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# The Fleming Smaller Companies Investment Trust plc

Capital growth from smaller UK companies



## Objective

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**Capital growth from smaller UK companies.**

## Policies

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**To provide capital appreciation for shareholders from a diversified portfolio of smaller companies.**

## Benchmark

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**The FTSE SmallCap Index  
(excluding investment trusts).**

## Capital Structure

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**The Company has an authorised share capital of 56,000,000 ordinary shares of 25p each, of which 26,666,186 were in issue at the year end.**

## Continuation Vote

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**Under the Company's Articles of Association, the Directors are required to propose a resolution that the Company continue as an investment trust at every third Annual General Meeting, the next being in 2002.**



The Fleming  
**Smaller Companies**  
Investment Trust plc

## Financial Highlights

Capital Return	2000	1999	% change
Net asset value per share	<b>366.0p</b>	250.5p	+46.1
Share price	<b>329.0p</b>	204.5p	+60.9
FTSE SmallCap Index (excluding investment trusts)	<b>3,341.5</b>	2,691.3	+24.2
Total dividend per share	<b>2.30p</b>	3.00p	-23.3

## Annual General Meeting

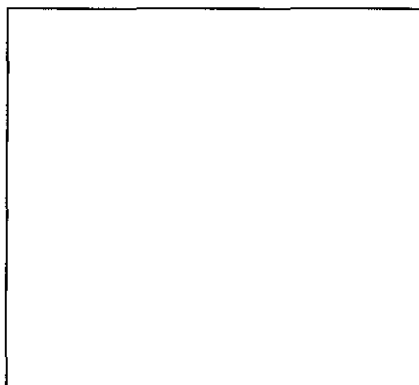
The Annual General Meeting of The Fleming Smaller Companies Investment Trust plc will be held at 10 Aldermanbury, London EC2 at 11.00 a.m. on Thursday 23 November 2000.

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# Chairman's Statement

## The Year Under Review



Strone Macpherson

### Capital Performance

Once again it is pleasing to report a year of sound progress with the net asset value per share increasing by 46.1%, to 366.0 pence. This represents an excellent outperformance of the benchmark, the FTSE Small Cap Index (excluding investment trusts), which increased by 24.2%.

As explained by the Investment Manager more fully on pages 5 and 6, this return was achieved while actively controlling stock risk in an exceptionally volatile stockmarket, with the second half of the year proving much more difficult than the first.

The Company's ordinary share price increased by 60.9% to 329.0 pence as the discount on the shares narrowed from 18.4% to 10.1%. At the time of writing the net asset value per share was 366.3 pence and the share price 356.0 pence.

### Revenue and Dividends

With earnings per share for the year at 2.35 pence, the Directors are recommending a final dividend of 2.30 pence per share which, if approved by shareholders, will be payable on 30th November 2000 to shareholders on the register at the close of business on 27th October 2000.

### Gearing

In July 2000 the Board increased the gearing of the Company, in line with its continuing belief that strategic gearing can augment shareholder returns, by entering into an agreement with Lloyds TSB Bank plc to borrow up to £5m at a floating rate of interest for a three year period. Total facilities available to the Company amount to £12.5m, of which £1m is therefore still available to be drawn down.

### Authority to Repurchase the Company's Shares

At last year's Annual General Meeting shareholders gave the Directors authority to repurchase the Company's shares for cancellation. Although no such repurchases took place during the year, due to the strong underlying performance and the narrowing of the discount, the Directors continue to believe that circumstances could arise in which the mechanism could be of benefit to shareholders and are therefore proposing that the authority be renewed for a further period.

### Merger of the Chase Manhattan Corporation and Robert Fleming Holdings Ltd.

It was announced in April that Flemings, the Company's Manager and Secretary, and Chase, a US banking group, had reached agreement on the terms of a recommended offer to merge the two businesses. This offer was accepted by the majority of Flemings' shareholders and on 1 August 2000 the two businesses became one. It is not expected that this change will make any difference to the management of your Company's assets but the Board will keep the situation under close review. To reflect the new identity, the name of the Manager and Secretary has been changed to Chase Fleming Asset Management (UK) Ltd.

In September it was announced that JP Morgan and Chase Manhattan would be merging. It is early days in the process but it is expected the merger will be finalised in the first quarter of 2001.

## Outlook

In the interim report which was sent to shareholders in March, the Board indicated that the rising trend in interest rates in the US and UK was likely to, and hopefully would, dampen investors' evident over-enthusiasm for risk in internet and technology investments. The subsequent correction in valuations was savage and led by a significant downward adjustment on Nasdaq. The Company's less buoyant performance in the second half of the period under review reflects this, with net asset value being ahead but only by some 3.7% whereas the Benchmark Index (the FTSE Small Cap (ex-IT) index advanced a further 7.3%. Performance in August and September has been greater than the benchmark index.

There are now some signs that the recent and unprecedented volatility within the smaller company sector is abating, and with interest rates looking to be at or near the peak, there is a good possibility that the outlook for smaller companies will remain relatively attractive. That said, the Board is inclined to be cautious about the likelihood of a repetition, in the near term, of the exceptional returns seen in the first half of last year in absolute or relative terms.

## Annual General Meeting

The Annual General Meeting will be held at 11.00 a.m. on Thursday 23rd November 2000 at 10 Aldermanbury, London, which is the new location of the Manager, Chase Fleming Asset Management (UK) Limited. After the formal business (see Notice of Meeting, page 32), Ross Hollyman will give a presentation and this will be followed by a buffet lunch at which shareholders will have the opportunity to meet the Directors and the Investment Managers.



**Strone Macpherson**  
Chairman

17th October 2000

# Company Performance

## Summary of Results

	2000	1999	% change
<b>Assets at 31st July</b>			
Total net assets (£'000)	97,609	66,805	+46.1
Net asset value per share	366.0p	250.5p	+46.1
Share price	329.0p	204.5p	+60.9
Discount to net asset value	10.1%	18.4%	
<b>Benchmark (capital only) at 31st July</b>			
FTSE SmallCap Index (excluding investment trusts) <sup>1</sup>	3,341.5	2,691.3	+24.2
<b>Revenue for the year to 31st July</b>			
Gross revenue (£'000)	1,565	1,508	+3.8
Revenue available for shareholders (£'000)	626	875	-28.4
Earnings per share	2.35p	3.28p	-28.4
Dividend per share	2.30p	3.00p	-23.3
<b>Total Returns (capital plus income) for the year to 31st July</b>			
Actual total return per share (see page 20)	117.82p	50.96p	
Return on net assets <sup>2</sup>	+47.3%	+24.8%	
Return to shareholders <sup>3</sup>	+63.2%	+23.0%	
FTSE SmallCap Index (excluding investment trusts) <sup>4</sup>	+27.8%	+13.6%	
<b>Gearing Factor</b>			
Actual <sup>5</sup>	112%	110%	
<b>Total Expense Ratio<sup>6</sup></b>	<b>1.19%</b>	1.26%	

Comparison of the Company's performance is made with the benchmark as stated inside the front cover. The benchmark is a recognised index of stocks which should not be taken as wholly representative of the Company's investment universe. The Company's investment strategy does not follow or 'track' this index and therefore there may be a difference between the Company's performance and that of the index.

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

<sup>2</sup>Change in net asset value per share with net dividends reinvested. (Source: The Association of Investment Trust Companies.)

<sup>3</sup>Change in share price with net dividends reinvested. (Source: Standard & Poors Micropal.)

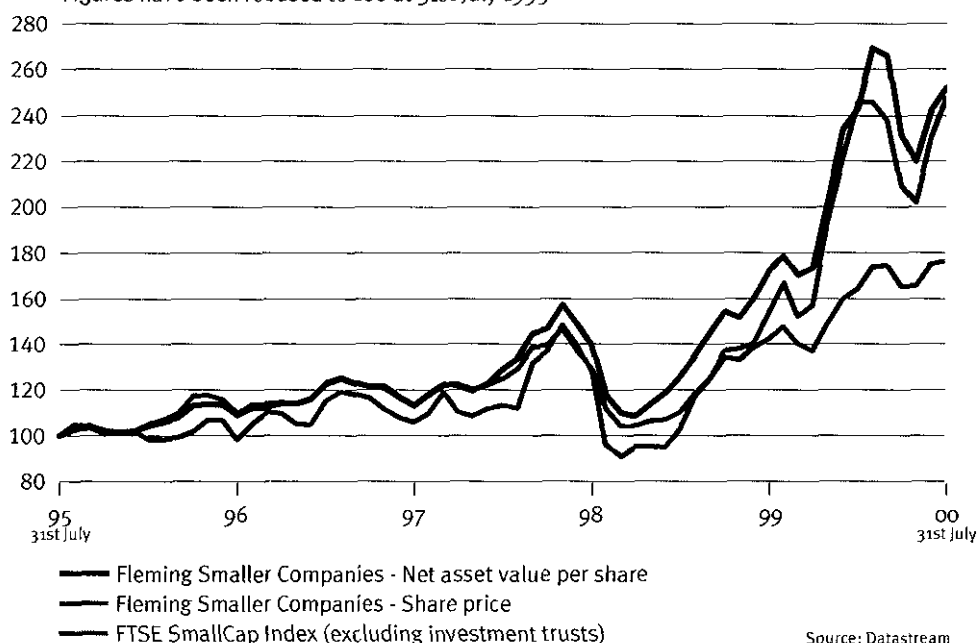
<sup>4</sup>Change in index adjusted to include net income reinvested. (Source: Standard & Poors Micropal.)

