

2895991



# F&C Income Growth Investment Trust PLC

Report and Accounts 2003

The objective of the very first investment trust, founded in 1868, was "to give the investor of moderate means the same advantages as the large capitalist, in diminishing the risk of investing in Foreign and Colonial Government Stocks, by spreading the investment over a number of different Stocks". This same goal continues to underpin the investment trust movement today.

Our objective at F&C Income Growth Investment Trust ("FIGIT") is to secure a high rate of total return for our shareholders. We aim to achieve this return by providing investors with a yield higher than the FTSE 350 Index and by growing the dividend ahead of the rate of inflation every year. We do so by investing solely in large- and medium-sized UK companies.

The low-cost savings plans available through F&C Management allow us to offer investment opportunities to as many people as possible.

Our success partly derives from F&C Income Growth's status as an investment trust. This gives us a number of advantages over other forms of savings – for example:

- The ability to take a long-term view and to ride out difficult conditions.
- The ability to buy back our shares to enhance net asset value.
- The ability to issue new shares to spread fixed costs across a wider asset base.
- The freedom to borrow money to invest to improve returns to shareholders.
- Unlike unit trusts we are not subject to redemptions and subscriptions which complicate the management of the portfolio.
- Charges are typically lower than for comparable unit trusts.

We aim to use these advantages to make more money for our shareholders. In addition, we also have other strengths:

- **Innovation.** We use advanced technology to enhance our returns, offer better service to our shareholders and make F&C Income Growth as open and accessible as possible.
- **Number of shareholders.** The vast majority of the Company's shares is owned by individuals.
- **Size.** With assets of £45 million, F&C Income Growth is well placed to take rapid advantage of investment opportunities.
- **Spread.** We own shares in more than 80 companies in the UK.

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F&C Income Growth Investment Trust PLC is managed by F&C Management Limited ("F&C"), which is a wholly owned subsidiary of Eureka, a major European insurance company. F&C is appointed by the Board under a detailed agreement setting out its responsibilities for investment management, administration and marketing.

The savings plans linked to F&C Income Growth Investment Trust PLC are operated by F&C, which is authorised and regulated by the Financial Services Authority.

F&C is a leading manager of investment trusts and also manages pension funds, insurance funds and open-ended funds for a wide range of investors in the UK and Europe. Total assets under management were over £60 billion at the end of 2002.

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## SUMMARY OF RESULTS

Attributable to equity shareholders	31 Mar 2003	31 Mar 2002	% change
Net assets	<b>£44.78m</b>	£60.79m	-26.3
Net assets per share	<b>109.77p</b>	151.94p	-27.8
Net assets per share (diluted)†	<b>109.01p</b>	147.41p	-26.0
Net revenue before tax	<b>£1.67m</b>	£1.62m	3.1
Earnings per share	<b>4.14p</b>	4.06p	2.0
Dividends per share	<b>4.18p</b>	4.05p	3.2
Ordinary share price	<b>114.50p</b>	141.50p	-19.1
Warrant price	<b>12.00p</b>	43.00p	-72.1
FTSE 350 Index	<b>1,777.12</b>	2,614.67	-32.0

† Calculated per Association of Investment Trust Companies' method  
Company Registration Number:2895991

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## FINANCIAL CALENDAR

AGM	27 June 2003
Final dividend payable	30 June 2003
First interim dividend payable	September 2003
Half Year Results for 2003/2004 announced	November 2003
Second interim dividend payable	December 2003
Third interim dividend payable	March 2004
Final Results for 2003/2004 announced	May 2004

# Chairman's Statement

Although market conditions were very difficult for the third successive year, the performance of your Company was, once again, resilient. Diluted net asset value (NAV) per share (as calculated by the method used by the Association of Investment Trust Companies) fell 26.0% over the year to 31 March 2003 to 109.01 pence and the share price decreased by 19.1% to 114.50 pence. While it is clearly disappointing to report such large falls they do however compare with a fall of 32% in the FTSE 350 Index over the same period.

Your Company has again achieved its income objective with a dividend increase greater than the rate of inflation. Your Directors are recommending a final dividend of 1.63 pence (net) per share to give a total for the year of 4.18p, an increase of 3.2% over the prior year.

## **Capital Performance**

Despite two successive years of falling markets, there was a further very substantial fall last year. At its low point on 12 March 2003, the FTSE 350 Index stood 51% lower than at its peak at the end of 1999. The most recent falls during the second half of our year have been largely caused by the uncertainty surrounding the build-up to war in Iraq, but throughout the whole period the general economic background has been weakening and companies have found it increasingly hard to generate profit growth. Furthermore, UK insurance companies, which have traditionally been large investors in equities, have been forced to reduce their equity holdings in order to meet regulatory solvency requirements.

The portfolio has been protected from the worst effects of the decline in equity markets by a cautious approach to share selection and as a result your Company has enjoyed another year of outperformance against our benchmark. The Board warmly congratulates our Managers on this and in particular is grateful to Julian Cane for his sound judgement.

