

# The Fleming Technology Trust plc



## CONTENTS

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Chairman's Statement	1	Board of Directors	16
Investment Manager's Report	4	Directors' Report	17
Features of the Portfolio	6	Notice of Meetings	24
Directors' Report & Accounts	7	Auditors' Report	28
Facts	8	Statement of Total Return	29
Figures	9	Balance Sheet	30
Ten Largest Technology Investments	10	Cash Flow Statement	31
Investment Activity and Analysis of		Notes to the Accounts	32
Investment Trust Information	11	Information about the Company	44
Financial Record and Analysis of Shareholders	12	Investing through JPMorgan Fleming	45
List of Investments	13		

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# Chairman's Statement

J P de Blocq van Kuffeler CHAIRMAN

## Market Conditions

This has been an unrewarding year for shareholders in most public quoted companies. Weaker economies and uncertainty engendered by terrorism have dampened unrealistic expectations of growth of company profits and share prices.

Whilst the period under review has been particularly difficult for all global stock markets, the technology sector has been the hardest hit. Against this very difficult background, ordinary shareholders in the Company lost a significant percentage of their underlying asset value over the course of the year on a total return basis.

## Performance

The Company's performance over the year to 31st May 2002 has been very disappointing as, on a total return basis, the NAV per ordinary share was down 40.2% and the ordinary share price fell 62.9%. This compares to the MSCI World IT Index, which represents global technology stocks, falling 33% and the NASDAQ Index, in the US, falling 25.4%. The MSCI World Index fell 15.1% over the period, but as stated below this index is not an appropriate benchmark for the Company to compare itself against.

## Benchmark

As previously reported to shareholders, the Company's benchmark, the MSCI World Index, continues to be of doubtful relevance to the Company, but unfortunately there is still no widely recognised global technology index. We therefore, will continue to seek a more appropriate

benchmark but, in the absence of one, the fund's performance will be measured against the peer group, NASDAQ and MSCI World IT Index.

## Loan and Capital Structure

The structure of the Company continues to have an adverse effect on the overall performance of the fund. First, there are the Company's preference shares which have been in existence since the Company's formation, when the Company had an investment objective of growth of income and capital from investment in the UK through a split capital structure. The £1 preference shares have a high dividend of 13% per share, which the Company is required to service. Secondly, there is the US\$21 million loan, with a fixed interest rate of 7.61%, which is high compared to current interest rates.

The loan was originally taken out for US\$27 million in connection with the reorganisation of the Company's affairs in the Spring of 2000. At that time the principal barrier to the Company achieving its investment objective was the need for it to service the expensive preference shares. In order to address this problem the Company created a discrete fixed interest portfolio of £35 million to provide sufficient revenue to pay the annual dividend on the 13% preference shares. This was successfully achieved. However, in order that ordinary shareholders remained fully exposed to technology companies, the loan was drawn and the proceeds invested in equities. The gearing of the technology portfolio and the cost of servicing the loan has had a noticeably adverse effect on the performance on the fund.

### **Discount**

The discount to net asset value at which the Company's Ordinary shares trade has widened to around 45% (37.1% as at 31st May 2002). The Directors believe that this wide discount is partly due to the high cost of servicing the preference shares and the effect of the US dollar bank loan.

### **Share buy back**

At last year's Annual General Meeting (and Class Meetings of the ordinary and preference shareholders) shareholders renewed the authority to allow the Company to make market purchases of its ordinary shares and preference shares. We are pleased to announce that during the financial year 570,254 preference shares were repurchased equating to 3.7% of the issued preference share capital. The consequent reduction in the annual amount payable in dividends to preference shareholders, along with a review of the income required to cover the preference shares, has enabled the Company to sell some of the fixed interest portfolio to repay US\$6 million of the loan.

The Directors believe that it is in the best interest of the Company for this authority to repurchase ordinary shares and preference shares to be renewed at the forthcoming AGM and we urge shareholders to vote in favour of these resolutions.

### **Directors**

In October we were pleased to announce the appointment of Barry Rose as a Director of the Company. As is standard practice, shareholders will be asked to confirm his appointment at the

forthcoming Annual General Meeting. A brief description of each Director is shown on page 16.

### **Change of Company name**

Following the take-over of Flemings by Chase Manhattan and the subsequent merger with JPMorgan, shareholders will have noticed the change in the name of the Manager of the Company's assets. The Directors propose that the Company change its name to 'JPMorgan Fleming Technology Trust plc' to benefit from the marketing spend on the new brand by JPMorgan Fleming. This change of name is also consistent with other investment trusts managed by JPMorgan Fleming, and I can confirm that any costs relating to the change of name will be paid for by JPMorgan Fleming.

### **Annual General Meeting**

My fellow Directors and I look forward to meeting you at the Company's Annual General meeting, and the associated Class Meetings, which will be held at JPMorgan Fleming's offices at 10 Aldermanbury, London EC2V 7RF on 25th September 2002 commencing at 2.20pm. The investment manager Sandeep Bhargava, will review the past year and comment on the outlook for the current year.

If you have any detailed or technical questions, you may wish to raise these in advance with the Company Secretary at Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ.

Shareholders who are unable to attend any of the Meetings in person are encouraged to use their proxy votes.

The Annual General Meeting will be followed by refreshments, and an opportunity for shareholders to informally meet the Directors and the investment manager.

**J P de Blocq van Kuffeler**

Chairman

14th August 2002

# Investment Manager's Report

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Sandeep Bhargava INVESTMENT MANAGER

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It was a difficult year for equity investments as reflected in the fall of 15.1% in the MSCI World index. Technology stocks suffered disproportionately and the MSCI World IT index representing global technology stocks fell nearly 33% over the year to end May 2002. During the year the NAV of the Company fell 40.2%, broadly in line with the peer group of comparable global technology funds available to UK investors. Shareholders are reminded that neither the MSCI World IT index nor our benchmark index (MSCI World) are satisfactory measures of the universe of stocks in which the fund invests.

Most of the negative issues surrounding technology stocks that have emerged over the past year have also affected the broader market. The list of issues is well known and includes delayed corporate profits recovery and correspondingly weak corporate IT spending budgets, excess capacity still being unwound after the investment boom of the late 1990s, the write-off of goodwill that depressed earnings of acquisitive companies in growth sectors, the prospect of depressed earnings if stock options are expensed in earnings statements, and the revelation of accounting irregularities in corporate America. On the positive side, it became clear that exceptional value had emerged in the Asian technology sector. In the context of what has happened to broader equity markets and technology indices elsewhere over the last twelve months, a flat performance in Asia is encouraging.

The roller-coaster year began with weakness in technology stocks in the summer months leading up to the tragic September 11th terrorist attacks in the US as corporate earnings remained soft and job losses in the US pointed to the risk of weakening consumer confidence. Following the September 11th events and the sharp sell off in markets, major central banks responded with a further easing of liquidity and investor sentiment improved. Technology companies also benefited from a sales surge on the back of an attempt by some companies to spend their annual budgets ahead of the year-end. However, this encouraging end to the year led markets to be too bullish for 2002, setting up scope for disappointment.

Going into the new year market enthusiasm was tempered as the Enron accounting worries spread to other large companies with complex balance sheets. Meanwhile, renewed concerns emerged on sales trends for telecom equipment companies as weak wireless subscriber data from the US led to scaling back of growth expectations. During the second quarter of 2002 market sentiment was hit further by accounting irregularities affecting some high profile companies such as Worldcom and Xerox.

Outside core technology, telecom stocks were held back by continued concerns on debt build up in Europe, slower roll out of 3G networks, and excess capacity build up by new telecom entrants. Media stocks suffered on account of weak advertising revenues and the write-off of goodwill by

acquisitive companies. Biotechnology stocks had a difficult year as investors became less willing to pay up for future pipelines, and the new drug regulatory approval process became more challenging.

Through this demanding and volatile period, within the technology sector, our strategy of identifying business leaders with strong cash flow generation that are gaining market share has been played out in the choice of sub sectors and stocks. We have favoured the semiconductor sector through attractively valued holdings in Asia and this sector has outperformed the broader IT sector. We have been neutral towards the IT hardware sector as corporate spending has been slow to revive. However, within the sector we have favoured the PC and printer segment which has benefited from the emergence of an upgrade cycle and demand for high margin printer consumables. We have also captured the improving demand trends for flat panel screens through investments in the portfolio. We have been underweight in communications equipment stocks given the weak demand from telecom operators and also from the corporate sector.

Software stocks had a challenging year as corporate spending on large projects did not materialise. Pockets of strength did exist in areas such as PCs, given the Microsoft product cycle, and in design software, but generally the picture was weak. Many IT service companies also struggled as a large amount of revenue is generated from enterprise software deployment. An area of relative

strength however did exist in outsourcing, particularly to low cost locations such as India.

### Outlook

After a tough year for the technology sector, and following the recent corporate accounting and governance scandals global stock markets remain fragile. From an economic standpoint after the slowdown in the US last year we have seen tentative signs of stabilization in the first half of 2002. Productivity trends remain firm in the US, inflation is low, and US consumer spending has held up despite the steady downdraft of negative news. In the coming months the key issue that will be tested is whether corporate America begins to invest and grow again in response to confidence-restoring initiatives by the Fed and regulatory authorities. Elsewhere, we also are seeing the first signs of a domestic corporate recovery in Japan as cost-cutting bears fruit. Given the large scale corporate restructuring witnessed over the last two years after the excesses of the late 1990s, we feel the survivors of the process are now better positioned to benefit from a recovery in the US and other major economies. As the US economy, in particular, stabilises and recovers over the next 12 to 18 months we expect corporate profitability to improve and this is likely to have a positive impact on IT spending and the outlook for the broad technology sector.