<sup>5</sup>Actual gearing means investments expressed as a percentage of shareholders' funds and therefore takes into account the Company's liquidity.

<sup>6</sup>Management fees and all other operating expenses (and including tax relief, where allowable, but excluding interest payments) expressed as a percentage of average net assets over the year.

## Five Year Performance

Figures have been rebased to 100 at 31st July 1995



# Investment Managers' Report

## Market Background

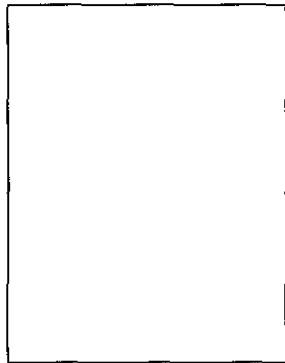
The year under review was a remarkable one, which brought with it some of the most dramatic and unprecedented events in recent stockmarket history. In September 1999, as *short-term UK interest rates rose unexpectedly, investors put concerns over the potential effects of the 'Millennium bug' to the back of their minds and a consensus emerged that, given a likely increase in IT expenditure in the new year, technology sectors represented a better short-term investment than 'old economy' stocks if economic growth were to slow.* This triggered a dramatic move to technology stocks – exacerbated in the UK by under-ownership of these sectors by many of the large investment houses who had long maintained a 'value' investment style and believed technology stocks to be over-valued.

Sector rotation into technology developed a momentum of its own and, along with general interest and excitement over the opportunities offered by the internet, a classic stockmarket bubble developed. Within the small cap sector the existence of a technology or internet angle was not necessary for dramatic share price performance – exuberance extended into any stock that was small, illiquid, preferably traded on AIM and presented a fantasy business model, or better still, no business model at all. The symptoms of this – massive demand for stock from private investors, huge speculative price moves with no fundamental justification, and a buoyant new issue market of generally poor quality – have been well documented. Since March 2000, this situation has largely unwound, although there remain significant pockets of over-valuation, mostly where the hype was greatest and where spectacular losses have already been taken.

Back in the real economy, many companies continue to struggle to adjust to the low *inflation environment, and severe price competition is the rule. Exporters continue to battle with the strong pound and raw material price pressures are a particular issue of concern for some small cap stocks.* Interest rates were on a rising trend throughout the period in the US and Europe as well as in the UK, at least partly in response to the threat of accelerating consumer expenditure fuelled by (largely stockmarket) asset price inflation. Rate rises led to sectors perceived as possessing defensive earnings streams performing relatively well. Over the latter part of the year the market has begun to focus on a peak in the interest rate cycle. As a consensus emerges on the likely timing of the first interest rate cut the market should start to focus on attractive valuations in cyclical sectors.

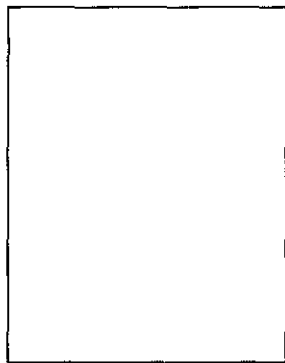
## Portfolio

The biggest challenge for the last year has been to maintain a balance within the portfolio in the face of tremendous stock and sector volatility. In particular tight control has been maintained over stock specific risk and, whilst 'running the winners' to an extent, no single stock position has been key to portfolio performance. The portfolio remained geared over the year and this added to performance.



### Ross Hollyman

Has been managing the Company assets since January 1998.



### Georgina Brittain

Has been assistant investment manager since January 1998.

# Investment Managers' Report continued

Whilst aggressive overweight positions were maintained in technology sectors, the portfolio was not turned into a technology fund by another name. These positions were reduced early in the New Year, so whilst the portfolio was exposed during the correction, substantial gains were locked in.

It was pleasing to see holdings such as ARM and Psion graduate to the FTSE 100 index during the year. These positions were sold immediately on entry to this index. Proceeds from these positions were reinvested in new holdings such as Sportsworld Media, IQE, Azlan and The Innovations Group. Active participation in the new issue market was continued for companies of an appropriate size and quality, and particularly so in the second half of the financial year where institutional and private client demand has been low and it has been possible to acquire meaningful positions at float.

## Outlook

Attractive investment opportunities continue to present themselves amongst individual companies, though it is currently difficult to form a clear view of developing trends at a sector level. We believe that this will remain the case until the outlook for short-term interest rates becomes clearer. Therefore, our sector positions (with some exceptions) remain broadly neutral against the benchmark index and are almost entirely driven by stock specific considerations. Whilst there have been some signs of a decline in stock volatility, this continues to be an issue, and control of stock positions remains a key focus. Small cap as an asset class now appears back in favour with investors starting to pay more attention to stocks in this arena. With the outlook for inflation remaining benign and short-term interest rates looking close to their peak, prospects for the small cap investor continue to look reasonably encouraging.

**Ross Hollyman** Investment Manager

17th October 2000

# Ten Largest Investments

Company	Sector	31st July 2000	
		Value £'000	% of Portfolio
<b>Sportsworld Media</b> Operates in three principal areas: production/distribution of sports programmes; sports event management; and arrangement of sports sponsorship.	Media & Photography	2,259	2.1
<b>Luminar</b> Night club, theme bar and restaurant owner and operator.	Restaurants, Pubs & Breweries	2,150	2.0
<b>Knowledge Support Systems</b> Optimisation software company.	Software & Computer Services	1,908	1.7
<b>Electronics Boutique</b> Retailer of computer games.	General Retailers	1,887	1.7
<b>Patsystems</b> Provider of software which supports electronic trading in financial markets.	Software & Computer Services	1,806	1.6
<b>Glotel</b> Specialist provider of telecoms and networking consultants.	Support Services	1,725	1.6
<b>Shaftesbury</b> London-based commercial property company focused on Carnaby Street, Covent Garden and Chinatown.	Real Estate	1,708	1.6
<b>Euro Sales Finance</b> Provider of sales financing to small and medium sized companies.	Other Finance	1,671	1.5
<b>Fitness First</b> Health club operator.	Leisure, Entertainment & Hotels	1,642	1.5
<b>Claims Direct</b> Accident compensation recovery.	Insurance	1,604	1.5
<b>Total</b>		<b>18,360</b>	<b>16.8</b>

# Financial Record

As at 31st July	At launch 3rd August										2000
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	
Total net assets (£'000)	23,964	26,384	24,860	33,106	36,088	38,750	43,297	43,947	54,016	66,805	<b>97,609</b>
Net asset value per share (p)	95.86	105.53	99.27	132.20	143.60	145.26	158.40	164.81	202.56	250.53	<b>366.04</b>
Share price (p)	95.1	102.0	87.0	123.0	130.0	133.0	131.0	141.0	170.0	204.5	<b>329.0</b>
Year to 31st July (rebased to 100)											
Net asset value per share	100.0	110.1	103.6	139.9	149.8	151.5	165.2	171.9	211.3	261.3	<b>381.8</b>
Share price	100.0	107.3	91.5	129.3	136.7	139.9	187.7	148.3	178.8	215.0	<b>346.0</b>
Dividend per share	100.0	100.0	94.7	97.1	100.5	105.0	109.2	108.2	63.6	72.8	<b>55.8</b>
Benchmark index	100.0	89.9	81.5	108.4	118.7	124.7	130.8	141.0	161.0	177.2	<b>220.0</b>
UK Retail Price Index	100.0	105.9	109.8	111.5	114.3	118.2	121.1	124.9	129.1	131.2	<b>134.5</b>
Year to 31st July <sup>1</sup>											
Gross revenue (£'000)	—	2,174	1,691	1,824	1,855	1,782	1,810	1,648	1,417	1,508	<b>1,565</b>
Earnings per share (p)	—	4.93	3.69	4.07	4.11	4.64	4.75	3.44	2.64	3.28	<b>2.35</b>
Dividends per share (p)	—	4.12 <sup>2</sup>	3.90	4.00	4.14	4.325	4.50	4.50	2.60	3.00	<b>2.30</b>

<sup>1</sup>From 1995 the management fee has been allocated 50% to revenue and 50% to capital. For earlier years the management fee was allocated 100% to revenue.