As well as good results relative to the index, performance has again been very good when compared to our peer group. In recognition of this, S&P awarded the Company first place over one year in the UK Growth & Income sector out of 30 funds.

Details of the portfolio performance together with a review of the stockmarket are shown in the Manager's Review and Investment Portfolio by Sector.

## **Dividend and Yield**

Your Company's proposed payment of a final dividend of 1.63 pence per share gives a rate of growth in the total dividend of 3.2%; this is greater than the rate of underlying inflation, which was 3.0% for the year to March. £27,000, a very small proportion of the dividend, has been drawn from revenue reserves, which however still stand at £368,000.

As economic and business conditions have deteriorated, dividend payments have become very onerous for many companies. This has led to a large number of dividend reductions or omissions, with eleven instances in the FTSE 100 alone. These included Abbey National, AstraZeneca, Aviva, Cable & Wireless, GKN, ICI and Whitbread. As a result of these and others, the

implied dividend on the FTSE 350 Index suffered a reduction of 1.2%, following a fall of 0.2% the previous year. While the portfolio has suffered from holding some companies that have cut their dividends, this has been countered by increases elsewhere, and overall income received is unchanged. Expenses for the year were lower because of a smaller management fee following the decline in assets and reduced promotional activity.

### **Gearing**

The Board has regularly given consideration as to whether to use borrowings to enhance performance. While up to £2m of borrowing was employed at the start of 2000 when there were many opportunities available, for most of the rest of the Company's life, it has been ungeared. While this was the correct decision, nevertheless going forward the Board will continue to keep this topic under review.

### **Share Buy-Backs/Issue of Shares**

The Company has not purchased any of its own shares over the last year as the share price has traded at an average discount to underlying net asset value of only 2.3%. Indeed, occasionally the shares have traded at a premium to net asset value as a result of strong demand. In order to help meet such demand, 400,000 new shares were issued at a small premium to the then existing net asset value. The premium on these shares was sufficient to cover the cost of reinvesting the money received and to ensure that existing shareholders did not suffer any dilution.

The intention when issuing new shares is to ensure that investors do not pay too large a premium when buying shares in the Company. The issue of shares also grows the asset base of the Company, and to the extent that some costs are fixed, the Company becomes more cost effective as a result.

The long-term record of this Board's approach to managing the number of shares in issue is worth examining. The Company was one of the first investment trusts to buy-back its own shares after the law was changed, and since the first buy-back in August 1999, more than four million shares have been purchased at an average discount to net asset value of more than 17%. This has added about 1.6% to net asset value. When the

discount was wide the Board was actively buying-back shares, and now that the discount has narrowed, the buy-back programme has been held in abeyance.

### **Long-Term Record**

When the Company was launched in 1994, it was decided there should be a vote on the Company's future after nine years. As we have now reached that point it is an appropriate time to review the long-term investment record, in addition to the short-term performance above.

In any individual year, there has often been considerable divergence between this Company's investment performance and that of the stockmarket. Rather than aiming to follow stock and sector weightings in the index closely, the Manager sometimes takes substantial positions in the portfolio away from the index. Inevitably, there have been periods when performance of the Company and the index vary, but it is an approach that

# Chairman's Statement (continued)

has brought long-term benefits. In general, performance has not been as strong when the market was rising fastest, largely because of the investment manager's caution on the more speculative companies and the extreme valuations that some companies traded at, but it has been considerably more robust when the market has been weak. The net effect is that the Company has performed better than its benchmark. From the Company's first day of trading on 29 March 1994 to 31 March 2003, the share price and diluted net asset value have increased by 19.3% and 13.5% respectively, while the FTSE 350 Index has increased by 11.9%. It has also considerably outstripped performance of the average of the peer group in both asset and share price terms.

In addition to exceeding its long-term capital objective, your Company has also beaten its income target through its record of having increased the dividend faster than the rate of inflation every year. Since its first full year, your Company's dividend has grown by 28.6% whilst inflation has risen by only 21.9%. Throughout this period, your Company's shares have consistently had a yield above that of the index.

## **Continuation Vote**

At this year's Annual General Meeting as mentioned above, shareholders will vote as to whether the Company will continue as an investment trust in its present form. The Board encourages all shareholders to understand and vote on this resolution. If passed, this will allow the Company to continue as an investment trust. The Board believes it is in investors' best interests that the Company should continue, and it is therefore advising shareholders to vote in favour of Resolution 8. The Directors will be voting in favour of Resolution 8 in respect of their beneficially held shares. If this resolution is passed, further continuation votes will be proposed at each subsequent fifth Annual General Meeting.

## **Annual General Meeting**

This year's Annual General Meeting will be held on Friday, 27 June at 12.15 pm. There will be a presentation by the Manager on investment policy and future prospects and I hope to welcome as many of you to the meeting as possible.

