



# Framlington Innovative Growth Trust PLC

Report & Accounts to 30 June 2003

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# Introduction



Framlington Innovative Growth Trust PLC is an investment trust company registered in England and Wales\*.

## Objective

The objective of the Trust is to produce long term capital growth through investment in a portfolio of growth companies based in or predominantly trading in the UK. These companies generally display an innovative approach to business, demonstrating a willingness and ability to embrace new and evolving technologies and take advantage of social, political and cultural trends in the economy. The shares of these companies will either be listed on the London Stock Exchange or dealt in on AIM or Easdaq, with a market capitalisation at the time of purchase, in most cases, less than that of the median company in the FTSE SmallCap (excluding Investment Companies) Index.

The Trust's benchmark is the FTSE SmallCap (excluding Investment Companies) Index.

## Capital structure

The Trust has only one class of ordinary shares in issue, on which a dividend is declared annually.

## Management company

The Trust is managed by Framlington Investment Management Limited, a wholly owned subsidiary of Framlington Group Limited. Framlington Group Limited is ultimately owned by HSBC Holdings plc (51%) and by Munder Capital Management (49%), a US fund management company. As at 30 June 2003, Framlington and its subsidiaries had approximately £2.6 billion of assets under management. Details of the management fee arrangements are given on pages 14 and 15 in the report of the directors.

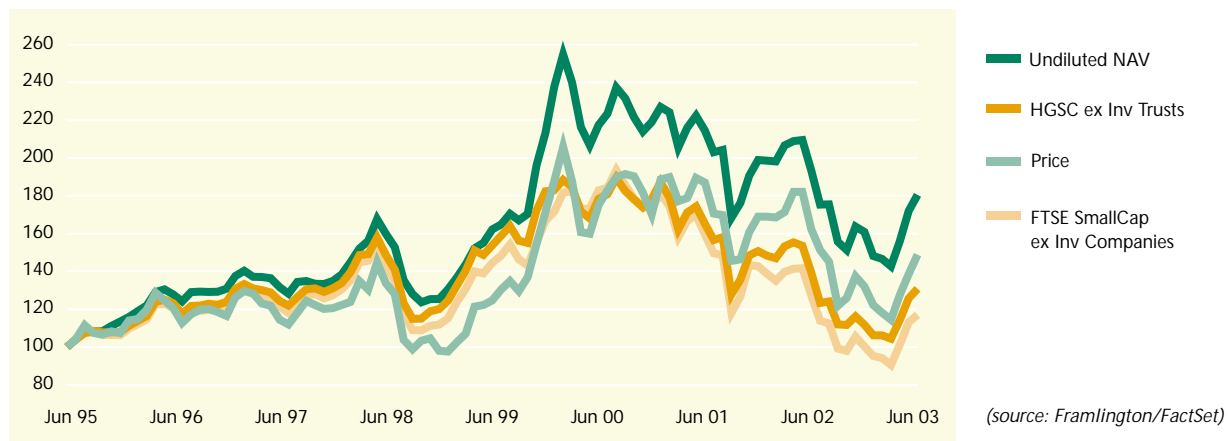
## PEP & ISA

As at 30 June 2003 all the Trust's ordinary shares qualified for inclusion in both PEPs and ISAs. The subscription limit for maxi ISAs for 2003/2004 is £7,000.

# Summary



Total % return of the Trust relative to FTSE SmallCap (excluding Investment Companies) Index



## Financial highlights

	2003	2002
Net asset value per ordinary share	227.71p	242.94p
Market price per ordinary share	181.50p	198.00p
Earnings per ordinary share	5.13p	3.28p
Dividends	4.10p	2.85p

## Summary continued

- Difficult year for smaller companies in general
- Net Asset Value per share movement in year outperformed benchmark by 1.98 percentage points
- Outperformance of benchmark each year over last ten years
- 4.1p dividend

	2003 £000s	2002 £000s	2001 £000s	2000 £000s	1999 £000s	1998 £000s	1997 £000s	1996 £000s
<b>Assets</b>	110,687	119,385	132,370	137,277	105,406	94,903	78,259	75,286
Revenue available to shareholders	2,505	1,611	1,423	1,531	1,786	1,314	1,303	1,072

	2003 P	2002 P	2001 P	2000 P	1999 P	1998 P	1997 P	1996 P
<b>Share price</b>	181.50	198.00	228.00	213.50	152.00	163.00	139.50	147.00
Dividend	4.10	2.85	2.85	2.85	2.75	2.60	2.40	2.25
EPS basic	5.13	3.28	2.88	2.98	3.45	2.92	2.90	2.40
NAV	227.71	242.94	269.37	273.31	203.55	200.70†	167.39†	162.50†
<b>Costs of running the company</b>								
% of NAV	1.75*	1.89*	3.17*	1.30*	1.14	2.19*	1.35	1.31

\* includes performance related fee † fully diluted NAV, until final exercise of warrants on 1 July 1998

## Total assets

	2003 £000s	2002 £000s
Shareholders' funds	110,687	119,385
Market capitalisation	88,225	97,299
Total expenses and interest	1,943	2,258

# Chairman's statement



Sir Hugh Sykes D.L.  
Chairman

The financial year ended 30 June 2003 was a significant milestone for the Trust. In each of its last 10 years the Trust has outperformed its benchmark index, the FTSE SmallCap (excluding investment companies) index. To the best of our knowledge no other small cap investment trust has managed to outperform this benchmark in the last 10 years. This is an excellent and consistent performance and I am sure all shareholders as well as the board will wish to thank and congratulate Framlington and also Brian Watson and his management team.

This year has proved another difficult one for equity investment. Valuations have remained under pressure from deteriorating earnings growth in a sluggish economic environment, both global and domestic. The situation has been compounded by the continuing fall-out from accounting scandals, notably Enron and Worldcom, the effects of pension fund deficits and geo-political uncertainty.

It is disappointing, but not surprising, that the FTSE All-Share has fallen by 12.9%. Smaller companies fared rather better and the decline in the FTSE Small Cap (ex-investment

companies) index was contained to 8.1%, closing at 2,122.78.

I am pleased to report that, although not avoiding the general downtrend in smaller companies, the Trust has continued its record of out-performance, and the fall in the net asset value has been limited to 6.3%, ending the year at 227.71p as compared to 242.94p at the start.

Despite losses in the last two years, shareholders who have held their shares for 10 years, have seen their shares grow in net asset value from 118.40p to 227.71p (92.3%) and in share price from 110.0p to 181.50p (65.0%). After adjusting for the effects of the warrants and capitalisation issue which took place in 1995 the net asset value grew by 97.5% and the share price by 81.5%. This compares to a capital change of 28.51% in the benchmark index.

The financial year started with equity sentiment at a low ebb. The difficulties of achieving top line growth, with low nominal economic growth, placed downward pressure on corporate profits' forecasts. Confidence in the quality of reported profits had also been undermined by accounting

## Chairman's statement continued

malpractice. Investors' reducing appetite for risk was characterised by an aversion to demanding valuations and a preference for bonds, at the expense of equities, often prompted by actuarial considerations.

Although the Trust's benchmark fell by nearly 12% in July and August 2002, markets attempted to rally on a number of occasions, but suffered reversals as sentiment ebbed and flowed, mainly in response to developments in Iraq. The low point was reached in mid-March as coalition forces met some surprisingly stiff Iraqi resistance. However, the inevitability of a coalition victory soon came to be recognised and markets rallied strongly as the primary hostilities progressed towards their conclusion. Having seen smaller companies' valuations fall by 20% in the six months to 31 December 2002, the three months to 30 June 2003 witnessed a rally in the Trust's benchmark index approaching 30%. Higher risk companies and those which had previously disappointed led the rise.

During this period the Trust remained focused on its disciplined

stock selection process and increased its market exposure by drawing on its overdraft banking facility with HSBC. This was then repaid in early June, financed by the drawdown of a further £5million of the Trust's revolving loan facility with the Royal Bank of Scotland. £5million of this £18million facility remains available to be utilised.

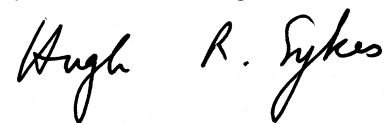
I am pleased to report that the board is recommending a final dividend of 4.1p per ordinary share, an increase of 1.25p on last year. The increase in dividend is largely attributable to the Trust's change in expense allocation policy which meant that with effect from 1 July 2002 fifty per cent of the management fees and finance costs have been charged to the capital account instead of revenue.

### Outlook

In recent weeks stockmarkets have been relatively stable in the face of mixed economic news. Although sentiment has improved and risk aversion has declined, economic growth is still subdued. Over the short to medium term monetary policy should enable further interest rate cuts to be made if needed, but care must be taken to avoid a sharp

fall in the sterling exchange rate. Consumer spending has started to slow which has dampened down inflationary pressure. The UK economy appears to be reasonably balanced. It looks better placed than most, but it still remains vulnerable to shocks from potential terrorist activities and a possible, if perhaps not probable, downturn in the US economy.

