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JUPITER SECOND SPLIT TRUST PLC

Report and Accounts

**For the year ended
31 October 2011**

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Investment Objective, Investment Policy and Benchmark Index

The Company's current Investment Objective, Investment Policy and Benchmark Index are as follows

Investment Objective

The objective of the Company is to achieve absolute returns. The Company aims to provide Geared Ordinary shareholders with capital growth, with income as a secondary objective and to provide Zero Dividend Preference shareholders with a predetermined final capital entitlement on the Winding-Up Date.

Investment Policy

The investment policy of the Company is to invest in listed equities and equity related securities (such as contracts for difference, convertible securities, preference shares, convertible unsecured loan stock, warrants and other similar securities).

The Investment Manager ('Jupiter Asset Management Limited') is not limited in the asset allocation of the Company's investment portfolio between sectors, geographic regions or the types of equities and equity related securities in which the Company may invest, but instead the Investment Manager considers each potential investment on its own merits. The Investment Manager focuses on the sectors that it considers to be the most undervalued areas of the market from time to time and the allocation of assets between different sectors will be determined by the Investment Manager in his absolute discretion.

In addition to equities, and equity related securities (including derivatives), the types of investment and assets in which the property of the Company may be invested include cash, near cash, fixed interest securities, currency exchange transactions, index linked securities, money market instruments (MMIs) and deposits.

These instruments may be used for the purposes of both efficient portfolio management and, where it is considered to be appropriate for investment purposes by the Investment Manager and the Board, to adopt an investment strategy aimed at achieving positive returns across market cycles with low levels of volatility. This strategy will seek to take advantage of specific macroeconomic circumstances and market pricing anomalies.

At times the portfolio may be concentrated in any one or a combination of such assets and as well as holding physical long positions the Investment Manager may create synthetic long and short positions through the use of equity related securities.

The Investment Manager will seek to limit volatility through diversified portfolio holdings and sector exposures, active management of the Company's net and gross portfolio exposure to the market, and through the use of derivatives.

The Company's investment portfolio is focused on companies where, in the opinion of the Investment Manager, valuations are low and growth in earnings or assets is not fully appreciated. The Investment Manager seeks to identify companies within growth industries which enjoy certain key characteristics, including an imaginative, proven and incentivised management team and balance sheet strength.

The Company manages an adequate spread of investment risk, with no one investment making up more than 15 per cent of the Total Assets of the Company at the time of investment.

The Board has not set an objective of a specific Portfolio Yield for the Company and the level of such yield is expected to vary with the sectors and geographical regions to which the Company's portfolio is exposed at any given time. However, substantially all distributable revenues that are generated from the Company's investment portfolio are expected to be paid out in the form of annual dividends.

It is the Company's stated policy that not more than 10 per cent, in aggregate, of Total Assets may be invested in other UK listed investment companies unless such companies have stated investment policies to invest no more than 15 per cent of their Total Assets in other UK listed investment companies (including listed investment trusts).

The Company may make use of short-term borrowings such as an overdraft facility for liquidity and investment purposes in order to gear the returns on the Company's investment portfolio but in any event borrowings will not exceed, at any one time, 25 per cent of Total Assets without shareholder approval by ordinary resolution.

The Company may also hedge currency exposures and unlisted securities (up to a maximum of 5 per cent of Total Assets).

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■ **Investment Objective, Investment Policy and Benchmark Index** continued

Any material change in the investment policy of the Company described above may only be made with the approval of Shareholders by an ordinary resolution and the separate class approval of Geared Ordinary shareholders

Benchmark Index

3 month sterling LIBOR calculated as at the first business day of each calendar month

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■ Company Information**Directors**

G A Campbell, *Chairman*
R N G Pavry
H D Hill
Lord Lamont of Lerwick

**Investment Manager, Secretary
and Registered Office**

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Auditors

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Subsidiary Company

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1 Grosvenor Place
London SW1X 7JJ

Both classes of shares of the Company and the Packaged Units are listed on the London Stock Exchange and their prices are published daily in the Financial Times under 'Investment Companies'

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■ **Company Information** continued

Sedol Number

Geared Ordinary shares B4268J87

Zero Dividend Preference shares B426412

Packaged Units B40T769

ISIN

Geared Ordinary shares GB00B4268J87

Zero Dividend Preference shares GB00B4264123

Packaged Units GB00B40T7695

Ticker

Geared Ordinary shares JSS

Zero Dividend Preference shares JSSZ

Packaged Units JSSU

Company Registration Number 5207714

An Investment Company under s 833 of the Companies Act 2006



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■ Directors

Gordon A Campbell*

is the Chairman of the Company. He has extensive experience in the governance of UK public listed companies. He was formerly the Chairman of Babcock International Group PLC and, a non-executive Chairman of British Nuclear Fuels plc. He is also a non-executive director of Accsys Technology plc. He was previously Chief Executive of Courtaulds PLC and was also a former non-executive director of Argos plc.

Harry D Hill*

is the Chairman of the Audit Committee. He is experienced in the financial markets, being the former Chairman of Countrywide plc (formerly Countrywide Assured Group plc). Mr Hill has served on the board of Countrywide plc for 23 years.

Richard N G Pavry

is an employee of Jupiter Asset Management Limited where he is responsible for closed ended funds. He is a practising solicitor.

**The Rt Honourable Lord Lamont
of Lerwick**

was Chancellor of the Exchequer from November 1990 until May 1993 and also was a director of N M Rothschild & Sons Limited. He is a director of Balli Group PLC, RAB Capital plc and IO Adna Limited.

**Members of the Audit Committee*

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Financial Highlights

Capital Performance

	31 October 2011	31 October 2010	% change
Total Assets less current liabilities (£'000)	225,760	223,671	+0.9
Benchmark Index 3 month Sterling LIBOR (%)	0.98669	0.74100	
Total Return (%)*	1.7	5.0	

Share Performance

	31 October 2011	31 October 2010	% change
Zero Dividend Preference shares			
Mid-market price (pence)	34.75	32.75	+6.1
Net Asset Value (pence)	33.13	30.99	+6.9
Premium (%)	4.9	5.4	
Geared Ordinary shares			
Mid-market price (pence)	36.38	41.25	-11.8
Net Asset Value (pence)	38.08	41.40	-8.0
Discount (%)	4.5	0.4	
Total dividends declared for the year (pence)	0.90	0.80	+12.5
Packaged Units			
Mid-market price (pence)	102.63	103.50	-0.8
Net Asset Value (pence)	104.34	103.38	+0.9
(Discount)/Premium (%)	(1.7)	0.1	

Revenue Performance

	Year to 31 October 2011	Year to 31 October 2010	% change
Revenue after taxation (£'000)	1,928	2,569	-25.0
Return per Geared Ordinary share (pence)	0.89	1.18	-25.0

*The change in total assets plus dividend paid during the year expressed as a percentage of total assets at the start of the year

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Chairman's Statement

At 31 October 2011 your Company's Total Assets less current liabilities were £225 760,000. This represents an increase in Total Assets for the year to 31 October 2011 of 0.9 per cent compared to a return on cash of 0.8 per cent over the year, based on the Company's Benchmark Index, 3 month sterling LIBOR.

The geared split capital structure of the Company meant that the Net Asset Value (including income and expenses) of the Company's Geared Ordinary shares decreased by 8.0 per cent in the year to 30 October 2011. The Net Asset Value of the Zero Dividend Preference shares increased by 6.9 per cent during the same period.

The Packaged Units are not geared by the Company's split capital structure since they comprise one Geared Ordinary share and two Zero Dividend Preference shares. The Net Asset Value of the Packaged Units rose by 0.9 per cent over the period to 104.34p.

Dividend

On 19 December 2011 the board announced the payment of an interim dividend for the year ended 31 October 2011 of 0.9p (net) (31 October 2010: 0.8p (net)) per Geared Ordinary share. The dividend was paid on 31 January 2012 to Geared Ordinary shareholders (and to the holders of Geared Ordinary shares within the Packaged Units) who appeared on the register of shareholders on 6 January 2012.

General Meeting

On 30 September 2011 the Company held a General Meeting to approve the allotment of shares, the disapplication of pre-emption rights and the amendment to the Articles of Association. I am pleased to report that all resolutions were passed unanimously. This authority shall expire at the forthcoming Annual General Meeting. During the period since 30 September 2011 no shares were issued because an opportunity to issue shares at par or at a premium in such a manner that would not disadvantage either share class did not present itself. You will see on page 51 that the board are seeking to renew this authority at the forthcoming Annual General Meeting so that they are able to continue to manage any premium at which the Packaged Units (or the underlying shares comprising each Packaged Unit) trade relative to their prevailing Net Asset Value.

Outlook

Signs of economic slowdown in Europe are accumulating and there is ongoing concern about whether an orderly solution can be found to the region's debt crisis. Steps by the European Central Bank ('ECB') to ease liquidity pressures in the banking sector are seen as tacit support for the region's bond markets and are being conducted in a manner which avoids a legal compromise and circumvents German opposition, at least for now. Under this programme, the ECB's balance sheet is expected to expand considerably, particularly in the face of large-scale government and bank debt rollovers in coming months. However, the problems in Europe remain acute. In January Standard & Poor's, the credit ratings agency, downgraded a number of European countries including France, which will make it more difficult for the European Financial Stability Facility (EFSF) to attract money. Meanwhile, the fiscal position in Greece continues to deteriorate amid a deep economic contraction and it appears that bond holders will be required to take a sizeable haircut and might still face default. By contrast the recent news-flow from the US and China has been more positive than widely expected and this might provide some support to asset markets if the worst expectations for the eurozone can be avoided.

These are highly complex times for the global economy. Your manager continues to take positions aimed at profiting from global imbalances, while seeking to neutralise asset price risk where appropriate.

Gordon Campbell

Chairman

17 February 2012

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■ Manager's Review

For the year to 31 October 2011 the value of the Company's total assets increased by 0.9 per cent compared to an average of 0.8 per cent * for its benchmark, the 3 month Sterling LIBOR Index. From the Company's reconstruction on 3 November 2009 to 30 October 2011, the value of total assets has increased by 6.0 per cent compared to an average of 1.3 per cent * for the Company's benchmark.

Market review

Economic uncertainty and market turbulence were central features of the year under review. Early hopes for a sustained recovery in the global economy were muted by a number of events – the devastating earthquake in Japan, the Arab Spring and protracted monetary tightening in emerging markets. However, these were largely overshadowed by the problems western politicians faced in their attempts to reduce debt levels without creating economic instability. A downturn in lead indicators across the West during the summer exacerbated concern about how the sovereign debt problem would be solved. This was most evident in the eurozone, which saw its fragile banking sector come under extreme pressure. At a time when Greece's bonds were priced for default and contagion fears grew, political negotiations in the region exposed deep divisions between richer and poorer states. Late in the period equity markets were boosted by plans for bank recapitalisation in the eurozone and an enlarged bailout facility. However bond markets continued to question the strength of these proposals, leading to an increase in the yield of Italian government debt.

Policy review

Amid these uncertain conditions, we remained cautiously positioned with a focus on balance sheet disparities across the global economy. Events during the year were generally favourable to our core strategies, with the portfolio producing a modest absolute gain and outperformance of its benchmark. Sentiment towards Europe was particularly variable, and the ebullient mood at the end of the period reduced some of the gains made by the portfolio's eurozone-focused short positions. This detracted from the positive performance of long holdings in Australian government debt and exposure to gold.

We continue to hold a balance of long and short positions which aim to profit from global imbalances and have taken steps to hedge risk in equities and currencies where we believe it to be necessary. The eurozone remains a focus of our short book. This includes a short position in the euro which we believe has the potential to depreciate in the event of either a deepening of the economic slowdown or the expansion of the ECB's balance sheet as it takes steps to inject liquidity into the region. We also maintain short positions in cyclical stocks in the region, which are counter-balanced by long stock index positions. A short position in 10 year Japanese Government Bonds remains a feature of the portfolio. The yield for these bonds is less than 1.0 per cent, which appears too low for a country with the highest debt/GDP ratio in the OECD and no viable strategy for reining it in.

In our long book, we have taken the decision to reduce some of our holding in the AAA-rated Australian government debt. This is because yields have dropped in our favour and in addition there are signs that the American economy is improving. We continue to hold selective high yielding corporate bonds. In currencies, we prefer the Norwegian krone, a currency that has hardly appreciated against the euro in the past decade despite being backed by Norway's extraordinary fiscal strength. We held a tactical long in the US dollar for some of the period, which we have recently reduced on concerns that the US is continuing to pursue immensely loose monetary policies. Some exposure is also retained to gold through longs in an ETF and equities.

Outlook

Although sentiment has picked up considerably since the end of the period, there remains a great deal of uncertainty in Europe. Portugal's debt situation is precarious and may flare up in the coming months, to the detriment of Spain's banks as major holders of this debt. This might precipitate further steps by the ECB to shore up Spanish and Italian bond markets, which should sustain downward pressure on the euro. However, the current mood in markets looks set to continue while the ECB continues to inject liquidity into the banking system. There is also growing confidence that the US will avoid a recession in 2012 and data from key manufacturing countries has also been supportive. More broadly, the West continues to struggle against significant balance sheet problems, with Europe a central area of risk, and policy decisions continue to create almost daily shifts in market sentiment. For this reason we remain carefully positioned, with a focus on global fiscal imbalances.

