

M&G 投資資金 (3)

年度財務報表（已查核）
2008 年 8 月

(中文簡譯)

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獨立會計師查核報告

致 M&G 投資基金 (3) (以下稱「該公司」) 股東之會計師查核報告。

M&G 投資基金 (3) 2007 年 7 月 1 日至 2008 年 6 月 30 日之財務報表，包括總收益報告、單位持有人資產淨值變動表、資產負債總表與相關附註，以及有關該公司各子基金之總收益報告、單位持有人資產淨值變動表、資產負債表、投資組合表、重大投資組合變動摘要、相關附註及配息表，業經本會計師查核竣事。上開財務報表係依照各報表訂定之會計政策編製。

授權公司董事與會計師之個別責任。

授權公司董事依照適用法律及英國會計準則（英國一般公認之會計慣例）編製年度報告與財務報表應負之責任，業已明訂於授權公司之董事責任聲明書中。

本會計師之責任係依照相關法律與規範規定、國際審計準則（英國與愛爾蘭）以及集體投資計畫管理規則之規定查核財務報表。根據 2001 年開放式投資公司規範第 67(2) 節之要求與集體投資計畫管理規則第 4.5.12 節之規定，本會計師所提出之報告及意見僅對該公司全體股東負責，此外別無其他用途。非經本會計師事前書面同意，本會計師對於所表達之意見不對任何其他用途或可能閱讀或收到本報告之任何其他人承擔任何責任。

本會計師將針對財務報表是否確實允當表達、以及是否依照投資管理協會（IMA）於 2005 年 12 月發布之授權基金建議聲明、集體投資計畫管理規則及公司章程編製報表表示意見。同時，依本會計師之意見，對於該公司是否未留存正確之會計紀錄，或財務報表與該等紀錄不符，以及針對授權公司董事提供之資訊是否與財務報表一致，均將於報告中提出。此外，本會計師亦將依據查核目的，提出所有必要資訊與說明是否已取得之聲明。

本會計師將參閱年度報告中之其他資訊，並認定該等資訊是否與經查核之財務報表一致。該其他資訊僅包括授權公司董事之報告及目錄頁所列之其他項目。若本會計師發現有任何明顯錯誤或與財務報表有重大不符，本會計師將認定本報告亦受影響。本會計師之責任不及於任何其他資訊。

查核意見之基礎。

本會計師係依照審計準則委員會發布之國際審計準則（英國與愛爾蘭）執行查核工作。

查核內容包括以抽查方式獲取財務報表所列金額以及所揭露事項之證據查核、評估授權公司董事編製財務報表所作之重大估計，以及會計政策是否適合公司情況、前後一致且適當揭露。

在合理確信財務報表無因詐欺、違法行為或錯誤而造成重大不實表達之下，本會計師規劃並執行查核工作，以便獲得本會計師認為所有必要之資訊與說明。為出具本會計師之意見，本會計師亦已鑑定財務報表資訊呈現之整體正確性。

意見

依本會計師之意見，上開財務報表：

- 根據英國一般公認會計慣例，確實允當表達該公司與各子基金 2008 年 6 月 30 日之財務狀況暨 2008 年 7 月 1 日至 2008 年 6 月 30 日該公司與各子基金資產之淨收入/（支出）與淨利得/（損失），且
- 係依照投資管理協會(IMA)於 2005 年 12 月發布之授權基金建議聲明、集體投資計畫管理規則以及公司章程確實編製。

依據查核之目的，本會計師已取得所要必要之資訊與說明。

依本會計師之意見，授權公司之董事報告中所提之資訊係與財務報表一致。

倫敦
2008 年 8 月 13 日

PricewaterhouseCoopers LLP
特許會計師暨註冊審計師

上開財務報表已公布於 www.mandg.co.uk/reports 網站，該網站係由 M&G Securities Limited 與 M&G Financial Services Limited (M&G) 維護。目前該網站上有關 M&G 投資基金 (3) 的部分，仍由 M&G 負責其維護與完整性。本會計師執行之工作並未考慮該網站之維護與完整性，是故會計師對原先登載於該網站上的財務報表可能發生之任何變動不負任何責任。瀏覽該網站之訪客需了解英國規範之財務報表其編製與散布之法規，可能與其國家之法或有所不同。

英國保誠集團 M&G 新契機基金

M&G Recovery Fund

查核財務報告

(中文簡譯)

總收益報告

2008 年 6 月 30 日止

		2008 年		2007 年	
	註	英鎊 (仟元)	英鎊 (仟元)	英鎊 (仟元)	英鎊 (仟元)
投資損失/淨利得	3		(257,781)		486,262
貨幣損失/淨利			(297)		(60)
收入	4	83,660		58,345	
支出	5	(36,763)		(27,473)	
金融成本：利息	12	(1)		(7)	
稅後淨利		46,896		30,865	
稅收	6	(71)		(188)	
稅前淨利			46,825		30,677
分配前總收益			(211,253)		516,879
金融成本：分配	12		(46,708)		(27,513)
單位持有人資產淨值變動			(257,961)		489,366

單位持有人資產淨值變動表

2008 年 6 月 30 日止

	2008 年		2007 年	
	英鎊 (仟元)	英鎊 (仟元)	英鎊 (仟元)	英鎊 (仟元)
期初單位持有人之資產淨值		2,760,556		1,707,541
發行單位收取之金額	642,500		317,823	
基金資產移轉金額 (M&G British Opportunities Fund)			413,609	
取消單位支付之金額	(233,580)		(180,111)	
		408,920		551,321
印花稅保留		(2,093)		(1,207)
單位持有人資產淨值變動(見上)		(257,961)		489,366
累計單位的保留分配		24,010		13,521
未宣告分配		16		14
期末單位持有人之資產淨值		2,933,448		2,760,556

資產負債表

2008 年 6 月 30 日止

	2008/6/30		2007/6/30	
	英鎊 (仟元)	英鎊 (仟元)	英鎊 (仟元)	英鎊 (仟元)
資產				
投資組合		2,636,408		2,642,749
債權				
應收發行單位金額	8,639		7,282	
應收銀行利息	7		8	
流通在外貨幣交易	5,795		0	
應收存款息	0		20	
應收股利	15,530		11,611	
應收利息(HM 收入& 關稅)	0		100	
預付年費	1		192	
待交割銷售款	297		32,429	
可回收稅負	0		1,323	
現金及銀行餘額	305,784		121,997	
其他資產總額		336,053		174,962
資產總計		2,972,461		2,817,711
負債				
債務				
應付取消單位金額	(3,473)		(1,862)	
流通在外貨幣交易	(5,803)		0	
應付費用	(27)		(24)	
淨分配金額應付款	(16,681)		(10,374)	
待安置交割款	0		(6,893)	
待交割購入款	(12,904)		(37,894)	
印花稅保留	(125)		(108)	
負債總計		(39,013)		(57,155)
單位持有人資產淨值		2,933,448		2,760,556

Annual Investment Report and Financial Statements (audited)
August 2008



M&G Investment Funds (3)



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^[a] Collectively, these comprise the Authorised Corporate Director's Report.

Introduction

COMPANY INFORMATION

Company

M&G Investment Funds (3)

Registered Office

Laurence Pountney Hill, London EC4R 0HH

Authorised Corporate Director (ACD)

M&G Securities Limited,
Laurence Pountney Hill, London EC4R 0HH
Telephone: 0800 390 390
(Authorised and regulated by the Financial Services Authority)

Directors of the ACD

W J Nott (Chief Executive),
J R Talbot (Director and Secretary),
D J Carter, C I Jackson, M Lewis, G W MacDowall,
L J Mumford, E L Rosengarten, L J Scrine

Investment manager for all sub-funds except M&G US High Yield Corporate Bond Fund:

M&G Investment Management Limited,
Laurence Pountney Hill, London EC4R 0HH
Telephone: 020 7626 4588
(Authorised and regulated by the Financial Services Authority)

Investment manager for M&G US High Yield Corporate Bond Fund:

PPM America Inc.,
225 West Wacker Drive, Suite 1200, Chicago, IL USA 60606

Fund managers

The following fund managers are employed by M&G Limited
which is an associate of M&G Securities Limited.

M&G Corporate Bond Fund

Richard Woolnough

M&G Dividend Fund

Richard Hughes

M&G Emerging Markets Bond Fund

Jim Leaviss

M&G European Corporate Bond Fund

Stefan Isaacs

M&G European High Yield Bond Fund

Stefan Isaacs

At the start of the review period David Fancourt was the fund manager.

M&G Fund of Investment Trust Shares

Alex Odd

M&G International Sovereign Bond Fund

David Knee

M&G Recovery Fund

Tom Dobell

M&G Smaller Companies Fund

Simon Bailey

M&G UK Select Fund

Mike Felton

The following fund manager is employed by PPM America Inc.
which is an associate of M&G Securities Limited.

M&G US High Yield Corporate Bond Fund

JoAnne Bianco

The M&G US High Yield Corporate Bond Fund was closed for investment
purposes on 29 June 2007.

Registrar

International Financial Data Services (UK) Limited,
IFDS House, St. Nicholas Lane, Basildon, Essex SS15 5FS
(Authorised and regulated by the Financial Services Authority)

Depository

The Royal Bank of Scotland plc,
Trustee & Depository Services, The Broadstone,
50 South Gyle Crescent, Edinburgh EH12 9UZ
(Authorised and regulated by the Financial Services Authority)

Independent auditors

PricewaterhouseCoopers LLP,
Hay's Galleria, 1 Hay's Lane, London SE1 2RD

Please note the address changed with effect from 3 September 2007.

Customer Services and Administration

M&G Securities Limited,
PO Box 9039, Chelmsford CM99 2XG
Telephone: 0800 390 390
(For your security and to improve the quality of our service, we may
record and randomly monitor telephone calls)

Important information

Proposal to adopt wider investment and borrowing powers available
to UCITS schemes for this Company. Subject to a successful
shareholder vote on Friday 29 August 2008 the object clause of the
Company will change on 1 September 2008 from:

The object of the Company is to invest the scheme property mainly in
transferable securities in accordance with the FSA Rules applicable
to securities schemes with the aim of spreading investment risk and
giving its shareholders the benefits of the results of the management
of that property.

to:

The object of the Company is to invest the scheme property in
transferable securities, money market instruments, derivative
instruments and forward transactions, cash, near cash, deposits and
units in collective investment schemes in accordance with the FSA
Rules applicable to the Company and each sub-fund according to the
type of authorisation of the Company with the aim of spreading
investment risk and giving its shareholders the benefit of the results
of the management of that property.

M&G is a member of the Investment Management Association (IMA)
and of the Tax Incentivised Savings Association.

The Instrument of Incorporation can be inspected at our offices or at
the office of the Depository.

Introduction

FOR EUROPEAN INVESTORS

Copies of the Prospectus and the Interim / Annual Investment Report and Financial Statements can be obtained from:

M&G International Investments Ltd (Niederlassung Deutschland):

Joachimstaler Straße 10-12, D-10719 Berlin

German Paying and Information Agent:

J. P. Morgan AG, Junghofstraße 14, D-60311 Frankfurt am Main

Austrian Paying and Information Agent:

Raiffeisen Zentralbank Österreich AG,
Am Stadtpark 9, A-1030 Wien

Luxembourg Paying and Information Agent:

J. P. Morgan Bank Luxembourg S.A.
5 Rue Plaetis, L-2338 Luxembourg

For Italy:

M&G International Investments Ltd,
Laurence Pountney Hill, London EC4R 0HH

Italian Paying and Information Agent:

Cassa Centrale Raiffeisen dell'Alto Adige S.p.A.
via Laurin 1, 39100 Bolzano

Spanish Representative:

Allfunds Bank, Calle Nuria, 57, Mirasierra, 28034 Madrid, Spain

Swiss Paying Agent:

JP Morgan Chase Bank, New York (Zürich branch)

Swiss Representative:

First Independent Fund Services Klausstrasse 33, CH-8008 Zürich

For France:

M&G International Investments Limited,
90 avenue des Champs Elysées, 75008 Paris

French Paying Agent:

RBC Dexia Investor Services, Bank France SA
105 rue Réaumur, F-75002 Paris

AUTHORISED CORPORATE DIRECTOR'S REPORT

The Authorised Corporate Director (ACD) presents its annual investment report and audited financial statements for the year ended 30 June 2008.

The sub-funds in this report are all part of an umbrella Open-Ended Investment Company (OEIC), M&G Investment Funds (3). This OEIC is an Investment Company with Variable Capital (ICVC) incorporated under the Open-Ended Investment Companies Regulations 2001. It is authorised and regulated by the Financial Services Authority (FSA) under the Financial Services and Markets Act 2000. M&G Investment Funds (3), as an umbrella OEIC, contains 11 sub-funds^[a], each of which are UCITS (Undertakings for Collective Investment in Transferable Securities) schemes as defined in the Collective Investment Schemes sourcebook, as issued (and amended) by the FSA:

M&G Corporate Bond Fund
M&G Dividend Fund
M&G Emerging Markets Bond Fund
M&G European Corporate Bond Fund
M&G European High Yield Bond Fund
M&G Fund of Investment Trust Shares
M&G International Sovereign Bond Fund
M&G Recovery Fund
M&G Smaller Companies Fund
M&G UK Select Fund
M&G US High Yield Corporate Bond Fund^[a]

^[a] As at 30 June 2008: The M&G US High Yield Corporate Bond Fund commenced its termination on 29 June 2007 and is no longer available for investment.

The Company was authorised on 8 August 2001 and was launched on 7 March 2002, following the conversion of a series of authorised unit trusts.

The Company's principal activity is to carry on business as an OEIC. The Company is structured as an umbrella company, and different sub-funds may be established by the ACD from time to time with the agreement of the Depositary and approval from the FSA. The sub-funds are operated separately and the assets of each sub-fund are managed in accordance with the investment objective and policy applicable to that sub-fund.

The annual investment report and audited financial statements for each sub-fund for the year ended 30 June 2008 are set out in detail in their section of this report (see contents page).

J R Talbot
Director of M&G Securities Limited

G W MacDowall
Director of M&G Securities Limited
13 August 2008

M&G Investment Funds (3)

AUTHORISED CORPORATE DIRECTOR'S RESPONSIBILITIES

Statement of the Authorised Corporate Director's responsibilities in respect of the annual investment report and financial statements of the Company

The Collective Investment Schemes sourcebook, as issued (and amended) by the Financial Services Authority (FSA), requires the Authorised Corporate Director (ACD) to prepare the investment report and financial statements for each financial year which give a true and fair view of the financial position of the Company as at the end of the financial year, and the net income and the net losses for the year. In preparing the financial statements, the ACD is required to:

- comply with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (IMA) in December 2005, the Instrument of Incorporation, generally accepted accounting principles and applicable accounting standards subject to any material departures which are required to be disclosed and explained in the financial statements;
- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in operation.

The ACD is required to keep proper accounting records, and to manage the Company in accordance with the Collective Investment Schemes sourcebook, as issued (and amended) by the FSA, the Instrument of Incorporation and the Prospectus, and to take reasonable steps for the prevention and detection of fraud or other irregularities.

DEPOSITARY'S RESPONSIBILITIES AND REPORT

Statement of the Depositary's responsibilities in respect of the financial statements of the Company

The Depositary is under a duty to take into custody and to hold the property of the Company. Under the Regulations relating to Reports, it is the duty of the Depositary to enquire into the conduct of the Authorised Corporate Director in the management of the Company in each accounting period and report thereon to shareholders in a report which shall contain the matters prescribed by the Regulations. A copy of the Depositary's report is included in this report.

Report of the Depositary to the shareholders of M&G Investment Funds (3) for the year ended 30 June 2008

The Depositary is responsible for the safekeeping of all of the property of the Company (other than tangible moveable property) which is entrusted to it and for the collection of income that arises from that property.

It is the duty of the Depositary to take reasonable care to ensure that the Company is managed in accordance with the Financial Services Authority's Collective Investment Schemes sourcebook (COLL), as amended, the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228), as amended ('the OEIC Regulations'), the Company's Instrument of Incorporation and Prospectus, in relation to the pricing of, and dealings in, shares in the Company; the application of income of the Company; and the investment and borrowing powers applicable to the Company.

Having carried out such procedures as we consider necessary to discharge our responsibilities as Depositary of the Company, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Company, acting through the Authorised Corporate Director:

- has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Company's shares and the application of the Company's income in accordance with COLL and, where applicable, the OEIC Regulations, the Instrument of Incorporation and Prospectus of the Company, and
- has observed the investment and borrowing powers and restrictions applicable to the Company.

Edinburgh
13 August 2008

The Royal Bank of Scotland plc
Trustee and Depositary Services

M&G Investment Funds (3)

INDEPENDENT AUDITORS' REPORT

Independent auditors' report to the shareholders of M&G Investment Funds (3) ICVC ('the Company')

We have audited the financial statements of M&G Investment Funds (3) for the year ended 30 June 2008 which comprise the statement of total return, the statement of change in shareholders' net assets, the balance sheet, the portfolio statement, the summary of material portfolio changes, the related notes and the distribution table. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of the Authorised Corporate Director and Auditors

The Authorised Corporate Director's responsibilities for preparing the annual report and financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Authorised Corporate Director's responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) and the requirements of the Collective Investment Schemes sourcebook. This report, including the opinion, has been prepared for and only for the Company's shareholders as a body in accordance with paragraph 4.5.12 of the Collective Investment Schemes sourcebook as required by paragraph 67(2) of the Open-Ended Investment Companies Regulations 2001 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (IMA) in December 2005, the Collective Investment Schemes sourcebook and the Instrument of Incorporation. We also report to you whether, in our opinion, proper accounting records for the Company have not been kept or whether the financial statements are not in agreement with those records, and whether the information given in the Authorised Corporate Director's Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Authorised Corporate Director's Report and the other items set out on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the financial position of the Company and each of the sub-funds at 30 June 2008 and of the net income and the net gains / (losses) of the property of the Company and each of the sub-funds for the year then ended; and
- have been properly prepared in accordance with the Statement of Recommended Practice for Authorised Funds issued by the IMA in December 2005, the Collective Investment Schemes sourcebook and the Instrument of Incorporation.

We have obtained all the information and explanations we consider necessary for the purposes of the audit.

In our opinion the information given in the Authorised Corporate Director's Report is consistent with the financial statements.

London
13 August 2008

PricewaterhouseCoopers LLP
Chartered Accountants and
Registered Auditors

The financial statements are published at www.mandg.co.uk/reports, which is a website maintained by M&G Securities Limited and M&G Financial Services Limited (M&G). The maintenance and integrity of the website maintained by M&G, so far as it relates to M&G Investment Funds (2), is the responsibility of M&G. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

Aggregated Financial Statements

For the year ended 30 June 2008.

STATEMENT OF TOTAL RETURN					
Note	2008		2007		
	£'000	£'000	£'000	£'000	
Net (losses) / gains on investments	3	(530,112)		641,166	
Currency gains / (losses)		1,400		(50)	
Income	4	225,363	194,875		
Expenses	5	(79,118)	(72,198)		
Finance costs: Interest	13	(3)	(13)		
Net income before taxation		146,242	122,664		
Taxation	6	(98)	(244)		
Net income after taxation		146,144	122,420		
Total return before distributions		(382,568)	763,536		
Finance costs: Distributions	13	(155,405)	(130,759)		
Change in net assets attributable to shareholders from investment activities		(537,973)	632,777		

STATEMENT OF CHANGE IN SHAREHOLDERS' NET ASSETS				
	2008		2007	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		5,833,659		4,661,349
Amounts received on issue of shares	1,039,441		661,124	
Transfer of assets from the M&G British Opportunities Fund to the M&G Recovery Fund	-		413,609	
Amounts paid on cancellation of shares	(635,693)		(567,638)	
Stamp Duty Reserve Tax (SDRT)		403,748	507,095	
		(2,860)	(1,931)	
Change in net assets attributable to shareholders from investment activities (see above)		(537,973)	632,777	
Retained distributions on Accumulation shares		50,298	34,268	
Unclaimed distributions		107	101	
Closing net assets attributable to shareholders		5,746,979	5,833,659	

BALANCE SHEET				
	as at 30 June 2008		as at 30 June 2007	
	£'000	£'000	£'000	£'000
Assets				
Portfolio of investments		5,349,643		5,609,163
Debtors				
Amounts receivable on issues	13,362		8,434	
Bank interest receivable	220		108	
Currency deals outstanding	5,795		357	
Debt security interest receivable	34,575		27,404	
Deposit interest receivable	0		32	
Dividends receivable	22,945		17,926	
Factor payments receivable	0		443	
HM Revenue & Customs interest receivable	0		283	
Overseas tax recoverable	18		6	
Prepaid expenses	4		442	
Sales awaiting settlement	13,489		44,678	
Stock lending fee receivable	13		7	
Tax recoverable	41		0	
VAT recoverable	0		3,542	
Cash and bank balances	416,175		235,051	
Total other assets		506,637		338,713
Total assets		5,856,280		5,947,876
Liabilities				
Derivative liabilities		(105)		(102)
Creditors				
Amount payable on class action	(2)		0	
Amounts payable on cancellations	(9,296)		(10,965)	
Currency deals outstanding	(5,803)		(357)	
Expenses payable	(157)		(153)	
Income tax payable	(5,380)		(4,705)	
Net distributions payable on Income shares	(48,763)		(40,054)	
Placings awaiting settlement	(156)		(9,185)	
Purchases awaiting settlement	(39,475)		(48,506)	
SDRT payable	(164)		(190)	
Total other liabilities		(109,196)		(114,115)
Total liabilities		(109,301)		(114,217)
Net assets attributable to shareholders		5,746,979		5,833,659

Aggregated Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

The accounting policies applied are set out in the notes to the financial statements of each of the sub-funds.

The aggregated financial statements represent the summation of the financial statements for each of the sub-funds.

2 Risk management policies

The risk management policies are set out in the notes to the financial statements of each of the sub-funds.

3 Net (losses) / gains on investments

	2008 £'000	2007 £'000
Non-derivative securities	(540,153)	619,433
Forward currency contracts	(208)	(753)
Special dividends taken to capital	10,249	22,486
Net (losses) / gains on investments	(530,112)	641,166

4 Income

	2008 £'000	2007 £'000
Bank interest	1,781	1,416
Deposit interest	16,179	7,507
HM Revenue & Customs interest	65	101
Interest on debt securities	84,048	84,054
Overseas dividends	2,035	1,595
Property income dividends	344	0
Stock dividends	3,412	5,007
Stock lending fee income	97	90
UK dividends	115,834	94,652
Underwriting commission	1,568	453
	225,363	194,875

5 Expenses

	2008 £'000	2007 £'000
Payable to the Authorised Corporate Director or associate		
Authorised Corporate Director's periodic charge	69,755	63,045
Administration fee	8,724	8,007
	78,479	71,052
Payable to the Depositary or associate		
Depositary's fee (including VAT)	292	275
Distribution fees	3	4
	295	279
Other expenses		
Audit fee (including VAT)	79	86
Regulatory fees	19	14
Safe custody charge	154	155
Tax consultancy fees ^[a]	40	41
Transaction charges	33	31
Transaction charges relating to stock lending	8	8
	333	335
VAT recoverable		
Prior year	11	532
Total expenses	79,118	72,198

^[a] Fees paid to overseas firms affiliated with PricewaterhouseCoopers LLP.

6 Taxation

	2008 £'000	2007 £'000
a) Analysis of charge in the year		
Corporation tax	2	0
Overseas tax	109	191
Overseas tax recoverable: written off	64	55
Overseas tax recovered: previously written off	(76)	(2)
Double taxation relief	(2)	0
Prior year adjustment	1	0
	98	244
Current tax charge (note 6b)	98	244
Deferred tax (note 6c)	0	0
	98	244

b) Factors affecting taxation charge for the year

Net income before taxation	146,242	122,664
Corporation tax at 20%	29,249	24,533
Effects of:		
UK dividends ^[a]	(23,167)	(18,930)
Stock dividends not taxable	(682)	(1,002)
Interest distributions	(13,394)	(13,057)
Prior period expenses utilised	(2)	0
Current period expenses not utilised	8,031	8,458
Expenses not deductible for tax purposes	7	6
Income taxable in different periods	(40)	(8)
Overseas tax	109	191
Overseas tax recoverable: written off	64	55
Overseas tax recovered: previously written off	(76)	(2)
Double taxation relief	(2)	0
Prior year adjustment	1	0
Current tax charge (note 6a)	98	244

^[a] As an Open-Ended Investment Company this item is not subject to corporation tax.

c) Provision for deferred taxation

Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
Provision at the end of the year	0	0

7 Stock lending activities

The gross income earned from stock lending activities was £241,000 (2007: £223,000). The income shown in note 4 is net of commissions amounting to £144,000 (2007: £133,000) payable to M&G Investment Management Limited. Transaction charges relating to stock lending are shown in note 5.

The value of stock on loan at the balance sheet date was £154,040,000 (30.06.07: £191,613,000). The total value of collateral held at the balance sheet date was £164,440,000 (30.06.07: £206,609,000). This collateral consisted of equities to the value of £7,940,000 (30.06.07: £5,821,000), bonds to the value of £153,247,000 (30.06.07: £200,786,000) and cash to the value of £3,253,000 (30.06.07: £2,000).

Aggregated Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

8 Contingent liabilities and outstanding commitments

Rights issues

There were no contingent liabilities at the balance sheet date (30.06.07: same).

Warrants

At the balance sheet date, the Company had a commitment to warrants outstanding totalling £735,140 (30.06.07: £2,898,634), details of which are disclosed in the notes to the financial statements of the relevant sub-funds.

9 Related parties

The required disclosures are set out in the notes to the financial statements of each of the sub-funds.

10 Financial instruments

The required disclosures are set out in the notes to the financial statements of each of the sub-funds.

11 Portfolio transaction costs

	2008 £'000	2007 £'000
a) Purchases		
Purchases excluding transaction costs	2,483,919	1,874,902
Commissions	1,000	1,148
Taxes	4,123	4,670
Total transaction costs	5,123	5,818
Total purchases including transaction costs	2,489,042	1,880,720
b) Sales		
Sales excluding transaction costs	2,206,459	1,845,173
Commissions	(691)	(1,087)
Total sales net of transaction costs	2,205,768	1,844,086

12 Shareholder funds

The required disclosures are set out in the notes to the financial statements of each of the sub-funds.

13 Finance costs

	2008 £'000	2007 £'000
Income shares (sterling)		
Class 'A' - Dividend distributions	41,766	34,380
Interest distributions	12,175	13,677
Class 'C' - Dividend distributions	12,936	10,131
Class 'I' - Interest distributions	1,135	-
Class 'X' - Dividend distributions	2,680	1,650
Interest distributions	22,392	25,000
Accumulation shares (sterling)		
Class 'A' - Dividend distributions	20,393	12,128
Interest distributions	14,634	10,097
Class 'C' - Dividend distributions	5,538	4,787
Class 'I' - Interest distributions	44	-
Class 'X' - Dividend distributions	1,841	758
Interest distributions	1,080	895
Accumulation shares (euro)		
Class 'A' - Dividend distributions	1,183	827
Interest distributions	2,751	2,660
Class 'C' - Dividend distributions	2,834	1,851
Interest distributions	0 [a]	265
	143,382	119,106
Income tax deducted at source	12,817	12,515
	156,199	131,621
Income deducted on cancellation of shares	2,810	2,526
Income received on issue of shares	(3,604)	(2,328)
Income received on issue of shares from the merger between the M&G British Opportunities Fund and the M&G Recovery Fund	-	(1,060)
Finance costs: Distributions	155,405	130,759
Finance costs: Interest	3	13
Total finance costs	155,408	130,772
Net income per statement of total return	146,144	122,420
Expenses offset against capital	10,981	12,168
Relief on expenses offset against capital	(222)	(64)
Stock dividends not distributed	(1,437)	(3,930)
Undistributed income brought forward	168	146
Undistributed income carried forward	(229)	(168)
Income deficit transferred to capital	0	187
Finance costs: Distributions	155,405	130,759

[a] The gross distributions for Euro Class 'C' (Accumulation) shares were €2,323.

DIRECTORS' STATEMENT

This report has been prepared in accordance with the requirements of the Collective Investment Schemes sourcebook, as issued and amended by the Financial Services Authority.

J R TALBOT
G W MACDOWALL } Directors
13 August 2008

Aggregated Financial Statements

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M&G Corporate Bond Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective and policy of the M&G Corporate Bond Fund

The Fund invests in sterling denominated fixed and variable rate securities, including corporate bonds and debentures with the aim of achieving a higher return from investment than would be obtainable in UK government fixed interest securities (i.e. gilts) of similar maturities. The Fund may, however, hold gilts where it is deemed appropriate.

The investment manager has the power to use futures traded or dealt on an eligible derivatives market (currently being The London International Financial Futures and Options Exchange) for the purpose of hedging the capital value of the Fund against the risks of adverse movements in long term interest rates.

More than 35% of the value of the property of the Fund may be invested in Government and other public securities issued or guaranteed by any of:

- the Government of the United Kingdom or of a Member State* other than the United Kingdom;
- the Government of Australia, Canada, Japan, New Zealand, Switzerland, USA;
- the African Development Bank, Asian Development Bank, Eurofima, European Economic Community, European Bank for Reconstruction and Development, European Coal and Steel Community, European Investment Bank, International Bank for Reconstruction and Development, International Financial Corporation.

* Member State: those countries which are members of the European Union or the European Economic Area at any given time.

Proposed adoption of wider investment powers

Subject to a successful shareholder vote on 29 August 2008 the investment objective and policy of the M&G Corporate Bond Fund will change on 1 September 2008.

Proposed investment objective of the M&G Corporate Bond Fund (from 1 September 2008)

The Fund aims to achieve a higher total return (the combination of income and growth of capital) from investment than would be obtainable in UK government fixed interest securities (i.e. gilts) of similar maturities.

Proposed investment policy of the M&G Corporate Bond Fund (from 1 September 2008)

The Fund invests mainly in sterling denominated corporate debt instruments. The Fund's exposure to corporate debt may be gained through the use of derivatives. Any currency exposures within the Fund may be managed by currency hedges into sterling. The Fund may also invest in other assets including collective investment schemes, other transferable securities and other debt instruments (including corporate debt and government and public securities denominated in any currency), cash and near cash, deposits, warrants, money market instruments and other derivative instruments.

Investment approach

The M&G Corporate Bond Fund invests in sterling denominated 'investment grade' debt (BBB and above). The fund manager aims to identify corporate bonds that offer sufficient compensation for the risks of owning them. Typically this will involve an emphasis on A and BBB rated credits, although this may not always be the case.

The fund focuses on proprietary research using our extensive credit resources, rather than on external research, as ratings agencies can be slow to revise their credit ratings and do not assess the effect of event risk on a company.

Default risk is constantly monitored and always well diversified.

At present, the fund is not invested in traditional preference shares and will only hold convertibles that are trading as fixed interest securities. It will not hold any convertibles that represent equity risk.

INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

As at 1 July 2008, for the year ended 30 June 2008

At the start of the review period, the fund was defensively positioned as we expected economic growth to continue, interest rates to increase and bond prices to decrease.

However, we moved the fund to a more aggressive stance shortly after the period began because we expected interest rates to be cut. Thus, we reduced the fund's exposure to floating rate notes (which are essentially a higher yielding form of cash) by disposing of our holdings in GE Capital, Holmes Finance and Lothian Mortgages. We reinvested the proceeds in UK government bonds with long maturity dates (2020) as longer dated bonds tend to perform better than shorter maturity bonds when yields fall and prices rise.

Towards the end of the review period, we shortened the fund's average maturity, or duration slightly. We sold long dated bonds, and bought more short and medium dated bonds as they had become more attractively valued during an extreme market sell-off.

As prices on corporate bonds fell in the spring, we increased our exposure to BBB rated corporate bonds which offer the highest yields within the investment grade band. The BBB rated corporate bonds that we bought included issues from water company Thames Water, telecommunications business Vodafone, tobacco manufacturer Imperial Tobacco and Dutch telecommunications provider KPN.

Richard Woolnough

Fund manager

Richard Woolnough is an employee of M&G Limited which is an associate of M&G Securities Limited.

Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial Adviser.

M&G Corporate Bond Fund

FUND STATISTICS

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
First interim	01.10.08	30.11.08
Second interim	02.01.09	28.02.09
Third interim	01.04.09	31.05.09
Final	01.07.09	31.08.09

	Final distribution		Total Expense Ratio ^[b]	
	Inc 31.08.08 ^[a]	Acc 01.07.08 ^[a]	30.06.08	30.06.07
Sterling	p	p	%	%
Class 'A'	0.2788	0.3506	1.16	1.17
Class 'I'	0.3052	0.3850	0.65	n/a
Class 'X'	0.2636	0.3274	1.42	1.42
Euro	€	€	%	%
Class 'A'	n/a	11.6520	1.46	1.40
Class 'C'	n/a	13.4590	0.67	0.68

The Portfolio Turnover Rate (PTR) for the 12 months ending 30 June 2008 was 171.05% compared with 65.93% for the year ending 30 June 2007. ^[c]

^[a] The date on which the final distribution will be paid to Income shareholders and credited to Accumulation shareholders.

^[b] The Total Expense Ratio (TER) shows the relevant annualised operating expenses of each share class from the most recent reporting period as a single percentage of the average net asset value for that share class over the same period.

^[c] The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within the fund over the course of a 12 month period. The PTR is calculated by taking the sum of all transactions in securities less the sum of all transactions in the fund's shares and is expressed as a percentage of the fund's average net asset value.

Income accrued from interest-bearing securities is distributed on an effective yield basis.

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 30.06.08		Net asset value per share as at 30.06.07		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	28.15	35.75	29.17	35.70	-3.50	+0.14
Class 'I'	28.16	35.90	n/a	n/a	n/a	n/a
Class 'X'	28.15	35.29	29.16	35.31	-3.46	-0.06
Euro	€	€	€	€	%	%
Class 'A'	n/a	10.2775	n/a	12.0381	n/a	-14.63
Class 'C'	n/a	10.2016	n/a	11.8250	n/a	-13.73

PERFORMANCE SINCE LAUNCH

	six months 02.01.08 %	one year 02.07.07 %	five years 01.07.03 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	-3.2	+2.0	+3.3	+7.0 ^[c]
Class 'I'	-3.1	+2.3	n/a	+2.3 ^[d]
Class 'X'	-3.2	+1.9	+3.0	+6.9 ^[e]
Euro ^[b]				
Class 'A'	-9.8	-13.4	+1.1	+0.7 ^[f]
Class 'C'	-9.2	-12.5	+0.8	+0.6 ^[f]

^[a] Shows the compound rate of return, per annum, over the period.

^[b] Bid to bid with gross income reinvested.

^[c] 15 April 1994. All performance data prior to 11 March 2002 (the launch date of the share class) has been calculated by reference to a conversion factor due to a change of the nominated share class.

^[d] 2 July 2007, the launch date of the share class, not annualised.

^[e] 15 April 1994, the launch date of the predecessor unit trust.

^[f] 29 November 2002, the launch date of the share class.

SINGLE YEAR PERFORMANCE (5 YEARS ENDING JUNE)

From To	29.06.07 30.06.08 %	30.06.06 29.06.07 %	30.06.05 30.06.06 %	30.06.04 30.06.05 %	30.06.03 30.06.04 %
Sterling					
Class 'A' ^[a]	+1.0	-0.7	+0.8	+12.1	-0.7

^[a] Nominated share class.

Source: Morningstar Inc., bid to bid with net income reinvested.

M&G Corporate Bond Fund

FUND STATISTICS

PRICES					
	Calendar year	Income shares Highest	Income shares Lowest	Accumulation shares Highest	Accumulation shares Lowest
Sterling		p	p	p	p
Class 'A'	2003	31.21	29.29	32.68	30.39
	2004	30.94	28.89	34.37	31.47
	2005	31.87	30.03	36.68	33.81
	2006	32.04	30.41	37.21	35.77
	2007	30.73	28.99	37.46	35.49
	2008 ^[a]	30.15	28.41	37.57	35.79
Class 'I'	2007 ^[b]	30.34	29.00	37.52	35.49
	2008 ^[a]	30.14	28.41	37.63	35.94
Class 'X'	2003	31.19	29.28	32.60	30.34
	2004	30.92	28.87	34.18	31.33
	2005	31.85	30.03	36.40	33.60
	2006	32.03	30.40	36.89	35.47
	2007	30.72	28.99	37.01	35.10
	2008 ^[a]	30.14	28.40	37.12	35.34
Euro ^[c]		€	€	€	€
Class 'A'	2003	n/a	n/a	10.1245	9.4250
	2004	n/a	n/a	11.1640	9.7224
	2005	n/a	n/a	12.0517	10.8229
	2006	n/a	n/a	12.5362	11.5950
	2007	n/a	n/a	12.6106	11.5269
	2008 ^[a]	n/a	n/a	11.5180	10.3168
Class 'C'	2003	n/a	n/a	10.1342	9.4554
	2004	n/a	n/a	10.7939	9.7863
	2005	n/a	n/a	11.7149	10.4484
	2006	n/a	n/a	12.2642	11.3035
	2007	n/a	n/a	12.3501	11.3652
	2008 ^[a]	n/a	n/a	11.3572	10.2292

^[a] To 1 July 2008.

^[b] From 2 July 2007 (the launch date of the share class) to 31 December 2007.

^[c] Please note that with effect from 4 January 2005 these share classes are priced gross.

Past performance is no indication of current or future performance and the performance data does not take account of the commissions and costs incurred on the issue and redemption of shares.

The price of shares and the income from them may go down as well as up, and you may get back less than you invested.

INCOME

Income per share						
	Calendar year	Interims	Distributed Final	Interim	Total	Reinvested
Sterling (net)		p	p	p	p	p
Class 'A'	2003	0.6250	0.3080	0.2990	1.2320	0.9652
	2004	0.5880	0.2972	0.2820	1.1672	1.2655
	2005	0.5452	0.2700	0.2720	1.0872	1.2241
	2006	0.5228	0.2848	0.2684	1.0760	1.2545
	2007	0.5352	0.2700	0.2640	1.0692	1.2910
	2008 ^[a]	0.5352	0.2788	-	0.8140	1.0145
Class 'I'	2007	n/a	n/a	0.3008	0.3008	0.3682
	2008 ^[a]	0.5896	0.3052	-	0.8948	1.1176
Class 'X'	2003	0.6010	0.2870	0.2800	1.1680	0.9109
	2004	0.5620	0.2820	0.2660	1.1100	1.1987
	2005	0.5152	0.2540	0.2560	1.0252	1.1475
	2006	0.4908	0.2692	0.2524	1.0124	1.1711
	2007	0.5036	0.2552	0.2488	1.0076	1.2045
	2008 ^[a]	0.5052	0.2636	-	0.7688	0.9469
Euro (gross ^[b])		€	€	€	€	€
Class 'A'	2003	n/a	n/a	n/a	n/a	29.7150
	2004	n/a	n/a	n/a	n/a	34.1620
	2005	n/a	n/a	n/a	n/a	44.8860
	2006	n/a	n/a	n/a	n/a	48.1683
	2007	n/a	n/a	n/a	n/a	50.3050
	2008 ^[a]	n/a	n/a	n/a	n/a	31.4830
Class 'C'	2003	n/a	n/a	n/a	n/a	25.4200
	2004	n/a	n/a	n/a	n/a	43.6800
	2005	n/a	n/a	n/a	n/a	61.4770
	2006	n/a	n/a	n/a	n/a	55.5725
	2007	n/a	n/a	n/a	n/a	57.0960
	2008 ^[a]	n/a	n/a	n/a	n/a	40.1490

^[a] Up to final: ex-distribution date 1 July 2008;
payment date 31 August 2008.

^[b] All distributions prior to ex-distribution date 1 April 2005 are shown net per share.

M&G Corporate Bond Fund

FUND STATISTICS

NET ASSETS					
	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling					
Class 'A'	Jun 2006	p	p		
	Jun 2006	30.35	35.85	1,278,287,098	283,897,046
	Jun 2007	29.17	35.70	1,184,358,098	342,096,046
	Jun 2008	28.15	35.75	1,127,971,098	406,463,546
Class 'I'	Jun 2008	28.16	35.90	151,280,000	6,941,000
Class 'X'	Jun 2006	30.34	35.53	2,518,143,907	56,249,057
	Jun 2007	29.16	35.31	2,274,016,907	55,579,357
	Jun 2008	28.15	35.29	2,061,389,907	66,014,357
Euro					
Class 'A'	Jun 2006	€	€		
	Jun 2006	n/a	11.6718	n/a	1,084,597
	Jun 2007	n/a	12.0381	n/a	1,943,747
	Jun 2008	n/a	10.2775	n/a	145,547
Class 'C'	Jun 2006	n/a	11.3916	n/a	1,804,800
	Jun 2007	n/a	11.8250	n/a	81,100
	Jun 2008	n/a	10.2016	n/a	1,300
Total net asset value of sub-fund					
	Year ended	£		€ [a]	
	Jun 2006	1,296,744,000		1,871,203,000	
	Jun 2007	1,166,807,000		1,732,710,000	
	Jun 2008	1,112,716,000		1,403,703,000	

[a] Based on the midday exchange rate on the last business day of each financial year.

FINANCIAL STATEMENTS

For the year ended 30 June 2008.