In the current economic environment of low growth and low inflation it is becoming more of an imperative for investors to seek out companies capable of achieving genuine growth, and not merely higher profits through cutting costs. It is an explicit objective of the Trust to invest in such companies, which the board believes will command a rising premium. The disciplined process of identifying suitable investments and the prudent approach to valuation adopted by the Trust remains as important as ever. Based on this the board is confident that the Trust is well positioned for future growth.



Sir Hugh Sykes D.L.  
Chairman  
15 August 2003

# Investment manager's report



Trust director Brian Watson heads the investment management team for Framlington Innovative Growth Trust PLC.

The year under review was exceptionally challenging for equity investors as already mentioned by the Chairman in his statement.

During the Trust's financial year ended 30 June, markets were as much driven by war and politics as by the mounting evidence of an economy that was rapidly running out of steam.

The first six months of the financial year saw corporate earnings continuing to reflect the global economic slowdown and gave no respite from the continuing decline in equity prices.

Despite a rally in the United States and a strong rise in the FTSE All-Share in the month of October, there was very little follow through into the broader base of the smaller company universe. The Software and Computer Services sectors were exceptions, but they failed to hold their gains when it became apparent that corporate capital expenditure had not increased towards these areas as expected and the theme of boosting profitability through cost reduction as opposed to top line growth

persisted. The Trust has kept a low weighting in these highly volatile sectors, as in many cases, even where strong sales were apparent, doubts remained over those companies' ability to sustain profitability.

Areas that proved to be relatively defensive during the depressed stockmarket conditions of July through to December were Oil and Gas, through the Trust's holding of Soco International. Financials also held up well with holdings such as London Scottish Bank and Real Estate with St Modwen.

As the markets entered 2003 the usual new year optimism temporarily prevailed and they moved into positive territory, but the downward slide soon re-established itself. Profit warnings again became prevalent and investors became even more risk averse. March saw the invasion of Iraq and a thankfully quick conclusion, which provided a tonic for the markets.

The first quarter of the Trust's financial year was probably the worst for stockmarket prices for

## Investment manager's report continued

some time, while the last quarter was the best. Investors panicked to get exposure and some of the poorly rated and poorly managed companies were the best performers as investors became less risk averse.

In times of exuberance in the market, it can be tempting to lose sight of investment fundamentals. This was avoided and, despite an element of short term underperformance over the last quarter, the Trust has maintained a marginally defensive stance while remaining fully invested. Investment was focused on those companies with a higher probability of sustained or improving returns.

### Outlook

Against the backdrop of a relatively stable economy, driven by strong Government expenditure, the prospects for many smaller companies look positive. The largest sector within the Trust's portfolio and the benchmark index is the Cyclical Services sector. Within this sector General Retailers are likely to come under pressure as consumer spending continues to slow down, but other areas should more than make up the difference.

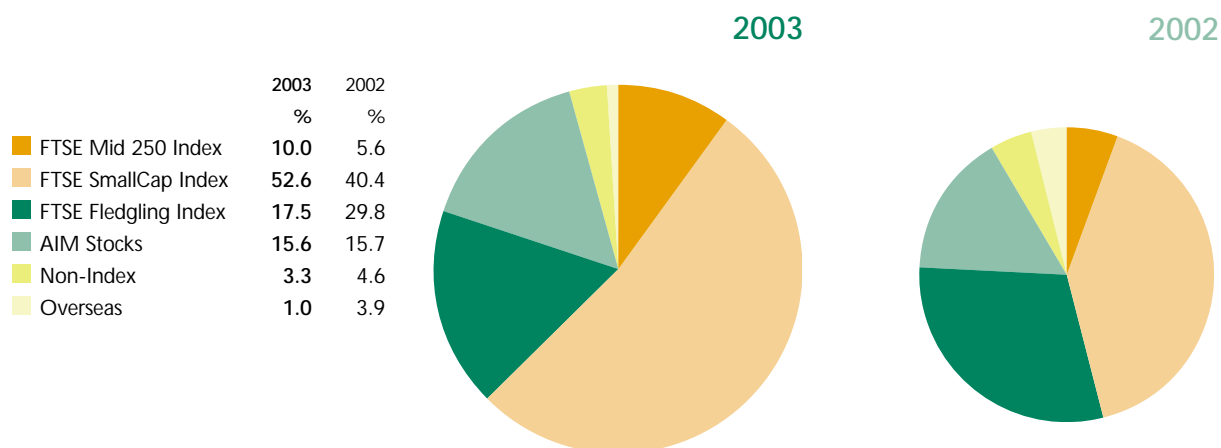
The Support Services sector, containing Trust investments such as Enterprise and Tribal, will continue to benefit from Government outsourcing. Scottish Radio and Tarsus look well positioned as the demand for advertising and product promotion picks up.

There may be a need for small company equity prices to consolidate whilst fundamentals catch up; however, the outlook looks more positive than for some time.

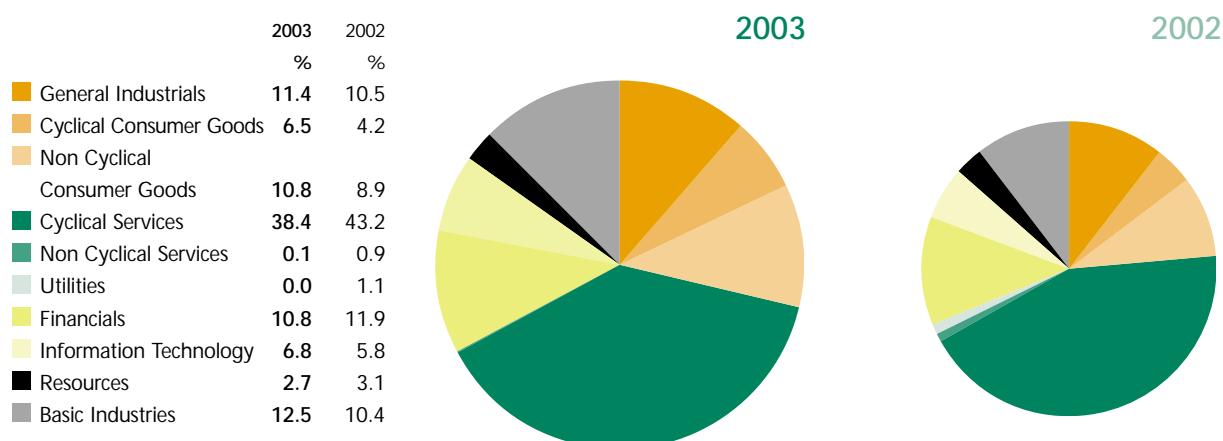
Framlington Investment  
Management Limited

# Portfolio analysis

## Portfolio breakdown by market capitalisation



## Percentage assets by broad industrial sector



## Percentage of portfolio assets

Equities: 2003: 100.0% 2002: 100.0%

## Ten largest investments by market value

Stock	Market Value £	Stock	Market Value £
1 Enterprise ord 5p	3,712,500	6 Topps Tiles ord 12.5p	2,980,000
2 Clarke (T.) ord 10p	3,476,250	7 BSS Group ord 20p	2,901,250
3 Scottish Radio Holdings ord 10p	3,370,000	8 UMECO ord 25p	2,777,610
4 Headlam Group ord 5p	3,135,000	9 Belhaven Group ord 10p	2,756,250
5 C D Bramall ord 10p	3,045,000	10 St. Modwen Properties ord 10p	2,752,500

# Valuation

at 30 June 2003

Stock		Holding	Market value £	Fixed assets %
<b>Resources</b>				
Dwyka Diamonds*	ord npv	625,000	90,625	0.07
European Diamonds*	ord 5p	650,000	546,000	0.43
SOCO International	ord 20p	541,323	1,913,577	1.50
Sondex	ord 10p	750,000	888,750	0.70
			3,438,952	2.70
<b>Basic Industries</b>				
BSS Group	ord 20p	550,000	2,901,250	2.28
Clarke (T.)	ord 10p	750,000	3,476,250	2.73
Countryside Properties	ord 25p	1,000,000	1,865,000	1.47
Crest Nicholson	ord 10p	800,000	1,832,000	1.44
Dyson Group	ord 25p	404,075	858,659	0.69
Ennstone	ord 25p	5,000,000	1,987,500	1.56
Fairbriar	ord 1p	2,250,000	843,750	0.66
Inveresk*	ord 1p	2,000,000	335,000	0.26
ROK Property Solutions	ord 10p	830,000	1,743,000	1.37
			15,842,409	12.46
<b>General Industrials</b>				
Aero Inventory*	ord 1.25p	350,000	1,286,250	1.01
Chloride Group	ord 25p	3,000,000	1,305,000	1.03
Corac Group*	ord 10p	500,000	107,500	0.08
Cosalt	ord 25p	145,000	467,625	0.37
Hampson Industries	ord 5p	7,090,970	709,097	0.56
Hill & Smith Hldgs	ord 25p	1,881,866	1,693,679	1.33
Lawrence*	ord 5p	630,000	1,219,050	0.96
Linx Printing Technologies	ord 5p	650,000	1,862,250	1.46
MTL Instruments Group	ord 10p	362,500	498,438	0.39
Oystertec*	ord 0.05p	1,620,056	186,306	0.15
Severfield-Rowen	ord 10p	800,000	2,360,000	1.86
UMECO	ord 25p	974,600	2,777,610	2.18
			14,472,805	11.38
<b>Cyclical Consumer Goods</b>				
Alexandra	ord 10p	750,000	663,750	0.52
C D Bramall	ord 10p	750,000	3,045,000	2.39
Headlam Group	ord 5p	1,100,000	3,135,000	2.47
Qualceram Shires	ord €0.12	1,500,000	1,252,500	0.99
Walker Greenbank*	ord 1p	2,000,000	220,000	0.17
			8,316,250	6.54

