The Fleming

Claverhouse

Investment Trust plc

754577

Capital and income growth
from UK investments

Annual Report & Accounts
Year ended 31 December 1997

Objective

Capital and income growth from UK investments.

Policies

To invest in a UK portfolio consisting mostly of leading companies.

To use long-term borrowings to increase potential returns to shareholders.

Benchmark

FTSE All-Share Index.

The Fleming
Claverhouse
Investment Trust plc

Financial Highlights

Per Ordinary Share	*1997*	*1996*	*Change*
Net asset value	388.7p	301.5p	+28.9%
Share price	403.5p	283.0p	+42.6%
Total dividend	6.80p	6.55p	+3.8%
FTSE All-Share Index	2,411.0	2,013.7	+19.7%

Annual General Meeting

The Annual General Meeting of The Fleming Claverhouse Investment Trust plc will be held at The Insurance Hall, 20 Aldermanbury, London EC2V 7HY at 12.00 noon on Thursday 23 April 1998.

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Chairman's Statement

"It has been another splendid year. Total return for shareholders rose to a remarkable 45.3% compared to our benchmark return of 23.1%."

Mark Fitzalan Howard

The Board

I am delighted to report that the Rt. Hon. Peter Lilley MP was appointed a Director of the Company on 17 November 1997. He is currently Shadow Chancellor and formerly, when in government, served as Financial Secretary to the Treasury, Secretary of State for Trade and Industry and Secretary of Social Security. We are indeed fortunate to have persuaded such a busy and respected person to join us; it will give me great pleasure to seek your support when I propose his re-election as a Director at the Annual General Meeting.

On a personal note, I have decided to retire from the Board with effect from the AGM, having served as a Director and Chairman for 12 years. It has been a tremendously stimulating experience. As my valediction I would like to pay tribute to the unfailingly wise counsel of my fellow Directors, upon whom I have so depended, and in equal measure, to Flemings, for their professionalism in managing and administering the Company.

My successor will be Robert Walther, who has been a Director for five years and who is currently Chairman of the Audit Committee. My colleagues and I are delighted that he is willing and committed to devote sufficient time from his existing responsibilities to undertake this role. Sir Michael Bunbury has kindly agreed to succeed Robert as Chairman of the Audit Committee.

Review of the Year

The July 1997 Budget

Gordon Brown's first Budget in July contained shocking news for investment trusts like Claverhouse who are accustomed to being able to offset their expenses and finance charges against franked income and so reduce their tax bill. This change to the law, which came into force from July, has the effect that this Company will pay more tax leaving less income available for shareholders. **In fact, as a result of the change, forecast earnings per share for the current financial year are 1.7 pence lower than last year.**

The Board, together with the Manager, is exploring whether the Company can be made more tax efficient in order to limit the effect of this change on the revenue account, but as I mention below, your Board feels that a restructuring of the portfolio for purely tax reasons is not in the best interests of shareholders over the longer term.

Performance

It has been another splendid year. This time last year I cautioned shareholders not to expect a repeat performance of the 16% total return achieved for shareholders in 1996. Happily, however, I have been proved wrong because in 1997 this rose to a remarkable 45.3% compared to our benchmark return (FTSE All-Share Index) of 23.1%.

A major reason for this exceptional increase, apart from our Investment Manager's outstanding investment performance, was due to last year's discount of the share price to the net asset value of 6.1% being transformed into a premium of 3.8%. Whilst welcoming the popularity of the Company, the Board believes that too high a premium can be as potentially worrying as too deep a discount – accordingly shareholders will again be asked to pass a special resolution to enable the Board to issue new shares in order to satisfy excessive demand – such shares being always issued at sufficient premium so as to enhance the net asset value of the existing shares.

Last year's total return to shareholders was not only exceptional in absolute terms, especially when viewed against a rate of inflation of around 3%, but was also extremely gratifying when compared to our peer group of ten other investment trusts, classified by the Association of Investment Trust Companies as 'UK General', where we ranked as the clear leader.

Revenue and Dividends

Last year I warned about the short term outlook for revenue as our Investment Manager continued to shift the emphasis of the portfolio into long term growth stocks. These stocks typically tend to yield less than the market average but, most importantly, provide a greater potential for long term dividend growth. In the event, a number of our shareholdings paid special dividends which helped to mitigate the anticipated shortfall in revenue.

A further reason for last year's earnings per share falling by 5.8% was the impact on our revenue account of entering into a £15 million 10 year bank loan on which we bear interest at a fixed rate of 7.86% for the first five years from 30 June 1997. As I explained in last year's Interim Report, the Board firmly believes that prudent gearing will enhance the total return to shareholders over the longer term.

Because we have been conservative in forecasting revenue for the current year, for example not anticipating the receipt of any 'special dividends', the Board felt it correct to increase the total dividend for last year by only marginally more than the rise in the retail price index.

It remains the Board's intention to increase the dividend annually (hopefully by at least the rate of inflation) and thereby to continue the Company's record of increasing the dividend every year since 1972. However, shareholders should be aware that, for the reasons stated above, this may not be possible in the short term as we strive to absorb the adverse impact of last year's Budget changes. The Board remains committed to continuing its policy of investing in growth shares, even though these may be lower-yielding, and will endeavour not to deviate from this just to alleviate short term pressure on the rate of dividend. However, with the current forecast for this year's revenue showing earnings of around 5.0p per share, it would currently be necessary to draw on our revenue reserve just to maintain the dividend rate of 6.80 pence per share.

Corporate Governance

The Company continues to comply with the code of best practice laid down by the Cadbury Committee. In particular, the Audit Committee has continued to carry out its functions during the year and, among other issues, has reviewed the Management Agreement. A review of internal financial controls can be found on page 18.

Change of Registered Office

With effect from 11 August 1997, our registered office and that of Fleming Investment Trust Management Limited, our Manager and Secretary, moved from 25 Copthall Avenue to 20 Finsbury Street, London, EC2Y 9AQ. The telephone numbers are unchanged, as is the way your Company is managed and administered.

Annual General Meeting

This year the Annual General Meeting is being held in London at The Insurance Hall, 20 Aldermanbury, London, EC2V 7HY on Thursday 23 April 1998 at 12.00 noon. I hope that as many shareholders as possible will take the opportunity to attend the Meeting as this is the occasion when the Board accounts to you, the owners of the Company, for the stewardship of your assets. As usual, the Investment Manager, William Pattisson, will review the past year and comment on the outlook for the current year. We will follow this with a light buffet lunch which will allow shareholders to meet the Directors and the Investment Manager.

The Directors have been enormously impressed by the very supportive attendance of shareholders at our AGMs including those which have not been held in London. Thus it is the Board's intention to continue our custom of alternating the venue of the AGM between London and regional centres convenient for shareholders.

Mark Fitzalan Howard

Mark Fitzalan Howard
Chairman

4 March 1998

Company Performance

Summary of Results

	1997	*1996*	*% change*
Assets *at 31 December*			
Shareholders' funds (£'000)	230,146	176,293	+30.5
Shares in issue	59,214,937	58,473,788	+1.3
Net asset value per share (p)	388.7	301.5	+28.9
Share price (p)	403.5	283.0	+42.6
Premium/(discount) of share price to net asset value	3.8%	(6.1%)	
Revenue *for year to 31 December*			
Gross revenue (£'000)	7,516	7,159	+5.0
Net revenue attributable to shareholders (£'000)	4,230	4,252	–0.5
Revenue return per share (p)[1]	7.21	7.66	–5.8
Dividends per share (p)	6.80	6.55	+3.8
Total Returns *(capital plus income) for the year to 31 December*			
Return on net assets[2]	31.1%	17.5%	
Return to shareholders[3]	45.3%	16.0%	
FTSE All-Share Index[4]	23.1%	15.2%	
Gearing Factor			
Actual[5]	114.2	110.1	
Total Expense Ratio[6]	0.69%	0.81%	

[1] *Calculated on the weighted average number of shares in issue during the year.*

[2] *Change in net asset value per share with net dividends reinvested. (Source: The Association of Investment Trust Companies.)*

[3] *Change in share price with net dividends reinvested (Source: The Association of Investment Trust Companies.)*