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## **Prospects**

It now appears that the war in Iraq has been concluded. By removing some of the short-term uncertainty, this may be positive for markets, although other economic uncertainties, particularly the decision about the Euro, will continue to influence sentiment. The recent Budget has drawn attention to the likelihood of lower growth expectations for the economy and a moderation in the growth of the housing market and consumer expenditure. Many shares now offer dividend yields that are greater than the bank base rate or government bond yields, and therefore the attraction of equities for long-term investment has been enhanced. Against this background the Board views the future of your Company with considerable confidence.

**Robin Herbert** May 2003

# Manager's Review

Last year's economic background was not favourable for stockmarkets and continued the trend previously established. Growth in the UK and most other major economies continued to slow as a result of declining business investment. The decline in growth was despite consumer expenditure increasing at a rapid pace, driven by a buoyant housing market, remortgaging and mortgage equity withdrawal. Government expenditure has also increased rapidly, financed by an increase in debt and greater taxation, but this also has been insufficient to avert slowing growth. In order to re-stimulate economic growth, the Bank of England's Monetary Policy Committee has kept interest rates at historically low levels, with just one change over the course of the year when rates were cut from 4.0% to 3.75%.

The poor economic background and fragile confidence exacerbated by war in Iraq have resulted in many companies struggling to maintain sales and profits. As a consequence of this, the capital value of stockmarkets declined further and dividends suffered too. Well over 100 companies within the UK stockmarket have cut or omitted their dividends, worth more than £1.5 billion, over the last year. These cuts have come from companies operating in a wide range of industries, and have brought about a fall of 1.2% in the implied dividend from the FTSE 350 Index. As a demonstration of how difficult it has been to find dividend growth, we calculate that the dividend on the FTSE 350 Index was lower in March 2003 than in March 1999.

## Importance of Dividends

At the height of the bull market three years ago, many investors took the attitude that dividends were irrelevant and that capital returns were the only reason for investing in equities. This attitude was supported by statistics showing that over ten years to 1999, only one-quarter of total returns had come from dividends as the average annual capital gain had been 10%. More recently, falling markets have reduced the importance of capital returns, and over the ten years to 2002, dividends generated about half the total return. Dividends have therefore become increasingly important, and it seems likely that if we are now going to experience a low inflation and low return environment, that dividends will remain at least as important as capital returns. If, for example, an annual total return of 8% is

expected for equities, then a starting dividend yield of 4% will provide half of the anticipated return.

## Investment Portfolio

Commentaries on the portfolio and the most significant holdings are contained in the Investment Portfolio by Sector and the description of the Twenty Largest Equity Holdings following this review.

There were relatively few changes to the portfolio during the year as it was decided the balance and composition of the portfolio remained correct for the market and economic environment, and given the relative valuations of individual stocks. In total, purchases for the year were only £5.5 million, less than 13% of the portfolio's value at the year-end and a net £1.2 million was invested into equities as valuations for many companies looked more attractive. At the year-end the portfolio was practically fully invested for the first time in two years with net cash of less than £300,000.

The portfolio benefited from individual stock selection and the allocation of investments between sectors. Amongst the best performing stocks were AWG, formerly called Anglian Water Group (+25%), Gallaher, the cigarette manufacturer (+13%), and Bellway, the housebuilder (+5%). Unfortunately, the portfolio also contained Cookson, the engineer (-81%) and Cable & Wireless (-69%). Invensys and Reuters were also held for part of the year, falling 55% and 68% respectively, but both were sold before suffering further significant falls. At a broader sector level, the portfolio benefited from having a considerable weighting in the defensive Tobacco and Utilities sectors and little or no exposure to some more cyclically sensitive areas such as the Media and IT Hardware sectors.

## Investment Strategy

Our investment strategy with which we manage the portfolio remains unchanged as the portfolio is constructed following a disciplined investment process. The starting point of this process is a fundamental analysis of potential investments, looking at the prospects for each company and the industry within which it operates. As a result of this, we derive an estimate of what we think the company should be worth; we call this the company's Fair Value. We then compare the company's current share price to

# Manager's Review (continued)

the Fair Value. If the share price is well below the Fair Value, we will look to buy the shares, and look to sell the shares if they are above Fair Value. This process generally leads the portfolio to be run on a contrarian basis; we aim to invest in companies with good long-term prospects, but whose share prices are depressed by adverse short-term sentiment, either because of current difficulties, or simply because they are unfashionable. We also pay close attention to the dividend yield of our investments, which are sometimes significantly above that of the index. We are also keen to make sure that attention to dividend income is not to the detriment of capital growth and there is flexibility within the portfolio to hold a number of shares with little or no dividend income.

The underlying rationale for our investment philosophy is the belief that stockmarket valuations are much more volatile than changes in the underlying worth of a company, but over the long term share prices must reflect the intrinsic value. This approach can result in periods of underperformance if market values remain out of line with underlying worth, or, of course if we have made too many errors in our assessments of Fair Values, but over the longer term this process should generate superior results. The experience of the last five years has borne this out as growth in the portfolio during the years leading up to the peak of the speculative bubble was slower than the

benchmark, but subsequent performance has more than made up for this. Results and experience over this period reinforce the necessity for critical, rational, unbiased valuation-based investment analysis and portfolio management.