## Valuation continued

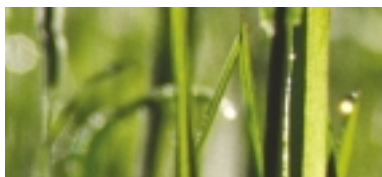
Stock		Holding	Market value £	Fixed assets %
<b>Non Cyclical Consumer Goods</b>				
Akers Biosciences*	com shs npv	550,000	228,250	0.18
Axis-Shield	ord 35p	600,000	1,080,000	0.85
Cranswick	ord 10p	600,000	2,508,000	1.97
Gyrus Group	ord 1p	948,056	1,872,411	1.47
Inter Link Foods*	ord 2p	400,000	1,494,000	1.18
Intercare Group	ord 2 1/2p	1,200,000	1,746,000	1.37
Isotron	ord 25p	550,000	1,663,750	1.31
Robert Wiseman Dairies	ord 10p	838,939	1,820,498	1.43
Synergy Healthcare*	ord 0.625p	600,000	1,359,000	1.07
			13,771,909	10.83
<b>Cyclical Services</b>				
Access Plus*	ord 10p	500,000	762,500	0.60
Air Partner	ord 5p	700,000	2,117,500	1.66
Autologic Hldgs	ord 5p	500,000	1,075,000	0.85
Belhaven Group	ord 10p	750,000	2,756,250	2.17
Boosey & Hawkes	ord 5p	310,000	496,000	0.39
Brandon Hire	ord 10p	1,000,000	755,000	0.59
Braemar Seascope Group	ord 10p	650,000	1,261,000	0.99
Charteris*	ord 1p	600,000	117,000	0.09
Dart Group	ord 5p	1,243,334	1,939,601	1.53
Dobbies Garden Centres*	ord 10p	400,000	1,560,000	1.23
Eagle Eye Telematics*	ord 10p	1,000,000	62,500	0.05
Enterprise*	ord 5p	1,250,000	3,712,500	2.92
Findel	ord 5p	900,000	2,358,000	1.85
Hacas Group*	ord 10p	1,225,000	1,684,375	1.32
Honeycombe Leisure*	ord 1p	825,000	523,875	0.41
Ideal Shopping Direct*	ord 3p	350,000	253,750	0.20
IFTE*	ord 1p	500,000	177,500	0.14
Kleeneze	ord 5p	1,132,040	1,075,438	0.85
Landround*	ord 5p	400,000	956,000	0.75
Menzies (John)	ord 25p	750,000	2,520,000	1.98
Metal Bulletin	ord 2p	1,400,000	2,184,000	1.72
Mice Group	ord 4p	2,000,000	1,390,000	1.09
Ottakar's	ord 5p	1,049,607	2,650,258	2.08
Paramount*	ord 5p	800,000	134,000	0.11
Peel Hotels*	ord 10p	633,471	516,279	0.41
Photo-Scan*	ord 25p	350,000	355,250	0.28
Ricardo	ord 25p	650,000	2,421,250	1.90
Sanctuary Group	ord 12.5p	3,000,000	1,335,000	1.05
Scottish Radio Hldgs	ord 10p	400,000	3,370,000	2.65
Tarsus Group	ord 5p	1,122,647	595,003	0.47
Topps Tiles	ord 12.5p	800,000	2,980,000	2.34
Tribal Group	ord 5p	650,000	2,063,750	1.62
White Young Green	ord 5p	1,724,000	2,629,100	2.07
			48,787,679	38.36

## Valuation continued

Stock		Holding	Market value £	Fixed assets %
<b>Non Cyclical Services</b>				
Majestic Wine *	ord 30p	20,270	127,904	0.10
			127,904	0.10
<b>Financials</b>				
Acquisitor*	ord 2p	250,000	100,000	0.08
Acquisitor Hldgs*	ord 1p	2,500,000	837,500	0.66
Ashtenne Hldgs	ord 10p	650,000	1,738,750	1.37
Axiomlab*	ord 0.25p	11,850,000	109,613	0.09
Cardiff Property	ord 20p	220,000	1,149,500	0.90
Evolution Group	ord 1p	1,000,000	615,000	0.48
Highway Insurance Hldgs	ord 20p	999,739	459,880	0.36
Hitachi Credit (UK)	ord 25p	243,600	373,926	0.29
IFX Group	ord 5p	890,686	1,042,103	0.82
London Scottish Bank	ord 10p	1,000,000	1,285,000	1.01
Primary Health Properties	ord 50p	25,000	44,750	0.04
Property Fund Management	ord 5p	500,000	762,500	0.60
Quintain Estates & Development	ord 25p	800,000	2,508,000	1.97
St. Modwen Properties	ord 10p	1,500,000	2,752,500	2.16
			13,779,022	10.83
<b>Information Technology</b>				
Aveva Group	ord 10p	500,000	2,075,000	1.63
Diagonal	ord 10p	1,000,000	615,000	0.48
Dmatek	ord ILS0.01	482,500	238,838	0.19
Intelek	ord 5p	6,000,000	630,000	0.50
Royalblue Group	ord 10p	250,000	881,250	0.69
SDL	ord 1p	1,913,056	1,061,746	0.84
Synstar	ord 1p	3,829,750	2,374,445	1.87
Systems Union Group*	ord 5p	1,000,000	765,000	0.60
			8,641,279	6.80
<b>Suspended Securities</b>				
Master Distributors	ord 1p	40,040	-	-
Podia Group	ord 10p	3,000,000	-	-
Total fixed asset investments	97 Holdings		127,178,209	100.00

\* AIM Listing

# Directors



**Sir Hugh Sykes**, DL, MA, LLB, CA, FRSA  
*Aged 70.*

*He has been the chairman of the Board since the Trust's inception in 1992.*

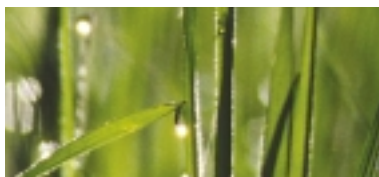
He is a member of the Audit Committee and the Management Engagement Committee. He is Chairman of National Australia Group Europe, Yorkshire Bank and Real Radio, Yorkshire. He is also a director of Clydesdale Bank and other companies, and consultant to the Board of National Australia Bank.

**R James Frost**

*Aged 61.*

*Appointed 1992.*

He was chairman of the Audit Committee and of the Management Engagement Committee until he stepped down during the year. He remains a member of both committees. He is also a director of a number of private family companies.



**Thomas Hempenstall**

*Aged 55.*

*Appointed 2001.*

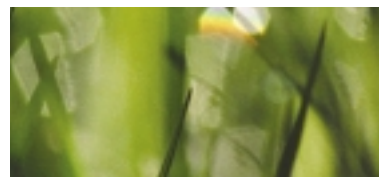
Mr Hempenstall is a member of the Audit Committee and the Management Engagement Committee. He is Chief Executive of Metal Bulletin plc, of which he has been a director since 1986. He was formerly Chairman of the Directory Publishers Association.

**Norman A Parker**

*Aged 64.*

*Appointed 1992.*

Mr Parker is a member of the Audit Committee and the Management Engagement Committee. He became managing director of The Henderson Group plc in 1981, retiring in 1987. He was formerly a director of Hestair plc and Dexion Comino International Limited.



**Brian R Watson**

*Aged 47.*

*Appointed 1992.*

Since 1979 he has been a member of the investment management team of Framlington Investment Management Limited and its predecessors. Mr Watson has extensive experience of investment in the smallcap sector.

**S Justin P Reed**

*Aged 58.*

*Appointed 2001.*

Mr Reed is Chairman of the Audit Committee and the Management Engagement Committee. He became a director of Rothschild Asset Management Limited in 1989 where he was Head of Institutional Funds until retiring in 2002. He was previously a director of Touche Remnant Investment Management Limited, and his career in the investment industry spans 35 years.

