0.43	0.48	0.52	0.53	**0.51**
Year to 31st December											
Gross revenue return £'000	6,001	6,954	8,489	9,008	7,797	8,949	7,217	7,242	7,215	6,481	**6,168**
Revenue return per ordinary share (p)	1.83	2.93	3.99	4.18	4.13	4.46	6.01	5.48	5.30	4.75	**6.41**
Dividends per ordinary share (p)	1.50	1.70	2.50	2.80	2.68[5]	2.90	2.30	5.70	5.20	4.80	**6.80**
Rebased to 100 at 31st December 1993											
Net asset value per ordinary share	100.0	91.1	120.0	134.3	185.4	211.8	254.2	269.4	240.9	153.7	**179.5**
Net asset value per ordinary share – total return[8]	100.0	91.4	120.1	135.1	187.6	215.2	259.4	275.5	248.2	159.6	**188.0**
Share price	100.0	89.5	90.8	122.5	172.7	193.5	232.6	277.7	256.1	147.4	**171.2**
Share price – total return[8]	100.0	90.0	91.7	124.5	176.7	198.9	240.2	287.5	267.2	154.8	**181.6**
S&P 500 Composite Index (in sterling terms) – capital only[7]	100.0	93.1	125.8	137.3	187.1	234.3	289.1	280.3	250.2	173.3	**197.0**
S&P 500 Composite Index (in sterling terms) – total return[7]	100.0	95.3	131.4	145.9	201.6	255.6	318.6	311.7	281.2	197.4	**227.6**

[1]*Figures have been restated, where necessary, to reflect the change in accounting policy in 1994 whereby income from investments became recognised on an ex-dividend basis. Prior year figures have not been restated.*

[2]*Figures have been restated, where necessary, to reflect the change in allocation of management fees and finance costs between the revenue account and capital account, and the adoption of FRS16 ('Current Taxation').*

[3]*Assuming full conversion of convertible loan stock where applicable. The convertible loan stock expired in 1999.*

[4]*Definitions are shown on page 13.*

[5]*Dividends paid as a foreign income dividend of 2.42p and a franked dividend of 0.26p.*

[6]*Prior to 1996 the total expense ratio was not included in the report and accounts. The figures shown are therefore unaudited.*

[7]*Source: Standard & Poors – www.funds-sp.com.*

[8]*Source: Datastream*

Portfolio Analyses

Sector Analysis

at 31st December 2003

Sector	**Portfolio 2003 %**	**Benchmark 2003 %**	Portfolio 2002 %	Benchmark 2002 %
Financial	**19.0**	**23.8**	19.7	23.7
Other/Miscellaneous[1]	**15.6**	**—**	17.5	—
Technology	**15.2**	**19.1**	12.8	16.5
Healthcare	**12.8**	**13.3**	11.3	14.8
Consumer services	**7.4**	**5.7**	6.7	5.5
Consumer non-cyclicals	**6.7**	**8.3**	6.0	6.1
Energy	**6.1**	**6.0**	6.0	9.2
Consumer cyclicals	**3.4**	**8.2**	3.5	8.1
Industrials	**2.6**	**2.4**	2.5	2.7
Telecommunications	**2.5**	**3.4**	3.3	4.2
Utilities	**2.1**	**2.7**	2.3	2.7
Commerical services	**1.5**	**1.7**	1.7	1.8
Basic materials	**0.8**	**3.8**	1.1	3.0
Transport	**—**	**1.6**	0.3	1.7
Net current assets	**4.3**	**—**	5.3[2]	—

Based on total assets less current liabilities of £362.7m. (2002: £369.5m. The US$ 40m long-term loan that was repaid in June 2003 has been added back into this figure).

[1]This includes small companies assets of 8.2% and unquoted investments of 3.1%, the balance of 4.3% is from non-index equities (2002: 11.1%, 3.0% and 3.4% respectively).

[2]Includes investment in liquidity fund.

Asset Analysis

at 31st December 2003

Total Net Assets	**2003 %**	2002 %
Large companies	**84.4**	80.6
Small companies	**8.2**	11.1
Unquoted investments	**3.1**	3.0
Net current assets	**4.3**	5.3[1]

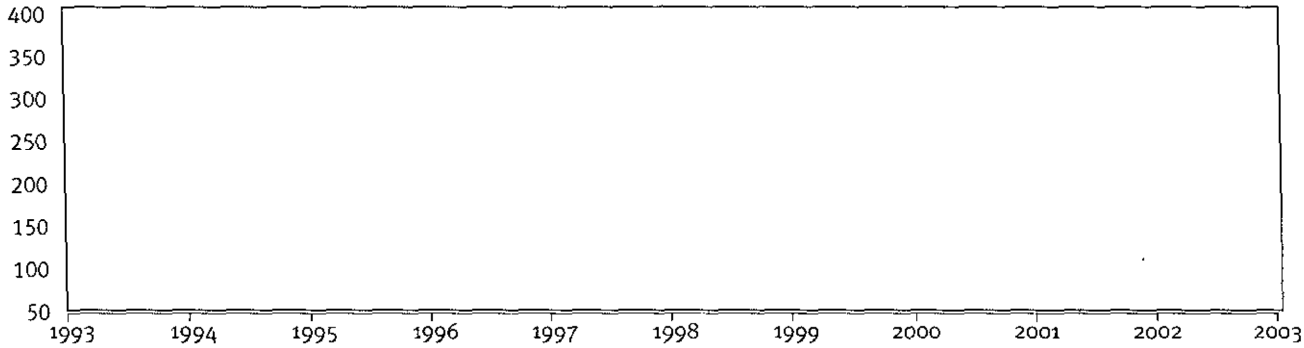
Based on total assets less current liabilities of £362.7m. (2002: £369.5m. The US$ 40m long-term loan that was repaid in June 2003 has been added back into this figure).

[1]Includes investment in liquidity fund.

Performance and Premium/(Discount)

Ten Year Performance

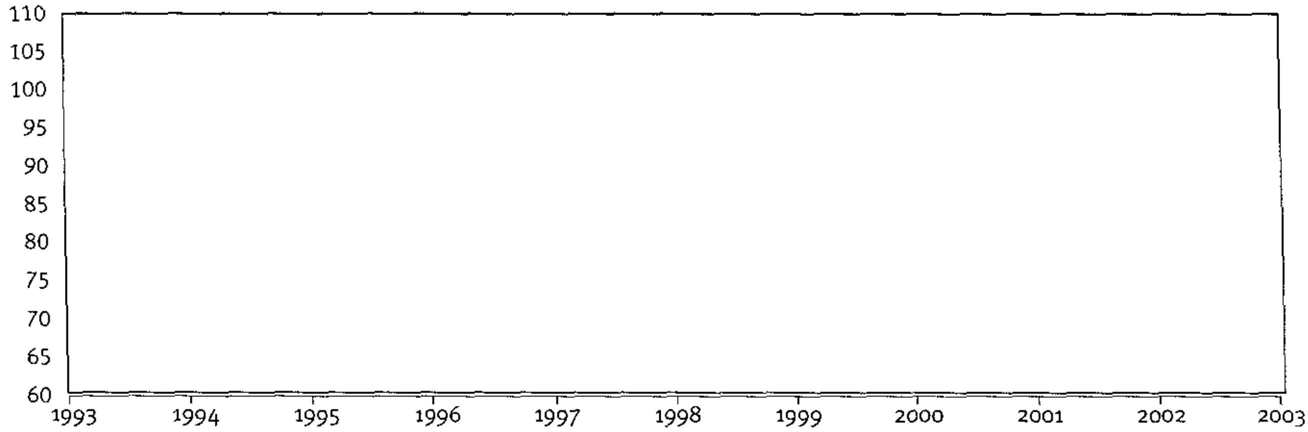
Figures have been rebased to 100 at 31st December 1993



JPMorgan Fleming American – Net asset value per share
JPMorgan Fleming American – Share price
S&P 500 Composite Index in £

Source: Datastream/Micropal Total Return

Ten year Performance Relative to Benchmark Index

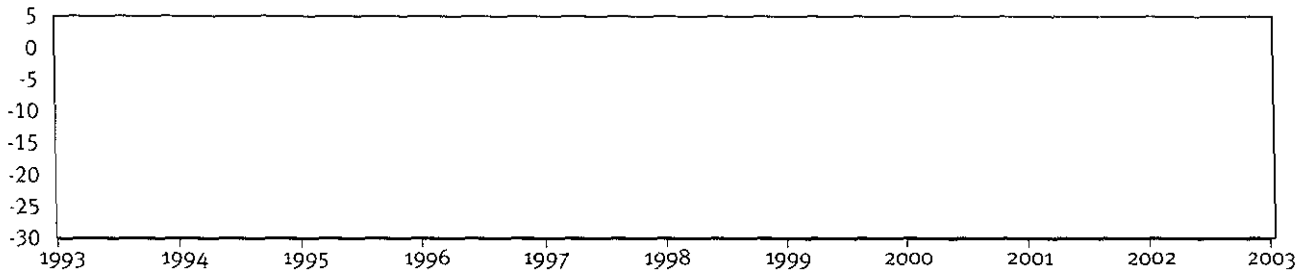


JPMorgan Fleming American – Net asset value per share
JPMorgan Fleming American – Share price

The benchmark index is represented by the bold horizontal line.