**Sandeep Bhargava**  
Investment Manager

14th August 2002

# Features of the Portfolio

## **Canon**

Value (£'000): 658

Global leader in copying, printing and digital imaging technology

## **Hewlett-Packard**

Value (£'000): 743

Core provider of enterprise hardware and software solutions

## **Microsoft**

Value (£'000): 1,097

Leadership position in personal and enterprise computing software

## **Nintendo**

Value (£'000): 312

A leading developer of electronic gaming platforms and content



# Directors' Report & Accounts.

# Facts.

## **OBJECTIVE**

Capital growth from investments in the global technology sector.

## **POLICIES**

To invest in a high-growth, broad-based, global technology portfolio.

## **BENCHMARK**

The MSCI World Index.<sup>1</sup>

## **CAPITAL STRUCTURE**

- Authorised share capital of 24 million ordinary shares of 50p each, and 18 million preference shares of £1 each, of which 18,522,356 ordinary shares and 14,775,265 preference shares were in issue at the year end.
- US\$ loan of \$21,000,000 at a fixed rate of 7.61% per annum, expiring 11th July 2005.

## **MANAGEMENT COMPANY**

The Company employs JPMorgan Fleming to manage its assets. JPMF has established a global presence as a leader in the asset management industry. They manage nearly US\$550 billion for their clients worldwide and employ over 760 investment professionals based in 44 different locations.

<sup>1</sup>Comparison of the Company's performance is made with the benchmark as stated. 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 will be a degree of divergence from the stated index.

# Figures.

## Summary of Results

	31st MAY 2002	31st MAY 2001	
<b>TOTAL RETURNS</b> for the year to 31st May <sup>1</sup>			
Ordinary share price <sup>2</sup>	(62.9%)	(40.5%)	
Net asset value per ordinary share <sup>3</sup>	(40.2%)	(23.3%)	
MSCI World Index <sup>4</sup> (in Sterling terms)	(15.1%)	(10.5%)	
<b>ASSETS</b> at 31st May			
Total net assets (£'000)	43,361	63,120	(31.3)
Attributable net assets (£'000)	28,586	47,775	(40.2)
Net asset value per share	154.3p	257.9p	(40.2)
Share price	97.0p	261.5p	(62.9)
(Discount)/premium of ordinary share price to net asset value			
– with preference shares at par	(37.1%)	1.4%	
– with preference shares valued at market price	(25.8%)	14.6%	
<b>PREFERENCE SHARES</b> at 31st May			
Market price	129.5p	135.8p	(4.6)
<b>UNITS</b> at 31st May (100 preference shares and 9 ordinary shares)			
Unit price	£120.00	£155.00	(22.6)
Dividends per unit	£13.00	£13.00	
<b>REVENUE</b> for the year to 31st May			
Gross revenue return (£'000)	2,572	2,645	(2.8)
Net revenue available for ordinary shareholders (£'000)	251	(197)	
Earnings per ordinary share	1.35p	(1.06)p	
Dividends per preference share	13.00p	13.00p	
<b>ACTUAL GEARING FACTOR</b> at 31st May <sup>5</sup>			
	126.0	124.8	
<b>TOTAL EXPENSE RATIO</b> <sup>6</sup>			
	0.82%	0.61%	

<sup>1</sup>Comparison of the Company's performance is made with the benchmark as stated. 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 will be a degree of divergence from the stated index.

<sup>2</sup>Change in share price with net dividends (if any) reinvested. (Source: Micropal).

<sup>3</sup>Change in net asset value with net dividends (if any) reinvested. (Source: AITC/Fundamental Data).

<sup>4</sup>Change in value with net dividends reinvested. (Source: Micropal)

<sup>5</sup>Actual gearing means investments expressed as a percentage of shareholders' funds.

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

# Ten Largest Investments – Technology Portfolio

at 31st May 2002

Company	Sector	Market Value £'000	% of Total Assets
Microsoft	Software/IT Services	1,097	3.2
Vodafone	Telecom	1,084	3.1
Samsung Electronics	Semiconductor	978	2.8
Cisco Systems	IT/Telecom Hardware	924	2.7
United Microelectronics	Semiconductor	908	2.6
Kon Philips Electronics	Semiconductor	864	2.5
Accenture	Software/IT Services	847	2.5
Flextronics	IT/Telecom Hardware	821	2.4
Affiliated Computer Services	Software/IT Services	761	2.2
Dassault Systemes	Software/IT Services	749	2.2
<b>Total</b>		<b>9,033</b>	<b>26.2</b>

*This is based on total assets of £34m*

# Investment Trust Information

## Investment Activity

during the year ended 31st May 2002

	Value at 31st May 2001 £'000	Purchases £'000	Sales £'000	Changes in value £'000	Value at 31st May 2002 £'000
<i>Fixed Interest*</i>	33,664	2,218	12,248	(386)	<b>23,248</b>
North America	29,029	22,269	17,716	(13,267)	<b>20,315</b>
Far East ex Japan	4,379	2,266	2,348	343	<b>4,640</b>
Japan	4,888	2,504	3,849	(1,125)	<b>2,418</b>
Continental Europe	6,572	3,670	3,423	(2,230)	<b>2,589</b>
UK	2,271	1,794	1,293	(1,346)	<b>1,426</b>
	<b>78,803</b>	<b>34,721</b>	<b>40,877</b>	<b>(18,011)</b>	<b>54,636</b>

\*The present policy is to hold a portfolio of fixed interest assets to provide sufficient income to pay the dividends on the 13% preference shares.

## Analysis of Technology Portfolio

at 31st May 2002

	2002 %	2001 %
<b>Assets<sup>2</sup></b>		
■ Software/IT Services	<b>24.4</b>	15.6
■ Semiconductors	<b>22.7</b>	13.1
■ IT/Telecom Hardware	<b>22.5</b>	29.0
■ Biotechnology/Healthcare	<b>9.0</b>	7.0
■ Cash	<b>8.9</b>	9.5
■ Telecom	<b>8.4</b>	15.9
■ Media	<b>3.4</b>	9.0
■ Other	<b>0.7</b>	0.9
	<b>100.0</b>	<b>100.0</b>

This is based on total assets of £34m.

<sup>2</sup>Excludes fixed interest assets

	2002 %	2001 %
<b>Portfolio<sup>2</sup></b>		
■ North America	<b>59.0</b>	58.3
■ Far East ex Japan	<b>13.5</b>	8.7
■ Continental Europe	<b>7.5</b>	9.1
■ Japan	<b>7.0</b>	9.8
■ Cash	<b>8.9</b>	9.5
■ UK	<b>4.1</b>	4.6
	<b>100.0</b>	<b>100.0</b>

This is based on total assets of £34m.

<sup>2</sup>Excludes fixed interest assets

# Financial Record and Analysis of Shareholders

## Financial Record<sup>1</sup>

As at 31st May <sup>2</sup>	2000	2001	2002
Total net assets (£m)	97.26	63.12	<b>43.36</b>
Market price per ordinary share (p)	341.0	261.5	<b>97.0</b>
Market price per preference share (p)	133.5	135.8	<b>129.5</b>
Net asset value per ordinary share (p)	433.4	257.9	<b>154.3</b>
Discount/(Premium) (%)	21.3	(1.4)	<b>37.1</b>
Actual gearing <sup>3</sup>	94.2	124.8	<b>126.0</b>
Total expense ratio (%) <sup>3</sup>	0.73	0.61	<b>0.82</b>
<b>Year to 31st May</b>			
Gross revenue return (£'000)	2,745	2,645	<b>2,572</b>
Revenue return per ordinary share (p)	0.28	(1.06)	<b>1.35</b>
Dividend per ordinary share (net) (p)	1.00	nil	<b>nil</b>
Dividend per preference share (net) (p)	13.00	13.00	<b>13.00</b>
<b>Rebased to 100 at 31st May 2000</b>			
Net asset value per ordinary share	100.0	59.5	<b>35.6</b>
Net asset value per ordinary share – total return <sup>2,3</sup>	100.0	59.5	<b>35.6</b>
Ordinary share price	100.0	76.7	<b>28.5</b>
Ordinary share price – total return <sup>2,3</sup>	100.0	76.7	<b>28.5</b>
Preference share price	100.0	101.7	<b>97.0</b>

<sup>1</sup>Prior to March 2000, the Company was The Fleming Geared Growth Investment Trust plc and invested in a broadly-based portfolio of quoted UK securities.

<sup>2</sup>Definitions shown on page 9.

<sup>3</sup>Source: Datastream.