STATEMENT OF TOTAL RETURN

	Note	2008		2007	
		£'000	£'000	£'000	£'000
Net losses on investments	3		(39,661)		(47,483)
Currency gains / (losses)			11		(4)
Income	4	65,141		70,728	
Expenses	5	(14,763)		(16,872)	
Finance costs: Interest	13	(1)		(3)	
Net income before taxation		50,377		53,853	
Taxation	6	0		0	
Net income after taxation			50,377		53,853
Total return before distributions			10,727		6,366
Finance costs: Distributions	13		(50,376)		(53,867)
Change in net assets attributable to shareholders from investment activities			(39,649)		(47,501)

STATEMENT OF CHANGE IN SHAREHOLDERS' NET ASSETS

	2008		2007	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		1,166,807		1,296,744
Amounts received on issue of shares	128,758		69,857	
Amounts paid on cancellation of shares	(149,179)		(158,015)	
		(20,421)		(88,158)
Change in net assets attributable to shareholders from investment activities (see above)		(39,649)		(47,501)
Retained distributions on Accumulation shares		5,970		5,713
Unclaimed distributions		9		9
Closing net assets attributable to shareholders		1,112,716		1,166,807

M&G Corporate Bond Fund

FINANCIAL STATEMENTS

BALANCE SHEET

	as at 30 June 2008		as at 30 June 2007	
	£'000	£'000	£'000	£'000
Assets				
Portfolio of investments		1,086,855		1,099,229
Debtors				
Amounts receivable on issues	1,014		0	
Bank interest receivable	0		2	
Currency deals outstanding	0		37	
Debt security interest receivable	26,409		21,192	
Deposit interest receivable	0		9	
Factor payments receivable	0		443	
HM Revenue & Customs interest receivable	0		98	
Prepaid expenses	1		86	
Sales awaiting settlement	11,358		4,885	
Stock lending fee receivable	12		7	
VAT recoverable	0		1,140	
Cash and bank balances	15,280		54,429	
Total other assets		54,074		82,328
Total assets		1,140,929		1,181,557
Liabilities				
Creditors				
Amounts payable on cancellations	(945)		(1,904)	
Currency deals outstanding	0		(37)	
Expenses payable	(36)		(37)	
Income tax payable	(3,807)		(3,771)	
Net distributions payable on income shares	(9,041)		(9,001)	
Purchases awaiting settlement	(14,384)		0	
Total liabilities		(28,213)		(14,750)
Net assets attributable to shareholders		1,112,716		1,166,807

PORTFOLIO STATEMENT

as at 30 June 2008				
Holding	Value £'000	30.06.08 %	30.06.07 %	
'AAA' credit rated bonds		20.55	24.73	
£6,514,000 Arkle Master Issuer FRN 2052	6,264	0.56		
£8,940,000 Broadgate Financing 4.821% 2036	7,286	0.66		
£5,000,000 Broadgate Financing FRN 2032	4,832	0.43		
£6,500,000 Eddystone Finance FRN 2021	6,275	0.56		
£15,000,000 GE Capital UK Funding 4.625% 2016	13,062	1.17		
£645,686 Housing Association Funding 8.25% 2027	734	0.07		
£9,206,683 Integrated Accommodation 6.48% 2029	9,041	0.81		
£1,500,000 New York Life Funding FRN 2009	1,490	0.13		
£6,589,000 New York Life Global Funding 4.5% 2013	5,996	0.54		
£6,000,000 Talisman 2 Finance FRN 2015	5,554	0.50		
£4,150,000 Trafford Centre Finance FRN 2038	3,706	0.33		
£5,000,000 Treasury 4% 2016	4,633	0.42		
£4,000,000 Treasury 4.25% 2027	3,608	0.32		
£35,000,000 Treasury 4.75% 2020	33,700	3.03		
£4,500,000 Treasury 5% 2018	4,459	0.40		
£56,000,000 Treasury 5% 2025	55,288	4.97		
£8,109,000 Treasury 6% 2028	9,101	0.82		
£41,000,000 Treasury 8.75% 2017	51,130	4.60		
£3,000,000 Wellcome Trust Finance 4.625% 2036	2,568	0.23		

PORTFOLIO STATEMENT (continued)

as at 30 June 2008				
Holding	Value £'000	30.06.08 %	30.06.07 %	
'AA' credit rated bonds		17.97	21.11	
£2,000,000 Abbey National Sterling Capital 11.5% 2017	2,489	0.22		
£10,000,000 Abbey National Treasury Services FRN 2008	9,900	0.89		
£3,700,000 AstraZeneca 5.75% 2031	3,496	0.31		
£5,000,000 Bank of Scotland 6.375% 2019	4,404	0.40		
£4,250,000 BNP Paribas Var. Rate 2017	4,210	0.38		
£5,000,000 BP Capital Markets 5.75% 2010	4,964	0.45		
£1,170,000 Commonwealth Bank of Australia FRN 2010	1,158	0.10		
£6,500,000 East Japan Railway 4.75% 2031	5,471	0.49		
£3,000,000 Goldman Sachs Group 5.25% 2015	2,604	0.23		
£3,000,000 Halifax 11% 2014	3,367	0.30		
£750,000 Haven Funding 7% 2032	797	0.07		
£13,635,000 HSBC Bank Var. Rate 2020	11,818	1.06		
£12,500,000 HSBC Bank Var. Rate 2023	10,853	0.98		
£4,775,000 HSBC Bank Var. Rate 2030	4,144	0.37		
£5,050,000 JPMorgan Chase 5.375% 2016	4,467	0.40		
£6,370,000 JPMorgan Fleming Mercantile Investment Trust 6.125% 2030	6,136	0.55		
£6,481,784 Juturna 5.0636% 2033	5,580	0.50		
£5,000,000 Land Securities Capital Markets Var. Rate 2015	4,700	0.42		
£20,000,000 Land Securities Capital Markets Var. Rate 2019	17,524	1.57		
£5,637,000 Land Securities Capital Markets Var. Rate 2022	5,041	0.45		
£1,917,000 Land Securities Capital Markets Var. Rate 2032	1,644	0.15		
£4,000,000 Lloyds TSB Bank 6.625% 2015	3,951	0.36		
£8,400,000 Lloyds TSB Bank Var. Rate 2025	7,635	0.69		
£6,000,000 MetLife Global Funding 5.25% 2014	5,490	0.49		
£4,500,000 MetLife Global Funding FRN 2011	4,403	0.40		
£1,605,000 Portugal (Republic of) 9% 2016	1,897	0.17		
£2,350,000 Procter & Gamble 6.25% 2030	2,361	0.21		
£5,000,000 Sanofi-Aventis 5.5% 2010	4,926	0.44		
£5,000,000 Southern Gas Network FRN 2015	4,476	0.40		
£1,000,000 Statoil 6.125% 2028	976	0.09		
£750,000 Sunderland Finance 6.38% 2042	772	0.07		
£12,000,000 Total Capital 5.5% 2013	11,652	1.05		
£5,000,000 Travelers Insurance 6.125% 2011	4,859	0.44		
£5,750,000 UBS Jersey 6.375% 2024	5,279	0.47		
£6,600,000 UBS London 6.625% 2018	6,409	0.58		
£18,000,000 Wal-Mart Stores 4.875% 2039	15,332	1.38		
£5,100,000 Witan Investment Trust 6.125% 2025	4,848	0.44		
'A' credit rated bonds		27.36	30.29	
£3,000,000 Alliance & Leicester 4.25% 2008	2,929	0.26		
£3,250,000 Alliance & Leicester 6.5% 2015	3,076	0.28		
£12,000,000 Anglian Water Services Finance 5.25% 2015	11,016	0.99		
£10,000,000 Anglo American Capital 6.875% 2018	9,604	0.86		
£4,850,000 Assicurazioni Generali 6.416% Perp.	4,103	0.37		
£5,000,000 AT&T 5.5% 2027	4,348	0.39		
£8,000,000 Atlantia 6.25% 2022	7,462	0.67		
£9,070,000 Aviva 6.125% Perp.	7,665	0.69		
£1,000,000 Aviva Var. Rate 2036	865	0.08		
£1,000,000 Barclays Bank Var. Rate Perp. (6.3688%)	850	0.08		
£2,870,000 Barclays Bank Var. Rate Perp. (8.25%)	2,873	0.26		
£3,550,000 Bayer 5.625% 2018	3,205	0.29		
£18,000,000 BG Energy Capital 5.875% 2012	17,338	1.56		
£3,150,000 Bouygues 5.5% 2026	2,603	0.23		
£5,000,000 Coca-Cola Enterprises 6.5% 2016	4,943	0.44		
£2,000,000 Delamare Finance 5.5457% 2029	1,732	0.16		
£6,500,000 Den Norske Bank Step-Up 2015	6,245	0.56		

M&G Corporate Bond Fund

FINANCIAL STATEMENTS

PORTFOLIO STATEMENT (continued)

as at 30 June 2008

Holding	Value £'000	30.06.08 %	30.06.07 %
'A' credit rated bonds (continued)			
£9,450,000 DWR Cymru Financing 6.907% 2021	9,416	0.85	
£10,000,000 E.ON International Finance 5.875% 2037	9,425	0.85	
£19,000,000 E.ON International Finance 6% 2019	17,950	1.61	
£3,000,000 ELM Var. Rate Perp.	2,477	0.22	
£1,250,000 Enel 5.75% 2037	1,145	0.10	
£3,750,000 Enel 6.25% 2019	3,578	0.32	
£28,205,000 France Telecom 7.5% 2011	28,415	2.55	
£1,250,000 Generali Finance Var. Rate Perp.	1,111	0.10	
£3,500,000 GlaxoSmithKline Capital 5.25% 2033	3,085	0.28	
£5,000,000 GlaxoSmithKline Capital 5.25% 2042	4,355	0.39	
£10,000,000 GlaxoSmithKline Capital 6.375% 2039	10,299	0.93	
£1,150,000 Halifax 8.75% Perp.	1,162	0.10	
£1,000,000 HBOS Var. Rate Perp.	736	0.07	
£200,000 HSBC Capital Funding Var. Rate Perp.	199	0.02	
£3,000,000 International Endesa 6.125% 2012	2,908	0.26	
£4,540,000 JTI (UK) Finance 5.75% 2013	4,365	0.39	
£500,000 JTI (UK) Finance 6.625% 2009	499	0.04	
£2,150,000 Lehman Brothers Holdings 7.875% 2018	1,993	0.18	
£7,500,000 Lloyds TSB Bank Var. Rate Perp.	6,268	0.56	
£5,227,000 London Merchant Securities 6.5% 2026	4,860	0.44	
£11,000,000 McDonalds 6.375% 2020	10,731	0.96	
£2,500,000 Merrill Lynch FRN 2012	2,281	0.21	
£2,500,000 Morgan Stanley 5.125% 2015	2,108	0.19	
£4,500,000 National Grid Gas 6% 2017	4,298	0.39	
£5,500,000 National Grid Gas 6.375% 2020	5,362	0.48	
£1,000,000 Nationwide Building Society FRN 2010	994	0.09	
£7,000,000 Reed Elsevier Investments 5.625% 2016	6,252	0.56	
£3,000,000 Royal Bank of Scotland Var. Rate Perp.	2,514	0.23	
£9,000,000 RWE Finance 6.375% 2013	8,938	0.80	
£5,000,000 RWE Finance 6.5% 2021	4,912	0.44	
£10,000,000 Severn Trent Water 5.25% 2014	9,356	0.84	
£3,500,000 Siemens Financier. Var. Rate 2066	3,103	0.28	
£6,000,000 Southern Electric Power 4.625% 2037	4,695	0.42	
£1,500,000 Southern Electric Power 5.5% 2032	1,336	0.12	
£7,000,000 Tesco 5.2% 2057	6,189	0.56	
£6,000,000 Tesco 5.5% 2019	5,579	0.50	
£5,000,000 United Utilities Water 5.25% 2010	4,907	0.44	
£2,870,000 Vodafone Group 4.625% 2014	2,530	0.23	
£6,000,000 Vodafone Group 5.625% 2025	5,156	0.46	
£9,129,000 Vodafone Group 5.9% 2032	8,122	0.73	
'BBB' credit rated bonds		18.11	6.91
£1,000,000 American Standard 8.25% 2009	1,082	0.10	
£10,000,000 AXA Var. Rate Perp.	8,898	0.80	
£2,500,000 BAA 5.75% 2031	2,188	0.20	
£7,000,000 BAT International Finance 5.75% 2013	6,642	0.60	
£3,503,000 BAT International Finance 7.25% 2024	3,573	0.32	
£6,950,000 British Sky Broadcasting Group 6% 2027	5,934	0.53	
£22,500,000 British Telecommunications 8% 2016	23,475	2.11	
£3,000,000 Compagnie de St. Gobain 5.625% 2016	2,546	0.23	
£3,000,000 Compagnie de St. Gobain 5.625% 2024	2,343	0.21	

PORTFOLIO STATEMENT (continued)

as at 30 June 2008

Holding	Value £'000	30.06.08 %	30.06.07 %
'BBB' credit rated bonds (continued)			
£1,200,000 Compass 6.375% 2012	1,165	0.11	
£11,000,000 Deutsche Telekom 7.125% 2012	10,772	0.97	
£7,750,000 Enterprise Inns 6.5% 2018	6,738	0.61	
£5,000,000 Experian Finance 5.625% 2013	4,562	0.41	
£1,500,000 FirstGroup 6.125% 2019	1,282	0.12	
£2,000,000 FirstGroup 6.875% 2013	1,898	0.17	
£5,000,000 Gaz Capital 6.58% 2013	4,563	0.41	
£2,500,000 Glencore Finance Europe 6.5% 2019	2,133	0.19	
£4,000,000 Heinz (H.J) Finance 6.25% 2030	3,484	0.31	
£11,000,000 Imperial Tobacco Finance 5.5% 2016	9,323	0.84	
£6,000,000 Imperial Tobacco Finance 6.875% 2012	5,796	0.52	
£2,500,000 ITV 5.375% 2015	1,916	0.17	
£1,000,000 ITV 6.125% 2017	810	0.07	
£2,000,000 Kingfisher 5.625% 2014	1,583	0.14	
£13,500,000 KPN 6% 2019	12,204	1.10	
£1,478,000 Linde Finance 6.5% 2016	1,433	0.13	
£2,500,000 Marks & Spencer Finance 6.875% 2037	2,359	0.21	
£1,000,000 MUFG Capital Finance Var. Rate Perp.	821	0.07	
£6,500,000 Northumbrian Water 6.875% 2023	6,589	0.59	
£2,000,000 Pemex Project Funding 7.5% 2013	2,007	0.18	
£3,666,000 Southern Gas Network 6.375% 2040	3,692	0.33	
£2,500,000 Standard Life Var. Rate Perp.	2,027	0.18	
£9,746,168 Sutton Bridge Financing 8.625% 2022	10,717	0.96	
£3,746,000 Talisman Energy 6.625% 2017	3,586	0.32	
£8,000,000 Telefónica Emisiones 5.888% 2014	7,558	0.68	
£8,000,000 Thames Water Utilities 7.241% 2058	7,935	0.71	
£3,000,000 Thames Water Utilities Finance 4.75% 2010	2,880	0.26	
£2,500,000 Tomkins Finance 6.125% 2015	2,120	0.19	
£1,500,000 Upm-Kymmene 6.625% 2017	1,178	0.11	
£3,000,000 Vector Group 7.625% 2019	2,863	0.26	
£4,500,000 WPP Finance 6.375% 2020	3,878	0.35	
£6,000,000 WPP Group 6% 2017	5,259	0.47	
£10,000,000 Xstrata Canada 7.375% 2020	9,720	0.87	
'BB' credit rated bonds		1.03	0.00
£3,000,000 Allied Domecq 6.625% 2014	2,770	0.25	
£2,700,000 British Airways 8.75% 2016	2,457	0.22	
£2,210,339 British Energy 7% 2022	2,269	0.21	
£2,000,000 Cable & Wireless 8.75% 2012	1,905	0.17	
£2,000,000 Interogen 9.5% 2017	2,010	0.18	
'B' credit rated bonds		0.14	0.00
£2,000,000 Warner Music Group 8.125% 2014	1,580	0.14	
Bonds with no credit rating		11.93	11.17
£2,500,000 Alliance & Leicester 5.25% 2023	1,847	0.17	
£3,513,160 Annington Finance No.1 7.75% 2011	3,615	0.32	
£15,500,000 Annington Finance No.1 8% 2021	17,271	1.55	
£3,000,000 Aviva 9.5% 2016	3,493	0.31	
£2,330,000 BAE Systems 10.75% 2014	2,766	0.25	
£4,000,000 Bank of Scotland Var. Rate Perp.	4,255	0.38	
£4,000,000 Barclays Bank 9.5% 2021	4,862	0.44	
£250,000 Barclays Bank 12% 2010	279	0.03	
£9,900,000 Blue Circle Industries 10.75% 2013	11,520	1.04	
£1,534,000 British Land 5.264% 2035	1,254	0.11	
£1,000,000 British Land 5.264% 2035 '2'	946	0.09	
£3,500,000 British Land 5.357% 2028	2,911	0.26	
£2,147,000 British Land 5.357% 2028 (Bearer)	1,776	0.16	
£1,000,000 Brixton 5.25% 2015	845	0.08	
£13,500,000 Brixton 6% 2019	11,367	1.02	
£3,000,000 Carlsberg Finance 7% 2013	2,904	0.26	
£2,500,000 Daily Mail & General Trust 6.375% 2027	2,070	0.19	

M&G Corporate Bond Fund

FINANCIAL STATEMENTS

PORTFOLIO STATEMENT (continued)

as at 30 June 2008

Holding	Value £'000	30.06.08 %	30.06.07 %
Bonds with no credit rating (continued)			
£400,000 ENI Lasmo 10.375% 2009	418	0.04	
£3,277,647 Fintrust Debenture 9.25% 2023	4,133	0.37	
£2,000,000 First Hydro Finance 9% 2021	2,100	0.19	
£8,000,000 Grosvenor UK Finance 6.5% 2026	7,930	0.71	
£2,000,000 Housing Finance 8.625% 2023	2,429	0.22	
£9,500,000 John Lewis 6.375% 2012	9,172	0.82	
£2,500,000 LAB Investments 7.125% 2019	2,624	0.24	
£5,649,000 Linde Finance 12.25% 2017	6,722	0.60	
£9,000,000 Peel South East 10% 2026	12,489	1.12	
£3,000,000 Roche Finance Europe 5.375% 2023	2,624	0.24	
£7,000,000 Segro 5.625% 2020	5,418	0.49	
£2,000,000 Segro 7% 2022	1,801	0.16	
£736,500 TDG 12.5% 2008	738	0.07	
Leveraged loans ^[a]			
£720,233 Biffa Term 2016 Senior B	716	0.06	0.00
£720,233 Biffa Term 2017 Senior C	717	0.06	
£1,000,000 Macquarie Towers 2014 Senior A	865	0.08	
£1,250,000 PHS 2015 Senior B	1,088	0.10	
£1,250,000 PHS 2015 Senior C	1,088	0.10	
£2,500,000 Trader Media 2015 Senior B	2,053	0.19	
Portfolio of investments (notes 1b & 1c on page 16)	1,086,855	97.68	94.21
Net other assets	25,861	2.32	5.79
Net assets attributable to shareholders	1,112,716	100.00	100.00

[a] Unquoted / unlisted.

SUMMARY OF MATERIAL PORTFOLIO CHANGES

Largest purchases	£'000
Treasury 5% 2018 (£)	124,029
Treasury 4.75% 2020 (£)	90,274
Treasury 4% 2016 (£)	84,740
Treasury 5% 2025 (£)	68,126
Treasury 8.75% 2017 (£)	54,631
European Investment Bank 4.875% 2016 (£)	32,943
E.ON International Finance 5.875% 2037 (£)	25,485
Treasury 4.25% 2055 (£)	24,936
Treasury 4.75% 2038 (£)	21,944
Treasury 4.75% 2010 (£)	19,948
E.ON International Finance 6% 2019 (£)	18,289
LCR Finance 4.5% 2028 (£)	17,510
Treasury 6% 2028 (£)	16,184
Wal-Mart Stores 4.875% 2039 (£)	15,675
BP Capital Markets 5.75% 2010 (£)	13,793
Treasury 4.25% 2036 (£)	13,159
KPN 6% 2019 (£)	12,926
UBS Jersey 6.375% 2024 (£)	12,330
Total Capital 5.5% 2013 (£)	11,617
Vodafone Group 5.9% 2032 (£)	11,242
Other purchases	454,052
Total purchases for the year	1,143,833
Largest sales	
£'000	
Treasury 5% 2018 (£)	122,578
Treasury 4% 2016 (£)	80,342
Treasury 4.25% 2032 (£)	71,443
Treasury 4.75% 2020 (£)	57,092
Treasury 4.25% 2055 (£)	45,860
European Investment Bank 4.875% 2016 (£)	34,952
Treasury 5% 2025 (£)	28,667
Treasury 4.75% 2038 (£)	22,055
Treasury 4.75% 2010 (£)	19,815
Barclays Bank Var. Rate Perp. (£)	18,941
LCR Finance 4.5% 2028 (£)	18,151
Holmes Finance No.10 FRN 2040 (£)	16,399
BNP Paribas Var. Rate Perp. (5.945%) (£)	16,039
Treasury 6% 2028 (£)	15,573
E.ON International Finance 5.875% 2037 (£)	14,752
Société Générale 5.4% 2018 (£)	14,021
Saphir Finance Var. Rate Perp. (£)	13,673
Treasury 4.25% 2036 (£)	12,813
Lothian Mortgages No.4 FRN 2040 (£)	12,317
GE Capital UK Funding FRN 2010 (£)	11,961
Other sales	466,705
Total sales for the year	1,114,149

M&G Corporate Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

- a) **Basis of accounting:** The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (IMA) in December 2005 ('the IMA SORP 2005').
- b) **Basis of valuation of investments:** All investments are valued at their fair value as at 12 noon on 30 June 2008, being the last business day of the financial year. The fair value of non-derivative securities is bid price, excluding any accrued interest. Unquoted investments are shown at the Authorised Corporate Director's (ACD's) valuation.
- c) **Exchange rates:** Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling as at 12 noon on 30 June 2008, being the last business day of the financial year.
- d) **Recognition of income:** Interest on debt securities is recognised on an accruals basis, taking into account the effective yield on the investment. The effective yield basis amortises any discount or premium on the purchase of an investment over its remaining life. Prior to 1 July 2007, interest on debt securities was recognised on an accruals basis, taking into account the coupon on the investment. In accordance with paragraph 1.15 of the IMA SORP 2005 the sub-fund has not restated comparative information to reflect the change in accounting policy. If comparative information had been restated, the nature of the main adjustments required would have been to adjust income and net losses on investments by the amortisation of the discount or premium since the purchase of each investment.
- Income from stock lending is accounted for net of agents' fees and commissions and is recognised on an accruals basis. Bank interest, deposit interest and other income are also recognised on an accruals basis.
- e) **Expenses:** For accounting purposes, all expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against income for the year on an accruals basis.
- f) **Apportionment of income and expenses to multiple share classes:** With the exception of the ACD's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.
- g) **Taxation:** The rate of corporation tax for the sub-fund is 20%. The tax accounting treatment follows the principal amounts involved.

h) **Deferred taxation:** Deferred tax is provided for in respect of all timing differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

i) **Distribution policy:** The policy of the sub-fund is to distribute all available income, after deduction of expenses properly chargeable against income. Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

Distributions which have remained unclaimed by shareholders for more than six years are credited to the capital property of the sub-fund.

2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) Report, the ACD accepts market price risk and interest rate risk in relation to the investment portfolio. Generally, the ACD will not seek to hedge these exposures since the ACD believes that, in the long term, such hedging would be detrimental to total return.

The ACD considers the credit rating, yield and maturity of each security, in order to ensure that the yield fully reflects any perceived risk. The capital value of investments within the sub-fund will fall in the event of the default or perceived increased credit risk of an issuer.

The capital value of investments within the sub-fund may also be affected by interest rate fluctuations such that when interest rates rise, the capital value of investments is likely to fall and vice versa. The effect will be more apparent on funds which invest in long dated securities, such as this sub-fund.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

The sub-fund's assets comprise securities that can be readily realised to meet obligations that may arise on the redemption of shares. As noted on page 111, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (30.06.07: same).

3 Net losses on investments

	2008 £'000	2007 £'000
Non-derivative securities	(39,661)	(47,483)

4 Income

	2008 £'000	2007 £'000
Bank interest	52	84
Deposit interest	2,074	1,845
HM Revenue & Customs interest	20	33
Interest on debt securities	62,903	68,682
Stock lending fee income	92	84
	65,141	70,728

M&G Corporate Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

5 Expenses

	2008 £'000	2007 £'000
Payable to the Authorised Corporate Director or associate		
Authorised Corporate Director's periodic charge	12,890	14,597
Administration fee	1,704	1,921
	14,594	16,518
Payable to the Depositary or associate		
Depositary's fee (including VAT)	57	61
Distribution fees	1	1
	58	62
Other expenses		
Audit fee (including VAT)	7	7
Regulatory fees	3	2
Safe custody charge	75	87
Tax consultancy fees ^[a]	9	10
Transaction charges	7	6
Transaction charges relating to stock lending	7	7
	108	119
VAT recoverable		
Prior year	3	173
Total expenses	14,763	16,872

[a] Fees paid to overseas firms affiliated with PricewaterhouseCoopers LLP.

6 Taxation

	2008 £'000	2007 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Current tax charge (note 6b)	0	0
Deferred tax (note 6c)	0	0
	0	0
b) Factors affecting taxation charge for the year		
Net income before taxation	50,377	53,853
Corporation tax at 20%	10,075	10,771
Effects of:		
Interest distributions	(10,075)	(10,774)
Prior period expenses utilised	(1)	0
Current period expenses not utilised	0	2
Expenses not deductible for tax purposes	2	1
Income taxable in different periods	(1)	0
Current tax charge (note 6a)	0	0
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
Provision at the end of the year	0	0

The sub-fund has not recognised a deferred tax asset of £2,000 (30.06.07: £4,000) arising as a result of having unutilised management expenses. Some of this asset may be utilised in the foreseeable future.

Interest distributions have been made in respect of all distributions during the current and preceding years. Income tax at 20% will be accounted for on shareholders' behalf to HM Revenue & Customs where applicable.

7 Stock lending activities

The gross income earned from stock lending activities was £229,000 (2007: £209,000). The income shown in note 4 is net of commissions amounting to £137,000 (2007: £125,000) payable to M&G Investment Management Limited. Transaction charges relating to stock lending are shown in note 5.

The value of stock on loan at the balance sheet date was £151,255,000 (30.06.07: £189,975,000). The total value of collateral held at the balance sheet date was £161,492,000 (30.06.07: £204,929,000). This collateral consisted of equities to the value of £7,683,000 (30.06.07: £5,821,000), bonds to the value of £150,556,000 (30.06.07: £199,106,000) and cash to the value of £3,253,000 (30.06.07: £2,000).

8 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (30.06.07: same).

9 Related parties

M&G Securities Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in shareholders' net assets and note 13. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to M&G Securities Limited, or an associate, in respect of the Authorised Corporate Director's periodic charge and administration fee are disclosed in note 5 and commission relating to stock lending is disclosed in note 7. Amounts due at the year end are disclosed in the balance sheet where applicable.

At the balance sheet date, material shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 10.74% (30.06.07: 12.18%) of the sub-fund's shares.

10 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (30.06.07: same).

Currency exposure

There was no significant foreign currency exposure within the sub-fund at the balance sheet date (30.06.07: same).

M&G Corporate Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

10 Financial instruments (continued)

Interest rate profile

	Floating rate financial assets		Fixed rate financial assets		Total	
	as at 30.06.08 £'000	as at 30.06.07 £'000	as at 30.06.08 £'000	as at 30.06.07 £'000	as at 30.06.08 £'000	as at 30.06.07 £'000
UK government / corporate bonds	51,333	233,303	1,028,995	865,926	1,080,328	1,099,229
Leveraged loans	6,527	0	0	0	6,527	0
Bank balances	1,218	667	14,062	53,762	15,280	54,429
Total	59,078	233,970	1,043,057	919,688	1,102,135	1,153,658

The weighted average gross interest rate of these fixed interest-bearing assets at the balance sheet date was 6.82% (30.06.07: 6.06%) and the weighted average period for which the interest rates were fixed was 11.84 years (30.06.07: 11.74 years) assuming the earliest maturity date for those assets with variable maturity dates.

Floating rate interest-bearing assets at the balance sheet date consist of bank balances, on which interest is calculated at a variable rate by reference to sterling bank deposit rates or the international equivalent; floating rate notes, on which interest is calculated at a variable rate by reference to the London Interbank Offered Rate (LIBOR) and leveraged loans (30.06.07: same).

Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (30.06.07: same).

11 Portfolio transaction costs

	2008 £'000	2007 £'000
a) Purchases		
Total purchases excluding transaction costs	1,143,833	550,848
b) Sales		
Total sales excluding transaction costs	1,114,149	642,619

There were no significant transaction costs during the year (2007: same).

12 Shareholder funds

This sub-fund contains Sterling Class 'A' (Net Income and Net Accumulation) shares, Sterling Class 'I' (Net Income and Net Accumulation) shares and Sterling Class 'X' (Net Income and Net Accumulation) shares.

This sub-fund also contains Euro Class 'A' (Gross Accumulation) shares and Euro Class 'C' (Gross Accumulation) shares.

The charging structure for each share class, as at 30 June 2008, is set out in the following table (30.06.07: same):

CHARGES AND EXPENSES

	Initial charge %	Redemption charge %	ACD's annual remuneration %
Sterling			
Class 'A'	3.00	n/a	1.00
Class 'I' ^[b]	1.00	n/a	0.50
Class 'X'	nil	4.50 ^[a]	1.25
Euro			
Class 'A'	3.25	n/a	1.25
Class 'C'	1.25	n/a	0.50

^[a] The redemption charge diminishes over a period of five years. Please refer to the Key Features document for further information.

^[b] With effect from 2 July 2007, the launch date of the share class.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

NET ASSET VALUES

	30.06.08		30.06.07	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
Sterling				
Class 'A'	317,562	145,311	345,449	122,124
Class 'I'	42,593	2,491	n/a	n/a
Class 'X'	580,266	23,296	663,205	19,626
Euro				
Class 'A'	n/a	1,186	n/a	15,757
Class 'C'	n/a	11	n/a	646

The net asset value per share and the number of shares are given in the comparative table on page 12. The distribution per share is given in the distribution table on pages 19 & 20. Each share class has the same rights on winding-up.

M&G Corporate Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

13 Finance costs

	2008 £'000	2007 £'000
Income shares (sterling)		
Class 'A' - First interim	2,842	3,401
Second interim	2,845	3,335
Third interim	2,880	3,192
Final	3,145	3,198
Class 'I' - First interim	214	-
Second interim	207	-
Third interim	252	-
Final	462	-
Class 'X' - First interim	5,427	6,218
Second interim	5,396	6,093
Third interim	5,293	5,907
Final	5,434	5,803
Accumulation shares (sterling)		
Class 'A' - First interim	1,097	965
Second interim	1,124	1,021
Third interim	1,243	1,074
Final	1,425	1,120
Class 'I' - First interim	0 ^[a]	-
Second interim	0 ^[a]	-
Third interim	17	-
Final	27	-
Class 'X' - First interim	165	165
Second interim	180	171
Third interim	189	177
Final	216	170
Accumulation shares (euro)		
Class 'A' - First interim	130	115
Second interim	134	167
Third interim	10	178
Final	13	168
Class 'C' - First interim	0 ^[b]	174
Second interim	0 ^[b]	32
Third interim	0 ^[b]	8
Final	0 ^[b]	8
	40,367	42,860
Income tax deducted at source	10,006	10,593
Finance costs: Interest distributions	50,373	53,453
Income deducted on cancellation of shares	539	726
Income received on issue of shares	(536)	(312)
Finance costs: Distributions	50,376	53,867
Finance costs: Interest	1	3
Total finance costs	50,377	53,870
Net income per statement of total return	50,377	53,853
Expenses offset against capital	7	6
Undistributed income brought forward	29	37
Undistributed income carried forward	(37)	(29)
Finance costs: Distributions	50,376	53,867

^[a] The total of the first and second interim gross distributions for Sterling Class 'I' (Accumulation) shares was £513.

^[b] The total of the interim and final gross distributions for Euro Class 'C' (Accumulation) shares was €706.

DISTRIBUTION TABLE

Interest distributions on Income shares	Gross income	Income tax deducted	Net income	Equal- isation	Distribution paid/payable	
					2007/08	2006/07
Sterling	p	p	p	p	p	p
Class 'A' - First interim						
Group 1:	0.3300	0.0660	0.2640	-	0.2640	0.2684
Group 2:	0.1595	0.0319	0.1276	0.1364	0.2640	0.2684
- Second interim						
Group 1:	0.3350	0.0670	0.2680	-	0.2680	0.2672
Group 2:	0.1413	0.0283	0.1130	0.1550	0.2680	0.2672
- Third interim						
Group 1:	0.3340	0.0668	0.2672	-	0.2672	0.2680
Group 2:	0.1268	0.0254	0.1014	0.1658	0.2672	0.2680
- Final						
Group 1:	0.3485	0.0697	0.2788	-	0.2788	0.2700
Group 2:	0.1794	0.0359	0.1435	0.1353	0.2788	0.2700
Class 'I' - First interim						
Group 1:	0.3760	0.0752	0.3008	-	0.3008	n/a
Group 2:	0.1705	0.0341	0.1364	0.1644	0.3008	n/a
- Second interim						
Group 1:	0.3680	0.0736	0.2944	-	0.2944	n/a
Group 2:	0.2071	0.0414	0.1657	0.1287	0.2944	n/a
- Third interim						
Group 1:	0.3690	0.0738	0.2952	-	0.2952	n/a
Group 2:	0.2470	0.0494	0.1976	0.0976	0.2952	n/a
- Final						
Group 1:	0.3815	0.0763	0.3052	-	0.3052	n/a
Group 2:	0.1966	0.0393	0.1573	0.1479	0.3052	n/a
Class 'X' - First interim						
Group 1:	0.3110	0.0622	0.2488	-	0.2488	0.2524
Group 2:	0.1174	0.0235	0.0939	0.1549	0.2488	0.2524
- Second interim						
Group 1:	0.3160	0.0632	0.2528	-	0.2528	0.2516
Group 2:	0.1140	0.0228	0.0912	0.1616	0.2528	0.2516
- Third interim						
Group 1:	0.3155	0.0631	0.2524	-	0.2524	0.2520
Group 2:	0.1198	0.0240	0.0958	0.1566	0.2524	0.2520
- Final						
Group 1:	0.3295	0.0659	0.2636	-	0.2636	0.2552
Group 2:	0.1469	0.0294	0.1175	0.1461	0.2636	0.2552

M&G Corporate Bond Fund

FINANCIAL STATEMENTS

DISTRIBUTION TABLE (continued)

Interest distributions on Accumulation shares	Gross income	Income tax deducted	Net income	Equalisation	Amount reinvested	
					2007/08	2006/07
Sterling	p	p	p	p	p	p
Class 'A' - First interim						
Group 1:	0.4039	0.0808	0.3231	-	0.3231	0.3170
Group 2:	0.1953	0.0391	0.1562	0.1669	0.3231	0.3170
- Second interim						
Group 1:	0.4138	0.0828	0.3310	-	0.3310	0.3184
Group 2:	0.1745	0.0349	0.1396	0.1914	0.3310	0.3184
- Third interim						
Group 1:	0.4161	0.0832	0.3329	-	0.3329	0.3221
Group 2:	0.1579	0.0316	0.1263	0.2066	0.3329	0.3221
- Final						
Group 1:	0.4383	0.0877	0.3506	-	0.3506	0.3274
Group 2:	0.2256	0.0451	0.1805	0.1701	0.3506	0.3274
Class 'I' - First interim						
Group 1:	0.4603	0.0921	0.3682	-	0.3682	n/a
Group 2:	0.2088	0.0418	0.1670	0.2012	0.3682	n/a
- Second interim						
Group 1:	0.4550	0.0910	0.3640	-	0.3640	n/a
Group 2:	0.2561	0.0512	0.2049	0.1591	0.3640	n/a
- Third interim						
Group 1:	0.4608	0.0922	0.3686	-	0.3686	n/a
Group 2:	0.3084	0.0617	0.2467	0.1219	0.3686	n/a
- Final						
Group 1:	0.4813	0.0963	0.3850	-	0.3850	n/a
Group 2:	0.2481	0.0496	0.1985	0.1865	0.3850	n/a
Class 'X' - First interim						
Group 1:	0.3765	0.0753	0.3012	-	0.3012	0.2956
Group 2:	0.1420	0.0284	0.1136	0.1876	0.3012	0.2956
- Second interim						
Group 1:	0.3859	0.0772	0.3087	-	0.3087	0.2970
Group 2:	0.1393	0.0279	0.1114	0.1973	0.3087	0.2970
- Third interim						
Group 1:	0.3885	0.0777	0.3108	-	0.3108	0.3000
Group 2:	0.1475	0.0295	0.1180	0.1928	0.3108	0.3000
- Final						
Group 1:	0.4093	0.0819	0.3274	-	0.3274	0.3063
Group 2:	0.1824	0.0365	0.1459	0.1815	0.3274	0.3063

DISTRIBUTION TABLE (continued)

Interest distributions on Accumulation shares	Gross income	Income tax deducted	Net income	Equalisation	Amount reinvested	
					2007/08	2006/07
Euro	€	€	€	€	€	€
Class 'A' - First interim						
Group 1:	12.2040	-	12.2040	-	12.2040	12.4230
Group 2:	7.3968	-	7.3968	4.8072	12.2040	12.4230
- Second interim						
Group 1:	11.9020	-	11.9020	-	11.9020	12.6440
Group 2:	2.6814	-	2.6814	9.2206	11.9020	12.6440
- Third interim						
Group 1:	7.9290	-	7.9290	-	7.9290	12.6100
Group 2:	3.9538	-	3.9538	3.9752	7.9290	12.6100
- Final						
Group 1:	11.6520	-	11.6520	-	11.6520	12.8470
Group 2:	4.9906	-	4.9906	6.6614	11.6520	12.8470
Class 'C' - First interim						
Group 1:	14.1800	-	14.1800	-	14.1800	14.2370
Group 2:	14.1800	-	14.1800	-	14.1800	14.2370
- Second interim						
Group 1:	13.8200	-	13.8200	-	13.8200	13.7960
Group 2:	13.8200	-	13.8200	-	13.8200	13.7960
- Third interim						
Group 1:	12.8700	-	12.8700	-	12.8700	14.2320
Group 2:	12.8700	-	12.8700	-	12.8700	14.2320
- Final						
Group 1:	13.4590	-	13.4590	-	13.4590	14.8880
Group 2:	13.4590	-	13.4590	-	13.4590	14.8880
First interim period	01.07.07 - 30.09.07					
Second interim period	01.10.07 - 31.12.07					
Third interim period	01.01.08 - 31.03.08					
Final period	01.04.08 - 30.06.08					

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

M&G Dividend Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective and policy of the M&G Dividend Fund

The Fund invests mainly in a range of UK equities with the aim of achieving a steadily increasing income stream. The target yield is 33% higher than that of the FTSE All-Share Index but this may vary in the shorter term. Subject to this, the aim will be to maximise total return (the combination of income and growth of capital).

Investment approach

The M&G Dividend Fund invests in a well diversified portfolio of UK stocks with a strong emphasis on income. The aim is to provide a level of income that is in excess of that of the FTSE All-Share Index. The high yield premium attached to the fund generally means that there is a strong bias towards out of favour stocks.

Good quality companies are identified from the available universe of high yielding stocks as they exhibit a strong business franchise, competitiveness, good turnover and dividend growth.

Stocks are sold when these criteria are no longer met, when the stocks lose their yield premium, or when they have become overvalued.

INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

As at 1 July 2008, for the year ended 30 June 2008

During the review period, we continued to raise our holdings in attractively valued FTSE 100 Index stocks that offer a reasonable yield, most significantly, oil giants BP and Royal Dutch Shell, telecommunications company BT Group, insurer Royal & Sun Alliance, Financial Times owner Pearson and pharmaceutical group GlaxoSmithKline.

Recent newcomers to the portfolio included mining company Anglo American and British Energy Group, the largest producer of electricity in the UK. Escalating commodities prices are expected to drive Anglo American's profitability, but just as importantly, the company's ongoing restructuring program is enhancing efficiency and improving capital allocation disciplines. As for British Energy, its long-term prospects remain healthy, despite the near term operational problems. This is because of the nuclear power generator's strong position in an environment that is increasingly shifting towards nuclear power.

In terms of disposals, we took the painful decision to cut losses in a number of companies that have disappointed with their plans for rights issues and thus avoided further losses as all these shares remained weak. Sales over the period included Royal Bank of Scotland Group and Bradford & Bingley.

The UK consumer has come under increased pressure as economic conditions deteriorated over the course of the review period. We have therefore reduced the portfolio's exposure to the retail and consumer related sectors, selling the fund's position in electronics retailer DSG International and television broadcaster ITV.

A number of holdings left the fund as a result of takeover activity, including brewer Scottish & Newcastle, high street retailer Alliance Boots and building materials group Hanson.

Richard Hughes

Fund manager

Richard Hughes is an employee of M&G Limited which is an associate of M&G Securities Limited.

Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial Adviser.

M&G Dividend Fund

FUND STATISTICS

Sterling Class 'C' shares are not generally available to all investors.

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Interim	02.01.09	28.02.09
Final	01.07.09	31.08.09

	Final distribution		Total Expense Ratio ^[b]	
	Inc 31.08.08 ^[a]	Acc 01.07.08 ^[a]	30.06.08	30.06.07
Sterling	p	p	%	%
Class 'A'	1.9330	13.5522	1.67	1.66
Class 'C'	2.0500	n/a	0.16	0.16
Class 'X'	1.9490	13.4540	1.66	1.65

The Portfolio Turnover Rate (PTR) for the 12 months ending 30 June 2008 was 13.13% compared with 12.88% for the year ending 30 June 2007. ^[c]

^[a] The date on which the final distribution will be paid to Income shareholders and credited to Accumulation shareholders.

^[b] The Total Expense Ratio (TER) shows the relevant annualised operating expenses of each share class from the most recent reporting period as a single percentage of the average net asset value for that share class over the same period.

^[c] The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within the fund over the course of a 12 month period. The PTR is calculated by taking the sum of all transactions in securities less the sum of all transactions in the fund's shares and is expressed as a percentage of the fund's average net asset value.

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 30.06.08		Net asset value per share as at 30.06.07		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	51.80	376.95	68.09	469.86	-23.92	-19.77
Class 'C'	54.18	n/a	70.14	n/a	-22.75	n/a
Class 'X'	52.04	372.89	68.40	464.74	-23.92	-19.76

PERFORMANCE SINCE LAUNCH

	six months 02.01.08 %	one year 02.07.07 %	five years 01.07.03 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	-19.7	-25.6	+3.9	+7.2 ^[c]
Class 'C'	-19.2	-24.5	n/a	-4.3 ^[d]
Class 'X'	-19.8	-25.6	+3.7	+4.5 ^[e]

^[a] Shows the compound rate of return, per annum, over the period.

^[b] Bid to bid excluding reinvested income.

^[c] 6 May 1964, the launch date of the predecessor unit trust.

^[d] 3 January 2006, the launch date of the share class.

^[e] 1 October 2002, the launch date of the share class.

SINGLE YEAR PERFORMANCE (5 YEARS ENDING JUNE)

From To	29.06.07 30.06.08 %	30.06.06 29.06.07 %	30.06.05 30.06.06 %	30.06.04 30.06.05 %	30.06.03 30.06.04 %
Sterling					
Class 'A' ^[a]	-19.8	+16.0	+17.5	+19.7	+16.1

^[a] Nominated share class.

Source: Morningstar Inc., bid to bid with net income reinvested.

PRICES

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling		p	p	p	p
Class 'A'	2003	47.07	35.22	275.17	200.16
	2004	51.70	44.99	315.91	271.95
	2005	59.85	50.97	381.37	316.66
	2006	69.05	58.79	458.03	380.42
	2007	72.87	61.00	490.17	420.91
	2008 ^[a]	63.46	50.93	444.95	370.57
Class 'C'	2006 ^[b]	70.55	58.83	n/a	n/a
	2007	74.99	63.21	n/a	n/a
	2008 ^[a]	65.91	53.26	n/a	n/a
Class 'X'	2003	47.65	35.68	274.24	200.03
	2004	52.08	45.41	313.37	270.74
	2005	60.08	51.34	377.02	314.06
	2006	69.35	59.03	452.98	376.09
	2007	73.20	61.28	484.83	416.35
	2008 ^[a]	63.76	51.16	440.12	366.57

^[a] To 1 July 2008.

^[b] From 3 January 2006 (the launch date of the share class) to 29 December 2006.

Past performance is no indication of current or future performance and the performance data does not take account of the commissions and costs incurred on the issue and redemption of shares.

The price of shares and the income from them may go down as well as up, and you may get back less than you invested.

M&G Dividend Fund

FUND STATISTICS

INCOME

Income per share

	Calendar year	Interim	Distributed Final	Total	Reinvested
Sterling (net)		p	p	p	p
Class 'A'	2003	0.7800	1.2000	1.9800	6.8206
	2004	0.8200	1.2700	2.0900	12.3501
	2005	0.8600	1.3950	2.2550	13.9225
	2006	0.9200	1.5360	2.4560	15.8018
	2007	0.9700	1.7684	2.7384	18.3299
	2008 [a]	1.0200	1.9330	2.9530	20.5905
Class 'C'	2006	n/a	1.5580	1.5580	n/a
	2007	0.9700	1.8300	2.8000	n/a
	2008 [a]	1.0200	2.0500	3.0700	n/a
Class 'X'	2003	0.2300	1.1300	1.3600	6.3358
	2004	0.8200	1.3000	2.1200	12.3330
	2005	0.8600	1.4100	2.2700	13.7996
	2006	0.9200	1.5465	2.4665	15.6261
	2007	0.9700	1.7800	2.7500	18.1252
	2008 [a]	1.0200	1.9490	2.9690	20.3844

[a] Up to final: ex-distribution date 1 July 2008;
payment date 31 August 2008.

NET ASSETS

	Year ended	Value per share Inc	Acc	Number of shares Inc	Acc
Sterling		p	p		
Class 'A'	Jun 2006	61.08	405.13	934,168,564	23,781,845
	Jun 2007	68.09	469.86	896,918,464	22,460,795
	Jun 2008	51.80	376.95	859,381,064	21,284,065
Class 'C'	Jun 2006	61.49	n/a	46,690,900	n/a
	Jun 2007	70.14	n/a	40,309,900	n/a
	Jun 2008	54.18	n/a	38,219,100	n/a
Class 'X'	Jun 2006	61.34	400.61	6,696,985	213,850
	Jun 2007	68.40	464.74	12,918,085	291,500
	Jun 2008	52.04	372.89	17,150,085	313,000

Total net asset value of sub-fund

Year ended	£	€ [a]
Jun 2006	700,591,000	1,004,367,000
Jun 2007	754,729,000	1,121,150,000
Jun 2008	556,223,000	701,681,000

[a] Based on the midday exchange rate on the last business day of each financial year.

FINANCIAL STATEMENTS

For the year ended 30 June 2008.

STATEMENT OF TOTAL RETURN

	Note	2008 £'000	2007 £'000
Net (losses) / gains on investments	3	(166,876)	92,105
Currency gains		1	0
Income	4	32,632	30,869
Expenses	5	(10,949)	(12,138)
Net income before taxation		21,683	18,731
Taxation	6	0	0
Net income after taxation		21,683	18,731
Total return before distributions		(145,192)	110,836
Finance costs: Distributions	12	(32,368)	(30,808)
Change in net assets attributable to shareholders from investment activities		(177,560)	80,028

STATEMENT OF CHANGE IN SHAREHOLDERS' NET ASSETS

	2008 £'000	2007 £'000
Opening net assets attributable to shareholders	754,729	700,591
Amounts received on issue of shares	14,618	13,948
Amounts paid on cancellation of shares	(40,062)	(44,024)
	(25,444)	(30,076)
Stamp Duty Reserve Tax (SDRT)	(84)	(110)
Change in net assets attributable to shareholders from investment activities (see above)	(177,560)	80,028
Retained distributions on Accumulation shares	4,501	4,218
Unclaimed distributions	81	78
Closing net assets attributable to shareholders	556,223	754,729

M&G Dividend Fund

FINANCIAL STATEMENTS

BALANCE SHEET

	as at 30 June 2008		as at 30 June 2007	
	£'000	£'000	£'000	£'000
Assets				
Portfolio of investments		533,274		765,533
Debtors				
Amounts receivable on issues	10		85	
Bank interest receivable	147		19	
Dividends receivable	3,913		3,678	
HM Revenue & Customs interest receivable	0		46	
Prepaid expenses	0		70	
Sales awaiting settlement	33		0	
Tax recoverable	23		0	
VAT recoverable	0		552	
Cash and bank balances	37,276		2,063	
Total other assets		41,402		6,513
Total assets		574,676		772,046
Liabilities				
Creditors				
Amounts payable on cancellations	(712)		(470)	
Expenses payable	(10)		(11)	
Net distributions payable on Income shares	(17,729)		(16,829)	
SDRT payable	(2)		(7)	
Total liabilities		(18,453)		(17,317)
Net assets attributable to shareholders		556,223		754,729

PORTFOLIO STATEMENT

as at 30 June 2008				
Holding		Value £'000	30.06.08 %	30.06.07 %
Oil & gas producers			17.21	11.25
8,300,000 BP		47,891	8.61	
2,400,000 Royal Dutch Shell 'B'		47,808	8.60	
Chemicals			0.68	0.90
5,000,000 Elementis		3,787	0.68	
Mining			2.75	2.46
120,000 Anglo American		4,158	0.75	
350,000 Lonmin		11,148	2.00	
Aerospace & defence			0.55	0.70
900,000 Rolls-Royce Group		3,069	0.55	
Construction & materials			0.57	1.91
2,000,000 Marshalls		3,155	0.57	
Electronic & electrical equipment			2.35	0.83
1,000,000 Abacus Group		300	0.05	
1,400,000 Acal		2,268	0.41	
5,000,000 Halma		10,487	1.89	
General industrials			0.75	0.00
2,750,000 Tomkins		4,153	0.75	
Industrial engineering			2.82	3.78
2,382,500 600 Group		667	0.12	
700,000 Rotork		7,637	1.37	
700,000 Spirax-Sarco Engineering		7,392	1.33	
Support services			2.45	3.31
1,000,000 Davis Service Group		4,467	0.80	
1,750,000 Premier Farnell		3,028	0.54	
5,000,000 Rentokil Initial		4,963	0.89	
728,705 St. Ives		1,201	0.22	

PORTFOLIO STATEMENT (continued)

as at 30 June 2008				
Holding		Value £'000	30.06.08 %	30.06.07 %
Automobiles & parts			0.50	1.60
1,250,000 GKN		2,778	0.50	
Beverages			1.33	3.26
800,000 Diageo		7,416	1.33	
Food producers			1.65	1.48
650,000 Unilever		9,159	1.65	
Household goods			0.78	0.81
938,121 Bovis Homes Group		3,067	0.55	
400,000 Persimmon		1,260	0.23	
Tobacco			7.18	4.44
2,000,000 British American Tobacco		34,360	6.18	
300,000 Imperial Tobacco		5,571	1.00	
Pharmaceuticals & biotechnology			6.56	4.27
400,000 AstraZeneca		8,480	1.52	
2,500,000 GlaxoSmithKline		28,025	5.04	
General retailers			0.71	2.95
1,500,000 Halfords Group		3,971	0.71	
Media			0.94	0.92
850,000 Pearson		5,211	0.94	
Travel & leisure			2.29	3.92
2,000,000 Compass Group		7,470	1.34	
750,000 Marston's		1,305	0.23	
750,000 TUI Travel		1,509	0.27	
800,000 William Hill		2,518	0.45	
Fixed line telecommunications			3.93	4.17
11,000,000 BT Group		21,868	3.93	
Mobile telecommunications			7.09	5.91
27,000,000 Vodafone Group		39,420	7.09	
Electricity			4.41	2.84
500,000 British Energy Group		3,528	0.63	
1,500,000 Scottish & Southern Energy		21,000	3.78	
Gas, water & multi-utilities			5.25	7.92
1,250,000 Centrica		3,815	0.69	
1,200,000 National Grid		7,818	1.41	
1,750,000 Pennon Group		11,060	1.99	
500,000 Severn Trent		6,430	1.16	
Banks			12.87	22.31
1,250,000 Alliance & Leicester		3,691	0.66	
4,000,000 Barclays		11,620	2.09	
750,000 HBOS		2,064	0.37	
4,965,319 HSBC Holdings		38,642	6.95	
5,000,000 Lloyds TSB Group		15,550	2.80	
General financial			3.62	3.46
855,555 Intermediate Capital Group		11,712	2.11	
650,000 Investec		1,952	0.35	
812,500 Provident Financial		6,476	1.16	
Life insurance			4.39	4.63
2,030,100 Aviva		10,191	1.83	
4,000,000 Friends Provident		4,172	0.75	
8,000,000 Legal & General Group		8,024	1.44	
2,250,000 Old Mutual		2,070	0.37	
Non-life insurance			1.67	0.66
600,000 Catlin Group		2,083	0.37	
5,803,236 Royal & Sun Alliance		7,231	1.30	
Real estate			0.57	0.74
800,000 Segro		3,178	0.57	

M&G Dividend Fund

FINANCIAL STATEMENTS

PORTFOLIO STATEMENT (continued)

as at 30 June 2008

Holding	Value £'000	30.06.08 %	30.06.07 %
Unquoted / unlisted		0.00	0.00
377,518 Izodia [a]	0	0.00	
Portfolio of investments (note 1b opposite)	533,274	95.87	101.43
Net other assets / (liabilities)	22,949	4.13	(1.43)
Net assets attributable to shareholders	556,223	100.00	100.00

[a] Suspended on 16 December 2002.

SUMMARY OF MATERIAL PORTFOLIO CHANGES

Largest purchases	£'000
BP	9,311
AstraZeneca	9,276
Bovis Homes Group	6,002
Imperial Tobacco	5,676
Royal Dutch Shell 'B'	5,282
United Utilities	3,667
BT Group	3,522
Royal & Sun Alliance	3,346
Anglo American	2,772
Catlin Group	2,764
GlaxoSmithKline	2,687
British Energy Group	2,628
Pearson	2,429
Intermediate Capital Group	1,789
Friends Provident	1,751
Persimmon	1,128
HSBC Holdings	954
Aviva	644
Segro	595
ITV	574
Other purchases	707
Total purchases for the year	67,504

Largest sales	£'000
Scottish & Newcastle	17,986
Royal Bank of Scotland Group	13,318
Kelda Group	12,980
Pennon Group	10,344
Alliance Boots	8,543
Hanson	7,700
Barclays	6,681
Centrica	5,987
Compass Group	4,978
International Personal Finance	3,766
United Utilities	3,680
Biffa	3,500
DSG International	3,156
GlaxoSmithKline	2,752
Rotork	2,683
FirstGroup	2,428
Diageo	2,140
Anglo American	1,960
ITV	1,953
Electrocomponents	1,921
Other sales	14,033
Total sales for the year	132,489

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

a) **Basis of accounting:** The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in December 2005.

b) **Basis of valuation of investments:** All investments are valued at their fair value as at 12 noon on 30 June 2008, being the last business day of the financial year. The fair value of non-derivative securities is bid price. Unquoted investments are shown at the Authorised Corporate Director's (ACD's) valuation.

c) **Exchange rates:** Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling as at 12 noon on 30 June 2008, being the last business day of the financial year.

d) **Recognition of income:** Income from quoted equity and non-equity shares is recognised net of attributable tax credits when the security is quoted ex-dividend.