Source: Datastream/Micropal Total Return

Ten year Premium/(Discount)



JPMorgan Fleming American – Premium/(Discount)

Source: Datastream

Portfolio Activity

for the year ended 31st December 2003

	Value at 31st December 2002 £'000	%	Purchases £'000	Sales £'000	Change in value £'000	**Value at 31st December 2003 £'000**	**%**
Large Companies	297,588	81.8	40,183	65,371	33,730	**306,130**	**88.2**
Small Companies[1]	52,366	14.4	24,691	46,842	10,682	**40,897**	**11.8**
Liquidity Fund	13,666	3.8	—	13,342	(324)	—	—
Total portfolio	363,620	100.0	64,874	125,555	44,088	**347,027**	**100.0**

[1]This includes investments in micro-capitalisation and unquoted stocks.

Shareholder Analysis

at 31st December 2003

	Number of shares	% holding 2003	% holding 2002
Pension funds	7,039,238	13.2	11.9
Other institutions	4,231,187	7.9	7.1
Insurance companies	3,967,203	7.4	8.5
Unit trusts	2,313,828	4.4	3.1
Total institutions	**17,551,456** (2002: 18,004,722)	**32.9**	**30.6**
Retail investors	31,725,235	59.4	62.0
Named individuals in Investment Trusts Share Plan[1]	1,799,758	3.4	3.1
JPMorgan Fleming Managed Growth plc[2]	1,457,326	2.7	2.9
Named individuals in Investment Trusts Pension Accounts[1]	387,969	0.7	0.6
Named individuals in Investment Trusts Individual Savings Account[1]	355,491	0.7	0.5
Named individuals in Investment Trusts Personal Equity Plan[1]	119,067	0.2	0.2
JPMorgan Fleming Managed Income plc[2]	—	—	0.1
Total individuals	**35,844,846** (2002: 40,738,941)	**67.1**	**69.4**
Total shares in issue	**53,396,302** (2002: 58,743,663)	**100.0**	**100.0**

Nominee accounts have been allocated to their appropriate category.

[1]*Savings products managed by JPMorgan Fleming as explained on page 52.*

[2]*Subsequent to the Company's year end, these companies were merged to form JPMorgan Fleming Elect plc.*

List of Investments

at 31st December 2003

Large Companies

These are generally defined as companies which have a market capitalisation above $3 billion.

Company	Market Value £'000
Pfizer	14,878
Citigroup	11,238
Microsoft	10,524
General Electric	10,138
Exxon Mobil	9,655
IBM	9,050
American International Group	8,129
Johnson & Johnson	7,597
Altria Group	7,269
ChevronTexaco	6,267
Gannett	6,141
Qualcomm	5,838
United Technologies	5,656
Verizon Communications	5,467
Lexmark	5,153
Illinois Tool Works	5,151
American Express	5,035
US Bancorp	4,984
PepsiCo	4,669
Tyco International	4,519
Consolidated Edison	4,260
Wells Fargo	4,046
Wal-Mart Stores	4,028
Kraft Foods	3,969
Cisco Systems	3,893
Anheuser-Busch	3,893
Omnicom	3,708
AOL Time Warner	3,644
General Dynamics	3,635
Devon Energy	3,587
Wyeth	3,545
Colgate-Palmolive	3,540
Hewlett-Packard	3,516
Gillette	3,423
Marsh & McLennan	3,288
Bank of America	3,248
Walgreen	3,130
Intel	3,106
Fannie Mae	3,040
HCA	3,000
SBC Communications	2,955
GM-Hughes Electronics	2,858
Lilly (Eli)	2,833
Mattel	2,751
Comcast Corporation	2,680
Affiliated Computer	2,668
Viacom	2,668
Home Depot	2,639
Washington Post	2,608
Clear Channel Communications	2,415
Comcast	2,351
Washington Mutual Savings	2,308
Amgen	2,306
Mellon Finance	2,276
Nike	2,153
Merck & Company	2,101
McDonalds	2,096
Travellers Property	2,053
Freddie Mac	2,039
Amerisourcebergen	1,967
Morgan Stanley	1,915
Northern Trust	1,857
Computer Associates	1,839
Cardinal Bergen Health	1,831
Medimmune	1,805
Prudential Financial	1,799
Duke Energy	1,653
Alcoa	1,613
Conoco Philips	1,612
Liberty Media	1,610
Dominion Resources	1,608
Automatic Data Processing	1,586
Boeing	1,554
Bank of New York	1,525
Novellus Systems	1,494

List of Investments continued

at 31st December 2003

Company	Market Value £'000
Medtronic	1,491
Biomet	1,457
Wrigley (William) Junior	1,430
Walt Disney	1,389
Carmax Inc	1,286
Ecolab	1,231
Anthem	922
Baxter International	861
El Paso	847
Marriott International	724
News Corporation	584
Sprint PCS Group	546
Circuit City Stores	479
	306,130

Small Companies

These are generally defined as companies which, at the date of investment, have a market capitalisation of less than $3 billion.

Company	Market Value £'000
JPMF America Micro-cap Fund	7,474
JPMF US Discovery Investment Trust	1,206
Global Imaging Systems	567
Mettler-Toledo	401
Electronics for Imaging	399
Ruby Tuesday	383
UTI Worldwide	362
Ritchie Bros Auctioneers	354
Gray Television	352
Nextel Partners	348
United Surgical Partners	346
ProAssurance	346
VCA Antech	342
Serena Software	332
Covance	323
Graftech	322
Tech Data	312
NDC Health	311
National Instruments	311
Salem Communications	298
Wright Medical	289
Alliance Data Systems	281
Lawson Software	279
Maxtor	278
United Rentals	276
Affiliated Managers	274
Skywest	270
Unit	269
Infinity Property & Casualty	265
Phototronics	260
Sunrise Senior Living	260
Sylvan Learning Systems	254
Tekelec	251
Witness Systems	251
MKS Instruments	250
Cooper	250
Universal Compression	250
Petco Animal Supplies	249
Applied Films	245
United Online	244
Globespanvirata	242
Pegasus Solutions	241
Alliance Gaming	238
Headwaters	233
Albany	228
DSP	223
Newfield Exploration	221
Arch Coal	220
NBTY	218
Inter	218
Entegris	216
Information Holdings	215
Multimedia Games	214
American Financial Realty Trust	213
AnnTaylor Stores	211
Verint Systems	211
Tuesday Morning	209
Ethan Allen Interiors	208
Artisan Components	205
Aeroflex	202
National Financial	201
CDW	199
General Cable	196

List of Investments continued

at 31st December 2003

Company	Market Value £'000
Credence Systems	195
LCC International	192
Hyperion Solutions	190
Enterasys Networks	189
Texas Regional Bancshares	185
Ventana Medical Systems	180
Connetics	180
Ilex Oncology	179
Urban Outfitters	176
Knight Transportation	175
Orbitz	173
Adolor	167
Key Energy Services	166
Diagnostic Products	165
Doubleclick	162
East West Bancorp	159
Cost Plus	156
Southwest Bancorp of Texas	153
Nelnet	153
Nektar Therapeutics	151
Myogen	149
Atherogenics	137
Men's Wearhouse	132
Telik	121
OSI Pharmaceuticals	121
Alkermes	115
Cubist Pharmaceuticals	111
Falcon Products	91
	29,740

Unquoted Companies

Company	Market Value £'000
Fleming US Discovery Fund III	7,419
Kane Holdings[1]	1,926
Portola Packaging	772
Leach International	388
Rockwood Service[1]	263
Tritex[1]	252
Select Foods	137
	11,157
Total investments	**347,027**
Net current assets	**15,629**
Total assets	**362,656**

Note: Total investments include 0.5% in convertible and other non-equity securities and 4.3% in unlisted investments.

[1]*Includes or comprises convertible or other non-equity securities.*

Faces.

Board of Directors

Hamish N Buchan (Chairman of the Board and the Nomination Committee)* § ‡
Born 1944
A Director since November 2000 and appointed Chairman in April 2003
He is currently a Director of Aberforth Smaller Companies Trust plc, Collective Assets plc, Personal Assets Trust plc, Shires Income plc, Standard Life European Private Equity Trust plc, The Scottish Investment Trust plc, Scottish Community Foundation and Scottish Council of Independent Schools. He has been involved in the investment trust sector for 35 years, mainly as an investment trust analyst and is currently a Deputy Chairman of the Association of Investment Trust Companies and Chairman of its statistics committee.

James G Fox (Chairman of the Audit Committee)* § ‡
Born 1943
A Director since July 2003
He is a Director of Anglo-American Securities Corporation Limited, Deutsche Latin American Companies Trust plc, GHK Asset Management Limited and Limia Investment Trust plc. He has over thirty five years experience of investment management and is a former Deputy chairman of the Association of Investment Trust companies.

George P Greener* § ‡
Born 1945
A Director since December 1999
He is Chairman of the British Waterways Board, chairman of The Big Food Group plc and a Director of Reckitt Benckiser plc. He was formerly Chairman of Allied Dunbar Assurance plc, Eagle Star Holdings plc, Threadneedle Asset Management Limited and a Director of BAT Industries plc.

Iain OS Saunders
Born 1947
A Director since April 1990
He worked for JPMorgan Fleming Asset Management and its predecessor companies from 1971 to 2001, retiring as Deputy Chairman. Companies associated with the Manager with whom he has a connection are the JPMorgan Fleming Indian Investment Trust, of which he is a Director, and the Czech and Slovak Investment Company and a number of Luxembourg SICAVs, of which he is Chairman. He is also Chairman of Baring Emerging Europe plc, MB Asia Select Fund and the Deutschland Investment Company.