## Analysis of Shareholders

at 31st May 2002

Class of Shareholder	Number of ordinary shares held	%
Pension Funds	556,657	3.0
Insurance Companies	1,845,359	10.0
Unit Trusts	1,266,666	6.8
Other Institutions	4,981,279	26.9
<b>Total Institutions</b>	<b>8,649,961</b>	<b>46.7</b>
Named individuals:		
Individuals in the Investment Trust Share Plan	948,813	5.1
Individuals in the Investment Trust Pension Plan	405,448	2.2
Individuals in the Investment Trust Personal Equity Plan	230,382	1.2
Individuals in the Investment Trust Individual Savings Account	471,364	2.6
Individuals investing through Fleming Managed Growth plc	441,365	2.4
Individuals investing through Fleming Managed Income plc	18,336	0.1
Retail investors held directly or through bank and broker nominee accounts	7,356,687	39.7
<b>Total Individuals</b>	<b>9,872,395</b>	<b>53.3</b>
<b>Total shares in issue</b>	<b>18,522,356</b>	<b>100.0</b>

# List of Investments – Technology Portfolio

at 31st May 2002

Company	Market Value £'000	% of Technology Portfolio	Company	Market Value £'000	% of Technology Portfolio
<b>USA</b>			Medtronic	216	0.7
Microsoft	1,097	3.5	Citrix Systems	205	0.7
Cisco Systems	924	2.9	Gilead	182	0.6
Accenture	847	2.7	Check Point	181	0.6
Affiliated Computer Services	761	2.4	Baxter International	174	0.6
Hewlett-Packard	743	2.4	Red Hat	163	0.5
Lexmark	697	2.2	Time Warner	142	0.5
Applied Materials	692	2.2	IDEC	134	0.4
AOL Time Warner	657	2.1	ICOS	96	0.3
Electronic Data Systems	611	1.9	Sycamore Networks	82	0.3
Texas Instruments	585	1.9	Millennium Pharmaceutical	81	0.3
Vishay	561	1.7	Myriad Genetics	68	0.2
Pfizer	547	1.7	Exelixis	63	0.2
Amgen	541	1.7		19,777	63.0
General Motors	520	1.7			
Cognizant	501	1.6	<b>Canada</b>		
Dell Computers	496	1.6	Celestica	303	1.0
Qualcomm	474	1.5	Ballard Power Systems	235	0.7
Agere Systems	458	1.5		538	1.7
Nvidia	450	1.4			
Peoplesoft	388	1.2	<b>Total North America</b>		
Veritas Software	375	1.2		20,315	64.7
KPMG Consulting	362	1.2			
Xilinx	361	1.2	<b>Japan</b>		
Sprint PCS	360	1.1	Canon	658	2.1
Cox Communications	322	1.0	Nippon Telegraph & Telephone	468	1.5
Oracle	320	1.0	Rohm	393	1.3
Sun Microsystems	308	1.0	Nintendo	312	1.0
IBM	307	1.0	Taiyo Yuden	303	1.0
Brocade Communications	294	0.9	Murata Manufacturing	284	0.9
Solectron	293	0.9			
Genentech	291	0.9	<b>Total Japan</b>		
Rational Software	288	0.9		2,418	7.7
Symantec Communications	282	0.9			
Analog Devices	275	0.9			
Alcon	270	0.9			
BEA Systems	264	0.8			
Siebel Systems	249	0.8			
Lab Corp of America	219	0.7			

# List of Investments – Technology Portfolio

at 31st May 2002

Company	Market Value £'000	% of Technology Portfolio	Company	Market Value £'000	% of Technology Portfolio
<b>Continental Europe</b>			<b>Far East ex Japan</b>		
<b>Finland</b>			<b>Korea</b>		
Nokia	645	2.1	Samsung Electronics	978	3.1
	645	2.1	KT Corporation	527	1.7
			Samsung SDI	204	0.7
				1,709	5.5
<b>France</b>			<b>Singapore</b>		
Dassault Systemes	749	2.4	Flextronics	821	2.6
Cap Gemini	236	0.7		821	2.6
Infovista	95	0.3			
	1,080	3.4			
<b>Holland</b>			<b>Taiwan</b>		
Kon Philips Electronics	864	2.8	United Microelectronics	908	2.9
	864	2.8	Hon Hai Precision	702	2.2
			Taiwan Semiconductor	500	1.6
				2,110	6.7
<b>Total Continental Europe</b>	<b>2,589</b>	<b>8.3</b>	<b>Total Far East ex Japan</b>	<b>4,640</b>	<b>14.8</b>
<b>United Kingdom</b>			<b>Total Technology Portfolio</b>		
Vodafone	1,084	3.5		<b>31,388</b>	<b>100.0</b>
Celltech	129	0.4			
Logica	115	0.3			
Cambridge Antibody	98	0.3			
<b>Total United Kingdom</b>	<b>1,426</b>	<b>4.5</b>			



# List of Investments – Fixed Interest Portfolio

at 31st May 2002

Company	Market Value	% of
	£'000	Fixed Income Portfolio
Royal Bank of Scotland	17,774	76.5
European Investment Bank	5,474	23.5
<b>Total Fixed Interest Portfolio</b>	<b>23,248</b>	<b>100.0</b>

The present policy is to hold a portfolio of fixed interest assets to provide sufficient income to pay the dividends on the 13% preference shares.

# Faces.

## Board of Directors

### **John P. de Blocq van Kuffeler, FCA\*†§**

Aged 53

He is Chairman of Provident Financial plc and Chairman of Eidos plc and Finsbury Smaller Quoted Companies Trust plc. He joined the Board in 1997.

### **Robin W. I. Lodge\*§**

Aged 58

He is Chairman of the DCS Group plc, Tenet Systems and the Lanner Group. He joined the Board in July 2000.

### **Barry M. Rose\*§**

Aged 57

He is Director of Baillie Gifford Shin Nippon plc, Wolfson Microelectronics Ltd, and Liverpool Victoria Friendly Society. He joined the Board in October 2001.

### **Julian G. Tregoning**

Aged 55

He is Director of Marketing for Mellon Bank in London, having been with the Flemings Group for over 30 years. He is a past President of the European Federation of Investment Funds and Companies (FEFSI) and a past chairman of the Association of Unit Trusts and Investment Funds (AUTIF). He joined the Board in 1991.

\*Member of Audit Committee.

†Chairman of Audit Committee.

§Considered independent of the Manager.

# 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 May 2001. In the opinion of the Directors the Company has subsequently conducted its affairs so that it should continue to qualify. The Company will continue to seek approval under Section 842 of the Income and Corporation Taxes Act 1988 each year. Approval for the year ended 31st May 2001 is subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment. The Company is not a close company for taxation purposes. The Company is an investment company, within the meaning of Section 266, Companies Act 1985.

## Investment Policy

A review of the Company's activities and prospects is given in the Chairman's Statement on pages 1 to 3 and in the Investment Manager's Report on pages 4 to 5. The present policy is also to hold a portfolio of fixed interest assets to provide sufficient income to pay the dividend on the 13% preference shares. No important events affecting the Company have occurred since 31st May 2002.

## Accounts

The accounts of the Company for the financial year ended 31st May 2002 are shown on pages 29 to 43.

## 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 May 2002, the Company had no outstanding trade creditors.

## Investments

The investments in the technology portfolio and fixed-interest portfolio were valued at £31,388,000 and £23,248,000 respectively, as at 31st May 2002. The notes to the accounts show the basis on which this valuation was made. A list of the Company's investments is given on pages 13 to 15.

## Directors

The Directors of the Company at the end of the year, together with their beneficial interests in the shares of the Company, are shown below:

	31st May 2002	1st June 2001 or date of appointment
Mr J P de Blocq		
van Kuffeler	580	580
Mr R W I Lodge	1,000	—
Mr B M Rose	8,000	—
Mr J G Tregoning	36,033	26,033

Other than as disclosed above, no changes in the above holdings have been recorded to the date of this report. Mr B M Rose was appointed as a Director on 3rd October 2001.

In accordance with the Articles of Association, Mr B M Rose will offer himself for election by shareholders at the Annual General Meeting. The Directors retiring by rotation are Mr R W I Lodge and Mr J G Tregoning. Both are eligible and will be seeking re-election by shareholders at the forthcoming Annual General Meeting.

## Management

Following the merger between Chase Manhattan and JP Morgan which became effective on 2nd

# Directors' Report continued

January 2001, Chase Fleming Asset Management (UK) Limited changed its name to J.P. Morgan Fleming Asset Management (UK) Limited ('JPMFAM'), with effect from 14th May 2001. JPMFAM is a wholly-owned subsidiary of JPMorgan Chase & Co. which, through other subsidiaries, also provides banking, dealing and custodian services to the Company.

## Management and Performance Fees

JPMFAM is employed under a contract which is subject to one year's notice of termination. The basic management fee is calculated and paid monthly in arrears and is charged at a rate of 0.5% per annum of the Company's total assets less current liabilities. A performance-related fee is also payable. This is calculated as 10% of the amount by which the change in the total assets less current liabilities, over the year to 31st May 2002, is greater than the notional increase in total assets less current liabilities over the period (found by applying the aggregate of the relevant percentage change of the MSCI World Index during the period and 2% to the total assets less current liabilities as at 1st June 2002).

The performance fee will only be paid if there has been a positive return and is capped at a maximum of 1% of total assets less current liabilities in any financial year. There is no performance fee payable for the year to 31st May 2002.

## Notifiable Share Interests

As at the date of this report the Company had been notified of the following interests in its ordinary shares:

Shareholder	Number of shares held	%
United Assurance Plc	1,850,000	10.0
Allianz UK Ltd	1,730,725	9.3
Henderson Nominees <sup>1</sup>	1,690,359	9.1
JPMorgan Chase & Co <sup>2</sup>	1,620,927	8.6
<i>Included within this is</i>		
Chase Nominees Ltd	1,005,666	5.4
BNP Paribas Arbitrage	1,497,500	8.1
Lazard Asset Management	1,495,000	8.1
Royal London Asset Management	785,000	4.2
Refuge Assurance	725,000	3.9
Standard Life Investments	650,102	3.5
Carr Sheppards Crosthwaite Limited	568,044	3.1

<sup>1</sup>Included within this are shares on behalf of participants in the Investment Trust ISA, PEP and Share Plan.

<sup>2</sup>Non-beneficial.

## Auditors

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

## Existing authorities for issue of ordinary shares

At the extraordinary general meeting of the Company held on 22nd March 2000 the Directors of the Company were authorised to allot all of the 5,477,644 unissued ordinary shares of 50 pence each in the Company, representing approximately 30% of the present issued ordinary share capital. The Directors also were authorised to make issues of ordinary shares for cash otherwise than by a pro rata issue to existing shareholders of no more than 926,100 ordinary shares, representing approximately 5% of the present issued ordinary

# Directors' Report continued

share capital. These authorities both expire on 21st March 2005.