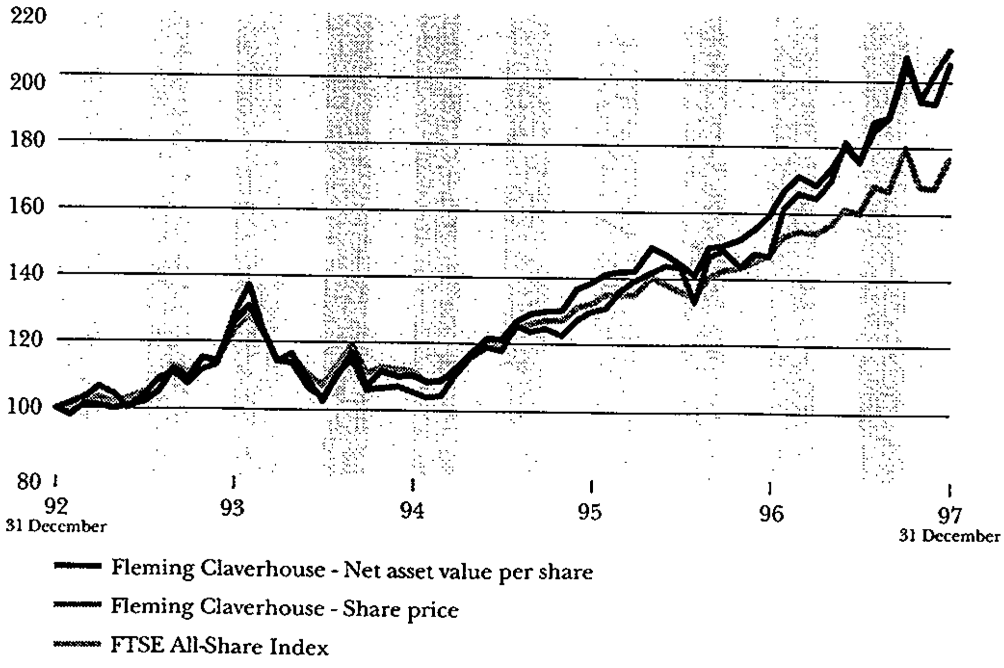
[4] *Change in index adjusted to include net income reinvested. (Source: The Association of Investment Trust Companies.)*

[5] *Actual gearing means investments expressed as a percentage of shareholders' funds and therefore takes into account the Company's liquidity.*

[6] *Takes into account the annual management fee paid to the manager and all other operating expenses. Where appropriate, tax relief allowable on expenses has been included. The figure shown represents the total net deductions (excluding interest payments) from the Company's assets over the year.*

Five Year Performance

Figures have been rebased at 100 at 31 December 1992



Investment Manager's Report

"1997 was a very good year for the UK stockmarket. The FTSE All-Share Index was up 19.7%, producing a total return including net income reinvested of 23.1%."

William Pattisson
Has managed the Company's assets since 1995 and has over ten years' experience in managing UK investments

Stockmarket Review

1997 was a very good year for the UK stockmarket. The FTSE All-Share Index was up 19.7%, producing a total return including net income reinvested of 23.1%. This represents a real return of about 20% after allowing for inflation; the average real rate of return from UK equities since 1918 is 8.0% per annum which highlights what a rewarding year 1997 was for investors. This return is all the more pleasing to report given the large rises in the UK stockmarket in 1995 and 1996.

In broad terms there were four factors which lay behind the strength of UK equities. First, gilt yields fell; second the equity market started the year at a reasonable valuation (despite the rise in share prices during 1996); third, good real growth in profits and dividends was positive for equities and fourth, continued corporate activity and share buy-backs ensured that the cash flows into the market were favourable, putting upward pressure on share prices.

A benign economic environment (with good economic growth and low inflation) enabled falling gilt yields to become the dominant factor behind rising equities. During the year long gilt yields fell from 7.65% to 6.27% which meant that the valuation of equities continued to look attractive despite the higher level of the market. The strength of gilts during the year was principally due to three factors. First, international bonds were strong as a result of inflation remaining low globally; second, the new Labour government gave the Bank of England operational independence only days after being elected in May (thus re-inforcing their pre-election claims of economic prudence and the need for low inflation) and third, the Labour government ended the year more favourably disposed towards Economic Monetary Union (EMU) than the Conservative government began it; the financial markets believe membership of EMU will play an important role in keeping inflation, and therefore gilt yields, down.

To an extent the positive impact of falling gilt yields has been overshadowed by corporate activity in the UK stockmarket. Companies that lost their independence during the year included Chubb Security, Scottish Amicable, Howden, APV, Yorkshire Tyne Tees TV, Clyde Petroleum, Redland, Mercury Asset Management and Yorkshire Electricity. Company mergers during the year included Grand Metropolitan with Guinness, Amersham International with the Norwegian company Nycomed and B.A.T with the Swiss company Zurich Group. Mergers are becoming larger and increasingly international in nature; these trends have been highlighted in recent weeks by the proposed merger of SBC and UBS (two of the largest European banks) and the aborted merger of Glaxo Wellcome and SmithKline Beecham (a deal which would have created the largest pharmaceutical company in the world). In addition, an increasing number of companies bought back shares or restructured their balance sheets in order to return cash to shareholders; these included Barclays, Guinness, Wessex Water, British Steel, Royal Sun Alliance, Yorkshire Water, Southern Electric, Wassall, Lucas Varity, Rank, Thorn, BG, Caradon and National Grid. These are moves now seen as an appropriate use of financial strength rather than an admission of management failure; share buy-backs in particular have become more popular since the Chancellor announced the abolition of the dividend tax credit for pension funds in his June Budget. This has the effect of reducing their income stream from UK equities by 20%. In total, a record £9bn of shares were bought back by companies during 1997.

There have been two main forces behind this corporate activity. First, companies have the money: corporate finances have improved dramatically in recent years (and, in addition, the cost of borrowing is lower than at any time since the mid-1960s). Second, the corporate sector has the desire: acquisitions and mergers provide the scope for cutting costs, which, in a low inflation environment can be vital to sustaining earnings growth (as do share buy-backs in the absence of other alternatives).

Looking in more detail at the performance of the UK stockmarket during 1997 it can be seen that equities moved up steadily for the first nine months but had an uncertain end to the year as economic turmoil in South East Asia caused volatility in all stockmarkets around the world. Despite the large rise in the overall market in the UK there were significant differences depending on company size: larger companies dominated the upward move in equities. The FTSE 100 (representing the largest 100 companies in the market) rose nearly 29% while the rest of the market could only manage a rise of 10%. The FTSE 100 benefited from resilient profits and economic themes which favoured the bigger, global companies while smaller companies generally suffered from lower than expected profits, principally as a result of stronger sterling.

In a year where the economic environment remained benign, the performance of individual sectors has been driven by whether their profits and dividends were ahead of, or behind, analysts' expectations. For example the utilities and financial sectors pleasantly surprised and outperformed (both sectors were also direct beneficiaries of lower gilt yields), while all the industrial sectors disappointed and subsequently lagged the market. One sector which did well, despite not living up to short-term profit expectations, was pharmaceuticals – here the anticipation of future growth and industry consolidation was sufficient to drive share prices higher. As in most years, the divergence between the best performing sector and the worst was large: gas distribution rose by 69% while extractive industries fell by 22%.

Portfolio Activity

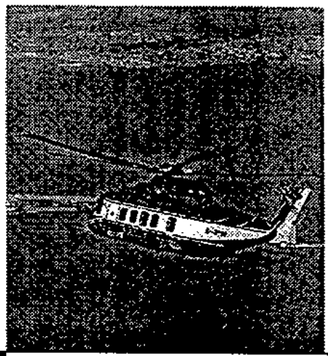
At a broad sector level there were few changes to the portfolio during 1997. The emphasis, as had been the case in 1996, was to focus on those sectors and companies which would show superior and sustainable earnings and dividend growth against the background of a flatter economic cycle with steady growth and subdued inflation. During the year we increased the portfolio's exposure to financials and reduced the exposure to services. In the financial sector we bought Bank of Scotland, Alliance & Leicester, Abbey National and

Features of the Portfolio

▶ GKN

Value (£'000): 3,778
% of portfolio 1.4

The group is an international business with leading positions in automotive and agritechnical products, aerospace, special vehicles and in industrial services. Strong organic growth in all divisions continues to drive profits forward at a rate in excess of the market.



▲ Bank of Scotland

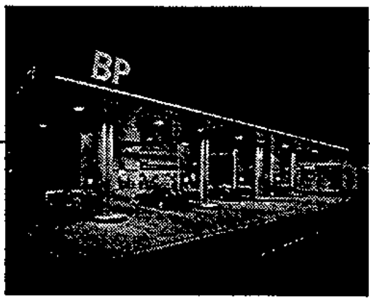
Value (£'000): 7,493
% of portfolio: 2.9

The principle activities of the company are banking and related financial services in the UK and overseas. Strong growth coupled with tight control of costs should ensure that the recent growth in profits and dividends continues for the foreseeable future.