Bank interest and other income are recognised on an accruals basis.

e) **Stock dividends:** The ordinary element of stocks received in lieu of cash dividends is recognised as income of the sub-fund. Any enhancement above the cash dividend is treated as capital.

f) **Special dividends:** These are recognised as either income or capital depending upon the nature and circumstances of the dividend receivable.

g) **Underwriting commission:** This is taken to income and recognised when the issue takes place, except where the sub-fund is required to take up all or some of the shares underwritten, in which case an appropriate proportion of the commission is deducted from the cost of these shares.

h) **Expenses:** For accounting purposes, all expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against income for the year on an accruals basis.

i) **Apportionment of income and expenses to multiple share classes:** With the exception of the ACD's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

j) **Taxation:** The rate of corporation tax for the sub-fund is 20%, with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

k) **Deferred taxation:** Deferred tax is provided for in respect of all timing differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

M&G Dividend Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

1) Distribution policy: The policy of the sub-fund is to distribute all available income, after deduction of expenses properly chargeable against income. In determining the distribution of the sub-fund, all expenses, with the exception of bank overdraft interest, are offset against capital. The effect of this is that the distribution is determined as if these expenses had been charged to capital.

In order to conduct a controlled dividend flow to shareholders, interim distributions will be at the fund manager's discretion, up to the maximum of the distributable income available for the period. Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

Stock dividends form part of the distributable income.

Distributions which have remained unclaimed by shareholders for more than six years are credited to the capital property of the sub-fund.

2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) Report, the ACD accepts market price risk and currency risk in relation to the investment portfolio. Generally, the ACD will not seek to hedge this exposure since the ACD believes that, in the long term, such hedging would be detrimental to total return.

All expenses, with the exception of bank overdraft interest and net of any tax relief available, are offset against capital in determining the distribution of the sub-fund, thereby increasing the level of distributable income whilst restraining the sub-fund's capital performance to an equivalent extent. This policy increases investment opportunities in lower yielding companies and the ACD believes that this should facilitate maximising the total return on the sub-fund, consistent with the yield target.

In the context of the sub-fund's objective, the ACD may, on occasion, make an investment with a view to securing a particular dividend to enhance distributable income. This can act as a constraint on short-term capital performance.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

The sub-fund's assets comprise securities that can be readily realised to meet obligations that may arise on the redemption of shares. As noted on page 111, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (30.06.07: same).

3 Net (losses) / gains on investments

	2008 £'000	2007 £'000
Non-derivative securities	(167,274)	82,305
Special dividends taken to capital	398	9,800
Net (losses) / gains on investments	(166,876)	92,105

4 Income

	2008 £'000	2007 £'000
Bank interest	778	295
HM Revenue & Customs interest	10	17
Property income dividends	258	0
Stock dividends	1,975	1,077
UK dividends	29,547	29,471
Underwriting commission	64	9
Total	32,632	30,869

5 Expenses

	2008 £'000	2007 £'000
Payable to the Authorised Corporate Director or associate		
Authorised Corporate Director's periodic charge	9,863	10,853
Administration fee	1,024	1,138
Total	10,887	11,991
Payable to the Depositary or associate		
Depositary's fee (including VAT)	43	46
Other expenses		
Audit fee (including VAT)	9	9
Regulatory fees	1	1
Safe custody charge	6	7
Transaction charges	1	1
Total	17	18
VAT recoverable		
Prior year	2	83
Total expenses	10,949	12,138

6 Taxation

	2008 £'000	2007 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Current tax charge (note 6b)	0	0
Deferred tax (note 6c)	0	0
Total	0	0

b) Factors affecting taxation charge for the year

Net income before taxation	21,683	18,731
Corporation tax at 20%	4,337	3,746
Effects of:		
UK dividends ^[a]	(5,910)	(5,894)
Stock dividends not taxable	(395)	(215)
Current period expenses not utilised	1,968	2,363
Current tax charge (note 6a)	0	0

^[a] As a sub-fund of an Open-Ended Investment Company this item is not subject to corporation tax.

c) Provision for deferred taxation

Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
Provision at the end of the year	0	0

The sub-fund has not recognised a deferred tax asset of £19,387,000 (30.06.07: £17,420,000) arising as a result of having unutilised management expenses. We do not expect this asset to be utilised in the foreseeable future.

M&G Dividend Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (30.06.07: same).

8 Related parties

M&G Securities Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in shareholders' net assets and note 12. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to M&G Securities Limited in respect of the Authorised Corporate Director's periodic charge and administration fee are disclosed in note 5. Amounts due at the year end are disclosed in the balance sheet where applicable.

At the balance sheet date, material shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 10.56% (30.06.07: 10.29%) of the sub-fund's shares.

9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (30.06.07: same).

Currency exposure

There was no significant foreign currency exposure within the sub-fund at the balance sheet date (30.06.07: same).

Interest rate profile

The majority of the sub-fund's assets comprise equity shares which neither pay interest nor have a maturity date (30.06.07: same).

Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (30.06.07: same).

10 Portfolio transaction costs

	2008 £'000	2007 £'000
a) Purchases		
Purchases excluding transaction costs	67,149	82,194
Commissions	61	89
Taxes	294	389
Total transaction costs	355	478
Total purchases including transaction costs	67,504	82,672
b) Sales		
Sales excluding transaction costs	132,567	104,453
Commissions	(78)	(75)
Total sales net of transaction costs	132,489	104,378

11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Net Income and Net Accumulation) shares, Sterling Class 'C' (Net Income) shares and Sterling Class 'X' (Net Income and Net Accumulation) shares.

The charging structure for each share class, as at 30 June 2008, is set out in the following table (30.06.07: same):

CHARGES AND EXPENSES

	Initial charge %	Redemption charge %	ACD's annual remuneration %
Sterling			
Class 'A'	4.00	n/a	1.50
Class 'C'	nil	n/a	nil
Class 'X'	nil	4.50 ^[a]	1.50

^[a] The redemption charge diminishes over a period of five years. Please refer to the Key Features document for further information.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

NET ASSET VALUES

	30.06.08		30.06.07	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
Sterling				
Class 'A'	445,192	80,230	610,731	105,534
Class 'C'	20,709	n/a	28,273	n/a
Class 'X'	8,925	1,167	8,836	1,355

The net asset value per share and the number of shares are given in the comparative table on page 23. The distribution per share is given in the distribution table on page 28. Each share class has the same rights on winding-up.

M&G Dividend Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

12 Finance costs

	2008 £'000	2007 £'000
Income shares (sterling)		
Class 'A' - Interim	9,073	8,864
Class 'A' - Final	16,612	15,861
Class 'C' - Interim	398	425
Class 'C' - Final	783	738
Class 'X' - Interim	153	89
Class 'X' - Final	334	230
Accumulation shares (sterling)		
Class 'A' - Interim	1,553	1,498
Class 'A' - Final	2,884	2,672
Class 'X' - Interim	22	14
Class 'X' - Final	42	34
Finance costs: Dividend distributions	31,854	30,425
Income deducted on cancellation of shares	658	527
Income received on issue of shares	(144)	(144)
Finance costs: Distributions	32,368	30,808
Net income per statement of total return	21,683	18,731
Expenses offset against capital	10,949	12,138
Relief on expenses offset against capital	(222)	(64)
Undistributed income brought forward	2	5
Undistributed income carried forward	(44)	(2)
Finance costs: Distributions	32,368	30,808

DISTRIBUTION TABLE

Dividend distributions on Income shares	Tax credit	Net income	Equalisation	Distribution paid/payable	
				2008	2007
Sterling	p	p	p	p	p
Class 'A' - Interim					
Group 1:	0.1133	1.0200	-	1.0200	0.9700
Group 2:	0.0485	0.4362	0.5838	1.0200	0.9700
- Final					
Group 1:	0.2148	1.9330	-	1.9330	1.7684
Group 2:	0.1235	1.1115	0.8215	1.9330	1.7684
Class 'C' - Interim					
Group 1:	0.1133	1.0200	-	1.0200	0.9700
Group 2:	0.0296	0.2665	0.7535	1.0200	0.9700
- Final					
Group 1:	0.2278	2.0500	-	2.0500	1.8300
Group 2:	0.1131	1.0181	1.0319	2.0500	1.8300
Class 'X' - Interim					
Group 1:	0.1133	1.0200	-	1.0200	0.9700
Group 2:	0.0563	0.5071	0.5129	1.0200	0.9700
- Final					
Group 1:	0.2166	1.9490	-	1.9490	1.7800
Group 2:	0.1033	0.9294	1.0196	1.9490	1.7800
Dividend distributions on Accumulation shares	Tax credit	Net income	Equalisation	Amount reinvested	
				2008	2007
Sterling	p	p	p	p	p
Class 'A' - Interim					
Group 1:	0.7820	7.0383	-	7.0383	6.4340
Group 2:	0.3344	3.0099	4.0284	7.0383	6.4340
- Final					
Group 1:	1.5058	13.5522	-	13.5522	11.8959
Group 2:	0.8659	7.7927	5.7595	13.5522	11.8959
Class 'X' - Interim					
Group 1:	0.7700	6.9304	-	6.9304	6.3354
Group 2:	0.3828	3.4455	3.4849	6.9304	6.3354
- Final					
Group 1:	1.4949	13.4540	-	13.4540	11.7898
Group 2:	0.7129	6.4157	7.0383	13.4540	11.7898
Interim period	01.07.07 - 31.12.07				
Final period	01.01.08 - 30.06.08				

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

M&G Emerging Markets Bond Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective and policy of the M&G Emerging Markets Bond Fund

The Fund aims to maximise total return primarily through investment in bonds issued by emerging market nations* and their agencies, though the Fund can also hold a proportion of its portfolio in other debt instruments. There are no restrictions on the currency in which bonds held in the portfolio may be issued, and accordingly the Fund may carry a greater than usual currency risk, which will not normally be hedged.

More than 35% of the value of the property of the Fund may be invested in Government and other public securities issued or guaranteed by any of:

- the Government of the United Kingdom or of a Member State** other than the United Kingdom;
- the Government of Australia, Canada, Japan, New Zealand, Switzerland, USA;
- the African Development Bank, Asian Development Bank, Eurofima, European Economic Community, European Bank for Reconstruction and Development, European Coal and Steel Community, European Investment Bank, International Bank for Reconstruction and Development, International Financial Corporation.

* Currently the Authorised Corporate Director regards the following countries as emerging market nations: Argentina, Brazil, Bulgaria, Chile, China, Colombia, Croatia, Ecuador, Egypt, El Salvador, Greece, Hungary, Indonesia, Ivory Coast, Jordan, Korea, Lebanon, Malaysia, Mexico, Morocco, Nigeria, Pakistan, Panama, Peru, Philippines, Poland, Qatar, Romania, Russia, Slovakia, South Africa, Thailand, Turkey, Ukraine, Uruguay, Venezuela.

** Member State: those countries which are members of the European Union or the European Economic Area at any given time.

Proposed adoption of wider investment powers

Subject to a successful shareholder vote on 29 August 2008 the investment objective and policy of the M&G Emerging Markets Bond Fund will change on 1 September 2008.

Proposed investment objective of the M&G Emerging Markets Bond Fund (from 1 September 2008)

The Fund aims to maximise total return (the combination of income and growth of capital).

Proposed investment policy of the M&G Emerging Markets Bond Fund (from 1 September 2008)

The Fund primarily invests in debt instruments issued by emerging market nations* and their agencies. The Fund's exposure to debt instruments may be gained through the use of derivatives. There are no restrictions on the currency in which debt instruments held in the portfolio may be issued, and accordingly the Fund may carry a greater than usual currency risk, which will not normally be hedged. The Fund

may also invest in other assets including collective investment schemes, other transferable securities (including other debt instruments), cash and near cash, deposits, warrants, money market instruments and other derivative instruments.

The current reference point for defining emerging market nations are those issuing bonds and listed within the JP Morgan Emerging Markets Bond Plus Index as updated from time to time.

Investment approach

The M&G Emerging Markets Bond Fund is diversified by country, from Latin America to Europe to Asia, and by credit rating, from AAA investment grade to NR (not rated). The fund takes modest under and overweight geographical positions relative to a comparable index, the Merrill Lynch Global Emerging Markets Sovereign Plus Index, based on the fund manager's perception of yields relative to economic fundamentals and political outlook.

The fund only holds bonds issued by emerging market borrowers that are denominated in G8## currencies. It will not hold loans or corporate issues, which can be higher risk and offer lower long term returns, nor emerging market currency debt, as this can be more at risk from default and high inflation. There is a focus on proprietary research, looking extremely closely at the structure of a country's debts and underlying assets, rather than relying on broader, less precise debt measures.

US, Japan, United Kingdom, France, Germany, Italy, Canada and Russia.

INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

As at 1 July 2008, for the year ended 30 June 2008

We believe that the portfolio's emphasis on the more politically stable and economically robust countries remains appropriate for the time being as global growth is likely to slow during the coming year. With this in mind, we sold some lower rated emerging market bonds, including Philippines 8.875% 2008 and Peru 8.75% 2033. In line with our cautious approach, we increased the fund's weighting in German government bonds, buying Germany 4.25% 2017. We also added to Mexico (United Mexican States) 5.5% 2020 and Croatia 5% 2014, reflecting our preference for higher rated emerging market bonds.

We elected to trim our position in US government bonds, reducing our holding in US Treasury 4.625% 2011. This enabled us to realise profits following the good performance of these assets over the past 12 months.

Jim Leaviss
Fund manager

Jim Leaviss is an employee of M&G Limited which is an associate of M&G Securities Limited.

Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial Adviser.

M&G Emerging Markets Bond Fund

FUND STATISTICS

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Interim	02.01.09	28.02.09
Final	01.07.09	31.08.09

	Final distribution		Total Expense Ratio ^[b]	
	Inc 31.08.08 ^[a]	Acc 01.07.08 ^[a]	30.06.08	30.06.07
Sterling	p	p	%	%
Class 'A'	1.0412	1.6695	1.57	1.58
Class 'X'	1.0140	1.6543	1.60	1.56

The Portfolio Turnover Rate (PTR) for the 12 months ending 30 June 2008 was 0.26% compared with 38.87% for the year ending 30 June 2007. ^[c]

^[a] The date on which the final distribution will be paid to Income shareholders and credited to Accumulation shareholders.

^[b] The Total Expense Ratio (TER) shows the relevant annualised operating expenses of each share class from the most recent reporting period as a single percentage of the average net asset value for that share class over the same period.

^[c] The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within the fund over the course of a 12 month period. The PTR is calculated by taking the sum of all transactions in securities less the sum of all transactions in the fund's shares and is expressed as a percentage of the fund's average net asset value.

Income accrued from interest-bearing securities is distributed on an effective yield basis.

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 30.06.08		Net asset value per share as at 30.06.07		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	55.19	90.16	54.06	84.95	+2.09	+6.13
Class 'X'	54.37	90.36	53.27	85.17	+2.06	+6.09

PERFORMANCE SINCE LAUNCH

	six months 02.01.08 %	one year 02.07.07 %	five years 01.07.03 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	-0.4	+7.5	+4.9	+8.5 ^[c]
Class 'X'	-0.4	+7.5	+4.9	+8.6 ^[d]

^[a] Shows the compound rate of return, per annum, over the period.

^[b] Bid to bid with gross income reinvested.

^[c] 1 October 2002, the launch date of the share class.

^[d] 15 October 1999, the launch date of the predecessor unit trust.

SINGLE YEAR PERFORMANCE (5 YEARS ENDING JUNE)

From To	29.06.07 30.06.08 %	30.06.06 29.06.07 %	30.06.05 30.06.06 %	30.06.04 30.06.05 %	30.06.03 30.06.04 %
Sterling					
Class 'X' ^[a]	+6.6	+0.7	+1.4	+16.8	-5.6

^[a] Nominated share class.

Source: Morningstar Inc., bid to bid with net income reinvested.

PRICES

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling		p	p	p	p
Class 'A'	2003	62.92	53.54	78.70	65.94
	2004	58.27	51.84	79.30	68.93
	2005	63.00	54.11	90.37	75.55
	2006	63.18	56.12	92.68	82.80
	2007	58.06	52.78	90.38	82.94
	2008 ^[a]	59.22	55.36	94.95	90.44
Class 'X'	2003	61.27	52.02	78.88	66.02
	2004	57.43	51.07	79.48	69.06
	2005	62.08	53.32	90.58	75.72
	2006	62.26	55.29	92.89	82.97
	2007	57.21	52.01	90.62	83.16
	2008 ^[a]	58.35	54.55	95.19	90.65

^[a] To 1 July 2008.

Past performance is no indication of current or future performance and the performance data does not take account of the commissions and costs incurred on the issue and redemption of shares.

The price of shares and the income from them may go down as well as up, and you may get back less than you invested.

INCOME

Income per share

	Calendar year	Interim	Distributed Final	Total	Reinvested
Sterling (net)		p	p	p	p
Class 'A'	2003	nil	2.4530	2.4530	3.0210
	2004	1.6210	1.6600	3.2810	4.2692
	2005	1.4420	1.6100	3.0520	4.2102
	2006	1.3860	1.4720	2.8580	4.1476
	2007	1.2640	1.1220	2.3860	3.6303
	2008 ^[a]	1.1568	1.0412	2.1980	3.4872
Class 'X'	2003	1.6140	1.6700	3.2840	2.1197
	2004	1.5390	1.6400	3.1790	4.2094
	2005	1.4260	1.5880	3.0140	4.2285
	2006	1.3640	1.4500	2.8140	4.1535
	2007	1.2660	1.1116	2.3776	3.6797
	2008 ^[a]	1.1368	1.0140	2.1508	3.4719

^[a] Up to final: ex-distribution date 1 July 2008;
payment date 31 August 2008.

M&G Emerging Markets Bond Fund

FUND STATISTICS

NET ASSETS

	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling					
		p	p		
Class 'A'	Jun 2006	55.71	83.87	164,551	859,487
	Jun 2007	54.06	84.95	299,551	282,287
	Jun 2008	55.19	90.16	617,551	528,787
Class 'X'	Jun 2006	54.88	84.04	7,998,883	680,134
	Jun 2007	53.27	85.17	7,522,883	528,134
	Jun 2008	54.37	90.36	6,812,883	620,134
Total net asset value of sub-fund					
	Year ended	£		€ [a]	
	Jun 2006	5,774,000		8,332,000	
	Jun 2007	4,859,000		7,216,000	
	Jun 2008	5,082,000		6,411,000	

[a] Based on the midday exchange rate on the last business day of each financial year.

FINANCIAL STATEMENTS

For the year ended 30 June 2008.

STATEMENT OF TOTAL RETURN

	Note	2008		2007	
		£'000	£'000	£'000	£'000
Net gains / (losses) on investments	3		70		(142)
Currency gains / (losses)			6		(2)
Income	4	311		385	
Expenses	5	(77)		(89)	
Net income before taxation		234		296	
Taxation	6	0		0	
Net income after taxation			234		296
Total return before distributions			310		152
Finance costs: Distributions	12		(234)		(296)
Change in net assets attributable to shareholders from investment activities			76		(144)

STATEMENT OF CHANGE IN SHAREHOLDERS' NET ASSETS

	2008		2007	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		4,859		5,774
Amounts received on issue of shares	646		395	
Amounts paid on cancellation of shares	(532)		(1,199)	
		114		(804)
Change in net assets attributable to shareholders from investment activities (see above)		76		(144)
Retained distributions on Accumulation shares		33		33
Closing net assets attributable to shareholders		5,082		4,859

BALANCE SHEET

	as at 30 June 2008		as at 30 June 2007	
	£'000	£'000	£'000	£'000
Assets				
Portfolio of investments		4,976		4,849
Debtors				
Amounts receivable on issues	27		0	
Debt security interest receivable	113		107	
VAT recoverable	0		6	
Cash and bank balances	72		56	
Total other assets		212		169
Total assets		5,188		5,018
Liabilities				
Creditors				
Amounts payable on cancellations	0		(39)	
Expenses payable	(7)		(7)	
Income tax payable	(24)		(26)	
Net distributions payable on Income shares	(75)		(87)	
Total liabilities		(106)		(159)
Net assets attributable to shareholders		5,082		4,859

M&G Emerging Markets Bond Fund

FINANCIAL STATEMENTS

PORTFOLIO STATEMENT

as at 30 June 2008

Holding	Value £'000	30.06.08 %	30.06.07 %
'AAA' credit rated bonds			
€120,000 Germany (Federal Republic of) 3.75% 2015	91	1.79	
€120,000 Germany (Federal Republic of) 4.25% 2017	93	1.83	
€160,000 Germany (Federal Republic of) 4.25% 2039	114	2.24	
\$200,000 US Treasury 4.625% 2011	105	2.07	
\$725,000 US Treasury 4.625% 2016	383	7.54	
\$265,000 US Treasury 6.125% 2027	159	3.13	
'BBB' credit rated bonds			
\$101,000 Banque Centrale de Tunisie 7.375% 2012	54	1.06	
\$690,000 Brazil (Federal Republic of) 8% 2018	385	7.58	
\$617,000 Brazil (Federal Republic of) 12.75% 2020	483	9.50	
\$111,000 Bulgaria (National Republic of) 8.25% 2015	64	1.26	
€300,000 Croatia (Republic of) 5% 2014	227	4.47	
€414,000 Mexico (United Mexican States) 5.5% 2020	311	6.12	
\$245,000 Mexico (United Mexican States) 6.75% 2034	132	2.60	
\$146,000 Mexico (United Mexican States) 10.375% 2009	76	1.49	
€211,000 Romania (Republic of) 8.5% 2012	178	3.50	
\$182,235 Russian Federation 8.25% 2010	95	1.87	
\$459,995 Russian Federation Step-Up 2030	259	5.10	
€127,000 South Africa (Republic of) 5.25% 2013	94	1.85	
\$143,000 South Africa (Republic of) 7.375% 2012	76	1.49	
'BB' credit rated bonds			
\$42,000 Egypt (Arab Republic of) 8.75% 2011	23	0.45	
\$115,000 Panama (Republic of) 8.125% 2034	68	1.34	
\$152,000 Peru (Republic of) 9.125% 2012	87	1.71	
\$267,000 Philippines (Republic of) 9.5% 2030	163	3.21	
\$244,000 Philippines (Republic of) 9.875% 2019	150	2.95	
€209,000 Turkey (Republic of) 6.5% 2014	160	3.15	
€218,000 Turkey (Republic of) 9.25% 2010	179	3.52	
\$257,000 Turkey (Republic of) 11.75% 2010	144	2.83	
\$280,000 Turkey (Republic of) 11.875% 2030	197	3.88	
\$179,000 Turkey (Republic of) 12.375% 2009	96	1.89	
'B' credit rated bonds			
\$287,134 Argentina (Republic of) 8.28% 2033	110	2.16	
\$300,000 Ukraine Government 6.58% 2016	133	2.62	
'CCC' credit rated bonds			
\$63,000 Lebanon (Republic of) 8.25% 2021	30	0.59	
Bonds with no credit rating			
\$955,489 Argentina (Republic of) 0% 2035	47	0.92	
€163,204 Argentina (Republic of) Var. Rate 2035	10	0.20	
Portfolio of investments (notes 1b & 1c opposite)	4,976	97.91	99.79
Net other assets	106	2.09	0.21
Net assets attributable to shareholders	5,082	100.00	100.00

SUMMARY OF MATERIAL PORTFOLIO CHANGES

Purchases	£'000
Mexico (United Mexican States) 5.5% 2020 (€)	235
Ukraine Government 6.58% 2016 (\$)	152
Croatia (Republic of) 5% 2014 (€)	126
Romania (Republic of) 8.5% 2012 (€)	108
Germany (Federal Republic of) 4.25% 2017 (€)	88
Russian Federation 8.25% 2010 (\$)	32
US Treasury 6.125% 2027 (\$)	31
Total purchases for the year	772

Sales	£'000
US Treasury 4.625% 2011 (\$)	200
Panama (Republic of) 8.25% 2008 (\$)	138
Mexico (United Mexican States) 7.375% 2008 (€)	105
Philippines (Republic of) 8.875% 2008 (\$)	98
Philippines (Republic of) 10.625% 2025 (\$)	44
Russian Federation 8.25% 2010 (\$)	31
Peru (Republic of) 8.75% 2033 (\$)	28
Turkey (Republic of) 8% 2034 (\$)	25
Brazil (Federal Republic of) 12.75% 2020 (\$)	23
Russian Federation Step-Up 2030 (\$)	2
Total sales for the year	694

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

- Basis of accounting:** The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (IMA) in December 2005 ('the IMA SORP 2005').
- Basis of valuation of investments:** All investments are valued at their fair value as at 12 noon on 30 June 2008, being the last business day of the financial year. The fair value of non-derivative securities is bid price, excluding any accrued interest, and the fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.
- Exchange rates:** Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling as at 12 noon on 30 June 2008, being the last business day of the financial year.
- Derivative financial instruments:** Gains and losses on forward currency contracts are accounted for in accordance with the fund manager's intention on entering into the contracts. Where the intention is to protect or enhance capital return, gains or losses are recognised in net gains / (losses) on investments; where the intention is to generate or protect income, the costs or income are recognised in net income before taxation.

M&G Emerging Markets Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

- e) **Recognition of income:** Interest on debt securities is recognised on an accruals basis, taking into account the effective yield on the investment. The effective yield basis amortises any discount or premium on the purchase of an investment over its remaining life. Prior to 1 July 2007, interest on debt securities was recognised on an accruals basis, taking into account the coupon on the investment. In accordance with paragraph 1.15 of the IMA SORP 2005 the sub-fund has not restated comparative information to reflect the change in accounting policy. If comparative information had been restated, the nature of the main adjustments required would have been to adjust income and net losses on investments by the amortisation of the discount or premium since the purchase of each investment.

Bank interest and other income are recognised on an accruals basis.

- f) **Expenses:** For accounting purposes, all expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against income for the year on an accruals basis.
- g) **Apportionment of income and expenses to multiple share classes:** With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.
- h) **Taxation:** The rate of corporation tax for the sub-fund is 20%. The tax accounting treatment follows the principal amounts involved.
- i) **Deferred taxation:** Deferred tax is provided for in respect of all timing differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.
- j) **Distribution policy:** The policy of the sub-fund is to distribute all available income, after deduction of expenses properly chargeable against income. Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

Distributions which have remained unclaimed by shareholders for more than six years are credited to the capital property of the sub-fund.

2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) Report, the ACD accepts market price risk and currency risk in relation to the investment portfolio. The Prospectus permits the sub-fund to use the derivative instruments to hedge against medium and long-term risk.

The capital value of investments within the sub-fund will fall in the event of the default or perceived increased credit risk of an issuer. There is a greater risk of this occurring in respect of securities issued by emerging market nations as commonly included in the portfolio of this sub-fund. The ACD mitigates this risk through both stock selection and portfolio diversification strategies.

The capital value of investments within the sub-fund may also be affected by interest rate fluctuations such that when interest rates rise, the capital value of investments is likely to fall and vice versa.

The sub-fund holds overseas investments and exchange rate fluctuations can affect both capital and income values. Some of the investment portfolio may be hedged against currency movements through the use of forward currency contracts.

Short-term foreign currency exposures are generally covered by short dated currency contracts. Income arising in foreign currencies is generally converted into sterling shortly after receipt and is not hedged in advance of receipt.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

The sub-fund's assets comprise securities that can be readily realised to meet obligations that may arise on the redemption of shares. As noted on page 111, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (30.06.07: same).

3 Net gains / (losses) on investments

	2008 £'000	2007 £'000
Non-derivative securities	70	(142)

4 Income

	2008 £'000	2007 £'000
Bank interest	6	3
Interest on debt securities	305	382
	311	385

M&G Emerging Markets Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

5 Expenses

	2008 £'000	2007 £'000
Payable to the Authorised Corporate Director or associate		
Authorised Corporate Director's periodic charge	61	70
Administration fee	7	9
	68	79
Payable to the Depositary or associate		
Depositary's fee (including VAT)	1	1
Other expenses		
Audit fee (including VAT)	7	7
Regulatory fees	1	1
	8	8
VAT recoverable		
Prior year	0	1
Total expenses	77	89

6 Taxation

	2008 £'000	2007 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Current tax charge (note 6b)	0	0
Deferred tax (note 6c)	0	0
	0	0

b) Factors affecting taxation charge for the year

Net income before taxation	234	296
Corporation tax at 20%	47	59
Effects of:		
Interest distributions	(47)	(59)
Current tax charge (note 6a)	0	0

c) Provision for deferred taxation

Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
Provision at the end of the year	0	0

The sub-fund has not recognised a deferred tax asset of £212,000 (30.06.07: £212,000) arising as a result of having unutilised management expenses and interest distributions. We do not expect this asset to be utilised in the foreseeable future.

Interest distributions have been made in respect of all distributions during the current and preceding years. Income tax at 20% will be accounted for on shareholders' behalf to HM Revenue & Customs where applicable.

7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (30.06.07: same).

8 Related parties

M&G Securities Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in shareholders' net assets and note 12. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to M&G Securities Limited in respect of the Authorised Corporate Director's periodic charge and administration fee are disclosed in note 5. Amounts due at the year end are disclosed in the balance sheet where applicable.

At the balance sheet date, there are no material shareholders of the sub-fund's shares from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary (30.06.07: same).

9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (30.06.07: same).

Currency exposure

The currency profile of the sub-fund's financial instruments at the balance sheet date was:

	Portfolio of investments		Net other assets / (liabilities)		Total	
	as at 30.06.08 £'000	as at 30.06.07 £'000	as at 30.06.08 £'000	as at 30.06.07 £'000	as at 30.06.08 £'000	as at 30.06.07 £'000
Euro	1,457	920	36	18	1,493	938
US dollar	3,519	3,929	77	123	3,596	4,052
	4,976	4,849	113	141	5,089	4,990
Sterling	0	0	(7)	(131)	(7)	(131)
Total	4,976	4,849	106	10	5,082	4,859

M&G Emerging Markets Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

9 Financial instruments (continued)

Interest rate profile

	Floating rate financial assets		Fixed rate financial assets		Total	
	as at 30.06.08	as at 30.06.07	as at 30.06.08	as at 30.06.07	as at 30.06.08	as at 30.06.07
	£'000	£'000	£'000	£'000	£'000	£'000
Euro	10	15	1,447	905	1,457	920
Sterling	72	22	0	0	72	22
US dollar	0	106	3,519	3,857	3,519	3,963
Total	82	143	4,966	4,762	5,048	4,905

	Weighted average gross interest rate of fixed interest-bearing assets		Weighted average period for which interest rates are fixed ^[a]	
	as at 30.06.08	as at 30.06.07	as at 30.06.08	as at 30.06.07
	%	%	years	years
Euro	6.02	5.02	8.46	8.52
US dollar	5.84	6.13	12.40	12.43

^[a] Assuming the earliest maturity date for those assets with variable maturity dates.

Floating rate interest-bearing assets at the balance sheet date consist of bank balances, on which interest is calculated at a variable rate by reference to sterling bank deposit rates or the international equivalent; and variable rate bonds (30.06.07: same).

Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (30.06.07: same).

10 Portfolio transaction costs

	2008 £'000	2007 £'000
a) Purchases		
Total purchases excluding transaction costs	772	1,514
b) Sales		
Total sales excluding transaction costs	694	2,271

There were no significant transaction costs during the year (2007: same).

11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Net Income and Net Accumulation) shares and Sterling Class 'X' (Net Income and Net Accumulation) shares.

The charging structure for each share class, as at 30 June 2008, is set out in the following table (30.06.07: same):

CHARGES AND EXPENSES

	Initial charge %	Redemption charge %	ACD's annual remuneration %
Sterling			
Class 'A'	3.00	n/a	1.25
Class 'X'	nil	4.50 ^[a]	1.25

^[a] The redemption charge diminishes over a period of five years. Please refer to the Key Features document for further information.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

NET ASSET VALUES

	30.06.08		30.06.07	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
Sterling				
Class 'A'	341	477	162	240
Class 'X'	3,704	560	4,007	450

The net asset value per share and the number of shares are given in the comparative table on page 31. The distribution per share is given in the distribution table on page 36. Each share class has the same rights on winding-up.

12 Finance costs

	2008 £'000	2007 £'000
Income shares (sterling)		
Class 'A' - Interim	3	3
Class 'A' - Final	6	3
Class 'X' - Interim	80	99
Class 'X' - Final	69	84
Accumulation shares (sterling)		
Class 'A' - Interim	5	8
Class 'A' - Final	9	5
Class 'X' - Interim	9	11
Class 'X' - Final	10	9
	191	222
Income tax deducted at source	47	59
Finance costs: Interest distributions	238	281
Income deducted on cancellation of shares	2	19
Income received on issue of shares	(6)	(4)
Finance costs: Distributions	234	296

M&G Emerging Markets Bond Fund

FINANCIAL STATEMENTS

DISTRIBUTION TABLE						
Interest distributions on Income shares	Gross income	Income tax deducted	Net income	Equal- isation	Distribution paid/payable	
	p	p	p	p	2008	2007
Sterling						
Class 'A' - Interim						
Group 1:	1.4460	0.2892	1.1568	-	1.1568	1.2640
Group 2:	0.6091	0.1218	0.4873	0.6695	1.1568	1.2640
- Final						
Group 1:	1.3015	0.2603	1.0412	-	1.0412	1.1220
Group 2:	0.4824	0.0965	0.3859	0.6553	1.0412	1.1220
Class 'X' - Interim						
Group 1:	1.4210	0.2842	1.1368	-	1.1368	1.2660
Group 2:	0.5150	0.1030	0.4120	0.7248	1.1368	1.2660
- Final						
Group 1:	1.2675	0.2535	1.0140	-	1.0140	1.1116
Group 2:	0.4948	0.0990	0.3958	0.6182	1.0140	1.1116

Interest distributions on Accumulation shares	Gross income	Income tax deducted	Net income	Equal- isation	Amount reinvested	
	p	p	p	p	2008	2007
Sterling						
Class 'A' - Interim						
Group 1:	2.2721	0.4544	1.8177	-	1.8177	1.9030
Group 2:	0.9571	0.1914	0.7657	1.0520	1.8177	1.9030
- Final						
Group 1:	2.0869	0.4174	1.6695	-	1.6695	1.7273
Group 2:	0.7735	0.1547	0.6188	1.0507	1.6695	1.7273
Class 'X' - Interim						
Group 1:	2.2720	0.4544	1.8176	-	1.8176	1.9386
Group 2:	0.8234	0.1647	0.6587	1.1589	1.8176	1.9386
- Final						
Group 1:	2.0679	0.4136	1.6543	-	1.6543	1.7411
Group 2:	0.8071	0.1614	0.6457	1.0086	1.6543	1.7411

Interim period 01.07.07 - 31.12.07

Final period 01.01.08 - 30.06.08

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

M&G European Corporate Bond Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective and policy of the M&G European Corporate Bond Fund

The Fund invests mainly in investment grade corporate bonds denominated in any European currency, as well as in European currency denominated high yield corporate bonds and government and other public securities. The Fund aims to maximise total return (the combination of income and growth of capital) while generating a higher level of income than that from European government bonds of similar maturities.

Proposed adoption of wider investment powers

Subject to a successful shareholder vote on 29 August 2008 the investment objective and policy of the M&G European Corporate Bond Fund will change on 1 September 2008.

Proposed investment objective of the M&G European Corporate Bond Fund (from 1 September 2008)

The Fund aims to maximise total return (the combination of income and growth of capital) while generating a higher level of income than that from European government bonds of similar maturities.

Proposed investment policy of the M&G European Corporate Bond Fund (from 1 September 2008)

The Fund invests mainly in investment grade corporate bonds denominated in any European currency. The Fund may also invest in high yield corporate bonds, government and public securities denominated in any European currency. The Fund's exposure to bonds, government and other public securities may be gained through the use of derivatives. The Fund may also invest in other assets, including collective investment schemes, other transferable securities, cash and near cash, deposits, warrants, money market instruments and other derivative instruments which may be denominated in any major global currency. Any non-European currency exposures within the Fund may be managed by currency hedges in European currencies.

Investment approach

The M&G European Corporate Bond Fund invests primarily in euro-denominated 'investment grade' debt (rated from AAA to BBB-).

The fund focuses on in-house credit research, rather than relying on external research, as ratings agencies are often slow in revising their credit ratings.

Default risk is constantly monitored and the portfolio will always be well diversified. The fund will have exposure to at least 100 different companies spread across many economic sectors. Exposure to any individual company will be restricted according to its credit quality.

INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

As at 1 July 2008, for the year ended 30 June 2008

During the review period, we gradually increased the fund's exposure to lower rated investment grade bonds, as the excess yield over government bonds became more attractive. Purchases included bonds issued by mining company Xstrata Canada, Imperial Tobacco, Kraft Foods, cement maker HeidelbergCement and satellite network operator SES.

We decreased the fund's position in long dated bonds, which historically has been lower than a comparable index, Merrill Lynch EMU Corporate Index. We are concerned that inflation in Europe may continue to rise and wanted to position the fund more defensively in case interest rates increase. As a consequence we sold 30-year German government bonds maturing in 2034 and 2037 and used the proceeds to buy shorter dated 10-year German government bonds, including Germany (Federal Republic of) 4% 2018.

A development during the review period was the addition of senior secured loans to the portfolio, which now make up approximately 2% of the fund. Senior secured loans, which are issued by companies, are also called leveraged loans because the capital structure of the issuing company incorporates a significant amount of debt. Senior secured loans offer the potential for relatively high, floating rate returns, coupled with full security over a company's assets and shares.

The credit crunch led to a decline in the price of these loans, as many credit funds that had borrowed too heavily against their assets were forced to sell them off to meet margin calls from their lenders. As senior secured loans are trading at a deep discount, we bought issues from ProSieben, the German broadcaster, and Pages Jaunes, the French yellow pages business.

Stefan Isaacs
Fund manager

Stefan Isaacs is an employee of M&G Limited which is an associate of M&G Securities Limited.

Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial Adviser.

M&G European Corporate Bond Fund

FUND STATISTICS

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
First interim	01.10.08	30.11.08
Second interim	02.01.09	28.02.09
Third interim	01.04.09	31.05.09
Final	01.07.09	31.08.09

	Final distribution		Total Expense Ratio ^[b]	
	Inc 31.08.08 ^[a]	Acc 01.07.08 ^[a]	30.06.08	30.06.07
Sterling	p	p	%	%
Class 'A'	0.4620	0.5288	1.17	1.17
Class 'X'	0.4392	0.5009	1.39	1.44
Euro	€	€	%	%
Class 'A'	n/a	11.2050	1.17	1.12
Class 'C'	n/a	13.3090	0.67	0.67

The Portfolio Turnover Rate (PTR) for the 12 months ending 30 June 2008 was 142.34% compared with 79.96% for the year ending 30 June 2007. ^[c]

^[a] The date on which the final distribution will be paid to Income shareholders and credited to Accumulation shareholders.

^[b] The Total Expense Ratio (TER) shows the relevant annualised operating expenses of each share class from the most recent reporting period as a single percentage of the average net asset value for that share class over the same period.

^[c] The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within the fund over the course of a 12 month period. The PTR is calculated by taking the sum of all transactions in securities less the sum of all transactions in the fund's shares and is expressed as a percentage of the fund's average net asset value.

Income accrued from interest-bearing securities is distributed on an effective yield basis.

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 30.06.08		Net asset value per share as at 30.06.07		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	55.74	64.32	50.15	56.10	+11.15	+14.65
Class 'X'	55.68	64.00	50.09	55.92	+11.16	+14.45
Euro	€	€	€	€	%	%
Class 'A'	n/a	11.0049	n/a	11.2205	n/a	-1.92
Class 'C'	n/a	11.6443	n/a	11.8238	n/a	-1.52

PERFORMANCE SINCE LAUNCH

	six months 02.01.08 %	one year 02.07.07 %	five years 01.07.03 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	+5.9	+15.7	+4.0	+5.5 ^[c]
Class 'X'	+5.8	+15.4	+3.8	+5.4 ^[c]
Euro ^[b]				
Class 'A'	-0.9	-1.3	+1.3	+1.9 ^[c]
Class 'C'	-0.7	-0.8	+2.4	+3.0 ^[c]

^[a] Shows the compound rate of return, per annum, over the period.

^[b] Bid to bid with gross income reinvested.

^[c] 13 January 2003, the launch date of the share class.

SINGLE YEAR PERFORMANCE (5 YEARS ENDING JUNE)

From To	29.06.07 30.06.08 %	30.06.06 29.06.07 %	30.06.05 30.06.06 %	30.06.04 30.06.05 %	30.06.03 30.06.04 %
Sterling					
Class 'A' ^[a]	+15.3	-2.1	-0.5	+8.1	-2.3

^[a] Nominated share class.

Source: Morningstar Inc., bid to bid with net income reinvested.

PRICES

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling		p	p	p	p
Class 'A'	2003 ^[a]	57.50	49.92	57.50	49.92
	2004	56.23	50.51	58.77	52.10
	2005	55.86	53.17	59.43	56.49
	2006	54.70	51.47	58.93	56.24
	2007	54.09	49.97	60.92	55.20
	2008 ^[b]	58.62	54.07	67.09	61.37
Class 'X'	2003 ^[a]	57.53	49.92	57.53	49.92
	2004	56.16	50.45	58.82	52.13
	2005	55.80	53.10	59.47	56.53
	2006	54.64	51.41	58.94	56.20
	2007	54.01	49.90	60.67	55.07
	2008 ^[b]	58.55	54.01	66.78	61.11
Euro ^[c]		€	€	€	€
Class 'A'	2003 ^[a]	n/a	n/a	10.5477	9.9622
	2004	n/a	n/a	11.0818	10.3381
	2005	n/a	n/a	11.5399	11.0183
	2006	n/a	n/a	11.4456	11.0551
	2007	n/a	n/a	11.4405	11.1475
	2008 ^[b]	n/a	n/a	11.4288	11.0776
Class 'C'	2003 ^[a]	n/a	n/a	10.5710	9.9623
	2004	n/a	n/a	11.5316	10.3982
	2005	n/a	n/a	12.0645	11.4739
	2006	n/a	n/a	12.0410	11.6036
	2007	n/a	n/a	12.0405	11.7616
	2008 ^[b]	n/a	n/a	12.0953	11.7294

^[a] From 13 January 2003 (the launch date of the fund) to 31 December 2003.

^[b] To 1 July 2008.

^[c] Please note that with effect from 4 January 2005 these share classes are priced gross.

Past performance is no indication of current or future performance and the performance data does not take account of the commissions and costs incurred on the issue and redemption of shares.

The price of shares and the income from them may go down as well as up, and you may get back less than you invested.

M&G European Corporate Bond Fund

FUND STATISTICS

INCOME						
Income per share						
	Calendar year	Interims	Distributed Final	Interim	Total	Reinvested
Sterling (net)		p	p	p	p	p
Class 'A'	2003	n/a	0.6680	0.3610	1.0290	1.0334
	2004	0.6490	0.3480	0.3580	1.3550	1.3939
	2005	0.6724	0.3000	0.3456	1.3180	1.3901
	2006	0.6596	0.3372	0.3164	1.3132	1.4188
	2007	0.6620	0.3324	0.3464	1.3408	1.4856
	2008 ^[a]	0.8948	0.4620	-	1.3568	1.5408
Class 'X'	2003	n/a	0.7670	0.3680	1.1350	1.1402
	2004	0.6460	0.3440	0.3580	1.3480	1.3894
	2005	0.6720	0.2980	0.3412	1.3112	1.3854
	2006	0.6036	0.3108	0.2880	1.2024	1.3004
	2007	0.5976	0.3064	0.3180	1.2220	1.3524
	2008 ^[a]	0.8408	0.4392	-	1.2800	1.4491
Euro (gross ^[b])		¢	¢	¢	¢	¢
Class 'A'	2003	n/a	n/a	n/a	n/a	19.7750
	2004	n/a	n/a	n/a	n/a	26.7720
	2005	n/a	n/a	n/a	n/a	33.1050
	2006	n/a	n/a	n/a	n/a	29.8560
	2007	n/a	n/a	n/a	n/a	38.4060
	2008 ^[a]	n/a	n/a	n/a	n/a	33.4490
Class 'C'	2003	n/a	n/a	n/a	n/a	24.1960
	2004	n/a	n/a	n/a	n/a	33.2680
	2005	n/a	n/a	n/a	n/a	41.2050
	2006	n/a	n/a	n/a	n/a	37.9840
	2007	n/a	n/a	n/a	n/a	43.3470
	2008 ^[a]	n/a	n/a	n/a	n/a	39.5500

^[a] Up to final: ex-distribution date 1 July 2008;
payment date 31 August 2008.

^[b] All distributions prior to ex-distribution date 1 April 2005 are shown net per share.

NET ASSETS

	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling		p	p		
Class 'A'	Jun 2006	52.54	57.30	7,629,600	321,897,900
	Jun 2007	50.15	56.10	5,600,600	426,828,900
	Jun 2008	55.74	64.32	1,022,100	513,348,900
Class 'X'	Jun 2006	52.47	57.25	9,180,197	8,287,751
	Jun 2007	50.09	55.92	4,812,197	5,918,751
	Jun 2008	55.68	64.00	10,898,697	14,585,751
Euro		€	€		
Class 'A'	Jun 2006	n/a	11.0512	n/a	243,358
	Jun 2007	n/a	11.2205	n/a	2,048,508
	Jun 2008	n/a	11.0049	n/a	3,080,738
Class 'C'	Jun 2006	n/a	11.6000	n/a	2,653
	Jun 2007	n/a	11.8238	n/a	1,653
	Jun 2008	n/a	11.6443	n/a	1,653
Total net asset value of sub-fund					
	Year ended	£		€ ^[a]	
	Jun 2006	199,899,000		288,454,000	
	Jun 2007	263,488,000		391,280,000	
	Jun 2008	373,066,000		470,627,000	

^[a] Based on the midday exchange rate on the last business day of each financial year.

M&G European Corporate Bond Fund

FINANCIAL STATEMENTS

For the year ended 30 June 2008.