Philip Gibbs

Fund Manager
Jupiter Asset Management Limited
17 February 2012

* Source: *Financial Express*

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■ Capital Structure

Zero Dividend Preference shares

31 October 2011

In issue: 432,723,586 Zero Dividend Preference shares of 0.35443291p each

Net Asset Value: 33.13p per share

Middle Market Price: 34.75p per share

The Zero Dividend Preference shares are designed to provide a pre-determined capital entitlement on 31 October 2014 which ranks behind the Company's creditors (if any) but in priority to the capital entitlements of the Geared Ordinary shares. The Zero Dividend Preference shares are not entitled to income and their entire return will take the form of capital. They are not entitled to the revenue reserves of the Company, if any, on a winding up, even if their entitlement could not otherwise be met.

A holder of Zero Dividend Preference shares had an initial capital entitlement of 29.0p per share on 3 November 2009. The Company's capital structure is designed to provide Zero Dividend Preference shareholders with a pre-determined capital entitlement of 40.5p per Zero Dividend Preference share on 31 October 2014.

The Zero Dividend Preference shares entitle their holders to vote at all general meetings of the Company. In addition, they carry the right to vote as a class on proposals which would be likely to materially affect their position.

Geared Ordinary shares

31 October 2011:

In issue: 216,361,793 Geared Ordinary shares of 0.57191641p each

Net Asset Value: 38.08p per share

Middle Market Price: 36.38p per share

The Geared Ordinary shares are designed to provide holders with geared capital growth and, as a secondary objective, the potential for income (where the Zero Dividend Preference shares have no entitlement).

Geared Ordinary shareholders are entitled to all the Company's surplus assets after satisfying the entitlements of the Zero Dividend Preference shares and the Company's creditors (if any) on the planned Winding-Up Date of 31 October 2014. In addition, Geared Ordinary shareholders will be entitled on a winding-up to receive any undistributed revenues of the Company, subject to all creditors having been paid out in full even if the Zero Dividend Preference shareholders do not receive their full entitlement.

The Geared Ordinary shares are geared by the Zero Dividend Preference shares both in terms of income, where the Zero Dividend Preference shares have no entitlement, and capital, where the Zero Dividend Preference shares have a fixed entitlement.

Geared Ordinary shareholders have the right to vote at general meetings of the Company. In addition, they carry the right to vote as a class on certain proposals which would be likely to affect materially their position.

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Capital Structure continued

Packaged Units

31 October 2011*

In issue 15,577,803 Packaged Units*

Net Asset Value 104 34p per Packaged Unit

Middle Market Price 102 63p per Packaged Unit

The Company's shares are also traded on the London Stock Exchange as packaged units. Each Packaged Unit comprises one Geared Ordinary share and two Zero Dividend Preference shares.

**This figure is comprised within the number of Geared Ordinary and Zero Dividend Preference shares identified as being in issue in the paragraphs above.*

Bank Borrowings

The Company may make use of short-term borrowings such as an overdraft facility for liquidity and investment purposes but in any event borrowings will not exceed, at any one time, 25 per cent of Total Assets without Shareholder approval by ordinary resolution. As at 31 October 2011 the Company had no drawn down bank borrowings.

Winding Up

The Company has a planned life until 31 October 2014, on which date the Directors are required to convene an Extraordinary General Meeting and propose a resolution requiring the Company to be wound up voluntarily unless the Directors have previously been released from that obligation by the Company's shareholders.

The limited life of the Company is designed to ensure that all shareholders can realise the underlying Net Asset Value of their shares (after liquidation costs), irrespective of their market price on the winding-up date.

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Investments held including Contract for Differences as at 31 October 2011

Company	31 October 2011 Market Value £'000	31 October 2010 Market Value £'000
Australia (Commonwealth of) 5 57% BDS 15/05/2021	28,789	17,851
Australia (Commonwealth of) 5 5% BDS 21/04/2023	24,710	–
S&P 500 Futures December 2011**	19,415	–
Altna Group 9 95% BDS 10/11/2038	14,283	21,060
EURO STOXX 50 Futures December 2011**	13,885	–
Barclays Bank Plc 14% – VAR Sub PERP	6,982	28,201
Newmont Mining CP	5,693	–
Jupiter Hyde Park Hedge Fund	5,630	5,844
Source Physical Markets Secured Gold LKD	3,703	–
Sun Hung Kai Properties	1,297	13,393
Datawind UK*	1,194	1,194
West China Cement Ltd	1,181	–
Cheung Kong (Holdings)	780	2,856
Hotel Corporation	197	599
East European Food Fund*	123	190
Total Investments	127,862	
Less Contracts for Differences	(33,300)	
Non-current assets per Consolidated Statement of Financial Position	94,562	

*Unquoted

**Held in 2011 through derivatives – Contract for Differences

Cross Holdings in Other Investment Companies

It is the Company's stated policy that not more than 10 per cent in aggregate, of Total Assets may be invested in other UK listed investment companies (including listed investment trusts). As at 31 October 2011, none of the Company's Total Assets were invested in UK listed investment companies.

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■ Classification of Investments as at 31 October 2011

2010 %	2011 %		UK %	Far East %	North America %	Other %	Europe %
		Equities					
–	6 0	Basic Materials					
–	6 0	Mining			6 0		
1 1	1 3	Telecommunications					
1 1	1 3	Mobile Telecommunications	1 3				
0 6	0 2	Consumer Services					
0 6	0 2	Travel & Leisure	0 2				
3 3	–	Financials					
3 3	–	Banks					
28 1	13 4	Financial Services					
15 6	3 4	Real Estate		3 4			
6 7	10 0	Equity Investment Instruments				9 9	0 1
5 8	–	Non-equity Investment Instruments					
66 9	79 1	Fixed Interest	7 4		15 2	56 5	–
100 0	100 0	Totals	8 9	3 4	21 2	66 4	0 1

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Report of the Directors

The Directors present their Annual Report and Accounts for the year ended 31 October 2011

Business Review

Investment Objective and Benchmark

The Company carries on business as an Investment Trust. The Company's investment objective is to generate absolute returns from a portfolio comprising predominantly equity and equity related securities in both UK companies and non-UK companies. The Company aims to provide Geared Ordinary shareholders with capital growth, with income as a secondary objective, and to provide Zero Dividend Preference Shareholders with a predetermined final capital entitlement on the planned winding-up date.

While the Company's objective is to generate absolute returns, the performance of the Company will also be measured against LIBOR.

As at the year end the Company's portfolio was predominantly invested in Cash, Government Bonds and Fixed Interest Securities. Please see the Manager's Review on page 9 for further information.

Management

The Company has no employees and most of its day-to-day responsibilities are delegated to Jupiter Asset Management Limited, who act as the Company's Investment Manager and Company Secretary. Further details of the Company's arrangement with Jupiter Asset Management Limited can be found in Note 21 to the accounts on page 50.

Investment Policy, Approach and Activities

The investment policy of the Company is shown on pages 2 and 3.

The Company currently manages its affairs so as to be a fully qualifying investment trust under the Individual Savings Account (ISA) rules. As a result, under current UK legislation, the Geared Ordinary shares qualify for investment via the stocks and shares component of an ISA up to the full annual subscription limit, currently £10,680. It is the present intention that the Company will conduct its affairs so as to continue to qualify for ISA products.

Gearing

Gearing is defined as the ratio of a Company's Total Assets to its net assets, expressed as a percentage. The effect of gearing is that in rising markets, the Company tends to benefit from any outperformance of the Company's investment portfolio above the cost of payment of the prior ranking entitlements of any lenders and other creditors. Conversely, in falling markets the value of the geared shares class suffers more if the Company's investment portfolio underperforms the cost of those prior entitlements.

The Company has access to an uncommitted overdraft facility with the Royal Bank of Scotland PLC for short-term liquidity purposes.

The Directors consider it a priority that the Company's level of gearing should be maintained at appropriate levels with sufficient flexibility to enable the Company to adapt at short notice to changes in market conditions.

Discount to Net Asset Value

The Directors review the level of the discount between the middle market price of the Company's Geared Ordinary shares and Zero Dividend Preference shares and their respective Net Asset Values on a regular basis.

The Directors have powers granted to them at the last annual general meeting to purchase Geared Ordinary shares and hold them in treasury as a method of controlling the discount to Net Asset Value and enhancing shareholder value. The Directors did not feel it necessary to make use of this facility during the year under review.

Derivative Transactions

Details of the Group's derivative transactions are set out in Note 16 to the accounts on pages 41 to 47.

The Company uses Contracts for Difference, shorts on equities, bond and index futures as a means of enhancing the Company's return. A list of the long contracts for difference can be found on page 12.

Review of the Year

As mentioned in the Manager's Review and Chairman's Statement, your Company's performance compared favourably to its Benchmark during the year under review.

During the financial year to 31 October 2011 the Company's Total Assets increased by 0.9 per cent compared to the 3 month sterling LIBOR (which is the Company's Benchmark Index adopted on 3 November 2009) which increased from 0.741 to 0.98669 during the year to 31 October 2011.

A more detailed review of your Company's performance over the past financial year can be found on pages 8 and 9 under the headings 'Chairman's Statement' and 'Manager's Review'.

Annual Information Update

As required under the Listing Rules an annual information update will be released via a regulatory announcement provider within 20 working days of the date of this report.

Risks and Uncertainties

The principal risk factors that may affect the Company and its business can be divided into the following areas:

Investment Strategy and Share Price Movement – The Company is exposed to the effect of variations in the price of its investments. A fall in the value of its portfolio will have an adverse effect on shareholders' funds. It is not the aim of the Board to eliminate entirely the risk of capital loss, rather it is its aim to seek capital growth. The Board reviews the Company's investment strategy and the risk of adverse share price movements at its quarterly board meetings taking into account the economic climate, market conditions and other factors that may have an effect on the sectors in which the Company invests.

Foreign Currency Movements – The Company has exposure to foreign currency through its overseas investments. The Board considers carefully factors which may affect the foreign currency in which the Company has an exposure at its quarterly board meetings and takes into account the economic and political climate of various regions and the prospects for sterling.

Interest Rates – The Company has exposure to cash which generates interest through interest bearing accounts. The Board is mindful of interest rates when reviewing the Company's portfolio at its quarterly board meeting.

Derivatives – The Company invests in derivatives. Derivatives are a riskier investment from equities as they can exaggerate the return that can be achieved from investing in equities. The board reviews the Company's exposure to derivatives at its quarterly board meetings.

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Report of the Directors continued

Liquidity Risk – This risk can be viewed as the liquidity of the securities in which the Company invests and the liquidity of the Company's shares. The Company may invest in securities that have a very limited market which will affect the ability of the Company's fund manager to dispose of securities when he no longer feels they offer the potential for future returns. Likewise the Company's shares may experience liquidity problems when shareholders are unable to realise their investment in the Company because there is a lack of demand for the Company's shares. At its quarterly meetings the Board considers the current liquidity in the Company's investments when setting restrictions on the Company's exposure. The Board also reviews, on a quarterly basis, the Company's buy back programme and in doing so it is mindful of the liquidity in the Company's shares.

Gearing Risk – The Company's gearing (which includes the Company's Zero Dividend Preference shares) can impact the Company's performance by accelerating the decline in value of the Company's Total Assets at a time when the Company's portfolio is declining. Conversely gearing can have the effect of accelerating the increase in the value of the Company's Total Assets at a time when the Company's portfolio is rising. At its quarterly meetings the Board was mindful of the outlook for equity markets when reviewing the Company's gearing.

Discount to Net Asset Value – A discount in the price at which the Company's shares trade to Net Asset Value would mean that shareholders would be unable to realise the true underlying value of their investment. The Directors have powers granted to them at the last annual general meeting to purchase Geared Ordinary shares and Zero Dividend Preference shares as a method of controlling the discount to Net Asset Value and enhancing shareholder value.

Regulatory Risk – The Company operates in a complex regulatory environment and faces a number of regulatory risks. A breach of section 1158 of the Corporation Tax Act 2010 could result in the Company being subject to capital gains on portfolio movements. Breaches of other regulations such as the UKLA listing rules, could lead to a number of detrimental outcomes and reputational damage. Breaches of controls by service providers such as the Investment Manager could also lead to reputational damage or loss. The Board monitors regulatory risks at its quarterly board meetings.

Credit and Counterparty Risk – The failure of the counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss. Further details of the management of this risk can be found in note 16(e) on page 44.

Loss of Key Personnel – The day-to-day management of the Company has been delegated to the Investment Manager. The person at Jupiter Asset Management Limited who manages the assets of the Company on a daily basis is Mr P K C Gibbs. Loss of the Investment Manager's key staff members could affect investment return. The Investment Manager develops its recruitment and remuneration packages in order to retain key staff, has training and development programmes in place and undertakes succession planning.

Operational – failure of the Investment Manager's core accounting systems, or a disastrous disruption to its business, could lead to an inability to provide accurate reporting and monitoring. The Investment Manager is contractually obliged to ensure that its conduct of business conforms to applicable laws and regulations. The Investment Manager has confirmed to the Board that reliable back-up systems are in place.

Financial – inadequate financial controls could result in misappropriation of assets, loss of income and debtor receipts and

inaccurate reporting of Net Asset Value per share. The Board annually reviews the Investment Manager's statements on its internal controls and procedures.

Key Performance Indicators

At its quarterly Board meetings the Directors consider a number of performance indicators to help assess the Company's success in achieving its objectives. The key performance indicators used to measure the performance of the Company over time are as follows:

- Net Asset Value changes over time
- Geared Ordinary and Zero Dividend Preference share price movements
- A comparison of the Geared Ordinary share price and Net Asset Value to the Benchmark
- Discount over varying periods
- Peer Group comparative performance
- Funds in/outflows of the retail investment wrapper products managed by the Investment Manager

A history of the Net Asset Value Geared Ordinary share price and benchmark are shown on the monthly factsheets which can be viewed on the Investment Manager's website www.jupiteronline.co.uk and which are available on request from the Company Secretary. In addition the Company's Financial Highlights can be seen on page 7.