<sup>2</sup>Including a special dividend of 0.37p.

## Investment Activity

during the year to 31st July 2000

	Value at 1st August 1999		Purchases £'000	Sales £'000	Changes in value £'000	Value at 31st July 2000	
	£'000	%				£'000	%
<b>Total portfolio<sup>1</sup></b>	73,598	100.0	91,692	87,239	31,473	<b>109,524</b>	<b>100.0</b>

<sup>1</sup>Consists entirely of equity shares.

# Analysis of Shareholders

at 31st July 2000

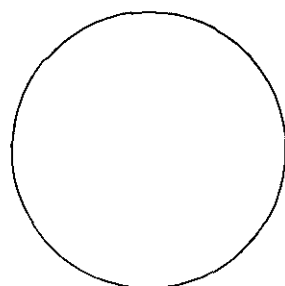
	Number of shares	% holding
Unit trusts	2,914,228	10.9
Insurance companies	4,664,803	17.5
Pension funds	2,955,997	11.1
Other institutions	1,440,415	5.4
<b>Total institutions</b>	<b>11,975,443</b>	<b>44.9</b>
Retail investors held through bank and broker nominee accounts	8,008,391	30.0
Named individuals	3,530,013	13.2
Named individuals in Investment Trust Pension Account <sup>1</sup>	415,651	1.6
Named individuals in Investment Trust Share Plan <sup>1</sup>	977,660	3.7
Named individuals in Investment Trust Personal Equity Plan (PEP) <sup>1</sup>	609,269	2.3
Named individuals in Investment Trust Individual Savings Account (ISA) <sup>1</sup>	177,921	0.7
Fleming Managed Growth	971,838	3.6
<b>Total individuals</b>	<b>14,690,743</b>	<b>55.1</b>
<b>Total shares in issue</b>	<b>26,666,186</b>	<b>100.0</b>

*Nominee accounts have been allocated to their appropriate institutional category.*

<sup>1</sup>Wrapper products managed by Chase Fleming as explained on page 33.

# Analysis of Portfolio

at 31st July 2000



Sector	%
■ Cyclical Services	38.0
■ Information Technology	19.3
■ Financials	11.4
■ Basic Industries	9.0
■ General Industrials	8.9
■ Non-Cyclical Consumer Goods	6.1
■ Non-Cyclical Services	4.4
■ Cyclical Consumer Goods	2.0
■ Resources	0.9

# List of Investments

at 31st July 2000

Company	Value £'000	% of portfolio
<b>Cyclical Services</b>		
<b>Distributors</b>		
Vardy (Reg)	1,602	1.5
Trifast	726	0.7
Sytner	276	0.3
<b>General Retailers</b>		
Electronics Boutique	1,887	1.7
Wickes	1,126	1.0
Carpetright	851	0.8
Homestyle	708	0.6
French Connection	648	0.6
Harveys Furnishings	422	0.4
Peacock	211	0.2
Wyevale Garden Centres	141	0.1
Country Gardens	84	0.1
<b>Leisure, Entertainment &amp; Hotels</b>		
Fitness First	1,642	1.5
First Choice Holidays	1,135	1.0
IG Group	1,098	1.0
Wembley	720	0.6
Argonaut Games	78	0.1
<b>Media &amp; Photography</b>		
Sportsworld Media	2,259	2.1
Wireless	1,054	1.0
Tempus	1,000	0.9
ITE	883	0.8
Sanctuary	801	0.7
Chime Communications	754	0.7
Photobition	649	0.6
Incepta	647	0.6
Teamtalk	512	0.4
Chrysalis	492	0.4
Photo-me-International	427	0.4
E-xentric	416	0.4
Newsplayer	350	0.3
Text 100	148	0.1
Epic	56	—
<b>Restaurant, Pubs &amp; Breweries</b>		
Luminar	2,150	2.0
Enterprise Inns	1,564	1.4
Gioma Restaurants	274	0.2
SFI	234	0.2
<b>Support Services</b>		
Glotel	1,725	1.6
PSD	1,223	1.1
Mentmore Abbey	1,203	1.1
Ricardo	1,085	1.0
Lavendon	1,079	1.0
Robert Walters	1,065	1.0
Universal Salvage	954	0.9
Amey	783	0.7
BPP	728	0.7

Company	Value £'000	% of portfolio
Spring	643	0.6
Goal	397	0.4
SHL	318	0.3
Thompson Intermedia	186	0.2
<b>Transport</b>		
Go Ahead	1,534	1.4
Trafficmaster	690	0.6
<b>Total Cyclical Services</b>	<b>41,638</b>	<b>38.0</b>

## Information Technology

### Information Technology Hardware

IQE	1,265	1.1
BATM Advanced	596	0.5
Dicom	563	0.5
Zen Research	508	0.5
Dataflex	140	0.1

### Software and Computer Services

Knowledge Support Systems	1,908	1.7
Patsystems	1,806	1.6
Torex	1,517	1.4
Azlan	1,453	1.4
IS Solutions	1,334	1.3
Axon	1,013	0.9
Autonomy	986	0.9
Orchestream	962	0.9
Morse	945	0.9
Alterian	909	0.8
QSP	901	0.8
KMS	863	0.8
Innovation	805	0.8
Diagonal	748	0.7
Anite	579	0.5
Actinic	567	0.5
Nettec	566	0.5
Telework	311	0.3
Sherwood International	103	0.1
RMR	43	—
Keystone Software	25	—

**Total Information Technology 21,416 19.5**

## Financials

### Insurance

Claims Direct	1,604	1.5
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### Real Estate

Shaftesbury	1,708	1.6
Freeport	913	0.8
Helical Bar	752	0.7
Derwent Valley Holdings	733	0.7
Quintain Estates & Deveolpment	599	0.6
Country & Metropolitan	165	0.2

Company	Value £'000	% of portfolio
<b>Other Finance</b>		
Euro Sales Finance	1,671	1.5
Intermediate Capital	1,278	1.2
Brewin Dolphin	915	0.8
BWD Securities	680	0.6
Paragon	468	0.4
Advance Value	433	0.4
Towry Law	263	0.2
Moneyextra	19	—
<b>Total Financials</b>	<b>12,201</b>	<b>11.2</b>

## General Industrials

### Aerospace and Defence

Ultra Electronics	545	0.5
Meggitt	476	0.4

### Electronic and Electrical Equipment

Pressac	1,472	1.4
First Technology	1,192	1.1
Alba	937	0.9
Renishaw	838	0.8
Domino Printing	692	0.6
Fairey	515	0.5
IFX Power	481	0.4
Pace Micro Technology	471	0.4
Densitron Technologies	209	0.2

### Engineering and Machinery

Henlys	1,048	1.0
Rotork	876	0.8
Wagon	565	0.5
Enodis	560	0.5
Cammel Laird	19	—

<b>Total General Industrials</b>	<b>10,896</b>	<b>10.0</b>
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## Basic Industries

### Chemicals

Meconic	698	0.6
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### Construction & Building Materials

Ultraframe	1,316	1.2
Wiggins	1,087	1.0
SIG	1,061	1.0
McCarthy & Stone	1,044	1.0
Marshalls	886	0.8
Bovis Homes	688	0.6
Allen	510	0.5
Amec	489	0.4
Countryside Properties	431	0.4
Mowlem (J)	405	0.4
Tilbury Douglas	359	0.3
Balfour Beatty	317	0.3
Westbury	304	0.3
Crest Nicholson	268	0.2

<b>Total Basic Industries</b>	<b>9,863</b>	<b>9.0</b>
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Company	Value £'000	% of portfolio
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## Non-Cyclical Consumer Goods

### Health

Nestor Healthcare	1,434	1.3
Health Clinic	1,402	1.3
Medisys	966	0.9
Gyrus	680	0.6
Pharmagene	303	0.3

### Pharmaceuticals

Phytopharm	921	0.8
Goldshield	711	0.7
Profile Therapeutics	264	0.2

### Total Non-Cyclical Consumer

<b>Goods</b>	<b>6,681</b>	<b>6.1</b>
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## Non-Cyclical Services

### Food & Drug Retailers

T&S Stores	1,545	1.4
Coffee Republic	1,261	1.2
Greggs	1,025	0.9
Budgens	298	0.3

### Telecommunication Services

JWE Telecom	377	0.3
IMS	319	0.3

<b>Total Non-Cyclical Services</b>	<b>4,825</b>	<b>4.4</b>
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## Resources