STATEMENT OF TOTAL RETURN

	Note	2008		2007	
		£'000	£'000	£'000	£'000
Net gains / (losses) on investments	3		27,559		(10,925)
Currency gains			1,658		25
Income	4	15,973		9,630	
Expenses	5	(3,645)		(2,604)	
Finance costs: Interest	12	0		(3)	
Net income before taxation		12,328		7,023	
Taxation	6	(5)		0	
Net income after taxation			12,323		7,023
Total return before distributions			41,540		(3,877)
Finance costs: Distributions	12		(12,324)		(7,021)
Change in net assets attributable to shareholders from investment activities			29,216		(10,898)

STATEMENT OF CHANGE IN SHAREHOLDERS' NET ASSETS

		2008		2007	
		£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders			263,488		199,899
Amounts received on issue of shares	85,552			80,866	
Amounts paid on cancellation of shares	(15,312)			(12,151)	
			70,240		68,715
Change in net assets attributable to shareholders from investment activities (see above)			29,216		(10,898)
Retained distributions on Accumulation shares			10,122		5,772
Closing net assets attributable to shareholders			373,066		263,488

BALANCE SHEET

	as at 30 June 2008		as at 30 June 2007	
	£'000	£'000	£'000	£'000
Assets				
Portfolio of investments		363,061		245,833
Debtors				
Amounts receivable on issues	213			0
Bank interest receivable	21			24
Debt security interest receivable	6,711			4,282
HM Revenue & Customs interest receivable	0			8
Overseas tax recoverable	1			0
Prepaid expenses	1			17
Sales awaiting settlement	0			1,875
VAT recoverable	0			111
Cash and bank balances	9,207			19,833
Total other assets		16,154		26,150
Total assets		379,215		271,983
Liabilities				
Derivative liabilities		0		(63)
Creditors				
Amounts payable on cancellations	(181)			0
Expenses payable	(23)			(19)
Income tax payable	(1,342)			(722)
Net distributions payable on Income shares	(53)			(34)
Purchases awaiting settlement	(4,550)			(7,657)
Total other liabilities		(6,149)		(8,432)
Total liabilities		(6,149)		(8,495)
Net assets attributable to shareholders		373,066		263,488

PORTFOLIO STATEMENT

as at 30 June 2008				
Holding	Value £'000	30.06.08 %	30.06.07 %	
'AAA' credit rated bonds		23.29	23.37	
\$3,991,258 Arran Residential No.1 FRN 2056	1,967	0.53		
\$1,016,000 Arran Residential No.3 FRN 2056	498	0.13		
€1,000,000 BA Credit Card Var. Rate 2012	757	0.20		
€750,000 Caisse d'Amort Dette Societe 5.125% 2008	595	0.16		
\$2,000,000 Dutch MBS FRN 2035	997	0.27		
\$1,525,843 Ellington Loan Acquisition Trust FRN 2037	728	0.20		
€986,520 E-Mac Program FRN 2048	760	0.20		
€1,887,812 Epic (Drummond) FRN 2022	1,414	0.38		
€975,342 Fleet Street Finance FRN 2016	759	0.20		
€4,000,000 GE Capital European Funding 3.375% 2012	2,976	0.80		
€3,000,000 GE Capital European Funding 4.625% 2010	2,320	0.62		
€7,000,000 GE Capital European Funding 4.75% 2012	5,357	1.44		
€1,299,664 German Residential Funding FRN 2016	918	0.25		
€5,000,000 Germany (Federal Republic of) 3.5% 2013	3,777	1.01		
€26,650,000 Germany (Federal Republic of) 3.75% 2017	19,870	5.33		
€1,000,000 Germany (Federal Republic of) 4% 2016	760	0.20		
€29,800,000 Germany (Federal Republic of) 4% 2018	22,569	6.05		
€3,000,000 Germany (Federal Republic of) 4.25% 2014	2,337	0.63		
€4,500,000 Germany (Federal Republic of) 4.25% 2017	3,479	0.93		

M&G European Corporate Bond Fund

FINANCIAL STATEMENTS

PORTFOLIO STATEMENT (continued)

as at 30 June 2008

Holding	Value £'000	30.06.08 %	30.06.07 %
'AAA' credit rated bonds (continued)			
€2,500,000 Johnson & Johnson 4.75% 2019	1,873	0.50	
€1,000,000 KfW 3.5% 2015	725	0.19	
€800,000 La Caixa de Barcelona 5.25% 2011	628	0.17	
€38,156 Lothian Mortgages No.4 FRN 2040	30	0.01	
€3,000,000 New York Life Funding 5.25% 2009	2,374	0.64	
€2,000,000 New York Life Global Funding 4.375% 2017	1,411	0.38	
€2,000,000 Permanent Financing No.8 FRN 2032	1,547	0.41	
€4,000,000 Pfizer 4.55% 2017	2,942	0.79	
€2,000,000 Rabobank Nederland 4.25% 2017	1,466	0.39	
€251,256 Storm FRN 2045	197	0.05	
€501,723 Titan Europe FRN 2016	379	0.10	
€624,506 VCL No.10 FRN 2013	492	0.13	
'AA' credit rated bonds		22.93	23.22
€3,000,000 3M Company 5% 2014	2,292	0.61	
€2,000,000 Allianz Finance II 4% 2016	1,412	0.38	
€3,000,000 American International Group FRN 2013	2,053	0.55	
€1,200,000 Australia & New Zealand Banking Group 4.375% 2012	899	0.24	
€5,000,000 Australia & New Zealand Banking Group 5.25% 2013	3,797	1.02	
€1,000,000 Australia & New Zealand Banking Group FRN 2011	783	0.21	
€2,000,000 Bank of America 4.25% 2010	1,530	0.41	
€3,000,000 Bank of America 4.75% 2019	2,092	0.56	
€3,000,000 Bank of America FRN 2013	2,256	0.60	
€2,000,000 Bank of America Var. Rate 2017	1,438	0.38	
€2,000,000 Barclays Bank 6% 2018	1,510	0.40	
€750,000 BBV International Finance 6.375% 2010	597	0.16	
€2,000,000 Bear Stearns FRN 2013	1,483	0.40	
€5,000,000 BNP Paribas 3.125% 2015	3,695	0.99	
€500,000 Burmah Castrol 4.875% 2009	396	0.11	
€3,000,000 Citigroup 4.375% 2018	2,026	0.54	
€4,000,000 Citigroup FRN 2016	2,877	0.77	
€1,500,000 Crédit Agricole FRN 2009	1,183	0.32	
€600,000 Deutsche Bahn Finance 6% 2010	481	0.13	
€5,000,000 Deutsche Bank 5.125% 2017	3,770	1.01	
€1,000,000 Eni 4.625% 2013	774	0.21	
€2,500,000 Goldman Sachs Group 5.125% 2014	1,805	0.48	
€4,370,000 Goldman Sachs Group 6.375% 2018	3,329	0.89	
€3,000,000 ING Bank 5.5% 2012	2,345	0.63	
€2,000,000 Intesa Sanpaolo 4.75% 2017	1,487	0.40	
€4,000,000 Intesa Sanpaolo FRN 2017	3,019	0.81	
€2,000,000 ITW Finance Europe 5.25% 2014	1,511	0.40	
€2,000,000 JPMorgan Chase 4.625% 2011	1,541	0.41	
€2,000,000 JPMorgan Chase FRN 2010	1,568	0.42	
€2,286,000 Lloyds TSB Bank Var. Rate 2018	1,747	0.47	
€2,000,000 National Australia Bank 4.875% 2013	1,505	0.40	
€2,000,000 National Australia Bank FRN 2012	1,538	0.41	
€2,000,000 National Australia Bank Var. Rate 2016	1,483	0.40	
€2,800,000 Procter & Gamble 4.875% 2027	2,000	0.54	
€500,000 Réseau de Transport d'Electric 4.125% 2016	360	0.10	
€3,000,000 Royal Bank of Scotland 5.25% 2013	2,266	0.61	
€3,500,000 Royal Bank of Scotland FRN 2017	2,568	0.69	
€500,000 Royal Bank of Scotland Var. Rate 2021	347	0.09	
€1,000,000 Sanpaolo IMI FRN 2013	775	0.21	
€5,000,000 Santander Issuances 4.75% 2019	3,595	0.96	

PORTFOLIO STATEMENT (continued)

as at 30 June 2008

Holding	Value £'000	30.06.08 %	30.06.07 %
'AA' credit rated bonds (continued)			
€900,000 Santander Issuances Var. Rate 2017	678	0.18	
€2,000,000 Shell International Finance 4.625% 2017	1,518	0.41	
€1,000,000 Travelers Insurance 5.65% 2012	773	0.21	
€5,000,000 UBS London 6% 2018	3,869	1.04	
€2,200,000 Wachovia 6% 2013	1,655	0.44	
€5,000,000 Wachovia FRN 2014	3,535	0.95	
€2,000,000 Wells Fargo FRN 2016	1,431	0.38	
'A' credit rated bonds		26.53	30.09
€300,000 ABN AMRO Bank FRN 2018	209	0.06	
€1,000,000 Air Products & Chemicals 4.25% 2012	751	0.20	
€1,000,000 Allied Irish Banks Var. Rate Perp.	759	0.20	
€2,000,000 American International Group Var. Rate 2038	1,457	0.39	
€3,000,000 AT&T 4.375% 2013	2,223	0.60	
€3,300,000 AT&T 6.125% 2015	2,604	0.70	
€666,000 Aviva Var. Rate 2038	492	0.13	
€2,000,000 Aviva Var. Rate Perp.	1,362	0.37	
€1,950,000 Bank of Ireland 6.45% 2010	1,552	0.42	
€500,000 Bank of Ireland Var. Rate Perp.	376	0.10	
€200,000 Bankinter Fondo Titulizacion FRN 2038	133	0.04	
€1,000,000 Barclays Bank Var. Rate Perp.	518	0.14	
€1,000,000 Bouygues 4.75% 2016	713	0.19	
€2,000,000 BTMU (Curacao) Holdings FRN 2015	1,546	0.41	
€1,500,000 Cargill 6.25% 2015	1,162	0.31	
€1,000,000 CEZ Finance 4.625% 2011	770	0.21	
€2,700,000 Citigroup Var. Rate 2030	1,462	0.39	
€750,000 Crédit Logement Var. Rate Perp.	522	0.14	
€4,000,000 Credit Suisse Group Var. Rate 2020	2,540	0.68	
€1,050,000 Danica Pension Var. Rate Perp.	748	0.20	
€2,400,000 Diageo Capital 5.5% 2013	1,865	0.50	
€2,000,000 DnB NOR Bank FRN 2016	1,520	0.41	
€1,453,000 DnB NOR Bank Var. Rate Perp.	1,142	0.31	
€2,000,000 DSM 5.25% 2017	1,503	0.40	
€5,000,000 E.ON International Finance 5.5% 2017	3,932	1.05	
€527,000 E.ON International Finance 5.75% 2020	412	0.11	
€2,000,000 EDP Finance 4.125% 2020	1,322	0.35	
€1,500,000 Elm Var. Rate Perp.	940	0.25	
€4,000,000 Enel 5.625% 2027	3,014	0.81	
€300,000 Fortis Bank FRN 2018	211	0.06	
€3,550,000 Fortum 4.5% 2016	2,591	0.69	
€1,000,000 France Telecom 3.625% 2015	695	0.19	
€2,000,000 France Telecom 4.375% 2012	1,502	0.40	
€2,500,000 France Telecom 7% 2009	2,015	0.54	
€1,250,000 GIE SUEZ Alliance 5.75% 2023	955	0.26	
€3,000,000 GlaxoSmithKline Capital 4% 2025	1,889	0.51	
€1,000,000 GlaxoSmithKline Capital 5.125% 2012	777	0.21	
€186,751 Granite Mortgages FRN 2043	140	0.04	
€1,400,000 HBOS Var. Rate Perp.	838	0.22	
€2,000,000 HSBC Capital Funding Var. Rate Perp.	1,608	0.43	
€5,000,000 HSBC Holdings Var. Rate 2020	3,317	0.89	
€4,000,000 JPMorgan Chase 4.375% 2019	2,730	0.73	
€400,000 Lansforsakringar 4.625% 2008	316	0.08	
€2,000,000 Lehman Brothers Holdings 5.375% 2012	1,414	0.38	
€1,500,000 Merrill Lynch 6.75% 2013	1,107	0.30	
€2,750,000 Merrill Lynch FRN 2010	2,028	0.54	
€2,000,000 Morgan Stanley 5% 2019	1,327	0.36	
€3,000,000 Morgan Stanley 6.5% 2018	2,222	0.60	
€1,450,000 Munich Var. Rate Perp.	983	0.26	
€1,000,000 National Capital Instruments FRN Perp.	642	0.17	

M&G European Corporate Bond Fund

FINANCIAL STATEMENTS

PORTFOLIO STATEMENT (continued)

as at 30 June 2008

Holding	Value £'000	30.06.08 %	30.06.07 %
'A' credit rated bonds (continued)			
€4,000,000 Nationwide Building Society 3.125% 2010	2,922	0.78	
€1,250,000 PPG Industries 3.875% 2015	848	0.23	
€500,000 RWE Finance 6.125% 2012	406	0.11	
€1,000,000 Sanpaolo IMI FRN 2018	741	0.20	
€2,500,000 Schering Plough 5.375% 2014	1,824	0.49	
€3,050,000 Severn Trent Water 5.25% 2016	2,327	0.62	
€2,000,000 Skandinaviska Enskilda Banken FRN 2017	1,497	0.40	
€1,000,000 Skandinaviska Enskilda Banken Var. Rate 2015	759	0.20	
€27,560 Smile Securitisation FRN 2027	22	0.01	
€2,000,000 Société Générale 5.625% 2012	1,557	0.42	
€1,000,000 Standard Chartered Bank 5.375% 2009	790	0.21	
€2,500,000 Standard Chartered Bank 5.875% 2017	1,826	0.49	
€5,000,000 Tesco 5.125% 2047	3,297	0.88	
€2,550,000 UBS Capital Securities Var. Rate Perp.	2,019	0.54	
€1,000,000 Unicredit Italiano FRN 2015	771	0.21	
€4,500,000 United Utilities Water 4.25% 2020	2,949	0.79	
€2,000,000 Urenco Finance 3.375% 2010	1,495	0.40	
€1,350,000 Urenco Finance 5.375% 2015	1,047	0.28	
€1,550,000 Verbund International 5% 2014	1,191	0.32	
€1,500,000 Vodafone Group 5.375% 2022	1,056	0.28	
€850,000 Westfield Group 3.625% 2012	578	0.15	
€3,000,000 Zurich Finance Var. Rate 2023	2,220	0.59	
'BBB' credit rated bonds	17.73	9.30	
€1,000,000 ASM Brescia 4.875% 2014	747	0.20	
€1,250,000 AXA Var. Rate Perp.	864	0.23	
€6,000,000 BAT International Finance 5.375% 2017	4,383	1.17	
€2,000,000 Bayer Var. Rate 2105	1,351	0.36	
€2,855,000 British Telecom 6.5% 2015	2,242	0.60	
€1,500,000 British Telecom 7.375% 2011	1,226	0.33	
€1,000,000 Cemex Finance Europe 4.75% 2014	669	0.18	
€3,000,000 Compagnie de St. Gobain 4.75% 2017	2,028	0.54	
€2,487,275 Deco Series 15 FRN 2018	1,522	0.41	
€958,000 Delhaize Group 5.625% 2014	706	0.19	
€1,000,000 Edison 5.125% 2010	784	0.21	
€250,000 French Residential FRN 2043	193	0.05	
€3,000,000 Gaz Capital 5.136% 2017	1,962	0.53	
€1,000,000 Gaz Capital 5.44% 2017	664	0.18	
€3,400,000 Glencore Finance Europe 7.125% 2015	2,595	0.70	
€4,000,000 HeidelbergCement Finance 6.375% 2012	3,079	0.83	
€4,000,000 Imperial Tobacco Finance 4.375% 2013	2,799	0.75	
\$2,100,000 Israel Electric 7.25% 2019	1,066	0.29	
€750,000 Klepierre 4.25% 2016	499	0.13	
€1,000,000 Klepierre 4.625% 2011	752	0.20	
€3,000,000 KPN 4.75% 2017	2,105	0.56	
€2,632,000 KPN 5% 2012	1,973	0.53	
€4,000,000 Kraft Foods 6.25% 2015	3,084	0.83	
€1,000,000 Millipore 5.875% 2016	724	0.19	
€1,200,000 MUFG Capital Finance 5.271% Perp.	733	0.20	
€1,250,000 National Grid Transco 4.375% 2020	822	0.22	
€400,000 Portugal Telecom 4.625% 2009	314	0.08	
€1,000,000 Rexam 4.375% 2013	707	0.19	
€4,000,000 SES 4.375% 2013	2,836	0.76	
€186,000 SGL Carbon FRN 2015	133	0.04	
€500,000 Sherwood Castle Funding FRN 2010	393	0.11	

PORTFOLIO STATEMENT (continued)

as at 30 June 2008

Holding	Value £'000	30.06.08 %	30.06.07 %
'BBB' credit rated bonds (continued)			
€300,000 TDA Pastor FRN 2038	152	0.04	
€2,000,000 Telecom Italia 6.25% 2012	1,575	0.42	
€6,000,000 Telefónica Emisiones 4.375% 2016	4,284	1.15	
€4,000,000 Telenor 4.875% 2017	2,859	0.77	
€900,000 Telenor 5.875% 2012	710	0.19	
€4,000,000 TNT 5.375% 2017	2,896	0.78	
€2,000,000 TransCapitalInvest 5.381% 2012	1,486	0.40	
€2,000,000 Veolia Environment 5.125% 2022	1,402	0.38	
€1,000,000 Veolia Environment 6.125% 2033	730	0.20	
€1,000,000 Washington Mutual Bank FRN 2011	655	0.18	
€1,500,000 WPP Finance 5.25% 2015	1,078	0.29	
€902,000 WPP Group 6.625% 2016	682	0.18	
€4,827,000 Xstrata Canada 6.25% 2015	3,569	0.96	
'BB' credit rated bonds		1.08	3.29
€1,450,000 Calcipar FRN 2014	966	0.26	
€1,000,000 Gecina 4.875% 2012	678	0.18	
€1,500,000 Leopard FRN 2023	855	0.23	
€235,000 Remy Cointreau 5.2% 2012	171	0.05	
€175,000 Stena 6.125% 2017	110	0.03	
€1,500,000 TVN Finance 9.5% 2013	1,225	0.33	
'B' credit rated bonds		0.35	0.72
€1,000,000 Colt Telecom Group 7.625% 2009	789	0.21	
€1,000,000 Ineos Group Holdings 7.875% 2016	517	0.14	
'CCC' credit rated bonds		0.00	0.13
Bonds with no credit rating			
€760,315 Emerald Mortgages No.4 FRN 2048	551	0.15	
€2,500,000 Erste Bank der oest. Sparkassen 5.25% 2011	1,949	0.52	
€1,000,000 Erste Bank der oest. Sparkassen FRN 2015	751	0.20	
€672,000 Investec Var. Rate Perp.	373	0.10	
€2,700,000 Lehman Brothers Holdings Var. Rate 2016	1,746	0.47	
€457,226 MBS Bancaja FRN 2035	309	0.08	
€2,500,000 Obrascón Huarte Lain 5% 2012	1,694	0.45	
€2,000,000 Old Mutual Var. Rate 2015	1,242	0.33	
€500,000 Pfeleiderer Finance Var. Rate Perp.	265	0.07	
€500,000 SFR 3.375% 2012	358	0.10	
€1,512,240 Storm FRN 2047	1,175	0.31	
€2,000,000 Union Fenosa Finance 5% 2010	1,560	0.42	
€2,500,000 US Bank National Association Var. Rate 2017	1,753	0.47	
Leveraged loans ^[a]		1.72	0.00
€500,000 Casema 2014 Senior C	383	0.10	
€500,000 Casema 2015 Senior B	382	0.10	
€1,063,837 Gambro 2014 Senior B	769	0.21	
€936,163 Gambro 2015 Senior C	676	0.18	
€1,000,000 ISS 2013 Senior B	741	0.20	
€1,000,000 Pages Jaunes 2014 Senior C	720	0.19	
€1,000,000 ProSieben 2015 Senior C	660	0.18	
€1,011,468 Smurfit Kappa 2013 Senior B	747	0.20	
€2,000,000 Telediffusion de France 2014 Senior A	1,339	0.36	
Forward currency contracts		0.02	(0.02)
\$ (10,037,700) Sold for €6,483,465 (expires 04.09.08)	82	0.02	
Portfolio of investments (notes 1b & 1c on page 43)	363,061	97.32	93.28
Net other assets	10,005	2.68	6.72
Net assets attributable to shareholders	373,066	100.00	100.00

[a] Unquoted / unlisted.

M&G European Corporate Bond Fund

FINANCIAL STATEMENTS

SUMMARY OF MATERIAL PORTFOLIO CHANGES

Largest purchases	£'000
Germany (Federal Republic of) 4% 2018 (€)	36,651
Germany (Federal Republic of) 3.75% 2017 (€)	18,498
Germany (Federal Republic of) 4% 2037 (€)	14,701
Germany (Federal Republic of) 5% 2012 (€)	13,971
Germany (Federal Republic of) 4.25% 2017 (€)	10,150
GE Capital European Funding 4.625% 2010 (€)	8,107
Germany (Federal Republic of) 3.5% 2009 (€)	6,917
Germany (Federal Republic of) 4% 2016 (€)	6,038
GE Capital European Funding 4.75% 2012 (€)	4,882
UBS London 6% 2018 (€)	3,998
Australia & New Zealand Banking Group 5.25% 2013 (€)	3,936
Xstrata Canada 6.25% 2015 (€)	3,818
Germany (Federal Republic of) 3.5% 2013 (€)	3,774
E.ON International Finance 5.5% 2017 (€)	3,749
Wachovia FRN 2014 (€)	3,634
Golman Sachs Group 6.375% 2018 (€)	3,467
Deutsche Bank 5.125% 2017 (€)	3,370
HSBC Holdings Var. Rate 2020 (€)	3,367
Tesco 5.125% 2047 (€)	3,317
BAT International Finance 5.375% 2017 (€)	3,216
Other purchases	161,808
Total purchases for the year	321,369
Largest sales	£'000
Germany (Federal Republic of) 5% 2012 (€)	23,043
Germany (Federal Republic of) 3.75% 2017 (€)	15,319
Germany (Federal Republic of) 4% 2037 (€)	14,708
Germany (Federal Republic of) 4.25% 2014 (€)	14,630
Germany (Federal Republic of) 4% 2018 (€)	13,822
European Investment Bank 5.375% 2012 (€)	7,737
Germany (Federal Republic of) 4.25% 2017 (€)	7,596
Germany (Federal Republic of) 3.5% 2009 (€)	7,098
Germany (Federal Republic of) 4% 2016 (€)	6,250
GE Capital European Funding 4.625% 2010 (€)	6,243
Standard Chartered Bank Var. Rate Perp. (£)	3,712
KfW 5.25% 2012 (€)	3,695
UBS Jersey FRN 2015 (€)	3,357
GE Capital European Funding 4.125% 2016 (€)	3,356
Deutsche Bank FRN 2015 (€)	3,347
Barclays Bank FRN 2017 (€)	3,162
Credit Suisse Group Capital Var. Rate 2018 (€)	2,733
Germany (Federal Republic of) 4.75% 2034 (€)	2,633
HT1 Funding Var. Rate Perp. (€)	2,435
Germany (Federal Republic of) 3.75% 2015 (€)	2,423
Other sales	84,075
Total sales for the year	231,374

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

- a) **Basis of accounting:** The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (IMA) in December 2005 ('the IMA SORP 2005').
- b) **Basis of valuation of investments:** All investments are valued at their fair value as at 12 noon on 30 June 2008, being the last business day of the financial year. The fair value of non-derivative securities is bid price, excluding any accrued interest, and the fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Unquoted investments are shown at the Authorised Corporate Director's (ACD's) valuation.
- c) **Exchange rates:** Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling as at 12 noon on 30 June 2008, being the last business day of the financial year.
- d) **Derivative financial instruments:** Gains and losses on forward currency contracts are accounted for in accordance with the fund manager's intention on entering into the contracts. Where the intention is to protect or enhance capital return, gains or losses are recognised in net gains / (losses) on investments; where the intention is to generate or protect income, the costs or income are recognised in net income before taxation.
- e) **Recognition of income:** Interest on debt securities is recognised on an accruals basis, taking into account the effective yield on the investment. The effective yield basis amortises any discount or premium on the purchase of an investment over its remaining life. Prior to 1 July 2007, interest on debt securities was recognised on an accruals basis, taking into account the coupon on the investment. In accordance with paragraph 1.15 of the IMA SORP 2005 the sub-fund has not restated comparative information to reflect the change in accounting policy. If comparative information had been restated, the nature of the main adjustments required would have been to adjust income and net losses on investments by the amortisation of the discount or premium since the purchase of each investment.
- Bank interest and other income are recognised on an accruals basis.
- f) **Expenses:** For accounting purposes, all expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against income for the year on an accruals basis.
- g) **Apportionment of income and expenses to multiple share classes:** With the exception of the ACD's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.
- h) **Taxation:** The rate of corporation tax for the sub-fund is 20%. The tax accounting treatment follows the principal amounts involved.

M&G European Corporate Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

- i) **Deferred taxation:** Deferred tax is provided for in respect of all timing differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.
- j) **Distribution policy:** The policy of the sub-fund is to distribute all available income, after deduction of expenses properly chargeable against income. Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

Distributions which have remained unclaimed by shareholders for more than six years are credited to the capital property of the sub-fund.

2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) Report, the ACD accepts market price risk, interest rate risk and currency risk in relation to the investment portfolio and euro cash positions. The Prospectus permits the sub-fund to use derivative instruments to hedge against medium and long-term risk.

The ACD considers the credit rating, yield and maturity of each security, in order to ensure that the yield fully reflects any perceived risk. The capital value of investments within the sub-fund will fall in the event of the default or perceived increased credit risk of an issuer.

The capital value of investments within the sub-fund may also be affected by interest rate fluctuations such that when interest rates rise, the capital value of investments is likely to fall and vice versa.

The sub-fund holds overseas investments and exchange rate fluctuations can affect both capital and income values. During the year, it has been the policy to hedge some of the investment portfolio against currency movements through the use of forward currency contracts.

Short-term exposures to foreign currencies, other than euros, are generally covered by short dated currency contracts. Income arising in foreign currencies is generally converted into sterling shortly after receipt and is not hedged in advance of receipt.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

The sub-fund's assets comprise securities that can be readily realised to meet obligations that may arise on the redemption of shares. As noted on page 111, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (30.06.07: same).

3 Net gains / (losses) on investments

	2008 £'000	2007 £'000
Non-derivative securities	27,272	(10,862)
Forward currency contracts	287	(63)
Net gains / (losses) on investments	27,559	(10,925)

4 Income

	2008 £'000	2007 £'000
Bank interest	329	107
HM Revenue & Customs interest	2	3
Interest on debt securities	15,642	9,520
	15,973	9,630

5 Expenses

	2008 £'000	2007 £'000
Payable to the Authorised Corporate Director or associate		
Authorised Corporate Director's periodic charge	3,110	2,200
Administration fee	464	332
	3,574	2,532
Payable to the Depositary or associate		
Depositary's fee (including VAT)	23	17
Distribution fees	1	1
	24	18
Other expenses		
Audit fee (including VAT)	7	7
Regulatory fees	3	2
Safe custody charge	27	18
Tax consultancy fees ^[a]	9	10
Transaction charges	1	1
	47	38
VAT recoverable		
Prior year	0	16
Total expenses	3,645	2,604

[a] Fees paid to overseas firms affiliated with PricewaterhouseCoopers LLP

M&G European Corporate Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

6 Taxation

	2008 £'000	2007 £'000
a) Analysis of charge in the year		
Corporation tax	1	0
Overseas tax	4	0
Double taxation relief	(1)	0
Prior year adjustment	1	0
Current tax charge (note 6b)	5	0
Deferred tax (note 6c)	0	0
	5	0

b) Factors affecting taxation charge for the year

Net income before taxation	12,328	7,023
Corporation tax at 20%	2,466	1,405
Effects of:		
Interest distributions	(2,465)	(1,405)
Overseas tax	4	0
Double taxation relief	(1)	0
Prior year adjustment	1	0
Current tax charge (note 6a)	5	0

c) Provision for deferred taxation

Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
Provision at the end of the year	0	0

The sub-fund has not recognised a deferred tax asset of £8,000 (30.06.07: £5,000) arising as a result of having eligible unrelieved foreign tax. We do not expect this asset to be utilised in the foreseeable future.

Interest distributions have been made in respect of all distributions during the current and preceding years. Income tax at 20% will be accounted for on shareholders' behalf to HM Revenue & Customs where applicable.

7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (30.06.07: same).

8 Related parties

M&G Securities Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in shareholders' net assets and note 12. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to M&G Securities Limited in respect of the Authorised Corporate Director's periodic charge and administration fee are disclosed in note 5. Amounts due at the year end are disclosed in the balance sheet where applicable.

During the year, there were no transactions in shares in related parties of M&G Securities Limited (2007: £1,021,000).

At the balance sheet date, the sub-fund had holdings in related parties of M&G Securities Limited with a value of £855,000 (30.06.07: £1,007,000).

At the balance sheet date, material shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 94.15% (30.06.07: 96.86%) of the sub-fund's shares.

9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (30.06.07: same).

Currency exposure

The currency profile of the sub-fund's financial instruments at the balance sheet date was:

	Portfolio of investments		Net other assets		Total	
	as at 30.06.08 £'000	as at 30.06.07 £'000	as at 30.06.08 £'000	as at 30.06.07 £'000	as at 30.06.08 £'000	as at 30.06.07 £'000
Euro	362,862	245,686	9,765	17,677	372,627	263,363
US dollar	199	0	38	0	237	0
	363,061	245,686	9,803	17,677	372,864	263,363
Sterling	0	84	202	41	202	125
Total	363,061	245,770	10,005	17,718	373,066	263,488

Interest rate profile

	Floating rate financial assets		Fixed rate financial assets		Total	
	as at 30.06.08 £'000	as at 30.06.07 £'000	as at 30.06.08 £'000	as at 30.06.07 £'000	as at 30.06.08 £'000	as at 30.06.07 £'000
Euro	62,899	84,923	302,628	176,325	365,527	261,248
Sterling	1,400	638	0	3,780	1,400	4,418
US dollar	4,192	0	1,067	0	5,259	0
Total	68,491	85,561	303,695	180,105	372,186	265,666

	Weighted average gross interest rate of fixed interest-bearing assets		Weighted average period for which interest rates are fixed [a]	
	as at 30.06.08 %	as at 30.06.07 %	as at 30.06.08 years	as at 30.06.07 years
Euro	6.32	5.09	7.31	7.22
Sterling	n/a	6.87	n/a	8.87
US dollar	7.08	n/a	10.55	n/a

[a] Assuming the earliest maturity date for those assets with variable maturity dates.

Floating rate interest-bearing assets at the balance sheet date consist of bank balances, on which interest is calculated at a variable rate by reference to sterling bank deposit rates or the international equivalent; floating rate notes, on which interest is calculated at a variable rate by reference to either the London Interbank Offered Rate (LIBOR) or the Euro Interbank Offered Rate (EURIBOR) and leveraged loans (30.06.07: same).

Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (30.06.07: same).

M&G European Corporate Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

10 Portfolio transaction costs

	2008 £'000	2007 £'000
a) Purchases		
Total purchases excluding transaction costs	321,369	170,242
b) Sales		
Total sales excluding transaction costs	231,374	107,180

There were no significant transaction costs during the year (2007: same).

11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Net Income and Net Accumulation) shares and Sterling Class 'X' (Net Income and Net Accumulation) shares.

This sub-fund also contains Euro Class 'A' (Gross Accumulation) shares and Euro Class 'C' (Gross Accumulation) shares.

The charging structure for each share class, as at 30 June 2008, is set out in the following table (30.06.07: same):

CHARGES AND EXPENSES

	Initial charge %	Redemption charge %	ACD's annual remuneration %
Sterling			
Class 'A'	3.00	n/a	1.00
Class 'X'	nil	4.50 ^[a]	1.25
Euro			
Class 'A'	3.25	n/a	1.00
Class 'C'	1.25	n/a	0.50

^[a] The redemption charge diminishes over a period of five years. Please refer to the Key Features document for further information.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rate to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

NET ASSET VALUES

	30.06.08		30.06.07	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
Sterling				
Class 'A'	570	330,202	2,809	239,468
Class 'X'	6,069	9,335	2,410	3,310
Euro				
Class 'A'	n/a	26,875	n/a	15,478
Class 'C'	n/a	15	n/a	13

The net asset value per share and the number of shares are given in the comparative table on page 39. The distribution per share is given in the distribution table on page 47. Each share class has the same rights on winding-up.

12 Finance costs

	2008 £'000	2007 £'000
Income shares (sterling)		
Class 'A' - First interim	2	24
Second interim	2	24
Third interim	3	19
Final	5	19
Class 'X' - First interim	11	22
Second interim	14	17
Third interim	32	17
Final	48	15
Accumulation shares (sterling)		
Class 'A' - First interim	1,690	1,181
Second interim	2,118	1,299
Third interim	2,645	1,403
Final	2,715	1,577
Class 'X' - First interim	22	26
Second interim	29	15
Third interim	69	19
Final	73	20
Accumulation shares (euro)		
Class 'A' - First interim	91	11
Second interim	150	11
Third interim	246	80
Final	274	130
Class 'C' - First interim ^[a]	0	0
Second interim ^[a]	0	0
Third interim ^[a]	0	0
Final ^[a]	0	0
	10,239	5,929
Income tax deducted at source	2,320	1,367
Finance costs: Interest distributions	12,559	7,296
Income deducted on cancellation of shares	72	37
Income received on issue of shares	(307)	(312)
Finance costs: Distributions	12,324	7,021
Finance costs: Interest	0	3
Total finance costs	12,324	7,024
Net income per statement of total return	12,323	7,023
Expenses offset against capital	1	1
Undistributed income brought forward	6	3
Undistributed income carried forward	(6)	(6)
Finance costs: Distributions	12,324	7,021

^[a] The total of the interim and final gross distributions for Euro Class 'C' (Accumulation) shares was €839 (2007: €913).

M&G European Corporate Bond Fund

FINANCIAL STATEMENTS

DISTRIBUTION TABLE						
Interest distributions on Accumulation shares	Gross income	Income tax deducted	Net income	Equalisation	Distribution paid/payable	
					2007/08	2006/07
Sterling	p	p	p	p	p	p
Class 'A' - First interim						
Group 1:	0.4330	0.0866	0.3464	-	0.3464	0.3164
Group 2:	0.3725	0.0745	0.2980	0.0484	0.3464	0.3164
- Second interim						
Group 1:	0.5370	0.1074	0.4296	-	0.4296	0.3220
Group 2:	0.3071	0.0614	0.2457	0.1839	0.4296	0.3220
- Third interim						
Group 1:	0.5815	0.1163	0.4652	-	0.4652	0.3400
Group 2:	0.3595	0.0719	0.2876	0.1776	0.4652	0.3400
- Final						
Group 1:	0.5775	0.1155	0.4620	-	0.4620	0.3324
Group 2:	0.4314	0.0863	0.3451	0.1169	0.4620	0.3324
Class 'X' - First interim						
Group 1:	0.3975	0.0795	0.3180	-	0.3180	0.2880
Group 2:	0.2078	0.0416	0.1662	0.1518	0.3180	0.2880
- Second interim						
Group 1:	0.5050	0.1010	0.4040	-	0.4040	0.2856
Group 2:	0.1988	0.0398	0.1590	0.2450	0.4040	0.2856
- Third interim						
Group 1:	0.5460	0.1092	0.4368	-	0.4368	0.3120
Group 2:	0.0230	0.0046	0.0184	0.4184	0.4368	0.3120
- Final						
Group 1:	0.5490	0.1098	0.4392	-	0.4392	0.3064
Group 2:	0.3255	0.0651	0.2604	0.1788	0.4392	0.3064
Interest distributions on Accumulation shares	Gross income	Income tax deducted	Net income	Equalisation	Amount reinvested	
					2007/08	2006/07
Sterling	p	p	p	p	p	p
Class 'A' - First interim						
Group 1:	0.4844	0.0969	0.3875	-	0.3875	0.3451
Group 2:	0.4168	0.0834	0.3334	0.0541	0.3875	0.3451
- Second interim						
Group 1:	0.6049	0.1210	0.4839	-	0.4839	0.3533
Group 2:	0.3460	0.0692	0.2768	0.2071	0.4839	0.3533
- Third interim						
Group 1:	0.6601	0.1320	0.5281	-	0.5281	0.3754
Group 2:	0.4081	0.0816	0.3265	0.2016	0.5281	0.3754
- Final						
Group 1:	0.6610	0.1322	0.5288	-	0.5288	0.3694
Group 2:	0.4938	0.0988	0.3950	0.1338	0.5288	0.3694
Class 'X' - First interim						
Group 1:	0.4438	0.0888	0.3550	-	0.3550	0.3142
Group 2:	0.2319	0.0464	0.1855	0.1695	0.3550	0.3142
- Second interim						
Group 1:	0.5673	0.1135	0.4538	-	0.4538	0.3133
Group 2:	0.2233	0.0447	0.1786	0.2752	0.4538	0.3133
- Third interim						
Group 1:	0.6180	0.1236	0.4944	-	0.4944	0.3441
Group 2:	0.0260	0.0052	0.0208	0.4736	0.4944	0.3441
- Final						
Group 1:	0.6261	0.1252	0.5009	-	0.5009	0.3400
Group 2:	0.3713	0.0743	0.2970	0.2039	0.5009	0.3400

DISTRIBUTION TABLE (continued)

Interest distributions on Accumulation shares	Gross income	Income tax deducted	Net income	Equalisation	Amount reinvested	
					2007/08	2006/07
Euro	€	€	€	€	€	€
Class 'A' - First interim						
Group 1:	9.1450	-	9.1450	-	9.1450	7.6370
Group 2:	2.6357	-	2.6357	6.5093	9.1450	7.6370
- Second interim						
Group 1:	11.0600	-	11.0600	-	11.0600	8.0110
Group 2:	5.6713	-	5.6713	5.3887	11.0600	8.0110
- Third interim						
Group 1:	11.1840	-	11.1840	-	11.1840	11.8450
Group 2:	5.6219	-	5.6219	5.5621	11.1840	11.8450
- Final						
Group 1:	11.2050	-	11.2050	-	11.2050	9.4050
Group 2:	6.8489	-	6.8489	4.3561	11.2050	9.4050
Class 'C' - First interim						
Group 1:	11.2310	-	11.2310	-	11.2310	10.3560
Group 2:	11.2310	-	11.2310	-	11.2310	10.3560
- Second interim						
Group 1:	13.0480	-	13.0480	-	13.0480	10.6850
Group 2:	13.0480	-	13.0480	-	13.0480	10.6850
- Third interim						
Group 1:	13.1930	-	13.1930	-	13.1930	10.3180
Group 2:	13.1930	-	13.1930	-	13.1930	10.3180
- Final						
Group 1:	13.3090	-	13.3090	-	13.3090	11.1130
Group 2:	13.3090	-	13.3090	-	13.3090	11.1130
First interim period	01.07.07 - 30.09.07					
Second interim period	01.10.07 - 31.12.07					
Third interim period	01.01.08 - 31.03.08					
Final period	01.04.08 - 30.06.08					

Group 1: Shares purchased prior to a distribution period.
Group 2: Shares purchased during a distribution period.

M&G European Corporate Bond Fund

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M&G European High Yield Bond Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective and policy of the M&G European High Yield Bond Fund

The Fund aims to maximise total return while providing investors with a high level of income, though this may vary. The portfolio may consist of bonds denominated in any European currency. The Fund may invest in corporate bonds as well as government and other public securities. While the investment manager has the power to hedge the currency risk for UK investors, the Fund will normally be managed so as to give investors exposure to European currencies.

More than 35% of the value of the property of the Fund may be invested in Government and other public securities issued or guaranteed by any of:

- the Government of the United Kingdom or of a Member State* other than the United Kingdom;
- the Government of Australia, Canada, Japan, New Zealand, Switzerland, USA;
- the African Development Bank, Asian Development Bank, Eurofima, European Economic Community, European Bank for Reconstruction and Development, European Coal and Steel Community, European Investment Bank, International Bank for Reconstruction and Development, International Financial Corporation.

* Member State: those countries which are members of the European Union or the European Economic Area at any given time.

Proposed adoption of wider investment powers

Subject to a successful shareholder vote on 29 August 2008 the investment objective and policy of the M&G European High Yield Bond Fund will change on 1 September 2008.

Proposed investment objective of the M&G European High Yield Bond Fund (from 1 September 2008)

The Fund aims to maximise total return (the combination of income and growth of capital) while generating a high level of income.

Proposed investment policy of the M&G European High Yield Bond Fund (from 1 September 2008)

The Fund mainly invests in higher yielding debt instruments denominated in any European currency and will normally be managed to give investors exposure to European currencies. The Fund's exposure to higher yielding debt instruments may be gained through the use of derivatives. The Fund may also invest in other assets including collective investment schemes, government and public securities and other transferable securities, cash and near cash, deposits, warrants, money market instruments and other derivative instruments which may be denominated in any major global currency. Any non-European currency exposures within the fund may be managed by currency hedges in European currencies.

Investment approach

The M&G European High Yield Bond Fund focuses on ongoing proprietary research rather than on external credit ratings, which can be slow to react. Emphasis is placed upon investigating the ability of a company or government to meet its interest payments, especially during unfavourable economic conditions.

Credit risk is constantly monitored and always well spread across a variety of countries and industrial sectors. Exposure to European currencies (mainly the euro) is an integral part of the management approach, and fluctuations in these currencies' exchange rates against sterling are likely to play a significant role in determining total returns.

INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

As at 1 July 2008, for the year ended 30 June 2008

We reduced the fund's weighting in lower rated bonds, which could be affected by an economic slowdown. This involved selling the portfolio's holding in cleaning solutions provider JohnsonDiversey and trimming its position in chemical company Ineos Group.

We closed the fund's holding in telephone directories provider Lighthouse International due to our concerns over the Italian economy. Nevertheless, we continue to like some providers of directories owing to their robust, stable cashflows. The portfolio retains exposure to this sector through its holdings in senior secured loans, including Pages Jaunes, France's equivalent of the Yellow Pages.

With regard to purchases, we increased the portfolio's weighting in German bonds, buying Germany 4% 2018. As well as providing some protection for the fund, we regard German government bonds as good value as we believe that they offer attractive yields.

We subscribed to a number of new issues from financial institutions, namely Lehman Brothers, Goldman Sachs, Morgan Stanley and Deutsche Bank. Each of these new issues offered an attractive yield relative to government bonds.

The other major change was to introduce senior secured loans to the portfolio, including those from silicone materials producer Momentive Performance, Pages Jaunes and German television network ProSieben. A key attraction of senior secured loans is that they rank first in the event of a default, in other words, if a company is unable to repay its debt, these loans are repaid first. M&G has a strong track record in managing senior secured loans, as one of the first non-bank investors to enter the market in 1999.

Stefan Isaacs

Fund manager

Stefan Isaacs is an employee of M&G Limited which is an associate of M&G Securities Limited.

Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial Adviser.

M&G European High Yield Bond Fund

FUND STATISTICS

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
First interim	01.10.08	30.11.08
Second interim	02.01.09	28.02.09
Third interim	01.04.09	31.05.09
Final	01.07.09	31.08.09

	Final distribution		Total Expense Ratio ^[b]	
	Inc 31.08.08 ^[a]	Acc 01.07.08 ^[a]	30.06.08	30.06.07
Sterling	p	p	%	%
Class 'A'	0.4592	0.7587	1.44	1.44
Class 'X'	0.4544	0.7515	1.47	1.47
Euro	€	€	%	%
Class 'A'	n/a	23.4390	1.48	1.43
Class 'C'	n/a	18.6030	0.70	0.89

The Portfolio Turnover Rate (PTR) for the 12 months ending 30 June 2008 was 50.66% compared with 6.40% for the year ending 30 June 2007. ^[c]

^[a] The date on which the final distribution will be paid to Income shareholders and credited to Accumulation shareholders.

^[b] The Total Expense Ratio (TER) shows the relevant annualised operating expenses of each share class from the most recent reporting period as a single percentage of the average net asset value for that share class over the same period.

^[c] The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within the fund over the course of a 12 month period. The PTR is calculated by taking the sum of all transactions in securities less the sum of all transactions in the fund's shares and is expressed as a percentage of the fund's average net asset value.

Income accrued from interest-bearing securities is distributed on an effective yield basis.

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 30.06.08		Net asset value per share as at 30.06.07		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	36.15	60.48	35.26	56.15	+2.52	+7.71
Class 'X'	36.18	60.58	35.29	56.25	+2.52	+7.70
Euro	€	€	€	€	%	%
Class 'A'	n/a	15.2755	n/a	16.5103	n/a	-7.48
Class 'C'	n/a	14.0381	n/a	15.0975	n/a	-7.02

PERFORMANCE SINCE LAUNCH

	six months 02.01.08 %	one year 02.07.07 %	five years 01.07.03 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	+4.2	+10.0	+7.5	+11.6 ^[c]
Class 'X'	+4.2	+10.0	+7.5	+3.6 ^[d]
Euro ^[b]				
Class 'A'	-2.6	-6.2	+6.7	+8.1 ^[e]
Class 'C'	-2.4	-5.7	+4.9	+6.5 ^[e]

^[a] Shows the compound rate of return, per annum, over the period.

^[b] Bid to bid with gross income reinvested.

^[c] 1 October 2002, the launch date of the share class.

^[d] 15 October 1999, the launch date of the predecessor unit trust.

^[e] 29 November 2002, the launch date of the share class.

SINGLE YEAR PERFORMANCE (5 YEARS ENDING JUNE)

From To	29.06.07 30.06.08 %	30.06.06 29.06.07 %	30.06.05 30.06.06 %	30.06.04 30.06.05 %	30.06.03 30.06.04 %
Sterling					
Class 'X' ^[a]	+9.1	+2.2	+7.6	+10.3	+3.5

^[a] Nominated share class.

Source: Morningstar Inc., bid to bid with net income reinvested.

M&G European High Yield Bond Fund

FUND STATISTICS

PRICES

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling		p	p	p	p
Class 'A'	2003	36.22	30.32	48.14	38.16
	2004	37.79	33.08	52.92	45.12
	2005	37.94	34.95	53.98	50.14
	2006	37.27	35.19	56.01	53.51
	2007	36.94	33.82	58.66	53.85
	2008 ^[a]	38.79	32.95	64.08	53.71
Class 'X'	2003	36.25	29.92	48.21	38.16
	2004	37.83	33.10	53.04	45.18
	2005	37.97	34.98	54.10	50.24
	2006	37.31	35.22	56.13	53.63
	2007	36.98	33.84	58.78	53.95
	2008 ^[a]	38.83	32.98	64.22	53.82
Euro ^[b]		€	€	€	€
Class 'A'	2003	n/a	n/a	11.7369	10.1174
	2004	n/a	n/a	14.3496	11.6598
	2005	n/a	n/a	15.2905	14.1049
	2006	n/a	n/a	16.3430	15.1997
	2007	n/a	n/a	16.8537	15.8220
	2008 ^[a]	n/a	n/a	15.9781	14.3984
Class 'C'	2003	n/a	n/a	11.7973	10.1199
	2004	n/a	n/a	12.9949	11.7079
	2005	n/a	n/a	13.8845	12.7675
	2006	n/a	n/a	14.9071	13.8029
	2007	n/a	n/a	15.4052	14.4719
	2008 ^[a]	n/a	n/a	14.6751	13.2093

^[a] To 1 July 2008.

^[b] Please note that with effect from 4 January 2005 these share classes are priced gross.

Past performance is no indication of current or future performance and the performance data does not take account of the commissions and costs incurred on the issue and redemption of shares.

The price of shares and the income from them may go down as well as up, and you may get back less than you invested.

INCOME

Income per share		Distributed				Reinvested
Calendar year	Interims	Final	Interim	Total		
Sterling (net)		p	p	p	p	p
Class 'A'	2003	0.9030	0.4560	0.4740	1.8330	2.3483
	2004	0.9160	0.4520	0.4520	1.8200	2.4667
	2005	0.8920	0.4280	0.4480	1.7680	2.5210
	2006	0.8660	0.4420	0.3800	1.6880	2.5247
	2007	0.8272	0.3840	0.4084	1.6196	2.5364
	2008 ^[a]	0.9136	0.4592	-	1.3728	2.2397
Class 'X'	2003	0.8930	0.4560	0.4710	1.8200	1.8414
	2004	0.9140	0.4600	0.4620	1.8360	2.4907
	2005	0.8940	0.4300	0.4480	1.7720	2.5297
	2006	0.8680	0.4400	0.3820	1.6900	2.5307
	2007	0.8192	0.3852	0.4104	1.6148	2.5319
	2008 ^[a]	0.9144	0.4544	-	1.3688	2.2353
Euro (gross ^[b])		€	€	€	€	€
Class 'A'	2003	n/a	n/a	n/a	n/a	49.2810
	2004	n/a	n/a	n/a	n/a	66.3440
	2005	n/a	n/a	n/a	n/a	84.0790
	2006	n/a	n/a	n/a	n/a	89.3210
	2007	n/a	n/a	n/a	n/a	90.9200
	2008 ^[a]	n/a	n/a	n/a	n/a	70.9290
Class 'C'	2003	n/a	n/a	n/a	n/a	36.8550
	2004	n/a	n/a	n/a	n/a	66.5300
	2005	n/a	n/a	n/a	n/a	99.0510
	2006	n/a	n/a	n/a	n/a	87.2090
	2007	n/a	n/a	n/a	n/a	123.6050
	2008 ^[a]	n/a	n/a	n/a	n/a	41.5260

^[a] Up to final: ex-distribution date 1 July 2008;
payment date 31 August 2008.

^[b] All distributions prior to ex-distribution date 1 April 2005 are shown net per share.