Business and Status

During the year the Company carried on business as an investment trust. The Company is an investment Company within the meaning of Section 833 of the Companies Act 2006.

The Company is not a close company within the meaning of the provisions of the Corporation Tax Act 2010 and has no employees.

HM Revenue & Customs ('HMRC') has approved the Company as an investment trust for the purposes of Section 1158 of the Corporation Tax Act 2010 for the year ended 31 October 2010. In the opinion of the Directors the Company has subsequently conducted its affairs so as to enable it to maintain such approval. It is the Company's intention to continue to seek authorisation under Section 1158 of Corporation Tax Act 2010 ('CTA') for the year ended 31 October 2011.

Where a Company has specifically applied for it HMRC will grant investment trust status. Such approval will not preclude HMRC from opening a subsequent enquiry into the Company's tax return. The Company will be exempt from tax on capital gains on disposal of its investments for each accounting period for which approval is granted.

The Company was incorporated in the United Kingdom on 17 August 2004 and started trading on 1 November 2004, immediately following the Company's launch.

The Company has a wholly owned subsidiary, JSST Securities Limited which is an investment dealing Company.

Reviews of the Company's activities are included in the Chairman's Statement and Manager's Review on pages 8 and 9.

Annual Report and Accounts 2011

Report of the Directors continued

Results and Dividends

Results and reserve movements for the year are set out in the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Financial Position and the Notes to the Accounts

On 19 December 2011 the Company announced the payment of an Interim dividend of 0.9p (net) per Geared Ordinary share (and the Geared Ordinary shares held within the Packaged Units) which will be paid on 31 January 2012 to those shareholders who appear on the register on 6 January 2012

Capital Gains Tax Information

The prices of Geared Growth shares and the Zero Dividend Preference shares on the first date of dealing for Capital Gains Tax purposes were 39p and 60p respectively. The prices of Geared Ordinary shares and the Zero Dividend Preference shares on the first date of dealing following the reconstruction (3 November 2009) for Capital Gains Tax purposes were 40p and 30p respectively

Directors and Directors' interests

The Directors who held office at the end of the year and their beneficial interests in the Geared Ordinary shares and Zero Dividend Preference shares of the Company are shown below

	31 October 2011		
	Geared Ordinary shares	Zero Dividend Preference shares	Packaged Units
G A Campbell	1,901,368	668,343	–
H D Hill	394,451	929,259	176,122
The Rt Hon Lord Lamont	32,263	–	–
R N G Pavry (appointed 7 March 2011)	64,041	–	–

Since 31 October 2011 the Company has been advised of the following sales

	Share Class	Number	Date	Price
H D Hill	Zero Dividend Preference	60,000	11 January 2012	35.38p

No Director has a contract of service with the Company

The Directors' interests in contractual arrangements with the Company are as detailed in Note 21 to the Accounts. Subject to these exceptions, no Director was a party to or had any interest in any contract or arrangement with the Company at any time during the year or subsequently

Mr R N G Pavry, being an employee of Jupiter Asset Management Limited, the Company's Investment Manager, is subject to annual re-election at each Annual General Meeting of the Company. Mr G A Campbell will be retiring by rotation in accordance with the Company's Articles of Association and is seeking re-election as a Director.

Share Capital and Rights attaching to the Company's shares as at 31 October 2011

As at 31 October 2011 the Company's issued share capital consists of two classes of shares, 432,723,586 Zero Dividend Preference shares and 216,361,793 Geared Ordinary shares which are fully paid up

The total voting rights are 649,085,379. Each of the Zero Dividend Preference shares and Geared Ordinary shares carry one vote per share, exercisable either on a show of hands or on a poll. The notice of general meeting specifies deadlines for exercising voting rights, either in person or by proxy. Further information is set out on pages 52 and 53.

Both classes of shares are listed and traded on the London Stock Exchange. There are no restrictions on the holding or transfer of either Zero Dividend Preference shares or Geared Ordinary shares.

Shares can also be traded in Packaged Units comprising two Zero Dividend Preference shares and one Geared Ordinary share. The Company is not aware of any restrictions on the transfer of Zero Dividend Preference shares or Geared Ordinary shares other than any restrictions that may from time to time be imposed by laws and regulations (for example insider trading laws).

The Company is not aware of any agreements between shareholders that restrict the transfer of Zero Dividend Preference shares or Geared Ordinary shares.

Annual Report and Accounts 2011

Report of the Directors continued

Notifiable Interests in the Company's Voting Rights

As at 31 October 2011, the following had declared a notifiable interest in the Company's voting rights

		Number of Voting Shares	% of Voting Rights
Jupiter Asset Management Limited	Geared Ordinary	107,784,130	16.6
	Zero Dividend Preference	4,622,020	0.7
	Packaged Units	4,532,379	0.7
	Total	116,809,000	18.01
Rensburg Sheppards Investment Management Limited	Geared Ordinary	3,357,930	0.5
	Zero Dividend Preference	48,052,044	7.4
	Packaged Units	–	–
	Total	51,409,974	7.9
Investec Wealth & Investment Limited	Geared Ordinary	1,825,209	0.3
	Zero Dividend Preference	42,771,983	6.6
	Packaged Units	–	–
	Total	44,597,192	6.9

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

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

As the Company does not have any employees it also does not have an employee share scheme

The Power of Directors

The Articles of Association require that one third of the Directors retire by rotation at each Annual General Meeting ('AGM') and put themselves forward for re-election via an Ordinary resolution. Shareholders can remove a Director by Ordinary resolution at a General Meeting. Directors are elected at General Meetings by Ordinary resolution.

Amendment to the Articles of Association and powers to issue or buy back the Company's shares require a special resolution to be passed by combined shareholders at a General Meeting. The rules governing the Directors' powers to buy back shares or reissue shares are detailed on pages 20 and 21 under the heading "Special Business at the Annual General Meeting".

Statement of Corporate Governance

Application of the UK Corporate Governance Code and the codes of other corporate bodies

This statement, together with the Statement of Directors' Responsibilities on page 24, indicates how the principles of the UK Corporate Governance Code (the 'Code') issued in May 2010 and the AIC's Code of Corporate Governance (the 'AIC Code') issued by the Association of Investment Companies in October 2010, have been applied to the affairs of the Company. The Financial Reporting Council

has confirmed that investment companies which report against the AIC Code and which follow the AIC Corporate Governance Guide will meet their obligations in relation to the Code and paragraph 9.8.6 of the Listing Rules.

Compliance with the UK Corporate Governance Code (the 'Code')

The Board believes that subject to the appointment of a senior independent director (A1.2) the Company has complied with the provisions set out in section 1 of the Code and with the Turnbull guidance on internal controls throughout the period.

The Board

As at 31 October 2011 the Board of Directors comprised four non-executive Directors of whom three are independent of the Investment Manager. Mr G A Campbell is the Chairman. The Company has no executive Directors and no employees. The structure of the Board is such that it is considered unnecessary to identify a senior independent Director other than the Chairman. Directors will be subject to election by shareholders at the Annual General Meeting following their appointment and thereafter at least at every third subsequent Annual General Meeting with the exception of Mr R N G Pavry who, as an employee of Jupiter Asset Management Limited, the Company's Investment Manager, is considered to be a non-independent director and is subject to annual re-election. The Board does not consider it appropriate that Directors should be appointed for a specific term.

Although no formal training in Corporate Governance is given to Directors, the Directors are kept up-to-date on Corporate Governance issues through bulletins and training materials provided from time to time by the Company Secretary. The Board may obtain training in Corporate Governance on an individual basis.

The Board receives monthly reports and meets at least quarterly to review the overall business of the Company and to consider matters specifically reserved for its review. At these meetings the Board monitors the investment performance of the Company. The Directors also review the Company's activities every quarter to ensure that it adheres to its investment policy or, if appropriate, to make any changes to that policy.

Annual Report and Accounts 2011

Report of the Directors continued

Additional ad hoc reports are received as required and Directors have access at all times to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Board has adopted a schedule of items specifically reserved for its decision.

A procedure has been adopted for the Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

Directors' Performance Evaluation

The Board has established a process for the evaluation of its own performance and that of individual Directors and the effectiveness of the Board Committees. The Nomination Committee undertake on an annual basis a verbal assessment of the effectiveness of the Board as a whole particularly in relation to its oversight and monitoring of the performance of the Investment Manager and other key service providers. The Board will also evaluate and confirm the effectiveness of any of the Directors who may be proposed for the re-election at an Annual General Meeting of the Company. Directors are encouraged to discuss with the Chairman any concerns they may have regarding the functioning of the Board or the performance of other Directors. If any Director had concerns they wished to raise about the performance of the Chairman they would discuss it with the Chairman of the Audit Committee in the first instance. An evaluation of the effectiveness of the Board and the Investment Manager is carried out by the independent Directors after the Audit Committee meeting each year and the independent Directors are satisfied that the Board members had sufficient experience and knowledge of the Company's business to effectively perform their duties. Mr G A Campbell is being proposed for re-election and Mr R N G Pavry is being proposed for election at the forthcoming Annual General Meeting. Messrs Campbell and Pavry's details are set out on page 6 and the Board are pleased to confirm that they continue to perform effectively and demonstrate commitment to their roles and therefore the Board recommends their re-election or election.

Directors' Remuneration

No Director has a service contract with the Company and details of the Directors' fees are shown on page 22.

Directors' Attendance

There were four scheduled Board meetings held during the period all of which were attended by all of the Directors. All of the independent Directors attended the audit committee meeting on 10 January 2011. All of the Directors attended the Annual General Meeting held on 7 March 2011.

Chairman's Commitments

The Chairman's external commitments are as detailed in his biography set out on page 6.

Shareholder Relations

All shareholders have the opportunity to attend and vote at the Annual General Meeting during which the Directors and Investment Manager will be available to answer questions regarding the Company. The Notice of Meeting sets out the business of the Annual General Meeting and any item not of an entirely routine nature is explained in the Directors' Report or Notes accompanying the Notice. Separate resolutions are proposed for each substantive issue. Information about proxy votes held is available to shareholders attending the Annual General Meeting. The Company reports to shareholders four times a year by way of the Interim Report and Annual Report and Accounts and two quarterly interim management statements. In addition, Net Asset Values are published on a weekly basis and factsheets are published monthly on the Investment Manager's website www.jupiteronline.co.uk.

The Board has developed the following procedure for ensuring that each Director develops an understanding of the views of shareholders. Regular contact with major shareholders is undertaken by the Company's corporate brokers and the corporate finance executive of the Investment Manager. Any issues raised by major shareholders are then reported to the Board. The Board also receives details of all material correspondence with shareholders and the Chairman and individual Directors are willing to meet shareholders to discuss any particular items of concern regarding the performance of the Company. The Chairman, Directors and representatives of the Investment Manager are also available to answer any questions which may be raised by a shareholder at the Company's Annual General Meeting.

Stewardship Code and the Exercise of voting powers

Your Company's Investment Manager, Jupiter Asset Management Limited, is responsible for voting the shares it holds on the Company's behalf. Jupiter Asset Management Limited supports the introduction of the FRC Stewardship Code, which sets out the responsibilities of institutional shareholders in respect of investee companies. Under the code managers should:

- publicly disclose their policy on how they will discharge their stewardship responsibilities to their clients,
- disclose their policy on managing conflicts of interest,
- monitor their investee companies,
- establish clear guidelines on how they escalate engagement,
- be willing to act collectively with other investors where appropriate,
- have a clear policy on proxy voting and disclose their voting record, and
- report to clients.

The details of Jupiter Asset Management Limited's approach to the UK Stewardship Code can be found at the following link http://www.investorsjupiteronline.co.uk/inv_relations/corporate_information/UK_Stewardship_Code.aspx.

The Board and your Company's Investment Manager believe that shareholders have a vital role in encouraging a higher level of corporate performance and therefore adopt a positive approach to corporate governance. The Investment Manager follows the UK Corporate Governance Code as its standard approach to corporate governance voting for UK listed companies. As a long-term participant in the socially responsible investment ('SRI') industry, the Investment Manager believes that corporate governance should be extended to include environmental, social and ethical issues and is able to seek specialist advice from Jupiter's SRI and Governance Team who offer a programme of constructive dialogue and engagement with companies in which your Company has invested.

In line with the Institutional Shareholders' Committee's Statement of Principles – The responsibilities of Institutional Shareholders and Agents – the Board and the Investment Manager believe that institutional investors should exercise their corporate governance rights including voting at general meetings. In deciding how to vote the Investment Manager subscribes to a number of leading providers of corporate governance research (NAPF and ABI) in addition to applying its own policy. All contentious issues are identified and, where necessary (and where timescales permit) have been discussed with companies and corporate governance providers. The Investment Manager ensures that its policy is voted in practice and timely voting decisions made.

Annual Report and Accounts 2011

Report of the Directors continued

From time to time resolutions will be brought to Annual General Meetings by third parties encouraging companies to address specific environmental and/or social concerns. In such instances, the Jupiter SRI and Governance Team will discuss their views with the Portfolio Manager and the company if appropriate. The Investment Manager will then vote for what it considers to be in the best financial interests of shareholders, whilst having regard for any specific environmental and/or social concerns unless otherwise directed.

Bribery Prevention Policy

The provision of bribes of any nature to third parties in order to gain a commercial advantage is prohibited and is a criminal offence. The Board take their responsibility to prevent bribery by Jupiter Asset Management Limited on its behalf very seriously. To aid the prevention of bribery being committed for the benefit of the Company the Company's Investment Manager, Jupiter Asset Management Limited, have adopted a Bribery Prevention Policy.