*All directors have non-executive status and, with the exception of Mr Watson, are independent of the manager.*

# Report of the directors

The directors submit their report and the accounts of the Trust for the year ended 30 June 2003.

## Dividends and Retentions

	£000s
Net revenue from ordinary activities after taxation*	2,513
Dividend proposed	(1,993)
<b>Net revenue transferred to reserves</b>	<b>520</b>

\* including 2002 dividend adjustment (see note 5(a))

The directors recommend that a dividend of 4.10p per share be declared on the issued ordinary share capital. If approved, the dividend payment will be paid to shareholders on 9 October 2003 to those shareholders listed in the register of members on 12 September 2003.

## Principal Activities

The Trust has directed its affairs so as to enable it to seek approval from the Inland Revenue as an Investment Trust under S.842 of the Income & Corporation Taxes Act 1988. The Trust will be exempt from tax on capital gains on disposal of its investments for each accounting period for which approval is obtained. Investment Trust status is expected to be granted for the accounting period now under review. The Trust is not a close company. The Trust is an investment company within the meaning of Part VIII of the Companies Act 1985.

## Investment Policy

The Trust's objective is long term capital growth through investment in a portfolio of growth companies based in, or predominantly trading in, the UK. These companies generally display an innovative approach to business, demonstrating a willingness and ability to embrace new and evolving technologies and take advantage of social, political and cultural trends in the economy. The shares of these companies will either be listed on the London Stock Exchange or dealt in on AIM or Easdaq, with a market capitalisation at the time of purchase, in most cases, less than that

of the median company in the FTSE SmallCap (excluding Investment Companies) Index.

A general review of the business, together with its prospects, is set out in the Chairman's Statement on pages 4 and 5 and in the Investment Manager's Report on pages 6 and 7.

## Duration of the Company

Shareholders have the right to determine the future of the Trust at three-yearly intervals in the event of under-achievement of performance targets. The next review will be for the three year period to 30 June 2004.

## Board of Directors

Information on current directors, who have served during the year, is given on page 12 and the structure of the Board and its committees is set out under the corporate governance section of this report.

Sir Hugh Sykes, who has attained the age of 70, and Mr Thomas Hempenstall retire by rotation and, being eligible, offer themselves for re-election. Neither have a service contract with the Trust.

## Report of the directors continued

### Notifiable Interests

At 15 August 2003 the Trust had received the following information disclosed to it in accordance with sections 198 to 208 of the Companies Act 1985. The percentage held is based on 48,608,634 ordinary shares in issue.

Ordinary shares of 25p	No. of shares	% held
Deutsche Bank AG	4,685,000	9.64
The Trustees of the BT Pension Scheme	4,649,529	9.56
Royal London Asset Management Limited	3,937,500	8.10
Co-Operative Insurance Society Limited	3,900,000	8.02
The Shell Petroleum Company Limited	3,539,161	7.28
Britannic Investment Managers Limited	2,772,490	5.70
Allianz (UK) Limited	1,830,000	3.76
Legal & General Investment Management Limited	1,717,710	3.53
Universities Superannuation Scheme Limited	1,550,000	3.19
<b>Total</b>	<b>28,581,390</b>	<b>58.78</b>

### Directors' Authority to Purchase the Trust's Own Shares

At the annual general meeting held on 8 October 2002, shareholders authorised the Trust to make market purchases of up to 14.99% of the then issued ordinary share capital for cancellation.

The Board considers it to be in the best interests of the Trust to renew the authority and retain flexibility to buy back shares. Accordingly, a special resolution will be proposed at the forthcoming annual general meeting to grant the Trust authority to purchase and cancel up to 7,286,434 ordinary shares, or such number as amounts to 14.99% of the issued ordinary share capital on the date of the annual general meeting.

### Directors' Shareholdings

The interests of the directors, including their family interests, in the ordinary shares of the Trust were as shown below:

Beneficial interests as at	30.6.03	30.6.02
Sir Hugh Sykes DL	159,416	159,416
R J Frost	5,000	Nil
T Hempenstall	2,000	2,000
N A Parker	3,020	3,020
S J P Reed	5,000	3,000
B R Watson	9,155	9,155

There have been no changes to the interests shown above to the date of this report.

### Management Arrangements

Under a management contract dated 26 June 1992, Framlington Investment Management Limited ("FIM") was appointed as investment manager to manage and advise the Trust including the provision of accounting, secretarial, office and administrative services. The manager is paid a quarterly investment management and administration fee of 0.25 per cent of the total assets under management (exclusive of VAT). Under a supplemental management agreement effective from 1 July 1995, a performance fee is payable to FIM if the change in the net asset value of the Trust over a three year period exceeds the sum of (i) the movement in the FTSE SmallCap (excluding Investment Companies) Index and (ii) 7.7 per cent; in such case the performance fee is equal to 10 per cent of that excess. To the extent that the excess is greater than the sum of (i) the movement in the FTSE SmallCap (excluding Investment Companies) Index and (ii) 15.8 per cent, the performance fee will be 15 per cent of the excess above that figure. With suitable adjustments, such fees may now be calculated over a period of less than three years as

## Report of the directors continued

well as over a full three-year period in circumstances where the management agreement is terminated otherwise than at the end of a three-year period. The agreement is terminable on two years' notice, except that if, as a result of the under-performance of the Trust in comparison with the FTSE SmallCap (excluding Investment Companies) Index or other appropriate index, an ordinary resolution is passed in accordance with article 153 of its articles of association, then one year's notice of termination is deemed to have been given with effect from the commencement of the accounting period of the Trust in which the ordinary resolution is passed. The annual management fee was allocated 100% to the revenue account until 30 June 2002. From 1 July 2002 the allocation was changed to allocate 50% to the revenue account and 50% to the capital account. The performance-related fee is charged wholly to the capital account. Both fees are separately disclosed in the financial statements. Brian Watson is a director of FIM.

### Contracts of Significance

Other than the management agreement referred to above, no contract in which any director of the Trust was materially interested and which was significant in relation to the Trust's business subsisted during the financial year.

### Personal Equity Plans ("PEPs") and Individual Savings Accounts ("ISAs")

During the year ended 30 June 2003 the securities of the Trust qualified for inclusion in PEPs and ISAs.

### Savings Scheme

Low cost dealing in the Trust's shares is available through the Framlington Select Investment Trust Plan described on page 36.

### Payment of Dividends

Shareholders are able to receive dividend payments by Banks Automated Clearing System ("BACS"). Under this system, payments will be electronically transferred

to the holder's account and a BACS voucher, which incorporates payment details and the tax voucher, will be posted to the holder's registered address. Shareholders who have already completed bank mandates will automatically receive future payments by BACS. Those who currently receive their payments in cheque form and who would like to change to the BACS system should request a form of mandate from the Trust's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, telephone: 0870 162 3100.

### Auditors

The audit business of the Trust's former auditors, Deloitte & Touche, was transferred to Deloitte & Touche LLP on 1 August 2003. Accordingly, a resolution to re-appoint Deloitte & Touche LLP, Chartered Accountants, as auditors of the Trust will be proposed at the forthcoming annual general meeting.

### Corporate Governance

#### Introduction

The directors support The Combined Code (the "Code") issued by the UK Listing Authority, which sets out principles of good governance and a code of best practice. The Board considers that the Trust has complied with Section 1 of the Code (as issued by the Hampel Committee on Corporate Governance in June 1998, ie prior to its reissue in July 2003 following the Higgs review which applies to reporting years commencing on or after 1 November 2003) throughout the accounting year to 30 June 2003, except where otherwise disclosed in the explanation below as to how the Trust has applied the principles of good governance and adopted the code of best practice.

#### The Board

The Trust currently has six non-executive directors, who, with the exception of Mr Watson, are independent of the Trust's investment manager. Information for each of the directors is set out on

## Report of the directors continued

page 12 and demonstrates a breadth of investment and commercial experience. The directors normally meet five times a year and throughout this period there is regular contact with the investment manager. Matters specifically reserved for decision by the Board have been defined and a procedure adopted for directors, in the furtherance of their duties, to take independent professional advice at the expense of the Trust.

The directors have access to the advice and services of the corporate company secretary (FIM) through its appointed representative who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Each director seeks to exercise independent judgement when considering issues of the Trust's strategy, performance and resources and when considering the appointment of directors and standards of conduct generally. Owing to the level of experience that would be sought from any new director joining the Board it is unlikely that he would require training in the role of a listed company director. However, any new director appointed is provided with appropriate information and a suitable induction process is considered and undertaken.

As the Trust is an investment trust company, the Board has not considered it necessary to identify a senior independent non-executive director to whom concerns can be conveyed, as all the directors are non-executive and have sufficient expertise to address any concerns conveyed to them.

### Board balance

The Board has considered the independence of each of the six non-executive directors. Only Mr Watson is not considered independent from the investment manager as he is an employee of that company's holding company.