◀ Railtrack Group

Value (£'000): 7,624
% of portfolio: 2.9

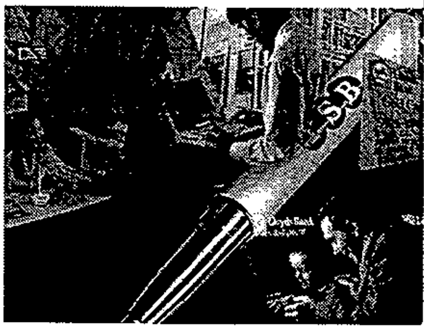
The company owns Britain's rail infrastructure; its main business is the provision of track access to train operations and the management of timetableing, train planning and signalling. Revitalised management and cost cutting will drive profits significantly higher in the future.



▲ British Petroleum

Value (£'000): 12,145
% of portfolio: 4.6

The company is involved in various aspects of the oil, gas and petrochemicals business world-wide. The combination of continued cost cutting, innovative alliances and strong cash flows provide the basis for good growth in profits and dividends in the years ahead.



▲ Legal & General Group

Value (£'000): 6,625
% of portfolio: 2.5

The company is involved in the transaction of life and general insurance, investment management and related services. Strong growth in all areas of the business should ensure that dividend growth significantly exceeds that of the market for the foreseeable future.

▲ Lloyds TSB Group

Value (£'000): 13,727
% of portfolio: 5.2

The principal activities of the group are the provision of banking and financial services in the UK and overseas. Recent investments in technology are driving down costs and with strong growth in the domestic mortgage market the company's record of superior dividend growth is set to continue.

M&G; in other sectors we bought SmithKline Beecham, Cobham, Pizza Express, Parity, Amersham and Serco, all of which have excellent prospects.

Companies that were sold during the year were mainly those where we believed the underlying fundamentals were deteriorating; these included British Steel, David S. Smith, Vickers, Pilkington, ICI, MFI, Pearson, Granada and BSkyB.

Future Outlook

We expect 1998 to be a good, rather than spectacular, year for UK equities. Many of the forces which drove the stockmarket up in 1997 remain in place, but as we move through the year equities will have to face the consequences of a slowing economy (interest rates went up from 6.0% to 7.25% during 1997 and this should lead to a modest reduction in economic growth from 3.5% to about 2.5%). Consumer spending will, as in 1997, provide the main boost to economic growth, being driven by further growth in real disposable income and falling unemployment.

Equity valuations, as was the case at the beginning of 1997, are not particularly stretched. The stockmarket appears fairly valued in terms of its earnings and in relation to gilts. Company dividends will provide good growth in real terms during the year and this should be converted into higher equity prices. In addition, a positive cash flow environment should support the market; we believe there will be further takeovers and mergers in 1998 and many companies will continue to buy back their own shares.

These factors provide a positive background to the stockmarket. As usual, however, there are reasons for caution. The biggest potential risk for equities remains inflation. We continue to believe that inflation will remain subdued over the course of the economic cycle but the valuation of the stockmarket would suffer if the Bank of England fails to dampen the current (albeit modest) cyclical pick up in inflation. At a sector specific level there is a risk that interest rates have to go up further than expected in order to slow consumer spending and wage growth in the service industry, which in turn puts upward pressure on sterling and causes further pain for manufacturing companies. Another risk to the stockmarket is that the economic problems of South East Asia spread further afield; UK corporate profits should not be significantly affected, but a loss of confidence in financial assets would send share prices lower. Until the problems in Asia are resolved markets are likely to remain volatile.

Overseas investors now play a major role in determining changes in our own financial markets. The influence of the US is particularly important and the outlook there is finely balanced. After another strong run in 1997, US equities appear to be discounting a lot of good news; a bad year for US bonds and equities would hinder the progress of the UK stockmarket.

Overall we believe the positive factors mentioned will enable equities to move higher during 1998. The portfolio will continue to be focused on those leading stocks in the UK market which should provide investors with both capital and income growth. Our aim is to identify companies which offer *superior* earnings and dividend growth but at a *reasonable* price.

William Pattisson *4 March 1998*

Ten Largest Investments

Company	Sector	31 Dec 1997 Value £'000	% of Portfolio
Lloyds TSB Group The principal activities of the group are the provision of banking and financial services in the UK and overseas. Recent investments in technology are driving down costs and with strong growth in the domestic mortgage market the company's record of superior dividend growth is set to continue.	Retail banks	13,727	5.2
British Petroleum The company is involved in various aspects of the oil, gas and petrochemicals business world-wide. The combination of continued cost cutting, innovative alliances and strong cash flows provide the basis for good growth in profits and dividends in the years ahead.	Integrated oil	12,145	4.6
Barclays The principal activities of the group are banking and related financial services in the UK and overseas. A focused strategy has improved returns in recent years and, along with share buy-backs, this will continue in the year ahead.	Retail banks	10,629	4.0
Shell Transport & Trading The group is engaged in various aspects of the oil, gas and chemicals business world-wide. The culture of the company is slowly changing in a way which will improve returns with a corresponding benefit for shareholders.	Integrated oil	8,856	3.4
SmithKline Beecham The principal activities of the group are the discovery, development and manufacture and marketing of pharmaceuticals, vaccines, over-the-counter medicines and health-related consumer products. The company is at the forefront of the industry consolidation which is helping keep costs down and improve long term profitability.	Pharmaceuticals	8,094	3.1
HSBC Holdings The group provides a comprehensive range of banking and related financial services throughout the world. The company's strong financial position and exposure to underdeveloped countries is a powerful combination for long term growth. The current turmoil in South East Asia should provide good investment opportunities for the group in the years ahead.	Retail banks	7,922	3.0
Railtrack Group The company owns Britain's rail infrastructure; its main business is the provision of track access to train operators and the management of timetabling, train planning and signalling. Revitalised management and cost cutting will drive profits significantly higher in the future.	Transport	7,624	2.9
Bank of Scotland The principal activities of the company are banking and related financial services in the UK and overseas. Strong growth coupled with tight control of costs should ensure that the recent growth in profits and dividends continues for the foreseeable future.	Retail banks	7,493	2.9
Zeneca Group The principal activities of the group are the research, manufacture and sale of pharmaceutical and agrochemical products worldwide. A range of new products will move sales and profits strongly ahead in the next few years.	Pharmaceuticals	7,430	2.9
British Aerospace The company operates in two major areas: defence and commercial aerospace. For both activities industry fundamentals have improved significantly in recent years, providing good profit growth; this is set to continue. The company will also benefit from being at the centre of consolidation in the defence industry across Europe which is likely to happen in the next few years.	Engineering	6,870	2.6

Financial Record

Year to 31 December	*1997*	*1996*	*1995*	*1994*[1]	*1993*	*1992*	*1991*	*1990*	*1989*	*1988*	*1987*
Revenue available for shareholders (£'000)	4,230	4,252	4,367	4,606	3,214	2,228	1,894	2,167	1,778	1,633	1,280
Return per share (p)	7.21	7.66	7.90	8.35	6.53	5.54	4.74	5.42	4.45	4.09	3.20
Dividends per share (net) (p)	6.80	6.55	6.10	5.67	5.50	5.35	5.25	5.00	4.25	3.63	3.13

As at 31 December

Shareholders' funds (£'000)	230,146	176,293	144,826	115,448	130,668	77,008	67,862	58,824	69,663	56,103	51,350
Net asset value per share (p)	389	302	262	209	238	189	171	147	174	141	129
Share price (p)	403.5	283.0	250.0	203.0	246.5	192.5	170.5	137.0	146.5	115.5	102.5

Rebased to 100 at 31 December 1987

Net asset value per share	302	234	203	162	184	147	133	114	135	109	100
Share price	394	276	244	198	240	188	166	134	143	113	100
FTSE All-Share Index	277	231	207	175	193	157	136	119	138	106	100
Dividends per share	217	209	195	181	176	171	168	160	136	116	100
Retail Price Index	155	150	146	141	138	136	131	124	113	105	100

[1] *Figures have been re-stated, where necessary, to reflect the change in accounting policy whereby 50% of the management fee (including VAT) and 50% of finance costs are charged to capital.*

The comparative figures for prior years have been adjusted, where applicable, to reflect the capitalisation issue in March 1993 of one ordinary share for each ordinary share held.