Internal Control

The Board is responsible for establishing and maintaining the Company's system of internal control and reviewing its effectiveness. Internal control systems are designed to meet the particular requirements of the Company and to manage rather than eliminate the risks of failure to achieve its objectives. The systems by their very nature can provide reasonable but not absolute assurance against material misstatement or loss. There is an ongoing process which accords with the Turnbull guidance on internal controls for identifying, evaluating and managing risks significant to the Company. The Board has reviewed the effectiveness of the Company's internal control systems including the financial, operational and compliance controls and risk management. These systems have been in place for the period under review and to the date of signing the accounts.

The Company receives services from Jupiter Asset Management Limited and Jupiter Administration Services Limited (the 'Administrator') relating to its investment management and administration activities. Documented contractual arrangements are in place with Jupiter Asset Management Limited and Jupiter Administration Services Limited which define the areas where the Company has delegated authority to them. The Directors have considered the report on the internal control objectives and procedures of Jupiter Asset Management Limited and Jupiter Administration Services Limited together with the opinion of the service auditor for that report. That report details the measures and the testing of the measures which are in place to ensure the proper recording, valuation, physical security and protection from theft of the Company's investments and assets and the controls which have been established to ensure compliance with all regulatory, statutory and fiscal obligations of the Company. The Directors have also had regard to the procedures for safeguarding the integrity of the computer systems operated by the Investment Manager and the key business disaster recovery plans. By way of the procedures described above the Board reviews the procedures in place to manage the risks to the Company on an annual basis.

Board Committees

Audit Committee

The Board has established and approved the terms of reference (which are available on the Company's website) of an Audit Committee of the three independent non-executive Directors which meets to consider the financial reporting by the Company, the internal controls and relations with the Company's external auditors. In addition, it reviews the independence and objectivity of the auditors. The Board considers Ernst & Young LLP, to be independent of the Company. Mr H D Hill is Chairman of the Audit Committee.

The Board, having reviewed the effectiveness of the internal control systems of the Investment Manager and Administrator, and having regard to the role of its external auditors, does not consider that there is a need for the Company to establish its own internal audit function.

The Audit Committee met formally to receive and consider the report of the Company's auditors and to approve the Company's Annual Report and Accounts to 31 October 2011. The Board as a whole gave consideration to the audit plan of the year and the Interim Report of the Company at the appropriate time. The Committee is authorised by the Board to obtain, at the Company's expense, outside legal or other professional advice on any matters within its Terms of Reference. The Committee did not seek external advice during the year under review.

Nomination Committee

Appointments to the Board of Directors are considered by the Nomination Committee which comprises the entire Board other than Mr R N G Pavry. The Chairman is Mr H D Hill. The Terms of Reference of the Committee are disclosed on the Company's website and further copies are available on request from the Company Secretary. The function of this Committee is to evaluate the appointment of additional or replacement Directors against the requirements of the Company's business and the need to have a balanced Board. The Nomination Committee considers job specifications and assesses whether candidates have the necessary skills and time available to devote to the Company's business. New Directors will be subject to election by shareholders at the Annual General Meeting following their appointment and thereafter at least at every third subsequent Annual General Meeting. The Nomination Committee met once during the year to give consideration to the performance of those Board members seeking re-election and to the performance of the Board as a whole. Consideration was also given to the performance and administration of the Company by the portfolio manager. All of the Independent Directors attended this meeting. The Committee is authorised by the Board to obtain, at the Company's expense, outside legal or professional advice on any matters within its Terms of Reference. The Committee did not seek external advice during the year under review.

Conflicts of Interest Committee

The Articles of Association have been amended to permit the Board to consider and, if thought fit, to authorise situations where a Director has a conflict, or potential conflict, of interest in relation to the Company. Conflicts of interest cannot be ratified by the Directors at their quarterly board meetings. The Board has established a Conflicts of Interest Committee, made up of all independent Directors who themselves are not party to the conflict under review. The Committee's purpose is to authorise, if thought fit, and to formally approve a Director's conflict of interest. The members of the Committee are required to act in the way they consider would be most likely to promote the success of the Company. The Committee members may impose limits or conditions when giving authorisation or subsequently if they think this appropriate. In addition, the Board is given the opportunity at each board meeting to disclose any conflict of interest that may have arisen since the Board last met. The Terms of Reference of the Committee are disclosed on the Company's website and further copies are available on request from the Company Secretary. The Committee is authorised by the Board to obtain, at the Company's expense, outside legal or other professional advice on any matters within its Terms of Reference. The Committee did not seek external advice during the year under review.

Remuneration Committee

The remuneration of the Board is considered by the Remuneration Committee which comprises the entire Board other than Mr R N G Pavry. Mr H D Hill is the Chairman. The Terms of Reference of the

Annual Report and Accounts 2011

Report of the Directors continued

Committee are disclosed on the Company's website and further copies are available on request from the Company Secretary. The function of this Committee is to determine the remuneration of the Board and in doing so the Committee takes into consideration the remuneration of similar boards of other investment companies of a similar size to that of the Company's. The Committee is authorised by the Board to obtain, at the Company's expense, outside legal or other professional advice on any matters within its Terms of Reference. The Committee did not seek external advice during the year under review.

Going Concern

The Company's business activities, capital structure and borrowing facilities, together with the factors likely to affect its future development, performance and position are set out in the Managers' Review on page 9 and the Report of Directors on pages 14 to 21. In addition, Note 16 to the financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments, and its exposures to credit risk and liquidity risk.

The Company's assets consist mainly of securities which are readily realisable, its ongoing expenses are low relative to its net assets and therefore the Directors consider that the Company has appropriate financial resources to enable it to meet its day-to-day working capital requirements.

The Directors review a rolling 12 month forecast and the Company's list of investments at each meeting and they consider that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Appointment of the Investment Manager

The independent Directors have reviewed the performance and terms of appointment of Jupiter Asset Management Limited as the Company's Investment Manager. A summary of the terms of the appointment including the notice of termination period, annual fee and any performance fee payment is set out in Note 21 of the accounts on page 50.

The Directors believe that it is in the best interests of shareholders for the Company to continue the appointment of the Investment Manager on its existing terms of appointment. The individual at the Investment Manager who is responsible for the day-to-day management of the Company's portfolio, Mr P K C Gibbs, has extensive experience and an exemplary record of good performance for the various funds under his management.

Having reviewed the Company secretarial, accounting, fund management and other services provided by Jupiter Asset Management Limited and having regard to the Company's investment performance since the Company's launch in November 2004, the Directors are of the view that the portfolio should remain under Jupiter Asset Management Limited's stewardship for the foreseeable future. They will continue to review this appointment on at least an annual basis.

Directors' and Officers' Liability Insurance

During the period the Company purchased and maintained liability insurance for its Directors and officers as permitted by Section 310(3) of the Companies Act 2006.

Directors and Company Secretary Indemnification

The Company has indemnified its Directors and Company secretary against certain civil claims that may be brought by third parties and associated legal costs to the extent that they are permitted by the Companies (Audit, Investigations and Community Enterprise) Act 2004.

Donations

No charitable or political donations were made by the Company during the period.

Payment of Suppliers

It is the Company's payment policy to obtain the best possible terms for all business and therefore there is no consistent policy as to the terms used. The Company agrees with its suppliers the terms on which business will take place, and it is the policy to abide by those terms. Investment purchases for future settlement are settled in accordance with the rules and regulations of the Stock Exchange on which they are purchased. As the Company is an investment trust, it does not have any trade creditors.

Auditors

The auditors, Ernst & Young LLP, have indicated their willingness to continue in office and resolutions proposing their reappointment and authorising the Directors to determine their remuneration for the ensuing year will be submitted to the Annual General Meeting.

Annual General Meeting

A resolution relating to the following items of business will be proposed at the forthcoming Annual General Meeting.

Resolution 7 – Investment Policy

The board has changed a sentence in the Company's Investment Policy so as to better reflect the requirements of the Listing Rules that apply to investment companies. The sentence has been changed as follows:

"The Company manages an adequate spread of investment risk, with no one investment making up more than 15 per cent of the Total Assets of the Company at the time of investment."

This wording will replace the following sentence in the Company's stated Investment Policy:

"The Company manages an adequate spread of investment risk, with no one investment making up more than 10 per cent of the Total Assets of the Company at the time of investment."

The board has been advised that the re-worded investment policy should be put to shareholders for approval (pursuant to the Listing Rules) prior to its adoption. Accordingly, the board proposes that the investment policy should be ratified at the forthcoming Annual General Meeting by Ordinary resolution of shareholders.

Resolution 8 – Authority to Allot Shares

The Directors may only allot shares for cash or sell shares held in treasury (other than by way of offer to all existing shareholders pro rata to their shareholdings) if they are authorised to do so by shareholders in general meeting. At a General Meeting of the Company held on 30 September 2011, the Directors were authorised to allot up to a maximum aggregate nominal amount of £277,112.34 (corresponding to 21,636,179 Geared Ordinary shares and 43,272,358 Zero Dividend Preference shares), which represents 10 per cent of the Company's issued share capital. This authority will expire at the conclusion of the next Annual General Meeting. Since the authority was granted no shares have been issued.

The Directors are now seeking to renew their authority to allot 21,636,179 Geared Ordinary shares and 43,272,358 Zero Dividend Preference shares with an aggregate nominal value of £277,112.34. This authority will lapse at the conclusion of the Annual General Meeting to be held in 2013.

Annual Report and Accounts 2011

Report of the Directors continued

The Directors believe that it would be beneficial to the Company for them to allot a limited number of shares whenever they consider that it would be in the best interests of the Company's existing shareholders to do so

Any new shares issued will be in a strict ratio of two new Zero Dividend Preference shares to every one new Geared Ordinary shares (representing the current ratio of these Share classes in capital structure of the Company) and will only be made on the basis of an issue price, in aggregate for each package of two Zero Dividend Preference shares and one Geared Ordinary shares issued, which is at least equal to the aggregate Net Asset Value of two Zero Dividend Preference shares and one Geared Ordinary share

Resolution 9 – Authority to Allot Shares for Cash

The Directors may only allot shares for cash or sell shares held in treasury (other than by way of offer to all existing shareholders pro rata to their shareholdings) if they are authorised to do so by shareholders in general meeting. At a General Meeting of the Company held on 30 September 2011, the Directors were authorised to allot shares for cash up to a maximum aggregate nominal amount of £277,112.34 (corresponding to 21,636,179 Geared Ordinary shares and 43,272,358 Zero Dividend Preference shares), which represents 10 per cent of the Company's issued share capital. This authority will expire at the conclusion of the next Annual General Meeting. Since the authority was granted no shares have been issued.

This resolution seeks authority for the Directors to allot Ordinary shares for cash or sell Ordinary shares held in treasury up to a nominal amount of £277,112.34 (corresponding to 21,636,179 Geared Ordinary shares and 43,272,358 Zero Dividend Preference shares), without first offering them to existing shareholders. This sum represents 10 per cent of the current issued share capital. The Directors will only use this authority where it believes that it is in the best interest of the Company to issue Ordinary shares for cash or sell Ordinary shares held in treasury. Shares will only be issued at a premium to Net Asset Value at the time of the issue.

Resolution 10 – Authority to buy back shares

Resolution 10 seeks shareholder approval for the Company to provide the power to purchase its own Geared Ordinary and Zero Dividend Preference shares. The Board believes that the ability of the Company to purchase its own shares in the market will potentially benefit all shareholders of the Company. The purchase of shares at a discount to the underlying Net Asset Value would enhance the Net Asset Value on the remaining shares.

Any purchase of shares by the Company will be in accordance with the Articles and the Listing Rules in force at the time. Purchases of shares will only be made through the market at a combined price (i.e. the aggregate of the price paid for all classes of shares repurchased) that is below the prevailing combined Net Asset Value of such shares and otherwise in accordance with guidelines established from time to time by the Board. Shareholders should note however that, subject to the following restrictions, the price paid for Zero Dividend Preference shares may be equal to or higher than their Net Asset Value per share provided that the price paid for all classes of share considered by the Directors to have been repurchased at the same time represents a discount to the combined Net Asset Value of such shares.

The decision as to whether the Company purchases any such shares will be at the discretion of the Directors. Purchases of Shares will be made within the maximum price permitted by the UK Listing Authority, and in any event

No purchase of Geared Ordinary shares will be made at a price in excess of the Net Asset Value of a Geared Ordinary share (as determined by the Directors on a date falling not more than 10 days before the date of purchase), and no purchase of Zero Dividend Preference shares will be made at a price in excess of their accrued capital entitlement (at a date determined by the Directors falling not more than 10 days before the date of purchase) unless the Directors determine that a purchase at a higher price is in the best interests of shareholders.

The Board is not obliged to make any purchases of Geared Ordinary shares and Zero Dividend Preference shares in the same proportions as currently exists. However, no shares will be repurchased if, as a result, the Cover on the Zero Dividend Preference shares would fall below 1.10 (or, if it is already below 1.10, would thereby decrease).