### Oil Exploration and Production

Ramco Energy	586	0.6
Cairn Energy	265	0.2
Premier Oil	158	0.1

<b>Total Resources</b>	<b>1,009</b>	<b>0.9</b>
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## Cyclical Consumer Goods

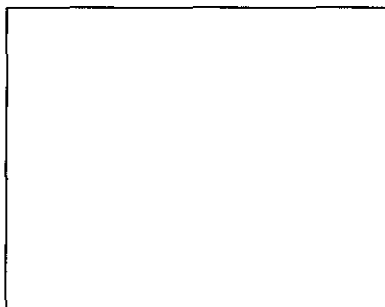
### Automobiles

Britax International	995	0.9
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<b>Total Cyclical Consumer Goods</b>	<b>995</b>	<b>0.9</b>
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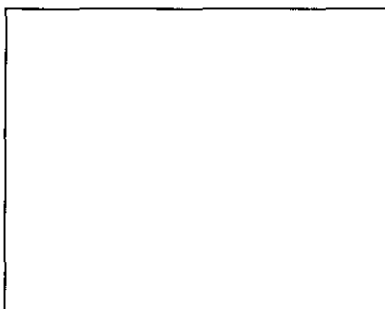
<b>Total Portfolio</b>	<b>109,524</b>	<b>100.0</b>
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# Board of Directors



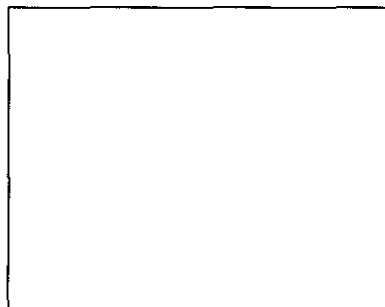
**Strone Macpherson\* (Chairman)**

Born in 1948. Joined the Board and appointed Chairman in 1990. He is executive deputy chairman of Misys plc, the international software and computer services group, a non-executive director of AXA UK plc, and on the investment and audit committees of The King's Fund. He was a non-executive director of River & Mercantile Trust from 1979 to 1996 and River & Mercantile Investment Management Limited from its formation to its sale in 1996. He was formerly president of Robert Fleming Inc. NY from 1982 to 1984 and a director of Robert Fleming and Co. Limited from 1978 to 1982 and 1984 to 1989.



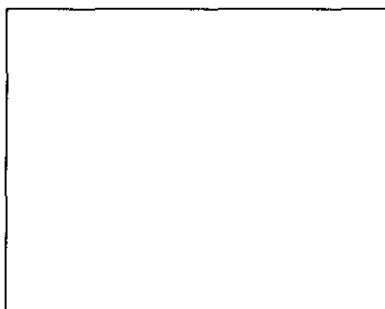
**The Hon Rupert Carington\***

Born in 1948. Joined the Board in 1990. He has run his own financial advisory business since 1987. He is also chairman of Schroder Asia Pacific Fund plc and Schroder Emerging Countries Fund plc. He is a non-executive director of Hartwell plc.



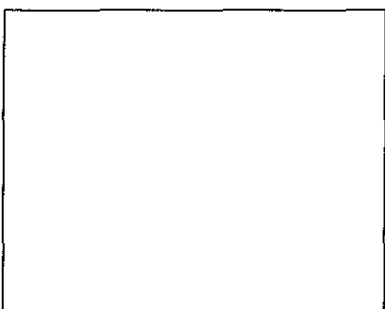
**Richard Fitzalan Howard**

Born in 1953. Joined the Board in 1997. He is chief executive of FP Wealth Management Limited. He was a director of Fleming Investment Management Limited from 1986 to 2000.



**Richard Oldfield\***

Born in 1955. Joined the Board in 1999. He is chief executive of Alta Advisers Ltd. and was formerly a director of Mercury Asset Management plc.



**Derek Pretty\*†**

Born in 1947. Joined the Board in 1990. He is Registrar of the University of Bristol and heads its administration and support services. Formerly group finance director of Kwik Save Group plc, he also has extensive experience at a senior level in other major retail companies including Kingfisher and J Sainsbury's.

\* Member of the Audit Committee.  
†Chairman of the Audit Committee.

# The Fleming Smaller Companies Investment Trust plc

**Directors' Report & Accounts** • Year ended 31st July 2000

# Directors' Report

## Business of the Company

The Company carries on business as an investment trust and was approved by the Inland Revenue as an investment trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31st July 1998. 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 will continue to seek approval under Section 842 of the Income and Corporation Taxes Act 1988 each year. However, under Corporation Tax Self Assessment which applies to accounting periods ended after 30th June 1999, the Inland Revenue have twelve months after the return filing date in which to give notice that they intend to enquire into the return and Section 842 approval may not be given until after that date. The Company is not a close company for taxation purposes.

## Personal Equity Plans

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

## Accounts

The accounts of the Company for the financial year ended 31st July 2000 are shown on pages 20 to 29.

## 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 obtain the best terms for all business and therefore there are no standard payment terms. In general the Company agrees with its suppliers the terms on which business will take place and it is our policy to abide by these terms. As at 31st July 2000, the Company had no outstanding trade creditors.

## Revenue and Dividends

Gross revenue for the year totalled £1.6m and distributable revenue after deducting interest, administrative expenses and taxation amounted to £0.62m.

The Directors recommend a final dividend of 2.30 pence per share payable on 30th November 2000 to shareholders on the register at the close of business on 27th October 2000. This distribution will absorb £0.61m resulting in a transfer to the revenue reserve of £0.01m. The revenue reserve after this transfer will amount to £0.1m.

## Directors

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

	31st July 2000	1st August 1999
PSS Macpherson	24,860	24,860
The Hon RFJ Carington	12,000	12,000
RA Fitzalan Howard	1,950	1,950
RJ Oldfield	15,000	15,000 <sup>1</sup>
DWM Pretty	12,793	12,793

<sup>1</sup>At date of appointment.

No changes in the above holdings have been recorded by any Director to the date of this report. On 31st December 1999 Mr PM Godfrey resigned as a Director. The Directors retiring by rotation are Mr R Fitzalan Howard and The Hon. RFJ Carington. Both are eligible and offer themselves for re-election.

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

## Management

The Manager and Secretary, Chase Fleming Asset Management (UK) Limited ('CFAM') is a wholly-owned subsidiary of Chase Manhattan Corporation which, through other subsidiaries, also provides banking, investment management and custodian services to the Company.

In December 1999 River & Mercantile Investment Management Limited ceased to be Manager of the Company and this responsibility was passed to Fleming Investment Trust Management Limited ('FITM') which was the Company Secretary and also provided the Company with investment management and administration services. As a result of an internal re-organisation within Flemings, the management agreement was transferred to Fleming Investment Management Limited ('FIM') on 31st May 2000. On the same date FITM resigned as Company Secretary and FIM was appointed in its place. Robert Fleming Holdings Limited, the parent company of FIM, was acquired by Chase Manhattan Corporation on 1st August 2000. Following this the Manager and Secretary changed name to Chase Fleming Asset Management (UK) Limited (CFAM).

## Management Fee and Expenses

The Manager and Secretary is employed under a contract which is subject to one year's notice of termination. The fee is calculated and paid monthly in arrears and is charged at a rate of 0.8% per annum of the Company's total assets less current liabilities. The investment management fee on the £7.5 million borrowed in 1998 is subject to a rebate of 0.3% per annum. If the Company invests in funds managed or advised by CFAM 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 Limited <sup>1</sup>	<b>8,009,326</b>	<b>30.0</b>
<i>Included within this are the following:</i>		
Fleming Private Asset Management	3,474,888	13.0
Save & Prosper Group Limited	1,088,228	4.1
Fleming Investment Management Limited	983,257	3.7
Fleming Investment Trust Management Limited	980,971	3.6
Fleming Managed Growth plc	871,838	3.3
Save & Prosper Equity Plan Managers	610,144	2.3
Liontrust Asset Management Limited <sup>2</sup>	<b>1,588,961</b>	<b>6.0</b>
British Aerospace Pension Funds Investment Management Limited	<b>1,200,000</b>	<b>4.5</b>
Refuge Assurance Plc	<b>1,154,500</b>	<b>4.3</b>
Cornhill Insurance plc	<b>1,119,515</b>	<b>4.2</b>
Windsor Life Assurance Company	<b>1,075,000</b>	<b>4.0</b>
Greig Middleton Private Clients	<b>959,973</b>	<b>3.6</b>

<sup>1</sup>Non-beneficial.

<sup>2</sup>Non-beneficial and held on behalf of participants in the Liontrust Asset Management PEP.