## **Proposed authority for repurchase of ordinary shares and preference shares**

The Company's authority to repurchase ordinary shares of 50 pence each in the capital of the Company ("ordinary shares") and 13% preference shares of £1 each in the capital of the Company ("preference shares") in the market, which was granted to the Company at last year's Annual General Meeting held on 3rd October 2001, will expire at the conclusion of this year's Annual General Meeting.

As special business, therefore, at the Annual General Meeting it is proposed that the Directors of the Company should, again, be authorised to make market purchases of its ordinary shares and preference shares. Resolutions 6 and 7 are each being proposed as a special resolution and, since the exercise of the authorities proposed to be granted to the Directors of the Company pursuant to Resolutions 6 and 7 will constitute a variation of the rights attaching to the preference shares, both the holders of the preference shares and the holders of the ordinary shares will be entitled to vote on these Resolutions. Resolutions 6 and 7 will also be subject to the consent of the holders of the ordinary shares and the preference shares at separate class meetings due to be held prior to the Annual General Meeting as described further below.

Resolution 6 seeks authority for the Directors to purchase up to 2,776,501 ordinary shares representing approximately 14.99% of the current issued ordinary share capital of the Company at a price of no less than 50 pence (being the nominal value of an ordinary share) and no more than a premium of 5% to the average mid-market price of an ordinary share for the five business days prior to any such purchase (the maximum permitted under the Listing Rules of the UK Listing Authority).

Resolution 7 seeks authority for the Directors to purchase up to 2,137,613 preference shares representing approximately 14.99% of the current issued preference share capital of the Company at a price of no less than £1 and no more than a premium of 5% to the average mid-market price of a preference share for the five business days prior to any such purchase.

## **Exercise of authorities**

### *Repurchase of ordinary and preference shares*

The Directors have the authority to issue shares which was granted by shareholders to the Company on 22nd March 2000 and which will expire on 21st March 2005. In addition to this, the Directors also wish to give the Company continued flexibility by reviewing the authority to make market purchases of both its ordinary shares and preference shares. Ordinary shares and/or preference shares will only be repurchased in the market if the Directors believe such purchases to be in all shareholders' interests.

In particular, any repurchase of ordinary shares will be made only at a discount to Net Asset Value ("NAV") per share and therefore any ordinary shares repurchased and cancelled would enhance the NAV of the remaining shares. Clearly any repurchase and cancellation of ordinary shares would reduce the asset cover of the preference shares in issue which, as at 31st May 2002, was 3 times covered. The authority does not permit the Directors to repurchase ordinary shares if to do so would reduce the level of cover on the preference shares to less than 5 times.

Currently the preference shares are standing at a premium to their nominal value and therefore any repurchase at today's value will reduce the underlying NAV of the ordinary shares. Despite this reduction in NAV the Directors believe that it is in the best interests of the ordinary shareholders to buy back the preference shares. This is because the requirement to service the 13% preference dividend

# Directors' Report continued

has required the Company to set aside a separate portfolio of high yielding securities and the size of this separate portfolio could be reduced if the number of preference shares in issue was reduced. The Directors would only exercise their authority to repurchase the preference shares provided that their Gross Redemption Yield at the buy-in price was higher than the cost of alternative funding.

## **Separate general meetings of ordinary shareholders and preference shareholders**

As the exercise by the Directors of the Company of the authorities proposed to be granted to them pursuant to Resolutions 6 and 7 will constitute a variation of the rights attaching to the preference shares and the ordinary shares, separate class meetings of each class of shareholder have been convened for 24th September 2002 (or if the meetings are adjourned on the basis that there is not a quorum of holders of the ordinary or preference shares present in person or by proxy, the adjourned meetings will be held at 10 Aldermanbury, London EC2V 7RF on 25th September 2002 at 2.20 pm and 2.25 pm respectively). A resolution will be proposed at each separate class meeting to sanction the authorities to make market purchases of the ordinary shares and the preference shares proposed to be granted to the Directors of the Company by the passing of Resolutions 6 and 7. Notices convening these separate meetings are set out on pages 26 and 27.

## **Proposed authority to change the name of the Company**

The Directors recommend that the Company's name be changed to 'JPMorgan Fleming Technology Trust plc'. Details of this recommendation are given in the Chairman's Statement on page 2, and the full text of the resolution is set out as Resolution 8 in the Notice of Meeting on page 25.

## **Directors' recommendation**

The Directors consider that it is in the best interests of the Company and its shareholders as a whole to approve the proposed authorities for market purchases of the Company's ordinary shares and preference shares and the change of the Company's name to JPMorgan Fleming Technology Trust plc. The Directors therefore recommend shareholders vote in favour of these resolutions at the Annual General Meeting and at the separate general meetings of ordinary shareholders and preference shareholders.

## **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 of Section 1 of the Combined Code throughout the accounting period ended 31st May 2002, 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.

The Company's Articles of Association state that at least one third of the Directors retire by rotation at each Annual General Meeting, thus ensuring that all Directors submit themselves for re-election at least every three years.

A management agreement between the Company and JPMFAM sets out matters over which the

# Directors' Report continued

Manager has authority. All other matters are reserved for the approval of the Board.

The Board meets on at least four occasions each year and between these meetings there is regular contact with the Manager who provides the Board with appropriate and timely management information. JPMFAM also provides company secretarial advice and services. The Directors also 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 and propose suitable candidates for appointment to the Board. The Board as a whole also fulfils the function of the Remuneration Committee.

To ensure its independence from the Manager, the Audit Committee excludes from membership all Directors who are employed by, or who are former employees of, JPMFAM 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 control is set out below.

## *Directors' Remuneration*

In the year under review the Chairman's fee was £13,000 and the fee for each of the other Directors was £10,000. Fee levels have remained at this level since 1999. In aggregate, the Director's fees must not exceed £75,000 and this continues to be the

case. Any increase in the aggregate amount would require both Board and shareholder approval.

## *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 normally given by the Investment Manager, reviewing the Company's activities. During the year the Company's brokers, the Investment Manager and JPMFAM 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 23.

## *Internal Control*

The Combined Code requires the Directors at least annually to conduct a review of the effectiveness of the Company's system of internal control and to report to shareholders that they have done so. This has extended the previous requirement which focused mainly 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 Directors are responsible for the Company's system of internal control, which is designed to safeguard the Company's assets, maintain proper accounting records and ensure that information used within the business, or published, is reliable. However, such a system can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and therefore can only provide reasonable, but not absolute, assurance against fraud, material mis-statement or loss.

# Directors' Report continued

Since investment management, custody of assets and all administrative services are provided to the Company by JPMFAM and its associates, the Company's system of internal control mainly comprises monitoring the services provided by JPMFAM and its associates, including the operating controls established by them to ensure they meet the Company's business objectives.

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

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

*Management Agreement* – Appointment of a manager and custodian regulated by the Financial Services Authority (FSA), whose responsibilities are clearly defined in a written agreement.

*Management Systems* – Regular and comprehensive reviews conducted on behalf of the Board on the Manager's system of internal control. The Manager's system of Internal Control includes organisational agreements which clearly define the lines of responsibility, delegated authority, control procedures and systems. These are monitored by JPMFAM's compliance department which regularly monitors compliance with FSA rules.

*Investment Strategy* – Authorisation and monitoring of the Company's investment strategy and exposure limits are regularly reviewed and agreed by the Board.

The Board keeps under review the effectiveness of the Company's system of internal 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 JPMFAM's Compliance Department;

- the Board reviews the report on the internal controls and the operations of its custodian, JP Morgan Chase Bank, which is independently audited; and
- the Board reviews every six months a report on the internal controls and operations of JPMFAM, which is independently reported on.

By means of the procedures set out above, the Board confirms that it has reviewed the effectiveness of the Company's system of internal control for the year ended 31st May 2002.

## *Socially Responsible Investment*

The following, which has been reviewed and approved by the Board, is a summary of JPMFAM's policy statement on socially responsible investment:

*JPMFAM has adopted a positive engagement approach to SRI issues. Specific assets or types of assets are not excluded on purely social, environmental or ethical criteria (unless specifically requested by clients). Rather, analysts take such issues into account as part of the mainstream analytical process. JPMFAM then engages with company management on specific environmental and sustainability issues either at company meetings or by co-ordinated use of its proxy votes.*

## *Corporate Governance and Voting Policy*

The following, which has been reviewed and approved by the Board, is an abbreviated version of JPMFAM's statement on corporate governance and voting policy:

*JPMFAM views seriously its obligation to exercise voting authority over shares for which it has responsibility worldwide. Proxies increasingly contain controversial issues involving shareholder rights, corporate governance and social concerns, among others,*



# Directors' Report continued

*which deserve careful review and consideration. Exercising proxy votes has economic value for our clients and, therefore, we consider it to be our fiduciary duty to preserve and protect the assets of our clients, including proxy votes, for their exclusive benefit. It is the policy of JPMFAM to vote in a prudent and diligent manner after careful review of each company's proxy statement on an individual basis. Our voting decision is based exclusively on our reasonable judgement of what will best serve the financial interests of the beneficial owners of the security. In determining our vote, we do not and will not subordinate the economic interests of our clients to any other entity or interested party.*

By order of the Board

J.P. Morgan Fleming Asset Management (UK) Limited  
Secretary

HA Lowe

14th August 2002



## 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, subject to any material departures 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 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.

# Notice of Meeting

Notice is hereby given that the seventeenth Annual General Meeting of The Fleming Technology Trust plc will be held at 10 Aldermanbury, London EC2V 7RF at 2.30 pm on 25th September 2002 for the following purposes:

- 1 To receive and adopt the Directors' report, the annual accounts and the auditors' report for the year ended 31st May 2002.
- 2 To elect Mr B M Rose a Director of the Company.
- 3 To re-elect Mr R W I Lodge a Director of the Company.
- 4 To re-elect Mr J G Tregoning a Director of the Company.
- 5 To re-appoint Ernst & Young LLP as auditors to the Company and to authorise the Directors to agree their remuneration.