### Supply of information

Regular reports are given to the directors keeping them fully informed of investment and financial controls, and other matters that are relevant to the business of the Trust and that should be brought to the attention of the directors. Each of the directors also has direct access to FIM representatives when they wish to make any further enquiries.

### Appointments to the Board

The Board has not appointed a nomination committee as, given its size, this function is better performed by the full Board of directors.

### Re-election

The Code requires each director to put himself up for re-election at least once every three years. Sir Hugh Sykes, who has attained the age of 70, and Mr Thomas Hempenstall will retire by rotation at the forthcoming AGM and, being eligible, both will stand for re-election.

### Management Engagement Committee

The Trust is not required by the Listing Rules to comply with the Code in relation to directors' remuneration, because there are no executive directors serving the Trust. Consequently, a remuneration committee has not been established. Instead, in accordance with the AITC recommendation, a Management Engagement Committee, consisting of Mr S J P Reed (chairman), Mr N A Parker, Mr T Hempenstall, Mr R J Frost and Sir Hugh Sykes, with defined terms of reference and duties, has been established to review annually the terms of the agreement with the investment manager.

### Relations with shareholders

The Board recognises the importance of maintaining good relations with shareholders and, where possible, enhancing them. The investment manager meets with institutional shareholders on a regular basis and reports back to the Board on these meetings. In addition, the Trust's AGM presents the directors with a valuable

## Report of the directors continued

opportunity to meet and hear the views of private shareholders. The chairmen of the Board, Audit Committee and Management Engagement Committee are available at the AGM to answer any questions. At the AGM each substantial issue is dealt with in a separate resolution and where a vote is decided on a show of hands, the Chairman will subsequently report on the number of proxy votes lodged. The notice of the AGM and the annual report and accounts are sent to shareholders more than 20 working days before the meeting.

### Relations with portfolio companies

Generally, the Trust seeks to comply with section 2 of the Code relating to institutional shareholders. Specifically, the powers to exercise the Trust's voting rights in respect of companies in the portfolio are delegated to the investment manager, who makes considered use of these voting powers. The primary aim of the use of voting rights is to ensure a satisfactory financial return from investments. In the event that the Trust has a controlling share of the votes, the investment manager will refer back to the Chairman before exercising these votes.

### Audit Committee

The Board has also appointed an Audit Committee with defined terms of reference and duties. Mr S J P Reed (chairman), Sir Hugh Sykes, Mr T Hemenstall, Mr N A Parker and Mr R J Frost are members of the committee, which is responsible for reviewing the annual report and accounts and interim report, the auditors' remuneration and engagement, the Trust's internal controls, as well as the non-audit services provided by the auditors.

### Internal control

The directors acknowledge that they are ultimately responsible for the Trust's system of internal control and for reviewing its effectiveness. It is important to recognise that a system of internal control can provide only a reasonable, and not an absolute, assurance

against material misstatement or loss. The Code requires directors to conduct, at least annually, a review of the Trust's systems of internal control, covering all controls, including financial, operational and compliance controls and risk management.

As mentioned under management arrangements, FIM was appointed to manage and advise the Trust and provide accounting, secretarial, office and administrative services to it. FIM is authorised and regulated by the Financial Services Authority in the conduct of its investment business. The Board has been advised that FIM's systems of internal control include organisational arrangements with clearly defined lines of responsibility and delegated authority, as well as control procedures and systems which are regularly evaluated and internally monitored.

It is a duty of the Audit Committee to examine the internal controls on which the Trust is reliant and report its findings to the Board. The Audit Committee reviews the effectiveness of internal controls semi-annually. At the request of the Audit Committee, a report is presented from all areas of FIM on internal controls which relate to the affairs of the Trust during the accounting period. In addition, internal control reports, prepared to the standard set out in the ICAEW's technical release FRAG21/94 ("Reports on internal controls of investment custodians made available to third parties") are provided to the Audit Committee by HSBC Bank plc, the Trust's custodian and Capita Registrars, the Trust's registrars. The Board has reviewed the need for an internal audit function, but as the company is an investment trust with no employees, it does not regard this as necessary.

In conclusion, the Trust has in place a continuing process for identifying, evaluating and managing the significant risks faced by it. This process has been in place for the reporting period and to the date of this report, and it is regularly reviewed by the Board.

## Report of the directors continued

### Financial Reporting - Statement of Directors' Responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Trust as at the end of the financial year and of the total return of the Trust for that period. In preparing those financial statements, the directors are required to:

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

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 Trust, enabling them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the Trust's system of internal control, for safeguarding the assets of the Trust and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Bearing in mind that the assets of the Trust consist mainly of marketable securities, the directors are of the opinion that, at the time of approving the financial statements, the Trust has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

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By order of the board  
Framlington Investment Management Limited  
Secretary  
155 Bishopsgate, London EC2M 3XJ

15 August 2003

# Directors' remuneration report

The board of directors of Framlington Innovative Growth Trust PLC presents its directors' remuneration report in respect of the year ended 30 June 2003.

## Remuneration policy

The remuneration policy of the Trust is set by the board of directors, subject to the limit of permissible aggregate remuneration paid in any year to all directors, set by the shareholders.

The remuneration policy of the Trust is to pay its non-executive directors fees that are appropriate for the amount of time spent in discharging their duties, that are broadly in line with those of comparable investment trusts and that are sufficient to attract and retain suitably qualified and experienced individuals. The Chairman is entitled to receive fees at a higher rate than those of the other directors, reflecting his additional duties and responsibilities. The directors' fees are not subject to any performance criteria.

As all directors of the Trust are non-executive and there are no employees, the Trust does not operate any share option or other long- term incentive schemes. In addition, the Trust has not entered into any service contracts with its directors and does not intend to in the future. Therefore, there are no notice periods or termination provisions that would be

operated in the event of the resignation of any director. No pension or other retirement benefits schemes are operated by the Trust for any of its directors.

## Trust performance

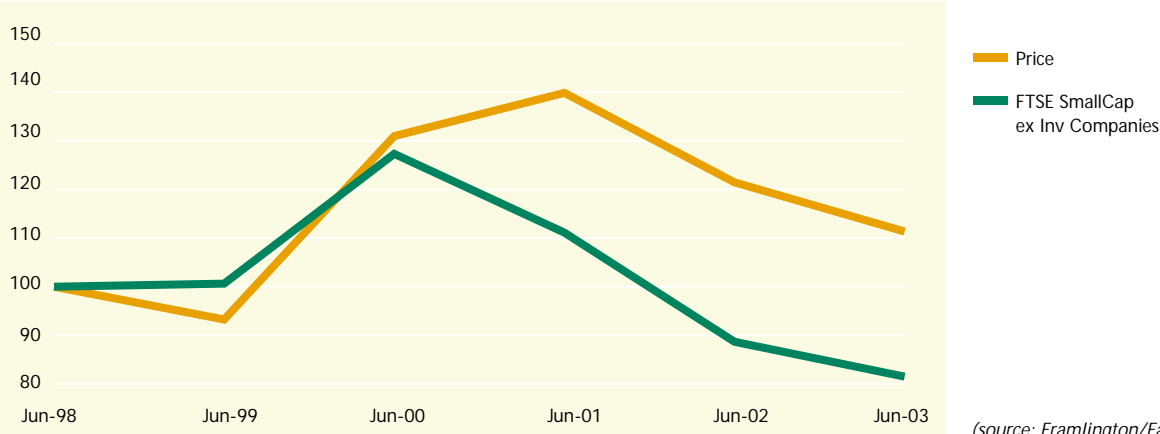
A graph showing the total shareholder return over the five years to 30 June 2003 of the Trust's ordinary shares against the FTSE SmallCap (excluding Investment Companies) Index is shown below.

The directors believe that the FTSE SmallCap (excluding Investment Companies) Index, as the Trust's nominated benchmark, is the most appropriate measure of the Trust's performance.

## Directors' emoluments

The Trust's articles of association provide that the aggregate annual remuneration of the directors shall be determined from time to time by ordinary resolution of the shareholders in general meeting. The limit was last voted upon at the annual general meeting of the Trust in October 2001 and remains £75,000, excluding any amounts payable in accordance with the articles for extra or special services over the usual non-executive directors' duties. There were no such payments for extra or special services in the year ended 30 June 2003.

Framlington Innovative Growth Trust PLC - relative performance of ordinary shares against FTSE SmallCap (excluding Investment Companies Index), rebased from June 1998



(source: Framlington/FactSet)

## Directors' remuneration report continued

The following information is audited:

Total fees paid by the Trust in respect of each of the directors' service in the year ended 30 June 2003 were as follows:

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Sir Hugh Sykes	£15,000
R J Frost	£12,500
T Hempenstall	£12,500
N A Parker	£12,500
S J P Reed	£12,500
B R Watson	£Nil*

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\* Director's fee waived (non-independent director)

During the year, no salaries, bonuses, compensation or other payments for loss of office or other benefits were paid to any of the directors or former directors of the Trust. In addition, no reward was received by any director in a form other than cash. None of the directors received any expense reimbursements, either chargeable to UK income tax or in respect of qualifying services.