Although investment activity has been at low levels over the last four years, we are continually analysing the balance of the portfolio, looking at both existing holdings and other shares we do not currently own as potential areas for investment. The considerable share price changes that have occurred over the last three years have thrown up some interesting opportunities, which we are trying to take advantage of selectively, but as yet we have not been tempted into a more significant shift in the balance of the portfolio.

**Julian Cane** May 2003



# Twenty Largest Equity Holdings

at 31 March 2003

This Year	Last Year	Company Description	Value £'000s	% of Total Investments
1	(1)	<b>GlaxoSmithKline</b> The merger of Glaxo Wellcome and SmithKline Beecham strengthened the positions of these leading pharmaceutical companies and will bring material cost savings.	2,949	6.6
2	(2)	<b>BP</b> Following significant acquisitions in recent years, this is the world's largest integrated oil company and has scope to benefit from considerable synergies.	2,889	6.5
3	(3)	<b>HSBC Holdings</b> Broadly diversified international bank operating in many developed and emerging markets around the world with a growing business in personal wealth management.	2,077	4.6
4	(4)	<b>Shell Transport &amp; Trading</b> Leading international oil exploration, production and marketing group which has a strong balance sheet, an attractive yield and scope for efficiency increases.	1,893	4.2
5	(6)	<b>Liberty International</b> The owner of many of the leading out-of-town shopping centres in the UK.	1,724	3.9
6	(5)	<b>Barclays Bank</b> Retail and commercial bank with relatively new management that is well placed to reduce its own cost base.	1,679	3.8
7	(8)	<b>Scottish &amp; Southern Energy</b> A well-managed multi-utility group with an attractive dividend yield and strong commitment to dividend growth.	1,399	3.1
8	(19)	<b>Vodafone</b> The world's leading mobile telephone provider with a strong international network.	1,290	2.9
9	(9)	<b>The Royal Bank of Scotland</b> The bank is clearly benefiting from its takeover of the National Westminster Bank, where it is making significant improvements.	1,282	2.9
10	(10)	<b>HBOS</b> Formed from the merger of Bank of Scotland and Halifax, this retail and commercial bank has a strong regional and consumer franchise and the potential for cost reductions.	1,234	2.8
11	(12)	<b>British American Tobacco</b> A leading international manufacturer and distributor of cigarettes. It has benefited from the merger with Rothmans.	1,183	2.6
12	(7)	<b>AstraZeneca</b> International pharmaceutical company with prospects underpinned by its new product pipeline. A possible participant in the consolidation of the industry.	1,035	2.3
13	(11)	<b>Diageo</b> The group is refocusing on its drinks operations and there are further cost reductions to come as it merges its spirit division with Guinness brewing.	1,006	2.2
14	(20)	<b>United Utilities</b> Multi-utility group with relatively new management that is looking to realise value from the disposal of non-core operations and has an interesting outsourcing operation.	820	1.8
15	(-)	<b>Imperial Tobacco</b> UK based cigarette manufacturer and distributor that will increase the efficiency of its recent acquisition, Reemstma, in Germany.	802	1.8
16	(18)	<b>Associated British Ports</b> Leading port owner and operator in the UK.	796	1.8
17	(-)	<b>Bellway</b> A conservatively managed UK housebuilder.	747	1.7

# Twenty Largest Equity Holdings

(continued)

at 31 March 2003

This Year	Last Year	Company Description	Value £'000s	% of Total Investments
18	(13)	<b>Johnson Matthey</b> Chemical company with strong positions in catalysts and precious metal processing. It also has an interesting position in developing the technology behind fuel cells.	737	1.6
19	(15)	<b>Allied Domecq</b> After corporate restructuring, spirits and wine operations now generate the vast majority of profit.	724	1.6
20	(-)	<b>Tesco</b> Food retailer that continues to gain market share in the UK, and that has a rapidly expanding international operation.	713	1.6

The value of the twenty largest equity holdings represents 60.3% (31 March 2002: 55.5%) of the Company's total investments.