## Special Business:

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

- 6 THAT  
subject to the passing of the extraordinary resolutions set out in the notices each dated 14th August 2002 convening separate general meetings of the holders of the ordinary shares of 50 pence each in the capital of the Company ("**ordinary shares**") and the holders of the 13.0% preference shares of £1 each in the capital of the Company ("**preference shares**") at the respective separate general meetings of holders of ordinary shares and preference shares or any adjournment thereof, the Company generally be and is hereby authorised for the purpose of Section 166 of the Companies Act 1985 to make market purchases (as defined in Section 163 of the said Act) of its issued ordinary shares,

## PROVIDED ALWAYS THAT

- (i) the maximum number of ordinary shares hereby authorised to be purchased is 2,776,501 (representing 14.99% of the Company's issued ordinary share capital);

- (ii) the minimum price which may be paid for such shares is 50p per share;
- (iii) the maximum price (exclusive of expenses) which may be paid for such shares shall be 5% above the average of the middle market quotations taken from the Daily Official List of the London Stock Exchange plc for the five business days before the purchase is made;
- (iv) the Company shall only purchase ordinary shares under the authority hereby conferred to the extent that, immediately following the purchase of ordinary shares by the Company, the ratio of net assets of the Company (determined on the basis of the most recent published net asset value of the Company (whether audited or unaudited)) to the amount which would be payable to the holders of preference shares on a return of assets on the winding-up of the Company would not be less than 5:1;
- (v) the authority hereby conferred shall (unless previously renewed or revoked) expire on the earlier of the conclusion of the Annual General Meeting of the Company to be held in 2003 and the date which is eighteen months after the date on which this resolution is passed;
- (vi) the Company may make a contract to purchase its own shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of its own shares in pursuance of any such contract.

- 7 THAT  
subject to the passing of the extraordinary resolutions set out in the notices each dated 14th August 2002 convening separate general meetings of the holders of the ordinary shares of 50 pence each in the capital of the Company ("**ordinary shares**") and the holders of the

# Notice of Meeting continued

13.0% preference shares of £1 each in the capital of the Company ("**preference shares**") at the respective separate general meetings of holders of ordinary shares and preference shares or any adjournment thereof, the Company generally be and is hereby authorised for the purpose of Section 166 of the Companies Act 1985 to make market purchases (as defined in Section 163 of the said Act) of its issued preference shares,

## PROVIDED ALWAYS THAT

- (i) the maximum number of preference shares hereby authorised to be purchased is 2,137,613 (representing 14.99% of the Company's issued preference share capital);
- (ii) the minimum price which may be paid for such shares is £1 per share;
- (iii) the maximum price (exclusive of expenses) which may be paid for such shares shall be 5% above the average of the middle market quotations taken from the Daily Official List of the London Stock Exchange plc for the five business days before the purchase is made;
- (iv) the authority hereby conferred shall (unless previously renewed or revoked) expire on the earlier of the conclusion of the Annual General Meeting of the Company to be held in 2003 and the date which is eighteen months after the date on which this resolution is passed;
- (v) the Company may make a contract to purchase its own shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of its own shares in pursuance of any such contract.

## 8 THAT

subject to the consent of the Registrar of Companies, the name of the Company be changed to 'JPMorgan Fleming Technology Trust plc'.

By order of the Board

J.P. Morgan Fleming Asset Management (UK) Limited  
Secretary  
14th August 2002

## Notes

- 1 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members in order to have the right to attend or vote at the above meeting is 2.30 pm on 23rd September 2002 or, in the event that the Annual General Meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting. Changes to entries on the register of members after 2.30 pm on 23rd September 2002 or, in the event that the Annual General Meeting is adjourned, in the register of members less than 48 hours before the time of any adjourned meeting, will be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting.
- 2 Any member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him; and such proxy need not be a member. The lodging of a form of proxy does not prevent a member from attending and voting if they so wish.
- 3 Any instrument appointing a proxy, to be valid, must be lodged, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified or office copy thereof, at the Company's transfer office at the Registrar, being Lloyds TSB Registrars, (Reference 1085), The Causeway, Worthing, West Sussex BN99 6DA not less than 48 hours before the time fixed for the meeting.
- 4 Entry to the Annual General Meeting will be restricted to holders of ordinary shares, with guests only by prior agreement.
- 5 In the case of joint holders, the vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

# Notice of Meeting

NOTICE is hereby given that a Separate General Meeting of the holders of ordinary shares of 50p each in the capital of the Company ("ordinary shares") will be held at 10 Aldermanbury, London EC2V 7RF on 24th September 2002 at 2.00 pm for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as an Extraordinary Resolution:

## **Extraordinary Resolution**

THAT, sanction be and is given to the passing by the Company in general meeting of the resolutions numbered 6 and 7 set out in the notice convening an Annual General Meeting of the Company on 25th September 2002 at 2.30 pm and to all modifications, abrogation and variations of the special rights attaching to the ordinary shares of 50p each in the capital of the Company made or deemed to be made by the same.

**If this meeting should be adjourned on the basis that there is not a quorum of holders of the ordinary shares present in person or by proxy, the adjourned meeting will be held at 10 Aldermanbury, London EC2V 7RF on 25th September 2002 at 2.20 pm.**

By Order of the Board

J.P. Morgan Fleming Asset Management (UK) Ltd  
Secretary

14th August 2002

## **Notes**

- 1 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members in order to have the right to attend or vote at the above meeting is 2.00 pm on 22nd September 2002 or, in the event that the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting. Changes to entries on the register of members after 2.00 pm on 22nd September 2002 or, in the event that the meeting is adjourned, in the register of members less than 48 hours before the time of any adjourned meeting, will be disregarded in determining the rights of any person to attend or vote at the meeting.
- 2 Any member of the Company entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote instead of him; and such proxy need not be a member. The lodging of a form of proxy does not prevent a member from attending and voting if they so wish.
- 3 Any instrument appointing a proxy, to be valid, must be lodged, together with the power of attorney or other authority, if any, under which it is signed or notarially certified or an office copy thereof, at the Company's transfer office at the office of the Registrar being Lloyds TSB Registrars, (Reference 1085), The Causeway, Worthing, West Sussex BN99 6DA not less than 48 hours before the time fixed for the meeting.
- 4 Entry to the meeting will be restricted to holders of ordinary shares, with guests only by prior agreement.
- 5 The quorum at the separate general meeting of holders of ordinary shares is two persons present holding or representing by proxy at least one third in nominal value of the issued share capital of the ordinary shares. If within five minutes from the time appointed for the meeting a quorum is not present, then the meeting of holders of ordinary shares shall be adjourned to 2.20 pm on 25th September 2002. The quorum for such adjourned meeting of holders of ordinary shares is any holder of ordinary shares present either in person or by proxy.
- 6 In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant holding.

# Notice of Meeting

NOTICE is hereby given that a Separate General Meeting of the holders of 13.0% preference shares of £1 each in the capital of the Company ("preference shares") will be held at 10 Aldermanbury, London EC2V 7RF on 24th September 2002 at 2.05 pm (or as soon thereafter as the Separate General Meeting of holders of ordinary shares of 50p each in the capital of the Company convened for 2.00 pm on the same day and at the same place shall have concluded or been adjourned) for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as an Extraordinary Resolution:

## Extraordinary Resolution

THAT, sanction be and is given to the passing by the Company in general meeting of the resolutions numbered 6 and 7 set out in the notice convening

an Annual General Meeting of the Company on 25th September 2002 at 2.30 pm and to all modifications, abrogation and variations of the special rights attaching to the preference shares of £1 each in the capital of the Company made or deemed to be made by the same.

**If this meeting should be adjourned on the basis that there is not a quorum of holders of the preference shares present in person or by proxy, the adjourned meeting will be held at 10 Aldermanbury, London EC2V 7RF on 25th September 2002 at 2.25 pm.**

By Order of the Board

J.P. Morgan Fleming Asset Management (UK) Ltd  
Secretary

14th August 2002

## Notes

- 1 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members in order to have the right to attend or vote at the above meeting is 2.05 pm on 22nd September 2002 or, in the event that the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting. Changes to entries on the register of members after 2.05 pm on 22nd September 2002 or, in the event that the meeting is adjourned, in the register of members less than 48 hours before the time of the adjourned meeting, will be disregarded in determining the rights of any person to attend or vote at the meeting.
- 2 Any member of the Company entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote instead of him; and such proxy need not be a member. The lodging of a form of proxy does not prevent a member from attending and voting if they so wish.
- 3 Any instrument appointing a proxy, to be valid, must be lodged, together with the power of attorney or other authority, if any, under which it is signed or notarially certified or an office copy thereof, at the Company's transfer office at the office of the Registrar being Lloyds TSB Registrars, (Reference 1085), The Causeway, Worthing, West Sussex BN99 6DA not less than 48 hours before the time fixed for the meeting.
- 4 Entry to the meeting will be restricted to holders of preference shares, with guests only by prior agreement.
- 5 The quorum at the separate general meeting of holders of preference shares is two persons present holding or representing by proxy at least one third in nominal value of the issued share capital of the preference shares. If within five minutes from the time appointed for the meeting a quorum is not present, then the meeting of holders of preference shares shall be adjourned to 2.25 pm on 25th September 2002. The quorum for such adjourned meeting of holders of preference shares is any holder of preference shares present either in person or by proxy.
- 6 In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant holding.