James P Williams* § ‡
Born 1950
A Director since July 2003
He has worked in investment management for over 30 years. He has recently retired from Baring Asset Management, where he was Chief Investment Officer, and head of global investment strategy. He is also Chairman of Royal London Growth and Income Trust, and a Director of Pan-Asia Special Opportunities Fund.

** Member of the Audit Committee*
§ Considered Independent of the Manager
‡ Member of the Nomination Committee

Directors' Report

Business of the Company
The Company carries on business as an investment trust and was approved by the Inland Revenue as an investment trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31st December 2002. In the opinion of the Directors, the Company has subsequently conducted its affairs so that it should continue to qualify. The Company will continue to seek approval under Section 842 of the Income and Corporation Taxes Act 1988 each year.

Approval for the year ended 31st December 2002 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 Part VIII of the Companies Act 1985. The Company is not a close company for taxation purposes.

A review of the Company's activities and prospects is given in the Chairman's Statement on pages 1 to 5 and the Investment Managers' Report on pages 6 to 10.

Revenue and Dividends
Gross revenue for the year totalled £6,168,000 and distributable revenue, after deducting management expenses, interest and taxation, amounted to £3,629,000 which is available to the ordinary shareholders.

The Directors recommend a final dividend of 6.80p per share, payable on 4th May 2004 to shareholders on the register at the close of business on 2nd April 2004. This distribution will absorb £3,560,000 and £69,000 will be transferred to the revenue reserve. The revenue reserve after this transfer will amount to £10,680,000 as at 31st December 2003.

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

Payment Policy
It is the Company's policy to obtain the best terms for all business and therefore it has no standard payment terms. In general the Company agrees with its suppliers the terms on which business will take place and it is the Board's policy to abide by these terms. As at 31st December 2003, the Company had no outstanding trade creditors.

Investments
The investments were valued at £347,027,000 at 31st December 2003. The notes to the accounts show the basis on which this valuation was made. A list of the Company's investments is given on pages 19 to 21.

Directors
The Directors of the Company who held office at the end of the year, together with their beneficial interests in the Company's Ordinary Shares, were:

	5th March 2004[1]	31st December 2003	1st January 2003 or as at date of appointment
HN Buchan	10,000	10,000	5,300
JG Fox	35,800	35,800	35,800
GP Greener	1,771	1,771	1,278
RJHD Palmer	1,500	1,500	1,500
IOS Saunders	4,597	4,597	2,995
JP Williams	6,000	6,000	—

[1]*Latest date prior to the printing of this report.*

Other than as disclosed above, no changes in the above holdings have been recorded to the date of this report.

As stated in the following Corporate Governance report, the Board is recommending that the Company's Articles of Association be amended in order for the Company to comply fully with The Combined Code and the AITC Code of Corporate Governance™ regarding the retirement by rotation of Directors and the annual re-election of long serving Directors. In accordance with the Articles of

Directors' Report continued

Association the Director retiring by rotation at the Annual General Meeting will be Iain Saunders. Being eligible, he offers himself for re-election by shareholders.

James Fox and James Williams were appointed Directors on 22nd July 2003 and, in accordance with the Articles of Association, will offer themselves for re-election by shareholders at the Annual General Meeting.

During the year an insurance policy has been maintained by the Company which indemnifies the Directors of the Company against certain liabilities arising in the conduct of their duties.

Directors' Fees

The Directors are recommending that their fees be increased, with effect from 1st May 2004, to £30,000 for the Chairman, £20,000 for each of the Directors, with an additional £3,000 being paid to the Audit Committee Chairman. The reasons for this are detailed in the Chairman's Statement on page 5. The Company's Articles of Association currently state that the ordinary remuneration of the Directors should not exceed in aggregate the sum of £100,000 per annum. The aggregate of the proposed fee increase will exceed this level and therefore an ordinary resolution will be proposed at the Annual General Meeting recommending that this maximum be increased to £175,000 per annum.

Acquisition of the Company's own shares

During the year the Company purchased 5,347,361 Ordinary Shares with a nominal value of £1,336,840. This amount represents 9.1% of the issued share capital as at 1st January 2003. The shares were repurchased to address the balance between supply and demand of the Company's shares and as they were purchased at a discount to the underlying net asset value ('NAV') they enhanced the NAV of the remaining shares.

Since the year end, the Company has repurchased a total of 601,000 Ordinary Shares for cancellation.

A resolution to renew the authority to buy in ordinary shares is due to be put to shareholders at the forthcoming Annual General Meeting. The full text of the resolution is set out in the Notice of Meeting on page 33.

Management

The Company's assets are managed by J.P. Morgan Fleming Asset Management (UK) Limited ('JPMFAM'). JPMFAM is a wholly-owned subsidiary of JPMorgan Chase & Co., which through other subsidiaries, also provides banking, dealing, stock lending and custodian services to the Company.

The Board has thoroughly reviewed the investment manager's investment strategy and process. The review covered the performance of the investment manager, their management processes, investment style, resources and risk controls. The Board is satisfied with the results of the review and is therefore of the opinion that the continuing appointment of the investment manager is in the best interests of shareholders. Such a review will be carried out on an annual basis.

Management and Performance Fees

JPMFAM is employed under a contract which is subject to one year's notice of termination. The basic management fee is calculated monthly and paid quarterly in arrears and is charged at a rate of 0.5% per annum of the Company's assets less current liabilities. If the Company invests in funds managed or advised by JPMFAM, or any of its associated companies, they are excluded from the calculation and therefore attract no fee. In addition a performance fee may be payable.

The performance fee is calculated at the rate of 10% of the difference between the net asset value capital return and the capital return of the S&P 500 Composite Index, expressed in sterling terms. It is based on the net assets at the year-end. The performance fee due in respect of any single year is divided into equal parts payable over three years.

Any negative fee resulting from underperformance is deducted from any unpaid fees carried forward from prior years with any remaining amount of the negative fee carried forward to be absorbed in future years.

Directors' Report continued

The amount paid in any one year for the basic management fee plus the above performance fee will not exceed 0.75% of assets, with any unpaid excess being carried forward until paid in full.

In the year ended 31st December 2003 the Company's net assets outperformed the S&P 500 Composite Index, expressed in sterling terms, by 2.5 percentage points on the above basis. This results in a positive performance fee calculation of £961,149, which when subtracted from the negative balance of £3,701,050 which had been brought forward from the previous year's underperformance, results in a negative fee of £2,739,901 to be carried forward, to be offset by any outperformance in future years.

Notifiable Interests in the Company's Shares
At the date of this report, the following had declared a substantial interest in the Company's issued ordinary share capital:

Shareholders	Number of shares held	%
NatWest Group	6,527,755	12.4
Old Mutual	5,655,166	10.7
JP Morgan Chase & Co.	4,489,025	8.5
Included within this is:		
Cogent Nominees[1]	2,274,316	4.3
Legal & General	1,807,239	3.4
Standard Life Assurance	1,771,657	3.3
JPMorgan Fleming Elect plc	1,628,326	3.1

[1]Held on behalf of JPMFAM Share Plan, PEP and ISA participants.

Charitable Contributions
The Company has made a charitable donation of £13,500 (2002: £13,500) during the year.

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

(a) *Authority to repurchase the Company's Ordinary Shares*

At the Annual General Meeting held on 23rd April 2003, shareholders gave authority to the Company to purchase up to 14.99% of its then issued Ordinary Share capital. At that time shareholders were informed that this authority would expire on 22nd October 2004 and could be renewed by shareholders at any time at a General Meeting of the Company. The Directors consider that the renewal of the authority is in the interests of shareholders as a whole, as the repurchase of Ordinary Shares at a discount to the underlying net asset value ('NAV') enhances the NAV of the remaining Ordinary Shares. The Directors therefore recommend that shareholders vote in favour of the resolution. The full text of the resolution renewing the Ordinary Share repurchase authority is set out as Resolution number 8 in the Notice of Meeting on page 33.

(b) *Amendment to the Company's Articles of Association*

After consideration of recent changes in corporate governance, primarily the Combined Code and the AITC Code of Corporate Governance™, the Directors have agreed that any Director who has served on the Board for more than nine years shall be subject to annual re-election by shareholders. The Articles must be amended in order to incorporate this policy along with the policy of Directors retiring by rotation at least every three years in accordance with the Combined Code. The full text of the Resolution is set out as Resolution number 9 in the Notice of Meeting on page 34.

Auditors
PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be put to shareholders at the forthcoming Annual General Meeting.

By order of the Board
pp Hilary Lowe, for and on behalf of
J.P. Morgan Fleming Asset Management (UK) Limited,
Secretary
11th March 2004

Corporate Governance

Introduction

To ensure the appropriate level of corporate governance, two important documents were published in July 2003: The London Stock Exchange's revised Combined Code on Corporate Governance for all listed companies and the Association of Investment Trust Companies' ('AITC') Code of Corporate Governance™ for Investment Trusts. Compliance with the revised Combined Code is mandatory for accounting periods commencing on or after 1st November 2003 and its aim is to improve investor confidence by enhancing the effectiveness of Boards. The AITC's Code of Corporate Governance™ 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 has put in place arrangements which it believes enable the Company to comply with the 1998 Combined Code throughout 2003. In addition, the Board has reviewed both the revised Combined Code and the AITC Code™ and is in the process of establishing procedures which will enable the Company to comply with these codes going forward. The following report outlines how the principles of the 1998 Combined Code were applied during the year and also provides information on the processes the Board have put in place to comply with the revised Combined Code henceforth.