The Company is seeking shareholder approval to repurchase up to 32,432,632 Geared Ordinary shares, and 64,865,265 Zero Dividend Preference shares representing 14.99 per cent of the Company's issued share capital in each class (the maximum permitted under the Listing Rules) at a price that is not less than 0.57191641p per share for the Geared Ordinary shares and 0.35443291p per share for the Zero Dividend Preference shares (the nominal value of each class of share) and in the case of Geared Ordinary shares not more than 5 per cent above the average of the middle market quotations for the five business days preceding the day of purchase. This restriction does not apply to Zero Dividend Preference shares. The authority being sought will last until the date of the next Annual General Meeting. The decision as to whether to repurchase any shares will be at the absolute discretion of the Board. Shares repurchased under this authority will be cancelled. The Company will only fund any purchases by utilising existing cash resources or loan facilities or by the proceeds of a fresh issue of shares made for the purpose of the repurchase or out of distributable profits as defined by the Companies Act including the Court sanctioned special reserve from the cancellation of the share premium account arising from the issue of the Company's shares at launch.

Resolution 11 – Notice of General Meetings

Resolution 11 is required to reflect the Shareholders' Rights Directive (the 'Directive'). The Directive has increased the notice period for General Meetings of the Company to 21 days. If Resolution 7 is passed the Company will be able to call all General Meetings, (other than Annual General Meetings), on 14 clear days' notice. In order to be able to do so shareholders must have approved the calling of meetings on 14 clear days' notice. Resolution 7 seeks such approval. The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. The Company will also need to meet the requirements for electronic voting under the Directive before it can call a General Meeting on 14 clear days' notice. The board will only use the shorter notice period where it is mented by the purpose of the meeting.

Jupiter Investment Companies Savings Scheme and ISA holders

Investors in the Jupiter Investment Companies Savings Scheme or ISA will find on page 57 a Form of Direction which they are asked to complete and return so as to be received by Jupiter as soon as possible and, in any event, no later than 12 noon on 20 March 2012 at the address noted on the form.

By Order of the Board
Jupiter Asset Management Limited
Secretaries
17 February 2012

For and on behalf of
JUPITER ASSET MANAGEMENT LIMITED
Secretaries

Annual Report and Accounts 2011

■ Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Section 420 to the Companies Act 2006. An ordinary resolution for the approval of this report will be put to members at the forthcoming Annual General Meeting.

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on page 25.

Directors' Fees

The Directors of Jupiter Second Split Trust PLC are non-executive and by way of remuneration receive only an annual fee, which in the case of the Chairman was increased to £26,250, and in the case of each of the other Directors was increased to £21,000 from 1 June 2011. The fee is payable quarterly. The Company does not award any other remuneration or benefits to the Chairman or Directors. There are no bonus schemes, pension schemes, share option or long-term incentive schemes in place for the Directors.

Directors' Service Contracts

Directors do not have any service contracts which specify any period of notice of termination. Accordingly, the Directors are not entitled to any

compensation in the event of termination of their appointment or loss of office, other than the payment of any outstanding fees.

The Board does not consider it appropriate that Directors should be appointed for a specific term. However, each director is subject to election by shareholders at least at every third Annual General Meeting with the exception of Mr R N G Pavry who, as a non-independent director, is subject to annual re-election. Any new Directors appointed would be subject to election by shareholders at the next Annual General Meeting following their appointment.

The terms and conditions of Directors' appointments are set out in formal letters of appointment. Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be elected by shareholders. Thereafter, a Director's appointment will run for a 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 requirement by rotation in accordance with the Company's Articles of Association, which require that one third of the Board must retire by rotation each year.

Director	Date of Appointment	Due date for Re-election
G A Campbell	31 August 2004	AGM 2012
R N G Pavry	7 March 2011	Annually
H D Hill	31 August 2004	AGM 2013
The Rt Hon Lord Lamont	31 August 2004	AGM 2014

Policy on Directors' Fees

The Board has established a Remuneration Committee ('the Committee') and any review of the Directors' fees would be undertaken by the Remuneration Committee and would have regard to the level of fees paid to Non-Executive Directors of other investment companies of equivalent size. It is intended that the policy of reviewing Directors' fees by the Remuneration Committee will continue in subsequent years. The Directors' fees were last increased on 1 June 2011. The Committee is authorised by the Board to obtain, at the Company's expense, outside legal or other professional advice on any matters within its Terms of Reference. The Committee did not seek external advice during the year under review.

Directors' emoluments for the period (audited)

	Total fees for the year ended 31 October 2011 £	Total fees for the year ended 31 October 2010 £
G A Campbell	25,520	25,000
P K C Gibbs* (resigned on 7 March 2011)	6,904	20,000
R N G Pavry* (appointed on 7 March 2011)	13,513	—
H D Hill*	20,416	20,000
The Rt Hon Lord Lamont	20,416	20,000
Total	86,769	85,000

*Fees paid to Jupiter Asset Management Limited

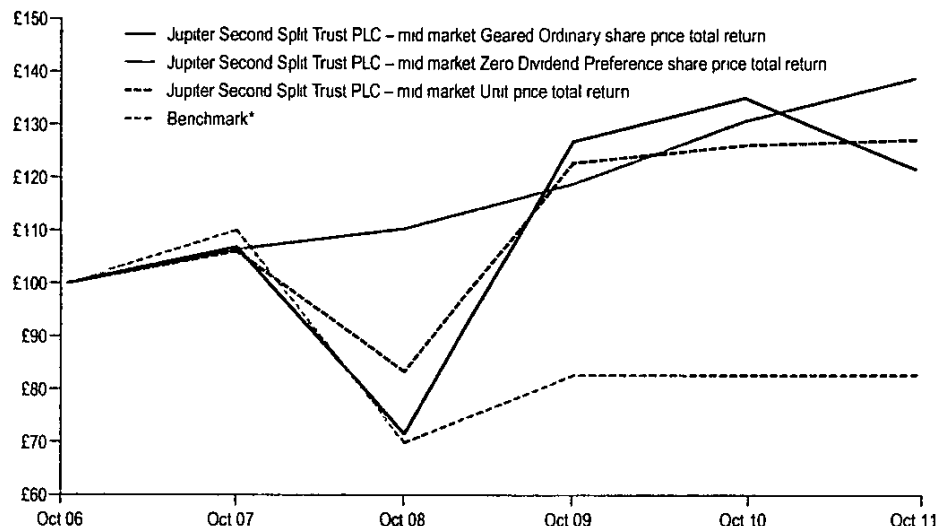
*Chairman of the Audit Committee

Annual Report and Accounts 2011

Directors' Remuneration Report continued

Performance since launch to 31 October 2011

Effect of £100 invested at 31 October 2006 to 31 October 2011



*The benchmark used in the graph above is the composite benchmark for the period 31 October 2006 to 31 October 2009 (75% FTSE All-Share Index, 25% FTSE Actuanes World Index source S&P Micropal mid to mid) and for the period 31 October 2009 to 31 October 2011 the Company's new benchmark was used (3 Month LIBOR)

The graph is provided in accordance with Section 4(1) of Part 2 of Schedule 7A of the Directors' Remuneration Report Regulations 2002 and shows the return on £100 invested on 31 October 2006

The benchmarks have been chosen as the most appropriate means by which to measure the Company's performance

The above information is based on the FTSE All-Share Index and FTSE Actuanes World Index 'FTSE' is a trade mark jointly owned by the London Stock Exchange Plc and The Financial Times Limited and is used by FTSE International Limited ('FTSE') under licence. The FTSE All-Share Index is calculated by FTSE. FTSE does not sponsor, endorse or promote the product referred to in this document and is not in any way connected to it and does not accept any liability in relation to its issue, operation and trading. All copyright and database rights in the index values and constituent list vest in FTSE.

By Order of the Board
Jupiter Asset Management Limited
Secretaries
17 February 2012

For and on behalf of
JUPITER ASSET MANAGEMENT LIMITED

[Signature]
Secretaries

Annual Report and Accounts 2011

■ Directors' Responsibilities for the Financial Statements

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards ('IFRS') as adopted by the European Union

Under Company law the Directors must not approve the Group financial statements unless they are satisfied that they present fairly the financial position of the Group and the financial performance and cash flows of the Company and of the Group for that period. In preparing the Group financial statements, the Directors are required to

- (i) select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then applying them consistently,
- (ii) present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- (iii) provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance,
- (iv) state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements, and
- (v) make judgements and estimates that are reasonable and prudent

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

The work carried out by the Auditor does not include consideration of the maintenance and integrity of the website and accordingly the Auditor accepts no responsibility for any changes that have occurred to the financial statements when they are presented on the website.

Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

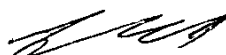
The Directors, who are listed on page 6 of this report, confirm to the best of their knowledge that

- (i) the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the consolidation taken as a whole, and
- (ii) the Management Report includes a fair view of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that the Company faces.

So far as each of the directors are aware at the time the report is approved

- (i) There is no relevant audit information of which the Company's auditors are not aware, and
- (ii) The Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

By Order of the Board
G A Campbell
 Chairman
 17 February 2012



Annual Report and Accounts 2011

Independent Auditors' Report to the Members of Jupiter Second Split Trust PLC

We have audited the financial statements of Jupiter Second Split Trust PLC for the year ended 31 October 2011 which comprise the Consolidated Statement of Comprehensive Income, Consolidated and Company Statement of Financial Position, Consolidated and Company Statement of Changes in Equity, Consolidated and Company Cash Flow Statements and the related Notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 24, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 October 2011 and of the Group's net return for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

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

Matters on which we are required to report by exception

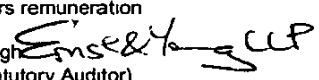
We have nothing to report in respect of the following

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

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

Under the Listing Rules we are required to review

- the Directors' statement, on page 20, in relation to going concern,
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- certain elements of the report to shareholders by the Board on directors remuneration.

Amarjit Singh 
(Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
17 February 2012

Notes

- The maintenance and integrity of the Company's website is the responsibility of the directors, the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Annual Report and Accounts 2011

■ Consolidated Statement of Comprehensive Income for the year ended 31 October 2011

	Note	31 October 2011			31 October 2010		
		Revenue Return £'000	Capital Return £'000	Total £'000	Revenue Return £'000	Capital Return £'000	Total £'000
Loss on investments at fair value through profit or loss	2	—	(2,041)	(2,041)	—	(1,068)	(1,068)
Foreign exchange gain		—	3,929	3,929	1	14,182	14,183
Income from investments	3	4,010	—	4,010	4,340	—	4,340
Interest	3	602	—	602	198	—	198
Dealing profit of subsidiary	3	—	—	—	880	—	880
Total income		4,612	1,888	6,500	5,419	13,114	18,533
Investment management fee	4	(1,655)	—	(1,655)	(1,606)	—	(1,606)
Other expenses	5	(387)	(17)	(404)	(326)	—	(326)
Total expenses		(2,042)	(17)	(2,059)	(1,932)	—	(1,932)
Net return before finance costs and taxation		2,570	1,871	4,441	3,487	13,114	16,601
Interest payable	6	(11)	—	(11)	—	—	—
Finance costs of Zero Dividend Preference shares	6	—	(9,274)	(9,274)	—	(8,605)	(8,605)
Net return before taxation		2,559	(7,403)	(4,884)	3,487	4,509	7,996
Taxation	7	(631)	21	(610)	(918)	(48)	(966)
Net return after taxation		1,928	(7,382)	(5,454)	2,569	4,461	7,030
Return per Geared Ordinary share (pence)	9	0.89	(3.41)	(2.52)	1.18	2.07	3.25

The total column of this statement is the profit and loss of the Group, prepared in accordance with IFRS. The supplementary revenue return and capital return columns are both prepared under guidance produced by the Association of Investment Companies (AIC). All items in the above statement derive from continuing operations. No operations were acquired or discontinued in the year.

The Notes on pages 33 to 50 form part of these accounts.

Annual Report and Accounts 2011

Consolidated Statement of Financial Position as at 31 October 2011

	Note	2011 £'000	2010 £'000
Non-current assets			
Investments held at fair value through profit or loss	10	94,562	101,825
Current assets			
Receivables	13	18,072	17,218
Open forward contracts		103,133	95,478
Cash and cash equivalents		115,841	109,745
		237,046	222,441
Creditors amounts falling due within one year	14	(1,618)	(1,888)
Open forward contracts		(104,230)	(98,707)
Net current assets		131,198	121,846
Total Assets less current liabilities		225,760	223,671
Creditors amount falling due after more than one year			
Zero Dividend Preference shares	16(f)	(143,369)	(134,095)
Total net assets		82,391	89,576
Capital and reserves			
Called up share capital	17	1,237	1,237
Share premium		26,321	26,321
Special reserve		30,530	30,530
Retained earnings	18	24,303	31,488
Total equity		82,391	89,576
Net Asset Value per Geared Ordinary share (pence)	15	38 08	41 40

Approved by the Board of Directors and authorised for issue on 17 February 2012 and signed on its behalf by

G A Campbell
Chairman

The Notes on pages 33 to 50 form part of these accounts

Company Registration Number – 5207714

Annual Report and Accounts 2011

■ **Company Statement of Financial Position** as at 31 October 2011

	Note	2011 £'000	2010 £'000
Non-current assets			
Investments held at fair value through profit or loss	10	94,562	101,825
Current assets			
Receivables	13	18,348	17,248
Open forward contracts		103,133	95,478
Cash and cash equivalents		115,841	109,745
		237,322	222,471
Creditors amounts falling due within one year	14	(1,329)	(1,353)
Open forward contracts		(104,230)	(98,707)
Net current assets		131,763	122,411
Total Assets less current liabilities		226,325	224,236
Creditors amount falling due after more than one year			
Zero Dividend Preference shares	16(f)	(143,369)	(134,095)
Total net assets		82,956	90,141
Capital and reserves			
Called up share capital	17	1,237	1,237
Share premium		26,321	26,321
Special reserve		30,530	30,530
Retained earnings	18	24,868	32,053
Total equity		82,956	90,141