The approval of this report by the shareholders of the Trust is to be sought by ordinary resolution at the annual general meeting to be held on 7 October 2003.

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By order of the Board

Sir Hugh Sykes DL  
Chairman

15 August 2003

# Auditors' report

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of Directors of Framlington Investment Management Limited, but no control procedures can provide absolute assurance in this area. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

## To the members of Framlington Innovative Growth Trust PLC

We have audited the financial statements of Framlington Innovative Growth Trust PLC for the year ended 30 June 2003 which comprise the statement of total return, the balance sheet, the cash flow statement, the accounting policies and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Trust's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Trust's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trust and the Trust's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Trust's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, and the Listing Rules of the Financial Services Authority.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if the Trust 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 Trust is not disclosed.

We review whether the corporate governance statement reflects the Trust's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures. We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

## Basis of audit opinion

We conducted our audit in accordance with 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 circumstances of the Trust 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.

## Auditors' report continued

### Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company as at 30 June 2003 and of its total return for the year then ended;
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.



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Deloitte & Touche LLP  
Chartered Accountants and Registered Auditors,  
London

15 August 2003

# Statement of total return

for the year ended 30 June

	Note	Revenue £000s	2003 Capital £000s	Total £000s	Revenue £000s	2002 Capital £000s	Total £000s
Realised (losses)/gains	15	-	(4,064)	(4,064)	-	1,227	1,227
Unrealised losses	14	-	(3,336)	(3,336)	-	(13,968)	(13,968)
Income	1	3,497	-	3,497	3,415	-	3,415
Investment management fee	2	(633)	(745)	(1,378)	(1,437)	(454)	(1,891)
Other expenses	3	(138)	-	(138)	(227)	-	(227)
Net return before finance costs and taxation		2,726	(8,145)	(5,419)	1,751	(13,195)	(11,444)
Interest payable and similar charges		(221)	(206)	(427)	(140)	-	(140)
Return on ordinary activities before taxation		2,505	(8,351)	(5,846)	1,611	(13,195)	(11,584)
Taxation on ordinary activities	4	-	-	-	-	-	-
Return on ordinary activities after taxation for the financial year		2,505	(8,351)	(5,846)	1,611	(13,195)	(11,584)
Dividends in respect of equity shares	5(a)	(1,985)	-	(1,985)	(1,401)	-	(1,401)
Transfer to/(from) reserves	16	520	(8,351)	(7,831)	210	(13,195)	(12,985)
Return per ordinary share: Basic and diluted	5(b)	5.13p	(17.11)p	(11.98)p	3.28p	(26.85)p	(23.57)p

The accompanying notes are an integral part of this statement.

All revenue and capital items in the above statement derive from continuing operations.

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

# Balance sheet

as at 30 June

	Note	2003 £000s	2002 £000s
Fixed asset investments	7(a)	127,178	127,954
<b>Current assets</b>			
Debtors	8	685	576
Cash at bank		-	1,279
		685	1,855
<b>Creditors: amounts falling due within one year</b>			
Creditors	9(a)	1,322	1,023
Bank overdraft		861	-
Proposed dividends on ordinary shares		1,993	1,401
		4,176	2,424
<b>Net current liabilities</b>		<b>(3,491)</b>	<b>(569)</b>
<b>Total assets less current liabilities</b>		<b>123,687</b>	<b>127,385</b>
<b>Creditors: amounts falling due after more than one year</b>			
Bank loans	9(b)	(13,000)	(8,000)
<b>Net assets</b>		<b>110,687</b>	<b>119,385</b>
<b>Share capital and reserves</b>			
Called up share capital	11	12,152	12,285
Share premium account	12	37,876	37,876
<b>Other reserves</b>			
Capital redemption reserve	13	794	661
Capital reserve - unrealised	14	2,478	5,926
Capital reserve - realised	15	55,576	61,346
		58,848	67,933
Revenue reserve	16	1,811	1,291
<b>Total equity shareholders' funds</b>	17	<b>110,687</b>	<b>119,385</b>
<b>Net asset value per share:</b>			
Basic	17	227.71p	242.94p

Approved by the board of directors and signed on their behalf by:

Sir Hugh Sykes DL

B R Watson

15 August 2003

# Cash flow statement

for the year ended 30 June

	Note	2003 £000s	2002 £000s
<b>Operating activities</b>			
Cash received from investments		3,321	3,466
Interest received		57	86
Underwriting commission		10	21
Investment management fee		(826)	(1,458)
Cash paid to and on behalf of the directors		(65)	(70)
Other cash payments		(82)	(158)
<b>Net cash inflow from operating activities</b>	19	<b>2,415</b>	<b>1,887</b>
<b>Servicing of finance</b>			
Interest paid		(299)	(3)
<b>Capital expenditure and financial investment</b>			
Net purchases of investments	20	(6,399)	(7,337)
Performance - related management fee		-	(2,544)
Capital management fee		(451)	-
Interest charged to capital		(147)	-
<b>Net cash outflow from operating activities</b>		<b>(6,997)</b>	<b>(9,881)</b>
<b>Equity dividends</b>			
Dividends paid		(1,392)	(1,401)
<b>Net cash outflow before financing</b>		<b>(6,273)</b>	<b>(9,398)</b>
<b>Financing</b>			
Bank loan drawn down		5,000	8,000
Repurchase of shares		(867)	-
<b>Net cash inflow from financing</b>		<b>4,133</b>	<b>8,000</b>
<b>Decrease in cash</b>	21	<b>(2,140)</b>	<b>(1,398)</b>

# Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below:

## Accounting convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of investments. The accounts have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies", (the "SORP") .

## Fixed asset investments

Listed investments and investments traded on the Alternative Investment Market ("AIM") have been valued at closing mid-market value at the balance sheet date.

## Income from fixed asset investments

Dividend income is included in the revenue account on the date when the investment is first listed "ex-dividend". Interest on fixed interest securities is accrued on a daily basis. Other income is recognised on an accruals basis.

## Taxation

In accordance with Financial Reporting Standard 16 "Current Tax" UK dividends are shown net of attributable tax credits. Overseas dividends and other income that is subject to withholding tax are shown gross.

No tax equalisation adjustment has been made in respect of expenses charged to capital account.

## Revenue and capital reserves

Capital gains and losses arising from the sale and revaluation of investments are dealt with through capital reserves. Investment management fees and administration fees are calculated on the basis set out in the Report of the Directors on pages 14 and 15. All other expenses are charged to revenue apart from investment transaction costs which are charged to capital reserves.

In the current year 50% of management fees and finance costs are charged to the capital account and 50% to the revenue account based on the directors' estimated long-term split of returns in the form of capital growth and income respectively. Previously all management fees and costs were charged wholly to the revenue account. The performance related fee is charged wholly to the capital account.

# Notes to the financial statements

year ended 30 June

## 1 Income

	2003 £000s	2002 £000s
Income from investments		
UK dividend income*	3,383	3,219
Unfranked investment income	55	82
	<b>3,438</b>	<b>3,301</b>
Other income		
Deposit interest	58	86
Underwriting commission	1	28
	<b>59</b>	<b>114</b>
Total income	<b>3,497</b>	<b>3,415</b>
Income from investments:		
Listed UK - full listing	3,156	3,125
Listed UK - AIM listing	282	176
	<b>3,438</b>	<b>3,301</b>

\* UK dividend income is shown net of its attributable tax credits.

## 2 Investment management fee

	2003 £000s	2002 £000s
Investment management fee	1,078	1,223
Irrecoverable VAT thereon	188	214
Less amount charged to capital (note 15)	(633)	-
Investment management fee charged to revenue	633	1,437
Investment management fee charged to capital	633	-
Increase in provision for performance-related fee (including irrecoverable VAT) charged to capital (note 14)	112	454
	<b>1,378</b>	<b>1,891</b>

Details of the management arrangements are specified in the Report of the Directors on pages 14 and 15. Up to 30 June 2002 the annual management fee paid to Framlington Investment Management Limited and the interest cost of the fixed term bank loan facility were charged 100% to revenue reserves. As described in the Trust's 2002 annual report and accounts, from 1 July 2002 these charges have been allocated 50% to revenue reserves and 50% to capital reserves. A provision of £566,000 (2002: £454,000) has been made for the performance-related fee calculated on the performance as at 30 June 2003 and is charged 100% to capital reserves. The actual fee payable will be calculated on the performance to 30 June 2004. The balance due to FIM at the year end including irrecoverable VAT was £364,000 (2002: £375,000). Other than the disclosed transactions with the investment manager and the information given in the directors' shareholding section of the Report of the Directors, there are no related-party transactions.