The Board

The Board consists of five non-executive Directors, chaired by Hamish Buchan, all of which are considered to be independent, except Iain Saunders who was previously employed by the Manager.

As explained in the Directors' Report, the Board is proposing at the forthcoming Annual General Meeting to amend its Articles of Association to ensure compliance with the requirements of the Combined Code and the AITC Code of Corporate Governance™ regarding Directors' retirement by rotation and the annual re-election of long serving Directors. The full text of the Resolution is set out as Resolution number 9 on page 34.

The Company has no executive Directors or employees and a management agreement between the Company and JPMFAM sets out matters over which the Manager has authority. This includes management of the Company's assets and the provision of accounting, company secretarial, administrative and some marketing services. All other matters are reserved for the approval of the Board.

The Board meets at least quarterly during the year and between these meetings there is regular contact with the Manager who provides the Board with appropriate and timely management information. The Board regularly reviews both the performance of, and the contractual arrangements with, the Manager. The Directors also have access, where necessary, in the furtherance of their duties, to independent professional advice at the expense of the Company.

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

	Board meetings		Audit Committee meetings		Nomination Committee meetings	
Director	Held	Attended	Held	Attended	Held	Attended
HN Buchan[1]	6	6	2	2	1	1
JG Fox[2,3,5]	6	4	2	—	1	—
GP Greener	6	5	2	2	1	1
RJHD Palmer	6	5	2	1	1	1
IOS Saunders	6	5	—	1[4]	—	—
JP Williams[3,5]	6	3	2	—	1	—

[1]Chairman of the Nomination Committee.
[2]Chairman of the Audit Committee.
[3]Appointed 22nd July 2003.
[4]Invited by the Committee to be in attendance.
[5]Ineligible to attend two Board meetings, two Audit Committee meetings and one Nomination Committee meeting as appointed part way through the year.

Corporate Governance continued

During the year the Board reviewed its composition to make sure that there was a balance of skills and experience. Following the Annual General Meeting on 23rd April 2003, Hamish Buchan was appointed Chairman following the retirement of Nicholas Cosh. James Williams and James Fox were both appointed Directors of the Company on 22nd July 2003. James Fox was also appointed the Audit Committee Chairman.

Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be re-elected by shareholders. Thereafter, a Director's appointment will run for a term of three years. A Director may then 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. Any Director who has served for a period of more than nine years will stand for annual re-election thereafter.

The Board does not consider it necessary to appoint a senior independent director as all of the current Directors are non-executives and the Board is of a small size.

Board Committees

During the year the Board established a Nomination Committee which meets at least annually to ensure that the Board has a balance of skills and experience to carry out its fiduciary duties and to select and propose suitable candidates where necessary for appointment. A variety of sources, including external search consultants, may be used to ensure that a wide range of candidates are considered.

The Committee also undertakes an annual performance evaluation to ensure that all members of the Board have devoted sufficient time and contributed adequately to the work of the Board. The Chairman is evaluated by other members of the Board.

The Audit Committee meets at least twice each year. The Committee reviews the actions and judgements of management 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 also reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors. The Directors' statement on the Company's system of internal control is set out below.

The terms of reference for the Audit and Nomination Committees are available for inspection on request and at the Company's AGM.

Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company.

At the Company's Annual General Meeting 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 Investment Managers, JPMFAM and the Company's brokers hold regular discussions with larger shareholders. The Directors are made fully aware of their views and responses are tailored as necessary. The Chairman and Directors make themselves available as and when required to address shareholder queries.

The Company reports formally to shareholders twice a year by way of the Annual Report and Accounts and the Interim Report. All shareholders have the opportunity to attend and vote at the Annual General Meeting during which the Directors and Managers are available to discuss any issues affecting the Company. The Directors may be contacted through the Company Secretary whose details are shown on page 51.

Corporate Governance continued

Internal Control

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

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

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

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

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

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

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

The Board keeps under review the effectiveness of the Company's system of internal control by monitoring the operation of the key operating controls of the Manager and its associates as follows:

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

By the means of the procedures set out above, the Board confirms that it has reviewed the effectiveness of the Company's system of internal control for the year ended 31st December 2003, and to the date of approval of this Annual Report and Accounts.

Socially Responsible Investment

The following is a summary of JPMFAM's policy statement on socially responsible investment ('SRI') which has been noted by the Board:

> *Unless instructed otherwise, 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 in the management of our clients' investments. A company run in the long-term interests of its shareholders with the objective*

Corporate Governance continued

of enhancing shareholder value over time 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. In our pursuit of good financial returns for our clients, our investment managers take account of these and all other factors affecting the valuation of the companies in which they are currently invested or considering investment on behalf of clients.

Corporate Governance and Voting Policy

The Company delegates responsibility for voting to JPMFAM. The following is a summary of JPMFAM's policy statement on corporate governance and voting policy which has been noted by the Board:

JPMFAM 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 JPMFAM 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, which set out our stance on a variety of key corporate governance issues, including disclosure and transparency, board composition, committee structure, director independence and remuneration issues, auditor rotation and social and environmental issues. These guidelines form the basis of our proxy voting decisions, although it should be noted that JPMFAM makes all of its voting decisions on a case-by-case basis, taking into account the individual circumstances of each vote.

Remuneration Report

The Company's Articles of Association currently limit the aggregate fees payable to the Board of Directors to a total of £100,000 per annum. Subject to this overall limit, it is the Board's policy to determine the level of the Directors' fees having regard to the level of fees payable to non-executive directors in the industry generally, the role each individual Director fulfils and the time committed to the Company's affairs.

Directors' Remuneration

Director's Name	2003[1] £	2002[1] £
HN Buchan (Chairman of the Board[4] and Nomination Committee)	18,759	15,205
NJ Cosh[3]	6,308	20,000
JG Fox[5] (Chairman of the Audit Committee)	7,159	—
GP Greener	13,500	13,500
RJHD Palmer	—[2]	—[2]
IOS Saunders	13,500	13,500
JP Williams[5]	6,040	—

[1] Auditable information.
[2] RJHD Palmer waived his Directors' fees for the years ended 2002 and 2003.
[3] Resigned as Chairman and Director on 23rd April 2003.
[4] Appointed Chairman to the Board on 23rd April 2003.
[5] Appointed a Director on 22nd July 2003.

As all of the Directors are non-executive, the Board as a whole fulfils the function of the Remuneration Committee which reviews Directors' fees on a regular basis. Reviews are based on information provided by the Manager, and relevant third parties, on the level of fees paid to the directors of the Company's peers and within the investment trust industry generally. In view of the additional amount of time the Directors are focusing on regulatory and corporate governance issues, as well as the fact that the level of Directors' fees have remained unchanged since 1999, the Directors are proposing an increase in the level of Directors fees to £30,000 for the Chairman, £20,000 for each other Director, with an additional £3,000 to be payable to the Audit Committee Chairman with effect from 1st May 2004. The Chairman and the Audit Committee Chairman did not take part in their own reviews.

It is the intention of the Board not to review their fees again until 2007. The Directors' fees are not performance related.

The annual aggregate sum which can currently be paid as ordinary fees to Directors will need to be increased from £100,000 in order to facilitate these proposed increases. The Directors propose that the aggregate maximum be increased to £175,000 per annum. A Resolution proposing the above will be put to shareholders at the Annual General Meeting to be held on 23rd April 2004. The full text of the Resolution is set out as Resolution 10 in the Notice of Meeting on page 34.

The Directors do not have service contracts with the Company. Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they are re-elected by shareholders. Thereafter, a Director's appointment will run for a three-year term. A Director may then be invited by the Board to serve for a further three years. A Director's continuing appointment is subject to re-election by shareholders on retirement by rotation in accordance with the Company's Articles of Association, which stipulate that at every Annual General Meeting at least one-third of the Directors shall retire from office. A resolution proposing an amendment to the Articles of Association will be proposed at the forthcoming Annual General Meeting as explained on page 26. The full text of the Resolution is set out as Resolution number 9 in the Notice of Meeting on page 34.

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

Remuneration Report continued

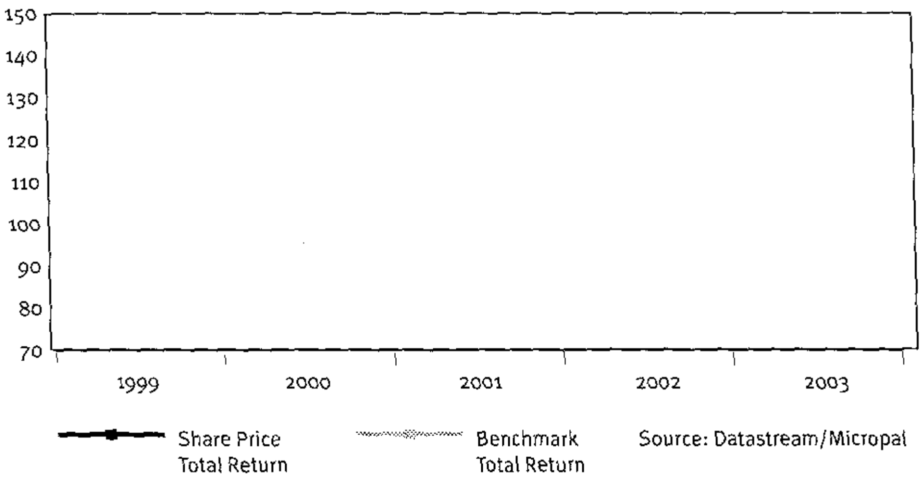
reimbursement of reasonable out-of-pocket expenses incurred in connection with attending the Company's business.