Shareholder and Portfolio Analyses

Shareholder Analysis

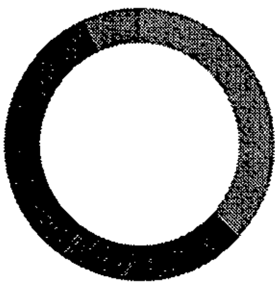
at 31 December 1997

Shareholders			*Ordinary shares held*	
Number	*% of total*	*Class of shareholder*	*Number*	*% of total*
14	0.1	Insurance companies	2,230,187	3.8
14	0.1	Pension funds	1,714,586	2.9
5	—	Unit and investment trusts	698,396	1.2
610	2.8	Other institutions	7,377,795	12.4
643	**3.0**	**Total institutions**	**12,020,964**	**20.3**
4,318	20.3	Named individuals	11,711,955	19.8
6,948	32.7	Named individuals in Fleming Investment Trusts Share Plan	11,957,309	20.2
6,879	32.4	Named individuals in Fleming Investment Trusts PEP	18,282,251	30.9
1,712	8.0	Named individuals in Fleming Investment Trusts Pension Accounts	1,826,481	3.1
763	3.6	Bank trustee and nominee accounts	3,415,977	5.7
20,620	**97.0**	**Total individuals**	**47,193,973**	**79.7**
21,263	**100.0**	**Total shareholders**	**59,214,937**	**100.0**

Institutional nominee accounts have been allocated to their appropriate category.

Portfolio Analysis

at 31 December 1997



Sector	%
■ Financial groups	36.7
■ Services	23.2
■ General manufacturers	13.7
■ Mineral extraction	9.8
■ Consumer goods	9.7
■ Utilities	6.9

List of Investments

at 31 December 1997

Company	Market Value £'000	% of Portfolio
Financial Group		
Retail Banks		
Lloyds TSB Group	13,727	5.2
Barclays	10,629	4.0
HSBC Holdings	7,922	3.0
Bank of Scotland	7,493	2.9
Abbey National	3,264	1.2
Alliance & Leicester	2,917	1.1
Woolwich	2,636	1.0
Standard Chartered	2,157	0.8
Merchant Banks		
Robert Fleming Holdings[1]	4,569	1.7
Schroders	3,025	1.2
Insurance		
Independent Insurance Group	5,248	2.0
Royal & Sun Alliance Insurance Group	2,133	0.8
Guardian Royal Exchange	1,635	0.6
General Accident	1,401	0.5
Life Assurance		
Legal & General Group	6,625	2.5
Prudential Corporation	2,563	1.0
United Assurance Group	2,373	0.9
Other Financial		
Provident Financial	4,415	1.7
MAM	3,477	1.3
M & G Group	2,815	1.1
Amvescap	1,272	0.5
Property		
British Land Co.	4,345	1.7
Total Financial Group	96,641	36.7

[1] *Unlisted*

Company	Market Value £'000	% of Portfolio
Services		
Leisure & Hotels		
Ladbroke Group	3,664	1.4
Games Workshop Group	996	0.4
Media		
Daily Mail & General Trust	2,520	1.0
Reuters Holdings	1,700	0.6
Food Retailers		
ASDA Group	3,209	1.2
General Retailers		
Next	6,366	2.4
Alexon Group	2,670	1.0
Dixons Group	2,607	1.0
Allders	1,322	0.5
Breweries Pubs & Restaurants		
Pizza Express	3,089	1.2
Support Services		
Hays	3,316	1.3
Serco Group	2,825	1.1
Sema Group	2,695	1.0
CMG	2,147	0.8
Misys	2,024	0.8
Parity	1,899	0.7
Rentokil Initial	1,422	0.5
Hogg Robinson	690	0.3
Transport		
Railtrack Group	7,624	2.9
Stagecoach Holdings	3,732	1.4
British Airways	2,833	1.1
National Express Group	1,595	0.6
Total Services	60,945	23.2

Company	Market Value £'000	% of Portfolio

General Manufacturers

Company	Market Value £'000	% of Portfolio
Building & Construction		
Taylor Woodrow	3,786	1.5
(John) Laing	1,887	0.7
Building Materials & Merchants		
Tarmac	2,004	0.8
Diversified Industrials		
Wassall	2,535	1.0
Engineering		
British Aerospace	6,870	2.6
Bodycote International	5,569	2.1
Cobham	4,183	1.6
Ultra Electronics Holdings	1,908	0.7
Engineering, Vehicles		
GKN	3,778	1.4
Mayflower Corporation	3,434	1.3
Total General Manufacturers	35,954	13.7

Mineral Extraction

Company	Market Value £'000	% of Portfolio
Integrated Oil		
British Petroleum Co.	12,145	4.6
Shell Transport & Trading Co.	8,856	3.4
Oil & Exploration		
Cairn Energy	2,337	0.9
British-Borneo Petroleum Syndicate	2,314	0.9
Total Mineral Extraction	25,652	9.8

Consumer Goods

Company	Market Value £'000	% of Portfolio
Food Producers		
Northern Foods	2,471	0.9
Health Care		
Nycomed Amersham	2,848	1.1
Biocompatibles International	515	0.2
Pharmaceuticals		
SmithKline Beecham	8,094	3.1
Zeneca Group	7,430	2.9
Glaxo Wellcome	4,042	1.5
Total Consumer Goods	25,400	9.7

Utilities

Company	Market Value £'000	% of Portfolio
Electricity		
British Energy	2,630	1.0
PowerGen	448	0.2
Gas Distribution		
BG	2,348	0.9
Centrica	1,191	0.5
Telecommunications		
Vodafone Group	3,557	1.3
British Telecommunications	2,852	1.1
Water		
Anglian Water	3,848	1.4
Thames Water	1,366	0.5
Total Utilities	18,240	6.9
Total Portfolio	262,832	100.0

There were no fixed interest stocks in the portfolio at 31 December 1997.

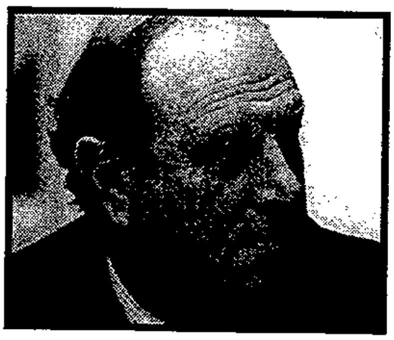
Board of Directors

Lord Mark Fitzalan Howard OBE (Chairman)
Age 63
Appointed a Director and Chairman in 1985
Director of National Mutual Life Assurance Society, the Universities Superannuation Scheme Ltd and a number of investment trusts. Until 1994 he was a member of the Honorary Investment Advisory Committee of the Public Trust Office. Chairman of the Association of Investment Trust Companies from 1981 to 1983.

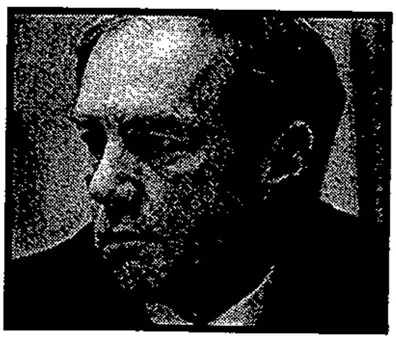
Robert Walther*
Age 54
Appointed in 1993
Chief executive of Clerical Medical Investment Group Limited, Fellow of the Institute of Actuaries and Associate of the Institute of Investment Management and Research. During 1995 he served as a member of the CBI Study Group on Directors' Remuneration chaired by Sir Richard Greenbury. Chairman of the Association of British Insurers Investment Committee from 1990 to 1992.

John Redwood*
Age 59
Appointed in 1985
Chairman of Broadgate Investment Trust plc and a stockbroker with Redmayne Bentley. Fellow of the Chartered Institute of Secretaries and Associate of the Institute of Investment Management and Research.

Professor Sandra Dawson*
Age 51
Appointed in 1996
Professor Dawson is currently the KPMG Professor of Management Studies and a director of the Judge Institute of Management Studies at the University of Cambridge. She is also a non-executive director of Cambridge Econometrics and the Public Health Laboratory Service.



Sir Michael Bunbury Bt*
Age 51
Appointed in 1996
Consultant, Smith & Williamson Group. Formerly chairman of The Fleming High Income Investment Trust. Deputy chairman of the Council of the Duchy of Lancaster.



The Rt. Hon. Peter Lilley MP*
Age 54
Appointed on 17 November 1997
Member of Parliament since 1983, currently representing the constituency of Hitchen and Harpenden. Appointed Shadow Chancellor in June 1997.