# Investment Portfolio by Sector

	% of Portfolio	% of FTSE 350 Index
<b>Resources</b>	<b>13.0</b>	<b>17.3</b>
The largest holdings in this sector remain BP and Shell. We added a little to both of these and sold the investment in Cairn Energy after strong performance. Enterprise Oil was taken-over.		
<b>Basic Industrials</b>	<b>4.6</b>	<b>2.9</b>
In total more than £0.5m was realised from the chemical stocks within this sector. Croda was sold following strong performance and more profits were taken in Johnson Matthey.		
<b>General Industrials</b>	<b>1.4</b>	<b>1.7</b>
The only holdings in this sector are engineering companies. Invensys, which has been a long-term disappointment, was sold completely before its latest collapse, and the holding in Tomkins was reduced by half.		
<b>Cyclical Consumer Goods</b>	<b>-</b>	<b>0.3</b>
This sector covers automobiles and household goods and textiles. There is no investment in these areas.		
<b>Non-Cyclical Consumer Goods</b>	<b>22.5</b>	<b>20.6</b>
The pharmaceutical companies, GlaxoSmithKline and AstraZeneca are the largest holdings in this sector, although the portfolio also has relatively large positions in the drinks companies, Allied Domecq, Diageo and Scottish & Newcastle and the tobacco companies, British American Tobacco, Gallaher and Imperial. Alliance Unichem is a new addition, while Northern Foods and Shire Pharmaceuticals were sold.		
<b>Cyclical Services</b>	<b>14.6</b>	<b>13.7</b>
There were several changes in this sector with purchases and sales totalling £2.7m. The major additions were William Hill, the bookmaker, Reed Elsevier, the publisher, and Luminar the nightclub operator. The major reductions were Signet, the jeweller, Aegis, the media buyer, and Exel, the logistics company. Reuters, Six Continents and Woolworths were all sold.		
<b>Non-Cyclical Services</b>	<b>6.4</b>	<b>11.9</b>
This sector contains the odd pairing of the telecommunication companies and food retailers. The dominant feature of the portfolio in recent years had been its low weighting in the telecommunication sector relative to the index, but during the course of the year, there was a large increase in Vodafone, following the sharp fall in its share price. There was also a substantial increase to the previously small holding in Tesco.		
<b>Utilities</b>	<b>7.3</b>	<b>4.1</b>
The only changes made in this sector were the sale of half the existing investment in National Grid and an addition to the holding in International Power.		
<b>Information Technology</b>	<b>0.2</b>	<b>0.5</b>
The only holding continues to be a fairly small investment in Computacenter, which has performed very well relative to others in the sector.		
<b>Financials</b>	<b>27.1</b>	<b>27.0</b>
This is the largest single sector in the portfolio, with the largest sub-sectors being banks, insurance, and property. A new holding was started in Abbey National with the average purchase price less than 40% of the previous peak, and additions were made to Barclays and The Royal Bank of Scotland. The investment in Aberdeen Asset Management, which had been very disappointing, was sold completely.		
<b>Fixed Interest</b>	<b>2.9</b>	<b>-</b>
There were no changes to the fixed interest element of the portfolio during the year.		

# List of Investments

31 March 2003			31 March 2003		
Listed Investments	Holding	Value £'000s	Listed Investments	Holding	Value £'000s
<b>EQUITIES</b>			<b>EQUITIES</b>		
<b>RESOURCES</b>			<b>RESOURCES</b>		
BG Group	108,626	261	Electrocomponents	40,000	103
BP	720,000	2,889	EMAP	50,000	360
Lonmin	25,200	170	EMI Group	60,000	54
Rio Tinto	50,000	590	Granada	200,000	114
Shell Transport & Trading	495,000	1,893	Great Universal Stores	45,000	219
<b>Total Resources</b>		<b>5,803</b>	Kingfisher	75,454	174
<b>BASIC INDUSTRIALS</b>			Luminar	25,000	74
Bellway	145,000	747	Peninsular & Oriental Steam		
Elementis	348,879	80	Navigation Deferred Stock	80,000	143
Johnson Matthey	100,000	737	Reed Elsevier	40,000	181
Novar	250,000	280	Rexam	100,000	353
RMC Group	60,000	214	Selfridges	110,000	259
<b>Total Basic Industrials</b>		<b>2,058</b>	Signet Group	255,000	191
<b>GENERAL INDUSTRIALS</b>			Trinity Mirror	48,750	185
Cookson Group	468,000	83	Whitbread	60,000	314
Enodis	160,000	53	William Hill	172,509	378
FKI	165,000	106	Wincanton	70,000	100
Spirax-Sarco Engineering	49,000	206	Wolverhampton & Dudley Breweries	60,000	348
Tomkins	100,000	180	WS Atkins	35,000	45
<b>Total General Industrials</b>		<b>628</b>	<b>Total Cyclical Services</b>		<b>6,507</b>
<b>NON-CYCLICAL CONSUMER GOODS</b>			<b>NON-CYCLICAL SERVICES</b>		
Alliance Unichem	80,000	350	British Telecommunications	220,000	345
Allied Domecq	240,000	724	Cable & Wireless	80,000	55
Amersham	60,000	247	MMO2	220,000	98
AstraZeneca	48,000	1,035	Sainsbury (J)	170,000	374
British American Tobacco	200,000	1,183	Tesco	400,000	713
Cadbury Schweppes	85,000	285	Vodafone	1,141,673	1,290
Diageo	155,000	1,006	<b>Total Non-Cyclical Services</b>		<b>2,875</b>
Gallaher Group	115,000	702	<b>UTILITIES</b>		
GlaxoSmithKline	265,000	2,949	AWG	87,500	460
Imperial Tobacco	79,800	802	International Power	362,000	305
Scottish & Newcastle	180,000	610	National Grid	74,000	287
Unilever	30,357	178	Scottish & Southern Energy	220,000	1,399
<b>Total Non-Cyclical Consumer Goods</b>		<b>10,071</b>	United Utilities	140,000	820
<b>CYCLICAL SERVICES</b>			<b>Total Utilities</b>		<b>3,271</b>
Arriva	100,000	292	<b>FINANCIALS</b>		
Associated British Ports	200,000	796	Abbey National	175,000	576
BAA	110,000	517	Alliance & Leicester	70,000	543
Bunzl	100,000	384	Aviva	70,000	246
Compass Group	61,885	167	Barclays Bank	460,000	1,679
Cordiant Communications	77,785	18	Friends Provident	147,727	113
De La Rue	102,000	188	HBOS	190,000	1,234
De Vere Group	166,666	483	HSBC Holdings	320,000	2,077
Dixons Group	78,095	67	Land Securities	72,625	532
			Legal & General	554,400	385
			Liberty International	300,000	1,724
			Lloyds TSB Group	127,000	409
			Provident Financial	100,000	554