Approved by the Board of Directors and authorised for issue on 17 February 2012 and signed on its behalf by

G A Campbell
Chairman



The Notes on pages 33 to 50 form part of these accounts

Company Registration Number – 5207714

Annual Report and Accounts 2011

■ Consolidated Statement of Changes in Equity for the year ended 31 October 2011

	Share Capital £'000	Share Premium £'000	Special Reserve £'000	Retained Earnings £'000	Total £'000
For the year ended 31 October 2011					
31 October 2010	1,237	26,321	30,530	31,488	89,576
Net return for the year	–	–	–	(5,454)	(5,454)
Dividend paid	–	–	–	(1,731)	(1,731)
Balance at 31 October 2011	1,237	26,321	30,530	24,303	82,391

	Share Capital £'000	Share Premium £'000	Special Reserve £'000	Retained Earnings £'000	Total £'000
For the year ended 31 October 2010					
31 October 2009	883	–	32,096	24,477	57,456
Net return for the year	–	–	–	7,030	7,030
Reconstruction and New Share Issue	354	26,321	(1,566)	(19)	25,090
Balance at 31 October 2010	1,237	26,321	30,530	31,488	89,576

The Notes on pages 33 to 50 form part of these accounts

Annual Report and Accounts 2011

■ **Company Statement of Changes in Equity** for the year ended 31 October 2011

	Share Capital £'000	Share Premium £'000	Special Reserve £'000	Retained Earnings £'000	Total £'000
For the year ended 31 October 2011					
31 October 2010	1,237	26,321	30,530	32,053	90,141
Net return for the year	–	–	–	(5,454)	(5,454)
Dividend paid	–	–	–	(1,731)	(1,731)
Balance at 31 October 2011	1,237	26,321	30,530	24,868	82,956

	Share Capital £'000	Share Premium £'000	Special Reserve £'000	Retained Earnings £'000	Total £'000
For the year ended 31 October 2010					
31 October 2009	883	–	32,096	25,676	58,655
Net return for the year	–	–	–	6,396	6,396
Reconstruction and New Share Issue	354	26,321	(1,566)	(19)	25,090
Balance at 31 October 2010	1,237	26,321	30,530	32,053	90,141

The Notes on pages 33 to 50 form part of these accounts

Annual Report and Accounts 2011

Consolidated Cash Flow Statement for the year ended 31 October 2011

	Note	2011 £'000	2010 £'000
Cash flows from operating activities			
Purchases of investments		(136,180)	(253,564)
Sales of investments		152,643	242,873
Realised gain on foreign currency		3,929	17,412
Investment income received		4,819	3,423
Deposit interest received		599	207
Investment management fee paid		(1,649)	(1,460)
Investment performance fee paid		–	(1,420)
Sales less purchases of dealing subsidiary		–	240
Payments to Contract for Differences (CFD) and Futures and Options Counterparty		(12,900)	(9,883)
Other cash receipts		–	169
Other cash expenses		(361)	(194)
Change in open forward currency contracts		(2,132)	–
Restructuring costs		–	(152)
Net cash inflow/(outflow) from operating activities before finance costs and taxation	19	8,768	(2,349)
Interest paid		(11)	–
Taxation		(913)	(575)
Net cash inflow/(outflow) from operating activities		7,844	(2,924)
Cash flows from financing activities			
Share Issue		–	101,307
Exit Shares repaid		–	(31,961)
Issue costs paid		(17)	(3,465)
Dividend paid		(1,731)	–
Increase in cash	20	6,096	62,957
Change in cash and cash equivalents			
Cash and cash equivalents at start of year		109,745	46,788
Cash and cash equivalents at end of year	20	115,841	109,745

The Notes on pages 33 to 50 form part of these accounts

Annual Report and Accounts 2011

■ **Company Cash Flow Statement** for the year ended 31 October 2011

	Note	2011 £'000	2010 £'000
Cash flows from operating activities			
Purchases of investments		(136,180)	(253,564)
Sales of investments		152,643	242,873
Realised gain on foreign currency		3,929	17,412
Investment income received		4,819	3,423
Deposit interest received		599	207
Investment management fee paid		(1,649)	(1,460)
Investment performance fee paid		–	(1,420)
Other cash receipts		–	140
Other cash expenses		(361)	(411)
Change in open forward currency contracts		(2,132)	–
Payments to Contract for Differences (CFD) and Futures and Options counterparty		(12,900)	(9,745)
Restructuring costs		–	(152)
Net cash inflow/(outflow) from operating activities before finance costs and taxation	19	8,768	(2,697)
Interest paid		(11)	–
Taxation		(667)	(227)
Net cash inflow/(outflow) from operating activities		8,090	(2,924)
Cash flows from financing activities			
Share Issue		–	101,307
Exit Shares repaid		–	(31,961)
Issue costs paid		(17)	(3,465)
Dividend paid		(1,731)	–
Payments to subsidiary		(246)	–
Increase in cash	20	6,096	62,957
Change in cash and cash equivalents			
Cash and cash equivalents at start of year		109,745	46,788
Cash and cash equivalents at end of year	20	115,841	109,745

The Notes on pages 33 to 50 form part of these accounts

Annual Report and Accounts 2011

Notes to the Accounts for the year ended 31 October 2011

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, are set out below

(a) Basis of Preparation

The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and International Accounting Standards Committee (IASC), as adopted by the European Union

Where presentational guidance set out in the Statement of Recommended Practice (SORP) for investment trusts issued by the Association of Investment Companies (AIC) in January 2009 is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP

The Company continues to adopt the going concern basis in the preparation of the financial statements

All values are rounded to the nearest thousand pounds (£'000) except where indicated

The accounts are presented in pounds sterling as this is the functional currency of the Group

(b) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entity controlled by the Company (its subsidiary) JSST Securities Limited. The Statement of Comprehensive Income is only presented in consolidated form, as provided by Section 408 of the Companies Act 2006

The financial statements of the subsidiary are prepared for the same reporting year as the parent Company, using consistent accounting policies

All intra-Group transactions, balances, income and expenses are eliminated on consolidation

(c) Presentation of Consolidated Statement of Comprehensive Income

In order to better reflect the activities of an investment trust Company and in accordance with guidance issued by the Association of Investment Companies, supplementary information which analyses the Consolidated Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Consolidated Statement of Comprehensive Income. In accordance with the Company's status as a UK investment Company under section 833 of the Companies Act 2006, net capital returns may not be distributed by way of dividend

An analysis of retained earnings broken down into revenue items, which may be distributed as dividends, and capital items is given in Note 18 on page 49. The Company's Articles prevent the distribution of capital profits

(d) Revenue Recognition

Dividends receivable from equity shares are taken to the revenue return column of the Statement of Comprehensive Income on an ex-dividend basis except where, in the opinion of the Directors, the dividend is capital in nature in which case it is taken to the capital return column. Income from fixed interest debt securities and preference shares is

recognised using the effective interest rate method. Bank interest is accounted for on an accruals basis. All gains or losses resulting from Contract for Differences (CFDs) are taken to capital and are shown as part of loss/gain on Investments at fair value through profit or loss

(e) Expenses

Expenses are accounted for on an accruals basis. Management fees, administration and other expenses are charged fully to the revenue column of the Consolidated Statement of Comprehensive Income. That part of any Investment Performance fee which is deemed by the Directors to relate to the capital outperformance of the Company's investments will be charged to capital and that part relating to revenue outperformance will be charged to revenue. Expenses which are incidental to the purchase or sale of an investment are charged to capital. Expenses incurred in connection with the reconstruction of the Company were charged to capital

(f) Investments

Investments are recognised and derecognised on a trade date where a purchase and sale of an investment is under contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, being the consideration given

All investments are classified as fair value through profit or loss and measured at fair value. Changes in the fair value of investments designated as at fair value through profit or loss and gains and losses on disposal are recognised in the Consolidated Statement of Comprehensive Income as 'Gains/(losses) on investments at fair value through profit or loss'. The fair value of listed investments is based on their quoted bid market price at the reporting date without any deduction for estimated future selling costs

Foreign exchange gains and losses on fair value through profit or loss investments are included within the changes in the fair value of the investments

The Company's subsidiary undertaking, JSST Securities Limited, is stated at cost of £1 in the Company's Statement of Financial Position

(g) Finance Costs

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the Consolidated Statement of Comprehensive Income using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise

All borrowing costs are charged directly to revenue and shown in the revenue column of the Consolidated Statement of Comprehensive Income

In accordance with IAS 32, the Zero Dividend Preference shares are classed as a liability in the accounts and the finance costs are charged to the capital column of the Consolidated Statement of Comprehensive Income

Annual Report and Accounts 2011

■ Notes to the Accounts for the year ended 31 October 2011 continued

1 Accounting policies continued**(h) Foreign currencies**

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

(i) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to insignificant risks of changes in value.

(j) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Consolidated Statement

of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Statement of Financial Position date.

Deferred tax is recognised in respect of all temporary differences at the reporting date, where transactions or events that result in an obligation to pay more tax in the future or right to pay less tax in the future have occurred at the reporting date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the temporary differences can be deducted. Deferred tax assets and liabilities are measured at the rates applicable to the legal jurisdictions in which they arise.

Investment Trusts which have approval under section 1158 of the Corporation Tax Act 2010 are not liable for taxation on capital gains.

(k) Accounting developments

The following standards, amendments and interpretations have been published by IASB but are not yet effective for the year ended 31 October 2011.

International Accounting Standards (IAS/IFRSs)

IFRS9	Financial Instruments: Classification & Measurement
IAS 24	Related Party Disclosure (revised)

Effective date

1 January 2013
1 January 2011

International Financial Reporting Interpretations Committee (IFRIC)

IFRIC4	Amendment: Prepayments of a Minimum Funding Requirement
IFRIC7	Distribution of non-cash assets to owners
IFRIC9	Extinguishing Financial Liabilities with Equity Instruments

Effective date

1 January 2011
1 January 2013
1 July 2010

The Directors anticipate that the adoption of the above Standards and interpretations in future periods will have no material impact on the financial statements of the Group. The Company intends to adopt the Standards in the reporting period when they become effective.

(l) Derivative financial instruments

The Company, in its normal course of investing activities, may enter into transactions in derivative financial instruments with the view to hedging the portfolio against future market movements and conditions.

The fair value of derivative financial instruments at the reporting date generally reflects the amount the Company would receive or pay to terminate the contract at the reporting date. Many derivative financial instruments are exchange traded or traded in the over-the-counter market where fair values were readily obtainable.

The Company may engage in futures and options contracts, forward currency and contracts for differences. Such contracts involve both market and credit risk. Risk arises from the possible inability of

counterparties to meet the terms of their contracts, from credit events and movements in fair values of underlying securities.

The realised gains/losses on contract for differences and futures and options are included in capital on the consolidated statement of comprehensive income as (loss)/gain on investments at fair value through profit or loss.

Forward currency contracts

Forward currency contracts are recorded on the trade date and valued at the applicable foreign exchange rates on the last business day of the valuation period. The fair value of open forward contract positions is reflected as open forward contract on the statement of financial position. Realised gains or losses are recognised on maturity or trade date of the contract and are included in capital on the consolidated statement of comprehensive income as foreign exchange gain.

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■ Notes to the Accounts for the year ended 31 October 2011 continued

2 Gains on investments

	2011 £'000	2010 £'000
Net (loss)/gain realised on sale of investments	(249)	9,778
Loss on contracts for differences	(8,211)	(7,781)
Gain on Futures & Options	5,420	–
Movement in investment holding gains	999	(3,065)
Loss on investments	(2,041)	(1,068)

3 Income

	2011 Group £'000	2010 Group £'000
Income from investments		
Dividends from United Kingdom companies	39	66
Dividends from overseas companies	220	288
Corporate Bond Income	2,742	3,529
Income from government stock	1,009	457
	4,010	4,340
Other income		
Deposit interest	602	198
Foreign exchange gain	–	1
Profit on dealings by subsidiary	–	880
Total income	4,612	5,419
Total income comprises		
Dividends	259	396
Other income	602	199
Interest	3,751	3,944
Profit on dealings by subsidiary	–	880
	4,612	5,419
Income from investments		
Listed in the UK	1,349	1,668
Listed overseas	2,661	2,672
	4,010	4,340

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Notes to the Accounts for the year ended 31 October 2011 continued

4 Investment management fees

	2011 Group £'000	2010 Group £'000
Investment management fee	1,655	1,606

Details of the investment management contract are given in Note 21

5 Other expenses

	2011 Group £'000	2010 Group £'000
Directors' remuneration	87	85
Auditors' remuneration – audit	28	28
Administration fee	90	86
Other administrative expenses	182	127
Capital Expenses	17	–
	404	326

6 Finance costs

	2011			2010		
	Revenue Return £'000	Capital Return £'000	Total £'000	Revenue Return £'000	Capital Return £'000	Total £'000
(a) Finance costs attributable to Zero Dividend Preference shares Increase in entitlement	–	9,274	9,274	–	8,605	8,605
(b) Interest payable	11	–	11	–	–	–
	11	9,274	9,285	–	8,605	8,605

7 Taxation

(a) Analysis of charge in year

	2011			2010		
	Revenue Return £'000	Capital Return £'000	Total £'000	Revenue Return £'000	Capital Return £'000	Total £'000
Corporation tax	624	–	624	908	–	908
Overseas tax	7	–	7	10	–	10
Total current tax	631	–	631	918	–	918
Deferred tax	–	(21)	(21)	–	48	48
Total tax for year (see Note 7b)	631	(21)	610	918	48	966

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Notes to the Accounts for the year ended 31 October 2011 continued

7 Taxation

(b) Factors affecting current tax charge for the year

The tax assessed for the period is lower than the standard rate of corporation tax for a Company (26.83 per cent). The differences are explained below.