# Auditors' Report

## **Independent Auditors' Report to the Members of The Fleming Technology Trust plc.**

We have audited the Company's accounts for the year ended 31st May 2002 which comprise the Statement of Total Return, Balance Sheet, Cash Flow Statement and the related notes 1 to 18. These accounts have been prepared on the basis of the accounting policies set out therein.

### **Respective responsibilities of Directors and Auditors**

The Directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable United Kingdom law and accounting standards are set out in the Directors' Responsibilities in Respect of the Accounts.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the accounts 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 accounts, 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 Corporate Governance Statement reflects the Company'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 other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information

comprises the Chairman's Statement, Investment Manager's Report, Features of the Portfolio, Directors' Report and Accounts, Facts, Figures, Ten Largest Technology Investments, Investment Activity and Analysis of Technology Portfolio, Financial Record and Analysis of Shareholders, Performance and Discount, List of Investments, Board of Directors, Directors' Report, Notice of Meeting, Information about the Company and Investing through JPMorgan Fleming. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

### **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 accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31st May 2002 and of its return for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

ERNST & YOUNG LLP  
Registered Auditor

*Ernst & Young LLP*  
London, 14th August 2002

# Statement of Total Return

for the year ended 31st May 2002

		Revenue	2002 Capital	Total	Revenue	2001 Capital	Total
	Notes	£'000	£'000	£'000	£'000	£'000	£'000
Realised losses							
on investments	8	—	(9,000)	(9,000)	—	(8,050)	(8,050)
Net change in unrealised appreciation	8	—	(9,011)	(9,011)	—	(21,197)	(21,197)
Net (losses)/gains on currency transactions	13	—	(37)	(37)	—	60	60
Unrealised currency change in gains/(losses) on US\$ loan	13	—	430	430	—	(1,026)	(1,026)
Realised gain on US\$ loan	13	—	134	134	—	—	—
Other capital items	13	—	(4)	(4)	—	20	20
Income from investments	1	2,517	—	2,517	2,313	—	2,313
Other income	1	55	—	55	332	—	332
<b>Gross return</b>		<b>2,572</b>	<b>(17,488)</b>	<b>(14,916)</b>	<b>2,645</b>	<b>(30,193)</b>	<b>(27,548)</b>
Management fee	2	(105)	(320)	(425)	(151)	(459)	(610)
Other administrative expenses	3	(221)	—	(221)	(204)	—	(204)
Interest payable	4	(3)	(1,427)	(1,430)	(2)	(1,274)	(1,276)
<b>Return before taxation</b>		<b>2,243</b>	<b>(19,235)</b>	<b>(16,992)</b>	<b>2,288</b>	<b>(31,926)</b>	<b>(29,638)</b>
Taxation	5	(34)	—	(34)	(383)	365	(18)
<b>Return after taxation</b>		<b>2,209</b>	<b>(19,235)</b>	<b>(17,026)</b>	<b>1,905</b>	<b>(31,561)</b>	<b>(29,656)</b>
Dividends on preference shares	6	(1,958)	—	(1,958)	(2,102)	—	(2,102)
<b>Return attributable to ordinary shareholders</b>		<b>251</b>	<b>(19,235)</b>	<b>(18,984)</b>	<b>(197)</b>	<b>(31,561)</b>	<b>(31,758)</b>
<b>Return per ordinary share</b>	<b>7</b>	<b>1.35p</b>	<b>(103.85)p</b>	<b>(102.50)p</b>	<b>(1.06)p</b>	<b>(170.40)p</b>	<b>(171.46)p</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.

*The notes on pages 32 to 43 form part of these accounts.*

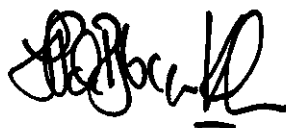
# Balance Sheet

at 31st May 2002

	Notes	2002 £'000	2001 £'000
<b>ASSETS EMPLOYED</b>			
<b>Fixed assets</b>			
Investments at valuation	8	54,636	78,803
<b>Current assets</b>			
Debtors	9	428	1,925
Cash and short-term deposits		3,071	3,721
		<b>3,499</b>	5,646
<b>Current liabilities</b>			
Amounts falling due within one year	10	(422)	(2,323)
<b>Net current assets</b>		<b>3,077</b>	3,323
<b>Total assets less current liabilities</b>		<b>57,713</b>	82,126
<b>Creditors</b>			
Amounts falling due after more than one year	11	(14,352)	(19,006)
<b>Total net assets</b>		<b>43,361</b>	63,120
<b>FINANCED BY</b>			
<b>Capital and reserves</b>			
Share capital	12	24,036	24,606
Share premium account	13	7,224	7,224
Capital redemption reserve	13	2,218	1,648
Capital reserve – realised	13	20,872	53,315
Capital reserve – unrealised	13	(13,476)	(25,909)
Revenue reserve	13	2,487	2,236
<b>Total capital and reserves</b>		<b>43,361</b>	63,120
<b>Attributable to</b>			
13.0% preference shareholders' funds	14	14,775	15,345
Ordinary shareholders' funds	14	28,586	47,775
<b>Total shareholders' funds</b>		<b>43,361</b>	63,120
<b>Net asset value per share</b>			
Ordinary shares	14	154.3p	257.9p
Preference shares		100.0p	100.0p

The accounts on pages 29 to 43 were approved by the Directors on 14th August 2002 and are signed on their behalf by:

J P de Blocq van Kuffeler  
Director



The notes on pages 32 to 43 form part of these accounts.



# Cash Flow Statement

for the year ended 31st May 2002

	Note 16	2002 £'000	2001 £'000
<b>Operating activities</b>			
Cash received from investments		2,723	2,159
Deposit interest received		55	332
Management fee paid		(392)	(569)
Directors' fees paid		(43)	(45)
Other cash payments		(271)	(160)
<b>Net cash inflow from operating activities</b>		<b>2,072</b>	<b>1,717</b>
<b>Returns on investments and servicing of finance</b>			
Interest paid		(1,944)	(734)
Preference dividends paid		(1,958)	(2,102)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(3,902)</b>	<b>(2,836)</b>
<b>Taxation</b>			
Tax recovered		193	12
<b>Total tax recovered</b>		<b>193</b>	<b>12</b>
<b>Capital expenditure and financial investment</b>			
Purchases of investments		(35,976)	(76,262)
Sales of investments		41,869	59,607
Other capital items		(4)	20
<b>Net cash inflow/(outflow) from capital expenditure and financial investment</b>		<b>5,889</b>	<b>(16,635)</b>
<b>Net cash inflow/(outflow) before financing</b>		<b>4,252</b>	<b>(17,742)</b>
<b>FINANCING</b>			
(Repayment)/drawdown of long-term loan		(4,090)	17,980
Buy back of preference shares		(775)	(2,384)
Changes in short term loan		—	(757)
<b>Net cash (outflow)/inflow from financing</b>		<b>(4,865)</b>	<b>14,839</b>
<b>Decrease in cash for the year</b>		<b>(613)</b>	<b>(2,903)</b>

The notes on pages 32 to 43 form part of these accounts.

# Notes to the Accounts

at 31st May 2002

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 have been 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 unless otherwise stated the Statement of Recommended Practice "Financial statements of investment trust companies" ("SORP").

**ii. Valuation of investments**

Listed 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 capital reserve – unrealised.

**iii. Income**

Dividends from equity shares are included in the revenue account on an ex-dividend basis.

Franked dividends are accounted for net of any tax credits.

Income from preference shares are included in the revenue account on an ex-dividend basis. This is not in compliance with the SORP.

Where the Company has elected to receive its dividends in the form of additional shares rather than 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 reserves – unrealised.

Interest receivable on fixed interest stocks, deposit interest and interest payable is recognised in the revenue account on an accruals basis.

**iv. 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 the long-term US dollar loan are allocated 100% to capital reserve – realised, on the basis that there is a direct relationship between these costs and expected capital returns from the portfolio.

**v. Expenses**

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

- expenses which are incidental to the acquisition of an investment are included in the cost of the investment;
- expenses which are incidental to the disposal of an investment are deducted from the proceeds of the investment;
- the management fee has been allocated 75% to capital reserve – realised and 25% to the revenue account, in line with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company.

# Notes to the Accounts continued

## **vi. Taxation**

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.

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.

Deferred tax is recorded in accordance with FRS19 'Deferred Tax'. The adoption of this standard has had no impact on current or prior year results.

Deferred tax is provided on all timing differences that have originated but not reversed by the balance sheet date. A deferred tax asset is only recognised to the extent that it is regarded as recoverable.

## **vii. Capital reserve**

Capital reserve – realised

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- expenses, together with the related taxation effect, charged to this reserve in accordance with the above policies.

Capital reserve – unrealised

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year-end.

## **viii. Foreign currency**

Transactions denominated in foreign currencies are converted at actual exchange rates as at the date of the transaction or, where appropriate, at the rate of exchange in a related forward exchange contract. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end or, where appropriate, at the rate of exchange in a related forward exchange contract.

Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in capital reserve – realised or in the revenue account depending on whether the gain or loss is of a capital or revenue nature respectively.

Where the Company has entered into forward exchange contracts to hedge its exposure to foreign currencies, the difference between the value of the contract at the contract rate and the forward rate ruling at the balance sheet date is included as an exchange gain or loss in capital reserve – unrealised.