The Company's Articles of Association have a qualification that each Director shall have a personal holding of at least 500 Ordinary Shares of 25p. The Board also has a policy whereby Directors are encouraged to purchase additional shares in the Company.

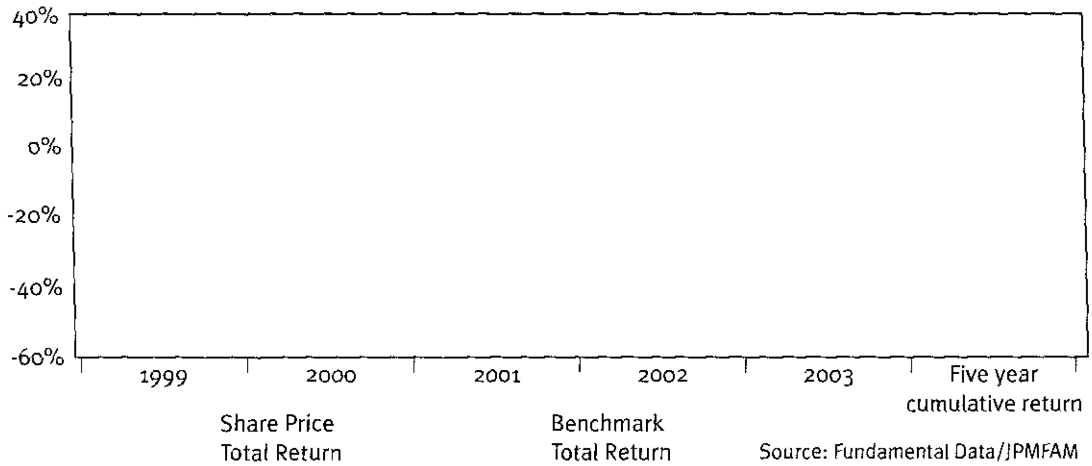
Graphs showing the Company's share price total return compared to its benchmark index total return, the S&P500 Composite Index expressed in sterling terms, over the last five years are shown below.

By order of the Board
pp. Hilary Lowe, for and on behalf of
J.P. Morgan Fleming Asset Management (UK) Limited,
Secretary
11th March 2004

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



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



Directors' Responsibilities in Respect of the Accounts

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the year and of the revenue for the year. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on a going concern basis unless it is inappropriate to assume that the Company will continue in business.

The Directors confirm that the accounts comply with the above requirements.

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

Notice of Annual General Meeting

Notice is hereby given that the eighty-eighth Annual General Meeting of JPMorgan Fleming American Investment Trust plc will be held at 10 Aldermanbury, London EC2V 7RF at 2.30 p.m. on Friday 23rd April 2004 for the following purposes:

1 To receive the Directors' report, the Annual Accounts and the Auditors' report for the year ended 31st December 2003.

2 To approve the Remuneration report for the year ended 31st December 2003.

3 To declare a final dividend on the ordinary shares of 6.80 pence per share.

4 To re-elect Mr Iain Saunders a Director of the Company.

5 To re-elect Mr James Fox a Director of the Company.

6 To re-elect Mr James Williams a Director of the Company.

7 To re-appoint PricewaterhouseCoopers LLP as auditors to the Company and to authorise the Directors to agree their remuneration.

Special Business:
To consider the following resolutions which will be proposed as Special Resolutions:

8 THAT the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with Section 166 of the Companies Act 1985 (the 'Act') to make market purchases (within the meaning of Section 163 of the Act) of its issued Ordinary Shares of 25p each in the capital of the Company ('Ordinary Shares').

PROVIDED ALWAYS THAT

(i) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 7,914,015 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 an Ordinary Share shall be 25p;

(iii) the maximum price which may be paid for an Ordinary Share shall be an amount equal to 105 per cent. of the average of the middle market quotations for an Ordinary Share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is purchased;

(iv) any purchase of Ordinary Shares will be made in the market for cash at prices below the prevailing net asset value per Ordinary Share (as determined by the Directors);

(v) the authority hereby conferred shall expire at the earlier of 22nd October 2005 or at the conclusion of the Company's Annual General Meeting in 2005 unless the authority is renewed prior to such time; and

(vi) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority and may make a purchase of Ordinary Shares pursuant to any such contract notwithstanding such expiry.

Notice of Annual General Meeting continued

9 THAT the Company's Articles of Association be amended to incorporate the following in place of the existing Articles 86 and 87:

86. At each Annual General Meeting:

(a) any Director who was originally elected a Director at or before the Annual General Meeting held in the ninth calendar year before the current year shall retire by rotation;

(b) any Director who was elected or last re-elected a Director at or before the Annual General Meeting held in the third calendar year before the current year shall retire by rotation; and

(c) such further Directors (if any) shall retire by rotation as would bring the number retiring by rotation to at least one-third of the number of Directors in office at the date of the notice of the meeting.

87. Selection of Directors to retire by rotation

The Directors to retire by rotation shall include those Directors referred to in Article 86(a) and 86(b) and any Director who wishes to retire and not to offer himself for re-election. Any further Directors to retire shall be those of the other Directors who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. A retiring Director shall be eligible for re-election.

To consider the following resolution which will be proposed as an Ordinary Resolution:

10 THAT in accordance with Company's Article 78 of the Articles of Association, the maximum aggregate Directors' fees payable be increased from £100,000 to £175,000 per annum with immediate effect.

By order of the Board
J.P. Morgan Fleming Asset Management (UK) Limited,
Secretary.
11th March 2004

Notes

1 A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and on a poll vote on their behalf. A proxy need not be a member of the Company. The lodging of a form of proxy does not prevent a member from attending and voting if they so wish.

2 Any instrument appointing a proxy, to be valid, must be lodged at the office of the Company's Registrar not less than 48 hours before the time of the meeting.

3 To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members 48 hours before 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 at the time which is 48 hours before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice.

4 Entry to the above meeting will be restricted to shareholders, with guests admitted only by prior arrangement.

Independent Auditors' Report[1]

To the members of JPMorgan Fleming American Investment Trust plc

We have audited the financial statements which comprise the Statement of Total Return, the Balance Sheet, the Cash Flow Statement and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report ('the auditable part').

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements and the auditable part of the Directors' Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Directors' Remuneration Report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Investment Manager's Report and the corporate governance statement. We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code issued in June 1998 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

Basis of Audit Opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company as at 31st December 2003 and of the total return and cash flows of the Company for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP
Chartered Accountants and Registered Auditors
London, 11th March 2004

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

Statement of Total Return

for the year ended 31st December 2003

	Notes	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000
Realised gains/(losses) on investments	8, 13	–	**16,050**	**16,050**	–	(24,716)	(24,716)
Net change in unrealised losses	8, 13	–	**28,038**	**28,038**	–	(145,146)	(145,146)
Net currency losses on cash and short-term deposits held during the year	13	–	**(2,326)**	**(2,326)**	–	(2,382)	(2,382)
Unrealised gain on outstanding currency transactions	13	–	**1**	**1**	–	–	–
Net change in unrealised loss on US dollar loan		–	–	–	–	2,638	2,638
Realised gain on US dollar loan	13	–	**606**	**606**	–	–	–
Change in unrealised gain on forward foreign currency transactions	13	–	**7,314**	**7,314**	–	292	292
Other capital credits/(charges)	13	–	**1**	**1**	–	(4)	(4)
Income from investments	1	**6,002**	–	**6,002**	6,042	–	6,042
Other income	1	**166**	–	**166**	439	–	439
Gross return/(loss)		**6,168**	**49,684**	**55,852**	6,481	(169,318)	(162,837)
Management fee	2	**(356)**	**(1,428)**	**(1,784)**	(449)	(1,795)	(2,244)
Other administrative expenses	3	**(448)**	–	**(448)**	(448)	–	(448)
Interest payable	4	**(859)**	**(3,436)**	**(4,295)**	(1,040)	(4,159)	(5,199)
Return/(loss) before taxation		**4,505**	**44,820**	**49,325**	4,544	(175,272)	(170,728)
Taxation	5	**(876)**	–	**(876)**	(1,672)	834	(838)
Total return/(loss) attributable to *ordinary* shareholders		**3,629**	**44,820**	**48,449**	2,872	(174,438)	(171,566)
Dividend on ordinary shares	6	**(3,560)**	–	**(3,560)**	(2,830)	–	(2,830)
Transfer to/(from) reserves		**69**	**44,820**	**44,889**	42	(174,438)	(174,396)
Return/(loss) per ordinary share	7	**6.41p**	**79.13p**	**85.54p**	4.75p	(288.29)p	(283.54)p

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

The revenue column of this statement is the profit and loss account of the Company.

The notes on pages 39 to 50 form part of these accounts.

Balance Sheet

at 31st December 2003

	Notes	**2003** **£'000**	2002 £'000
ASSETS EMPLOYED			
Fixed assets			
Investments at valuation	8	**347,027**	363,620
Current assets			
Debtors	9	**9,595**	1,029
Cash and short-term deposits		**12,468**	9,513
		22,063	10,542
Creditors			
Amounts falling due within one year	10	**(6,434)**	(29,518)
Net current assets/(liabilities)		**15,629**	(18,976)
Total assets less current liabilities		**362,656**	344,644
Creditors			
Amounts falling due after more than one year	11	**(49,579)**	(49,551)
Total net assets		**313,077**	295,093
FINANCED BY			
Share capital	12	**13,349**	14,686
Share premium account	13	**18,906**	18,906
Capital redemption reserve	13	**5,484**	4,147
Capital reserve – realised	13	**252,314**	315,140
Capital reserve – unrealised	13	**12,344**	(68,397)
Revenue reserve	13	**10,680**	10,611
Total ordinary shareholders' funds		**313,077**	295,093
Net asset value per ordinary share	14	**586.3p**	502.3p

The accounts on pages 36 to 50 were approved by the Directors on 11th March 2004 and are signed on their behalf by:

G. Greener
Director

The notes on pages 39 to 50 form part of these accounts.