* Members of the Audit Committee

The Fleming
Claverhouse
Investment Trust plc

Directors' Report & Accounts

Year ended 31 December 1997

Directors' Report

Business of the Company

The Company carries on business as an investment trust. It was approved by the Inland Revenue as an investment trust in accordance with section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31 December 1996. In the opinion of the Directors the Company has subsequently conducted its affairs so as to enable it to continue to obtain such approval. The Company is not a close company for taxation purposes.

Investment Policy

The Directors have continued their policy of investing in British companies which offer the prospect of growth in both capital and income. A review of the Company's activities and prospects is given in the Chairman's Statement on pages 2 and 3, and in the Investment Manager's Report on pages 5 to 8.

Personal Equity Plan Status

The Company is a qualifying trust for PEP purposes and it is the Directors' intention that it should continue to be so.

Accounts

The accounts of the Company for the financial year ended 31 December 1997 are shown on pages 20 to 30.

Going Concern

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

Payment Policy

It is the Company's policy to settle terms before business is agreed, to ensure that suppliers are aware of them, and to pay bills in accordance with those terms. The Company had no trade creditors at the year end.

Investments

The investments were valued at £262,832,000 at 31 December 1997. Net assets attributable to shareholders totalled £230,146,000 equivalent to 388.66 pence per share.

Revenue and Dividends

Gross revenue return for the year before expenses and tax totalled £7,516,000 and net income available for distribution to shareholders was £4,230,000. The Directors declared a fourth quarterly interim dividend of 2.45 pence per share which was paid on 2 March 1998, this, when added to the other three quarterly interim dividends paid during 1997, makes a total for the year of 6.80 pence. These dividends total £4,001,000 and the balance of £229,000 has been transferred to the revenue reserve.

Directors

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

	31 December 1997	*31 December 1996*
Sir Michael Bunbury Bt	9,250	6,750
Professor Sandra Dawson	2,274	711
Lord Mark Fitzalan Howard	13,185	13,022
Rt. Hon. Peter Lilley MP	—	—[1]
John Redwood	5,900	5,650
Robert Walther	3,314	2,314

[1] *At date of appointment*

Since 31 December 1997 the Rt. Hon. Peter Lilley has purchased 1,000 of the Company's ordinary shares. No Director reported an interest in the Company's debentures during the year.

The Rt. Hon. Sir Timothy Raison resigned as a Director on 17 April 1997 and the Rt. Hon. Peter Lilley MP was appointed a Director on 17 November 1997. He will be seeking re-election by shareholders at the forthcoming Annual General Meeting. The Director retiring by rotation will be Lord Mark Fitzalan Howard who will not be offering himself for re-election at the Annual General Meeting.

Management

The Manager and Secretary, Fleming Investment Trust Management Limited ('FITM'), is a subsidiary of Robert Fleming Holdings Limited which, through other subsidiaries, also provides banking, dealing and custodian services to the Company.

Management Fee

The Manager and Secretary is employed under a contract terminable on two years' notice. The fee, which is calculated and paid quarterly in arrears, is charged at a rate of 0.5% per annum of the Company's total assets less current liabilities. If the Company invests in funds managed or advised by Flemings or any of its associated companies, the investments are excluded from the calculation and therefore attract no fee.

Notifiable Share Interests

At the date of this report the Company had been notified of the following interests in its ordinary shares.

Shareholders	*Number of shares held*	%
Robert Fleming Holdings[1]	**33,251,929**	**56.17**
Included within this are the following:		
Fleming Investment Trusts Share Plan[2]	12,043,578	20.34
Fleming Investment Trusts Personal Equity Plan[2]	18,242,198	30.81

[1] *Non-beneficial.*
[2] *Non-beneficial and held on behalf of Plan participants.*

Auditors

Ernst & Young have expressed their willingness to continue in office and a resolution to re-appoint them and authorise the Directors to determine their remuneration for the ensuing year will be proposed at the Annual General Meeting.

Corporate Governance

To ensure the appropriate level of corporate governance, the Board has put in place arrangements which it believes are suitable for an investment trust and enable the Company to comply with the Cadbury Committee's Code of Best Practice ('the Code'). The Board consists solely of non-executive Directors, the majority of whom are independent of the Company's Manager.

A management agreement between the Company and FITM sets out the matters over which the Manager has authority. All other matters are reserved for the approval of the Board of non-executive Directors. The Audit Committee reviews the terms of the management agreement annually. The members of the Audit Committee, who are all independent of the management company, are shown on page 14. The Directors' statement on the Company's system of internal financial control can be found on page 18 and the Auditors' Report on Corporate Governance is set out on page 19.

Authority To Issue Shares For Cash

At last year's Annual General Meeting, shareholders passed a resolution which, inter alia, authorised the Directors to allot shares within certain limits. At that time shareholders were informed that the authority to allot shares would need to be renewed at the Annual General Meeting in 1998. During the year 741,149 shares were allotted under this authority and since the year end a further 474,200 shares have been allotted.

It is advantageous for the Company to be able to issue new shares to participants purchasing shares through the Fleming Investment Trusts Share and Personal Equity Plans and also to other investors when the Directors consider that it is in the best interests of shareholders to do so. As such issues are only made at prices greater than the net asset value, they increase the assets underlying each share and spread the administrative expenses, other than the management fee, over a greater number of shares. The issue proceeds are available for investment in line with the Company's investment policies.

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

Resolution No. 4 in the Notice of the Annual General Meeting is a specific authority to allot new shares for cash up to an aggregate nominal amount of £1,480,500 representing 5,922,000 ordinary shares of 25 pence each, such amount being equivalent to approximately 10% of the present issued share capital. This authority will remain in effect until the next Annual General Meeting.

Your Directors recommend that shareholders grant them authority to allot shares up to the limit set out above. No issue of shares will be made which would effectively alter the control of the Company without the prior approval of shareholders in general meeting.

By order of the Board
Fleming Investment Trust Management Limited,
Secretary
ESJ Hayman
4 March 1998

System of Internal Financial Control

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

Since investment management, custody of assets and all administrative services are provided to the Company by Robert Fleming Holdings ('Flemings'), the Company's system of internal financial control mainly comprises monitoring the services provided by Fleming Investment Trust Management, the Manager, and its associates, including the operating controls established by them to ensure that they meet the Company's business objectives.

The key elements designed to provide effective internal financial control are as follows:

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

Management Agreement – Appointment of a Manager, regulated by IMRO and custodians regulated by the SFA whose responsibilities are clearly defined in a written agreement.

Management Systems – Inclusion in the Manager's system of internal financial control of organisational agreements which clearly define the lines of responsibility, delegated authority, control procedures and systems. These are monitored by Flemings' Internal Audit Department. Flemings' Compliance Department regularly monitors compliance with IMRO rules.

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

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

- the Board, through the Audit Committee, reviews the terms of the management agreement and receives regular reports from both Flemings' Internal Audit and Compliance Departments;
- the Directors review the self-certification provided by the Manager on its compliance with documented controls; and
- the Directors review the report on the internal controls and the operations of its custodian, Robert Fleming & Co. Limited, which is independently audited.

The Board have kept under review the effectiveness of the Company's system of internal financial control. The Company's Auditors have reported to the Board on corporate governance matters specified for their review and their report is set out on the following page.

Directors' Responsibilities in Respect of the Accounts

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

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

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

Auditors' Reports

Auditors' Report

to the members of The Fleming Claverhouse Investment Trust plc

We have audited the accounts on pages 20 to 30 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 23.

Respective Responsibilities of Directors and Auditors

As described on page 18, the Company's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts, and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with the Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion, the accounts give a true and fair view of the state of the Company's affairs as as 31 December 1997 and of its revenue for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

ERNST & YOUNG
Chartered Accountants and Registered Auditor *London, 4 March 1998*

Auditors' Report on Corporate Governance

to The Fleming Claverhouse Investment Trust plc

In addition to our audit of the accounts, we have reviewed the Directors' statements on pages 16, 17 and 18 concerning the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the accounts. The objective of our review is to draw attention to any non-compliance with Listing Rules 12.43(j) and 12.43(v).

We carried out our review in accordance with guidance issued by the Auditing Practices Board, and assessed whether the Directors' statements on going concern and internal financial control are consistent with the information of which we are aware from our audit. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures nor on the ability of the Company to continue in operational existence.

Opinion

With respect to the Directors' statement on internal financial control on page 18 and going concern on page 16, in our opinion the Directors have provided the disclosures required by the Listing Rules referred to above and such statements are consistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain Directors and officers of the Company, and examination of relevant documents, in our opinion the Directors' statement on page 17 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43(j).