NET ASSETS

	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling		p	p		
Class 'A'	Jun 2006	35.76	54.48	1,277,056	816,500
	Jun 2007	35.26	56.15	2,096,056	1,099,000
	Jun 2008	36.15	60.48	3,971,056	2,148,000
Class 'X'	Jun 2006	35.79	54.59	58,770,379	3,933,128
	Jun 2007	35.29	56.25	36,634,579	4,567,728
	Jun 2008	36.18	60.58	28,577,879	4,066,928
Euro		€	€		
Class 'A'	Jun 2006	n/a	15.4027	n/a	1,209,539
	Jun 2007	n/a	16.5103	n/a	3,700,019
	Jun 2008	n/a	15.2755	n/a	2,189,419
Class 'C'	Jun 2006	n/a	14.0168	n/a	250
	Jun 2007	n/a	15.0975	n/a	291,050
	Jun 2008	n/a	14.0381	n/a	800

Total net asset value of sub-fund		
Year ended	£	€ ^[a]
Jun 2006	36,998,000	53,388,000
Jun 2007	60,948,000	90,508,000
Jun 2008	42,057,000	53,057,000

^[a] Based on the midday exchange rate on the last business day of each financial year.

M&G European High Yield Bond Fund

FINANCIAL STATEMENTS

For the year ended 30 June 2008.

STATEMENT OF TOTAL RETURN

	Note	2008		2007	
		£'000	£'000	£'000	£'000
Net losses on investments	3		(102)		(1,081)
Currency gains / (losses)			484		(3)
Income	4	3,481		3,437	
Expenses	5	(680)		(720)	
Net income before taxation		2,801		2,717	
Taxation	6	0		0	
Net income after taxation			2,801		2,717
Total return before distributions			3,183		1,633
Finance costs: Distributions	13		(2,803)		(2,719)
Change in net assets attributable to shareholders from investment activities			380		(1,086)

STATEMENT OF CHANGE IN SHAREHOLDERS' NET ASSETS

		2008		2007	
		£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders			60,948		36,998
Amounts received on issue of shares	11,544			40,150	
Amounts paid on cancellation of shares	(32,677)			(17,078)	
			(21,133)		23,072
Change in net assets attributable to shareholders from investment activities (see above)			380		(1,086)
Retained distributions on Accumulation shares			1,862		1,964
Closing net assets attributable to shareholders			42,057		60,948

BALANCE SHEET

	as at 30 June 2008		as at 30 June 2007	
	£'000	£'000	£'000	£'000
Assets				
Portfolio of investments		39,434		58,296
Debtors				
Amounts receivable on issues	91		25	
Bank interest receivable	1		5	
Debt security interest receivable	680		1,125	
HM Revenue & Customs interest receivable	0		3	
Overseas tax recoverable	4		0	
Prepaid expenses	1		6	
Sales awaiting settlement	149		471	
Stock lending fee receivable	1		0	
VAT recoverable	0		37	
Cash and bank balances	3,233		2,016	
Total other assets		4,160		3,688
Total assets		43,594		61,984
Liabilities				
Creditors				
Amounts payable on cancellations	(53)		(524)	
Expenses payable	(17)		(15)	
Income tax payable	(84)		(70)	
Net distributions payable on income shares	(148)		(149)	
Purchases awaiting settlement	(1,235)		(278)	
Total liabilities		(1,537)		(1,036)
Net assets attributable to shareholders		42,057		60,948

PORTFOLIO STATEMENT

as at 30 June 2008		Value	30.06.08	30.06.07
Holding		£'000	%	%
'AAA' credit rated bonds			4.67	0.00
€1,500,000 Germany (Federal Republic of) 3.5% 2013		1,133	2.69	
€1,100,000 Germany (Federal Republic of) 4% 2018		833	1.98	
'AA' credit rated bonds			6.00	0.00
€1,000,000 Bank of America Var. Rate 2018		687	1.63	
€1,000,000 Bear Stearns FRN 2013		741	1.76	
€1,000,000 Citigroup Var. Rate 2017		716	1.70	
€500,000 Goldman Sachs Group 6.375% 2018		381	0.91	
'A' credit rated bonds			6.14	0.00
€500,000 American International Group Var. Rate 2038		364	0.87	
€500,000 Anglo Irish Bank FRN 2017		325	0.77	
€500,000 Deutsche Bank 8% Perp.		392	0.93	
€250,000 Merrill Lynch 6.75% 2013		185	0.44	
€750,000 Morgan Stanley 6.5% 2018		555	1.32	
€500,000 Schering Plough 5.375% 2014		365	0.87	
€500,000 UBS Capital Securities Var. Rate Perp.		396	0.94	
'BBB' credit rated bonds			10.34	6.03
€350,000 DONG A/S Var. Rate 3005		252	0.60	
€150,000 Fiat Finance & Trade 6.625% 2013		114	0.27	
€950,000 Fiat Finance North America 5.625% 2017		636	1.51	
€600,000 Gaz Capital 5.44% 2017		398	0.95	
€350,000 Glencore Finance Europe 7.125% 2015		267	0.64	
€500,000 Imperial Tobacco Finance 4.375% 2013		350	0.83	
€400,000 Linde Finance Var. Rate 2066		307	0.73	
€1,500,000 Millipore 5.875% 2016		1,087	2.58	
€140,000 SGL Carbon FRN 2015		100	0.24	
€541,000 WPP Group 6.625% 2016		409	0.97	
€579,000 Xstrata Canada 6.25% 2015		428	1.02	

M&G European High Yield Bond Fund

FINANCIAL STATEMENTS

PORTFOLIO STATEMENT (continued)

as at 30 June 2008

Holding	Value £'000	30.06.08 %	30.06.07 %
'BB' credit rated bonds		32.03	35.07
€851,000 AGCO 6.875% 2014	656	1.56	
€1,150,000 Alcatel-Lucent 6.375% 2014	759	1.80	
€956,000 Bombardier 7.25% 2016	733	1.74	
€1,000,000 Calciar FRN 2014	666	1.58	
€965,000 Central European Media Enterprises 8.25% 2012	723	1.72	
€300,000 Central European Media Enterprises FRN 2014	214	0.51	
€300,000 Chesapeake Energy 6.25% 2017	216	0.51	
€100,000 Clock Finance FRN 2015	57	0.14	
€900,000 CMA CGM 5.5% 2012	606	1.44	
€1,250,000 Crown European Holdings 6.25% 2011	927	2.20	
€985,000 Fresenius Medical Care Capital Trust 7.375% 2011	793	1.89	
€300,000 Gerresheimer Holdings 7.875% 2015	235	0.56	
€1,000,000 iesy Hessen FRN 2013	753	1.79	
€600,000 IFCO Systems 10.375% 2010	488	1.16	
€500,000 Intergen 8.5% 2017	394	0.94	
€500,000 Ladbrokes Group Finance 6.5% 2009	394	0.94	
€900,000 Nexans 5.75% 2017	603	1.43	
€437,000 NXP Funding FRN 2013	294	0.70	
€706,000 Piaggio Finance 10% 2012	597	1.42	
€450,000 Rexam Var. Rate 2067	274	0.65	
€800,000 Rhodia FRN 2013	563	1.34	
€227,000 Rockwood Specialties Group 7.625% 2014	167	0.40	
€1,000,000 Royal Caribbean Cruises 5.625% 2014	638	1.52	
€121,601 Smile Securitisation FRN 2053	77	0.18	
€140,000 TDC 6.5% 2012	107	0.25	
€650,000 Tereos Europe 6.375% 2014	397	0.94	
€1,400,000 TVN Finance 9.5% 2013	1,143	2.72	
'B' credit rated bonds		20.97	42.58
€1,196,000 Basell AF S.C.A. 8.375% 2015	616	1.46	
€950,000 Beverage Packaging Holdings 8% 2016	618	1.47	
€1,112,800 Central European Distribution 8% 2012	867	2.06	
€100,000 Clondalkin Acquisition FRN 2013	69	0.16	
€900,000 Clondalkin Industries 8% 2014	567	1.35	
€500,000 Colt Telecom Group 7.625% 2009	395	0.94	
€600,000 Hellas Telecom V FRN 2012	440	1.05	
€469,000 Huntsman International 6.875% 2013	371	0.88	
€585,000 Impress Holdings 9.25% 2014	419	1.00	
€1,000,000 Ineos Group Holdings 7.875% 2016	517	1.23	
€250,000 Iron Mountain 6.75% 2018	177	0.42	
€200,000 Kabel Deutschland 10.75% 2014	162	0.39	
€700,000 Lecta FRN 2014 (6.965%)	400	0.95	
€262,000 Lecta FRN 2014 (8.34%)	139	0.33	
€125,000 Magyar Telecom FRN 2013	89	0.21	
€657,000 Mecachrome International 9% 2014	448	1.07	
€704,000 Nordic Telephone 8.25% 2016	506	1.20	
€415,000 Nordic Telephone FRN 2016	322	0.77	
€650,000 Smurfit Kappa Funding 7.75% 2015	453	1.08	
€492,000 Travelport FRN 2014	335	0.80	
€540,000 UPC Holdings 7.75% 2014	383	0.91	
€377,000 UPC Holdings 8.625% 2014	273	0.65	
€310,000 Wind Acquisition Finance 9.75% 2015	248	0.59	
'CCC' credit rated bonds		2.18	9.89
€400,000 Cognis Deutschland 9.5% 2014	273	0.65	
€925,000 Hellas Telecom III 8.5% 2013	643	1.53	

PORTFOLIO STATEMENT (continued)

as at 30 June 2008

Holding	Value £'000	30.06.08 %	30.06.07 %
Bonds with no credit rating		4.20	2.08
€305,000 Avis Finance FRN 2013	189	0.45	
€671,559 Corral Investment FRN 2010	471	1.12	
€350,000 Investec Var. Rate Perp.	194	0.46	
€600,000 Lehman Brothers Holdings Var. Rate 2016	388	0.92	
€500,000 Obrascón Huarte Lain 5% 2012	339	0.81	
€350,000 Pfeleiderer Finance Var. Rate Perp.	186	0.44	
Leveraged loans ^[a]		7.23	0.00
€360,000 BSN Medical Leveraged Loan	268	0.64	
€987,734 Momenite Performance Materials 2013 Senior B	704	1.67	
€1,000,000 Pages Jaunes Opco 2013 Senior A	720	1.71	
€1,000,000 ProSieben 2015 Senior C	660	1.57	
€500,000 Telediffusion de France 2013 Senior B	345	0.82	
€500,000 Telediffusion de France 2014 Senior C	345	0.82	
Other securities held		0.00	0.00
1,000 Jazztel wts. 2010 ^[a]	0	0.00	
Portfolio of investments (notes 1b & 1c on page 54)	39,434	93.76	95.65
Net other assets	2,623	6.24	4.35
Net assets attributable to shareholders	42,057	100.00	100.00

^[a] Unquoted / unlisted.

M&G European High Yield Bond Fund

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SUMMARY OF MATERIAL PORTFOLIO CHANGES

Largest purchases	£'000
Germany (Federal Republic of) 4% 2018 (€)	2,160
Telecom Italia 5.875% 2008 (€)	1,794
Vodafone Group 4.625% 2008 (€)	1,432
Germany (Federal Republic of) 3.5% 2013 (€)	1,132
Pages Jaunes Opco 2013 Senior A (€)	731
Citigroup Var. Rate 2017 (€)	725
ProSieben 2015 Senior C (€)	724
Bank of America Var. Rate 2018 (€)	713
iesy Hessen FRN 2013 (€)	699
Momentive Performance Materials 2013 Senior B (€)	673
Intergeen 8.5% 2017 (€)	666
Calcipar FRN 2014 (€)	665
Bear Stearns FRN 2013 (€)	612
Morgan Stanley 6.5% 2018 (€)	593
Iron Mountain 6.75% 2018 (€)	491
Xstrata Canada 6.25% 2015 (€)	458
WPP Group 6.625% 2016 (€)	426
UBS Capital Securities Var. Rate Perp. (€)	414
Gaz Capital 5.44% 2017 (€)	404
Goldman Sachs Group 6.375% 2018 (€)	403
Other purchases	11,542
Total purchases for the year	27,457
Largest sales	£'000
Telecom Italia 5.875% 2008 (€)	1,865
Vodafone Group 4.625% 2008 (€)	1,486
Nordic Telephone 8.25% 2016 (€)	1,467
Germany (Federal Republic of) 4% 2018 (€)	1,439
Lighthouse International 8% 2014 (€)	1,385
Ineos Group Holdings 7.875% 2016 (€)	1,379
Ahold Finance USA 5.875% 2012 (€)	1,353
Fiat Finance & Trade 6.625% 2013 (€)	1,329
Chesapeake Energy 6.25% 2017 (€)	1,220
Norske Skogsindustrier 7% 2017 (€)	1,185
Alcatel-Lucent 6.375% 2014 (€)	1,160
AGCO 6.875% 2014 (€)	1,074
M-real 8% 2013 (€)	1,007
Cognis Deutschland 9.5% 2014 (€)	998
Iron Mountain 6.75% 2018 (€)	895
JohnsonDiversey 9.625% 2012 (€)	852
Fresenius Finance 5.5% 2016 (€)	811
Virgin Media Finance 8.75% 2014 (€)	804
Momentive Performance 9% 2014 (€)	781
Nexans 5.75% 2017 (€)	779
Other sales	22,884
Total sales for the year	46,153

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

- a) **Basis of accounting:** The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (IMA) in December 2005 ('the IMA SORP 2005').
- b) **Basis of valuation of investments:** All investments are valued at their fair value as at 12 noon on 30 June 2008, being the last business day of the financial year. The fair value of non-derivative securities is bid price, excluding any accrued interest. Unquoted investments are shown at the Authorised Corporate Director's (ACD's) valuation.
- c) **Exchange rates:** Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling as at 12 noon on 30 June 2008, being the last business day of the financial year.
- d) **Recognition of income:** Interest on debt securities is recognised on an accruals basis, taking into account the effective yield on the investment. The effective yield basis amortises any discount or premium on the purchase of an investment over its remaining life. Prior to 1 July 2007, interest on debt securities was recognised on an accruals basis, taking into account the coupon on the investment. In accordance with paragraph 1.15 of the IMA SORP 2005 the sub-fund has not restated comparative information to reflect the change in accounting policy. If comparative information had been restated, the nature of the main adjustments required would have been to adjust income and net losses on investments by the amortisation of the discount or premium since the purchase of each investment.
- Income from stock lending is accounted for net of agents' fees and commissions and is recognised on an accruals basis. Bank interest, deposit interest and other income are also recognised on an accruals basis.
- e) **Expenses:** For accounting purposes, all expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against income for the year on an accruals basis.
- f) **Apportionment of income and expenses to multiple share classes:** With the exception of the ACD's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.
- g) **Taxation:** The rate of corporation tax for the sub-fund is 20%. The tax accounting treatment follows the principal amounts involved.
- h) **Deferred taxation:** Deferred tax is provided for in respect of all timing differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

M&G European High Yield Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

i) **Distribution policy:** The policy of the sub-fund is to distribute all available income, after deduction of expenses properly chargeable against income. Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

Distributions which have remained unclaimed by shareholders for more than six years are credited to the capital property of the sub-fund.

2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) Report, the ACD accepts market price risk, interest rate risk and currency risk in relation to the investment portfolio and euro cash positions. Generally, the ACD will not seek to hedge these exposures since the ACD believes that, in the long term, such hedging would be detrimental to total return.

The capital value of investments within the sub-fund will fall in the event of the default or perceived increased credit risk of an issuer. There is a greater risk of this occurring in 'sub-investment grade' corporate bonds as commonly included within the portfolio of this sub-fund. The ACD mitigates this risk through both stock selection and portfolio diversification strategies.

The capital value of investments within the sub-fund may also be affected by interest rate fluctuations such that when interest rates rise, the capital value of investments is likely to fall and vice versa.

The sub-fund holds overseas investments and exchange rate fluctuations can affect both capital and income values. Income arising in foreign currencies is generally converted into sterling shortly after receipt and is not hedged in advance of receipt.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

The sub-fund's assets comprise securities that can be readily realised to meet obligations that may arise on the redemption of shares. As noted on page 111, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (30.06.07: same).

3 Net losses on investments

	2008 £'000	2007 £'000
Non-derivative securities	(100)	(1,081)
Forward currency contracts	(2)	0
Net losses on investments	(102)	(1,081)

4 Income

	2008 £'000	2007 £'000
Bank interest	39	68
Deposit interest	66	0
HM Revenue & Customs interest	1	1
Interest on debt securities	3,370	3,362
Stock lending fee income	5	6
	3,481	3,437

5 Expenses

	2008 £'000	2007 £'000
Payable to the Authorised Corporate Director or associate		
Authorised Corporate Director's periodic charge	579	609
Administration fee	70	74
	649	683
Payable to the Depositary or associate		
Depositary's fee (including VAT)	4	4
Distribution fees	1	1
	5	5
Other expenses		
Audit fee (including VAT)	7	7
Regulatory fees	3	2
Safe custody charge	4	4
Tax consultancy fees [a]	9	10
Transaction charges	2	2
Transaction charges relating to stock lending	1	1
	26	26
VAT recoverable		
Prior year	0	6
Total expenses	680	720

[a] Fees paid to overseas firms affiliated with PricewaterhouseCoopers LLP.

6 Taxation

	2008 £'000	2007 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Current tax charge (note 6b)	0	0
Deferred tax (note 6c)	0	0
	0	0
b) Factors affecting taxation charge for the year		
Net income before taxation	2,801	2,717
Corporation tax at 20%	560	543
Effects of:		
Interest distributions	(561)	(544)
Expenses not deductible for tax purposes	1	1
Current tax charge (note 6a)	0	0
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
Provision at the end of the year	0	0

The sub-fund does not have an unrecognised deferred tax asset at the year end (30.06.07: same).

Interest distributions have been made in respect of all distributions during the current and preceding years. Income tax at 20% will be accounted for on shareholders' behalf to HM Revenue & Customs where applicable.

M&G European High Yield Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

7 Stock lending activities

The gross income earned from stock lending activities was £12,000 (2007: £14,000). The income shown in note 4 is net of commissions amounting to £7,000 (2007: £8,000) payable to M&G Investment Management Limited. Transaction charges relating to stock lending are shown in note 5.

The value of stock on loan at the balance sheet date was £2,785,000 (30.06.07: £1,638,000). The total value of collateral held at the balance sheet date was £2,948,000 (30.06.07: £1,680,000). This collateral consisted of equities to the value of £257,000 (30.06.07: nil) and bonds to the value of £2,691,000 (30.06.07: £1,680,000).

8 Contingent liabilities and outstanding commitments

Warrants

At the balance sheet date, the sub-fund had a commitment to warrants outstanding of £162,186 (30.06.07: £137,778) in respect of 1,000 Jazztel warrants whereby, until 15 July 2010, six new ordinary shares may be acquired for €34.10 per share for each warrant held.

9 Related parties

M&G Securities Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in shareholders' net assets and note 13. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to M&G Securities Limited, or an associate, in respect of the Authorised Corporate Director's periodic charge and administration fee are disclosed in note 5 and commission relating to stock lending is disclosed in note 7. Amounts due at the year end are disclosed in the balance sheet where applicable.

At the balance sheet date, material shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 2.55% (30.06.07: 2.59%) of the sub-fund's shares.

10 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (30.06.07: same).

Currency exposure

The currency profile of the sub-fund's financial instruments at the balance sheet date was:

	Portfolio of investments		Net other assets / (liabilities)		Total	
	as at 30.06.08 £'000	as at 30.06.07 £'000	as at 30.06.08 £'000	as at 30.06.07 £'000	as at 30.06.08 £'000	as at 30.06.07 £'000
Euro	39,434	58,296	2,554	2,806	41,988	61,102
Sterling	0	0	69	(154)	69	(154)
Total	39,434	58,296	2,623	2,652	42,057	60,948

Interest rate profile

	Floating rate financial assets		Fixed rate financial assets		Total	
	as at 30.06.08 £'000	as at 30.06.07 £'000	as at 30.06.08 £'000	as at 30.06.07 £'000	as at 30.06.08 £'000	as at 30.06.07 £'000
Euro	9,314	6,250	33,128	53,745	42,442	59,995
Sterling	225	27	0	0	225	27
Total	9,539	6,277	33,128	53,745	42,667	60,022

The weighted average gross interest rate of these fixed interest-bearing assets at the balance sheet date was 9.42% (30.06.07: 7.03%) and the weighted average period for which the interest rates were fixed was 4.50 years (30.06.07: 3.92 years) assuming the earliest maturity date for those assets with variable maturity dates.

Floating rate interest-bearing assets at the balance sheet date consist of bank balances, on which interest is calculated at a variable rate by reference to sterling bank deposit rates or the international equivalent; floating rate notes, on which interest is calculated at a variable rate by reference to the Euro Interbank Offered Rate (EURIBOR) (30.06.07: same).

Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (30.06.07: same).

11 Portfolio transaction costs

	2008 £'000	2007 £'000
a) Purchases		
Total purchases excluding transaction costs	27,457	45,721
b) Sales		
Total sales excluding transaction costs	46,153	19,818

There were no significant transaction costs during the year (2007: same).

M&G European High Yield Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

12 Shareholder funds

This sub-fund contains Sterling Class 'A' (Net Income and Net Accumulation) shares and Sterling Class 'X' (Net Income and Net Accumulation) shares.

This sub-fund also contains Euro Class 'A' (Gross Accumulation) shares and Euro Class 'C' (Gross Accumulation) shares.

The charging structure for each share class, as at 30 June 2008, is set out in the following table (30.06.07: same):

CHARGES AND EXPENSES

	Initial charge %	Redemption charge %	ACD's annual remuneration %
Sterling			
Class 'A'	3.00	n/a	1.25
Class 'X'	nil	4.50 ^[a]	1.25
Euro			
Class 'A'	3.25	n/a	1.25
Class 'C'	1.25	n/a	0.75

^[a] The redemption charge diminishes over a period of five years. Please refer to the Key Features document for further information.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

NET ASSET VALUES

	30.06.08		30.06.07	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
Sterling				
Class 'A'	1,435	1,299	739	617
Class 'X'	10,339	2,464	12,927	2,569
Euro				
Class 'A'	n/a	26,511	n/a	41,137
Class 'C'	n/a	9	n/a	2,959

The net asset value per share and the number of shares are given in the comparative table on page 51. The distribution per share is given in the distribution table on page 58. Each share class has the same rights on winding-up.

13 Finance costs

	2008 £'000	2007 £'000
Income shares (sterling)		
Class 'A' - First interim	8	5
Second interim	9	6
Third interim	12	7
Final	18	8
Class 'X' - First interim	145	221
Second interim	149	153
Third interim	164	152
Final	130	141
Accumulation shares (sterling)		
Class 'A' - First interim	7	5
Second interim	8	6
Third interim	10	7
Final	16	7
Class 'X' - First interim	28	21
Second interim	29	22
Third interim	31	25
Final	30	28
Accumulation shares (euro)		
Class 'A' - First interim	472	314
Second interim	412	395
Third interim	412	544
Final	407	547
Class 'C' - First interim ^[a]	0	0
Second interim ^[a]	0	0
Third interim ^[a]	0	0
Final ^[a]	0	43
	2,497	2,657
Income tax deducted at source	198	221
Finance costs: Interest distributions	2,695	2,878
Income deducted on cancellation of shares	148	131
Income received on issue of shares	(40)	(290)
Finance costs: Distributions	2,803	2,719
Net income per statement of total return	2,801	2,717
Expenses offset against capital	2	2
Finance costs: Distributions	2,803	2,719

^[a] The total of the interim and final gross distributions for Euro Class 'C' (Accumulation) shares was €778 (2007: €166).

M&G European High Yield Bond Fund

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DISTRIBUTION TABLE						
Interest distributions on Income shares	Gross income	Income tax deducted	Net income	Equalisation	Distribution paid / payable	
					2007/08	2006/07
Sterling	p	p	p	p	p	p
Class 'A' - First interim						
Group 1:	0.5105	0.1021	0.4084	-	0.4084	0.3800
Group 2:	0.1796	0.0359	0.1437	0.2647	0.4084	0.3800
- Second interim						
Group 1:	0.5370	0.1074	0.4296	-	0.4296	0.4132
Group 2:	0.2171	0.0434	0.1737	0.2559	0.4296	0.4132
- Third interim						
Group 1:	0.6050	0.1210	0.4840	-	0.4840	0.4140
Group 2:	0.2130	0.0426	0.1704	0.3136	0.4840	0.4140
- Final						
Group 1:	0.5740	0.1148	0.4592	-	0.4592	0.3840
Group 2:	0.2263	0.0453	0.1810	0.2782	0.4592	0.3840
Class 'X' - First interim						
Group 1:	0.5130	0.1026	0.4104	-	0.4104	0.3820
Group 2:	0.2486	0.0497	0.1989	0.2115	0.4104	0.3820
- Second interim						
Group 1:	0.5380	0.1076	0.4304	-	0.4304	0.4072
Group 2:	0.1836	0.0367	0.1469	0.2835	0.4304	0.4072
- Third interim						
Group 1:	0.6050	0.1210	0.4840	-	0.4840	0.4120
Group 2:	0.2859	0.0572	0.2287	0.2553	0.4840	0.4120
- Final						
Group 1:	0.5680	0.1136	0.4544	-	0.4544	0.3852
Group 2:	0.2543	0.0509	0.2034	0.2510	0.4544	0.3852
Interest distributions on Accumulation shares	Gross income	Income tax deducted	Net income	Equalisation	Amount reinvested	
					2007/08	2006/07
Sterling	p	p	p	p	p	p
Class 'A' - First interim						
Group 1:	0.8130	0.1626	0.6504	-	0.6504	0.5789
Group 2:	0.2861	0.0572	0.2289	0.4215	0.6504	0.5789
- Second interim						
Group 1:	0.8651	0.1730	0.6921	-	0.6921	0.6362
Group 2:	0.3499	0.0700	0.2799	0.4122	0.6921	0.6362
- Third interim						
Group 1:	0.9861	0.1972	0.7889	-	0.7889	0.6448
Group 2:	0.3471	0.0694	0.2777	0.5112	0.7889	0.6448
- Final						
Group 1:	0.9484	0.1897	0.7587	-	0.7587	0.6050
Group 2:	0.3739	0.0748	0.2991	0.4596	0.7587	0.6050
Class 'X' - First interim						
Group 1:	0.8178	0.1636	0.6542	-	0.6542	0.5827
Group 2:	0.3963	0.0793	0.3170	0.3372	0.6542	0.5827
- Second interim						
Group 1:	0.8676	0.1735	0.6941	-	0.6941	0.6278
Group 2:	0.2961	0.0592	0.2369	0.4572	0.6941	0.6278
- Third interim						
Group 1:	0.9871	0.1974	0.7897	-	0.7897	0.6424
Group 2:	0.4664	0.0933	0.3731	0.4166	0.7897	0.6424
- Final						
Group 1:	0.9394	0.1879	0.7515	-	0.7515	0.6075
Group 2:	0.4205	0.0841	0.3364	0.4151	0.7515	0.6075

DISTRIBUTION TABLE (continued)

Interest distributions on Accumulation shares	Gross income	Income tax deducted	Net income	Equalisation	Amount reinvested	
					2007/08	2006/07
Euro	€	€	€	€	€	€
Class 'A' - First interim						
Group 1:	22.6220	-	22.6220	-	22.6220	21.0300
Group 2:	18.6080	-	18.6080	4.0140	22.6220	21.0300
- Second interim						
Group 1:	23.0160	-	23.0160	-	23.0160	23.0390
Group 2:	14.6987	-	14.6987	8.3173	23.0160	23.0390
- Third interim						
Group 1:	24.4740	-	24.4740	-	24.4740	23.2980
Group 2:	14.1281	-	14.1281	10.3459	24.4740	23.2980
- Final						
Group 1:	23.4390	-	23.4390	-	23.4390	21.9610
Group 2:	7.1347	-	7.1347	16.3043	23.4390	21.9610
Class 'C' - First interim						
Group 1:	55.7030	-	55.7030	-	55.7030	20.6200
Group 2:	0.3998	-	0.3998	55.3032	55.7030	20.6200
- Second interim						
Group 1:	22.9230	-	22.9230	-	22.9230	22.6340
Group 2:	22.9230	-	22.9230	-	22.9230	22.6340
- Third interim						
Group 1:	-	-	-	-	-	22.9700
Group 2:	-	-	-	-	-	22.9700
- Final						
Group 1:	18.6030	-	18.6030	-	18.6030	22.2980
Group 2:	18.6030	-	18.6030	-	18.6030	22.2980
First interim period	01.07.07 - 30.09.07					
Second interim period	01.10.07 - 31.12.07					
Third interim period	01.01.08 - 31.03.08					
Final period	01.04.08 - 30.06.08					

Group 1: Shares purchased prior to a distribution period.
Group 2: Shares purchased during a distribution period.

M&G Fund of Investment Trust Shares

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective and policy of the M&G Fund of Investment Trust Shares

The portfolio is normally limited to shares of investment trust companies. These shares provide a wide spread of investment in the UK and overseas stockmarkets and are often available at substantial discounts in relation to underlying asset values. Income is not a major factor, and the yield can be expected to be slightly less than the average for investment trust companies.

Investment approach

The M&G Fund of Investment Trust Shares is a diversified portfolio of approximately 60 investment companies with exposure to a wide range of international markets and investment classes. There is a bias towards UK equity stocks to reflect a similar bias in the FTSE Investment Companies Index.

The fund manager also uses his judgement to decide upon areas and investment vehicles from which long-term growth can be obtained.

Additional criteria used include the investment philosophy and objective of the underlying holdings and the ability of each manager to deliver on them; and the discount at which its shares are trading. Holdings may be sold if there is a change in the fund manager's view; a failure of the underlying company to deliver on stated objectives; corporate activity, which leads the fund manager to take profits; or if the fund manager believes a holding has become overvalued.

INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

As at 1 July 2008, for the year ended 30 June 2008

We switched our position in TR Property Investment Trust for TR Property Investment Trust Sigma, which provides a broader range of opportunities in European property.

Regarding sales, we reduced our holdings in the equities focused portfolios of INVESCO Income Growth Trust, Fidelity European Values, Templeton Emerging Markets Investment Trust and Monks Investment Trust.

In addition, our holding in Rutland Trust left the portfolio as the company has been wound up and, as a result, we took cash for the holding.

Alex Odd Fund manager

Alex Odd is an employee of M&G Limited which is an associate of M&G Securities Limited.

Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial Adviser.

M&G Fund of Investment Trust Shares

FUND STATISTICS

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Interim	02.01.09	28.02.09
Final	01.07.09	31.08.09

	Final distribution		Total Expense Ratio ^[b]	
	Inc 31.08.08 ^[a]	Acc 01.07.08 ^[a]	30.06.08	30.06.07
Sterling	p	p	%	%
Class 'A'	3.7200	7.9814	1.19	1.19
Class 'X'	0.0940	0.1968	1.69	1.67

The Portfolio Turnover Rate (PTR) for the 12 months ending 30 June 2008 was 3.84% compared with 7.33% for the year ending 30 June 2007. ^[c]

^[a] The date on which the final distribution will be paid to Income shareholders and credited to Accumulation shareholders.

^[b] The Total Expense Ratio (TER) shows the relevant annualised operating expenses of each share class from the most recent reporting period as a single percentage of the average net asset value for that share class over the same period.

^[c] The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within the fund over the course of a 12 month period. The PTR is calculated by taking the sum of all transactions in securities less the sum of all transactions in the fund's shares and is expressed as a percentage of the fund's average net asset value.

Income accrued from interest-bearing securities is distributed on an effective yield basis.

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 30.06.08		Net asset value per share as at 30.06.07		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	1,288.47	2,772.43	1,495.02	3,199.53	-13.82	-13.35
Class 'X'	1,295.32	2,712.15	1,502.44	3,145.58	-13.79	-13.78

PERFORMANCE SINCE LAUNCH

	six months 02.01.08 %	one year 02.07.07 %	five years 01.07.03 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	-11.3	-14.6	+12.5	+8.6 ^[c]
Class 'X'	-11.3	-14.6	+12.5	+13.2 ^[d]

^[a] Shows the compound rate of return, per annum, over the period.

^[b] Bid to bid excluding reinvested income.

^[c] 10 May 1968, the launch date of the predecessor unit trust.

^[d] 1 October 2002, the launch date of the share class.

SINGLE YEAR PERFORMANCE (5 YEARS ENDING JUNE)

From To	29.06.07 30.06.08 %	30.06.06 29.06.07 %	30.06.05 30.06.06 %	30.06.04 30.06.05 %	30.06.03 30.06.04 %
Sterling					
Class 'A' ^[a]	-13.3	+21.1	+20.4	+23.4	+21.4

^[a] Nominated share class.

Source: Morningstar Inc., bid to bid with net income reinvested.

PRICES

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling		p	p	p	p
Class 'A'	2003	825.95	597.85	1,699.18	1,217.44
	2004	959.40	818.25	2,002.76	1,690.08
	2005	1,246.13	957.47	2,633.83	2,005.96
	2006	1,391.67	1,165.21	2,963.68	2,469.54
	2007	1,544.63	1,340.09	3,297.54	2,867.98
	2008 ^[a]	1,443.28	1,276.75	3,096.62	2,747.21
Class 'X'	2003	829.30	598.04	1,699.26	1,216.16
	2004	963.00	821.15	1,992.23	1,686.29
	2005	1,250.38	962.53	2,607.66	1,995.28
	2006	1,396.22	1,168.24	2,920.64	2,440.07
	2007	1,549.09	1,345.86	3,243.26	2,817.76
	2008 ^[a]	1,447.97	1,283.51	3,031.54	2,687.43

^[a] To 1 July 2008.

Past performance is no indication of current or future performance and the performance data does not take account of the commissions and costs incurred on the issue and redemption of shares.

The price of shares and the income from them may go down as well as up, and you may get back less than you invested.

INCOME

Income per share

	Calendar year	Interim	Distributed Final	Total	Reinvested
Sterling (net)		p	p	p	p
Class 'A'	2003	3.0000	7.2670	10.2670	14.7984
	2004	3.3000	9.1300	12.4300	25.6467
	2005	3.4650	9.2400	12.7050	26.5915
	2006	3.4650	6.0320	9.4970	20.1078
	2007	3.4650	3.7310	7.1960	15.3441
	2008 ^[a]	3.6700	3.7200	7.3900	15.8357
Class 'X'	2003	2.1000	5.4100	7.5100	11.0017
	2004	1.8500	6.3700	8.2200	16.8721
	2005	1.9425	6.3500	8.2925	17.1818
	2006	1.9425	1.9020	3.8445	8.0238
	2007	1.2310	nil	1.2310	2.5750
	2008 ^[a]	nil	0.0940	0.0940	0.1968

^[a] Up to final: ex-distribution date 1 July 2008;
payment date 31 August 2008.

M&G Fund of Investment Trust Shares

FUND STATISTICS

NET ASSETS

	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling					
		p	p		
Class 'A'	Jun 2006	1,240.99	2,642.80	1,129,067	768,380
	Jun 2007	1,495.02	3,199.53	1,073,717	750,890
	Jun 2008	1,288.47	2,772.43	1,009,417	713,420
Class 'X'	Jun 2006	1,248.10	2,610.81	11,393	7,399
	Jun 2007	1,502.44	3,145.58	27,438	9,374
	Jun 2008	1,295.32	2,712.15	32,543	8,744
Total net asset value of sub-fund					
	Year ended	£		€ [a]	
	Jun 2006	34,654,000		50,027,000	
	Jun 2007	40,784,000		60,564,000	
	Jun 2008	33,444,000		42,190,000	

[a] Based on the midday exchange rate on the last business day of each financial year.

FINANCIAL STATEMENTS

For the year ended 30 June 2008.

STATEMENT OF TOTAL RETURN

	Note	2008		2007	
		£'000	£'000	£'000	£'000
Net (losses) / gains on investments	3		(5,489)		6,957
Currency losses			(5)		(2)
Income	4	647		650	
Expenses	5	(454)		(455)	
Finance costs: Interest	12	(1)		0	
Net income before taxation		192		195	
Taxation	6	0		0	
Net income after taxation			192		195
Total return before distributions			(5,302)		7,150
Finance costs: Distributions	12		(192)		(195)
Change in net assets attributable to shareholders from investment activities			(5,494)		6,955

STATEMENT OF CHANGE IN SHAREHOLDERS' NET ASSETS

	2008		2007	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		40,784		34,654
Amounts received on issue of shares	229		982	
Amounts paid on cancellation of shares	(2,187)		(1,916)	
		(1,958)		(934)
Stamp Duty Reserve Tax (SDRT)		(4)		(6)
Change in net assets attributable to shareholders from investment activities (see above)		(5,494)		6,955
Retained distributions on Accumulation shares		115		115
Unclaimed distributions		1		0
Closing net assets attributable to shareholders		33,444		40,784

M&G Fund of Investment Trust Shares

FINANCIAL STATEMENTS

BALANCE SHEET

	as at 30 June 2008		as at 30 June 2007	
	£'000	£'000	£'000	£'000
Assets				
Portfolio of investments		33,013		40,700
Debtors				
Bank interest receivable	1		1	
Debt security interest receivable	9		9	
Dividends receivable	89		94	
HM Revenue & Customs interest receivable	0		2	
Prepaid expenses	0		2	
VAT recoverable	0		25	
Cash and bank balances	378		49	
Total other assets		477		182
Total assets		33,490		40,882
Liabilities				
Creditors				
Amounts payable on cancellations	0		(48)	
Expenses payable	(8)		(9)	
Net distributions payable on Income shares	(38)		(40)	
SDRT payable	0		(1)	
Total liabilities		(46)		(98)
Net assets attributable to shareholders		33,444		40,784

PORTFOLIO STATEMENT

as at 30 June 2008				
Holding ^[a]		Value £'000	30.06.08 %	30.06.07 %
UK high income			0.86	1.22
483,870 Glasgow Income Trust		289	0.86	
UK growth & income			3.05	4.50
113,400 Finsbury Growth & Income Trust		246	0.74	
100,000 INVESCO Income Growth Trust		174	0.52	
400,000 Value & Income Trust		600	1.79	
UK growth			7.24	7.77
100,000 Artemis Alpha Trust		232	0.69	
100,000 Hansa Trust 'A' shares		820	2.45	
30,000 JPMorgan (formerly Fleming) Mercantile Investment Trust		260	0.78	
40,000 Keystone Investment Trust		398	1.19	
400,000 SVM UK Active Fund		712	2.13	
Global growth & income			3.54	3.14
350,000 Midas Income & Growth Trust		448	1.34	
581,954 Ruffer Investment Company Red. Pref. shares		736	2.20	
Global growth			15.18	13.31
250,000 Alliance Trust		768	2.30	
30,000 Caledonia Investments		545	1.63	
200,000 iimia Investment Trust		250	0.75	
250,000 Jupiter Green Investment Trust		270	0.81	
350,000 Monks Investment Trust		1,212	3.62	
280,000 Scottish Mortgage Investment Trust		1,725	5.16	
15,000 World Trust Fund		304	0.91	
Global emerging markets			0.60	1.34
50,000 Templeton Emerging Markets Investment Trust		201	0.60	

PORTFOLIO STATEMENT (continued)

as at 30 June 2008				
Holding ^[a]		Value £'000	30.06.08 %	30.06.07 %
Emerging markets			4.58	4.86
350,000 Advance Developing Markets Trust		1,533	4.58	
Europe			6.98	8.42
60,000 Fidelity European Values		743	2.22	
100,000 Foreign & Colonial Eurotrust		670	2.00	
100,000 JPMorgan European (formerly Fleming) Fledgeling Investment Trust		654	1.95	
300,000 JPMorgan European Investment Trust income shares		271	0.81	
Far East (excl. Japan)			9.62	8.18
1,000,000 Aberdeen Asian Income Fund		1,082	3.23	
600,000 Edinburgh Dragon Trust		852	2.55	
500,000 Fidelity Asian Values		611	1.83	
550,000 Henderson TR Pacific Trust		671	2.01	
Japan			6.15	7.00
250,000 Baillie Gifford Japan Trust		429	1.28	
275,000 Baillie Gifford Shin Nippon		333	1.00	
500,000 JPMorgan (formerly Fleming) Japanese Smaller Companies Investment Trust		788	2.36	
500,000 Melchior Japan Investment Trust		194	0.58	
550,000 Prospect Japan Fund		312	0.93	
North America			2.22	2.38
166,058 Oryx International Growth		381	1.14	
150,000 Renaissance US Growth Investment Trust		360	1.08	
Property or real estate			6.18	7.88
1,000,000 Real Estate Opportunities		983	2.94	
£348,000 Real Estate Opportunities 7.5% CULS 2011		367	1.10	
1,000,000 TR Property Investment Trust (Sigma shares)		717	2.14	
Private equity			4.20	4.83
490,000 F&C Private Equity Trust		941	2.81	
60,000 Pantheon International Participations		453	1.35	
300,000 Prelude Trust		0	0.00	
26,744 Thompson Clive Investment Trust		14	0.04	
Split capital			4.39	5.04
500,000 Ecofin Water & Power Opportunities		880	2.63	
200,000 JZ Equity Partners		223	0.67	
2,000,000 M&G Equity Investment Trust capital shares		140	0.42	
1,305,397 M&G Equity Investment Trust income shares		225	0.67	
Specialist			13.03	9.08
500,000 Blackrock (formerly Merrill Lynch) Commodities Income Investment Trust		815	2.44	
400,000 Blackrock (formerly Merrill Lynch) World Mining Trust		2,814	8.41	
467,683 Finsbury Emerging Biotechnology Trust		458	1.37	
10,000 Genesis Malaysia Maju Fund		270	0.81	
AIM quoted			10.41	9.12
3,000,000 Advance Frontier Markets Fund		1,620	4.84	
964,362 Dolphin Capital Investors		945	2.83	
300,000 India Capital Growth Fund		185	0.55	
500,000 Utilico Emerging Markets		733	2.19	
Fixed interest trusts			0.00	1.01
Warrants			0.44	0.67
100,000 Aberdeen Asian Income Fund wts. 2012		14	0.04	
400,000 Advance Frontier Markets Fund wts. 2010		40	0.12	
9,069 Finsbury Worldwide Pharmaceutical Trust wts. 2009		3	0.01	
60,000 India Capital Growth Fund wts. 2010		6	0.02	

M&G Fund of Investment Trust Shares

FINANCIAL STATEMENTS

PORTFOLIO STATEMENT (continued)

as at 30 June 2008

Holding ^[a]	Value £'000	30.06.08 %	30.06.07 %
Warrants (continued)			
50,000 Jupiter Green Investment Trust wts. 2011	12	0.04	
100,000 Utilico Emerging Markets wts. 2010	69	0.21	
Unquoted / unlisted			
75,000 Bioscience Investment Trust	12	0.04	
200,000 Biotechnology Investments 'D'	0	0.00	
Portfolio of investments (notes 1b & 1c opposite)	33,013	98.71	99.79
Net other assets	431	1.29	0.21
Net assets attributable to shareholders	33,444	100.00	100.00

[a] All holdings are in ordinary shares unless otherwise stated.

SUMMARY OF MATERIAL PORTFOLIO CHANGES

Purchases ^[a]	£'000
Advance Frontier Markets Fund	545
Blackrock (formerly Merrill Lynch) World Mining Trust	382
JPMorgan (formerly Fleming) Japanese Smaller Companies Investment Trust	170
Total purchases for the year	1,097
Sales ^[a]	£'000
Advance Developing Markets Trust	699
Fidelity European Values	614
Blackrock (formerly Merrill Lynch) World Mining Trust	542
Templeton Emerging Markets Investment Trust	409
Prelude Trust	255
INVESCO Income Growth Trust	240
Rutland Trust	172
Monks Investment Trust	161
JPMorgan (formerly Fleming) Mercantile Investment Trust	100
Scottish Mortgage Investment Trust	65
Caliber Global Investment Company	20
Thompson Clive Investment Trust	4
Bioscience Investment Trust	2
Total sales for the year	3,283

[a] All transactions are in ordinary shares unless otherwise stated.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

- a) **Basis of accounting:** The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (IMA) in December 2005 ('the IMA SORP 2005').
- b) **Basis of valuation of investments:** All investments are valued at their fair value as at 12 noon on 30 June 2008, being the last business day of the financial year. The fair value of non-derivative securities is bid price, excluding any accrued interest. Unquoted investments are shown at the Authorised Corporate Director's (ACD's) valuation.

- c) **Exchange rates:** Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling as at 12 noon on 30 June 2008, being the last business day of the financial year.

- d) **Recognition of income:** Income from quoted equity and non-equity shares is recognised net of attributable tax credits when the security is quoted ex-dividend.

Interest on debt securities is recognised on an accruals basis, taking into account the effective yield on the investment. The effective yield basis amortises any discount or premium on the purchase of an investment over its remaining life. Prior to 1 July 2007, interest on debt securities was recognised on an accruals basis, taking into account the coupon on the investment. In accordance with paragraph 1.15 of the IMA SORP 2005 the sub-fund has not restated comparative information to reflect the change in accounting policy. If comparative information had been restated, the nature of the main adjustments required would have been to adjust income and net gains on investments by the amortisation of the discount or premium since the purchase of each investment.

Bank interest and other income are recognised on an accruals basis.

- e) **Special dividends:** These are recognised as either income or capital depending upon the nature and circumstances of the dividend receivable.

- f) **Expenses:** For accounting purposes, all expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against income for the year on an accruals basis.

- g) **Apportionment of income and expenses to multiple share classes:** With the exception of the ACD's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

- h) **Taxation:** The rate of corporation tax for the sub-fund is 20%, with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

- i) **Deferred taxation:** Deferred tax is provided for in respect of all timing differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

- j) **Distribution policy:** The policy of the sub-fund is to distribute all available income, after deduction of expenses properly chargeable against income. In order to conduct a controlled dividend flow to shareholders, interim distributions will be at the fund manager's discretion, up to the maximum of the distributable income available for the period. Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

Stock dividends do not form part of the distributable income.

Distributions which have remained unclaimed by shareholders for more than six years are credited to the capital property of the sub-fund.

M&G Fund of Investment Trust Shares

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) Report, the ACD accepts market price risk, currency risk and interest rate risk in relation to the investment portfolio. Generally, the ACD will not seek to hedge this exposure since the ACD believes that, in the long term, such hedging would be detrimental to total return.

The market price of shares in investment trust companies may not fully reflect the value of the underlying investments they have, or the gains that those investments have made. Capital shares in split capital trusts have geared interest in the underlying portfolio and accordingly these securities have a greater volatility than is typical.

Short-term foreign currency exposures are generally covered by short dated currency contracts. Income arising in foreign currencies is converted into sterling shortly after receipt and is not hedged in advance of receipt.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

The sub-fund's assets comprise securities that can be readily realised to meet obligations that may arise on the redemption of shares. As noted on page 111, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (30.06.07: same).

3 Net (losses) / gains on investments

	2008 £'000	2007 £'000
Non-derivative securities	(5,506)	6,936
Special dividends taken to capital	17	21
Net (losses) / gains on investments	(5,489)	6,957

4 Income

	2008 £'000	2007 £'000
Bank interest	7	17
HM Revenue & Customs interest	0	1
Interest on debt securities	31	26
Overseas dividends	64	108
UK dividends	545	498
	647	650

5 Expenses

	2008 £'000	2007 £'000
Payable to the Authorised Corporate Director or associate		
Authorised Corporate Director's periodic charge	384	381
Administration fee	57	57
	441	438
Payable to the Depositary or associate		
Depositary's fee (including VAT)	3	3
Other expenses		
Audit fee (including VAT)	9	9
Regulatory fees	1	1
	10	10
VAT recoverable		
Prior year	0	4
Total expenses	454	455

6 Taxation

	2008 £'000	2007 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Current tax charge (note 6b)	0	0
Deferred tax (note 6c)	0	0
	0	0
b) Factors affecting taxation charge for the year		
Net income before taxation	192	195
Corporation tax at 20%	38	39
Effects of:		
UK dividends [a]	(109)	(100)
Current period expenses not utilised	72	64
Income taxable in different periods	(1)	(3)
Current tax charge (note 6a)	0	0
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
Provision at the end of the year	0	0

The sub-fund has not recognised a deferred tax asset of £651,000 (30.06.07: £580,000) arising as a result of having unutilised management expenses. We do not expect this asset to be utilised in the foreseeable future.

[a] As a sub-fund of an Open-Ended Investment Company this item is not subject to corporation tax.

M&G Fund of Investment Trust Shares

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

7 Contingent liabilities and outstanding commitments

Rights issues

There were no contingent liabilities at the balance sheet date (30.06.07: same).