## 3 Other expenses

	2003 £000s	2002 £000s
General expenses (including irrecoverable VAT)	58	151
Directors' emoluments (note 6)	65	61
Auditors' remuneration (including irrecoverable VAT)	15	15
	<b>138</b>	<b>227</b>

No further amounts were payable to the auditors in the year (2002: Nil).

## Notes to the financial statements continued

### 4 Tax on ordinary activities

#### a) Analysis of charge in period

	2003 £000s	2002 £000s
Total current tax for period (see note 4b)	-	-

#### b) Factors affecting the current tax charge for the period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK for an investment company (30%) (2002:30%). The differences are explained below:

	2003 £000s	2002 £000s
Return on ordinary activities before taxation	2,505	1,611
Corporation tax at 30%	752	483
Effects of:		
Non taxable UK dividends	(1,015)	(966)
Relief for expenses in capital	(190)	(136)
Expenses not deductible for tax purposes	2	2
Increase/ decrease in management expenses	451	617
	(752)	(483)
Current tax charge for the period (4a)	-	-

Investment companies which have been approved by the Inland Revenue under s842 ICTA 1988 are exempt from tax on capital gains. It has been assumed that the s842 ICTA 1988 criteria will be met in the period and therefore, any capital return is not included in the above reconciliation.

#### c) Tax losses

The Trust has unrelieved excess tax losses of £11,202,862 (2002: £9,761,946). It is unlikely that the Trust will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised.

### 5 Dividends and earnings per share

	2003 £000s	2002 £000s
(a) Dividends payable		
Ordinary dividend - proposed 4.10p per share (2002: 2.85p per share)	1,993	1,401
Adjustment to 2002 accrual*	(8)	-
	1,985	1,401

\* Due to share buy backs between the date that the accounts to 30 June 2002 were signed and the ex-dividend date of the annual dividend declared in those accounts, the actual dividend paid was less than that accrued. The benefit of the reduced dividend paid is reflected in the figures for this year.

(b) The revenue return per share is based on the net revenue of £2,505,000 (2002: £1,611,000) and on 48,800,962 (2002: 49,141,134) ordinary shares of 25p each ranking for dividend, being the weighted average number of ordinary shares in issue in the year ended 30 June 2003. The capital return per share is based on a net capital loss of £8,351,000 (2002: loss of £13,195,000) on 48,800,962 (2002: 49,141,134) ordinary shares, being the weighted average number of shares in issue in the year ended 30 June 2003.

## Notes to the financial statements continued

### 6 Directors' emoluments

	2003 £ Total	2002 £ Total
Sir Hugh Sykes	15,000	15,000
R J Frost	12,500	12,500
T Hempenstall	12,500	12,500
N A Parker	12,500	12,500
S J P Reed	12,500	8,333
B R Watson	-	-
	<b>65,000</b>	<b>60,833</b>

Mr Watson waived his rights to directors' fees from the Trust - amounting to £12,500 (2002: £12,500) but was remunerated by the investment manager. Mr Watson received £90,000 (2002: £90,000) (including pension contributions) from FIM which related to his services to Framlington Innovative Growth Trust PLC. Company law requires these emoluments to be disclosed even though the Trust does not pay them and is not involved in their determination. The Trust is only obliged to pay the investment management fee as stated in note 2.

### 7 Fixed asset investments

	£000s
<b>(a) Summary</b>	
Cost	
At 30 June 2002	121,574
Purchases at cost	32,244
Disposals - proceeds	(25,620)
Disposals - realised losses	(4,064)
<b>Cost at 30 June 2003</b>	<b>124,134</b>
Unrealised appreciation (note 14)	3,044
<b>Valuation at 30 June 2003</b>	<b>127,178</b>
Valuation at 30 June 2002	127,954
Listed UK - full listing	107,350
Listed UK - AIM listing	19,828
	<b>127,178</b>

(Losses)/gains on investments are analysed as follows:

	2003 £000s	2002 £000s
Net realised (losses)/gains on sales (note 15)	(4,064)	1,227
Net decrease in unrealised appreciation (note 14)	(3,336)	(13,968)
Net losses on investments	<b>(7,400)</b>	<b>(12,741)</b>

## Notes to the financial statements continued

- b) The holdings in the undermentioned companies represent more than 3 per cent of that particular class of share capital at 30 June 2003.

Name of stock	Share class	Quantity held	% held
Cardiff Property	ord 20p	220,000	10.07
Acquisitor	ord 2p	250,000	8.75
Acquisitor Holdings	ord 1p	2,500,000	8.75
Air Partner	ord 5p	700,000	7.53
Landround	ord 5p	400,000	7.09
Intelek	ord 5p	6,000,000	6.97
Qualceram Shires	ord €0.12	1,500,000	6.77
Fairbriar	ord 1p	2,250,000	6.38
Hampson Industries	ord 5p	7,090,970	6.00
Clarke (T.)	ord 10p	750,000	5.85
White Young Green	ord 5p	1,724,000	5.63
Peel Hotels	ord 10p	633,471	5.23
Ottakar's	ord 5p	1,049,607	4.97
Podia Group	ord 10p	3,000,000	4.66
Linx Printing Technologies	ord 5p	650,000	4.28
Inter Link Foods	ord 2p	400,000	4.21
Dobbies Garden Centres	ord 10p	400,000	4.09
Severfield-Rowen	ord 10p	800,000	4.04
UMECO	ord 25p	974,600	3.99
Hacas Group	ord 10p	1,225,000	3.99
Eagle Eye Telematics	ord 10p	1,000,000	3.84
Braemar Seascope Group	ord 10p	650,000	3.78
Brandon Hire	ord 10p	1,000,000	3.72
Dart Group	ord 5p	1,243,334	3.60
SDL	ord 1p	1,913,056	3.54
Belhaven Group	ord 10p	750,000	3.47
Walker Greenbank	ord 1p	2,000,000	3.39
European Diamonds	ord 5p	650,000	3.38
ROK Property Solutions	ord 10p	830,000	3.24
IFX Group	ord 5p	890,686	3.15
Hill & Smith Holdings	ord 25p	1,881,866	3.09
Aero Inventory	ord 1.25p	350,000	3.08
Ennstone	ord 25p	5,000,000	3.05

### 8 Debtors

	2003 £000s	2002 £000s
Dividends receivable	667	550
Prepayments and accrued income	11	19
Tax recoverable	7	7
	<b>685</b>	<b>576</b>

### 9 Other creditors

- a) Creditors: Amounts falling due within one year

	2003 £000s	2002 £000s
Amounts due to brokers	225	-
Accruals	526	568
Provision for performance-related fee (note 2)	566	454
Sundry creditors	5	1
	<b>1,322</b>	<b>1,023</b>

## Notes to the financial statements continued

### Other creditors (continued)

#### b) Creditors: Amounts falling after more than one year

	£000s
Bank loan	13,000
Repayments due between 2 and 5 years	13,000

#### Bank loan

On 7 March 2002, £8 million was drawn down under a fixed term loan facility of £8 million with The Royal Bank of Scotland. This term loan carries a fixed interest rate of 4.2101% and is repayable in March 2005. In addition, as part of the credit facilities agreement with The Royal Bank of Scotland, the Trust had a £12 million revolving credit facility which was reduced to £10 million in March 2003. On 12 June 2003, £5 million was drawn down under this facility at a fixed interest rate of 4.0501% and is repayable in March 2005. Neither amount is secured.

## 10 Financial instruments

The Trust's financial instruments comprise its investment portfolio (see note 7), cash balances, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income, and the bank loan used to finance the Trust's operations.

The main risks that the Trust faces arising from its financial instruments are i) interest rate risks; and ii) market price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency rate movement. Since the Trust invests primarily in UK equities, any currency risk is not significant. At 30 June 2003 the market value of non-sterling investments was £1.8 million (2002: £5.0 million). No other assets or liabilities were denominated in foreign currencies.

#### i) Interest rate risk

The Trust finances its operations through a mixture of retained profits and long term borrowings. The borrowings have fixed rates of interest (see note 9).

#### ii) Market price risk

The Trust's investment portfolio is exposed to market price fluctuations which are monitored by the investment manager in pursuance of the investment objective. Further information on the investment portfolio is set out in the Investment Manager's Report on pages 6 and 7, which is not subject to audit.

The Trust held the following categories of financial instruments at 30 June 2003:

	Book value £000s	Fair value £000s
<b>Financial assets</b>		
Investment portfolio	127,178	127,178
<b>Financial liabilities</b>		
Bank loan	13,000	13,000

The investment portfolio consists of listed investments, which are valued at mid-market price (see note 7).

The Trust did not hold any monetary assets or liabilities denominated in a foreign currency at any time in the year. All assets and liabilities are recorded in the balance sheet at fair value.