## Auditors

Deloitte & Touche 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.

# Directors' Report continued

## **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 Principles of Good Governance and Code of Best Practice (the 'Combined Code'), published by the Committee on Corporate Governance in June 1998. The Board considers that the Company has complied with the provisions contained within Section 1 of the Combined Code throughout the accounting period ended 31 July 2000 (except as detailed below) and the following describes how the relevant principles of governance are applied to the Company.

### *The Board*

The Board consists solely of non-executive Directors, the majority of whom are independent of the Company's Manager. Accordingly, the Board does not believe that it is necessary to appoint a senior independent director.

A management agreement between the Company and CFAM sets out matters over which the Manager has authority. All other matters are reserved for the approval of the Board.

The Board meets on at least five occasions each year and between these meetings there is regular contact with the Manager who provides the Board with appropriate and timely management information. CFAM also provides company secretarial advice and services. The Directors have access, where necessary, in the furtherance of their duties, to independent professional advice at the expense of the Company.

### *Board Committees*

The Board as a whole fulfils the function of the Nomination Committee, which meets when necessary to select suitable candidates for appointment to the Board, and of the Remuneration Committee, which reviews directors' fees on a regular basis.

To ensure its independence from the Manager, the Audit Committee excludes from membership all Directors who are or were employed by CFAM, or any of its subsidiaries or associated companies.

The Audit Committee meets at least twice each year. The Committee reviews the terms of the management agreement and examines the effectiveness of the Company's internal control systems, receives information from the Manager's compliance department and also reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the external auditors. The Directors' statement on the Company's system of internal financial control can be found below.

### *Directors' Remuneration*

Directors' fees are currently at a rate of £15,000 for the Chairman and £11,000 for each Director.

In aggregate, fees must not exceed £100,000. Directors' fees are reviewed regularly and any increase in the aggregate amount requires both Board and shareholder approval.

### *Going Concern*

The Directors' Statement on going concern can be found on page 14.

### *Relations with Shareholders*

At the Company's Annual General Meeting, the Directors and representatives of the Manager are available in person to meet and answer shareholders' questions. In addition, a presentation is given by the Investment Manager who reviews the Company's activities. During the year the Corporate Brokers, the Investment Manager and CFAM hold regular discussions with institutional shareholders. The Directors are made fully aware of these views and responses are tailored as necessary. The Chairman and Directors make themselves available as and when required to address shareholders' queries.

### *Accountability and Audit*

The Directors' responsibilities in respect of the Accounts are set out on page 18.

### **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 administrative services are provided to the Company by associates of CFAM, the Company's system of internal financial control mainly comprises monitoring the services provided by CFAM, 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, analysis of transactions and performance comparisons.

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

*Management Systems* – The Manager's system of internal financial control includes organisational agreements which clearly define the lines of responsibility, delegated authority, control procedures and systems. These are monitored by Chase Flemings' Internal Audit Department. Chase 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 Chase Flemings' Compliance Department;
- 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 operation of the 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 those corporate governance matters specified for their review by the Financial Services Authority and this is stated within the Auditors' Report on page 19.

### *Internal Control*

The Combined Code requires the Directors to review the effectiveness of the Company's system of internal control. This has extended the previous requirement which focused on internal financial control, and now encompasses a review of all controls which the Board has identified as including business, financial, operational, compliance and risk management.

The Board is ultimately responsible for the Company's system of internal control and for monitoring its effectiveness, however formal guidance as to the review of non-financial internal controls was only published in late September 1999. Consequently, the Company has adopted the transitional approach for the internal control aspects of the Combined Code as allowed by the Financial Services Authority.

Whilst the Board has undertaken a full review of all the aspects covered by the guidance and believes that there is a robust and dynamic framework substantially in place to meet the requirements of the Combined Code, it is currently finalising all the measures necessary to implement in full the Turnbull guidance to report on compliance with code provision D.2.1. It is the Board's intention to be compliant with this code provision for the year ending 31st July 2001.

# Directors' Report continued

## **Annual General Meeting**

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

### **(a) Amendment to the Articles of Association**

#### *Investment Company Status*

Amendments to the Companies Act, which became effective on 8th November 1999, change the definition of an investment company so that a company's Memorandum or Articles of Association are only required to prohibit distributions of capital profits other than by way of the redemption or purchase of the Company's own shares. The Board has decided to amend the Company's Articles of Association to reflect this change. Resolution number 6 which is set out in the Notice of Annual General Meeting on page 30 will, if passed, approve such amendment to the Company's Articles of Association.

### **(b) Repurchase of the Company's Shares**

At last year's Annual General Meeting shareholders gave authority to the Board to be able to purchase up to 14.99% of the then issued share capital. At that time shareholders were informed that this authority would expire on 17th May 2001 and would therefore need to be renewed at the Annual General Meeting to be held in 2000. The full text of the resolution is set out as Resolution number 7 in the Notice of Meeting on pages 30 and 31.

Although no such purchases took place during the year, due to the strong underlying performance and the narrowing of the discount, the Directors consider that the renewing of the authority would be in the interest of shareholders as a whole as the repurchase of shares at a discount to the underlying net asset value ("NAV") would enhance the NAV of the remaining shares.

The Directors recommend that shareholders vote in favour of both these special resolutions.

By order of the Board  
Chase Fleming Asset Management (UK) Limited  
Secretary  
FW Easton  
17th October 2000



## **Directors' Responsibilities in Respect of the Accounts**

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

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

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

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

# Auditors' Report

to the Members of The Fleming Smaller Companies Investment Trust plc

We have audited the financial statements on pages 20 to 29 which have been prepared on the basis of the accounting policies on page 23.

## Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report, including as described on page 18 the preparation of financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the UK Listing Authority, and by our profession's ethical guidance.

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 Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on pages 16 and 17 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the UK Listing Authority, and we report if it does not. We are not required to consider whether the Board's structure on internal control covers all the risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements.

## Basis of Audit Opinion

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

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

## Opinion

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs as at 31st July 2000 and of its total return for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
DELOITTE & TOUCHE

Chartered Accountants and Registered Auditors  
Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR

London, 17th October 2000

# Statement of Total Return

for the year ended 31st July 2000

	Notes	Revenue £'000	2000 Capital £'000	Total £'000	Revenue' £'000	1999 Capital £'000	Total £'000
Realised gains on investments	8, 13	—	19,724	19,724	—	277	277
Increase in unrealised appreciation	8, 13	—	11,749	11,749	—	12,963	12,963
Realised losses on currency transactions	13	—	(4)	(4)	—	—	—
Other capital charges		—	—	—	—	(14)	(14)
Income from investments	1	1,516	—	1,516	1,426	—	1,426
Other income	1	49	—	49	82	—	82
<b>Gross return</b>		<b>1,565</b>	<b>31,469</b>	<b>33,034</b>	<b>1,508</b>	<b>13,226</b>	<b>14,734</b>
Management fee	2	(396)	(396)	(792)	(263)	(263)	(526)
Other administrative expenses	3	(249)	—	(249)	(144)	—	(144)
Interest payable	4	(288)	(288)	(576)	(260)	(260)	(520)
<b>Net return before taxation</b>		<b>632</b>	<b>30,785</b>	<b>31,417</b>	<b>841</b>	<b>12,703</b>	<b>13,544</b>
Taxation	5	(6)	6	—	34	11	45
<b>Total return attributable to ordinary shareholders</b>		<b>626</b>	<b>30,791</b>	<b>31,417</b>	<b>875</b>	<b>12,714</b>	<b>13,589</b>
<b>Dividend on ordinary shares</b>							
Dividend payable	6	(613)	—	(613)	(800)	—	(800)
		(613)	—	(613)	(800)	—	(800)
<b>Transfer to reserves</b>		<b>13</b>	<b>30,791</b>	<b>30,804</b>	<b>75</b>	<b>12,714</b>	<b>12,789</b>
<b>Return per ordinary share</b>	7	<b>2.35p</b>	<b>115.47p</b>	<b>117.82p</b>	<b>3.28p</b>	<b>47.68p</b>	<b>50.96p</b>

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

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

'Restated to comply with FRS16 'Current Taxation', see note iii on page 23.

The notes on pages 23 to 29 form part of these accounts.