# List of Investments (continued)

31 March 2003		
Listed Investments	Holding	Value £'000s
Prudential	90,000	278
The Royal Bank of Scotland	90,000	1,282
The Special Utilities Investment Trust		
- income shares	250,000	162
Standard Chartered	49,600	334
<b>Total Financials</b>		<b>12,128</b>
<b>INFORMATION TECHNOLOGY</b>		
Computacenter	40,000	106
<b>Total Information Technology</b>		<b>106</b>
<b>TOTAL EQUITIES</b>		<b>43,447</b>
<b>BONDS</b>		
Treasury 8.5% 2005	750,000	842
Treasury 8.5% 2007	400,000	472
<b>TOTAL BONDS</b>	<b>1,150,000</b>	<b>1,314</b>
<b>TOTAL INVESTMENTS</b>		<b>44,761</b>

The number of investments in the portfolio is 84 (2002 - 94). The value of convertible securities in the portfolio is £nil (2002 - £nil).

# Directors

**Robin Herbert CBE, Chairman**

Chairman of Leopold Joseph Holdings PLC. He is also chairman of Investors Capital Investment Trust plc, a director of Grainger Trust plc and a former director of F&C Smaller Companies PLC. He was formerly deputy chairman of Consolidated Gold Fields PLC and a director of National Westminster Bank PLC and Marks and Spencer PLC. Appointed to the Board in 1994. Age 69.

**Michael Beckett**

Chairman of Horace Clarkson Plc, Watts Blake Bearne & Co. plc, Ashanti Goldfields PLC and London Clubs International plc. He is a director of The Egypt Trust, BPB PLC and Queens Moat Houses PLC. Appointed to the Board in 1994. Age 66.

**The Viscount Churchill OBE**

He is a director of Charter Pan-European Trust PLC and is a Church Commissioner. He was also managing director of CCLA Investment Management Limited until 1999. Appointed to the Board in 1994. Age 68.

**John Emly**

Investment director of the Civil Aviation Authority Pension Scheme, following a career spanning 25 years at Flemings, the London-based international investment bank. He is a director of JPMorgan Fleming Mid-Cap Investment Trust PLC and Shaftesbury PLC and is Honorary Treasurer of The Scout Association. Appointed to the Board in 2001. Age 61.

**Peter Wilmot-Sitwell**

Chairman of Merrill Lynch World Mining Trust PLC and a non-executive director of Close Brothers PLC. He was chairman of SG Warburg Securities Ltd and a vice-chairman of SG Warburg Group PLC until 1994. Appointed to the Board in 1994. Age 68.

All Directors are independent.

All Directors are members of the Audit Committee.

# Management and Advisers

**Julian Cane** Manager

He joined the Group in 1993 after training with The Mitsubishi Bank and has been the Manager since March 1997. *Age 33.*

**Robert Dowdall**

Director of Finance for F&C Management Limited. He joined the Group in 1990. *Age 56.*

**Nick Pitt-Lewis**

Director of Compliance and Legal for F&C Management Limited. He joined the Group in 1992. *Age 49.*

**Sally Cox**

Carries out the company secretarial duties on behalf of F&C Management Limited. She joined the Group in 2000. *Age 33.*

**Investment Manager, Secretary and Registered Office**

F&C Management Limited  
Exchange House, Primrose Street  
London EC2A 2NY

Telephone: 020 7628 8000

Facsimile: 020 7628 8188

Website: [www.fandc.com](http://www.fandc.com)

email: [info@fandc.com](mailto:info@fandc.com)

Authorised and regulated by the  
Financial Services Authority  
Registered in England

**Independent Auditors**

PricewaterhouseCoopers LLP  
Southwark Towers  
32 London Bridge Street  
London SE1 9SY

**Bankers**

JP Morgan Chase  
The Royal Bank of Scotland plc

**Registrars**

Computershare Investor Services PLC  
PO Box 435, Owen House  
8 Bankhead Crossway North  
Edinburgh EH11 4BR  
Telephone: 0870 702 0130  
Authorised and regulated by the  
Financial Services Authority

**Solicitors**

Norton Rose  
Kempson House  
Camomile Street  
London EC3A 7AN

**Stockbrokers**

UBS Warburg Ltd  
1 Finsbury Avenue  
London EC2M 2PP

Member of The Association of  
Investment Trust Companies

The Directors present their report and the financial statements of the  
Company for the year ended 31 March 2003.