## Notes to the financial statements continued

### 11 Called up share capital

	£000s
<b>(a) Authorised:</b>	
At 30 June 2002 and 30 June 2003 - 68,000,000 ordinary shares of 25p each	<b>17,000</b>
<b>(b) Allotted and fully paid:</b>	
At 30 June 2002 - 49,141,134 shares of 25p each	12,285
Transferred to capital redemption reserve (note 13)	(133)
<b>At 30 June 2003 - 48,608,634 shares</b>	<b>12,152</b>

### 12 Share premium account

	£000s
<b>At 30 June 2002 and 30 June 2003</b>	<b>37,876</b>

### 13 Capital redemption reserve

	£000s
At 30 June 2002	661
532,500 ordinary shares of 25p each repurchased and cancelled (note 11)	133
<b>At 30 June 2003</b>	<b>794</b>

### 14 Capital reserve - unrealised

	£000s
At 30 June 2002	5,926
Decrease in the year attributable to investments (note 7)	(3,336)
Increased in accrual for performance-related fee (note 2)	(112)
Total unrealised losses in the year	(3,448)
<b>At 30 June 2003</b>	<b>2,478</b>
Unrealised surplus/(deficit) on valuation of investments	
Listed UK - full listing	6,304
- AIM listing	(3,260)
<b>At 30 June 2003 (note 7)</b>	<b>3,044</b>

### 15 Capital reserve - realised

	£000s
At 30 June 2002	61,346
Realised in the year - Listed UK	(4,064)
Investment management fee charged to capital (note 2)	(633)
Interest charged to capital	(206)
Consideration for repurchase of ordinary shares (note 13)	(867)
<b>At 30 June 2003</b>	<b>55,576</b>

## Notes to the financial statements continued

### 16 Revenue reserve

	£000s
At 30 June 2002	1,291
Net profit for the year	520
<b>At 30 June 2003</b>	<b>1,811</b>

### 17 Net asset value per share

The net asset value per share and the net asset values attributable to the ordinary shares at the year end calculated in accordance with the Articles of Association were as follows:

	Net asset value per share attributable		Net asset value attributable	
	2003	2002	2003	2002
	p	p	£000s	£000s
	227.71	242.94	110,687	119,385

The movements during the year of the assets attributable to the ordinary shares were as follows:

	£000s
Total net assets attributable at 30 June 2002	119,385
Total recognised losses for the year	(5,846)
Shares repurchased during the year	(867)
Dividends appropriated in the year	(1,985)
<b>Total net assets attributable at 30 June 2003</b>	<b>110,687</b>

Basic net asset value per ordinary share is based on 48,608,634 (2002: 49,141,134) ordinary shares, being the number of ordinary shares in issue at the year end.

### 18 Contingent liabilities and other commitments

At 30 June 2003 the Trust had underwriting commitments of £Nil (2002: £Nil) and no commitments in respect of partly paid shares (2002: £Nil).

### 19 Reconciliation of operating profit to net cash inflow from operating activities

	2003 £000s	2002 £000s
Net revenue before finance costs and taxation	2,726	1,751
(Increase)/decrease in debtors	(109)	158
Decrease in creditors	(202)	(22)
<b>Net cash inflow from operating activities</b>	<b>2,415</b>	<b>1,887</b>

### 20 Gross cash flows

	2003 £000s	2002 £000s
Capital expenditure and financial investment:		
Purchases of investments	(32,019)	(50,617)
Sales of investments	25,620	43,280
	(6,399)	(7,337)

## Notes to the financial statements continued

### 21 Reconciliation of net cash flow to net debts

	At 30 June 2003 £000s		
Decrease in cash flow for the year			(7,140)
Cash inflow from movement in debt for the year			5,000
Change in net debt			(2,140)
Net funds at 30 June 2002			1,279
Net funds at 30 June 2003			(861)
<b>Analysis of changes in net debt</b>	<b>30 June 2002</b>	<b>Cash flows</b>	<b>30 June 2003</b>
Cash at bank	1,279	(2,140)	(861)
Debt due after one year	(8,000)	(5,000)	(13,000)
Net debt	(6,721)	(7,140)	(13,861)

### 22 Related party disclosures

The transactions with FIM and the year end balances are disclosed in note 2. There were no other transactions with related parties during the year (2002: nil). Further information is given on pages 14 and 15 in the Report of the Directors.

# Notice of meeting

Notice is hereby given that the tenth Annual General Meeting of the Trust will be held on Tuesday 7 October 2003 at 12.30 p.m. at 155 Bishopsgate, London EC2M 3XJ for the following purposes:

## Ordinary Resolutions

- 1 To approve the directors' remuneration report for the year ended 30 June 2003.
- 2 To receive the accounts for the year ended 30 June 2003 together with the reports of the directors and auditors.
- 3 To declare a final dividend of 4.10p per Ordinary Share.
- 4 To re-elect Sir Hugh Sykes, who has attained the age of 70 and who retires by rotation as a director.
- 5 To re-elect Mr Thomas Hemenstall who retires by rotation as a director.
- 6 To re-appoint Deloitte & Touche LLP as auditors and to authorise the directors to fix their remuneration.

## Special Resolution

- 7 To resolve that the Company be and is hereby generally 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 Ordinary Shares of 25p each in the capital of the Company ("Ordinary Shares") provided that:
  - (a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 7,286,434, or such number as represents 14.99% of the Ordinary Shares in issue on the date of the Annual General Meeting or any adjournment thereof;
  - (b) the minimum price which may be paid for an Ordinary Share is 25p;
  - (c) the maximum price which may be paid for an Ordinary Share is an amount equal to 105 per cent of the average of the middle market quotations for an Ordinary Share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is purchased;
  - (d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2004 unless such authority is renewed prior to such time; and
  - (e) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority, which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares pursuant to any such contract.

By order of the board

Framlington Investment Management Limited

Secretary

155 Bishopsgate

London EC2M 3XJ

15 August 2003

A member entitled to be present and vote at the meeting may appoint a proxy or proxies to attend and vote instead. A proxy need not be a member of the company. Forms of proxy must be received by the Registrars not later than 48 hours before the time appointed for holding the Annual General Meeting. Completion of a form of proxy will not preclude a member from attending and voting in person.

The Register of Directors' Interests kept by the Trust in accordance with section 325 of the Companies Act 1985 will be open for inspection at the Annual General Meeting.

There are no contracts of service between the Trust and the directors.

# Investor information

## Contacts

- **Secretary**  
Framlington Investment Management Limited: 020 7374 4100
- **Registrar**  
Capita Registrars: 0870 162 3100
- **Select Investment Trust Plan:** 020 7452 1394

## Share prices, asset value and performance information sources:

- Financial Times under the Investment Companies section or their website: [www.FT.com](http://www.FT.com)
- FT Cityline: 0906 843 5005  
(calls charged at 60p per minute at all times)
- Reuters: FIT.L
- Framlington's website: [www.framlington.co.uk](http://www.framlington.co.uk)

## Portfolio information

The geographical spread and sector breakdown of investments and ten largest holdings are published on the Framlington website at [www.framlington.co.uk](http://www.framlington.co.uk).

## Share price discount

The market price of investment trust shares can stand at a discount or premium to net asset value, according to the level of demand for the Trust's shares at any given time. Demand is influenced by many factors including performance, prospects, objectives and public awareness. Framlington's marketing strategy is designed to improve public awareness of the merit of investing in Framlington Innovative Growth Trust PLC.

## Annual General Meeting

October

## Dividends

- Final dividend - payment on 9 October 2003 (x/d on 10 September 2003)

## Results

It is the Trust's aim to announce to the London Stock Exchange interim results for the period to 31 December 2003 at the end of February 2004 and to post out the interim report at the beginning of March 2004.

## How to invest

The Trust's shares may be purchased through one of the following:

- a stockbroker.
- the Framlington Select Investment Trust Plan offers four investment trusts managed by Framlington. Investments can be from £50 per month or lump sums from £500.

For copies of the Select Plan brochure please contact the Framlington 24-hour brochure request line on 0845 702 3138.

All subscriptions for shares are received strictly 'subject to prospectus'.

# Directors, officers and advisers

## Directors

Sir Hugh Sykes D L (Chairman)  
R James Frost  
Thomas Hempenstall  
Norman A Parker  
S Justin P Reed  
Brian R Watson

## Registered Office and Registered Number

155 Bishopsgate, London EC2M 3XJ  
Tel: 020 7374 4100  
Registered in England and Wales No. 2703926

## Manager and Secretary

Framlington Investment Management Limited  
155 Bishopsgate, London EC2M 3XJ  
Authorised and regulated by the Financial Services  
Authority

## Registrars

Capita Registrars  
The Registry, 34 Beckenham Road, Beckenham, Kent  
BR3 4TU  
Tel: 0870 162 3100

## Auditors

Deloitte & Touche LLP  
Chartered Accountants and Registered Auditors

## Solicitors

Stephenson Harwood

## Bankers

HSBC Bank plc

## Stockbrokers

Close Brothers Securities