Warrants

At the balance sheet date, the sub-fund had a commitment to warrants outstanding totalling £572,954 (30.06.07: £874,001) represented by:

- i) £120,000 in respect of 100,000 Aberdeen Asian Income Fund warrants whereby, until 31 December 2012, one ordinary share may be acquired for £1.20 in respect of each warrant held.
- ii) £200,874 in respect of 400,000 Advance Frontier Markets Fund warrants whereby, until 15 June 2010, one ordinary share may be acquired for \$1.00 in respect of each warrant held.
- iii) £42,080 in respect of 9,069 Finsbury Worldwide Pharmaceutical Trust warrants whereby, until 31 July 2009, one ordinary share may be acquired for £4.64 in respect of each warrant held.
- iv) £60,000 in respect of 60,000 India Capital Growth Fund warrants whereby, until 22 December 2010, one ordinary share may be acquired for £1.00 in respect of each warrant held.
- v) £50,000 in respect of 50,000 Jupiter Green Investment Trust warrants whereby, until 31 July 2011, one ordinary share may be acquired for £1.00 in respect of each warrant held.
- vi) £100,000 in respect of 100,000 Utilico Emerging Markets warrants whereby, until 31 July 2010, one ordinary share may be acquired for £1.00 in respect of each warrant held.

8 Related parties

M&G Securities Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in shareholders' net assets and note 12. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to M&G Securities Limited in respect of the Authorised Corporate Director's periodic charge and administration fee are disclosed in note 5. Amounts due at the year end are disclosed in the balance sheet where applicable.

At the balance sheet date, material shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 1.96% (30.06.07: 2.06%) of the sub-fund's shares.

9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (30.06.07: same).

Currency exposure

The currency profile of the sub-fund's financial instruments at the balance sheet date was:

	Portfolio of investments		Net other assets / (liabilities)		Total	
	as at 30.06.08	as at 30.06.07	as at 30.06.08	as at 30.06.07	as at 30.06.08	as at 30.06.07
	£'000	£'000	£'000	£'000	£'000	£'000
Sterling	30,467	37,996	431	84	30,898	38,080
US dollar	2,546	2,704	0	0	2,546	2,704
Total	33,013	40,700	431	84	33,444	40,784

Interest rate profile

The majority of the sub-fund's assets comprise equity shares which neither pay interest nor have a maturity date (30.06.07: same).

Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (30.06.07: same).

10 Portfolio transaction costs

	2008 £'000	2007 £'000
a) Purchases		
Purchases excluding transaction costs	1,096	2,643
Commissions	0	3
Taxes	1	8
Total transaction costs	1	11
Total purchases including transaction costs	1,097	2,654
b) Sales		
Sales excluding transaction costs	3,287	3,455
Commissions	(4)	(5)
Total sales net of transaction costs	3,283	3,450

11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Net Income and Net Accumulation) shares and Sterling Class 'X' (Net Income and Net Accumulation) shares.

The charging structure for each share class, as at 30 June 2008, is set out in the following table (30.06.07: same):

CHARGES AND EXPENSES

	Initial charge %	Redemption charge %	ACD's annual remuneration %
Sterling			
Class 'A'	4.00	n/a	1.00
Class 'X'	nil	4.50 ^[a]	1.50

^[a] The redemption charge diminishes over a period of five years. Please refer to the Key Features document for further information.

M&G Fund of Investment Trust Shares

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

11 Shareholder funds (continued)

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

NET ASSET VALUES

	30.06.08		30.06.07	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
Sterling				
Class 'A'	13,006	19,779	16,052	24,025
Class 'X'	422	237	412	295

The net asset value per share and the number of shares are given in the comparative table on page 61. The distribution per share is given in the distribution table opposite. Each share class has the same rights on winding-up.

12 Finance costs

	2008 £'000	2007 £'000
Income shares (sterling)		
Class 'A' - Interim	38	38
Final	38	40
Class 'X' - Interim	0	0 [a]
Final	0 [b]	0
Accumulation shares (sterling)		
Class 'A' - Interim	58	55
Final	57	60
Class 'X' - Interim	0	0 [a]
Final	0 [b]	0
Finance costs: Dividend distributions	191	193
Income deducted on cancellation of shares	1	2
Finance costs: Distributions	192	195
Finance costs: Interest	1	0
Total finance costs	193	195

[a] The total interim distribution for Sterling Class 'X' (Income and Accumulation) shares in 2007 was £405.

[b] The total final distribution for Sterling Class 'X' (Income and Accumulation) shares in 2008 was £48.

DISTRIBUTION TABLE

Dividend distributions on Income shares	Tax credit	Net income	Equalisation	Distribution paid/payable	
				2008	2007
Sterling	p	p	p	p	p
Class 'A' - Interim					
Group 1:	0.4078	3.6700	-	3.6700	3.4650
Group 2:	0.2165	1.9488	1.7212	3.6700	3.4650
- Final					
Group 1:	0.4133	3.7200	-	3.7200	3.7310
Group 2:	0.2061	1.8547	1.8653	3.7200	3.7310
Class 'X' - Interim					
Group 1:	-	-	-	-	1.2310
Group 2:	-	-	-	-	1.2310
- Final					
Group 1:	0.0104	0.0940	-	0.0940	-
Group 2:	0.0068	0.0612	0.0328	0.0940	-

Dividend distributions on Accumulation shares	Tax credit	Net income	Equalisation	Amount reinvested	
				2008	2007
Sterling	p	p	p	p	p
Class 'A' - Interim					
Group 1:	0.8727	7.8543	-	7.8543	7.3790
Group 2:	0.4634	4.1707	3.6836	7.8543	7.3790
- Final					
Group 1:	0.8868	7.9814	-	7.9814	7.9651
Group 2:	0.4421	3.9793	4.0021	7.9814	7.9651
Class 'X' - Interim					
Group 1:	-	-	-	-	2.5750
Group 2:	-	-	-	-	2.5750
- Final					
Group 1:	0.0219	0.1968	-	0.1968	-
Group 2:	0.0142	0.1281	0.0687	0.1968	-

Interim period 01.07.07 - 31.12.07

Final period 01.01.08 - 30.06.08

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

M&G International Sovereign Bond Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective and policy of the M&G International Sovereign Bond Fund

The Fund aims to maximise total return through investment in a portfolio of high grade fixed interest (including floating rate) securities denominated in non-sterling currencies. The portfolio will primarily consist of sovereign debt securities denominated in the currencies of the major industrialised nations, with the exception of the UK. While the investment manager has power to hedge the currency risk for UK investors, the Fund will normally be managed so as to give exposure to non-sterling currencies.

More than 35% of the value of the property of the Fund may be invested in Government and other public securities issued or guaranteed by any of:

- the Government of the United Kingdom or of a Member State* other than the United Kingdom;
- the Government of Australia, Canada, Japan, New Zealand, Switzerland, USA;
- the African Development Bank, Asian Development Bank, Eurofima, European Economic Community, European Bank for Reconstruction and Development, European Coal and Steel Community, European Investment Bank, International Bank for Reconstruction and Development, International Financial Corporation.

* Member State: those countries which are members of the European Union or the European Economic Area at any given time.

Proposed adoption of wider investment powers

Subject to a successful shareholder vote on 29 August 2008 the investment objective and policy of the M&G International Sovereign Bond Fund will change on 1 September 2008.

Proposed investment objective of the M&G International Sovereign Bond Fund (from 1 September 2008)

The Fund aims to maximise total return (the combination of income and growth of capital) through investment in a portfolio of investment grade debt instruments.

Proposed investment policy of the M&G International Sovereign Bond Fund (from 1 September 2008)

The portfolio will primarily consist of investment grade sovereign debt securities denominated in the currencies of the major industrialised nations, with the exception of the UK. The Fund's exposure to sovereign debt may be gained through the use of derivatives. While the investment manager has power to hedge the currency risk for UK investors, the Fund will normally be managed so as to give exposure to non-sterling currencies. The Fund may also invest in other assets including government and public securities, collective investment schemes, other transferable securities, other debt instruments, cash and near cash, deposits, warrants, money market instruments and other derivative instruments.

Investment approach

The M&G International Sovereign Bond Fund aims to maximise total return through investing in a portfolio of high quality government bonds, which can be denominated in any overseas currency, and investing in any overseas bond market.

While the fund manager has the power to hedge the currency risk for UK investors, the fund is normally managed to give exposure to non-sterling currencies. The investment portfolio of the fund has no sterling exposure. The fund's portfolio tends to follow closely the Citigroup World Global Bond (ex UK) Index, although there is no formal link and the fund can diverge from the index as the fund manager considers appropriate. The fund's duration (the sensitivity of its capital value to changes in interest rates) and the fund's weighting of currencies may diverge moderately from that of the index.

INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

As at 1 July 2008, for the year ended 30 June 2008

Reflecting our view that central banks would lower interest rates in order to stimulate economic growth, we increased the fund's duration, in other words, the average maturity of its bonds. This was achieved by reducing exposure to shorter dated issues of Japanese government bonds and buying longer dated Japanese government bonds. For example, we bought a holding in the 2.3% 2027 issue and sold out of the 1.7% 2010 issue. We also sold yen-denominated short dated ASIF II corporate bonds, which were issued by AIG.

The other major change was to trim the fund's weighting in US government bonds following their strong performance. We sold our positions in US Treasury 5.375% 2031, 3.875% 2010 and 4.125% 2015.

Meanwhile, we added to the fund's investment in German government bonds, initiating a position in the 4.25% 2012 issue and adding to an existing holding in the 3.75% 2015 issue. In our opinion, the European Central Bank will not raise interest rates by as much as many people expect.

Through the purchase of a holding in Australia 5.75% 2012, we gained exposure to Australian government debt. We believe that the country's central bank will end its latest cycle of interest rate hikes soon.

David Knee

Fund manager

David Knee is an employee of M&G Limited which is an associate of M&G Securities Limited.

Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial Adviser.

M&G International Sovereign Bond Fund

FUND STATISTICS

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Interim	02.01.09	28.02.09
Final	01.07.09	31.08.09

	Final distribution		Total Expense Ratio ^[b]	
	Inc 31.08.08 ^[a]	Acc 01.07.08 ^[a]	30.06.08	30.06.07
Sterling	p	p	%	%
Class 'A'	0.5360	0.6463	1.19	1.21

The Portfolio Turnover Rate (PTR) for the 12 months ending 30 June 2008 was 95.11% compared with 71.51% for the year ending 30 June 2007. ^[c]

^[a] The date on which the final distribution will be paid to Income shareholders and credited to Accumulation shareholders.

^[b] The Total Expense Ratio (TER) shows the relevant annualised operating expenses from the most recent reporting period as a single percentage of the average net asset value over the same period.

^[c] The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within the fund over the course of a 12 month period. The PTR is calculated by taking the sum of all transactions in securities less the sum of all transactions in the fund's shares and is expressed as a percentage of the fund's average net asset value.

Income accrued from interest-bearing securities is distributed on an effective yield basis.

FUND PERFORMANCE

Performance of share class

	Net asset value per share as at 30.06.08		Net asset value per share as at 30.06.07		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	52.36	63.79	45.91	54.84	+14.05	+16.32

PERFORMANCE SINCE LAUNCH

	six months 02.01.08 %	one year 02.07.07 %	five years 01.07.03 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	+3.8	+16.3	+1.5	+3.4 ^[c]

^[a] Shows the compound rate of return, per annum, over the period.

^[b] Bid to bid with gross income reinvested.

^[c] 4 October 1999, the launch date of the predecessor unit trust.

SINGLE YEAR PERFORMANCE (5 YEARS ENDING JUNE)

From	29.06.07	30.06.06	30.06.05	30.06.04	30.06.03
To	30.06.08	29.06.07	30.06.06	30.06.05	30.06.04
	%	%	%	%	%
Sterling					
Class 'A'	+16.4	-7.0	-3.8	+7.0	-6.0

Source: Morningstar Inc., bid to bid with net income reinvested.

PRICES

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling		p	p	p	p
Class 'A'	2003	57.30	52.47	62.83	57.53
	2004	53.82	50.04	60.81	56.04
	2005	54.60	51.81	62.80	59.14
	2006	53.31	48.36	61.88	56.69
	2007	51.04	45.56	60.96	54.41
	2008 ^[a]	55.96	51.05	67.47	61.57

^[a] To 1 July 2008.

Past performance is no indication of current or future performance and the performance data does not take account of the commissions and costs incurred on the issue and redemption of shares.

The price of shares and the income from them may go down as well as up, and you may get back less than you invested.

INCOME

Income per share

	Calendar year	Interim	Distributed Final	Total	Reinvested
Sterling (net)		p	p	p	p
Class 'A'	2003	0.5860	0.6010	1.1870	0.6590
	2004	0.5040	0.4860	0.9900	1.1026
	2005	0.5440	0.4200	0.9640	1.0940
	2006	0.4800	0.4992	0.9792	1.1316
	2007	0.4492	0.4368	0.8860	1.0434
	2008 ^[a]	0.4860	0.5360	1.0220	1.2268

^[a] Up to final: ex-distribution date 1 July 2008;
payment date 31 August 2008.

NET ASSETS

	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling		p	p		
Class 'A'	Jun 2006	50.31	58.97	61,040,940	62,671,205
	Jun 2007	45.91	54.84	48,155,940	46,016,705
	Jun 2008	52.36	63.79	38,375,440	34,543,705

Total net asset value of sub-fund

Year ended	£	€ ^[a]
Jun 2006	67,666,000	97,642,000
Jun 2007	47,345,000	70,307,000
Jun 2008	42,128,000	53,145,000

^[a] Based on the midday exchange rate on the last business day of each financial year.

M&G International Sovereign Bond Fund

FINANCIAL STATEMENTS

For the year ended 30 June 2008.

STATEMENT OF TOTAL RETURN

	Note	2008		2007	
		£'000	£'000	£'000	£'000
Net gains / (losses) on investments	3		7,870		(4,571)
Currency (losses) / gains			(515)		7
Income	4	1,820		1,912	
Expenses	5	(581)		(667)	
Net income before taxation		1,239		1,245	
Taxation	6	(6)		(1)	
Net income after taxation			1,233		1,244
Total return before distributions			8,588		(3,320)
Finance costs: Distributions	12		(1,234)		(1,245)
Change in net assets attributable to shareholders from investment activities			7,354		(4,565)

STATEMENT OF CHANGE IN SHAREHOLDERS' NET ASSETS

		2008		2007	
		£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders			47,345		67,666
Amounts received on issue of shares	14,882			16,925	
Amounts paid on cancellation of shares	(27,975)			(33,098)	
			(13,093)		(16,173)
Change in net assets attributable to shareholders from investment activities (see above)			7,354		(4,565)
Retained distributions on Accumulation shares			522		417
Closing net assets attributable to shareholders			42,128		47,345

BALANCE SHEET

	as at 30 June 2008		as at 30 June 2007	
	£'000	£'000	£'000	£'000
Assets				
Portfolio of investments		41,219		46,866
Debtors				
Amounts receivable on issues	218		41	
Bank interest receivable	2		2	
Currency deals outstanding	0		320	
Debt security interest receivable	653		689	
HM Revenue & Customs interest receivable	0		5	
Prepaid expenses	0		3	
Sales awaiting settlement	0		320	
VAT recoverable	0		57	
Cash and bank balances	503		426	
Total other assets		1,376		1,863
Total assets		42,595		48,729
Liabilities				
Derivative liabilities		(105)		(39)
Creditors				
Amounts payable on cancellations	(25)		(702)	
Currency deals outstanding	0		(320)	
Expenses payable	(8)		(9)	
Income tax payable	(123)		(104)	
Net distribution payable on Income shares	(206)		(210)	
Total other liabilities		(362)		(1,345)
Total liabilities		(467)		(1,384)
Net assets attributable to shareholders		42,128		47,345

M&G International Sovereign Bond Fund

FINANCIAL STATEMENTS

PORTFOLIO STATEMENT

as at 30 June 2008

Holding	Value £'000	30.06.08 %	30.06.07 %
'AAA' credit rated bonds		69.13	73.74
A\$4,725,000 Australia (Govt. of) 5.75% 2012	2,213	5.25	
¥45,000,000 Bayerische Landesbank 1.4% 2013	213	0.50	
C\$1,520,000 Canada (Govt. of) 6% 2011	812	1.93	
€7,573,000 Germany (Federal Republic of) 3.75% 2015	5,715	13.57	
€226,000 Germany (Federal Republic of) 4% 2009	178	0.42	
€642,000 Germany (Federal Republic of) 4% 2016	488	1.16	
€2,569,000 Germany (Federal Republic of) 4.125% 2008	2,036	4.83	
€4,326,000 Germany (Federal Republic of) 4.25% 2012	3,373	8.01	
€4,961,000 Germany (Federal Republic of) 4.5% 2013	3,905	9.27	
€1,310,000 Germany (Federal Republic of) 5.25% 2010	1,051	2.49	
€2,422,000 Germany (Federal Republic of) 5.5% 2031	2,055	4.88	
€3,041,000 Germany (Federal Republic of) 6% 2016	2,619	6.22	
\$2,001,390 US Treasury 3.375% 2032	1,260	2.99	
\$2,995,000 US Treasury 7.5% 2016	1,874	4.45	
\$1,947,000 US Treasury 7.625% 2025	1,330	3.16	
'AA' credit rated bonds		23.13	19.99
¥283,000,000 Development Bank of Japan 1.4% 2012	1,361	3.23	
¥1,172,250,000 Japan (Govt. of) 0.7% 2013	5,459	12.96	
¥204,521,700 Japan (Govt. of) 1.2% IL 2017	981	2.33	
¥81,950,000 Japan (Govt. of) 1.5% 2019	383	0.91	
¥266,700,000 Japan (Govt. of) 2.3% 2027	1,293	3.07	
¥54,850,000 Japan (Govt. of) 2.5% 2037	266	0.63	
'A' credit rated bonds		5.17	3.22
€2,072,000 Italy (Republic of) 6% 2031	1,769	4.20	
PLN1,077,000 Poland (Govt. of) 5.75% 2010	250	0.59	
PLN702,000 Poland (Govt. of) 6.25% 2015	162	0.38	
Bonds with no credit rating		0.41	2.04
¥36,000,000 Pfandbrief Ost Landes Hypobank 1.6% 2011	173	0.41	
Forward currency contracts		(0.25)	(0.08)
¥576,499,480 Bought for €3,534,396 (expires 01.08.08)	(47)	(0.11)	
\$4,043,556 Bought for A\$4,258,000 (expires 01.08.08)	(21)	(0.05)	
\$7,005,564 Bought for €4,492,000 (expires 01.08.08)	(37)	(0.09)	
Portfolio of investments (notes 1b & 1c on page 71)	41,114	97.59	98.91
Net other assets	1,014	2.41	1.09
Net assets attributable to shareholders	42,128	100.00	100.00

SUMMARY OF MATERIAL PORTFOLIO CHANGES

Largest purchases	£'000
Germany (Federal Republic of) 4.25% 2012 (€)	4,804
Germany (Federal Republic of) 3.75% 2015 (€)	4,263
Germany (Federal Republic of) 4.75% 2008 (€)	3,813
Japan (Govt. of) 0.7% 2013 (¥)	3,619
Australia (Govt. of) 5.75% 2012 (A\$)	3,058
US Treasury 3.375% 2032 (\$)	1,813
Germany (Federal Republic of) 4.5% 2013 (€)	1,739
Germany (Federal Republic of) 2.75% 2007 (€)	1,676
Japan (Govt. of) 2.3% 2027 (¥)	1,630
US Treasury 3.875% 2010 (\$)	1,544
US Treasury 7.625% 2025 (\$)	1,337
Japan (Govt. of) 1.2% IL 2017 (¥)	1,228
Japan (Govt. of) 1.9% 2007 (¥)	1,182
Italy (Republic of) 6% 2031 (€)	1,023
Japan (Govt. of) 1.7% 2010 (¥)	963
US Treasury 7.5% 2016 (\$)	941
Germany (Federal Republic of) 4.125% 2008 (€)	936
US Treasury 4.125% 2015 (\$)	898
Germany (Federal Republic of) 6% 2016 (€)	784
Germany (Federal Republic of) 5.25% 2010 (€)	726
Other purchases	2,401
Total purchases for the year	40,378
Largest sales	£'000
Germany (Federal Republic of) 2.75% 2007 (€)	5,965
Germany (Federal Republic of) 4.5% 2013 (€)	5,189
Germany (Federal Republic of) 4.75% 2008 (€)	4,195
US Treasury 5.375% 2031 (\$)	3,715
US Treasury 3.875% 2010 (\$)	3,501
US Treasury 4.125% 2015 (\$)	3,298
Germany (Federal Republic of) 5.5% 2031 (€)	2,403
Germany (Federal Republic of) 3.75% 2015 (€)	2,328
Japan (Govt. of) 0.7% 2013 (¥)	2,188
US Treasury 7.5% 2016 (\$)	2,071
Japan (Govt. of) 1.7% 2010 (¥)	1,932
Germany (Federal Republic of) 4.25% 2012 (€)	1,554
Germany (Federal Republic of) 6% 2007 (€)	1,406
Eksportfinans 1.8% 2010 (¥)	1,370
Bayerische Landesbank 1.4% 2013 (¥)	1,299
ASIF II 1.2% 2008 (¥)	1,243
Japan (Govt. of) 1.9% 2007 (¥)	1,221
Ontario (Province of) 1.875% 2010 (¥)	1,186
Germany (Federal Republic of) 6% 2016 (€)	1,168
Development Bank of Japan 1.4% 2012 (¥)	1,078
Other sales	5,956
Total sales for the year	54,266

M&G International Sovereign Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

- a) **Basis of accounting:** The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (IMA) in December 2005 ('the IMA SORP 2005').
- b) **Basis of valuation of investments:** All investments are valued at their fair value as at 12 noon on 30 June 2008, being the last business day of the financial year. The fair value of non-derivative securities is bid price, excluding any accrued interest, and the fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.
- c) **Exchange rates:** Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling as at 12 noon on 30 June 2008, being the last business day of the financial year.
- d) **Derivative financial instruments:** Gains and losses on forward currency contracts are accounted for in accordance with the fund manager's intention on entering into the contracts. Where the intention is to protect or enhance capital return, gains or losses are recognised in net gains / (losses) on investments; where the intention is to generate or protect income, the costs or income are recognised in net income before taxation.
- e) **Recognition of income:** Interest on debt securities is recognised on an accruals basis, taking into account the effective yield on the investment. The effective yield basis amortises any discount or premium on the purchase of an investment over its remaining life. Prior to 1 July 2007, interest on debt securities was recognised on an accruals basis, taking into account the coupon on the investment. In accordance with paragraph 1.15 of the IMA SORP 2005 the sub-fund has not restated comparative information to reflect the change in accounting policy. If comparative information had been restated, the nature of the main adjustments required would have been to adjust income and net losses on investments by the amortisation of the discount or premium since the purchase of each investment.
- Bank interest and other income are recognised on an accruals basis.
- f) **Expenses:** For accounting purposes, all expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against income for the year on an accruals basis.

- g) **Apportionment of income and expenses to multiple share classes:** With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share class pro-rata to the value of the net assets of the share class on the day that the income or expenses are recognised.
- h) **Taxation:** The rate of corporation tax for the sub-fund is 20%. The tax accounting treatment follows the principal amounts involved.
- i) **Deferred taxation:** Deferred tax is provided for in respect of all timing differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.
- j) **Distribution policy:** The policy of the sub-fund is to distribute all available income, after deduction of expenses properly chargeable against income. Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

Distributions which have remained unclaimed by shareholders for more than six years are credited to the capital property of the sub-fund.

2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) Report, the ACD accepts market price risk, interest rate risk and currency risk in relation to the investment portfolio. The Prospectus permits the sub-fund to use derivative instruments to hedge against medium and long-term risk.

The ACD considers the credit rating, yield and maturity of each security, in order to ensure that the yield fully reflects any perceived risk. The capital value of investments within the sub-fund will fall in the event of the default or perceived increased credit risk of an issuer.

The capital value of investments within the sub-fund may also be affected by interest rate fluctuations such that when interest rates rise the capital value is likely to fall and vice versa.

The sub-fund holds overseas investments and exchange rate fluctuations can affect both capital and income values. During the year, it has been the policy to hedge some of the investment portfolio against currency movements through the use of forward currency contracts.

Short-term foreign currency exposures are generally covered by short dated currency contracts. Income arising in foreign currencies is generally converted into sterling shortly after receipt and is not hedged in advance of receipt.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

The sub-fund's assets comprise securities that can be readily realised to meet obligations that may arise on the redemption of shares. As noted on page 111, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (30.06.07: same).

M&G International Sovereign Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

3 Net gains / (losses) on investments

	2008 £'000	2007 £'000
Non-derivative securities	8,363	(3,881)
Forward currency contracts	(493)	(690)
Net gains / (losses) on investments	7,870	(4,571)

4 Income

	2008 £'000	2007 £'000
Bank interest	22	12
HM Revenue & Customs interest	1	2
Interest on debt securities	1,797	1,898
	1,820	1,912

5 Expenses

	2008 £'000	2007 £'000
Payable to the Authorised Corporate Director or associate		
Authorised Corporate Director's periodic charge	491	550
Administration fee	74	83
	565	633
Payable to the Depositary or associate		
Depositary's fee (including VAT)	4	5
Other expenses		
Audit fee (including VAT)	6	6
Regulatory fees	1	1
Safe custody charge	4	12
Transaction charges	1	1
	12	20
VAT recoverable		
Prior year	0	9
Total expenses	581	667

6 Taxation

	2008 £'000	2007 £'000
a) Analysis of charge in the year		
Corporation tax	1	0
Overseas tax	6	1
Double taxation relief	(1)	0
Current tax charge (note 6b)	6	1
Deferred tax (note 6c)	0	0
	6	1

b) Factors affecting taxation charge for the year

Net income before taxation	1,239	1,245
Corporation tax at 20%	248	249
Effects of:		
Interest distributions	(246)	(249)
Prior period expenses utilised	(1)	0
Overseas tax	6	1
Double taxation relief	(1)	0
Current tax charge (note 6a)	6	1

c) Provision for deferred taxation

Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
Provision at the end of the year	0	0

The sub-fund has not recognised a deferred tax asset of £6,000 (30.06.07: £1,000) arising as a result of having eligible unrelieved foreign tax. Some of this asset may be utilised in the foreseeable future.

As at 30 June 2007, the sub-fund also had not recognised a deferred tax asset of £1,000 arising as a result of having unutilised management expenses.

Interest distributions have been made in respect of all distributions during the current and preceding years. Income tax at 20% will be accounted for on shareholders' behalf to HM Revenue & Customs where applicable.

7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (30.06.07: same).

8 Related parties

M&G Securities Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in shareholders' net assets and note 12. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to M&G Securities Limited in respect of the Authorised Corporate Director's periodic charge and administration fee are disclosed in note 5. Amounts due at the year end are disclosed in the balance sheet where applicable.

At the balance sheet date, material shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 36.06% (30.06.07: 26.90%) of the sub-fund's shares.

M&G International Sovereign Bond Fund

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9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (30.06.07: same).

Currency exposure

The currency profile of the sub-fund's financial instruments at the balance sheet date was:

	Portfolio of investments		Net other assets / (liabilities)		Total	
	as at 30.06.08 £'000	as at 30.06.07 £'000	as at 30.06.08 £'000	as at 30.06.07 £'000	as at 30.06.08 £'000	as at 30.06.07 £'000
Australian dollar	153	0	27	0	180	0
Canadian dollar	812	1,038	4	5	816	1,043
Euro	16,827	20,929	541	727	17,368	21,656
Japanese yen	12,884	13,654	21	33	12,905	13,687
Polish zloty	412	468	11	12	423	480
US dollar	10,026	10,738	49	98	10,075	10,836
	41,114	46,827	653	875	41,767	47,702
Sterling	0	0	361	(357)	361	(357)
Total	41,114	46,827	1,014	518	42,128	47,345

Interest rate profile

	Floating rate financial assets		Fixed rate financial assets		Total	
	as at 30.06.08 £'000	as at 30.06.07 £'000	as at 30.06.08 £'000	as at 30.06.07 £'000	as at 30.06.08 £'000	as at 30.06.07 £'000
Australian dollar	0	0	2,213	0	2,213	0
Canadian dollar	0	0	812	1,038	812	1,038
Euro	0	185	23,189	24,180	23,189	24,365
Japanese yen	0	0	10,129	11,777	10,129	11,777
Polish zloty	0	0	412	468	412	468
Sterling	503	240	0	0	503	240
US dollar	0	1	4,464	9,402	4,464	9,403
Total	503	426	41,219	46,865	41,722	47,291

	Weighted average gross interest rate of fixed interest-bearing assets		Weighted average period for which interest rates are fixed ^[a]	
	as at 30.06.08 %	as at 30.06.07 %	as at 30.06.08 years	as at 30.06.07 years
Australian dollar	6.69	n/a	3.79	n/a
Canadian dollar	3.35	4.58	2.92	3.92
Euro	4.72	4.50	7.90	7.89
Japanese yen	1.34	1.35	7.66	4.17
Polish zloty	6.81	5.42	3.93	4.98
US dollar	3.56	5.09	15.20	12.30

^[a] Assuming the earliest maturity date for those assets with variable maturity dates.

Floating rate interest-bearing assets at the balance sheet date consist of bank balances, on which interest is calculated at a variable rate by reference to sterling bank deposit rates or the international equivalent (30.06.07: same).

Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (30.06.07: same).

10 Portfolio transaction costs

	2008 £'000	2007 £'000
a) Purchases		
Total purchases excluding transaction costs	40,378	45,527
b) Sales		
Total sales excluding transaction costs	54,266	61,437

There were no significant transaction costs during the year (2007: same).

11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Net Income and Net Accumulation) shares.

The charging structure for this share class, as at 30 June 2008, is set out in the following table (30.06.07: same):

CHARGES AND EXPENSES

	Initial charge %	Redemption charge %	ACD's annual remuneration %
Sterling Class 'A'	nil	n/a	1.00

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share class pro-rata to the value of the net assets of the share class on the day that the income or expenses are recognised.

The net asset values for this share class are set out in the following table:

NET ASSET VALUES

	30.06.08		30.06.07	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
Sterling Class 'A'	20,094	22,034	22,109	25,236

The net asset value per share and the number of shares are given in the comparative table on page 68. The distribution per share is given in the distribution table on page 74.

M&G International Sovereign Bond Fund

FINANCIAL STATEMENTS

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12 Finance costs

	2008 £'000	2007 £'000
Income shares (sterling)		
Class 'A' - Interim	189	219
Final	206	210
Accumulation shares (sterling)		
Class 'A' - Interim	299	179
Final	223	238
	917	846
Income tax deducted at source	246	249
Finance costs: Interest distributions	1,163	1,095
Income deducted on cancellation of shares	142	236
Income received on issue of shares	(71)	(86)
Finance costs: Distributions	1,234	1,245
Net income per statement of total return	1,233	1,244
Expenses offset against capital	1	1
Undistributed income brought forward	1	1
Undistributed income carried forward	(1)	(1)
Finance costs: Distributions	1,234	1,245

DISTRIBUTION TABLE

Interest distributions on Income shares	Gross income	Income tax deducted	Net income	Equalisation	Distribution paid/payable	
					2008	2007
Sterling	p	p	p	p	p	p
Class 'A' - Interim						
Group 1:	0.6075	0.1215	0.4860	-	0.4860	0.4492
Group 2:	0.3754	0.0751	0.3003	0.1857	0.4860	0.4492
- Final						
Group 1:	0.6700	0.1340	0.5360	-	0.5360	0.4368
Group 2:	0.3284	0.0657	0.2627	0.2733	0.5360	0.4368

Interest distributions on Accumulation shares	Gross income	Income tax deducted	Net income	Equalisation	Amount reinvested	
					2008	2007
Sterling	p	p	p	p	p	p
Class 'A' - Interim						
Group 1:	0.7256	0.1451	0.5805	-	0.5805	0.5266
Group 2:	0.4484	0.0897	0.3587	0.2218	0.5805	0.5266
- Final						
Group 1:	0.8079	0.1616	0.6463	-	0.6463	0.5168
Group 2:	0.3959	0.0792	0.3167	0.3296	0.6463	0.5168

Interim period 01.07.07 - 31.12.07

Final period 01.01.08 - 30.06.08

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

M&G Recovery Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective and policy of the M&G Recovery Fund

The Fund predominantly invests in a diversified range of securities issued by companies which are out of favour, in difficulty or whose future prospects are not fully recognised by the market. The sole aim of the Fund is capital growth. There is no particular income yield target.

Investment approach

The M&G Recovery Fund focuses on troubled companies where a good management team is making concerted efforts to turn the business around. The fund manager seeks opportunities from across the UK stockmarket and the portfolio will contain a wide and interesting mix of companies.

The fund manager seeks to identify stocks whose share prices have fallen well below their true worth, rendering them good value. He is prepared to take a contrarian view and consider areas that are out of favour among investors. These can include restructuring stories, special situations and the seeking out of hidden value.

The fund manager takes a flexible and pragmatic approach to stocks and aims to have a holding period of between three and five years. Company meetings and visits, as well as internal and external research, are used to identify stocks for inclusion in the portfolio. The fund manager considers it most important to meet the management of all the fund's holdings personally, on a regular basis, ideally at their own premises. He will never invest in a stock without having met the management team first.

INVESTMENT REVIEW

As at 1 July 2008, for the year ended 30 June 2008

Factors affecting performance

The M&G Recovery Fund was launched nearly 40 years ago to invest in companies that are out of favour or in trouble, but which we believe have the special potential to restore themselves to health. While today's difficult environment is delivering us no shortage of businesses that are down on their luck, it is also proving to be a harsh place for good companies going through changes or uncertainty. This group naturally occupies a large proportion of the M&G Recovery Fund's portfolio. We have found it particularly important during these challenging times to draw upon the lessons learnt during previous downturns, of which there have been many throughout the fund's lifetime. In particular, we have paid careful attention to achieving a diversified portfolio and the M&G Recovery Fund now contains a wide and hopefully interesting mix of companies, of all shapes and sizes and at different stages of their recovery.

This diversification together with a thorough understanding of each situation, a supportive and patient relationship with company management, and of course, plenty of cups of tea, has enabled us to weather the treacherous market conditions relatively well. We have

also been rewarded for avoiding debt-ridden companies or those that are suffering from the double blow of operational and financial problems (one is plenty but we have learned through experience that both can be fatal).

On the positive side, we were particularly happy with the progress made by Anglo-Irish oil exploration group Tullow Oil. Eight years after we bought shares in Tullow for the M&G Recovery Fund, the stockmarket is at last recognising the value of its extraordinary portfolio of assets in the North Sea, Africa and the Indian sub-continent. Tullow's much deserved success illustrates the effectiveness of hard work and strong leadership. We now have a large position in Tullow and while we prudently trimmed our holding in order to maintain the fund's diversification, we remain committed shareholders.

Coal of Africa, an AIM-listed company with South African assets, also performed strongly thanks to the sharp rise in the coal price and its huge reserves, which in our opinion are not yet reflected in its share price. There were also notable positive contributions from catering business Compass Group and pharmaceutical services provider United Drug. A new management team at Compass Group has revitalised the firm, improving margins and cutting costs, while United Drug is developing its activities at an impressive rate.

Given the severity of the financial crisis, our low exposure to banks also helped. Our cautious view of the banking sector stems from before the current problems when we feared that many financial institutions were operating in inappropriately risky areas at a time of deteriorating economic conditions. It is disappointing that the banks' management teams have generally failed to recognise or take responsibility for their mistakes and many of these companies remain unattractive to the fund while the same people are still in charge. One exception, however, is HSBC, which was quick to acknowledge its error of investing in the US housing market. We believe that HSBC has the corporate culture and global market position required to withstand the current headwinds.

In terms of merger & acquisition activity, longstanding holding Scottish & Newcastle was taken over by a consortium, including Carlsberg on what we saw as not particularly attractive terms. This nevertheless provided the fund with a significant cash boost for other investment opportunities. Oil services company Abbot Group and provider of technical support and consulting services Vega Group also accepted cash bids during the period.

The recovery process is rarely smooth and setbacks do arise, particularly among the portfolio's smaller and sometimes misunderstood companies, which can be regarded by the market as risky investments. The less-than-favourable circumstances of the past 12 months put pressure on such holdings and we would highlight three companies in particular that have suffered considerable setbacks. Perhaps our most disappointing casualty in this respect was Tanfield Group, a manufacturer of electric vehicles and aerial access platforms. Worries over Tanfield's cashflow were confirmed at the end of June when the business issued a profit warning, saying that its growth forecasts for the year had been hit by the slowdown across construction-related industries. Tanfield's problems were compounded by the loathsome short-selling activities of some equity holders whose fleeting interests in the company are completely incompatible with its long-term development. The M&G Recovery Fund has never, and will never, while I'm running it, engage in stock lending activities. As stakeholders in Tanfield's future, we are only too aware that we must take the pain of the fall in its share price and we are working hard to safeguard the fortunes of what remains a promising business.

INVESTMENT REVIEW

Our other two headaches came from the beleaguered biotechnology sector, which has been horribly punished as the market takes refuge in areas offering more certainty. Alizyme, a company that we have held since early 2005, fell back when it announced the discontinuation of its treatment for irritable bowel syndrome. We have continued to support Alizyme because we believe that the prospects for its anti-obesity drug, which has the potential to be effective in treating diabetes, remain interesting. Alizyme is one of the fund's more volatile and risky investments and we are following developments closely. Medical Marketing International (MMI) also fell dramatically as the company dealt with a senior management crisis. Although the shares make up a small proportion of the fund, we are a large shareholder and we have been involved with MMI's new management team in attempts to revive the business.

Elsewhere, powered access platform manufacturer Lavendon and mining company Kenmare Resources declined, as did Regus, a firm that provides flexible office space. Regus succumbed to worries that it would be hit by the economic downturn, but we feel strongly that its high quality client base, geographic diversification and entrepreneurial leadership leave it well placed to withstand challenging conditions.

Changes to the portfolio

During the review period, we continued to find some of the most attractive recovery opportunities among the best known names in the UK market, namely large unloved blue chips such as Unilever, BP, Shell, Prudential, Vodafone, GlaxoSmithKline and HSBC. These holdings have attractive growth prospects in their own right, particularly their exposure to emerging markets. However, they also possess compelling defensive qualities, providing a counterbalance to some of the more volatile recovery candidates that are appearing further down the market capitalisation scale.

In the mid-cap area, we added to our holding in Invensys, a promising software engineering firm. After suffering profound financial problems several years ago, the company appointed an exceptional financial director who has got to grips with improving the business. Further additions included Australian agricultural group Futuris, mineral exploration company African Minerals and engineering firm Smiths Group. The latter has appointed a very capable chief executive, Philip Bowman, with an impressive record of transforming underperforming companies.

This year in particular we have been involved in an increased number of capital raisings. This is not a new theme in the portfolio, but it has gained importance as conditions for companies deteriorate. Supporting businesses with long-term financial backing is an integral part of the fund's investment approach and its scale and reputation as a supportive long-term shareholder mean that we can be a natural 'first port of call' when companies are seeking additional equity capital. During the period, we participated in capital raising opportunities from Alizyme, Eco Animal Health and Pursuit Dynamics. We also participated in a number of underwritings, including gold miner AngloGold Ashanti and Groupe Eurotunnel, which runs the channel tunnel between the UK and France. The threat of bankruptcy at Groupe Eurotunnel prompted a new management team to carry out extensive restructuring, which has led

to lower debt and costs. Groupe Eurotunnel recently moved into profit for the first time and after meeting the company's Calais-based management team, we came away impressed by the many improvements that are under way.

In terms of disposals, we sold our entire holding in diversified mining group Anglo American, which has been an excellent performer for the fund. We also sold the remainder of our positions in Barclays and Royal Bank of Scotland Group. Both provided us with ample reason to sell their shares after their undignified bidding war for ABN AMRO at a time when they should have been focusing on protecting their existing businesses from the imminent financial crisis. We also carefully reduced our long-standing positions in diversified mining company First Quantum Minerals and energy firm Centrica as well as water and waste group Pennon.

Given our focus on troubled companies, which often require at least between three and five years to recover, the fund's turnover rate remains low. We consider ourselves to be investors in companies, not traders of their shares. Sadly though, we are swimming against the tide, as the average holding period in the UK market for institutional shareholders is now a rather pathetic 7.8 months.

Outlook

Clouded by so many uncertainties, the economic situation in the UK does not inspire much confidence. The full effect of the credit crunch is still unknown and fears are deepening that the economy is on the verge of a recession. Complacency about the good times has been a long-term feature and it is only now that investors are starting to realise that the road ahead will not be as smooth as the past five years. We believe that this acknowledgement is long overdue.

Meanwhile, the current conditions will undoubtedly provide the M&G Recovery Fund with some outstanding long-term investment opportunities in underperforming firms that have been punished by the market, perhaps for being in unfashionable areas, or for not being big and well-known enough, or after suffering financial or operational problems. We will continue to choose our battles carefully, but the M&G Recovery Fund has a significant role to play by offering our long-term financial support and experience to those firms that we believe have something special. Above all, common sense and patience continue to be the fund's key principles and we think that these attributes will be crucial in the tough climate ahead.

Tom Dobell

Fund manager

Tom Dobell is an employee of M&G Limited which is an associate of M&G Securities Limited.

Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial Adviser.

M&G Recovery Fund

FUND STATISTICS

Sterling Class 'C' shares are not generally available to all investors.

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Interim	02.01.09	28.02.09
Final	01.07.09	31.08.09

	Final distribution		Total Expense Ratio ^[b]	
	Inc 31.08.08 ^[a]	Acc 01.07.08 ^[a]	30.06.08	30.06.07
Sterling	p	p	%	%
Class 'A'	0.9750	2.0174	1.65	1.66
Class 'C'	1.7270	3.7323	0.16	0.16
Class 'X'	0.9950	2.0235	1.64	1.63
Euro	€	€	%	%
Class 'A'	n/a	17.5710	1.66	1.64
Class 'C'	n/a	25.7120	0.90	0.90

The Portfolio Turnover Rate (PTR) for the 12 months ending 30 June 2008 was -7.58% compared with 15.84% for the year ending 30 June 2007. ^[c]

^[a] The date on which the final distribution will be paid to Income shareholders and credited to Accumulation shareholders.

^[b] The Total Expense Ratio (TER) shows the relevant annualised operating expenses of each share class from the most recent reporting period as a single percentage of the average net asset value for that share class over the same period.

^[c] The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within the fund over the course of a 12 month period. The PTR is calculated by taking the sum of all transactions in securities less the sum of all transactions in the fund's shares and is expressed as a percentage of the fund's average net asset value.

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 30.06.08		Net asset value per share as at 30.06.07		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	96.88	202.50	105.79	218.28	-8.42	-7.23
Class 'C'	97.05	213.53	105.99	226.73	-8.43	-5.82
Class 'X'	97.51	200.37	106.49	215.95	-8.43	-7.21
Euro	€	€	€	€	%	%
Class 'A'	n/a	17.9615	n/a	22.8007	n/a	-21.22
Class 'C'	n/a	18.7567	n/a	23.6262	n/a	-20.61

PERFORMANCE SINCE LAUNCH

	six months 02.01.08 %	one year 02.07.07 %	five years 01.07.03 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	-9.1	-10.6	+14.8	+13.2 ^[c]
Class 'C'	-9.1	-10.6	n/a	+13.2 ^[d]
Class 'X'	-9.1	-10.6	+14.8	+14.7 ^[e]
Euro ^[f]				
Class 'A'	-14.1	-22.6	+12.9	+11.0 ^[g]
Class 'C'	-13.8	-22.0	+13.8	+11.8 ^[g]

^[a] Shows the compound rate of return, per annum, over the period.

^[b] Bid to bid excluding reinvested income.

^[c] 23 May 1969, the launch date of the predecessor unit trust.

^[d] 1 July 2004, the launch date of the share class.

^[e] 1 October 2002, the launch date of the share class.

^[f] Bid to bid with net income reinvested.

^[g] 29 November 2002, the launch date of the share class.

SINGLE YEAR PERFORMANCE (5 YEARS ENDING JUNE)

From To	29.06.07 30.06.08 %	30.06.06 29.06.07 %	30.06.05 30.06.06 %	30.06.04 30.06.05 %	30.06.03 30.06.04 %
Sterling					
Class 'A' ^[a]	-7.3	+25.1	+26.4	+18.9	+22.3

^[a] Nominated share class.

Source: Morningstar Inc., bid to bid with net income reinvested.

M&G Recovery Fund

FUND STATISTICS

PRICES					
	Calendar year	Income shares Highest	Income shares Lowest	Accumulation shares Highest	Accumulation shares Lowest
Sterling		p	p	p	p
Class 'A'	2003	56.52	38.26	111.58	74.67
	2004	63.31	55.32	126.86	110.84
	2005	79.92	63.08	162.30	127.06
	2006 ^[a]	94.84	80.51	194.25	163.89
	2007	111.53	91.10	230.11	186.99
	2008 ^[b]	107.47	91.15	222.36	188.59
Class 'C'	2004 ^[c]	63.58	55.37	127.40	110.95
	2005	80.46	63.10	164.85	127.62
	2006 ^[a]	95.59	80.59	200.17	166.50
	2007	112.30	91.47	240.23	193.31
	2008 ^[b]	108.30	91.41	234.05	197.54
Class 'X'	2003	56.80	38.53	111.18	74.61
	2004	63.61	55.67	125.84	110.14
	2005	80.38	63.50	160.47	126.01
	2006 ^[a]	95.48	81.04	192.14	162.05
	2007	112.26	91.70	227.65	184.97
	2008 ^[b]	108.18	91.74	220.01	186.58
Euro		€	€	€	€
Class 'A'	2003	n/a	n/a	11.2770	7.7862
	2004	n/a	n/a	12.9300	11.2352
	2005	n/a	n/a	16.5949	12.7090
	2006 ^[a]	n/a	n/a	20.3734	16.7669
	2007	n/a	n/a	23.9566	19.2955
	2008 ^[b]	n/a	n/a	20.8520	17.4138
Class 'C'	2003	n/a	n/a	11.3904	7.8018
	2004	n/a	n/a	13.1449	11.3552
	2005	n/a	n/a	17.0043	12.9301
	2006 ^[a]	n/a	n/a	21.0295	17.1823
	2007	n/a	n/a	24.8350	19.9490
	2008 ^[b]	n/a	n/a	21.6914	18.1435

^[a] The M&G British Opportunities Fund merged into the M&G Recovery Fund immediately after 10 November 2006.

^[b] To 1 July 2008.

^[c] From 1 July 2004 (the launch date of the share class) to 31 December 2004.

Past performance is no indication of current or future performance and the performance data does not take account of the commissions and costs incurred on the issue and redemption of shares.

The price of shares and the income from them may go down as well as up, and you may get back less than you invested.

INCOME

Income per share

	Calendar year	Interim	Distributed Final	Total	Reinvested
Sterling (net)		p	p	p	p
Class 'A'	2003	0.3490	0.5530	0.9020	1.0794
	2004	0.3850	0.4720	0.8570	1.6983
	2005	0.3380	0.5640	0.9020	1.8133
	2006	0.1900	0.5300	0.7200	1.4648
	2007	0.2000	0.5530	0.7530	1.5448
	2008 ^[a]	0.2950	0.9750	1.2700	2.6261
Class 'C'	2005	0.5980	0.8900	1.4880	2.9983
	2006	0.6730	1.1670	1.8400	3.7898
	2007	0.8680	1.3020	2.1700	4.5693
	2008 ^[a]	1.0880	1.7270	2.8150	6.0596
Class 'X'	2003	nil	0.5210	0.5210	1.0090
	2004	0.2780	0.3380	0.6160	1.2090
	2005	0.2020	0.4140	0.6160	1.2212
	2006	0.1280	0.5580	0.6860	1.3712
	2007	0.2180	0.5710	0.7890	1.5905
	2008 ^[a]	0.3080	0.9950	1.3030	2.6481
Euro (net)		€	€	€	€
Class 'A'	2003	n/a	n/a	n/a	8.6450
	2004	n/a	n/a	n/a	9.7050
	2005	n/a	n/a	n/a	12.5580
	2006	n/a	n/a	n/a	14.0210
	2007	n/a	n/a	n/a	16.5990
	2008 ^[a]	n/a	n/a	n/a	23.3520
Class 'C'	2003	n/a	n/a	n/a	12.1430
	2004	n/a	n/a	n/a	21.1570
	2005	n/a	n/a	n/a	22.2220
	2006	n/a	n/a	n/a	26.5760
	2007	n/a	n/a	n/a	32.4920
	2008 ^[a]	n/a	n/a	n/a	39.8380

^[a] Up to final: ex-distribution date 1 July 2008;
payment date 31 August 2008.