# Report of the Directors

## Status of Company

The Company is an investment company as defined by Section 266 of the Companies Act 1985.

The Company carries on the business of an investment trust and has conducted its affairs during the year under review, and subsequently, so as to qualify as such under the provisions of Section 842 of the Income and Corporation Taxes Act 1988. The last accounting period for which the Company has been treated as approved by the Inland Revenue was for the year ended 31 March 2002. This approval is subject to there being no subsequent enquiry under Corporation Tax Self-Assessment.

The Company's shares are eligible for inclusion in Individual Savings Account ("ISA") and are also eligible as an investment for Private Equity Plan ("PEP") transfers.

Note 1 on the accounts contains full details of the accounting policies adopted.

## Review of the Business

A review of the Company's activities is given in the Chairman's Statement on pages 2 to 4 and in the Manager's Review on pages 5 to 6.

## Capital

On 31 July 2002, 101 holders of the Company's warrants exercised their right to subscribe for a total of 391,352 ordinary shares at the fixed subscription price of 100p per share.

The notice reminding warrant holders of their final subscription rights on 31 July 2003 will be sent out in June 2003.

Pursuant to the authority to allot equity securities given to the Directors at the Annual General Meeting held on 28 June 2002, the Company issued 300,000 ordinary shares for cash at 123p per share on 6 December 2002 and a further 100,000 ordinary shares on 31 March 2003 at 115p per share. Since the year end, a further 525,000 ordinary shares have been issued at 119.5p per share. The issue prices represented a premium to the fully diluted net asset value per share on the issue date.

## RESULTS AND DIVIDENDS

Attributable to equity shareholders	£'000s	£'000s
Revenue return attributable to equity shareholders		1,670
Dividends paid or payable on ordinary shares:		
First interim of 0.85p per share paid on 20 September 2002	343	
Second interim of 0.85p per share paid on 20 December 2002	343	
Third interim of 0.85p per share paid on 14 March 2003	346	
Proposed final of 1.63p per share payable on 30 June 2003	665	(1,697)
Amount transferred from revenue reserve		(27)

## Substantial Share Interests

As at 12 May 2003 the Company had received notification of the following holdings of more than 3% of its ordinary share capital:

	Ordinary shares of 25p each	%
F&C Management Limited*	23,790,488	57.6

\* Held on behalf of non-discretionary participants in the F&C Savings Plans.

## Directors

The Directors of the Company are detailed on page 12. All the Directors held office throughout the year under review. The Director retiring by rotation is Mr M E Beckett who, being eligible, offers himself for re-election.

No Director has a service contract with the Company. Details of the Directors' shareholdings in the Company and their interests in contracts and agreements are contained in note 5 on the accounts.

## Directors' Remuneration

The Company has no employees or executive Directors and consequently does not have a remuneration committee. The Directors' remuneration report, which can be found on page 20, and note 5 on the accounts provide detailed information on the remuneration arrangements for Directors of the Company. Shareholders will be asked to approve the Directors' remuneration report at the Annual General Meeting. This is now a requirement of company law, introduced by the Directors' Remuneration Report Regulations 2002, which came into force in August of last year. The Directors' remuneration is not conditional upon the resolution being passed.



## **Management**

Note 3 on the accounts provides details of the Company's management agreement with F&C Management Limited (the "Manager").

The F&C group has arrangements under which stockbrokers pay for various investment services used by the group in return for stated amounts of commission. The Manager's policy is that this commission should be within a range of 10% and 15% of total commissions paid by clients of the group in any one year.

The Manager has developed and published a policy on Corporate Governance, Voting Policy and Socially Responsible Investment ("SRI"). The Manager believes that the interests of its clients are served by investing in companies that adopt best practice in corporate governance. It seeks to encourage companies to be socially responsible and is attracted to invest in those that are. The approach to SRI is designed to contribute to maintaining and improving standards of social responsibility in the corporate sector as it believes that social responsibility in companies makes for good investment returns over the long term.

The Manager seeks to avoid investing in firms that do not meet generally accepted standards of social responsibility unless there is a reasonable prospect of improvements that would raise the companies' standards up to an adequate level. Should the Manager become aware of occurrences of social irresponsibility at a company in which it has invested, it will state its dissatisfaction to the management in order to effect desirable changes. If such pressure fails to work, then it will attempt to change or influence the management concerned or consider selling the investment in the company concerned. The Manager supports the boards of companies with its vote unless it sees clear investment reasons for doing otherwise. Decisions on contested takeover bids are always referred to the Company's Board of Directors and it is the Company's policy to exercise its voting rights at shareholders' meetings of investee companies.