Cash Flow Statement

for the year ended 31st December 2003

	Note 16	2003 £'000	2002 £'000
Operating activities			
Cash received from investments		**5,209**	5,133
Deposit interest received		**115**	439
Stock lending fees received		**51**	–
Management fee		**(1,784)**	(2,244)
Directors' fees paid		**(65)**	(62)
Other cash payments		**(391)**	(153)
Net cash inflow from operating activities		**3,135**	3,113
Returns on investments and servicing of finance			
Interest paid		**(4,257)**	(5,523)
Net cash outflow from return on investments and servicing of finance		**(4,257)**	(5,523)
Capital expenditure and financial investments			
Purchases of investments		**(66,357)**	(80,229)
Sales of investments		**125,436**	76,326
Other capital credits/(charges)		**4**	(4)
Net cash inflow/(outflow) from capital expenditure and financial investments		**59,083**	(3,907)
Total equity dividends paid on ordinary shares		**(2,749)**	(3,181)
Net cash inflow/(outflow) before financing		**55,212**	(9,498)
Financing			
Issue of ordinary shares		**–**	1,605
Repurchase of ordinary shares		**(25,691)**	(11,894)
Repayment of dollar loan		**(24,240)**	–
Net cash outflow from financing		**(49,931)**	(10,289)
Increase/(decrease) in cash for the year		**5,281**	(19,787)

The notes on pages 39 to 50 form part of these accounts.

Notes to the Accounts

for the year ended 31st December 2003

A SUMMARY OF THE PRINCIPAL ACCOUNTING POLICIES, ALL OF WHICH HAVE BEEN APPLIED CONSISTENTLY THROUGHOUT THE YEAR, IS SET OUT BELOW.

i. Basis of accounting

The accounts are prepared under the historical cost convention, modified to include the revaluation of investments. The accounts have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice: 'Financial statements of investment trust companies', as issued by the AITC in January 2003.

ii. Valuation of investments

Quoted investments are valued at middle market prices. Where trading in the securities of an investee company is suspended, the investment is valued at the Board's estimate of its net realisable value. Unquoted investments are valued by the Board. In making their valuations, the Board has taken into account, where appropriate, latest dealing prices, valuations from reliable sources, asset values and other relevant factors.

Realised surpluses or deficits on the disposal of investments and permanent impairments in the value of investments are taken to capital reserve – realised, and unrealised surpluses and deficits on the revaluation of investments are taken to the capital reserve – unrealised.

Year-end exchange rates are used to translate the value of investments which are denominated in foreign currencies.

iii. Income

Dividends from equity shares are included in the revenue account on an ex-dividend basis.

The income from debt securities is accounted for on an accruals basis. Where there is uncertainty over the recoverability of income, a provision is made.

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

Overseas dividends are accounted for gross of withholding tax.

Interest receivable on deposits is recognised in the revenue account on an accruals basis.

Stock lending income is recognised in the revenue account on a receipts basis.

iv. Expenses

All expenses are accounted for on an accruals basis. Expenses are charged to the revenue account except for:

- performance related fees, which are charged to the capital reserve and
- expenses which are incidental to the acquisition of an investment are included within the cost of the investment and
- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment and
- expenses are charged to capital reserve – realised where a connection with the maintenance or enhancement of the value of the investments can be demonstrated. The management fee and interest expenses (including applicable tax relief) has been allocated 80% to capital reserve – realised and 20% to the revenue account, in line with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company.

v. Taxation

Deferred tax is provided in accordance with FRS19 on all timing differences that have originated but not reversed by the balance sheet. Deferred tax assets are only recognised to the extent that they are regarded as recoverable.

In line with the requirements of the SORP, the allocation method used to calculate the tax relief on expenses charged to capital has been changed to the 'marginal' basis. Under this basis if taxable income is capable of being offset entirely by revenue expenses then no tax relief is transferred to capital. As this is a change in allocation method only the prior year figures have not been restated. The effect of this change in allocation method has been to reduce the current year revenue tax charge and increase the return on capital account by £0.5m.

vi. Foreign currency

Transactions denominated in foreign currencies are converted at actual exchange rates as at the date of the transaction or, where appropriate, at the rate of exchange in a related forward exchange contract. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end or, where appropriate, at the rate of exchange in a related forward exchange contract. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the capital reserve or in the revenue account depending on whether the gain or loss is of a capital or revenue nature respectively.

vii. Finance costs

In accordance with FRS4 'Capital Instruments', the £50 million debenture is stated at the amount of net proceeds immediately after issue plus the appropriate accrued finance costs at the balance sheet date. The finance costs on such borrowings, being the difference between the net proceeds of a borrowing and the total payments that may be required in respect of that borrowing, are allocated to periods over the term of the debt at a constant rate on the carrying value.

Notes to the Accounts continued

	2003 £'000	2002 £'000
1. Income		
Income from investments		
Overseas dividends	5,914	5,880
Overseas interest	88	162
	6,002	6,042
Other income		
Deposit interest	115	439
Stock lending	51	—
	166	439
Total income	6,168	6,481
Total income comprises:		
Dividends	5,914	5,880
Interest from investments	88	162
Other income	166	439
	6,168	6,481
Analysis of income from investments:		
Listed overseas	5,849	6,042
Unlisted overseas	153	—
	6,002	6,042

	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000
2. Management fee						
Management fee	354	1,418	1,772	448	1,790	2,238
VAT irrecoverable	2	10	12	1	5	6
	356	1,428	1,784	449	1,795	2,244

Notes to the Accounts continued

	2003 £'000	2002 £'000
3. Other administrative expenses		
Other management expenses	**318**	345
Directors' fees[1]	**65**	62
Auditors' remuneration[2]	**18**	18
Professional fees	**40**	20
VAT irrecoverable	**7**	3
	448	448

[1]The Chairman is paid at the rate of £20,000 per annum (2002: £20,000), Chairman of the Audit Committee £16,000 (2002: £16,000), other Directors at the rate of £13,500 per annum each (2002: £13,500). The total Directors' fees of £65,266 (2002: £62,205) comprise £65,266 (2002: £62,205) in respect of aggregate emoluments paid to Directors. Mr Palmer waived his emoluments of £13,500 (2002: £13,500). Please refer to the Remuneration Report on page 30 for further details.

[2]For the year ended 31st December 2003, a fee of £3,620 (2002: £2,955) was paid to PricewaterhouseCoopers LLP in respect of services not directly connected with the audit. This is included within 'other management expenses'.

	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000
4. Interest payable						
Interest on £50m debenture	**695**	**2,781**	**3,476**	695	2,781	3,476
Interest on bank loan and overdraft	**164**	**655**	**819**	345	1,378	1,723
	859	**3,436**	**4,295**	1,040	4,159	5,199

Notes to the Accounts continued

	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000
5. Taxation						
UK corporation tax at 30%	**862**	**—**	**862**	835	—	835
Relief relating to overseas taxation	**(862)**	**—**	**(862)**	(835)	—	(835)
Tax relief to capital	**—**	**—**	**—**	834	(834)	—
Overseas taxation	**862**	**—**	**862**	838	—	838
Prior year tax debtor written off	**14**	**—**	**14**	—	—	—
	876	**—**	**876**	1,672	(834)	838

The actual tax charge reconciles to the tax charge on Revenue before taxation based on the standard rate of corporation tax of 30% as follows:

	2003 %	2002 %
Standard rate of UK corporation tax	**30.00**	30.00
Income taxed in different periods	**0.48**	(0.10)
Brought forward revenue expenses	**(11.34)**	(11.51)
Tax relief to capital	**—**	18.36
Overseas tax written off in accounts	**0.31**	0.05
Effective rate based on tax charge against revenue before tax	**19.45**	36.80

The Company has an unrecognised deferred tax asset of £4,067,599 (2002: £2,986,280). This has arisen from deductible expenses exceeding taxable income. As the Directors believe this situation exists year-on-year, there are no foreseeable circumstances in which this asset will be utilised.

	2003 £'000	2002 £'000
6. Dividends		
Dividends on ordinary shares		
(Overaccrual)/underaccrual of prior year dividend	**(71)**	10
Final dividend payable 6.80p (2002: 4.80p) per share	**3,631**	2,820
	3,560	2,830

7. Return per ordinary share

The revenue and capital returns per ordinary share are based on the revenue and capital attributable to ordinary shareholders of £3,629,000 (2002: £2,872,000) and gains of £44,820,000 (2002: losses of £174,438,000) respectively and on the weighted average number of ordinary shares in issue during the year of 56,641,123 (2002: 60,507,531).

Notes to the Accounts continued

	2003 £'000	2002 £'000
8. Investments		
Investments listed on a recognised investment exchange	**335,870**	352,405
Unlisted investments	**11,157**	11,215
	347,027	363,620

	Listed £'000	Unlisted £'000	Total £'000
Analysis of investments:			
Opening book cost	418,991[1]	12,547[1]	431,538[1]
Opening unrealised losses	(66,586)	(1,332)	(67,918)
Opening valuation	352,405	11,215	363,620
Movements in the year:			
Purchases at cost	64,874	–	64,874
Sales – proceeds	(125,555)	–	(125,555)
Realised gains	16,050	–	16,050
Net change in unrealised losses	28,096	(58)	28,038
	335,870	11,157	347,027

[1]Restated due to a reclassification of an investment.