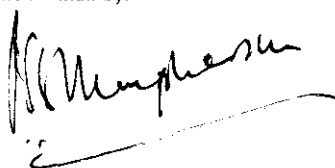
# Balance Sheet

at 31st July 2000

	Notes	2000 £'000	1999 £'000
<b>ASSETS EMPLOYED</b>			
<b>Fixed assets</b>			
Investments at valuation	8	109,524	73,598
<b>Current assets</b>			
Debtors	9	1,732	471
Cash and short-term deposits		14	1,929
		<b>1,746</b>	2,400
<b>Creditors</b>			
Amounts falling due within one year	10	2,161	1,693
<b>Net current (liabilities)/assets</b>		<b>(415)</b>	707
<b>Total assets less current liabilities</b>		<b>109,109</b>	74,305
<b>Creditors</b>			
Amounts falling due after more than one year	11	11,500	7,500
<b>Total net assets</b>		<b>97,609</b>	66,805
<b>FINANCED BY</b>			
<b>Capital and reserves</b>			
Share capital	12	6,666	6,666
Share premium	13	18,360	18,360
Capital reserve – realised	13	52,773	26,400
Capital reserve – unrealised	13	19,709	15,291
Revenue reserve	13	101	88
<b>Ordinary shareholders' funds</b>		<b>97,609</b>	66,805
<b>Net asset value per share</b>	14	<b>366.0p</b>	250.5p

The accounts on pages 20 to 29 were approved by the Directors on 17th October 2000 and are signed on their behalf by:

PSS Macpherson  
Chairman



The notes on pages 23 to 29 form part of these accounts.

# Cash Flow Statement

for the year ended 31st July 2000

	Notes	2000 £'000	1999 £'000
<b>Operating activities</b>			
Cash received from investments		1,510	1,357
Deposit interest received		23	70
Underwriting commissions		26	15
Management fee paid		(792)	(526)
Directors' fees		(55)	(40)
Other cash payments		(188)	(101)
<b>Net cash inflow from operating activities</b>	16	<b>524</b>	<b>775</b>
<b>Returns on investments and servicing of finance</b>			
Interest paid		(534)	(533)
<b>Net cash outflow from servicing of finance</b>		<b>(534)</b>	<b>(533)</b>
<b>Capital expenditure and financial investment</b>			
Purchases of investments		(91,053)	(42,321)
Sales of investments		85,952	43,893
Other capital charges		—	(14)
<b>Net cash (outflow)/inflow from capital expenditure and financial investment</b>		<b>(5,101)</b>	<b>1,558</b>
<b>Equity dividends paid</b>			
Dividends paid		(800)	(693)
<b>Total equity dividends paid</b>		<b>(800)</b>	<b>(693)</b>
<b>Net cash (outflow)/inflow before financing</b>		<b>(5,911)</b>	<b>1,107</b>
<b>Financing</b>			
Increase in long term loan		4,000	—
<b>Net cash inflow from financing</b>		<b>4,000</b>	<b>—</b>
<b>(Decrease)/Increase in cash and cash equivalents</b>		<b>(1,911)</b>	<b>1,107</b>

The notes on pages 23 to 29 form part of these accounts.

# Notes to the Accounts

at 31st July 2000

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 historic cost convention, modified to include the revaluation of investments. The accounts have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice (SORP) 'Financial statements of investment trust companies'. The Company does not have investment company status but, as explained in note 20, the Directors consider it appropriate to continue to present the accounts in accordance with the 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.

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

## **iii. Income**

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

Interest receivable is dealt with on an accruals basis.

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

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.

UK dividends are accounted for net of any tax credits. This is a change in accounting policy to comply with Financial Reporting Standard 16 (FRS16) "Current Taxation" which has replaced Statement of Standard Accounting Practice 8 (SSAP8). Under SSAP8, dividends were recognised inclusive of attributable tax credits which also formed part of the tax charge. The effect of this change is that Net Return before Taxation before Taxation is £165,000 lower (1999:£220,000 lower). However, there is no effect on Return attributable to ordinary shareholders (1999:£nil) or ordinary shareholders' funds (1999:£nil).

## **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 within the cost of the investment.
- expenses which are incidental to the disposal of an investment are deducted from the disposal 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 investment management fee has been allocated 50% to capital reserve – realised and 50% to 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 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 it 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 31st July 2000

	2000 £'000	1999 <sup>1</sup> £'000
<b>1. Income</b>		
Income from investments		
Franked investment income	1,486	1,329
Foreign income dividends	—	43
Scrip dividends	30	54
	<b>1,516</b>	<b>1,426</b>
Other income		
Deposit interest	23	67
Underwriting commission	26	15
	<b>49</b>	<b>82</b>
Total income	<b>1,565</b>	<b>1,508</b>
Total income comprises:		
Dividends	1,516	1,426
Other income	49	82
	<b>1,565</b>	<b>1,508</b>
Analysis of income from investments:		
Listed UK	1,516	1,426
	<b>1,516</b>	<b>1,426</b>

	2000			1999		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>2. Management fee</b>						
Management fee	337	337	674	224	224	448
Irrecoverable VAT thereon	59	59	118	39	39	78
	<b>396</b>	<b>396</b>	<b>792</b>	<b>263</b>	<b>263</b>	<b>526</b>

	2000 £'000	1999 £'000
<b>3. Other administrative expenses</b>		
Other management expenses	158	84
Directors' fees <sup>1</sup>	57	40
Auditors' remuneration for audit services	11	10
Irrecoverable VAT	23	10
	<b>249</b>	<b>144</b>

<sup>1</sup>The Chairman is paid at the rate of £15,000 per annum (1999: £10,000), other Directors at the rate of £11,000 per annum each (1999: £7,500).

The total Directors' fees of £57,109 (1999: £40,000) comprise £47,546 (1999: £32,500) in respect of aggregate emoluments paid to Directors and £9,563 (1999: £7,500) paid to a third party for making available the services of one of the Directors (1999: one Director).

	Revenue £'000	2000 Capital £'000	Total £'000	Revenue £'000	1999 Capital £'000	Total £'000
<b>4. Interest payable</b>						
On bank loans and overdraft	48	48	96	1	1	2
On loans repayable within 5 years	240	240	480	259	259	518
	<b>288</b>	<b>288</b>	<b>576</b>	260	260	520

#### 5. Taxation

Tax relief to capital	6	(6)	—	11	(11)	—
Prior year adjustment	—	—	—	(45)	—	(45)
	<b>6</b>	<b>(6)</b>	<b>—</b>	<b>(34)<sup>1</sup></b>	<b>(11)</b>	<b>(45)<sup>1</sup></b>

<sup>1</sup>Restated to comply with FRS16 (see note iii page 23)

	2000 £'000	1999 £'000
<b>6. Dividend on ordinary shares</b>		
Payable	2.30p (1999: 3.00p) per share	800
	<b>613</b>	<b>800</b>

	Revenue £'000	2000 Capital £'000	Total £'000	Revenue £'000	1999 Capital £'000	Total £'000
<b>7. Return per ordinary share</b>						
Total return attributable to ordinary shareholders	626	30,791	31,417	875	12,714	13,589
Return per ordinary share	<b>2.35p</b>	<b>115.47p</b>	<b>117.82p</b>	3.28p	47.68p	50.96p

The return per ordinary share is based on the revenue on ordinary activities after taxation and on 26,666,186 ordinary shares, being the weighted average number of ordinary shares in issue during the year (1999: same).

# Notes to the Accounts continued

at 31st July 2000

	2000 £'000	1999 £'000
<b>8. Investments</b>		
Investments listed on a recognised investment exchange	109,524	73,598
	<b>Listed in UK<sup>1</sup> £'000</b>	
Opening book cost	58,307	
Opening unrealised appreciation	15,291	
Opening valuation	73,598	
Movements in the year:		
Purchases at cost	91,692	
Sales – proceeds	(87,239)	
Sales – realised gains	19,724	
Increase in unrealised appreciation	11,749	
	109,524	
Closing book cost	89,815	
Closing unrealised appreciation	19,709	
	109,524	

<sup>1</sup>The total portfolio consists of investments listed in the UK.

During the year £7,331,000 of prior year unrealised appreciation has been transferred to realised as disclosed in note 13.

The investments are held by Robert Fleming & Co Limited as custodian.

	2000 £'000	1999 £'000
<b>Interest in subsidiary undertaking:</b>		
Shares	1	1

The Company has a wholly-owned subsidiary called the Fleming Smaller Companies Securities Limited which was formed as a dealing company for its parent. It is incorporated and registered in England and Wales. During the year to 31st July 2000 the subsidiary made neither a profit nor loss and therefore consolidated accounts have not been prepared.

## 9. Debtors

Sales for future settlement	1,670	383
Dividends and interest receivable	61	87
Other debtors	1	1
	1,732	471

## 10. Creditors

Amounts falling due within one year:		
Securities purchased for future settlement	1,434	825
Amounts owed to subsidiary company	2	2
Other creditors	44	40
Dividend payable on ordinary shares	613	800
Loan interest	68	26
	2,161	1,693

	2000 £'000	1999 £'000
<b>11. Creditors</b>		
Amounts falling due after more than one year:		
Between two and five years		
Floating interest rate loan with an 8% cap. Repayable on 08/01/2003 <sup>1</sup>	7,500	7,500
Floating interest rate loan. Repayable on 25/05/2005 <sup>2</sup>	4,000	—
	<b>11,500</b>	<b>7,500</b>

<sup>1</sup>Unsecured loan with Robert Fleming & Co. Limited.