ERNST & YOUNG
Chartered Accountants *London, 4 March 1998*

Statement of Total Return

for the year ended 31 December 1997

	Notes	1997 Revenue £'000	1997 Capital £'000	1997 Total £'000	1996 Revenue £'000	1996 Capital £'000	1996 Total £'000
Realised gains/(losses) on investments	14	—	526	526	—	(1,156)	(1,156)
Net change in unrealised appreciation	14	—	51,874	51,874	—	23,654	23,654
Income from investments	1	7,460	—	7,460	7,021	—	7,021
Other income	1	56	—	56	138	—	138
Gross return		7,516	52,400	59,916	7,159	22,498	29,657
Management fee	2	(643)	(643)	(1,286)	(485)	(485)	(970)
Other administrative expenses	3	(384)	—	(384)	(351)	—	(351)
Interest payable	4	(1,231)	(1,231)	(2,462)	(995)	(833)	(1,828)
Return before taxation		5,258	50,526	55,784	5,328	21,180	26,508
Taxation	5	(1,028)	291	(737)	(1,076)	277	(799)
Total return attributable to ordinary shareholders		4,230	50,817	55,047	4,252	21,457	25,709
Dividends on ordinary shares							
Dividends paid	6	(2,550)	—	(2,550)	(2,406)	—	(2,406)
Dividend payable	6	(1,451)	—	(1,451)	(1,286)	—	(1,286)
		(4,001)	—	(4,001)	(3,692)	—	(3,692)
Transfer to reserves		229	50,817	51,046	560	21,457	22,017
Return per ordinary share	7	7.21p	86.66p	93.87p	7.66p	38.64p	46.30p

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

The notes on pages 23 to 30 form part of these accounts.

Balance Sheet

at 31 December 1997

	Notes	*1997* *£'000*	*1996* *£'000*
ASSETS EMPLOYED			
Fixed assets			
Investments at valuation	8	262,832	194,030
Current assets			
Debtors	9	1,917	1,689
Cash and short-term deposits		19	298
		1,936	1,987
Creditors: Amounts falling due within one year	10	4,878	5,021
Net current liabilities		(2,942)	(3,034)
Total assets less current liabilities		259,890	190,996
Creditors: Amounts falling due after more than one year			
Fixed loan	11	15,000	—
Debenture stock	11	14,601	14,583
Provision for liabilities and charges		29,601	14,583
Deferred taxation	12	143	120
Total net assets		230,146	176,293
FINANCED BY			
Capital and reserves			
Called-up share capital	13	14,803	14,618
Share premium	14	33,803	31,181
Capital reserve — realised	14	91,379	80,664
Capital reserve — unrealised	14	85,379	45,277
Revenue reserve	14	4,782	4,553
Equity shareholders' funds	16	230,146	176,293
Net asset value per share			
Ordinary	15	388.66p	301.49p

The accounts on pages 20 to 30 were approved by the Directors on 4 March 1998 and are signed on their behalf by:

John Redwood
Director

The notes on pages 23 to 30 form part of these accounts.

Cash Flow Statement

for the year ended 31 December 1997

	Note 17	1997 £'000	1996 £'000
Operating activities			
Cash received from investments		5,613	5,960
Deposit interest received		18	13
Underwriting commissions		33	125
Management fee paid		(1,286)	(969)
Directors' fees		(49)	(35)
Other cash payments		(418)	(222)
Net cash inflow from operating activities		3,911	4,872
Servicing of finance			
Interest paid		(2,444)	(1,813)
Net cash outflow from servicing of finance		(2,444)	(1,813)
Taxation			
Recovered		440	525
Total tax recovered		440	525
Capital expenditure and financial investment			
Purchases of investments		(110,102)	(128,079)
Sales of investments		94,541	115,623
Net cash outflow from capital expenditure and financial investment		(15,561)	(12,456)
Equity dividends paid			
Dividends paid on ordinary shares		(3,836)	(3,595)
Total equity dividends paid		(3,836)	(3,595)
Net cash outflow before financing		(17,490)	(12,467)
Financing			
Issue of new shares		2,086	9,450
Debt due within one year:			
Short-term loans		125	3,246
Debt due beyond one year:			
Fixed loans		15,000	—
Net cash inflow from financing		17,211	12,696
(Decrease)/increase in cash for the year		(279)	229

The notes on pages 23 to 30 form part of these accounts.

Notes to the Accounts

at 31 December 1997

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

i. Basis of accounting

The accounts are prepared under the historical cost convention, modified to include the revaluation of investments and in accordance with applicable accounting standards and with the Statement of Recommended Practice 'Financial statements of investment trust companies' ('SORP').

ii. Valuation of investments

Quoted investments are valued at middle market prices. Where trading in the securities of an investee company is suspended, the investment is valued at the Board's estimate of its net realisable value. Unlisted investments have been included at Directors' valuation.

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

iii. Income

Income from investments is included in the revenue account on an ex-dividend basis.

Income from debt securities is accrued on a time apportionment basis in accordance with the guidelines in the SORP.

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

Unfranked income is included in the revenue account gross before deduction of income tax. In the case of franked income, related tax credits are included in the figures presented and also form part of the tax charge.

iv. Expenses

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

- expenses which are incidental to the acquisition of an investment are included in the cost of the investment.
- expenses which are incidental to the disposal of an investment are deducted from the proceeds of the investment.
- expenses are charged to capital reserve – realised where a connection with the maintenance or enhancement of the value of the investments can be demonstrated. In this respect the management fee has been allocated 50% to capital reserve – realised and 50% to the revenue account, in line with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company.

v. Finance costs

Finance costs are accounted for on an accruals basis and in accordance with the provisions of Financial Reporting Standard 4 'Capital Instruments'. Finance costs of debt insofar as they relate to the financing of the Company's investments or to financing activities aimed at maintaining or enhancing the value of the Company's investments are allocated 50% to capital reserve – realised and 50% to the revenue account, in line with the Board's expected long-term split of returns in the form of capital gains and income respectively from the investment portfolio of the Company.

vi. Taxation

Provision is made for deferred taxation using the liability method on all material timing differences to the extent that is probable that a liability will crystallise.

The tax effect of different items of income/gain and expenditure/loss is allocated between capital and revenue on the same basis as the particular item to which it relates, using the Company's effective rate of tax for the accounting period.

Notes to the Accounts *continued*

at 31 December 1997

	1997 £'000	1996 £'000
1. Income		
Income from investments		
Franked investment income	6,804	6,732
UK unfranked dividends	—	1
UK unfranked interest	—	80
Foreign income dividends	278	208
Scrip dividends	378	—
	7,460	7,021
Other income		
Deposit interest	18	13
Underwriting commissions	33	125
Stock lending fees (net)	5	—
	56	138
Total income	7,516	7,159
Total income comprises:		
Dividends	7,460	6,941
Interest from investments	—	80
Other income	56	138
	7,516	7,159
Analysis of income from investments:		
Listed UK	7,271	6,897
Unlisted	189	124
	7,460	7,021

	1997 Revenue £'000	1997 Capital £'000	1997 Total £'000	1996 Revenue £'000	1996 Capital £'000	1996 Total £'000
2. Management fee						
Management fee	547	547	1,094	413	413	826
Irrecoverable VAT thereon	96	96	192	72	72	144
	643	643	1,286	485	485	970

	1997 £'000	1996 £'000
3. Other administrative expenses		
Other management expenses	287	271
Directors' fees[1]	49	35
Auditors' remuneration[2]	9	9
Irrecoverable VAT	39	36
	384	351

[1]Chairman £11,000 (1996: £9,500), four Directors £8,500, one Director £2,520 and one Director £1,025 (1996: three Directors £7,000, one Director £3,481 and one Director £595). The total Directors' fees of £48,545 (1996: £34,576) comprise of £35,795 (1996: £20,576) in respect of aggregate emoluments paid to Directors and £12,750 (1996: £14,000) paid to third parties for making available the services of two of the Directors (1996: two Directors).

[2]In addition the auditors were paid £1,000 (1996: £700) in respect of services not directly connected with the audit. This amount forms part of other management expenses.