# Notes to the Accounts continued

	2002 £'000	2001 £'000
<b>1. Income</b>		
Income from investments:		
Franked investment income	1,378	1,171
UK interest	330	443
Overseas dividends	131	129
Overseas interest	605	570
Scrip dividends	73	—
	<b>2,517</b>	<b>2,313</b>
Other income:		
Deposit interest	55	332
	<b>55</b>	<b>332</b>
<b>Total income</b>	<b>2,572</b>	<b>2,645</b>
Total income comprises:		
Dividends from investments	1,582	1,300
Interest from investments	935	1,013
Other income	55	332
<b>Total income</b>	<b>2,572</b>	<b>2,645</b>
Analysis of income from investments:		
Listed in the UK	1,781	2,184
Listed overseas	736	129
	<b>2,517</b>	<b>2,313</b>

	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000	2001 Revenue £'000	2001 Capital £'000	2001 Total £'000
<b>2. Management fee</b>						
Management fee	89	268	357	129	385	514
Irrecoverable VAT thereon	16	52	68	22	74	96
	<b>105</b>	<b>320</b>	<b>425</b>	<b>151</b>	<b>459</b>	<b>610</b>

# Notes to the Accounts continued

	2002	2002	2002	2001	2001	2001
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>3. Other administrative expenses</b>						
Other management expenses	144	—	144	130	—	130
Directors' fees <sup>1</sup>	43	—	43	45	—	45
Auditors' remuneration <sup>2</sup>	10	—	10	9	—	9
Irrecoverable VAT	24	—	24	20	—	20
	<b>221</b>	<b>—</b>	<b>221</b>	<b>204</b>	<b>—</b>	<b>204</b>

<sup>1</sup>The Chairman was paid at the rate of £13,000 per annum (2001: £13,000) and other Directors at the rate of £10,000 per annum each (2001: £10,000). The total Directors' fees of £43,091 (2001: £44,974) comprise £23,091 (2001: £26,974) in respect of aggregate emoluments paid to Directors and £20,000 (2001: £18,000) paid to a third party for making available the services of two of the Directors (2001: two Directors).

<sup>2</sup>In addition £nil (2001: £1,000) was paid to the Auditors in respect of non-audit services. This amount forms part of other management expenses.

	2002	2002	2002	2001	2001	2001
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>4. Interest payable</b>						
Interest on bank loans and overdraft	3	—	3	2	—	2
On US\$ fixed loan	—	1,427	1,427	—	1,274	1,274
	<b>3</b>	<b>1,427</b>	<b>1,430</b>	<b>2</b>	<b>1,274</b>	<b>1,276</b>

<b>5. Taxation</b>						
Overseas taxation	34	—	34	21	—	21
Tax credit relating to overseas taxation	—	—	—	(3)	—	(3)
Tax relief on expenses charged to capital reserve <sup>1</sup>	—	—	—	365	(365)	—
	<b>34</b>	<b>—</b>	<b>34</b>	<b>383</b>	<b>(365)</b>	<b>18</b>

<sup>1</sup>The Company currently pays no corporation tax, therefore its effective rate is nil. On this basis the Directors consider there is no justification in apportioning tax relief between the revenue and capital account. In prior years tax was apportioned using a notional marginal rate.

# Notes to the Accounts continued

## 5. Taxation (continued)

The actual tax charge reconciles to the tax charge on Revenue before taxation based on the standard rate of corporation tax of 30% as follows:

	31st May 2002 %	31st May 2001 %
Standard rate of UK corporation tax	30.00	30.00
Non-taxable UK dividends	(18.44)	(15.32)
Non-taxable scrip dividends	(0.98)	0.00
Dividend accruals	(0.06)	0.11
Withholding tax written off	1.51	0.93
Interest payable in capital deducted	(13.20)	(13.01)
Expenses in revenue not deducted	2.91	3.03
Expense relief for overseas tax	(0.24)	(0.23)
Tax relief on expenses taken to capital	0.00	15.92
Prior year adjustment	0.00	(4.58)
Effective rate based on tax charge against revenue before tax	1.50	16.85

The Company has an unrecognised tax asset of £3,208,134 (2001: £2,234,665). This has arisen from deductible expenses exceeding taxable income. As this situation exists year-on-year, there are no foreseeable circumstances in which this asset will be utilised.

	2002 £'000	2001 £'000
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## 6. Dividends

Holders of preference shares are entitled, in priority to any payment of dividend on any other class of shares, to a fixed cumulative preferential dividend of 13.0p (net) for the remaining life of the Company. Preference shareholders are only entitled to vote upon any resolution at a general meeting which would amend their rights, wind-up the Company or reduce its share capital.

### Dividends on preference shares

November – paid	6.50p (2001: 6.50p)	998	1,104
May – paid	6.50p (2001: 6.50p)	960	998
	13.00p (2001: 13.00p)	1,958	2,102

# Notes to the Accounts continued

## 7. Return per ordinary share

The return per ordinary share is based on 18,522,356 ordinary shares, being the weighted average number of ordinary shares in issue during the year (2001: same), and on the figures shown below.

	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000	2001 Revenue £'000	2001 Capital £'000	2001 Total £'000
Return after taxation	2,209	(19,235)	(17,026)	1,905	(31,561)	(29,656)
Dividends on preference shares	(1,958)	—	(1,958)	(2,102)	—	(2,102)
	251	(19,235)	(18,984)	(197)	(31,561)	(31,758)
Return per ordinary share	1.35p	(103.85)p	(102.50)p	(1.06)p	(170.40)p	(171.46)p
			2002 £'000			2001 £'000

## 8. Investments

Investments listed on a recognised investment exchange	54,636	78,803
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	Listed in UK £'000	2002 Listed overseas £'000	Total £'000
Opening book cost	23,410	80,276	103,686
Opening unrealised appreciation/(depreciation)	1,903	(26,786)	(24,883)
Opening valuation	25,313	53,490	78,803
Movements in the year:			
Purchases at cost	3,183	31,538	34,721
Sales – proceeds	(7,182)	(33,695)	(40,877)
– realised losses on sales	(794)	(8,206)	(9,000)
Increase in unrealised appreciation/(depreciation)	2,102	(11,113)	(9,011)
	22,622	32,014	54,636
Closing book cost	18,617	49,127	67,744
Closing unrealised appreciation/(depreciation)	4,005	(17,113)	(13,108)
	22,622	32,014	54,636

During the year, £20,786,000 of the prior year unrealised depreciation was transferred to realised as disclosed in note 13.

# Notes to the Accounts continued

	2002 £'000	2001 £'000
<b>9. Debtors</b>		
Securities sold for future settlement	264	1,256
Income tax recoverable	—	187
Dividends and interest receivable	160	476
Foreign tax recoverable	4	6
	<b>428</b>	<b>1,925</b>

	2002 £'000	2001 £'000
<b>10. Creditors</b>		
Amounts falling due within one year:		
Securities purchased for future settlement	353	1,681
Other creditors	41	100
Interest on US\$ fixed loan	28	542
	<b>422</b>	<b>2,323</b>

	2002 £'000	2001 £'000
<b>11. Creditors</b>		
Amounts falling due after more than one year:		
US\$ loan at Allied Irish Bank plc of \$21,000,000 (2001: \$27,000,000) expiring 11th July 2005 at a fixed rate of 7.61% per annum	14,352	19,006
	<b>14,352</b>	<b>19,006</b>



# Notes to the Accounts continued

	2002 £'000	2001 £'000
<b>12. Share capital</b>		
Authorised:		
18,000,000 13.0% preference shares of £1 each	18,000	18,000
24,000,000 ordinary shares of 50p each	12,000	12,000
	<b>30,000</b>	<b>30,000</b>
Issued and fully paid:		
13.0% preference shares in issue at		
Opening balance of 15,345,519 shares (2001: 16,993,099)	15,345	16,993
Repurchase of 570,254 shares (2001: 1,647,580)	(570)	(1,648)
Closing balance of 14,775,265 shares (2001: 15,345,519 shares)	<b>14,775</b>	<b>15,345</b>
Ordinary shares of 50p each:		
In issue at beginning and end of year (18,522,356 shares)	<b>9,261</b>	<b>9,261</b>
Total issued and fully-paid at end of year	<b>24,036</b>	<b>24,606</b>

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
<b>13. Reserves</b>					
Beginning of year	7,224	1,648	53,315	(25,909)	2,236
Change in unrealised loss on US\$ loan	—	—	—	430	—
Realised gain on part repayment of US\$ loan	—	—	134	—	—
Unrealised gain now realised	—	—	(228)	228	—
Net loss on currency transactions	—	—	(37)	—	—
Realised losses on investments	—	—	(9,000)	—	—
Unrealised losses now realised	—	—	(20,786)	20,786	—
Increase in unrealised appreciation	—	—	—	(9,011)	—
Repurchase of preference shares	—	570	(775)	—	—
Finance costs charged to capital	—	—	(1,427)	—	—
Expenses charged to capital	—	—	(320)	—	—
Other capital items	—	—	(4)	—	—
Revenue surplus	—	—	—	—	251
	<b>7,224</b>	<b>2,218</b>	<b>20,872</b>	<b>(13,476)</b>	<b>2,487</b>

# Notes to the Accounts continued

## 14. Net asset value per share

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

	Net asset value per share attributable		Net asset values attributable	
	2002	2001	2002	2001
	p	p	£'000	£'000
Ordinary shares	154.3	257.9	28,586	47,775
Preference shares	100.0	100.0	14,775	15,345

The movements during the year of the assets attributable to each class of share were as follows:

	Ordinary shares £'000	Preference shares £'000	Total £'000
Total net assets attributable at beginning of year	47,775	15,345	63,120
Total recognised (losses)/gains for the year	(18,984)	1,958	(17,026)
Dividends appropriated in the year	—	(1,958)	(1,958)
Repurchase of preference shares	(205)	(570)	(775)
Total net assets attributable at end of year	28,586	14,775	43,361

## 15. Reconciliation of movements in shareholders' funds

	2002 £'000	2001 £'000
Opening shareholders' funds	63,120	97,262
Total recognised losses for the year	(17,026)	(29,656)
Dividends on preference shares	(1,958)	(2,102)
Repurchase of preference shares	(775)	(2,384)
Closing shareholders' funds	43,361	63,120