<sup>2</sup>Unsecured loan with Lloyds TSB Bank plc.

## 12. Share capital

### ISSUED AND FULLY PAID:

26,666,186 ordinary shares of 25p each	6,666	6,666
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### AUTHORISED SHARE CAPITAL:

56,000,000 ordinary shares of 25p each	14,000	14,000
50,000 redeemable preference shares of £1 each	50	50
	<b>14,050</b>	<b>14,050</b>

	Share premium £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
<b>13. Reserves</b>				
Beginning of year	18,360	26,400	15,291	88
Realised losses on currency transactions	—	(4)	—	—
Realised gains on investments	—	19,724	—	—
Transfer on disposal of investments	—	7,331	(7,331)	—
Increase in unrealised appreciation	—	—	11,749	—
Expenses charged to capital	—	(396)	—	—
Finance costs charged to capital	—	(288)	—	—
Tax relief on expenses and finance charged to capital	—	6	—	—
Retained net revenue for the year	—	—	—	13
Closing balance	<b>18,360</b>	<b>52,773</b>	<b>19,709</b>	<b>101</b>

## 14. Net asset value per share

The net asset value per share at the year end is calculated as follows:

	Net asset value per share		Net assets attributable	
	2000 per share	1999 per share	2000 £'000	1999 £'000
Ordinary shares	366.0p	250.5p	97,609	66,805

<sup>1</sup>Undiluted net asset value per ordinary share is based on net assets at the year end and on 26,666,186 (1999: same) ordinary shares, being the number of ordinary shares in issue at the year end.

	2000 £'000	1999 £'000
<b>15. Reconciliation of movements in shareholders' funds</b>		
Opening shareholders' funds	66,805	54,016
Total recognised gains for the year	31,417	13,589
Dividends appropriated in the year	(613)	(800)
Closing shareholders' funds	<b>97,609</b>	<b>66,805</b>

# Notes to the Accounts continued

at 31st July 2000

	2000 £'000	1999 £'000
<b>16. Cash flow statement</b>		
Reconciliation of revenue to net cash inflow from operating activities		
Income before interest payable and taxation	920	1,101
Scrip dividends received as income	(30)	(54)
Decrease/(Increase) in accrued income	26	(15)
Decrease in other debtors	—	2
Increase in other creditors	4	4
Expenses charged to capital	(396)	(263)
	<b>524</b>	<b>775</b>
Reconciliation of net cashflow to movement in net debt		
(Decrease)/increase in cash for the year	(1,911)	1,107
Cash inflow from change in debt	(4,000)	—
Change in net debt resulting from cash flow	(5,911)	1,107
Effects of charges in foreign exchange rates	(4)	—
Movement in net debt for the year	(5,915)	1,107
Net debt at beginning of year	(5,571)	(6,678)
Closing net debt	<b>(11,486)</b>	<b>(5,571)</b>

	At 1 August 1999 £'000	Cash flow £'000	Exchange Movement £'000	At 31 July 2000 £'000
Analysis of net debt				
Cash at bank and in hand	1,929	(1,911)	(4)	14
Debt due after more than one year	(7,500)	(4,000)	—	<b>(11,500)</b>
Closing balance	(5,571)	(5,911)	(4)	<b>(11,486)</b>

## 17. Transactions with Chase Fleming

The terms of the management contract with Chase Fleming Asset Management (UK) Limited (CFAM) make allowance for the exclusion of management charges on investments held in funds managed by CFAM or by associated companies. The management fee paid to CFAM for the year was £674,000 (1999: £448,000). There were no amounts due to CFAM at the year end (1999: £nil). In addition CFAM was paid £49,000 for marketing expenses (1999: £25,000).

CFAM carries out some of its dealing transactions through Robert Fleming & Co. Limited, a fellow subsidiary of Chase Manhattan Corporation. These transactions are carried out at arm's length. The commission paid in the year was £78 (1999: £827). The Company has been informed that certain of its dealing transactions may be subject to soft commission arrangements.

The Company has a loan agreement with Robert Fleming & Co. Limited. The total interest charges for the year were £500,000 (1999: £520,000) of which £68,000 (1999: £26,000) was outstanding at the year end.

There were no other transactions with related parties.

## 18. Financial instruments

The Company's financial instruments comprise:

- Investments including equity and non-equity shares with UK exposure. These are held in accordance with the Company's investment objective and policies;
- Sterling bank loans for which the main purpose is to raise finance for the Company's operations;
- Short-term debtors, creditors and immaterial cash amounts arising directly from its operations;

As an investment trust, the Company invests in securities for the long term. Accordingly it is, and has been throughout the year under review, the Company's policy that no short term trading in investments (as defined in FRS 13) or other financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments is market price risk which incorporates interest rate risk. The Board's policies for managing these risks are summarised below. These policies have remained unchanged since the beginning of the year to which these financial statements relate.

## 19. Financial Instruments continued

### MARKET PRICE RISK

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

The Board meets on at least five occasions each year to consider the asset allocation of the portfolio. An individual fund manager has responsibility for monitoring the existing portfolio selected in accordance with the Company's investment objectives and seeks to ensure that individual stocks also meet an acceptable risk reward profile.

### INTEREST RATE RISK

The Company finances its operations through bank borrowings and retained profits. The Company borrows in sterling at both fixed and floating rates of interest. At the year end, one of the Company's loans is at a floating rate with an interest rate cap of 8% and the other is at a floating rate. Further details can be found on page 27.

### LIQUIDITY RISK

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

### INTEREST RATE RISK PROFILE OF FINANCIAL ASSETS

All of the Company's financial assets at the year end are equity shares or other investments which neither pay interest nor have a maturity date. The Company has a facility with Lloyds TSB Bank plc to borrow up to £5m, of which £1m was undrawn at the year end. The maturity profile of this facility is more than two years but less than five years.

### CURRENCY RATE RISK

The base currency of the Company is Sterling. For the purposes of the disclosures required by FRS 13, this is taken to be the 'functional currency' of the Company.

### COUNTERPARTY RISK

The Board aims to mitigate counterparty risk by only dealing with third parties recommended by Chase Fleming or other advisers.

### FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of investments is taken as their market value at the year end. Financial assets and liabilities are included in the balance sheet at values which represent fair values except in respect of the items disclosed below. The fair value of the loan has been calculated by estimating the cost of breaking the loan and the interest rate cap agreement.

	Accounts value		Fair value	
	2000 £m	1999 £m	2000 £m	1999 £m
Unsecured loan	11.5	7.5	11.5	7.5

## 20. Investment Company Status

The Company is not an investment company, within the meaning of section 266, Companies Act 1985 as the Articles of the Company allow the distribution of capital profits except by way of a dividend. However, if shareholders' approve resolution number 6 at the forthcoming Annual General Meeting, the Company shall apply for investment company status. The Company continues to manage its affairs to enable it to qualify as an investment trust for taxation purposes under section 842 of the Income and Corporation Taxes Act 1988. As such, the Directors consider it appropriate to continue to present the accounts in accordance with the Statement of Recommended Practice (SORP) applicable for investment trusts. Under the SORP, the financial performance of the Company is presented in a statement of total return in which the revenue column is the profit and loss account of the Company. The revenue column excludes the following capital items which, since the Company is not an investment company, the Companies Act and accounting standards would ordinarily require to be included in the profit and loss account: gains on disposal of investments, calculated by reference to their previous carrying amount, of £19,724,000 (1999: £277,000), currency losses on cash and short term deposits held during the year of £4,000 (1999:nil), and other charges of £nil (1999: £14,000). In the opinion of the Directors the inclusion of these items in the profit and loss account would obscure and distort both the revenue and capital performance of the Company, and would not show clearly the revenue profits emerging to be distributable by way of dividend. The Directors therefore consider that these exclusions are necessary to give a true and fair view. The exclusions have no effect on total return or on balance sheet totals or equity shareholders' funds.

# Notice of Meeting

Notice is hereby given that the tenth Annual General Meeting of The Fleming Smaller Companies Investment Trust plc will be held at 10 Aldermanbury, London EC2 at 11.00 a.m. on Thursday 23rd November 2000 for the following purposes:

- 1 To receive the Directors' Report and Accounts and the Auditors' Report for the year ended 31st July 2000.
- 2 To declare a final dividend on the ordinary shares.
- 3 To re-elect Mr RA Fitzalan Howard a Director of the Company.
- 4 To re-elect the Hon RFJ Carington a Director of the Company.
- 5 To re-appoint Deloitte & Touche as Auditors to the Company and to authorise the Directors to determine their remuneration.