M&G Recovery Fund

FUND STATISTICS

NET ASSETS					
	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling					
Class 'A'	Jun 2006	p	p		
	Jun 2007 ^[a]				
	Jun 2008				
Class 'C'	Jun 2006				
	Jun 2007				
	Jun 2008				
Class 'X'	Jun 2006				
	Jun 2007 ^[a]				
	Jun 2008				
Euro					
Class 'A'	Jun 2006	€	€		
	Jun 2007 ^[a]				
	Jun 2008				
Class 'C'	Jun 2006				
	Jun 2007 ^[a]				
	Jun 2008				
Total net asset value of sub-fund					
	Year ended	£		€ ^[b]	
	Jun 2006				
	Jun 2007 ^[a]				
	Jun 2008				

^[a] The M&G British Opportunities Fund merged into the M&G Recovery Fund immediately after 10 November 2006.

^[b] Based on the midday exchange rate on the last business day of each financial year.

FINANCIAL STATEMENTS

For the year ended 30 June 2008.

STATEMENT OF TOTAL RETURN

	Note	2008		2007	
		£'000	£'000	£'000	£'000
Net (losses) / gains on investments	3		(257,781)		486,262
Currency losses			(297)		(60)
Income	4	83,660		58,345	
Expenses	5	(36,763)		(27,473)	
Finance costs: Interest	12	(1)		(7)	
Net income before taxation		46,896		30,865	
Taxation	6	(71)		(188)	
Net income after taxation			46,825		30,677
Total return before distributions			(211,253)		516,879
Finance costs: Distributions	12		(46,708)		(27,513)
Change in net assets attributable to shareholders from investment activities			(257,961)		489,366

STATEMENT OF CHANGE IN SHAREHOLDERS' NET ASSETS

		2008		2007	
		£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders			2,760,556		1,707,541
Amounts received on issue of shares	642,500			317,823	
Transfer of assets from the M&G British Opportunities Fund to the M&G Recovery Fund	-			413,609	
Amounts paid on cancellation of shares	(233,580)			(180,111)	
			408,920		551,321
Stamp Duty Reserve Tax (SDRT)			(2,093)		(1,207)
Change in net assets attributable to shareholders from investment activities (see above)			(257,961)		489,366
Retained distributions on Accumulation shares			24,010		13,521
Unclaimed distributions			16		14
Closing net assets attributable to shareholders			2,933,448		2,760,556

M&G Recovery Fund

FINANCIAL STATEMENTS

BALANCE SHEET

	as at 30 June 2008		as at 30 June 2007	
	£'000	£'000	£'000	£'000
Assets				
Portfolio of investments		2,636,408		2,642,749
Debtors				
Amounts receivable on issues	8,639		7,282	
Bank interest receivable	7		8	
Currency deals outstanding	5,795		0	
Deposit interest receivable	0		20	
Dividends receivable	15,530		11,611	
HM Revenue & Customs interest receivable	0		100	
Prepaid expenses	1		192	
Sales awaiting settlement	297		32,429	
VAT recoverable	0		1,323	
Cash and bank balances	305,784		121,997	
Total other assets		336,053		174,962
Total assets		2,972,461		2,817,711
Liabilities				
Creditors				
Amounts payable on cancellations	(3,473)		(1,862)	
Currency deals outstanding	(5,803)		0	
Expenses payable	(27)		(24)	
Net distributions payable on Income shares	(16,681)		(10,374)	
Placings awaiting settlement	0		(6,893)	
Purchases awaiting settlement	(12,904)		(37,894)	
SDRT payable	(125)		(108)	
Total liabilities		(39,013)		(57,155)
Net assets attributable to shareholders		2,933,448		2,760,556

PORTFOLIO STATEMENT

as at 30 June 2008				
Holding		Value £'000	30.06.08 %	30.06.07 %
Oil & gas producers			21.38	17.71
31,150,000 BP		179,735	6.13	
9,400,000 Royal Dutch Shell 'B'		187,248	6.38	
12,500,000 Tap Oil		10,278	0.35	
26,657,925 Tullow Oil		249,785	8.52	
Oil equipment, services & distribution			0.58	0.72
2,000,000 Hunting		17,100	0.58	
Chemicals			2.37	2.27
3,995,426 Croda International		25,351	0.86	
2,150,613 Johnson Matthey		39,378	1.34	
5,320,632 Porvair		4,948	0.17	
Mining			4.83	7.97
61,261,600 Allied Gold (Australian listing)		17,482	0.60	
21,000,000 Diamond Fields International		679	0.02	
1,400,000 First Quantum Minerals		46,774	1.60	
88,405,152 Kenmare Resources		37,130	1.27	
1,235,000 Lonmin		39,335	1.34	
Aerospace & defence			2.26	3.46
13,665,866 Meggitt		28,664	0.98	
11,000,000 Rolls-Royce Group		37,510	1.28	

PORTFOLIO STATEMENT (continued)

as at 30 June 2008				
Holding		Value £'000	30.06.08 %	30.06.07 %
Electronic & electrical equipment			1.98	1.61
18,500,000 Invensys		48,285	1.65	
5,000,000 Morgan Crucible		9,650	0.33	
General industrials			0.92	0.00
2,500,000 Smiths Group		26,950	0.92	
Industrial engineering			0.47	1.09
5,810,240 Renold		4,474	0.15	
3,906,760 Severfield-Rowen		9,298	0.32	
Industrial transportation			1.86	0.66
3,803,764 Business Post Group		11,982	0.41	
4,999,995 Groupe Eurotunnel		39,397	1.34	
15,000,000 Groupe Eurotunnel wts. 2011		3,092	0.11	
Support services			4.91	6.31
16,000,000 AEA Technology		10,560	0.36	
2,500,000 Aggreko		18,287	0.62	
5,000,000 AMEC		44,250	1.51	
2,503,200 De La Rue		22,003	0.75	
4,933,882 Lavendon Group		12,100	0.41	
46,000,000 Regus Group		36,915	1.26	
Beverages			0.00	1.31
Food producers			4.96	5.01
2,922,111 Associated British Foods		22,208	0.76	
3,600,000 Dairy Crest Group		11,736	0.40	
30,000,000 Futuris		15,961	0.54	
3,469,792 REA Holdings		20,055	0.68	
4,765,000 Unilever		67,139	2.29	
7,287,031 Uniq		8,453	0.29	
Healthcare equipment & services			0.63	0.29
4,773,483 Bioquell		6,922	0.24	
1,556,824 Synergy Healthcare		11,497	0.39	
Pharmaceuticals & biotechnology			6.60	6.69
33,128,590 Alizyme		7,040	0.24	
1,620,000 Genus		13,049	0.44	
12,850,000 GlaxoSmithKline		144,048	4.91	
40,000,000 Oxford Biomedica		9,100	0.31	
2,500,000 Shire		20,400	0.70	
Food & drug retailers			1.15	0.20
4,750,000 Sainsbury (J.)		14,856	0.51	
6,566,905 United Drug		18,765	0.64	
General retailers			0.56	0.71
5,000,000 Mothercare		16,500	0.56	
Media			0.85	0.99
5,300,000 British Sky Broadcasting Group		24,950	0.85	
Travel & leisure			2.07	2.05
13,150,000 Compass Group		49,115	1.67	
1,250,000 National Express		11,875	0.40	
Fixed line telecommunications			0.77	0.85
15,000,000 Cable & Wireless		22,650	0.77	
Mobile telecommunications			4.31	4.79
86,600,000 Vodafone Group		126,436	4.31	
Electricity			3.22	2.43
11,000,000 British Energy Group		77,605	2.65	
4,000,000 International Power		16,810	0.57	
Gas, water & multi-utilities			1.37	1.74
6,000,000 Centrica		18,315	0.62	
3,500,000 Pennon Group		22,120	0.75	
Banks			6.25	8.35
22,000,000 HSBC Holdings		171,215	5.84	
3,870,396 Lloyds TSB Group		12,037	0.41	

M&G Recovery Fund

FINANCIAL STATEMENTS

PORTFOLIO STATEMENT (continued)

as at 30 June 2008

Holding	Value £'000	30.06.08 %	30.06.07 %
General financial		0.22	0.12
79,233 Camellia	6,517	0.22	
Life insurance		3.18	2.92
4,500,000 Aviva	22,590	0.77	
13,500,000 Legal & General Group	13,540	0.46	
5,850,000 Old Mutual	5,382	0.18	
9,750,000 Prudential	51,968	1.77	
Non-life insurance		0.37	0.94
3,645,419 Novae Group	10,763	0.37	
Software & computer services		0.81	1.33
35,000,000 Dimension Data Holdings	15,838	0.54	
50,518,921 Innovation Group	7,957	0.27	
Technology hardware & equipment		0.61	1.15
5,221,614 Filtronic	3,681	0.13	
20,380,820 Imagination Technologies Group	14,012	0.48	
AIM quoted		10.38	11.81
13,000,000 African Minerals	21,840	0.74	
10,027,452 Block Shield	3,710	0.13	
11,593,089 Cape	32,316	1.10	
33,206,022 Coal of Africa	66,412	2.26	
6,700,000 Eco Animal Health	6,834	0.23	
44,000,000 European Nickel	12,430	0.42	
4,621,042 First Calgary Petroleum	5,453	0.19	
42,000,000 FREEDOM4 Communications (formerly Pipex Communications)	764	0.03	
11,608,107 Georgica	3,773	0.13	
10,000,000 GW Pharmaceuticals	4,300	0.15	
8,961,269 Medical Marketing International Group	1,613	0.05	
50,305,379 Monto Minerals	1,635	0.06	
5,396,190 Monto Minerals options	27	0.00	
23,618,271 NetStore	6,377	0.22	
5,730,723 Pursuit Dynamics	11,161	0.38	
12,000,000 Sibir Energy	95,340	3.25	
77,889,381 SPARK Ventures	5,647	0.19	
32,348,422 Tanfield Group	10,351	0.35	
23,025,000 Titanium Resources Group	5,296	0.18	
4,578,571 Zenergy Power	9,249	0.32	
Unquoted / unlisted		0.00	0.25
3,094,020 Izodia ^[a]	0	0.00	
1,570,000 Monto Minerals loan notes	0	0.00	
3,858,499 Waterdorm	135	0.00	
Portfolio of investments (notes 1b & 1c on page 82)	2,636,408	89.87	95.73
Net other assets	297,040	10.13	4.27
Net assets attributable to shareholders	2,933,448	100.00	100.00

[a] Suspended on 16 December 2002.

SUMMARY OF MATERIAL PORTFOLIO CHANGES

Largest purchases	£'000
GlaxoSmithKline	38,307
Groupe Eurotunnel	38,219
HSBC Holdings	34,519
Invensys	30,012
Futuris	27,670
Smiths Group	26,008
African Minerals	23,160
Prudential	22,085
Aviva	21,287
Abbot Group	17,339
Sainsbury (J.)	17,237
BP	16,335
United Drug	13,130
Unilever	12,477
British Energy Group	12,197
Tap Oil	11,945
Vodafone Group	11,634
Zenergy Power	11,289
Royal Dutch Shell 'B'	8,054
Dairy Crest Group	7,686
Other purchases	88,841
Total purchases for the year	489,431
Largest sales	£'000
Scottish & Newcastle	48,000
Royal Bank of Scotland Group	29,575
Anglo American	25,971
Abbot Group	23,060
First Quantum Minerals	18,148
Tanfield Group	10,263
Catlin Group	10,036
RPS Group	7,465
Barclays	7,128
FREEDOM4 Communications (formerly Pipex Communications)	6,026
Vega Group	5,468
Hunting	5,282
Tullow Oil	4,213
Cape	4,189
Pennon Group	3,174
Genus	3,004
Morgan Crucible	2,979
InvestinMedia	2,977
API Group	2,489
International Power	2,224
Other sales	8,807
Total sales for the year	230,478

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

- a) **Basis of accounting:** The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in December 2005.
- b) **Basis of valuation of investments:** All investments are valued at their fair value as at 12 noon on 30 June 2008, being the last business day of the financial year. The fair value of non-derivative securities is bid price, excluding any accrued interest. Unquoted investments are shown at the Authorised Corporate Director's (ACD's) valuation.
- c) **Exchange rates:** Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling as at 12 noon on 30 June 2008, being the last business day of the financial year.
- d) **Recognition of income:** Income from quoted equity and non-equity shares is recognised net of attributable tax credits when the security is quoted ex-dividend. Overseas income received after the deduction of withholding tax is shown gross of taxation, with the taxation consequences shown within the taxation charge.
- Bank interest, deposit interest, interest on debt securities and other income are recognised on an accruals basis.
- e) **Stock dividends:** The ordinary element of stocks received in lieu of cash dividends is recognised as income of the sub-fund. Any enhancement above the cash dividend is treated as capital.
- f) **Special dividends:** These are recognised as either income or capital depending upon the nature and circumstances of the dividend receivable.
- g) **Underwriting commission:** This is taken to income and recognised when the issue takes place, except where the sub-fund is required to take up all or some of the shares underwritten, in which case an appropriate proportion of the commission is deducted from the cost of these shares.
- h) **Expenses:** For accounting purposes, all expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against income for the year on an accruals basis.
- i) **Apportionment of income and expenses to multiple share classes:** With the exception of the ACD's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

j) **Taxation:** The rate of corporation tax for the sub-fund is 20%, with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

k) **Deferred taxation:** Deferred tax is provided for in respect of all timing differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

l) **Distribution policy:** The policy of the sub-fund is to distribute all available income, after deduction of expenses properly chargeable against income. Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

Stock dividends do not form part of the distributable income.

Distributions which have remained unclaimed by shareholders for more than six years are credited to the capital property of the sub-fund.

2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) Report, the ACD accepts market price risk and currency risk in relation to the investment portfolio. Generally, the ACD will not seek to hedge this exposure since the ACD believes that, in the long term, such hedging would be detrimental to total return.

A proportion of the portfolio is quoted on the Alternative Investment Market (AIM) and the liquidity of these stocks cannot be guaranteed. The nature of AIM investments is such that prices can be volatile and realisations may not achieve current book value, especially when such sales represent a significant proportion of that company's market capital. Nevertheless, on the grounds that the investments are not intended for immediate realisation, we regard bid price as the most objective and appropriate method of valuation.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

The sub-fund's assets comprise securities that can be readily realised to meet obligations that may arise on the redemption of shares. As noted on page 111, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (30.06.07: same).

3 Net (losses) / gains on investments

	2008 £'000	2007 £'000
Non-derivative securities	(265,294)	476,212
Special dividends taken to capital	7,513	10,050
Net (losses) / gains on investments	(257,781)	486,262

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

4 Income

	2008 £'000	2007 £'000
Bank interest	88	91
Deposit interest	12,447	4,641
HM Revenue & Customs interest	26	35
Interest on debt securities	0	18
Overseas dividends	1,361	1,073
Stock dividends	121	3,143
UK dividends	68,125	48,992
Underwriting commission	1,492	352
	83,660	58,345

5 Expenses

	2008 £'000	2007 £'000
Payable to the Authorised Corporate Director or associate		
Authorised Corporate Director's periodic charge	32,311	23,799
Administration fee	4,274	3,335
	36,585	27,134
Payable to the Depositary or associate		
Depositary's fee (including VAT)	107	89
Other expenses		
Audit fee (including VAT)	9	9
Regulatory fees	4	2
Safe custody charge	31	21
Tax consultancy fees ^[a]	13	11
Transaction charges	10	9
	67	52
VAT recoverable		
Prior year	4	198
Total expenses	36,763	27,473

[a] Fees paid to overseas firms affiliated with PricewaterhouseCoopers LLP.

6 Taxation

	2008 £'000	2007 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Overseas tax	88	149
Overseas tax recoverable: written off	59	39
Overseas tax recovered: previously written off	(76)	0
Current tax charge (note 6b)	71	188
Deferred tax (note 6c)	0	0
	71	188

b) Factors affecting taxation charge for the year

Net income before taxation	46,896	30,865
Corporation tax at 20%	9,379	6,173
Effects of:		
UK dividends ^[a]	(13,625)	(9,798)
Stock dividends not taxable	(24)	(629)
Current period expenses not utilised	4,290	4,252
Expenses not deductible for tax purposes	2	2
Income taxable in different periods	(22)	0
Overseas tax	88	149
Overseas tax recoverable: written off	59	39
Overseas tax recovered: previously written off	(76)	0
Current tax charge (note 6a)	71	188

[a] As a sub-fund of an Open-Ended Investment Company this item is not subject to corporation tax.

c) Provision for deferred taxation

Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
Provision at the end of the year	0	0

The sub-fund has not recognised a deferred tax asset of £30,306,000 (30.06.07: £26,038,000) arising as a result of having unutilised management expenses, and £224,000 (30.06.07: £136,000) arising as a result of having eligible unrelieved foreign tax. Accordingly, the total unrecognised deferred tax asset is £30,530,000 (30.06.07: £26,174,000). We do not expect this asset to be utilised in the foreseeable future.

7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (30.06.07: the sub-fund had a commitment to warrants outstanding of £1,886,855).

8 Related parties

M&G Securities Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in shareholders' net assets and note 12. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to M&G Securities Limited in respect of the Authorised Corporate Director's periodic charge and administration fee are disclosed in note 5. Amounts due at the year end are disclosed in the balance sheet where applicable.

During the year, there were transactions in shares in related parties of M&G Securities Limited with a total value of £22,085,000 (2007: £nil).

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

8 Related parties (continued)

At the balance sheet date, the sub-fund held shares in related parties of M&G Securities Limited with a value of £51,968,000 (30.06.07: £45,399,000).

At the balance sheet date, material shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 23.32% (30.06.07: 28.02%) of the sub-fund's shares.

9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (30.06.07: same).

Currency exposure

There was no significant foreign currency exposure within the sub-fund at the balance sheet date (30.06.07: same).

Interest rate profile

The majority of the sub-fund's assets comprise equity shares which neither pay interest nor have a maturity date (30.06.07: same).

Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (30.06.07: same).

10 Portfolio transaction costs

	2008 £'000	2007 £'000
a) Purchases		
Purchases excluding transaction costs	486,965	478,622
Commissions	534	549
Taxes	1,932	2,092
Total transaction costs	2,466	2,641
Total purchases including transaction costs	489,431	481,263
b) Sales		
Sales excluding transaction costs	230,663	393,938
Commissions	(185)	(432)
Total sales net of transaction costs	230,478	393,506

11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Net Income and Net Accumulation) shares, Sterling Class 'C' (Net Income and Net Accumulation) shares and Sterling Class 'X' (Net Income and Net Accumulation) shares.

This sub-fund also contains Euro Class 'A' (Net Accumulation) shares and Euro Class 'C' (Net Accumulation) shares.

The charging structure for each share class, as at 30 June 2008, is set out in the following table (30.06.07: same):

CHARGES AND EXPENSES

	Initial charge %	Redemption charge %	ACD's annual remuneration %
Sterling			
Class 'A'	4.00	n/a	1.50
Class 'C'	nil	n/a	nil
Class 'X'	nil	4.50 ^[a]	1.50
Euro			
Class 'A'	3.25	n/a	1.00
Class 'C'	1.25	n/a	0.50

^[a] The redemption charge diminishes over a period of five years. Please refer to the Key Features document for further information.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

NET ASSET VALUES

	30.06.08		30.06.07	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
Sterling				
Class 'A'	909,196	1,041,491	914,509	813,604
Class 'C'	377,647	187,419	433,828	231,698
Class 'X'	79,491	119,198	49,409	53,224
Euro				
Class 'A'	n/a	84,451	n/a	124,352
Class 'C'	n/a	134,555	n/a	139,932

The net asset value per share and the number of shares are given in the comparative table on page 79. The distribution per share is given in the distribution table on page 85. Each share class has the same rights on winding-up.

M&G Recovery Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

12 Finance costs

	2008 £'000	2007 £'000
Income shares (sterling)		
Class 'A' - Interim	2,661	1,849
Class 'A' - Final	9,150	4,780
Class 'C' - Interim	4,324	3,075
Class 'C' - Final	6,720	5,329
Class 'X' - Interim	185	72
Class 'X' - Final	811	265
Accumulation shares (sterling)		
Class 'A' - Interim	2,649	1,455
Class 'A' - Final	10,376	4,231
Class 'C' - Interim	2,262	1,975
Class 'C' - Final	3,276	2,812
Class 'X' - Interim	226	86
Class 'X' - Final	1,204	284
Accumulation shares (euro)		
Class 'A' - Interim	357	163
Class 'A' - Final	826	664
Class 'C' - Interim	989	634
Class 'C' - Final	1,845	1,217
Finance costs: Dividend distributions	47,861	28,891
Income deducted on cancellation of shares	904	434
Income received on issue of shares	(2,057)	(752)
Income received on issue of shares from the merger between the M&G British Opportunities Fund and the M&G Recovery Fund	0	(1,060)
Finance costs: Distributions	46,708	27,513
Finance costs: Interest	1	7
Total finance costs	46,709	27,520
Net income per statement of total return	46,825	30,677
Expenses offset against capital	10	9
Stock dividends not distributed	(121)	(3,143)
Undistributed income brought forward	128	98
Undistributed income carried forward	(134)	(128)
Finance costs: Distributions	46,708	27,513

DISTRIBUTION TABLE

Dividend distributions on Income shares	Tax credit	Net income	Equalisation	Distribution paid/payable	
				2008	2007
Sterling	p	p	p	p	p
Class 'A' - Interim					
Group 1:	0.0328	0.2950	-	0.2950	0.2000
Group 2:	0.0126	0.1130	0.1820	0.2950	0.2000
- Final					
Group 1:	0.1083	0.9750	-	0.9750	0.5530
Group 2:	0.0647	0.5821	0.3929	0.9750	0.5530
Class 'C' - Interim					
Group 1:	0.1209	1.0880	-	1.0880	0.8680
Group 2:	0.0615	0.5532	0.5348	1.0880	0.8680
- Final					
Group 1:	0.1919	1.7270	-	1.7270	1.3020
Group 2:	0.1049	0.9437	0.7833	1.7270	1.3020
Class 'X' - Interim					
Group 1:	0.0342	0.3080	-	0.3080	0.2180
Group 2:	0.0140	0.1262	0.1818	0.3080	0.2180
- Final					
Group 1:	0.1106	0.9950	-	0.9950	0.5710
Group 2:	0.0688	0.6189	0.3761	0.9950	0.5710

Dividend distributions on Accumulation shares	Tax credit	Net income	Equalisation	Amount reinvested	
				2008	2007
Sterling	p	p	p	p	p
Class 'A' - Interim					
Group 1:	0.0676	0.6087	-	0.6087	0.4097
Group 2:	0.0259	0.2332	0.3755	0.6087	0.4097
- Final					
Group 1:	0.2242	2.0174	-	2.0174	1.1351
Group 2:	0.1338	1.2045	0.8129	2.0174	1.1351
Class 'C' - Interim					
Group 1:	0.2586	2.3273	-	2.3273	1.8177
Group 2:	0.1315	1.1833	1.1440	2.3273	1.8177
- Final					
Group 1:	0.4147	3.7323	-	3.7323	2.7516
Group 2:	0.2266	2.0395	1.6928	3.7323	2.7516
Class 'X' - Interim					
Group 1:	0.0694	0.6246	-	0.6246	0.4387
Group 2:	0.0284	0.2559	0.3687	0.6246	0.4387
- Final					
Group 1:	0.2248	2.0235	-	2.0235	1.1518
Group 2:	0.1398	1.2586	0.7649	2.0235	1.1518
Euro	€	€	€	€	€
Class 'A' - Interim					
Group 1:	0.6423	5.7810	-	5.7810	4.4220
Group 2:	0.2389	2.1502	3.6308	5.7810	4.4220
- Final					
Group 1:	1.9523	17.5710	-	17.5710	12.1770
Group 2:	1.5841	14.2566	3.3144	17.5710	12.1770
Class 'C' - Interim					
Group 1:	1.5696	14.1260	-	14.1260	11.9390
Group 2:	0.8971	8.0737	6.0523	14.1260	11.9390
- Final					
Group 1:	2.8569	25.7120	-	25.7120	20.5530
Group 2:	1.2564	11.3073	14.4047	25.7120	20.5530

Interim period 01.07.07 - 31.12.07

Final period 01.01.08 - 30.06.08

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

M&G Recovery Fund

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M&G Smaller Companies Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective and policy of the M&G Smaller Companies Fund

The Fund invests in smaller companies, where good management can have most impact on earnings. Investment in such shares can offer prospects of above average capital growth. Income is not a major factor and the yield can be expected to be less than that of the FTSE All-Share Index.

Investment approach

The M&G Smaller Companies Fund uses a bottom-up approach in order to capture the superior long-term growth that can be found in smaller organisations. Company meetings are key to this approach, as the strength of management is crucial to the success of a small company. Further to the meetings, the fund manager uses financial analysis and valuation methods to assess the company's potential.

Several additional buy criteria are applied: competitive edge (such as strong market position, strong brand, proprietary technology or barriers to entry); financial strength (high return on capital and strong balance sheet); and high incentivisation (management should own shares in their own companies).

Generally, shares will be held for the long term as companies that meet the required criteria often outperform over a longer period. However, shares will be sold when a company is significantly overvalued, is taken over, or if the original reasons for buying no longer apply.

INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

As at 1 July 2008, for the year ended 30 June 2008

We initiated a holding in Spirax-Sarco Engineering, which provides services related to the use of steam and other industrial fluids. Spirax-Sarco is a diversified business with a strong balance sheet and a robust 20-year sales history. We believe that the high oil price underlines the importance of using steam efficiently which should support Spirax-Sarco's end markets.

Another acquisition was a holding in Low & Bonar, a flooring specialist with a strong management team and significant investment in research and development. We believe that the company's chief executive is reinvigorating the business whose stock has been undervalued by investors.

We took a new position in property consultant Savills as it has long-term growth potential in its Asian and European markets. It is also well positioned to take advantage of structural opportunities when the UK property market recovers from its current lows.

With regards to share disposals, the holdings in building contractor Morgan Sindall and tool hire company Speedy Hire left the portfolio as we became concerned that their business has been hit by the housing slump.

We sold our holding in sportswear firm Umbro at a profit as its share price appreciated after a takeover bid by Nike. Beazley Group, a Lloyds insurance underwriter, also left the portfolio. The stock has performed well but we believe that its value is now reflected in its share price.

Our positions in engineering consultant WS Atkins and copper miner First Quantum Minerals were disposed of as both companies became too large for the fund's asset class. The fund received cash for its holdings in healthcare company Whatman and steel industry supplier Foseco following their takeovers by GE Healthcare and Cookson Group, respectively.

Simon Bailey

Fund manager

Simon Bailey is an employee of M&G Limited which is an associate of M&G Securities Limited.

Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial Adviser.

M&G Smaller Companies Fund

FUND STATISTICS

Sterling Class 'C' shares are not generally available to all investors.

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Interim	02.01.09	28.02.09
Final	01.07.09	31.08.09

	Final distribution		Total Expense Ratio ^[b]	
	Inc 31.08.08 ^[a]	Acc 01.07.08 ^[a]	30.06.08	30.06.07
Sterling	p	p	%	%
Class 'A'	0.6680	1.5321	1.68	1.66
Class 'C'	3.2460	n/a	0.17	0.19
Class 'X'	0.7640	1.7311	1.66	1.63

The Portfolio Turnover Rate (PTR) for the 12 months ending 30 June 2008 was 43.73% compared with 74.47% for the year ending 30 June 2007. ^[c]

^[a] The date on which the final distribution will be paid to Income shareholders and credited to Accumulation shareholders.

^[b] The Total Expense Ratio (TER) shows the relevant annualised operating expenses of each share class from the most recent reporting period as a single percentage of the average net asset value for that share class over the same period.

^[c] The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within the fund over the course of a 12 month period. The PTR is calculated by taking the sum of all transactions in securities less the sum of all transactions in the fund's shares and is expressed as a percentage of the fund's average net asset value.

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 30.06.08		Net asset value per share as at 30.06.07		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	148.66	342.48	174.18	399.47	-14.65	-14.27
Class 'C'	151.68	n/a	177.98	n/a	-14.78	n/a
Class 'X'	148.61	338.44	174.21	394.71	-14.69	-14.26

PERFORMANCE SINCE LAUNCH

	six months 02.01.08 %	one year 02.07.07 %	five years 01.07.03 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	-6.7	-14.4	+17.9	+10.7 ^[c]
Class 'C'	-7.6	-14.5	n/a	+7.1 ^[d]
Class 'X'	-6.8	-14.4	+17.8	+19.4 ^[e]

^[a] Shows the compound rate of return, per annum, over the period.

^[b] Bid to bid excluding reinvested income.

^[c] 27 September 1967, the launch date of the predecessor unit trust.

^[d] 3 January 2006, the launch date of the share class.

^[e] 1 October 2002, the launch date of the share class.

SINGLE YEAR PERFORMANCE (5 YEARS ENDING JUNE)

From To	29.06.07 30.06.08 %	30.06.06 29.06.07 %	30.06.05 30.06.06 %	30.06.04 30.06.05 %	30.06.03 30.06.04 %
Sterling					
Class 'A' ^[a]	-13.9	+27.5	+27.9	+27.3	+32.3

^[a] Nominated share class.

Source: Morningstar Inc., bid to bid with net income reinvested.

PRICES

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling		p	p	p	p
Class 'A'	2003	76.98	51.83	173.74	116.06
	2004 ^[a]	98.47	76.79	224.52	173.96
	2005	127.59	97.87	292.63	223.66
	2006	161.02	128.23	369.30	294.09
	2007	183.73	150.37	421.39	344.87
	2008 ^[b]	165.40	140.78	379.35	322.88
Class 'C'	2006 ^[c]	163.30	129.10	n/a	n/a
	2007	187.55	154.74	n/a	n/a
	2008 ^[b]	171.29	145.10	n/a	n/a
Class 'X'	2003	76.90	51.95	172.91	115.95
	2004 ^[a]	98.35	76.90	222.40	173.13
	2005	127.52	97.95	288.93	221.53
	2006	160.98	128.15	364.75	290.37
	2007	183.74	150.40	416.31	340.77
	2008 ^[b]	165.45	140.81	374.88	319.04

^[a] The M&G Innovator Fund merged into the M&G Smaller Companies Fund immediately after 3 September 2004.

^[b] To 1 July 2008.

^[c] From 3 January 2006 (the launch date of the share class) to 29 December 2006.

Past performance is no indication of current or future performance and the performance data does not take account of the commissions and costs incurred on the issue and redemption of shares.

The price of shares and the income from them may go down as well as up, and you may get back less than you invested.

M&G Smaller Companies Fund

FUND STATISTICS

INCOME

Income per share

	Calendar year	Interim	Distributed Final	Total	Reinvested
Sterling (net)		p	p	p	p
Class 'A'	2003	0.1900	0.5100	0.7000	1.1421
	2004	0.2920	0.5530	0.8450	1.9118
	2005	0.2330	0.3860	0.6190	1.4134
	2006	nil	nil	nil	nil
	2007	nil	nil	nil	nil
	2008 [a]	nil	0.6680	0.6680	1.5321
Class 'C'	2006	nil	nil	nil	n/a
	2007	nil	nil	nil	n/a
	2008 [a]	nil	3.2460	3.2460	n/a
Class 'X'	2003	nil	0.4840	0.4840	1.0803
	2004	0.1010	0.3750	0.4760	1.0714
	2005	0.0220	0.1940	0.2160	0.4885
	2006	nil	nil	nil	nil
	2007	nil	nil	nil	nil
	2008 [a]	nil	0.7640	0.7640	1.7311

[a] Up to final: ex-distribution date 1 July 2008;
payment date 31 August 2008.

NET ASSETS

	Year ended	Value per share Inc	Acc	Number of shares Inc	Acc
Sterling		p	p		
Class 'A'	Jun 2006	136.11	312.18	123,209,793	11,295,883
	Jun 2007	174.18	399.47	100,124,643	13,531,353
	Jun 2008	148.66	342.48	61,272,243	15,131,593
Class 'C'	Jun 2006	137.06	n/a	8,960,450	n/a
	Jun 2007	177.98	n/a	7,967,050	n/a
	Jun 2008	151.68	n/a	6,471,590	n/a
Class 'X'	Jun 2006	136.06	308.29	201,068	175,362
	Jun 2007	174.21	394.71	879,468	291,112
	Jun 2008	148.61	338.44	1,272,968	293,412

Total net asset value of sub-fund

Year ended	£	€ [a]
Jun 2006	216,064,000	311,781,000
Jun 2007	245,309,000	364,284,000
Jun 2008	155,611,000	196,305,000

[a] Based on the midday exchange rate on the last business day of each financial year.

FINANCIAL STATEMENTS

For the year ended 30 June 2008.

STATEMENT OF TOTAL RETURN

	Note	2008 £'000	2007 £'000
Net (losses) / gains on investments	3	(32,123)	58,765
Currency gains / (losses)		19	(4)
Income	4	3,926	3,667
Expenses	5	(3,033)	(3,797)
Net income / (expense) before taxation		893	(130)
Taxation	6	(2)	(25)
Net income / (expense) after taxation		891	(155)
Total return before distributions		(31,213)	58,606
Finance costs: Distributions	12	(890)	(8)
Change in net assets attributable to shareholders from investment activities		(32,103)	58,598

STATEMENT OF CHANGE IN SHAREHOLDERS' NET ASSETS

	2008 £'000	2007 £'000
Opening net assets attributable to shareholders	245,309	216,064
Amounts received on issue of shares	9,680	13,798
Amounts paid on cancellation of shares	(67,425)	(43,061)
	(57,745)	(29,263)
Stamp Duty Reserve Tax (SDRT)	(87)	(90)
Change in net assets attributable to shareholders from investment activities (see above)	(32,103)	58,598
Retained distributions on Accumulation shares	237	0
Closing net assets attributable to shareholders	155,611	245,309

M&G Smaller Companies Fund

FINANCIAL STATEMENTS

BALANCE SHEET

	as at 30 June 2008		as at 30 June 2007	
	£'000	£'000	£'000	£'000
Assets				
Portfolio of investments		150,294		240,822
Debtors				
Amounts receivable on issues	173		41	
Bank interest receivable	25		28	
Dividends receivable	367		361	
HM Revenue & Customs interest receivable	0		11	
Prepaid expenses	0		22	
Sales awaiting settlement	234		1,629	
Tax recoverable	18		0	
VAT recoverable	0		141	
Cash and bank balances	6,518		7,976	
Total other assets		7,335		10,209
Total assets		157,629		251,031
Liabilities				
Creditors				
Amounts payable on cancellations	(117)		(3,215)	
Expenses payable	(10)		(11)	
Net distributions payable on income shares	(629)		0	
Placings awaiting settlement	(156)		(2,292)	
Purchases awaiting settlement	(1,104)		(193)	
SDRT payable	(2)		(11)	
Total liabilities		(2,018)		(5,722)
Net assets attributable to shareholders		155,611		245,309

PORTFOLIO STATEMENT

as at 30 June 2008

Holding		Value £'000	30.06.08 %	30.06.07 %
Oil & gas producers			1.49	0.54
600,000	Cadogan Petroleum	1,074	0.69	
138,000	Imperial Energy	1,244	0.80	
Oil equipment, services & distribution			2.33	1.31
285,000	Hunting	2,437	1.57	
91,495	Wellstream Holdings	1,175	0.76	
Chemicals			4.54	3.32
340,000	Croda International	2,157	1.39	
2,086,004	Elementis	1,580	1.02	
445,000	Victrix	3,311	2.13	
Industrial metals			0.64	0.00
265,690	Talvivaara Mining Company	993	0.64	
Mining			2.62	2.38
1,434,128	Aricom	1,162	0.75	
969,904	Central Rand Gold	851	0.55	
190,000	Gem Diamonds	2,056	1.32	
Aerospace & defence			5.72	4.31
159,946	Chemring Group	3,741	2.40	
207,194	Hampson	347	0.22	
181,406	Ultra Electronics Holdings	2,155	1.38	
515,000	UMECO	2,678	1.72	

PORTFOLIO STATEMENT (continued)

as at 30 June 2008

Holding		Value £'000	30.06.08 %	30.06.07 %
Construction & materials			2.92	1.47
1,400,000	Galliford Try	532	0.34	
143,571	Kier Group	1,371	0.88	
2,200,000	Low & Bonar	2,398	1.54	
1,298,221	Norcross	243	0.16	
Electronic & electrical equipment			6.46	6.28
400,000	Domino Printing Sciences	1,120	0.72	
500,000	e2v Technologies	1,267	0.81	
240,000	Laird Group	937	0.60	
260,000	Spectris	1,850	1.19	
2,470,558	Xaar	4,879	3.14	
Industrial engineering			4.87	6.15
330,000	Bodycote International	668	0.43	
460,000	Enodis	1,454	0.93	
1,150,000	Senior	1,133	0.73	
207,000	Spirax-Sarco Engineering	2,186	1.40	
230,000	Weir Group	2,145	1.38	
Industrial transportation			2.54	1.81
687,581	Fisher (James) & Sons	3,954	2.54	
Support services			6.27	6.81
418,193	BPP Holdings	1,945	1.25	
135,000	DCC	1,702	1.09	
300,000	Interserve	1,379	0.89	
370,000	Mouchel Parkman	1,509	0.97	
553,185	office2office	874	0.56	
1,317,615	Smiths News	1,153	0.74	
230,000	WSP Group	1,202	0.77	
Household goods			1.77	2.38
235,000	Bellway	1,057	0.68	
240,000	Bovis Homes Group	785	0.50	
280,000	Headlam Group	917	0.59	
Personal goods			0.00	1.08
Healthcare equipment & services			3.00	6.89
559,250	Care U.K.	2,013	1.29	
450,000	Consort Medical	2,660	1.71	
Pharmaceuticals & biotechnology			2.08	0.58
757,562	Ark Therapeutics	413	0.27	
350,000	Genus	2,819	1.81	
General retailers			1.95	1.19
390,000	Brown (N.) Group	706	0.45	
364,629	Dunelm Group	477	0.31	
2,300,335	Galiform	1,001	0.64	
4,000,000	Mecom Group	860	0.55	
Travel & leisure			2.02	5.02
30,744	Go-Ahead Group	561	0.36	
167,000	Paddy Power (London listing)	2,583	1.66	
General financial			4.29	3.93
918,534	Brewin Dolphin Holdings	1,040	0.67	
73,333	Intermediate Capital Group	1,004	0.64	
2,550,115	IP Group	2,818	1.81	
195,000	Rathbone Brothers	1,816	1.17	
Non-life insurance			0.00	0.79
Real estate			2.84	4.05
829,316	LSL Property Services	713	0.46	
611,226	Savills	1,348	0.87	
304,000	Shaftesbury	1,168	0.75	
1,728,276	The Local Shopping REIT	1,175	0.76	

M&G Smaller Companies Fund

FINANCIAL STATEMENTS

PORTFOLIO STATEMENT (continued)

as at 30 June 2008

Holding	Value £'000	30.06.08 %	30.06.07 %
Software & computer services		9.16	8.47
1,500,000 Alterian	1,890	1.21	
4,468,345 Anite Group	1,888	1.21	
230,000 AVEVA Group	3,512	2.26	
100,000 Fidessa Group	845	0.54	
996,000 Micro Focus	2,602	1.67	
500,000 Phoenix IT	1,445	0.93	
1,132,500 RM	2,084	1.34	
Technology hardware & equipment		1.78	0.81
4,350,000 Spirent Communications	2,773	1.78	
AIM quoted		27.19	27.61
370,000 Albidon	721	0.46	
2,300,000 Allergy Therapeutics	621	0.40	
806,690 AssetCo	1,275	0.82	
2,310,270 Aurora Russia	1,894	1.22	
4,749,796 Booker Group	1,021	0.66	
863,000 Brulines Holdings	1,234	0.79	
844,736 Cape	2,355	1.51	
1,474,837 Dart Group	166	0.11	
3,450,000 Dawmay, Day Sirius	1,682	1.08	
2,500,000 Dolphin Capital Investors	2,450	1.57	
305,000 Geopark Holdings	1,165	0.75	
1,190,741 Hansteen Holdings	1,131	0.73	
480,000 Hargreaves Services	2,952	1.90	
2,084,178 Inland	354	0.23	
2,694,523 Invista Real Estate	1,347	0.87	
558,600 Ithaca Energy	782	0.50	
700,000 Kentz	1,204	0.77	
567,442 Lamprell	3,217	2.07	
525,000 Maple Energy	1,365	0.88	
74,983 Nautilus Minerals	85	0.05	
2,026,833 Omega Insurance Holdings	2,777	1.78	
1,276,245 OPG Power Venture	881	0.57	
490,691 Quadnetics Group	638	0.41	
1,231,853 SDI Group	271	0.17	
1,506,487 Serica Energy	1,348	0.87	
815,977 Sibir Energy	6,483	4.17	
1,812,236 Summit Germany	661	0.42	
62,905 Synergy Healthcare	464	0.30	
5,088 TGE Marine	631	0.41	
110,000 Valiant Petroleum	1,128	0.72	
Unquoted / unlisted		0.10	0.99
965,000 Betex Group ^[a]	0	0.00	
812,500 BETonSPORTS ^[b]	0	0.00	
6,924 Chemring Group (Placing)	156	0.10	
Portfolio of investments (notes 1b & 1c on page 92)	150,294	96.58	98.17
Net other assets	5,317	3.42	1.83
Net assets attributable to shareholders	155,611	100.00	100.00

^[a] Delisted on 19 October 2007.

^[b] Delisted on 19 January 2007.

SUMMARY OF MATERIAL PORTFOLIO CHANGES

Largest purchases	£'000
Low & Bonar	3,018
BPP Holdings	2,331
Norcros	2,030
Enodis	2,026
Spirax-Sarco Engineering	1,991
Savills	1,810
DCC	1,802
Bellway	1,798
Bovis Homes Group	1,645
Topps Tiles	1,522
Imperial Energy	1,467
e2v Technologies	1,403
Elementis	1,398
Cadogan Petroleum	1,365
Smiths News	1,343
Brewin Dolphin Holdings	1,336
WSP Group	1,258
Brown (N.) Group	1,248
Spirent Communications	1,228
Kentz	1,213
Other purchases	21,634
Total purchases for the year	54,866
Largest sales	£'000
Atkins (W.S.)	5,631
Whatman	4,885
First Quantum Minerals	4,729
Foseco	4,168
Micro Focus	3,130
Umbro	3,115
Weir Group	3,104
FUN Technologies	3,046
Paddy Power (London listing)	3,031
Laird Group	2,999
Fenner	2,696
IG Group Holdings	2,683
Civica	2,437
Lamprell	2,375
Beazley Group	2,341
AVEVA Group	2,292
Southern Cross Healthcare Group	2,087
Homeserve	2,009
Wellstream Holdings	1,995
Genus	1,947
Other sales	52,365
Total sales for the year	113,065

M&G Smaller Companies Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

- a) **Basis of accounting:** The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in December 2005.
- b) **Basis of valuation of investments:** All investments are valued at their fair value as at 12 noon on 30 June 2008, being the last business day of the financial year. The fair value of non-derivative securities is bid price. Unquoted investments are shown at the Authorised Corporate Director's (ACD's) valuation.
- c) **Exchange rates:** Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling as at 12 noon on 30 June 2008, being the last business day of the financial year.
- d) **Recognition of income:** Income from quoted equity and non-equity shares is recognised net of attributable tax credits when the security is quoted ex-dividend. Overseas income received after the deduction of withholding tax is shown gross of taxation, with the taxation consequences shown within the taxation charge.
- Bank interest and other income are recognised on an accruals basis.
- e) **Stock dividends:** The ordinary element of stocks received in lieu of cash dividends is recognised as income of the sub-fund. Any enhancement above the cash dividend is treated as capital.
- f) **Special dividends:** These are recognised as either income or capital depending upon the nature and circumstances of the dividend receivable.
- g) **Underwriting commission:** This is taken to income and recognised when the issue takes place, except where the sub-fund is required to take up all or some of the shares underwritten, in which case an appropriate proportion of the commission is deducted from the cost of these shares.
- h) **Expenses:** For accounting purposes, all expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against income for the year on an accruals basis.
- i) **Apportionment of income and expenses to multiple share classes:** With the exception of the ACD's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.
- j) **Taxation:** The rate of corporation tax for the sub-fund is 20%, with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

k) **Deferred taxation:** Deferred tax is provided for in respect of all timing differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

l) **Distribution policy:** The policy of the sub-fund is to distribute all available income, after deduction of expenses properly chargeable against income. Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

Stock dividends do not form part of the distributable income.

Distributions which have remained unclaimed by shareholders for more than six years are credited to the capital property of the sub-fund.

2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) Report, the ACD accepts market price risk and currency risk in relation to the investment portfolio. Generally, the ACD will not seek to hedge this exposure since the ACD believes that, in the long term, such hedging would be detrimental to total return.

The market in securities issued by smaller companies is narrow and investors should expect wider than average price fluctuations.

Furthermore, because shares are traded on the Alternative Investment Market (AIM), their liquidity cannot be guaranteed. The nature of AIM investments is such that prices can be volatile and realisations may not achieve current book value, especially when such sales represent a significant proportion of that company's market capital. Nevertheless, on the grounds that the investments are not intended for immediate realisation, we regard bid price as the most objective and appropriate method of valuation.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

The sub-fund's assets comprise securities that can be readily realised, apart from those quoted on the AIM, to meet obligations that may arise on the redemption of shares. As noted on page 111, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (30.06.07: same).

3 Net (losses) / gains on investments

	2008 £'000	2007 £'000
Non-derivative securities	(32,328)	57,673
Special dividends taken to capital	205	1,092
Net (losses) / gains on investments	(32,123)	58,765

M&G Smaller Companies Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

4 Income

	2008 £'000	2007 £'000
Bank interest	251	328
HM Revenue & Customs interest	3	4
Overseas dividends	544	301
Property income dividends	86	0
Stock dividends	0	28
UK dividends	3,030	2,995
Underwriting commission	12	11
	3,926	3,667

5 Expenses

	2008 £'000	2007 £'000
Payable to the Authorised Corporate Director or associate		
Authorised Corporate Director's periodic charge	2,711	3,382
Administration fee	289	360
	3,000	3,742
Payable to the Depositary or associate		
Depositary's fee (including VAT)	16	18
Other expenses		
Audit fee (including VAT)	9	9
Regulatory fees	1	1
Safe custody charge	2	2
Transaction charges	4	4
	16	16
VAT recoverable		
Prior year	1	21
Total expenses	3,033	3,797

6 Taxation

	2008 £'000	2007 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Overseas tax	1	11
Overseas tax recoverable: written off	1	16
Overseas tax recovered: previously written off	0	(2)
Current tax charge (note 6b)	2	25
Deferred tax (note 6c)	0	0
	2	25

b) Factors affecting taxation charge for the year

Net income / (expense) before taxation	893	(130)
Corporation tax at 20%	179	(26)
Effects of:		
UK dividends ^[a]	(606)	(599)
Stock dividends not taxable	0	(6)
Current period expenses not utilised	442	635
Expenses not deductible for tax purposes	1	1
Income taxable in different periods	(16)	(5)
Overseas tax	1	11
Overseas tax recoverable: written off	1	16
Overseas tax recovered: previously written off	0	(2)
Current tax charge (note 6a)	2	25

^[a] As a sub-fund of an Open-Ended Investment Company this item is not subject to corporation tax.

c) Provision for deferred taxation

Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
Provision at the end of the year	0	0

The sub-fund has not recognised a deferred tax asset of £4,212,000 (30.06.07: £3,786,000) arising as a result of having unutilised management expenses, and £17,000 (30.06.07: £16,000) arising as a result of having eligible unrelieved foreign tax. Accordingly, the total unrecognised deferred tax asset is £4,229,000 (30.06.07: £3,802,000). We do not expect this asset to be utilised in the foreseeable future.

7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (30.06.07: same).