	1997 Revenue £'000	1997 Capital £'000	1997 Total £'000	1996 Revenue £'000	1996 Capital £'000	1996 Total £'000
4. Interest payable						
On short-term bank loans	109	109	218	162	—	162
On debenture stock	834	834	1,668	833	833	1,666
On fixed loan	288	288	576	—	—	—
	1,231	1,231	2,462	995	833	1,828
5. Taxation						
Tax on franked investment income	1,338	—	1,338	1,477	—	1,477
Recovery of tax credits on franked investment income	(624)	—	(624)	(579)	—	(579)
Deferred taxation	23	—	23	(92)	—	(92)
Tax relief on management fee and finance costs charged to capital reserve	291	(291)	—	277	(277)	—
Prior year adjustment	—	—	—	(7)	—	(7)
	1,028	(291)	737	1,076	(277)	799

	1997 p	1996 p	1997 £'000	1996 £'000
6. Dividends per share				
Quarterly dividends on ordinary shares:				
Interim paid 3 June	1.45	1.45	848	802
Interim paid 2 September	1.45	1.45	850	802
Interim paid 2 December	1.45	1.45	852	802
Interim payable 3 March	2.45	2.20	1,451	1,286
	6.80	6.55	4,001	3,692

7. Return per ordinary share

The revenue return per ordinary share is based on the revenue on ordinary activities after taxation and on 58,636,585 ordinary shares, being the weighted average number of ordinary shares in issue during the year (1996: 55,533,645).

The capital return per ordinary share is based on net capital gains for the financial year and on 58,636,585 ordinary shares, being the weighted average number of ordinary shares in issue during the year (1996: 55,533,645).

		1997			*1996*	
	Revenue £'000	*Capital £'000*	*Total £'000*	*Revenue £'000*	*Capital £'000*	*Total £'000*
Attributable to ordinary shareholders	4,230	50,817	55,047	4,252	21,457	25,709
Return per ordinary share	7.21p	86.66p	93.87p	7.66p	38.64p	46.30p

8. Investments

	1997 £'000	*1996 £'000*
Investments listed on a recognised investment exchange	258,263	190,470
Unlisted investments[1]	4,569	3,560
	262,832	194,030

		1997	
	Listed in UK £'000	*Unlisted £'000*	*Total £'000*
Opening book cost	148,716	37	148,753
Opening unrealised appreciation	41,754	3,523	45,277
Opening valuation	190,470	3,560	194,030
Movements in the year:			
Purchases at cost	110,130	—	110,130
Sales – proceeds	(93,728)	—	(93,728)
Sales – realised gains	526	—	526
Increase in unrealised appreciation	50,865	1,009	51,874
	258,263	4,569	262,832
Closing book cost	177,416	37	177,453
Closing unrealised appreciation[2]	80,847	4,532	85,379
	258,263	4,569	262,832

[1]Robert Fleming Holdings is an unlisted company whose business is to provide a full range of merchant banking services worldwide. The Company owns 452,400 ordinary shares representing 0.3% of the fully diluted share capital. The cost of the investment was £37,337 and it is valued at a formula price, as agreed with the Inland Revenue, of £10.10 per share at 31 December 1997. In Robert Fleming Holdings' last audited accounts for the year to 31 March 1997, the fully diluted earnings per share were 69.9 pence and the net asset value per share was 517 pence. During the year, the company paid dividends of 25 pence on its ordinary shares amounting to total dividends of £38.2m.

[2]During the year £11,772,000 (1996: £5,813,000) of prior year unrealised appreciation has been transferred to realised as disclosed in note 14. This was derived from the following sources:

Listed in UK £'000	*Unlisted £'000*	*Total £'000*
11,772	—	11,772

	1997 £'000	1996 £'000
9. Debtors		
Amounts falling due within one year:		
Sales for future settlement	—	813
Taxation recoverable	459	275
Dividends and bond interest receivable	717	601
Issue of new shares	721	—
Foreign income dividends receivable	20	—
	1,917	1,689

	1997 £'000	1996 £'000
10. Creditors		
Amounts falling due within one year:		
Purchases for future settlement	—	350
Short-term bank loans	3,371	3,246
Other creditors	56	139
Dividend payable on ordinary shares	1,451	1,286
	4,878	5,021

11. Creditors

Amounts falling due after more than one year:

	Rate	Repayment Date	1997 £'000	1996 £'000
£15,000,000 Debenture stock	11% p.a.	30 June 2008	14,601	14,583
(secured by a floating charge on the assets of the Company)				
£15,000,000 loan from Robert Fleming & Co. Limited	7.86% p.a.	29 June 2007	15,000	—
			29,601	14,583

12. Provisions for liabilities and charges

	1997 £'000	1996 £'000
These are in respect of deferred taxation and comprise:		
Timing differences related to revenue	143	120
The movement in deferred taxation comprises:		
Opening balance	120	212
Charged in respect of revenue	23	(92)
Closing balance	143	120

Notes to the Accounts *continued*

at 31 December 1997

	1997 £'000	1996 £'000
13. Share capital		
Authorised:		
156,000,000 ordinary shares of 25p each	39,000	39,000
Allotted and fully paid:		
Opening balance	14,618	13,825
Issue of 741,149 new shares[1]	185	793
Closing balance[2]	14,803	14,618

[1]New shares were issued for cash for a total consideration of £2,807,130.

[2]Represented by 59,214,937 ordinary shares of 25p each (1996: 58,473,788).

	Share premium £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
14. Reserves				
Beginning of year	31,181	80,664	45,277	4,553
Realised gains on investments	—	526	—	—
Increase in unrealised appreciation	—	—	51,874	—
Transfer on disposal of investments	—	11,772	(11,772)	—
Management fee and finance costs charged to capital	—	(1,874)	—	—
Tax relief on management fee and finance costs	—	291	—	—
Issue of new shares	2,622	—	—	—
Retained net revenue for the year	—	—	—	229
Closing balance	33,803	91,379	85,379	4,782

15. Net asset value per share

Net asset value per ordinary share is based on total shareholders' funds attributable to ordinary shareholders and on 59,214,937 ordinary shares in issue at the year end. (1996: 58,473,788).

	1997 £'000	1996 £'000
16. Reconciliation of movements in shareholders' funds		
Opening shareholders' funds	176,293	144,826
Total recognised gains for the year	55,047	25,709
Dividends appropriated in the year	(4,001)	(3,692)
Proceeds of issue of new shares	2,807	9,450
Closing shareholders' funds	230,146	176,293

17. Cash flow statement

Reconciliation of operating profit to operating cash flows:

	1997 £'000	1996 £'000
Income before interest payable and taxation	6,489	6,323
Scrip dividends received as income	(378)	—
(Increase)/decrease in accrued income	(136)	438
(Decrease)/increase in other creditors	(83)	95
Tax on franked investment income	(1,338)	(1,477)
Tax on unfranked investment income	—	(22)
Expenses charged to capital	(643)	(485)
	3,911	4,872

Reconciliation of net cash flow to movement in net debt:

	1997 £'000	1996 £'000
(Decrease)/increase in cash for the year	(279)	229
Cash inflow from increase in debt for the year	(15,125)	(3,246)
Movement in net debt for the year	(15,404)	(3,017)
Net debt at beginning of the year	(2,948)	69
Closing net debt	(18,352)	(2,948)

Analysis of net debt:	*At 1 January 1997 £'000*	*Cash flow £'000*	*At 31 December 1997 £'000*
Cash and short-term deposits	298	(279)	19
Debt due within one year	(3,246)	(125)	(3,371)
Debt due beyond one year	—	(15,000)	(15,000)
Total	(2,948)	(15,404)	(18,352)

Notes to the Accounts *continued*

at 31 December 1997

18. Capital commitments and contingent liabilities

At the balance sheet date there were no contingent liabilities for underwriting (1996: £494,934). Commitments in respect of uncalled capital amounted to £693,040 (1996: £1,548,055).

19. Related party disclosures

If the Company invests in funds managed or advised by Flemings or any of its associated companies, the investments are excluded from the management fee calculation and therefore attract no fee.

The Company has a loan agreement with Robert Fleming & Co Limited as set out in note 11 on page 27. The interest charge for the year to 31 December 1997 was £576,509.

For the year to 31 December 1997, the Company contributed £178,767 towards the marketing budget of Fleming Investment Trust Management Limited.

FITM executes certain of its dealing transactions through Robert Fleming & Co. Limited, a fellow subsidiary of Robert Fleming Holdings Limited. Transactions are carried out at arm's length and the commission paid in the year was £3,288.

Information relating to the Company's investment in Robert Fleming Holdings Limited can be seen in note 8 on page 26. Dividends received during the year from that company amounted to £189,443.