	2011 Group £'000	2010 Group £'000
Net return before taxation	2,559	8,140
Corporation tax at 26.83 per cent (2010: 28.00 per cent)	686	2,279
Effects of		
Income in capital not taxable	—	(1,254)
Non-taxable UK dividends	(10)	(18)
Non-taxable Overseas dividends	(59)	(81)
Overseas tax suffered	7	10
Disallowable expenses	7	4
Offshore income gain recognised	(21)	26
Total tax charge for the year	610	966

Other than the provision for deferred tax on potential capital gains arising from any future sale of non-distributing offshore funds, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments. This is because of the Company's intention to meet the conditions required to obtain approval as an investment trust in the foreseeable future. There is no unrecognised deferred tax asset (2010: nil).

(c) Deferred Tax Movement

	Group £'000	2011 Company £'000	Group £'000	2010 Company £'000
At the beginning of the year	158	158	110	110
Offshore income (losses)/gains	(21)	(21)	48	48
At the end of the year	137	137	158	158

The deferred tax liability arises in respect of unrealised gains from non-distributing offshore funds.

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■ **Notes to the Accounts** for the year ended 31 October 2011 continued**8 Dividends**

	2011 £'000	2010 £'000
Amounts recognised as distributions to equity holders in the period		
2010 Interim Geared Ordinary shares dividend 0.8p net	1,731	—
	1,731	—

Also set out below is the total dividend payable in respect of the financial year under review, which is the basis on which the requirements of Section 1158 Corporation Tax Act 2010 are considered

	2011 £'000	2010 £'000
Dividends on equity shares		
2011 Interim Geared Ordinary shares dividend 0.9p net (2010 0.8p net)	1,947	1,731
	1,947	1,731

9 Return per Geared Ordinary share

The earnings per Geared Ordinary share figure is based on the net loss for the year of £5,454,000 (2010 net return £7,030,000) and on 216,361,793 Geared Ordinary shares, being the weighted average of Geared Ordinary shares in issue during the year (2010 weighted average 215,657,986)

The earnings per Geared Ordinary share figure detailed above can be further analysed between revenue return and capital return, as below

	2011 £'000	2010 £'000
Net revenue return	1,928	2,569
Net capital return	(7,382)	4,461
Net total return	(5,454)	7,030
Weighted average of Geared Ordinary shares in issue during the year	216,361,793	215,657,986
	Pence	Pence
Revenue earnings per Geared Ordinary share	0.89	1.18
Capital earnings per Geared Ordinary share	(3.41)	2.07
Total earnings per Geared Ordinary share	(2.52)	3.25

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Notes to the Accounts for the year ended 31 October 2011 continued

10 Investments held at fair value through profit or loss

	2011 Group and Company £'000	2010 Group and Company £'000
(a) Portfolio Investments		
Valuation at beginning of year	101,825	99,171
Investment holding gains at beginning of year	(706)	(3,771)
Cost at beginning of year	101,119	95,400
Purchases at cost	136,180	247,084
Sales at cost	(144,442)	(241,365)
Cost at end of year	92,857	101,119
Investment holding gains at end of year	1,705	706
Valuation at end of year	94,562	101,825
	£'000	£'000
Investments listed in the UK	10,882	40,823
Investments listed overseas	82,363	58,447
Unlisted investments	1,317	2,555
	94,562	101,825

(b) The Company's subsidiary undertaking is JSST Securities Limited, a wholly owned investment dealing Company that is registered in England and Wales. JSST Securities Limited is stated at cost of £1 in the Company's Statement of Financial Position.

11 Current asset investments

	Group £'000	2011 Company £'000	Group £'000	2010 Company £'000
Fair value of investments held by JSST Securities Limited	–	–	–	–

12 Transaction Costs

During the year expenses were incurred in acquiring or disposing of investments classified as fair value through profit or loss. These have been expensed through capital and are included within gains/(losses) on investments in the Consolidated Statement of Comprehensive Income. The total costs were as follows:

	2011 £'000	2010 £'000
Purchases	53	215
Sales	99	229
	152	444

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■ **Notes to the Accounts** for the year ended 31 October 2011 continued**13 Receivables**

	2011		2010	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Dividends and Bond Interest receivable	1,503	1,503	2,311	2,311
Prepayments and accrued interest	11	11	12	12
Sales awaiting settlement	25	25	8,475	8,475
Amount due from contracts for differences counterparty	12,061	12,061	6,384	6,384
Amount due from futures & options counterparty	4,432	4,432	—	—
Due from subsidiary undertaking	—	276	—	30
Taxation	40	40	36	36
	18,072	18,348	17,218	17,248

14 Current liabilities

	2011		2010	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Other creditors and accruals	516	516	487	487
Corporation tax	965	676	1,243	708
Deferred tax	137	137	158	158
	1,618	1,329	1,888	1,353

15. Net Asset Value

The Net Asset Value per Geared Ordinary share is based on the net assets attributable to the equity shareholders of £82,391,000 (2010 £89,576,000) and on 216,361,793 (2010 216,361,793) Geared Ordinary shares, being the number of Geared Ordinary shares in issue at the year end

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Notes to the Accounts for the year ended 31 October 2011 (continued)

16 Derivatives and other financial instruments

Background

The Company's financial instruments comprise securities and other investments, cash balances and debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement and debtors for accrued income. The numerical disclosures below exclude short-term debtors and creditors.

The principal risks the Group faces in its portfolio management activities are:

- foreign currency risk
- market price risk i.e. movements in the value of investment holdings caused by factors other than interest rate or currency movement
- interest rate risk
- liquidity risk
- credit and counterparty risk

The Investment Manager's policies for managing these risks are summarised below and have been applied throughout the year.

Policy

(a) Foreign Currency Risk

The Group may hedge against foreign currency movements affecting the value of the investment portfolio where adverse movements are anticipated but otherwise takes account of this risk when making investment decisions.

Management of the risk

The Investment Manager monitors the Company's exposure to foreign currencies on a daily basis given the volume of forward currency positions held by the Group. The Investment Manager reports to the Board at each Board meeting of the level of exposure and how he is managing these risks. The Investment Manager measures the risk to the Company of the foreign currency exposure by considering the effect on the Group's Net Asset Value and total return of a movement in the exchange rates to which the Group's assets, liabilities, income and expenses are exposed.

Foreign currency sensitivity

The following tables illustrate the sensitivity of the profit after tax and equity for the year to exchange rates for the £ against the Euro, Japanese Yen, Swiss Franc, Turkish Lira, Norwegian Krone, US Dollar, Hong Kong Dollar and Australian Dollar. It assumes the following changes in exchange rates:

£/Euro +/-5% (2010 +/-10%)	£/Japanese Yen +/-10% (2010 +/-10%)	£/Swiss Franc +/-20% (2010 +/-10%)	£/Turkish Lira n/a (2010 +/-10%)
£/Norwegian Krone +/-5% (2010 +/-10%)	£/US Dollar +/-5% (2010 +/-10%)	£/Hong Kong Dollar +/-5% (2010 +/-10%)	£/Australian Dollar +/-5% (2010 +/-10%)
£/Swedish Krona +/-5% (2010 n/a)	£/Canadian Dollar +/-5% (2010 n/a)		

These percentages have been determined based on market volatility in exchange rates over the previous twelve months. The sensitivity analysis is based on the Company's foreign currency financial instruments held at each Statement of Financial Position date.

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Notes to the Accounts for the year ended 31 October 2011 continued

16 Derivatives and other financial instruments

If Sterling had weakened against the currencies below this would have the following effect

	2011			2010		
	Impact on revenue return £'000	Impact on capital return £'000	Total £'000	Impact on revenue return £'000	Impact on capital return £'000	Total £'000
Euro	3	(2,451)	(2,448)	—	222	222
US Dollar	13	2,344	2,357	55	(4,184)	(4,129)
Norwegian Krone	(1)	652	651	(4)	2,690	2,686
Hong Kong Dollar	—	163	163	(2)	1,570	1,568
Swiss Franc	1	(445)	(444)	—	512	512
Canadian Dollar	—	46	46	(5)	3,742	3,737
Australian Dollar	27	(102)	(75)	33	(382)	(349)
Turkish Lira	—	—	—	—	77	77
Swedish Krona	—	92	92	—	—	—
Japanese Yen	—	(86)	(86)	1	(832)	(831)
	43	213	256	78	3,415	3,493

If Sterling had strengthened against the currencies below this would have the following effect

	2011			2010		
	Impact on revenue return £'000	Impact on capital return £'000	Total £'000	Impact on revenue return £'000	Impact on capital return £'000	Total £'000
Euro	(3)	2,451	2,448	—	(222)	(222)
US Dollar	(13)	(2,344)	(2,357)	(55)	3,854	3,799
Norwegian Krone	1	(652)	(651)	4	(2,879)	(2,875)
Hong Kong Dollar	—	(163)	(163)	2	(1,625)	(1,623)
Swiss Franc	(1)	445	444	1	(512)	(512)
Canadian Dollar	—	(46)	(46)	5	(3,742)	(3,737)
Australian Dollar	(27)	102	75	(33)	382	349
Turkish Lira	—	—	—	—	(77)	(77)
Swedish Krona	—	(92)	(92)	—	—	—
Japanese Yen	—	86	86	(1)	832	831
	(43)	(213)	(256)	(77)	(3,989)	(4,067)

In the opinion of the Directors, the above sensitivity analyses are not representative of the year as a whole, since the level of exposure changes frequently

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Notes to the Accounts for the year ended 31 October 2011 continued**16 Derivatives and other financial instruments**

The maximum and minimum non-interest bearing assets for each currency at month end during the year to 31 October 2011 were as follows

	Sterling £'000	Hong Kong Dollar £'000	Turkish Lira £'000	US Dollars £'000
Maximum	8,807	8,687	1,421	19,768
Minimum	7,003	2,727	–	8,826

(b) Market Price Risk

By the very nature of its activities, the Group's investments are exposed to market price fluctuations. The Group's exposure to market price risk as at 31 October 2011 is represented by its investments held on the Consolidated Statement of Financial Position under the heading "Investments held at Fair Value through Profit or Loss" on page 27 and the Company Statement of Financial Position on page 28. Further information on the investment portfolio and investment policy is set out in the Manager's Review.

Management of the risk

The Board manages the risks inherent in the investment portfolio by ensuring full and timely access to relevant information from the Fund Manager. The Board meets regularly and at each meeting reviews investment performance. The Board monitors the Fund Manager's compliance to the Group's investment objectives, and is directly responsible for investment strategy and asset allocation.

Market price sensitivity

The following illustrates the sensitivity of the profit after taxation for the year and the equity to an increase or decrease of 20 per cent in the fair value of the Company's investments. This level of change is considered to be reasonably possible based on observation of market conditions during the year. The sensitivity analysis is based on the Company's investments at each reporting date, with all other variables held constant.

The impact of a 20 per cent increase in the value of investments on the revenue return as at 31 October 2011 is a decrease of £22,000 (2010 decrease £25,000) and on the capital return is an increase of £16,376,000 (2010 increase of £18,286,000).

The impact of a 20 per cent fall in the value of investments on the revenue return as at 31 October 2011 is an increase of £26,000 (2010 increase £27,000) and on the capital return is a decrease of £18,912,000 (2010 decrease of £20,365,000).

(c) Interest Rate Risk

Interest rate movements may affect

- the fair value of investments of fixed interest securities
- the level of income receivable from interest-bearing securities and cash at bank and on deposit

Management of the risk

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions.

Interest rate sensitivity

As the Company does not have any short-term loans, only cash deposits at call are subject to interest rate movement. All such deposits at call earn interest at a daily rate. Therefore, if a sensitivity analysis was performed by increasing or decreasing the interest rates applicable to the Company's cash balances held at each reporting date, with all other variables held constant, there would be no material change to the profit after taxation or equity for the year.