	Listed £'000	Unlisted £'000	Total £'000
Closing book cost	329,870	12,547	342,417
Closing unrealised gains/(losses)	6,000	(1,390)	4,610
	335,870	11,157	347,027

During the year, prior year unrealised losses has been transferred to realised as disclosed in note 13. This was derived from the following sources:

Listed £'000	Unlisted £'000	Total £'000
44,490	–	44,490

At 31st December 2003 the Company held 10% or more of a class of the issued share capital, of the following companies which are valued in the accounts at the Company's share of net assets.

	2003	2002
Fleming US Discovery Fund III	**16.3%**	16.3%
Select Foods	**20.1%**	20.1%

The unlisted investments include equity investments valued at £9,298,633 (2002: £9,125,286).

The Company does not exercise significant influence over the operating and financial policies of the above mentioned companies which are therefore not considered to be associated companies.

Stock lending details	2003 £'000	2002 £'000
Fee income (net) from stock lending during the year	**51**	–

The aggregate value of securities on loan as at 31st December 2003 amounted to £1,129,000 and the maximum value of stock on loan during the year ended 31st December 2003 was £4,537,000. Collateral, with a value equivalent to a minimum of 105% of the outstanding value of stocks on loan, is obtained by JPMorgan Chase & Co. Limited as agent to the Company. Collateral is held in the form of certificates of deposit, letters of credit or bonds.

Notes to the Accounts continued

	2003 £'000	2002 £'000
9. Debtors		
Sales for future settlement	**119**	–
Taxation	**–**	14
Currency receivable	**1,211**	–
Other debtors	**83**	78
Unrealised gains on forward foreign currency transactions	**7,733**	419
Dividends and interest receivable	**449**	518
	9,595	1,029

	2003 £'000	2002 £'000
10. Creditors		
Amounts falling due within one year		
Securities purchased for future settlement	**67**	1,550
Interest payable	**217**	207
Other creditors	**3**	–
Accrued expenses	**92**	95
Dividend payable on ordinary shares	**3,631**	2,820
Repurchase of ordinary shares	**1,214**	–
Currency payable	**1,210**	–
Loan of US$40 million at a fixed rate of 6.665%		
maturing June 2003[1]	**–**	24,846
	6,434	29,518

[1]Borrowed from The Royal Bank of Scotland at a floating rate of interest. The effective rate payable by the Company was fixed by entering into an interest rate swap agreement with National Australia Bank. Secured by a floating charge on the assets of the Company. This loan was repaid on 30th June 2003.

	2003 £'000	2002 £'000
11. Creditors		
Amounts falling due after more than five years		
£50 million debenture at a fixed rate of 6.875%		
maturing June 2018[1]	**49,579**	49,551
	49,579	49,551

[1]Secured by a floating charge on the assets of the Company. The principal amount of the £50m debenture has been hedged by purchasing Sterling against US$ out to 5th October 2011.

On 4th December 2003, the Company entered into a US$20m revolving credit facility with The Royal Bank of Scotland. Interest will be charged at LIBOR plus a margin. At 31st December 2003, this facility remained undrawn.

Fair values are shown in note 18.

Notes to the Accounts continued

	2003 £'000	2002 £'000
12. Share capital		
Issued and fully-paid share capital		
Ordinary shares of 25 pence each		
Opening balance	**14,686**	15,243
Repurchase of 5,347,361 (2002: 2,426,000) ordinary shares	**(1,337)**	(606)
Issue of Nil (2002: 195,945) ordinary shares	**–**	49
Closing balance[1]	**13,349**	14,686
Total share capital	**13,349**	14,686

[1]Represented by 53,396,302 shares of 25p each (2002: 58,743,663 shares).

Authorised:		
90,904,952 ordinary shares of 25p each	**22,726**	22,726

	Share Premium account £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
13. Reserves					
Opening balance	**18,906**	**4,147**	**315,140**	**(68,397)**	**10,611**
Net currency losses on cash and short-term deposits held during the year	–	–	**(2,326)**	–	–
Realised gain on investments	–	–	**16,050**	–	–
Transfer on disposal of investments	–	–	**(44,490)**	**44,490**	–
Net change in unrealised losses	–	–	–	**28,038**	–
Realised gain on US dollar loan	–	–	**606**	–	–
Unrealised loss now realised on US dollar loan	–	–	**(898)**	**898**	–
Unrealised gain on outstanding currency transactions	–	–	–	**1**	–
Change in unrealised gain on forward foreign currency transactions	–	–	–	**7,314**	–
Transfer on repurchase of ordinary shares	–	**1,337**	–	–	–
Repurchase of ordinary shares	–	–	**(26,905)**	–	–
Management fee and finance costs charged to capital	–	–	**(4,864)**	–	–
Other capital credits	–	–	**1**	–	–
Retained net revenue for the year	–	–	–	–	**69**
Closing balance	**18,906**	**5,484**	**252,314**	**12,344**	**10,680**

Notes to the Accounts continued

	Net asset value per share		Net assets attributable	
	2003	2002	**2003**	2002
			£'000	£'000
14. Net asset value per share				
Ordinary shares[1]	**586.3p**	502.3p	**313,077**	295,093

[1]Net asset value per ordinary share is based on net assets at the year end and on 53,396,302 (2002: 58,743,663) ordinary shares, being the number in issue at the year end.

	2003	2002
	£'000	£'000
15. Reconciliation of movements in shareholders' funds		
Opening shareholders' funds	**295,093**	479,778
Return on ordinary activities after taxation	**48,449**	(171,566)
Issue of ordinary shares	**–**	1,605
Repurchase of ordinary shares	**(26,905)**	(11,894)
Dividends appropriated during the year	**(3,560)**	(2,830)
Closing shareholders' funds	**313,077**	295,093

	2003	2002
	£'000	£'000
16. Cash flow statement		
Reconciliation of revenue before interest and taxation to net cash inflow from operating activities		
Income before interest payable and taxation	**5,364**	5,584
Decrease in accrued income	**69**	226
Increase in other debtors	**(5)**	–
Decrease in accrued expenses	**(3)**	(64)
Tax on investment income	**(862)**	(838)
Expenses charged to capital	**(1,428)**	(1,795)
	3,135	3,113
Reconciliation of net cash flow to movement in net debt		
Increase/(decrease) in cash for the year	**5,281**	(19,787)
Cash outflow from change in debt	**24,240**	–
Change in net debt arising from cash flows	**29,521**	(19,787)
Effect of change in other movements	**(28)**	(29)
Effect of changes in foreign exchange rates	**(1,720)**	256
Movement in net debt for the year	**27,773**	(19,560)
Net debt at beginning of year	**(64,884)**	(45,324)
Closing net debt	**(37,111)**	(64,884)

Notes to the Accounts continued

16. Cash flow statement continued

Analysis of net debt	2002 £'000	Cash flow £'000	Exchange movement £'000	**2003** **£'000**
Cash at bank and in hand	9,513	5,281	(2,326)	**12,468**
Bank loan of US$40 million	(24,846)	24,240	606	**–**
£50 million debenture	(49,551)	–	(28)	**(49,579)**
Closing balance	(64,884)	29,521	(1,748)	**(37,111)**

17. Transactions with JPMorgan Fleming

Details of the management and performance fees are set out on page 24. This states that JPMorgan Fleming Asset Management (UK) Limited ('JPMFAM') will not make any charge on the Company for investments made in JPMFAM managed funds. There were no outstanding amounts due to JPMFAM at the year end (2002: £nil). Details of the management fee paid to JPMFAM for the year can be found in note 2, page 40. In addition, JPMFAM was paid £100,308 for the marketing of its savings products detailed on page 52 (2002: £99,940). Other management expenses, as shown in note 3 on page 41, include a safe custody rebate of £15,059 (2002: fee of £5,990). These fees were paid to JPMorgan Chase Bank on behalf of the Company. During 2003 we received a rebate from the custodians due to a change in the underlying fee.

The Company has been informed that certain of its dealing transactions may be subject to soft commission arrangements.

JPMFAM carries out some of its dealing transactions through other group subsidiaries. These transactions are carried out at arm's length. The commission paid in the year was £nil (2002: £nil).

The Company holds investments in funds managed by JPMFAM. At 31st December 2003 these were valued at £16.0m (2002: £16.8m) and represented 4.6% of the Company's investment portfolio (2002: 4.6%). The Company made no purchases of such investments in the year (2002: nil) and made sales with a total value of £4.0m (2002: £4.0m). Investment income of £104,000 was received from these funds during the year (2002: Nil).

The Company has received £51,255 (2002: £nil) as a result of stock lending transactions during the year. JPMFAM commissions in respect of such transactions amounted to £12,814 (2002: £nil).