**Special Business:**

To consider the following resolutions which will be proposed as special resolutions:

**AMENDMENT TO THE COMPANY'S ARTICLES**

**6 THAT**

- (i) the Articles of Association be amended by the adoption of a new Article 126(D) in the following terms in place of and to the exclusion of the current Article 126(D):  
"Any surplus over the book value derived from the sale or realisation of any capital asset and any other sums representing capital profits within the meaning of Section 265 of the Act or other accretions to capital assets shall not be available for dividend or other distribution within the meaning ascribed thereto by Section 263(2) of the Act otherwise than by way of redemption or purchase of any of the Company's own shares in accordance with Section 160 or 162 in Chapter VII of Part V of the Act."
- (ii) Article 126A be deleted in its entirety.

**AUTHORITY TO REPURCHASE THE COMPANY'S SHARES**

**7 THAT**

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

**PROVIDED ALWAYS THAT**

- (i) the maximum number of Shares hereby authorised to be purchased shall be 3,997,261 or, if less, that number of shares which is equal to 14.99 per cent of the Company's issued share capital as at the date of the passing of this Resolution;
- (ii) the minimum price which may be paid for a Share shall be 25p;
- (iii) the maximum price which may be paid for a Share shall be an amount equal to 105 per cent of the average of the middle market quotations for a Share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Share is purchased;

- (iv) any purchase of Shares will be made in the market for cash at prices below the prevailing estimated net asset value per Share (as determined by the Directors);
- (v) the authority hereby conferred shall expire on 23rd May 2002 unless the authority is renewed at the Company's Annual General Meeting in 2001 or at any other general meeting prior to such time; and
- (vi) the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority and may make a purchase of Shares pursuant to any such contract notwithstanding such expiry.

By order of the Board  
Chase Fleming Asset Management (UK) Limited,  
Secretary

17th October 2000

#### Notes

- 1 A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and on a poll vote instead of him. A proxy need not be a member of the Company. The lodging of a form of proxy does not prevent a member from attending and voting if he so wishes.
- 2 Any instrument appointing a proxy, to be valid, must be lodged at the Company's Registrar not less than 48 hours before the time of the meeting.
- 3 To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members 48 hours before the time of the meeting ('the specified time'). If the meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If however the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at the time which is 48 hours before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice.
- 4 Admittance to the above Meeting will be restricted to shareholders, guests will only be admitted by prior arrangement.

# Information about the Company

## History

The Company was formed in June 1990 as River & Mercantile Smaller Companies Trust plc and raised £25 million by a public offer of shares. Its original policy was to invest in a diversified portfolio of investments in UK and foreign smaller companies. Its name was changed to The Fleming Smaller Companies Investment Trust plc on 15th April 1996.

The investment policy was altered in February 1996 by removing the restriction on the market capitalisation of new investments in UK companies. This change was appropriate because of the growth in the average market capitalisation of smaller companies since the Company's launch.

In April 1997 the dividend policy was changed so that dividends are to be at a residual level determined by the revenue generated by the portfolio during the year.

## Financial Calendar

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<b>Financial year end</b>	31st July
<b>Interim results announced</b>	February
<b>Final results announced</b>	September
<b>Dividends on ordinary shares paid</b>	November
<b>Annual General Meeting</b>	November

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## Company Number

2515996

## Stock Exchange Code

074160

## Market Information

The Company's net asset value ('NAV') is published daily, via the London Stock Exchange. The Company's shares are listed on the London Stock Exchange. The market price of the shares is shown daily in The Daily Telegraph, Financial Times, The Herald, The Independent and on the Chase Fleming Internet site at [www.flemings.co.uk/its](http://www.flemings.co.uk/its).

## Share Transactions

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

## Taxation

The Company is managed so as to maintain approval as an investment trust by the Inland Revenue and, as such, is exempt from capital gains tax on profits arising from the sale of its investments.



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

# Investing through Chase Fleming

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

## Share Plan

The Investment Trust Share Plan is a savings plan allowing investments in any of the Fleming investment trusts, as shown below. The minimum investment is £40 per month or a lump sum of £400. There is a 1% transaction charge (plus 0.5% Government stamp duty) on all purchases, with a minimum charge of £1 and a maximum charge of £50 for each transaction in each trust.

## Individual Savings Account ('ISA')

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

## Personal Equity Plan ('PEP') Transfer

Available to investors with existing PEPs with other providers who would like to consolidate their investments. Under current legislation investments grow free of all income and capital gains tax. The minimum transfer value is £1,000 per trust.

## Pension Account

Available for the self-employed, employees not currently members of a company pension scheme and those employees wishing to make additional voluntary contributions. Tax relief is available on all contributions at your highest rate of tax. All investments grow free of capital gains tax. The minimum investment is £100 gross per month or £1,000 gross lump sum.

## The Range of Fleming Investment Trusts

<p><b>Fleming American</b> Capital growth from North American investments</p>	<p><b>Fleming Income &amp; Capital</b> Income and capital growth from UK investments through a split-capital structure</p>	<p><b>Fleming Mid Cap</b> Capital growth from medium-sized UK companies</p>
<p><b>Fleming Asian</b> Capital growth from Asian investments, excluding Japan</p>	<p><b>Fleming Income &amp; Growth</b> Income and capital growth from higher-yielding investments through a split-capital structure. Invests in equities and fixed interest securities</p>	<p><b>Fleming Overseas</b> Capital growth from overseas markets</p>
<p><b>Fleming Chinese</b> Capital growth from 'Greater China' investments</p>	<p><b>Fleming Indian</b> Capital growth from investment in India</p>	<p><b>Fleming Smaller Companies</b> Capital growth from UK smaller companies</p>
<p><b>Fleming Claverhouse</b> Capital and income growth from UK investments</p>	<p><b>Fleming Japanese</b> Capital growth from Japanese investments</p>	<p><b>Fleming Technology</b> Capital growth from global investment in the applied science and technology sectors</p>
<p><b>Fleming Continental European</b> Capital growth from Continental European investments</p>	<p><b>Fleming Japanese Smaller Companies</b> Capital growth through investment in small and medium-sized Japanese companies</p>	<p><b>Fleming US Discovery</b> Capital growth from investing in US micro cap companies</p>
<p><b>Fleming Emerging Markets</b> Capital growth from emerging markets worldwide</p>	<p><b>Fleming Managed Growth</b> Long-term capital growth from investing in the range of investment trusts managed by Flemings</p>	<p><b>Fleming Worldwide Income</b> High income with capital growth through a split-capital structure from a portfolio of equities and bonds with international exposure</p>
<p><b>Fleming European Fledgling</b> Capital growth from smaller Continental European companies</p>	<p><b>Fleming Mercantile</b> Capital growth from a portfolio of medium and smaller UK companies</p>	

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 may be 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.

Issued by Fleming Investment Trust Services Limited ('FITS'). Chase Fleming Funds is a trading name of FITS, which is regulated by the Personal Investment Authority, and which sells unit trusts, recognised collective investment schemes, investment trust savings schemes, PEPs, ISAs, life assurance and pension products offered by the Chase Fleming Asset Management marketing group. Registered in England No. 2566991. Registered office 10 Aldermanbury, London EC2V 7RF.

# Contact Details

## Manager, Secretary and Registered Office

**Chase Fleming Asset Management (UK) Limited** 10 Aldermanbury, London EC2V 7RF  
Telephone number: 020 7742 6000  
*Please contact Fraser Easton for secretarial and administrative matters.*

## Auditors

**Deloitte & Touche** Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR.

## Registrars

**Lloyds TSB Registrars** Reference 1139, 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 1139.*

## Chase Fleming Brochureline

**Freephone 0800 40 30 30** or 020 7382 8989 (8.00 a.m. to 6.00 p.m. Monday to Friday, 9.00 a.m to 5.00 pm weekends)  
Please use this service to order ISA, Pension, Share Plan or PEP literature and/or annual reports of the Fleming investment trusts.

## Chase Fleming Helpline

**Freephone 0500 500 324** or 01708 776851 (8.00 a.m. to 6.00 p.m. Monday to Friday)  
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 Chase Fleming 'wrapper' products, please call the appropriate department:

The Investment Trust Share Plan, ISA and PEP	<b>Freephone 0500 500 324</b> or 020 7382 8800
The Investment Trust Pension Account	<b>Freephone 0800 413 176</b> or 01722 414 888

You can visit the Fleming Investment Trust website at

<http://www.flemings.co.uk/its>