8 Related parties

M&G Securities Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in shareholders' net assets and note 12. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to M&G Securities Limited in respect of the Authorised Corporate Director's periodic charge and administration fee are disclosed in note 5. Amounts due at the year end are disclosed in the balance sheet where applicable.

At the balance sheet date, material shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 17.86% (30.06.07: 45.62%) of the sub-fund's shares.

M&G Smaller Companies Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (30.06.07: same).

Currency exposure

There was no significant foreign currency exposure within the sub-fund at the balance sheet date (30.06.07: same).

Interest rate profile

The majority of the sub-fund's assets comprise equity shares which neither pay interest nor have a maturity date (30.06.07: same).

Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (30.06.07: same).

10 Portfolio transaction costs

	2008 £'000	2007 £'000
a) Purchases		
Purchases excluding transaction costs	54,589	107,362
Commissions	61	92
Taxes	216	306
Total transaction costs	277	398
Total purchases including transaction costs	54,866	107,760
b) Sales		
Sales excluding transaction costs	113,214	137,986
Commissions	(149)	(194)
Total sales net of transaction costs	113,065	137,792

11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Net Income and Net Accumulation) shares, Sterling Class 'C' (Net Income) shares and Sterling Class 'X' (Net Income and Net Accumulation) shares

The charging structure for each share class, as at 30 June 2008, is set out in the following table (30.06.07: same):

CHARGES AND EXPENSES

	Initial charge %	Redemption charge %	ACD's annual remuneration %
Sterling			
Class 'A'	4.00	n/a	1.50
Class 'C'	nil	n/a	nil
Class 'X'	nil	4.50 ^[a]	1.50

^[a] The redemption charge diminishes over a period of five years. Please refer to the Key Features document for further information.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

NET ASSET VALUES

	30.06.08		30.06.07	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
Sterling				
Class 'A'	91,087	51,823	174,394	54,054
Class 'C'	9,816	n/a	14,180	n/a
Class 'X'	1,892	993	1,532	1,149

The net asset value per share and the number of shares are given in the comparative table on page 89. The distribution per share is given in the distribution table on page 95. Each share class has the same rights on winding-up.

12 Finance costs

	2008 £'000	2007 £'000
Income shares (sterling)		
Class 'A' - Interim	0	0
Final	409	0
Class 'C' - Interim	0	0
Final	210	0
Class 'X' - Interim	0	0
Final	10	0
Accumulation shares (sterling)		
Class 'A' - Interim	0	0
Final	232	0
Class 'X' - Interim	0	0
Final	5	0
Finance costs: Dividend distributions	866	0
Income deducted on cancellation of shares	34	10
Income received on issue of shares	(10)	(2)
Finance costs: Distributions	890	8
Net income / (expense) per statement of total return	891	(155)
Expenses offset against capital	4	4
Stock dividends not distributed	0	(28)
Undistributed income carried forward	(5)	0
Income deficit transferred to capital	0	187
Finance costs: Distributions	890	8

M&G Smaller Companies Fund

FINANCIAL STATEMENTS

DISTRIBUTION TABLE					
Dividend distributions on Income shares	Tax credit	Net income	Equalisation	Distribution payable	
				2008	2007
Sterling	p	p	p	p	p
Class 'A' - Interim					
Group 1:	-	-	-	-	-
Group 2:	-	-	-	-	-
- Final					
Group 1:	0.0742	0.6680	-	0.6680	-
Group 2:	0.0583	0.5247	0.1433	0.6680	-
Class 'C' - Interim					
Group 1:	-	-	-	-	-
Group 2:	-	-	-	-	-
- Final					
Group 1:	0.3607	3.2460	-	3.2460	-
Group 2:	0.0522	0.4698	2.7762	3.2460	-
Class 'X' - Interim					
Group 1:	-	-	-	-	-
Group 2:	-	-	-	-	-
- Final					
Group 1:	0.0849	0.7640	-	0.7640	-
Group 2:	0.0476	0.4284	0.3356	0.7640	-
Dividend distributions on Accumulation shares	Tax credit	Net income	Equalisation	Amount reinvested	
				2008	2007
Sterling	p	p	p	p	p
Class 'A' - Interim					
Group 1:	-	-	-	-	-
Group 2:	-	-	-	-	-
- Final					
Group 1:	0.1702	1.5321	-	1.5321	-
Group 2:	0.1337	1.2034	0.3287	1.5321	-
Class 'X' - Interim					
Group 1:	-	-	-	-	-
Group 2:	-	-	-	-	-
- Final					
Group 1:	0.1923	1.7311	-	1.7311	-
Group 2:	0.1079	0.9707	0.7604	1.7311	-
Interim period	01.07.07 - 31.12.07				
Final period	01.01.08 - 30.06.08				
Group 1: Shares purchased prior to a distribution period.					
Group 2: Shares purchased during a distribution period.					

M&G Smaller Companies Fund

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M&G UK Select Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective and policy of the M&G UK Select Fund

The Fund invests in a range of UK equities. The aim is to maximise total return (the combination of income and growth of capital).

Investment approach

The M&G UK Select Fund is a risk-aware, actively-managed, focus fund. Stockpicking dominates the investment process and there is no predefined investment style or company size preference. The fund aims to exploit stock volatility and shifts in market sentiment.

The number of holdings is limited to around 40 and careful attention is paid to risk, as it cannot be reduced by diversification in the usual manner. A distinctive approach to portfolio construction, including a core and a satellite element, assists in lowering the volatility levels of the portfolio.

INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

As at 1 July 2008, for the year ended 30 June 2008

Given the uncertain economic outlook, we continued to position the fund defensively. We increased our weighting in large capitalisation (cap) companies and reduced our position in mid-cap stocks. We also added to the fund's cash position, which turned out to be positive in the midst of the bearish stockmarket environment as equity returns underperformed cash.

As part of the defensive positioning, we initiated a new holding in food retailer Tesco, which has more diversified operations than many of its UK competitors. Tesco opened its first US stores last year and its overseas presence will be an advantage in the event of more difficult UK trading conditions. Tesco also has a fast-expanding online business. Similarly, a new position was initiated in oil and gas exploration company BG Group, which has a strong resource base and management with a proven track record in delivering value. We also added mining company Xstrata in part to further boost the portfolio's exposure to robust commodity prices.

We took a new position in Alliance & Leicester as we believe the bank's good quality mortgage book will, in the long term, outweigh the fallout from the credit crisis, which is raising funding costs for the bank.

Some of our disposals highlighted our concerns over the deteriorating economic outlook. We closed the holding in Bradford & Bingley because the bank is very exposed to the buy-to-let market. We also sold Royal Bank of Scotland Group, which has been a long-term holding, on the back of its rights issue, halving of dividend and purchase of ABN AMRO at the wrong time of the economic cycle. We sold our holding in the flight support company BBA Aviation. It has strategic assets and should enjoy secular growth, but new management is uninspiring and the business is exposed to a weaker consumer sector. Reuters and FUN Technologies left the portfolio, following the completion of their takeovers by Thomson and Liberty, respectively.

Mike Felton

Fund manager

Mike Felton is an employee of M&G Limited which is an associate of M&G Securities Limited.

Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial Adviser.

M&G UK Select Fund

FUND STATISTICS

Sterling Class 'C' shares are not generally available to all investors.

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Interim	02.01.09	28.02.09
Final	01.07.09	31.08.09

	Final distribution		Total Expense Ratio ^[b]	
	Inc 31.08.08 ^[a]	Acc 01.07.08 ^[a]	30.06.08	30.06.07
Sterling	p	p	%	%
Class 'A'	13.5780	19.5191	1.66	1.66
Class 'C'	21.9380	n/a	0.16	0.19
Class 'X'	13.6320	19.2534	1.66	1.65

The Portfolio Turnover Rate (PTR) for the 12 months ending 30 June 2008 was 81.99% compared with 130.76% for the year ending 30 June 2007. ^[c]

^[a] The date on which the final distribution will be paid to Income shareholders and credited to Accumulation shareholders.

^[b] The Total Expense Ratio (TER) shows the relevant annualised operating expenses of each share class from the most recent reporting period as a single percentage of the average net asset value for that share class over the same period.

^[c] The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within the fund over the course of a 12 month period. The PTR is calculated by taking the sum of all transactions in securities less the sum of all transactions in the fund's shares and is expressed as a percentage of the fund's average net asset value.

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 30.06.08		Net asset value per share as at 30.06.07		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	1,056.35	1,538.31	1,197.95	1,716.19	-11.82	-10.36
Class 'C'	1,056.77	n/a	1,198.49	n/a	-11.82	n/a
Class 'X'	1,064.58	1,523.06	1,207.26	1,699.21	-11.82	-10.37

PERFORMANCE SINCE LAUNCH

	six months 02.01.08 %	one year 02.07.07 %	five years 01.07.03 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	-13.7	-14.4	+9.1	+7.9 ^[c]
Class 'C'	-13.7	-14.4	n/a	+1.3 ^[d]
Class 'X'	-13.7	-14.4	+9.1	+9.8 ^[e]

^[a] Shows the compound rate of return, per annum, over the period.

^[b] Bid to bid excluding reinvested income.

^[c] 3 February 1972, the launch date of the predecessor unit trust.

^[d] 3 January 2006, the launch date of the share class.

^[e] 1 October 2002, the launch date of the share class.

SINGLE YEAR PERFORMANCE (5 YEARS ENDING JUNE)

From To	29.06.07 30.06.08 %	30.06.06 29.06.07 %	30.06.05 30.06.06 %	30.06.04 30.06.05 %	30.06.03 30.06.04 %
Sterling ^[a]					
Class 'A'	-11.3	+15.9	+26.1	+11.2	+15.8

^[a] Nominated share class.

Source: Morningstar Inc., bid to bid with net income reinvested.

PRICES

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling		p	p	p	p
Class 'A'	2003	758.66	547.95	1,023.30	727.95
	2004	799.11	706.73	1,101.04	973.76
	2005	1,002.62	789.51	1,400.68	1,093.93
	2006	1,149.14	997.27	1,623.95	1,397.11
	2007	1,248.50	1,089.61	1,788.58	1,545.30
	2008 ^[a]	1,212.22	1,041.86	1,742.64	1,501.14
Class 'C'	2006 ^[b]	1,156.73	1,003.55	n/a	n/a
	2007	1,257.57	1,092.81	n/a	n/a
	2008 ^[a]	1,213.21	1,042.21	n/a	n/a
Class 'X'	2003	763.26	552.91	1,019.71	727.49
	2004	805.07	712.30	1,092.27	967.27
	2005	1,009.89	795.96	1,386.24	1,084.51
	2006	1,158.25	1,005.35	1,607.86	1,383.04
	2007	1,258.20	1,098.10	1,770.90	1,530.01
	2008 ^[a]	1,221.64	1,049.98	1,725.41	1,486.24

^[a] To 1 July 2008.

^[b] From 3 January 2006 (the launch date of the share class) to 29 December 2006.

Past performance is no indication of current or future performance and the performance data does not take account of the commissions and costs incurred on the issue and redemption of shares.

The price of shares and the income from them may go down as well as up, and you may get back less than you invested.

M&G UK Select Fund

FUND STATISTICS

INCOME

Income per share

	Calendar year	Interim	Distributed Final	Total	Reinvested
Sterling (net)		p	p	p	p
Class 'A'	2003	6.0750	10.2840	16.3590	13.6624
	2004	8.6470	7.6270	16.2740	22.0692
	2005	4.4770	7.0350	11.5120	15.9160
	2006	2.8000	9.1900	11.9900	16.7863
	2007	4.0650	12.2490	16.3140	23.1164
	2008 [a]	4.1490	13.5780	17.7270	25.4630
Class 'C'	2006	n/a	16.6250	16.6250	n/a
	2007	11.9220	21.1160	33.0380	n/a
	2008 [a]	13.0760	21.9380	35.0140	n/a
Class 'X'	2003	nil	10.4350	10.4350	13.7299
	2004	6.8250	5.7360	12.5610	16.8505
	2005	2.6970	6.3880	9.0850	12.3662
	2006	2.2150	9.6180	11.8330	16.2718
	2007	4.2730	12.3800	16.6530	23.1811
	2008 [a]	4.1780	13.6320	17.8100	25.1339

[a] Up to final: ex-distribution date 1 July 2008;
payment date 31 August 2008.

NET ASSETS

	Year ended	Value per share Inc	Acc	Number of shares Inc	Acc
Sterling		p	p		
Class 'A'	Jun 2006	1,047.01	1,479.63	17,329,825	9,070,993
	Jun 2007	1,197.95	1,716.19	18,151,660	8,994,608
	Jun 2008	1,056.35	1,538.31	21,686,745	10,308,878
Class 'C'	Jun 2006	1,046.87	n/a	2,101,730	n/a
	Jun 2007	1,198.49	n/a	1,599,505	n/a
	Jun 2008	1,056.77	n/a	1,395,220	n/a
Class 'X'	Jun 2006	1,055.29	1,464.93	3,554,036	1,219,514
	Jun 2007	1,207.26	1,699.21	6,059,436	1,453,529
	Jun 2008	1,064.58	1,523.06	6,694,861	1,281,474

Total net asset value of sub-fund

Year ended	£	€ [a]
Jun 2006	393,035,000	567,150,000
Jun 2007	488,834,000	725,919,000
Jun 2008	493,204,000	622,182,000

[a] Based on the midday exchange rate on the last business day of each financial year.

FINANCIAL STATEMENTS

For the year ended 30 June 2008.

STATEMENT OF TOTAL RETURN

	Note	2008 £'000	2007 £'000
Net (losses) / gains on investments	3	(63,579)	61,383
Currency gains		38	0
Income	4	17,772	15,080
Expenses	5	(8,173)	(7,342)
Net income before taxation		9,599	7,738
Taxation	6	(14)	(30)
Net income after taxation		9,585	7,708
Total return before distributions		(53,956)	69,091
Finance costs: Distributions	12	(8,276)	(6,956)
Change in net assets attributable to shareholders from investment activities		(62,232)	62,135

STATEMENT OF CHANGE IN SHAREHOLDERS' NET ASSETS

	2008 £'000	2007 £'000
Opening net assets attributable to shareholders	488,834	393,035
Amounts received on issue of shares	131,032	105,981
Amounts paid on cancellation of shares	(66,764)	(74,296)
	64,268	31,685
Stamp Duty Reserve Tax (SDRT)	(592)	(518)
Change in net assets attributable to shareholders from investment activities (see above)	(62,232)	62,135
Retained distributions on Accumulation shares	2,926	2,497
Closing net assets attributable to shareholders	493,204	488,834

M&G UK Select Fund

FINANCIAL STATEMENTS

BALANCE SHEET

	as at 30 June 2008		as at 30 June 2007	
	£'000	£'000	£'000	£'000
Assets				
Portfolio of investments		461,109		464,286
Debtors				
Amounts receivable on issues	2,977		960	
Bank interest receivable	16		18	
Deposit interest receivable	0		3	
Dividends receivable	3,046		2,182	
HM Revenue & Customs interest receivable	0		10	
Overseas tax recoverable	13		6	
Prepaid expenses	0		44	
Sales awaiting settlement	1,418		3,069	
VAT recoverable	0		150	
Cash and bank balances	37,922		24,692	
Total other assets		45,392		31,134
Total assets		506,501		495,420
Liabilities				
Creditors				
Amounts payable on cancellations	(3,790)		(717)	
Expenses payable	(11)		(11)	
Net distributions payable on income shares	(4,163)		(3,311)	
Purchases awaiting settlement	(5,298)		(2,484)	
SDRT payable	(35)		(63)	
Total liabilities		(13,297)		(6,586)
Net assets attributable to shareholders		493,204		488,834

PORTFOLIO STATEMENT

as at 30 June 2008

Holding	Value £'000	30.06.08 %	30.06.07 %
Oil & gas producers		21.40	16.56
656,648 BG Group	8,379	1.70	
7,458,416 BP	43,035	8.73	
345,449 Dana Petroleum	6,491	1.32	
1,651,125 Royal Dutch Shell 'B'	32,890	6.67	
1,569,148 Tullow Oil	14,703	2.98	
Chemicals		1.66	2.25
446,275 Johnson Matthey	8,171	1.66	
Mining		8.57	6.09
616,602 Anglo American	21,365	4.33	
369,214 Lonmin	11,759	2.38	
229,403 Xstrata	9,178	1.86	
Aerospace & defence		5.17	4.95
3,411,116 BAE Systems	14,966	3.03	
2,396,460 Cobham	4,565	0.93	
1,743,019 Rolls-Royce Group	5,944	1.21	
Construction & materials		3.07	1.42
2,369,899 Balfour Beatty	10,025	2.03	
13,508,596 Galliford Try	5,133	1.04	
Electronic & electrical equipment		1.80	1.23
3,410,818 Invensys	8,902	1.80	
General industrials		1.11	0.00
506,850 Smiths Group	5,464	1.11	
Industrial transportation		0.00	1.72

PORTFOLIO STATEMENT (continued)

as at 30 June 2008

Holding	Value £'000	30.06.08 %	30.06.07 %
Support services		4.67	4.72
1,026,268 AMEC	9,083	1.84	
8,159,326 Regus Group	6,548	1.33	
1,668,784 Serco Group	7,405	1.50	
Food producers		2.58	1.56
904,920 Unilever	12,750	2.58	
Tobacco		0.00	1.88
Healthcare equipment & services		0.54	0.00
478,869 Smith & Nephew	2,658	0.54	
Pharmaceuticals & biotechnology		7.57	6.75
1,997,654 GlaxoSmithKline	22,394	4.54	
1,830,411 Shire	14,936	3.03	
Food & drug retailers		2.72	1.85
3,705,101 Tesco	13,427	2.72	
General retailers		0.00	1.03
Media		2.71	8.33
836,331 Reed Elsevier	4,742	0.96	
3,710,599 Taylor Nelson Sofres	8,636	1.75	
Travel & leisure		0.99	3.68
4,125,983 Avis Europe	866	0.18	
772,330 FirstGroup	3,981	0.81	
Fixed line telecommunications		2.23	0.00
2,405,253 BT Group	4,782	0.97	
1,472,807 Cable & Wireless	2,224	0.45	
2,300,000 Thus Group	4,002	0.81	
Mobile telecommunications		6.45	5.27
21,803,833 Vodafone Group	31,834	6.45	
Electricity		5.82	2.60
2,512,383 British Energy Group	17,725	3.59	
2,612,981 International Power	10,981	2.23	
Gas, water & multi-utilities		1.02	0.00
742,311 United Utilities	5,037	1.02	
Banks		7.78	14.14
1,514,320 Alliance & Leicester	4,471	0.91	
2,314,576 Barclays	6,724	1.36	
1,672,560 HBOS	4,604	0.93	
2,326,861 HSBC Holdings	18,109	3.67	
1,439,315 Lloyds TSB Group	4,476	0.91	
Life insurance		1.56	4.18
1,446,591 Prudential	7,710	1.56	
Non-life insurance		2.85	1.55
11,277,391 Royal & Sun Alliance	14,052	2.85	
Technology hardware & equipment		1.10	0.83
8,487,394 Spirent Communications	5,411	1.10	
AIM quoted		0.12	2.39
31,353,294 FREEDOM4 Communications (formerly Pipex Communications)	571	0.12	
Portfolio of investments (note 1b on page 101)	461,109	93.49	94.98
Net other assets	32,095	6.51	5.02
Net assets attributable to shareholders	493,204	100.00	100.00

M&G UK Select Fund

FINANCIAL STATEMENTS

SUMMARY OF MATERIAL PORTFOLIO CHANGES

Largest purchases	£'000
Tesco	18,310
Xstrata	18,029
Alliance & Leicester	16,218
Anglo American	16,116
HBOS	14,554
GlaxoSmithKline	11,636
Unilever	10,822
Vodafone Group	10,625
BT Group	10,322
Friends Provident	10,211
Royal Bank of Scotland Group	10,103
Galliford Try	9,862
Barclays	9,145
BP	8,759
BG Group	8,463
British Energy Group	8,417
Royal & Sun Alliance	8,339
Lloyds TSB Group	8,122
Serco Group	7,496
Rolls-Royce Group	7,441
Other purchases	119,345
Total purchases for the year	342,335
Largest sales	£'000
Royal Bank of Scotland Group	23,881
Legal & General Group	13,326
HSBC Holdings	12,492
Xstrata	12,241
Reuters Group	12,233
Anglo American	10,616
Reed Elsevier	9,733
First Quantum Minerals	9,365
Morrison (Wm.) Supermarkets	9,204
Imperial Tobacco	8,997
TUI Travel	7,861
Bunzl	7,771
Bradford & Bingley	7,587
Friends Provident	7,578
HBOS	6,522
Alliance & Leicester	6,308
Ladbrokes	6,064
Meggitt	5,592
BBA Aviation	5,455
Carphone Warehouse	5,411
Other sales	91,580
Total sales for the year	279,817

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

a) **Basis of accounting:** The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in December 2005.

b) **Basis of valuation of investments:** All investments are valued at their fair value as at 12 noon on 30 June 2008, being the last business day of the financial year. The fair value of non-derivative securities is bid price.

c) **Exchange rates:** Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction.

d) **Recognition of income:** Income from quoted equity and non-equity shares is recognised net of attributable tax credits when the security is quoted ex-dividend. Overseas income received after the deduction of withholding tax is shown gross of taxation, with the taxation consequences shown within the taxation charge.

Bank interest, deposit interest and other income are recognised on an accruals basis.

e) **Stock dividends:** The ordinary element of stocks received in lieu of cash dividends is recognised as income of the sub-fund. Any enhancement above the cash dividend is treated as capital.

f) **Special dividends:** These are recognised as either income or capital depending upon the nature and circumstances of the dividend receivable.

g) **Underwriting commission:** This is taken to income and recognised when the issue takes place, except where the sub-fund is required to take up all or some of the shares underwritten, in which case an appropriate proportion of the commission is deducted from the cost of these shares.

h) **Expenses:** For accounting purposes, all expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against income for the year on an accruals basis.

i) **Apportionment of income and expenses to multiple share classes:** With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

j) **Taxation:** The rate of corporation tax for the sub-fund is 20%, with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

k) **Deferred taxation:** Deferred tax is provided for in respect of all timing differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

M&G UK Select Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

i) Distribution policy: The policy of the sub-fund is to distribute all available income, after deduction of expenses properly chargeable against income. Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

Stock dividends do not form part of the distributable income.

Distributions which have remained unclaimed by shareholders for more than six years are credited to the capital property of the sub-fund.

2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) Report, the ACD accepts market price risk in relation to the investment portfolio. Generally, the ACD will not seek to hedge this exposure since the ACD believes that, in the long term, such hedging would be detrimental to total return.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

The sub-fund's assets comprise securities that can be readily realised to meet obligations that may arise on the redemption of shares. As noted on page 111, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (30.06.07: same).

3 Net (losses) / gains on investments

	2008 £'000	2007 £'000
Non-derivative securities	(65,695)	59,860
Special dividends taken to capital	2,116	1,523
Net (losses) / gains on investments	(63,579)	61,383

4 Income

	2008 £'000	2007 £'000
Bank interest	209	405
Deposit interest	1,592	1,021
HM Revenue & Customs interest	2	5
Overseas dividends	66	113
Stock dividends	1,316	759
UK dividends	14,587	12,696
Underwriting commission	0	81
	17,772	15,080

5 Expenses

	2008 £'000	2007 £'000
Payable to the Authorised Corporate Director or associate		
Authorised Corporate Director's periodic charge	7,355	6,576
Administration fee	761	694
	8,116	7,270
Payable to the Depositary or associate		
Depositary's fee (including VAT)	34	31
Other expenses		
Audit fee (including VAT)	9	9
Regulatory fees	1	1
Safe custody charge	5	4
Transaction charges	7	7
	22	21
VAT recoverable		
Prior year	1	20
Total expenses	8,173	7,342

6 Taxation

	2008 £'000	2007 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Overseas tax	10	30
Overseas tax recoverable: written off	4	0
Current tax charge (note 6b)	14	30
Deferred tax (note 6c)	0	0
	14	30
b) Factors affecting taxation charge for the year		
Net income before taxation	9,599	7,738
Corporation tax at 20%	1,920	1,548
Effects of:		
UK dividends ^[a]	(2,917)	(2,539)
Stock dividends not taxable	(263)	(152)
Current period expenses not utilised	1,259	1,142
Expenses not deductible for tax purposes	1	1
Overseas tax	10	30
Overseas tax recoverable: written off	4	0
Current tax charge (note 6a)	14	30

^[a] As a sub-fund of an Open-Ended Investment Company this item is not subject to corporation tax.

c) Provision for deferred taxation

Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
Provision at the end of the year	0	0

The sub-fund has not recognised a deferred tax asset of £5,270,000 (30.06.07: £4,011,000) arising as a result of having unutilised management expenses, and £33,000 (30.06.07: £23,000) arising as a result of having eligible unrelieved foreign tax. Accordingly, the total unrecognised deferred tax asset is £5,303,000 (30.06.07: £4,034,000). We do not expect this asset to be utilised in the foreseeable future.

7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (30.06.07: same).

M&G UK Select Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

8 Related parties

M&G Securities Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in shareholders' net assets and note 12. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to M&G Securities Limited in respect of the Authorised Corporate Director's periodic charge and administration fee are disclosed in note 5. Amounts due at the year end are disclosed in the balance sheet where applicable.

During the year, there were transactions in shares in related parties of M&G Securities Limited with a total value of £5,902,000 (2007: £20,226,000).

At the balance sheet date, the sub-fund held shares in related parties of M&G Securities Limited with a value of £7,710,000 (30.06.07: £9,837,000).

At the balance sheet date, material shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 11.67% (30.06.07: 14.41%) of the sub-fund's shares.

9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (30.06.07: same).

Currency exposure

There was no significant foreign currency exposure within the sub-fund at the balance sheet date (30.06.07: same).

Interest rate profile

The majority of the sub-fund's assets comprise equity shares which neither pay interest nor have a maturity date (30.06.07: same).

Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (30.06.07: same).

10 Portfolio transaction costs

	2008 £'000	2007 £'000
a) Purchases		
Purchases excluding transaction costs	340,311	389,864
Commissions	344	415
Taxes	1,680	1,875
Total transaction costs	2,024	2,290
Total purchases including transaction costs	342,335	392,154
b) Sales		
Sales excluding transaction costs	280,092	369,486
Commissions	(275)	(381)
Total sales net of transaction costs	279,817	369,105

11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Net Income and Net Accumulation) shares, Sterling Class 'C' (Net Income) shares and Sterling Class 'X' (Net Income and Net Accumulation) shares.

The charging structure for each share class, as at 30 June 2008, is set out in the following table (30.06.07: same):

CHARGES AND EXPENSES

	Initial charge %	Redemption charge %	ACD's annual remuneration %
Sterling			
Class 'A'	4.00	n/a	1.50
Class 'C'	nil	n/a	nil
Class 'X'	nil	4.50 ^[a]	1.50

^[a] The redemption charge diminishes over a period of five years. Please refer to the Key Features document for further information.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

NET ASSET VALUES

	30.06.08		30.06.07	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
Sterling				
Class 'A'	229,087	158,582	217,448	154,364
Class 'C'	14,744	n/a	19,170	n/a
Class 'X'	71,273	19,518	73,153	24,699

The net asset value per share and the number of shares are given in the comparative table on page 99. The distribution per share is given in the distribution table on page 104. Each share class has the same rights on winding-up.

M&G UK Select Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

12 Finance costs

	2008 £'000	2007 £'000
Income shares (sterling)		
Class 'A' - Interim	841	725
Class 'A' - Final	2,944	2,223
Class 'C' - Interim	195	226
Class 'C' - Final	306	338
Class 'X' - Interim	274	244
Class 'X' - Final	913	750
Accumulation shares (sterling)		
Class 'A' - Interim	572	595
Class 'A' - Final	2,012	1,562
Class 'X' - Interim	95	89
Class 'X' - Final	247	251
Finance costs: Dividend distributions	8,399	7,003
Income deducted on cancellation of shares	310	375
Income received on issue of shares	(433)	(422)
Finance costs: Distributions	8,276	6,956
Net income per statement of total return	9,585	7,708
Expenses offset against capital	7	7
Stock dividends not distributed	(1,316)	(759)
Undistributed income brought forward	2	2
Undistributed income carried forward	(2)	(2)
Finance costs: Distributions	8,276	6,956

DISTRIBUTION TABLE

Dividend distributions on Income shares	Tax credit	Net income	Equalisation	Distribution paid/payable	
				2008	2007
Sterling	p	p	p	p	p
Class 'A' - Interim					
Group 1:	0.4610	4.1490	-	4.1490	4.0650
Group 2:	0.0899	0.8090	3.3400	4.1490	4.0650
- Final					
Group 1:	1.5087	13.5780	-	13.5780	12.2490
Group 2:	0.9964	8.9674	4.6106	13.5780	12.2490
Class 'C' - Interim					
Group 1:	1.4529	13.0760	-	13.0760	11.9220
Group 2:	0.7600	6.8396	6.2364	13.0760	11.9220
- Final					
Group 1:	2.4376	21.9380	-	21.9380	21.1160
Group 2:	1.1867	10.6802	11.2578	21.9380	21.1160
Class 'X' - Interim					
Group 1:	0.4642	4.1780	-	4.1780	4.2730
Group 2:	0.1182	1.0637	3.1143	4.1780	4.2730
- Final					
Group 1:	1.5147	13.6320	-	13.6320	12.3800
Group 2:	0.9331	8.3982	5.2338	13.6320	12.3800
Dividend distributions on Accumulation shares	Tax credit	Net income	Equalisation	Amount reinvested	
				2008	2007
Sterling	p	p	p	p	p
Class 'A' - Interim					
Group 1:	0.6604	5.9439	-	5.9439	5.7446
Group 2:	0.1288	1.1590	4.7849	5.9439	5.7446
- Final					
Group 1:	2.1688	19.5191	-	19.5191	17.3718
Group 2:	1.4323	12.8911	6.6280	19.5191	17.3718
Class 'X' - Interim					
Group 1:	0.6534	5.8805	-	5.8805	5.9317
Group 2:	0.1663	1.4971	4.3834	5.8805	5.9317
- Final					
Group 1:	2.1393	19.2534	-	19.2534	17.2494
Group 2:	1.3179	11.8614	7.3920	19.2534	17.2494
Interim period	01.07.07 - 31.12.07				
Final period	01.01.08 - 30.06.08				

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

M&G US High Yield Corporate Bond Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Fund termination

The M&G US High Yield Corporate Bond Fund was closed for investment purposes and commenced its termination on 29 June 2007. The sub-fund will be formally terminated when all its outstanding assets and liabilities have been settled. Until the termination is complete, the sub-fund is still subject to the accounting dates of M&G Investment Funds (3).

Investment objective and policy of the M&G US High Yield Corporate Bond Fund to 29 June 2007

The Fund aimed to maximise total return whilst providing investors with a high level of income, though this varied. The portfolio consisted of high yielding corporate bonds and (where deemed appropriate by the investment manager) other fixed interest securities denominated in US dollars. Whilst the investment manager had the power to hedge the currency risk for UK investors, the Fund would normally have been managed so as to give exposure to the US dollar.

Investment approach

The M&G US High Yield Corporate Bond Fund was diversified by issuer, industry and credit quality, and this diversification was maintained on an ongoing basis. There was a focus on in-depth, independent research rather than relying on external research, due to the potential bias of outside sources.

Particular emphasis was placed on investigating the issuer's ability to generate and sustain cash flow and the company's ability to service debt and maintain its asset base through an economic or industry downturn. The fund tended to be biased towards investing in bonds issued by medium-sized or rapidly growing companies rather than bonds issued by larger companies with stronger credit ratings. The fund avoided highly speculative situations and minimised interest rate forecasting by maintaining the portfolio's duration (the sensitivity of its capital value to changes in interest rates) in line with that of its benchmark.

M&G US High Yield Corporate Bond Fund

FUND STATISTICS

PRICES					
	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling					
Class 'A'		p	p	p	p
	2003	44.25	39.59	54.95	47.56
	2004	40.46	36.88	52.51	48.01
	2005	39.70	35.60	55.05	48.10
	2006	39.17	34.34	55.76	50.20
	2007 ^[a]	35.61	33.95	53.33	50.85
	2008	n/a	n/a	n/a	n/a
Class 'X'					
	2003	43.27	38.52	54.89	47.52
	2004	39.90	36.37	52.46	47.99
	2005	39.18	35.11	55.06	48.08
	2006	38.66	33.88	55.77	50.19
	2007 ^[a]	35.14	33.50	53.34	50.85
	2008	n/a	n/a	n/a	n/a
Euro ^[b]					
Class 'A'		€	€	€	€
	2003	n/a	n/a	10.2452	9.0599
	2004	n/a	n/a	9.9397	9.0608
	2005	n/a	n/a	10.4781	9.1529
	2006	n/a	n/a	10.5554	9.7522
	2007 ^[a]	n/a	n/a	10.4864	10.0333
	2008	n/a	n/a	n/a	n/a
Class 'C'					
	2003	n/a	n/a	10.2735	9.0757
	2004	n/a	n/a	9.9920	9.1106
	2005	n/a	n/a	10.5727	9.2050
	2006	n/a	n/a	10.6624	9.8601
	2007 ^[a]	n/a	n/a	10.6473	10.1949
	2008	n/a	n/a	n/a	n/a

^[a] To 29 June 2007. The M&G US High Yield Corporate Bond Fund commenced its termination on this date.

^[b] Please note that with effect from 4 January 2005 these share classes were priced gross.

Past performance is not a guide to future performance.

The price of shares and the income from them may go down as well as up, and you may get back less than you invested.

INCOME

Income per share					
	Calendar year	Interim	Distributed Final	Total	Reinvested
Sterling (net)					
Class 'A'		p	p	p	p
	2003	nil	1.7190	1.7190	2.0652
	2004	1.0530	1.0100	2.0630	2.6147
	2005	0.9168	1.0000	1.9168	2.5602
	2006	1.0180	0.9500	1.9680	2.7641
	2007 ^[a]	0.8460	0.7952	1.6412	2.4278
	2008	n/a	n/a	n/a	n/a
Class 'X'					
	2003	1.0450	1.1590	2.2040	1.4296
	2004	1.0270	0.9952	2.0222	2.5981
	2005	0.9088	0.9800	1.8888	2.5568
	2006	0.9960	0.9400	1.9360	2.7556
	2007 ^[a]	0.8416	0.7904	1.6320	2.4463
	2008	n/a	n/a	n/a	n/a
Euro (gross ^[b])					
Class 'A'		¢	¢	¢	¢
	2003	n/a	n/a	n/a	30.6230
	2004	n/a	n/a	n/a	48.7480
	2005	n/a	n/a	n/a	54.6220
	2006	n/a	n/a	n/a	64.8800
	2007 ^[a]	n/a	n/a	n/a	57.8980
	2008	n/a	n/a	n/a	n/a
Class 'C'					
	2003	n/a	n/a	n/a	32.6010
	2004	n/a	n/a	n/a	52.8170
	2005	n/a	n/a	n/a	59.3760
	2006	n/a	n/a	n/a	70.3730
	2007 ^[a]	n/a	n/a	n/a	64.0980
	2008	n/a	n/a	n/a	n/a

^[a] Up to last distribution: ex-distribution date 29 June 2007; payment date 31 August 2007.

^[b] All distributions prior to ex-distribution date 1 July 2005 are shown net per share.

M&G US High Yield Corporate Bond Fund

FUND STATISTICS

NET ASSETS					
	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling					
Class 'A'	Jun 2006	p	p		
		35.20	51.46	212,271	175,543
	Jun 2007 ^[a]	n/a	n/a	nil	nil
	Jun 2008 ^[a]	n/a	n/a	nil	nil
Class 'X'	Jun 2006	34.73	51.45	4,843,998	1,009,248
	Jun 2007 ^[a]	n/a	n/a	nil	nil
	Jun 2008 ^[a]	n/a	n/a	nil	nil
Euro					
Class 'A'	Jun 2006	€	€		
		n/a	9.7808	n/a	1,855
	Jun 2007 ^[a]	n/a	n/a	n/a	nil
	Jun 2008 ^[a]	n/a	n/a	n/a	nil
Class 'C'	Jun 2006	n/a	9.8944	n/a	500
	Jun 2007 ^[a]	n/a	n/a	n/a	nil
	Jun 2008 ^[a]	n/a	n/a	n/a	nil
Total net asset value of sub-fund					
	Year ended	£		€ ^[b]	
	Jun 2006	2,383,000		3,439,000	
	Jun 2007	nil		nil	
	Jun 2008	nil		nil	

^[a] All of the shares in the M&G US High Yield Corporate Bond Fund were cancelled as a result of the commencement of its termination.

^[b] Based on the midday exchange rate on the last business day of each financial year.

FINANCIAL STATEMENTS

For the year ended 30 June 2008.

STATEMENT OF TOTAL RETURN

	Note	2008		2007	
		£'000	£'000	£'000	£'000
Net losses on investments	2		0		(104)
Currency losses			0		(7)
Income	3	0		172	
Expenses	4	0		(41)	
Net income before taxation		0		131	
Taxation	5	0		0	
Net income after taxation			0		131
Total return before distributions			0		20
Finance costs: Distributions	11		0		(131)
Change in net assets attributable to shareholders from investment activities			0		(111)

STATEMENT OF CHANGE IN SHAREHOLDERS' NET ASSETS

	2008		2007	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		0		2,383
Amounts received on issue of shares	0		399	
Amounts paid on cancellation of shares	0		(2,689)	
		0		(2,290)
Change in net assets attributable to shareholders from investment activities (see above)		0		(111)
Retained distributions on Accumulation shares		0		18
Closing net assets attributable to shareholders		0		0

BALANCE SHEET

	as at 30 June 2008		as at 30 June 2007	
	£'000	£'000	£'000	£'000
Assets				
Portfolio of investments		0		0
Debtors				
Bank interest receivable	0		1	
Cash and bank balances	2		1,514	
Total other assets		2		1,515
Total assets		2		1,515
Liabilities				
Creditors				
Amount payable on class action	(2)		0	
Amounts payable on cancellations	0		(1,484)	
Income tax payable	0		(12)	
Net distributions payable on Income shares	0		(19)	
Total liabilities		(2)		(1,515)
Net assets attributable to shareholders		0		0

M&G US High Yield Corporate Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

- a) **Basis of accounting:** The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in December 2005.

The sub-fund commenced its termination on 29 June 2007 and, therefore, the financial statements have been prepared on a realisation basis. There is no significant difference between the preparation of the financial statements on a realisation basis or a going concern basis.

- b) **Exchange rates:** Transactions in foreign currencies were translated at the rate of exchange ruling on the date of the transaction.

- c) **Recognition of income:** Bank interest and interest on debt securities were recognised on an accruals basis. For debt securities issued at a significant discount or premium to the maturity value, the total income, taking into account the amortisation of such a discount or premium, was spread over the life of the security on an appropriate basis.

- d) **Expenses:** For accounting purposes, all expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) were charged against income for the year on an accruals basis.

- e) **Apportionment of income and expenses to multiple share classes:** With the exception of the Authorised Corporate Director's periodic charge, which was directly attributable to individual share classes, all income and expenses were apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses were recognised.

- f) **Taxation:** The rate of corporation tax for the sub-fund was 20%. The tax accounting treatment followed the principal amounts involved.

- g) **Deferred taxation:** Deferred tax was provided for in respect of all timing differences. Any liability to deferred tax was provided at the average rate of tax expected to apply. Deferred tax assets and liabilities were not discounted to reflect the time value of money.

- h) **Distribution policy:** The policy of the sub-fund was to distribute all available income, after deduction of expenses properly chargeable against income. Income attributable to Accumulation shareholders was retained at the end of each distribution period and represented a reinvestment of income. All remaining income was distributed in accordance with the Collective Investment Schemes sourcebook.

Distributions which remained unclaimed by shareholders for more than six years were credited to the capital property of the sub-fund.

2 Net losses on investments

	2008 £'000	2007 £'000
Non-derivative securities	0	(104)

3 Income

	2008 £'000	2007 £'000
Bank interest	0	6
Interest on debt securities	0	166
	0	172

4 Expenses

	2008 £'000	2007 £'000
Payable to the Authorised Corporate Director or associate		
Authorised Corporate Director's periodic charge	0	28
Administration fee	0	4
	0	32
Payable to the Depositary or associate		
Distribution fees	0	1
Other expenses		
Audit fee (including VAT)	0	7
VAT recoverable		
Prior year	0	1
Total expenses	0	41

5 Taxation

	2008 £'000	2007 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Current tax charge (note 5b)	0	0
Deferred tax (note 5c)	0	0
	0	0
b) Factors affecting taxation charge for the year		
Net income before taxation	0	131
Corporation tax at 20%	0	26
Effects of:		
Interest distributions	0	(26)
Current tax charge (note 5a)	0	0
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 5a)	0	0
Provision at the end of the year	0	0

The sub-fund has not recognised a deferred tax asset of £23,000 (30.06.07: £23,000) arising as a result of having unutilised management expenses. We do not expect this asset to be utilised in the foreseeable future.

Interest distributions have been made in respect of all distributions during the current and preceding years. Income tax at 20% will be accounted for on shareholders' behalf to HM Revenue & Customs where applicable.

6 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (30.06.07: same).

M&G US High Yield Corporate Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

7 Related parties

M&G Securities Limited, as Authorised Corporate Director, is a related party and acted as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where M&G Securities Limited acted as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in shareholders' net assets and note 11.

Amounts paid to M&G Securities Limited in respect of the Authorised Corporate Director's periodic charge and administration fee are disclosed in note 4.

8 Financial instruments

Currency exposure

There was no significant foreign currency exposure within the sub-fund at the balance sheet date (30.06.07: same).

Interest rate profile

	Floating rate financial assets		Fixed rate financial assets		Total	
	as at 30.06.08 £'000	as at 30.06.07 £'000	as at 30.06.08 £'000	as at 30.06.07 £'000	as at 30.06.08 £'000	as at 30.06.07 £'000
Sterling	2	1,514	0	0	2	1,514
Total	2	1,514	0	0	2	1,514

Floating rate interest-bearing assets at the balance sheet date consist of bank balances, on which interest is calculated at a variable rate by reference to sterling bank deposit rates or the international equivalent (30.06.07: same).

Fair values

At the balance sheet date there were no financial instruments remaining in the sub-fund (30.06.07: same).

9 Portfolio transaction costs

	2008 £'000	2007 £'000
a) Purchases		
Total purchases excluding transaction costs	0	365
b) Sales		
Total sales excluding transaction costs	0	2,530

There were no significant transaction costs during the year (2007: same).

10 Shareholder funds

This sub-fund contained Sterling Class 'A' (Net Income and Net Accumulation) shares and Sterling Class 'X' (Net Income and Net Accumulation) shares.

This sub-fund also contained Euro Class 'A' (Gross Accumulation) shares and Euro Class 'C' (Gross Accumulation) shares.

The charging structure for each share class, prior to the commencement of the sub-fund's termination, is set out in the following table:

CHARGES AND EXPENSES

	Initial charge	Redemption charge	ACD's annual remuneration
	%	%	%
Sterling			
Class 'A'	3.00	n/a	1.25
Class 'X'	nil	4.50 ^[a]	1.25
Euro			
Class 'A'	3.25	n/a	1.25
Class 'C'	1.25	n/a	0.75

^[a] The redemption charge diminished over a period of five years. Please refer to the Key Features document for further information.

With the exception of the Authorised Corporate Director's periodic charge, which was directly attributable to individual share classes, all income and expenses were apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses were recognised.

Each share class had the same rights on winding-up.

11 Finance costs

	2008 £'000	2007 £'000
Income shares (sterling)		
Class 'A' - Interim	0	3
Final	0	1
Class 'X' - Interim	0	40
Final	0	18
Accumulation shares (sterling)		
Class 'A' - Interim	0	2
Final	0	0
Class 'X' - Interim	0	12
Final	0	4
Accumulation shares (euro)		
Class 'A' - Interim	0	0 ^[a]
Final	0	0 ^[a]
Class 'C' - Interim	0	0 ^[a]
Final	0	0 ^[a]
	0	80
Income tax deducted at source	0	26
Finance costs: Interest distributions	0	106
Income deducted on cancellation of shares	0	29
Income received on issue of shares	0	(4)
Finance costs: Distributions	0	131

^[a] The total of the interim and final gross distributions for Euro Class 'A' and Euro Class 'C' (Accumulation) shares in 2007 was €6 and €6 respectively.

M&G US High Yield Corporate Bond Fund

FINANCIAL STATEMENTS

DISTRIBUTION TABLE						
Interest distributions on Income shares	Gross income	Income tax deducted	Net income	Equalisation	Distribution paid	
	p	p	p	p	2008	2007
Sterling						
Class 'A' - Interim						
Group 1:	-	-	-	-	-	0.8460
Group 2:	-	-	-	-	-	0.8460
- Final						
Group 1:	-	-	-	-	-	0.7952
Group 2:	-	-	-	-	-	0.7952
Class 'X' - Interim						
Group 1:	-	-	-	-	-	0.8416
Group 2:	-	-	-	-	-	0.8416
- Final						
Group 1:	-	-	-	-	-	0.7904
Group 2:	-	-	-	-	-	0.7904
Interest distributions on Accumulation shares	Gross income	Income tax deducted	Net income	Equalisation	Amount reinvested	
	p	p	p	p	2008	2007
Sterling						
Class 'A' - Interim						
Group 1:	-	-	-	-	-	1.2368
Group 2:	-	-	-	-	-	1.2368
- Final						
Group 1:	-	-	-	-	-	1.1910
Group 2:	-	-	-	-	-	1.1910
Class 'X' - Interim						
Group 1:	-	-	-	-	-	1.2466
Group 2:	-	-	-	-	-	1.2466
- Final						
Group 1:	-	-	-	-	-	1.1997
Group 2:	-	-	-	-	-	1.1997
Euro	€	€	€	€	€	€
Class 'A' - Interim						
Group 1:	-	-	-	-	-	27.6980
Group 2:	-	-	-	-	-	27.6980
- Final						
Group 1:	-	-	-	-	-	30.2000
Group 2:	-	-	-	-	-	30.2000
Class 'C' - Interim						
Group 1:	-	-	-	-	-	30.8980
Group 2:	-	-	-	-	-	30.8980
- Final						
Group 1:	-	-	-	-	-	33.2000
Group 2:	-	-	-	-	-	33.2000

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

Further Information

RISK FACTOR

Risk affecting all sub-funds

Within the M&G Investment Funds (3) range, although each sub-fund will be treated as being responsible for meeting its own liabilities, the Authorised Corporate Director (ACD) may reallocate these in a manner which is fair to all Company investors if any sub-fund is unable to meet its liabilities. A shareholder is not, however, liable for the debts of the Company and will never be liable to make any further payment to the Company after paying the purchase price of the shares.

LIQUIDITY

The ACD's policy is that the sub-funds should normally be close to fully invested but this is subject to the need to retain liquidity for the purpose of effecting the redemption of shares, and the efficient management of the sub-funds in accordance with their objectives. There may, therefore, be occasions when there will be higher levels of liquidity, for example following the issue of shares or the realisation of investments. Higher liquidity levels may also arise when a sub-fund's asset allocation policy is changed.

DILUTION

The actual cost of purchasing or selling a sub-fund's investments may deviate from the mid-market price due to dealing costs and these costs can have an adverse effect on the value of the sub-fund, known as 'dilution'. The Collective Investment Schemes sourcebook, as issued (and amended) by the Financial Services Authority, allows the cost of dilution to be recovered from investors on the purchase or redemption of shares by means of a dilution adjustment to the dealing price, and this is the policy which has been adopted by the ACD.

Further information on the ACD's dilution adjustment policy is in the Prospectus, which is available free of charge from the ACD, M&G Securities Limited.

THE EU SAVINGS DIRECTIVE

The percentage of the following M&G sub-funds held in interest-bearing assets (as defined by the UK rules for the EU Savings Directive 2003/48/EC) is as follows:

M&G Corporate Bond Fund	80.22%
M&G Dividend Fund	4.13%
M&G Emerging Markets Bond Fund	63.82%
M&G European Corporate Bond Fund	97.56%
M&G European High Yield Bond Fund	99.06%
M&G Fund of Investment Trust Shares	2.39%
M&G International Sovereign Bond Fund	90.06%
M&G Recovery Fund	10.13%
M&G Smaller Companies Fund	3.42%
M&G UK Select Fund	6.51%
M&G US High Yield Corporate Bond Fund	0.00%