Notes to the Accounts continued

18. Financial instruments

The Company's financial instruments comprise:

- Investments including equity and non-equity shares with international exposure. These are held in accordance with the Company's investment objective and policies;
- Short-term debtors, creditors and cash amounts arising directly from its operations;
- Bank loans in US Dollar, for which the main purpose is to raise finance for the Company's operations;
- Derivative transactions which the Company can also enter into (principally an interest rate swap (none currently entered into) and forward foreign currency transactions) the purpose of which is to manage the interest rate and currency risks arising from the Company's investment activities and bank loan; and
- Debenture issued by the Company;

As an investment trust, the Company invests in securities for the long-term. Accordingly it is, and has been throughout the year under review, the Company's policy that no short-term trading in investments or other financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments is market price risk which incorporates both foreign currency and interest rate risk. The Board's policy for managing these risks is summarised below. These policies have remained unchanged since the beginning of the year to which these financial statements relate (2002: same).

Market Price Risk

Market risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Company might suffer through holding market positions in the face of price movements.

The Board meets on at least four times a year to consider, inter alia, the asset allocation of the portfolio. The manager has responsibility for monitoring the existing portfolio selected in accordance with the Company's investment objectives and seeks to ensure that individual stocks also meet an acceptable risk-reward profile.

Interest Rate Risk

The Company finances its operations through bank borrowings and retained profits. The Company borrows in the desired currencies at floating rates of interest and then can use an interest rate swap to both generate the desired interest rate profile and, to manage the exposure to interest rate fluctuations. At the year end, the Company's borrowing was at a fixed rate.

Notes to the Accounts continued

18. Financial instruments continued

Foreign Currency Risk

The income and capital value of the Company's investments can be affected by exchange rate movements as most of the Company's assets and income are denominated in currencies other than sterling which is the Company's reporting currency.

The Board has identified three principal areas where foreign currency risk could impact the Company:

- Movements in rates affect the value of investments;
- Movements in rates affect short-term timing differences; and
- Movements in rates affect the income received.

The Company may be subject to short-term exposure to exchange rate movements, for instance where there is a difference between the date an investment purchase or sale is entered into and the date when settlement occurs. When it is considered appropriate, the Company manages its exposure to foreign currency risk by hedging its US Dollar investments and US Dollar loan exposure.

Credit Risk

Certain transactions in securities that the Company enters into exposes it to the risk that the counterparty will not deliver the investment (purchase) or cash (sale) after the Company has fulfilled its responsibilities. The Company only buys and sells investments through brokers, which have been approved by JPMFAM as an acceptable counterparty. In addition, limits are set as to the maximum exposure to any individual broker that may exist at any time.

Liquidity Risk

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

The material accounting policies adopted in accounting for financial instruments are disclosed on page 39.

With the exception of the note on currency exposures, the Company has excluded short-term debtors and creditors from the following analyses.

Currency Exposures

An analysis of the Company's net currency assets and liabilities at 31st December 2003 is:

	US$ £m
Investments	345.8
Net monetary assets	20.6
Effect of derivative financial instruments	(42.3)
Total	324.1

An analysis of the Company's net currency assets and liabilities at 31st December 2002 is:

	US$ £m
Investments	363.6
Net monetary liabilities	(17.1)
Effect of derivative financial instruments	(49.6)
Total	296.9

Notes to the Accounts continued

18. **Financial instruments** continued

Interest Rate Risk Profile of Financial Assets and Financial Liabilities

Assets

The majority of the Company's financial assets are equity shares or other investments which neither pay interest nor have maturity dates. However, the portfolio does contain certain investments which exhibit one or both of these characteristics. Short-term debtors have been excluded from this disclosure. The analysis of such as at 31st December is:

	2003 £m[1]	2002 £m[1]
Fixed rate investments	1.9	2.1

[1]These are US Dollar exposures which have been expressed in sterling terms.

The average period for fixed rate investments is two years (2002: two years) with an interest rate on an average weighted basis of 4.23% (2002: 4.68%).

Liabilities

The Company has a £50m debenture at a fixed rate of 6.875%. Details are given in note 11 on page 44. The Company had entered into an interest rate swap agreement in relation to the $40 million loan with the Royal Bank of Scotland which was paid off during the financial year.

Fair Value of Financial Instruments

Financial assets and liabilities are included in the balance sheet at values which represent fair values except in respect of the items disclosed below.

	Accounts value		Fair value	
	2003 £m	2002 £m	2003 £m	2002 £m
US$40 million loan	—	24.8	—	25.2
£50 million debenture	49.6	49.6	51.8	53.8
	49.6	74.4	51.8	79.0

Information about the Company

FINANCIAL CALENDAR

Financial year end	31st December
Interim results announced	July/August
Final results announced	March
Dividend on ordinary shares paid	May
Annual General Meeting	April

History

JPMorgan Fleming American Investment Trust plc has its origins in the Alabama, New Orleans, Texas and Pacific Junction Railways Company, Limited which was formed in 1881 to acquire interests in, and to undertake the completion of, three American railroads – the Vicksburg and Meridian; the Vicksburg, Shreveport and Pacific; and the New Orleans and North Eastern. In 1917 the Company was reorganised, a proportion of the railroad interests were sold, and the investment powers were widened enabling its assets to be invested in several countries including the United Kingdom. To reflect the new objectives the name was changed to The Sterling Trust. The Company's investment policy reverted to North American securities in 1982 when the name was changed to The Fleming American Investment Trust plc. The name was changed to its present form in April 2002. JPMorgan Fleming has been the Company's manager and secretary since 1966.

Company Numbers

Company registration number: 15543
Stock Exchange Sedol Number: 0846505

Market Information

The Company's net asset value ('NAV') is published daily, via the London Stock Exchange.

The Company's shares are listed on the London Stock Exchange. The market price of the ordinary shares is shown daily in the Financial Times, The Guardian, The Times, The Daily Telegraph, and The Scotsman and on the JPMorgan Fleming Internet site.

Share Transactions

The 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, Personal Equity Plan.

Manager and Secretary

J.P. Morgan Fleming Asset Management (UK) Limited

Company's Registered Office

Finsbury Dials, 20 Finsbury Street,
London EC2Y 9AQ

Please contact Hilary Lowe regarding company secretarial and administrative matters at the above address or telephone 020 7742 6000.

Auditors

PricewaterhouseCoopers LLP, Southwark Towers, 32 London Bridge Street, London SE1 9SY

Brokers

Cazenove Securities, 20 Moorgate, London EC2R 6DA

Registrars

Lloyds TSB Registrars, Reference 1077,
The Causeway, Worthing, West Sussex, BN99 6DA
Telephone number: 01903 502 541

Notifications of changes of address and enquiries regarding share certificates or dividend cheques should be made in writing to the Registrar quoting reference 1077.

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

AI TC The Company is a member of The Association of Investment Trust Companies

Investing through JPMorgan Fleming

JPMorgan Fleming operate a range of savings products which enable investors to purchase shares in its range of investment trusts as follows:

Share Plan

The Investment Trust Share Plan is a low-cost savings plan allowing investments in any of the JPMorgan Fleming managed investment trusts, as shown opposite. The minimum investment is £50 per month or a lump sum of £500. There is a 1% transaction charge (plus 0.5% Government stamp duty) on all purchases, with a minimum charge of £1 and a maximum charge of £50 for each transaction in each trust.

Individual Savings Account ('ISA')

All of the JPMorgan Fleming managed investment trusts are available through either a mini or maxi stocks and shares component ISA. Under current legislation, investments grow free of income and capital gains tax. The minimum investment is £100 per month per trust or a lump sum of £1,000 per trust, subject to the overall annual allowances.

Personal Equity Plan ('PEP')

Although no new subscriptions can be made to a PEP, existing plans from other managers can be transferred into the Investment Trust PEP. The annual management charge is a flat fee of £25 plus VAT per trust.

Pension Account

The Investment Trust Pension Account is simple, flexible and low cost. There is no annual account charge and only a 0.3% dealing charge on purchases (0.5% Government stamp duty is also payable, excluding the Cash Fund). There are five investment choices: JPMorgan Fleming Elect – Managed Growth and Managed Income share classes, JPMorgan Fleming Claverhouse, JPMorgan Fleming Overseas and the Cash Fund.

Under current regulations, tax relief is available on all contributions and investments grow free of capital gains tax. The minimum investment is £100 gross per month or £1,000 gross lump sum.

It also allows you to stop, start, increase and decrease contributions at any time.

To find out more about JPMorgan Fleming American and how to invest, visit

www.jpmorganfleming.com/its

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The investment trust range managed by JPMorgan Fleming

JPMorgan Fleming American	Capital growth from North American investments
JPMorgan Fleming Asian	Capital growth from Asian investments, excluding Japan
JPMorgan Fleming Chinese	Capital growth from Greater China investments
JPMorgan Fleming Claverhouse	Capital and income growth from UK investments
JPMorgan Fleming Continental European	Capital growth from Continental European investments
JPMorgan Fleming Elect	Managed Growth – Long-term capital growth from investing in a range of investment trusts and open-ended funds managed principally by JPMorgan Fleming. Managed Income – Growth of income with potential for long-term capital growth by investing in equities, higher yielding shares of investment trusts and fixed income securities. Managed Cash – Preservation of capital with a yield based on short-term interest rates by investing in a range of liquidity funds. Shareholders can convert between the above share classes twice a year without liability to UK Capital Gains Tax under current UK tax laws.
JPMorgan Fleming Emerging Markets	Capital growth from emerging markets worldwide
JPMorgan Fleming European Fledgeling	Capital growth from smaller Continental European companies
JPMorgan Fleming Income & Capital	Income and capital growth from UK investments through a split-capital structure
JPMorgan Fleming Income & Growth	Income and capital growth from higher-yielding investments through a split-capital structure
JPMorgan Fleming Indian	Capital growth from investment in India
JPMorgan Fleming Japanese	Capital growth from Japanese investments
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