# Notes to the Accounts continued

	2002 £'000	2001 £'000
<b>16. Cash flow statement</b>		
Reconciliation of revenue to net cash inflow from operating activities:		
Income before interest payable and taxation	2,246	2,290
Scrip dividends received as income	(73)	—
Decrease in accrued income	316	56
(Decrease)/increase in other creditors	(59)	40
Tax on unfranked income	(38)	(210)
Expenses charged to capital	(320)	(459)
	<b>2,072</b>	<b>1,717</b>
Reconciliation of net cash flow to movement in net debt:		
Decrease in cash for the year	(613)	(2,903)
Change in debt	4,090	(17,223)
Change in debt resulting from cash flows	3,477	(20,126)
Effect of changes in foreign exchange rates	527	(966)
Movement in net funds/(debt) for the year	4,004	(21,092)
Net (debt)/funds at beginning of the year	(15,285)	5,807
Closing net debt	(11,281)	(15,285)

## Analysis of net debt

	As at 1st June 2001 £'000	Cash flow £'000	Exchange movement £'000	As at 31st May 2002 £'000
Cash at bank and in hand	3,721	(613)	(37)	3,071
Debt due within one year	—	—	—	—
Debt due after more than one year	(19,006)	4,090	564	(14,352)
	(15,285)	3,477	527	(11,281)

## 17. Transactions with JPMorgan Fleming

Details of the management contract are set out on page 18. The terms make allowance for the exclusion of management charges on investments held in funds managed by J.P. Morgan Fleming Asset Management (UK) Limited (JPMFAM). No such investments were held during the year. The management fee paid to JPMFAM for the year can be found in note 2, page 34. JPMFAM was also paid £47,620 for the marketing of 'wrapper' products (2001: £54,990).

JPMFAM carries out some of its dealing transactions through other group subsidiaries. These transactions are carried out at arm's length. A minimal amount of commission was paid during the year and the preceding year. The Company has been informed that certain of its dealing transactions may be subject to soft commission arrangements.

# Notes to the Accounts continued

## 18. Financial Instruments

The Company's financial instruments comprise:

- investments including equity and non-equity shares with international exposure. These are held in accordance with the Company's investment objective and policies.
- short-term debtors, creditors and immaterial cash amounts arising directly from its operations.
- bank loan denominated in US dollars for which the main purpose is to raise finance for the Company's 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 or other financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments is market price risk which incorporates both foreign currency and 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.

### **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 at least four times a year to consider the asset allocation of the portfolio and as part of its reviews considers the risk associated with particular countries or industry sectors. The Manager has responsibility for monitoring the existing portfolio selected in accordance with overall asset allocation parameters described above and seeks to ensure that individual stocks also meet the risk/reward profile that is acceptable.

### **Foreign currency risk**

The income and capital value of the Company's investments can be significantly affected by exchange rate movements as the majority of the Company's assets and income are denominated in currencies other than sterling which is the Company's reporting currency.

The Board has identified three principal areas where foreign currency risk could impact the Company:

- Movements in rates affecting the value of investments;
- Movements in rates affecting short-term timing differences; and
- Movements in rates affecting the income received.

The Company does not currently hedge the sterling value of investments that are priced in other currencies.

The Company may be subject to short-term exposure to exchange rate movements, for instance where there is a difference between the date an investment is bought or sold and the date when settlement of the transaction occurs.

### **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.

# Notes to the Accounts continued

## Currency exposures

The following is an analysis of the Company's net assets by currency at 31st May 2002.

	2002 US\$ £m	2001 US\$ £m	2002 Yen £m	2001 Yen £m	2002 Euro £m	2001 Euro £m	2002 Other £m	2001 Other £m	2002 Total £m	2001 Total £m
Investments	18.7	28.3	2.4	4.9	8.1	9.3	6.2	11.2	35.4	53.7
Net current assets	3.0	2.5	—	0.2	—	—	—	—	3.0	2.7
Long-term loans	(14.4)	(19.0)	—	—	—	—	—	—	(14.4)	(19.0)
Financial instruments outstanding at year end	7.1	11.8	2.4	5.1	8.1	9.3	6.2	11.2	24.0	37.4

## Interest rate risk profile of financial assets

The majority of the Company's financial assets are equity shares or other investments which neither pay interest nor have a maturity date. However, the portfolio does contain certain investments which exhibit one or both of these characteristics. The interest rate profile of such investments at 31st May is:

	Sterling 2002 £m	Sterling 2001 £m
Fixed rate investments	23.2	33.7

The interest rate, on a weighted average basis, is 8.39% (2001: 8.03%). The average period for which the interest rate is fixed is 8 years.

## Non-equity shares

The Company has issued 14,775,265 £1 preference shares with an effective rate of interest of 13% per annum. The shares are denominated in Sterling and will be redeemed in November 2010. Please refer to note 12 on page 38.

## Fair value of financial instruments

Financial assets and liabilities are included in the balance sheet at values which represent fair values except in respect of the item disclosed below. Market values have been used to determine the fair value of the cumulative preference shares. The fair value of the loan has been calculated by estimating the breakage cost.

	Accounts value 2002 £m	Accounts value 2001 £m	Fair value 2002 £m	Fair value 2001 £m
Preference shares	14.8	15.3	19.1	20.8
US\$ loan at Allied Irish Bank of \$21,000,000 at 7.61%	14.4	19.0	16.0	20.9
	29.2	34.3	35.1	41.7

# Information about the Company

## FINANCIAL CALENDAR

Financial year end	31st May
Interim results announced	January
Final results announced	July
Annual General Meeting	September
Dividend on ordinary shares	none expected
Dividends on preference shares	31st May, 30th November

## History

Your Company was incorporated on 3rd April 1984 as Save & Prosper Return of Assets Investment Trust Plc. It had a split capital structure and was due to be wound up between 2008/10. The £29.2m which was raised was invested in fixed proportions in three specialised unit trusts managed by Save & Prosper.

In June 1993 the Company was reorganised, changing its name to The Fleming Geared Income & Assets Investment Trust plc and adopting an investment objective of growth of income and capital from investment in the UK through a split capital structure.

In November 1997 the Company was further reorganised. The split capital structure was removed, the winding-up date was fixed at 30th November 2010 and the name of the Company was changed to The Fleming Geared Growth Investment Trust plc.

In March 2000 the Company was again reorganised and the Company's investment objective was changed to capital growth from global investment in the applied science and technology sectors. The name of the Company was changed to The Fleming Applied Science and Technology Trust plc.

In September 2000 the name of the Company was changed to the current form.

## Company Number

Company registration number: 1805708  
London Stock Exchange Sedol Number 0776709

## Market Information

The Company's shares are on the official list of the UK Listing Authority, and are admitted to trading on the London Stock Exchange. The market price of the

ordinary shares is shown daily in the Financial Times, The Times, The Daily Telegraph, The Independent, the Herald and on the JPMorgan Fleming website at [www.jpmorganfleming.co.uk/its](http://www.jpmorganfleming.co.uk/its). The market price of the preference shares is shown daily in the Financial Times, The Times and The Daily Telegraph. The market price of the Units can be obtained by phoning the JPMorgan Fleming Helpline on 0500 500 324 or 01708 776 851.

## Share Transactions

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

## Manager, Secretary and Company's Registered Office

**J.P. Morgan Fleming Asset Management (UK) Limited**, Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ

Telephone number: 020 7742 6000

*Please contact Hilary Lowe for company secretarial and administrative matters.*

## Registrars

**Lloyds TSB Registrars**, (Reference 1085).

The Causeway, Worthing, West Sussex, BN99 6DA  
Telephone number: 0870 600 3984

*Notifications of changes of address and enquiries regarding share certificates or dividend cheques should be made in writing to the Registrar quoting reference 1085.*

## Auditors

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

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

# Investing through JPMorgan Fleming

**JPMorgan Fleming have 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 low-cost savings plan allowing investments in any of the JPMorgan Fleming investment trusts, as shown below. The minimum investment is £50 per month or a lump sum of £500. 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')**

All of the JPMorgan Fleming investment trusts are available through either a mini or 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')**

Although no new subscriptions can be made to a PEP, existing plans from other managers can be transferred into the Investment Trust PEP. The annual management charge is a flat fee of £25 plus VAT per trust.

## **Pension Account**

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

You can visit our website at  
**[www.jpmorganfleming.com/its](http://www.jpmorganfleming.com/its)**

## The investment trust range from JPMorgan Fleming

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

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 J.P. Morgan Fleming Marketing Limited, which is regulated by the Financial Services Authority, and which sells investments, life assurance and pension products offered by the JPMorgan Fleming Asset Management marketing group. Registered in England No. 288553. Registered office 10 Aldermanbury, London EC2V 7RF.



### **JPMorgan Fleming Brochureline**

**Freephone 0800 40 30 30**

**8.00 am to 6.00 pm Monday to Friday and 9.00 am to 2.00 pm Saturday**

Please use this service to order Individual Savings Account (ISA), Pension Account, PEP Transfer or Share Plan literature and/or annual reports.

### **JPMorgan Fleming Helpline**

**Freephone 0500 500 324 or 01708 776 851**

**8.00 am to 6.00 pm Monday to Friday**

Please use this service if you have any general queries about the range of JPMorgan Fleming investment trusts and products, including investment performance.

### **JPMorgan Fleming Pension Helpline**

**Freephone 0800 413 176 or 01722 414 888**

**9.00 am to 5.00 pm Monday to Friday**

Please use this service if you have queries relating to the Pension Account or require a personal illustration.

You can visit our web site at **[www.jpmorganfleming.com/its](http://www.jpmorganfleming.com/its)**