(d) Liquidity Risk

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

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■ Notes to the Accounts for the year ended 31 October 2011 continued

16 Derivatives and other financial instruments continued

(e) Credit and counterparty risk

The failure of the counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss

As at the year end the Group had a counterparty collateral exposure of £16,493,364 in respect to its derivatives transactions. This amount is included in receivables on pages 27 and 28

Management of the risk

The risk is not significant and is managed as follows

- transactions involving derivatives are entered into only with investment banks, the credit rating of which is taken into account so as to minimise the risk to the Company of default
- investment transactions are carried out with a large number of brokers, whose credit standing is reviewed periodically by the Fund Manager, and limits are set on the amount that may be due from any one broker
- cash at bank is held only with reputable banks with high quality external credit ratings

(f) Zero Dividend Preference shares

Fair values of Zero Dividend Preference shares

	Carrying Value £'000	2011 Fair Value £'000	Carrying Value £'000	2010 Fair Value £'000
Zero Dividend Preference shares	143,369	150,371	134,095	141,717

Details on the maturity of the Zero Dividend Preference shares are given in the maturity table below

Initial Capital Entitlement at 3 November 2009	ZDP Entitlement as at 31 October 2011	Pre-determined Capital Entitlement as at 3 November 2009	Pre-determined Maturity Date
29 0p	33 13p	40 5p	30 October 2014

The financial assets and the remaining financial liabilities are either carried in the Statement of Financial Position at their fair value or the Statement of Financial Position amount is a reasonable approximation of fair value (due from brokers, dividends and interest receivable, due to brokers, accruals and cash at bank)

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Notes to the Accounts for the year ended 31 October 2011 continued

16 Derivatives and other financial instruments

(g) Financial Assets and Liabilities

	2011					2010				
	Fair Value Interest Rate Risk £'000	Cash flow Interest Rate Risk £'000	Open Forward Contracts £'000	No Interest Rate Risk £'000	Group Total £'000	Fair Value Interest Rate Risk £'000	Cash flow Interest Rate Risk £'000	Open Forward Contracts £'000	No Interest Rate Risk £'000	Group Total £'000
Sterling	6,982	115,841	63,304	7,021	193,148	28,201	59,482	37,502	8,998	134,183
US Dollar	14,283	–	21,962	9,519	45,764	21,060	–	–	5,990	27,050
Euros	–	–	–	–	–	–	–	4,933	–	4,933
Norwegian Krone	–	–	13,036	–	13,036	–	26,685	30,903	–	57,588
Hong Kong Dollar	–	–	–	3,258	3,258	–	–	–	16,296	16,249
Swiss Franc	–	–	–	–	–	–	–	8,296	1,939	10,235
Swedish Krona	–	–	3,905	–	3,905	–	–	–	–	–
Turkish Lira	–	–	–	–	–	–	–	–	1,537	1,537
Australian Dollar	53,499	–	–	–	53,499	17,851	–	–	–	17,851
Canadian Dollar	–	–	927	–	927	–	23,578	13,844	–	37,422
	74,764	115,841	103,134	19,798	313,537	67,112	109,745	95,478	34,713	307,048
Financial Liabilities										
Euros	–	–	(47,785)	–	(47,785)	–	–	–	–	–
Australian Dollar	–	–	(55,531)	–	(55,531)	–	–	–	–	–
Japanese Yen	–	–	(914)	–	(914)	–	–	–	–	–
US Dollar	–	–	–	–	–	–	–	(69,126)	–	(69,126)
Australian Dollar	–	–	–	–	–	–	–	(21,672)	–	(21,672)
Japanese Yen	–	–	–	–	–	–	–	(7,909)	–	(7,909)
	–	–	(104,230)	–	(104,230)	–	–	(98,707)	–	(98,707)

The currency denomination of the Group's financial assets and liabilities is shown above. The analysis assumes the currency of exposure to be the currency in which each financial asset is priced. Short-term debtors and creditors, which are excluded, are predominantly denominated in Sterling which is the functional currency of the Group.

The fair value interest rate risk consists of corporate bonds with a weighted average interest rate of 6.4 per cent (2010: 7.9 per cent).

The weighted average period to maturity of three bonds is 13.2 years (2010: 18.2 years). There was one perpetual bond with a market value of £7,210,000 as at 31 October 2011 (2010: £28,201,000 for seven perpetual bonds).

The cash flow interest rate risk assets consist of cash deposits at call. Sterling cash deposits at call earn interest at floating rates based on daily Sterling Overnight Index Average (SONIA) rates.

The non-interest bearing assets represent the equity element of the investment portfolio. However, the amounts are not representative of the exposure to foreign currency risk during the year as levels of monetary foreign currency exposure change significantly throughout the year.

The other financial assets and liabilities represent mainly foreign exchange forward positions held as at the year end, all of which have a value date within three months from 31 October 2011.

(h) Financial Assets Held for Trading

The Group has in the past traded in current asset investments and other instruments through its dealing subsidiary, JSST Securities Limited although JSST Securities Limited did not trade during the year (2010: gain £881,000). As disclosed in Note 11 there are no investments held for trading as at 31 October 2011.

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■ Notes to the Accounts for the year ended 31 October 2011 continued

16 Derivatives and other financial instruments continued**(i) Fair value hierarchy**

The Group adopted the amendments to FRS 29 'Financial Instruments: Disclosures' effective from 1 January 2009. These amendments require an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

Level 1 reflects financial instruments quoted in an active market.

Level 2 reflects financial instruments whose fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables includes only data from observable markets.

Level 3 reflects financial instruments whose fair value is determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable market transactions in the same instrument and not based on available observable market data.

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

Financial Instruments measured at fair value

	2011 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Investments	127,862	126,545	–	1,317
Current assets	237,046	237,046	–	–
Total	364,908	363,591	–	1,317
Current liabilities	105,848	105,848	–	–
Total	105,848	105,848	–	–

(j) Movements in level 3 investments

	Group £'000	2011 Company £'000
At the beginning of the year	2,555	2,555
Movement during the year		
Sales	(1,381)	(1,381)
Movements in valuation	143	143
At the end of the year	1,317	1,317

(k) Use of Derivatives

The Group and its trading subsidiary, JSST Securities Limited, may take short positions (using contracts for differences) in respect of a small number of larger capital securities with the view to enhance the returns to shareholders and to manage risk of the portfolio.

The notional amounts of the open forward contracts as at 31 October 2011 reflect the Group's extent of involvement in the particular class of financial instruments and do not represent the Group's risk of loss due to counterparty non-performance.

Forward Currency Contract

Forward currency contracts are agreements to buy or sell a foreign currency at a specified price, at a specified quantity and on a specified date. The fair value of the forward currency contracts are included as open forward contracts and classified as financial assets or liabilities at fair value on the reporting date.

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Notes to the Accounts for the year ended 31 October 2011 continued

16 Derivatives and other financial instruments continued

(I) Capital Management Policies and Procedures

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

- The planned level of gearing, which takes into account the Investment Manager's view on the market,
- The need to buy back equity shares, either for cancellation or to hold in treasury, which takes account of the difference between the Net Asset Value per share and the share price (i.e. the level of share price discount or premium),
- The need for new issues of equity shares, including shares from treasury, and
- The extent to which revenue in excess of that which is required to be distributed should be retained

The Company's objectives, policies and processes for managing capital are unchanged from the preceding accounting period.

- The Company is subject to several externally imposed capital requirements
- The bank borrowings under the overdraft facility are not to exceed £1 million
- As a public Company, the Company has a minimum share capital of £50,000
- In order to be able to pay dividends out of profits available for distribution, the Company has to be able to meet one of the two capital restriction tests imposed on investment companies by Company law

These requirements are unchanged since last year, and the Company has complied with them.

17 Called-up share capital

	2011 £'000	2010 £'000
Issued, called up and fully paid		
216,361,793 Geared Ordinary shares of 0.57191641p each	1,237	1,237
Zero Dividend Preference Shares		
432,723,586 Zero Dividend Preference shares of 0.35443291p each	1,534	1,534

In accordance with IAS 32 the Zero Dividend Preference shares are classed as a liability in the accounts.

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■ Notes to the Accounts for the year ended 31 October 2011 continued

18. Retained earnings

The table below shows the movement in retained earnings analysed between revenue and capital items for the Group and Company

	Revenue £'000	Capital £'000	2011 Group Total £'000	Revenue £'000	Capital £'000	2010 Group Total £'000
At beginning of year	1,734	29,754	31,488	(835)	25,312	24,477
Movement during the year						
Net return for the year	1,928	(7,382)	(5,454)	2,569	4,461	7,030
Costs on issue of new Geared Ordinary shares	–	–	–	–	(19)	(19)
Dividends paid	(1,731)	–	(1,731)	–	–	–
At end of year	1,931	22,372	24,303	1,734	29,754	31,488

The Group's capital reserve includes £1,705,000 of Investment holding gains (2010 £706,000)

	Revenue £'000	Capital £'000	2011 Company Total £'000	Revenue £'000	Capital £'000	2010 Company Total £'000
At beginning of year	2,299	29,754	32,053	364	25,312	25,676
Movement during the year						
Net return for the year	1,928	(7,382)	(5,454)	1,935	4,461	6,396
Costs on issue of new Geared Ordinary shares	–	–	–	–	(19)	(19)
Dividends paid	(1,731)	–	(1,731)	–	–	–
At end of year	2,496	22,372	24,868	2,299	29,754	32,053

The Company's capital reserve includes £1,705,000 of Investment holding gains (2010 £706,000)

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■ Notes to the Accounts for the year ended 31 October 2011 continued

19 Reconciliation of profit before finance costs and taxation to net cash inflow from operating activities

	2011		2010	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Profit before finance costs and taxation	4,441	4,441	16,601	15,720
(Gain)/Loss on fixed asset investments through profit or loss	(2,041)	(2,041)	1,068	1,068
Loss on contracts for differences	(8,211)	(8,211)	(7,781)	(7,781)
Gain on futures & options	5,420	5,420	—	—
Purchases of investments	(136,180)	(136,180)	(253,564)	(253,564)
Sales of investments	152,643	152,643	242,873	242,873
Decrease in open forward contract liability	2,132	2,132	3,229	3,229
Issue costs charged to capital	(17)	(17)	—	—
Decrease/(Increase) in prepayments, other debtors and accrued income	810	533	(745)	(775)
Increase in amount due from contracts for differences and futures & options counterparty	(10,110)	(10,110)	(2,743)	(1,964)
(Decrease)/Increase in other creditors and accruals	(249)	28	(1,287)	(1,503)
	8,768	8,768	(2,349)	(2,697)

20 Analysis of changes in net debt

	1 November 2010 £'000	Cash flow £'000	Non-cash Movement £'000	31 October 2011 £'000
Cash				
Cash at bank	109,745	6,096	—	115,841
Debt				
Zero Dividend Preference liability	(134,095)	—	(9,274)	(143,369)
Total	(24,350)	6,096	(9,274)	(27,528)

Reconciliation of net cash flow to movement in net debts

	2011 £'000	2010 £'000
Increase in cash for the year	6,096	62,957
Net debt at beginning of year	(24,350)	(33,063)
ZDP Issue at Reconstruction	—	(45,639)
Increase in Zero Dividend Preference liability	(9,274)	(8,605)
Net debt at end of year	(27,528)	(24,350)

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■ Notes to the Accounts for the year ended 31 October 2011 continued

21. Related parties

Mr Richard Pavry is an employee of Jupiter Asset Management Limited which receives investment management fees as detailed below. Jupiter Administration Services Limited, a company within the same group as Jupiter Asset Management Limited receives administration fees as set out below.

Jupiter Asset Management Limited is contracted to provide investment management services to the Company (subject to termination by not less than 12 months' notice by either party) for a quarterly fee of 0.1875 per cent of the Total Assets less current liabilities of the Group excluding the value of any Jupiter managed investments payable in arrears on 31 January, 30 April, 31 July and 31 October in each year. Management fees of £415,324 were outstanding as at 31 October 2011 (2010: £409,095).

Jupiter Asset Management Limited is also entitled to an investment performance fee if Total Assets less current liabilities (after adding back any dividends paid or performance fee accrued) at the end of any given accounting period have increased over the greatest of three 'high water marks', being:

- (i) the Initial Total Assets,
- (ii) the Total Assets on the last business day of a calculation period in respect of which a performance fee was last paid (after deduction of any performance fee paid to the Investment Manager in respect of that period), and

the Total Assets on the last business day of the previous calculation period (after deduction of any performance fee paid to the Investment Manager in respect of that period) increased by the total return on the Benchmark Index over the course of the calculation period,

The Benchmark Index being the higher of:

- (i) the annualised cost of the ZDP Share accrual expressed as a percentage of Total Assets,
- (ii) the Hurdle Rate on the ZDP Shares, and
- (iii) 3 month sterling LIBOR calculated as at the first business day of each calendar month.

In such circumstances, the performance fee will amount to 15 per cent of any such excess. The calculation of the total amount of any performance fee will be adjusted for the repurchase or redemption of Shares in any given accounting period and/or for the change in any borrowings by the Company in any given accounting period.

The performance fee will be calculated by reference to the Adjusted Total Asset Value as at the last day of the relevant calculation period. The combined amount of any management and performance fees payable in respect of any 12 month period will not exceed 4.99 per cent of the Net Asset Value of the Geared Ordinary shares and the ZDP Shares (as at the last day of the relevant period) and, to the extent any such fees would otherwise exceed 4.99 per cent of such Net Asset Value, they will be waived by the Investment Manager and will not be carried forward.

There was no investment performance fee payable for the year ended 31 October 2011 (2010: nil).

Jupiter Administration Services Limited is contracted to provide secretarial, accounting and administration services to the Company for an annual fee of £89,727 adjusted each year in line with the Retail Price Index payable quarterly. None of the fee payable for the year ended 31 October 2011 was outstanding at the year end (2010: nil).

During the year up to 7 March 2011, Mr Philip Gibbs, the person at Jupiter Asset Management Limited who manages the assets of the Group served as a director of the Group. Mr Gibbs's director's fees for the provision of his services as a director of the Group were paid to Jupiter Asset Management Limited. £6,904 was payable for the year ended 31 October 2011 and there was none outstanding at the year end. Mr Gibbs is an employee of Jupiter Asset Management Limited.

At a board meeting held on 7 March 2011, Mr Richard Pavry was appointed a director of the Group with effect from that date. Mr Pavry's director's fees for his services as a director of the Group are paid to Jupiter Asset Management Limited.

The Company has invested from time to time in funds managed by Jupiter Investment Management Group Limited or its subsidiaries. As at 31 October 2011 there were two such investments, East European Food Fund and Jupiter Hyde Park Hedge Fund representing 2.4 per cent of total assets including cash (2010: 2.7 per cent).

The Company increased its loan to its subsidiary, JSST Securities Limited, by £246,614.76 to allow JSST Securities Ltd to pay its tax liability. This increased the total amount due to the Company from its subsidiary to £276,339.13 as at 31 October 2011.

22. Contingent liabilities and capital commitments

There were no contingent liabilities or capital commitments outstanding as at 31 October 2011 (31 October 2010: nil).