Notice of Meeting

Notice is hereby given that the thirty-fifth Annual General Meeting of The Fleming Claverhouse Investment Trust plc will be held at The Insurance Hall, 20 Aldermanbury, London EC2V 7HY at 12.00 noon on Thursday 23 April 1998 for the following purposes:

1 To receive the Directors' Report and Accounts and the Auditors' Report for the year ended 31 December 1997.

2 To re-elect the Rt. Hon. Peter Lilley as a Director of the Company.

3 To re-appoint Ernst & Young as Auditors to the Company and to authorise the Directors to determine their remuneration.

Special Business:

4 To consider the following resolution which will be proposed as a special resolution:
THAT

(a) the Directors be generally and unconditionally authorised pursuant to and in accordance with section 80 of the Companies Act 1985 to exercise for the period ending on the date of the next Annual General Meeting all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £1,480,500;

(b) pursuant to and during the period of the authority referred to in paragraph (a) above the Directors be empowered to allot equity securities up to an aggregate nominal amount of £1,480,500 as if section 89(1) of the said Act did not apply to any such allotment;

(c) by such authority and power the Directors may during such period make offers or agreements which would or might require allotments after the expiry of such period; and

(d) for the purposes of this resolution, words and expressions defined in or for the purposes of Part IV of the said Act shall bear the same meanings in this resolution.

By order of the Board
Fleming Investment Trust Management Limited,
Secretary.
4 March 1998

Notes

1 A shareholder entitled to attend and vote at the above Meeting is entitled to appoint one or more proxies to attend and on a poll vote on his behalf. A proxy need not be a shareholder of the Company. The lodging of a form of proxy does not prevent a shareholder from attending and voting if he so wishes.

2 Proxy forms must be lodged not less than 48 hours before the time of the meeting at the office of the Registrar.

3 To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members at 6.00 pm on Tuesday 21 April 1998 ('the specified time'). If the meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If however the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at the time which is 48 hours before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice.

4 Admittance to the above Meeting will be restricted to shareholders, guests will only be admitted by prior arrangement.

Information about the Company

History

The Fleming Claverhouse Investment Trust plc was launched as Claverhouse Investment Trust Limited in 1963 with assets of £5 million. The Company took its name from Viscount Claverhouse ('Bonnie Dundee') who was killed at the Battle of Killiecrankie in 1689 whilst leading a rebellion against William and Mary. The name was chosen to commemorate the Company's link with Dundee, where Flemings originated in 1873. The Company adopted its present name in 1983.

Financial Calendar

Financial year end	31 December
Interim results announced	July
Final results announced	February
Quarterly interim dividends on ordinary shares paid	1 June, 1 September, 1 December, 1 March
11% Debenture Stock 2008 interest paid	30 June, 31 December
Annual General Meeting	April

Company Number

754577

Market Information

The Company's shares are listed on the London Stock Exchange. The market price is shown daily in the Financial Times, The Guardian, The Times, The Daily Telegraph, The Independent, The Herald and The Scotsman.

Taxation

For capital gains tax purposes, the base cost of the Company's shares at 31 March 1982 was 32.125p. This figure has been adjusted for the subdivision of each 50 pence share into two 25 pence shares on 4 March 1986 and the capitalisation issue on 25 March 1993 whereby shareholders were issued with one extra share for each share they held.

Share Transactions

The shares may be dealt in through a stockbroker or through a professional adviser acting on an investor's behalf. They may also be purchased and held through the Fleming Investment Trusts Share Plan, Personal Equity Plan, and Pension Accounts.

Investing through Flemings

Flemings has a range of "wrapper" products available which enable investors to purchase Fleming investment trusts as follows:

Share Plan

The Fleming Investment Trusts Share Plan is a savings plan allowing investments in any of the Flemings trusts, as shown below. The minimum investment is £40 per month or a lump sum of £400. There are no charges on share purchases and switches.

Personal Equity Plan

The Company is a qualifying trust for PEP purposes which, under current regulations, means that the whole annual allowance of £6,000 for a general PEP can be invested in its shares.

The Company's shares are available in the Fleming Investment Trusts Personal Equity Plan. The PEP allows investment in the qualifying Fleming Trusts, as shown below. Shares held in the PEP are free of income tax and capital gains tax. The minimum investment is £100 per month or a lump sum of £1,000, subject to a maximum of £6,000 per person per tax year.

Pension Account

Fleming Pension Accounts are suitable for the self-employed, employees not currently members of a company scheme and those employees wishing to make additional voluntary contributions. Under current regulations tax relief is available on all contributions and investments grow free of all income and capital gains tax. The minimum investment is £100 gross per month or £1,000 gross lump sum.

The Range of Fleming Investment Trusts

Fleming American[2]
Capital growth from North American investments

Fleming Asian[2]
Capital growth from Asian investments, excluding Japan

Fleming Chinese
Capital growth from China-related investments

Fleming Claverhouse[1]
Capital and income growth from UK investments

Fleming Continental European[1]
Capital growth from Continental European investments

Fleming Emerging Markets
Capital growth from emerging markets worldwide

Fleming Enterprise[1]
Capital growth from medium-sized UK companies

Fleming European Fledgeling[1]
Capital growth from smaller Continental European companies

Fleming Fledgeling[1]
Capital growth from small companies worldwide

Fleming Geared Growth[1]
Growth of income and capital from a UK portfolio

Fleming Income & Capital[1]
Income and capital growth from UK investments through a split-capital structure

Fleming Income & Growth[1]
Income and capital growth from higher-yielding investments through a split-capital structure

Fleming Indian
Capital growth from investment in India

Fleming Japanese[2]
Capital growth from Japanese investments

Fleming Mercantile[1]
Capital growth from a portfolio of medium and smaller UK companies

Fleming Natural Resources[2]
Capital growth from commodity and energy shares worldwide

Fleming Overseas[2]
Capital growth from overseas markets

Fleming Smaller Companies[1]
Capital and income growth from UK smaller companies

Fleming Worldwide Income[1]
High income with capital growth through a split-capital structure from a portfolio of equities and bonds with international exposure

Electra Investment Trust PLC *which is independently managed by Electra Fleming Limited is also available in the Fleming Share Plan and Pension Accounts. It invests in a wide variety of private equity situations. Further details are available on request.*

[1] Trusts eligible for £6,000 investment in the Fleming PEP.

[2] Trusts eligible for £1,500 investment in the Fleming PEP.

Please remember that the value of shares and the income from them can fall as well as rise and investors may not get back the full amount invested. Past performance is not necessarily a guide to the future. For trusts investing in Emerging Markets the risk to your capital is greater. Exchange rate changes may cause the value of overseas investments to rise or fall. Unquoted investments may be illiquid and difficult to value and may be more volatile. The existing tax benefits of PEPs will remain unchanged until April 1999, after which a new tax-privileged vehicle, the Individual Savings Account (ISA), will be introduced. The government's intention is that you will be able to switch all or part of your PEP into one of these new accounts.

Issued by Fleming Investment Trust Services Limited, which is regulated by the Personal Investment Authority, and only sells unit trusts, recognised collective investment schemes, investment trust saving schemes, PEPs, life assurance and pension products offered by Flemings and Save and Prosper marketing group.

Contact Details

Manager, Secretary and Registered Office

Fleming Investment Trust Management Limited	Finsbury Dials, 20 Finsbury Street, London, EC2Y 9AQ Telephone number: 0171 638 5858 Fax number: 0171 880 3486 *Please contact Liz Hayman about administrative matters.*

Auditors

Ernst & Young	Rolls House, 7 Rolls Buildings, Fetter Lane, London, EC4A 1NH.

Registrars

Lloyds Bank Registrars	Reference 1079, The Causeway, Worthing, West Sussex, BN99 6DA. Telephone number: 01903 502 541 *Notifications of changes of address and enquiries regarding certificates or dividend cheques should be made in writing to the Registrar quoting reference 1079.*

Fleming Brochureline

24 hour Freephone 0500 500 161 or 0171 382 8989

Please use this service to order PEP, Pension Account or Share Plan literature and/or annual reports of the Fleming investment trusts.

Fleming Helpline

Freephone 0500 500 324 or 0171 382 8800

Please use this service if you have any general queries about Fleming trusts or any of their products.

Account Queries

If you have an account query and your Fleming investment trust shares are held in one of the Fleming "wrapper" products please call the appropriate department:

The Fleming Investment Trusts Share Plan	**Freephone 0800 136 666** or 01708 713 380
The Fleming Investment Trusts PEP	**Freephone 0800 829 100** or 01708 713 317
Fleming Investment Trusts Pension Accounts	**Freephone 0800 413 176** or 01722 414 888

You may also contact Flemings via the internet on

http://www.flemings.com/fitm