The Manager's current policy, which is available on the F&C website, has been reviewed and endorsed by the Board which encourages and supports the Manager on its voting policy and its stance towards SRI, and in

developing its response to the Statement of Principles relating to the responsibilities of institutional shareholders and agents drawn up by the Institutional Shareholders Committee.

## **Policy on Payment of Suppliers**

The Company's principal supplier is the Manager which is paid in the month following the end of each calendar quarter, in accordance with the terms of the management agreement. Other suppliers are paid in accordance with individual payment terms agreed with each supplier.

At 31 March 2003, the Company's outstanding trade creditors were equivalent to 1 day's payments to suppliers.

## **Corporate Governance**

The Company is committed to high standards of corporate governance. The Board has considered the principles set out in the Combined Code on Corporate Governance issued by the London Stock Exchange (the "Code") and believes that the Company's current practice, given the special circumstances of an investment trust company, is in all material respects consistent with the principles of the Code. Save for the exceptions detailed, the Company complied throughout the year under review with the provisions set out in Section 1 of the Code.

While there are no significant changes envisaged in respect of the Board following the publication of the Higgs Report into the effectiveness of non-executive directors, the Association of Investment Trust Companies' draft guidelines on corporate governance and the FSA's proposals for investment trusts, the application to the Company of each is being given full consideration by the Board. The Board's approach towards SRI and voting is set out under the section headed 'Management' above.

The Board reviews the independence of its members and is currently comprised of five non-executive Directors, all of whom are independent of the Company's Manager. There is no Chief Executive position within the Company. The Board does not believe it is necessary to appoint a senior independent Director and has not done so. Consequently, the Company does not comply with the Code in this respect. All of the Directors of the Company are resident in the UK and their biographical details on page 12 of this annual report demonstrate the wide range of skills and experience that they bring to the Board. New

# Report of the Directors (continued)

appointees to the Board are given a preliminary briefing on the workings of the Company by the Chairman, the Manager or other appropriate persons.

It is the responsibility of the Board to ensure that there is effective stewardship of the Company's affairs. Strategic issues and all operational matters of a material nature are determined by the Board. In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information. The Board meets at least quarterly and at each meeting reviews management, investment and marketing performance as well as other high level management information including financial reports and other reports of a strategic nature. It monitors compliance with the Company's objectives and is directly responsible for approving the asset allocation, investment and gearing ranges within which the Manager is given discretion to act. A formal schedule of matters reserved for the decision of the Board has been adopted.

The Board has established a procedure whereby Directors, wishing to do so in the furtherance of their duties, may take independent professional advice at the Company's expense.

Notwithstanding the requirement of the Company's articles of association that one third of the Board is subject to retirement by rotation each year, the Board complies with the provision contained in the Code that all Directors should be required to submit themselves for re-election at least every three years.

The Board, which is small in size and is comprised entirely of independent Directors, operates without a Nominations Committee and believes that this is appropriate in these circumstances. Any future appointments of new Directors will be made on a formalised basis with the Chairman agreeing selection criteria with his colleagues.

The Board has direct access to the advice and services of the Company Secretary, F&C Management Limited, which is responsible for ensuring that Board and Committee procedures are followed and applicable regulations are complied with.

## **Accountability and Audit**

The Audit Committee of the Company operates within written terms of reference clearly setting out its authority

and duties. It is comprised of the independent Directors of the Company and meets at least once a year. The primary role of the Committee is to review the Company's accounting policies, the contents of the financial statements, the adequacy and scope of the external audit and compliance with regulatory and financial reporting requirements. The Committee has direct access to the auditors, PricewaterhouseCoopers LLP, and to the compliance and internal audit directors of the Manager and to the Manager's group audit committee, and reports its findings to the Board.

The Board has contractually delegated the management of the investment portfolio, the operation of custodial services and the provision of accounting and company secretarial services to the Manager. Details of the terms of its agreement with the Manager, as set out in note 3 on the accounts, are reviewed periodically by the Company's Audit Committee.

The Board has overall responsibility for the Company's systems of internal controls and for reviewing their effectiveness. These aim to ensure that assets of the Company are safeguarded, proper accounting records are maintained and the financial information used within the business and for publication is reliable. Control of the risks identified, covering financial, operational, compliance and risk management, is embedded by a series of quarterly investment performance, performance attribution and Manager's reports and a quarterly control report. The control report incorporates a key risk table that identifies the risks to which the Company is exposed and the controls in place to mitigate them, including those risks that are not directly the responsibility of the Manager. It also provides details of any known internal control failures.

The systems of internal controls are designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board has carried out a risk and control assessment including a review of the Manager's risk management infrastructure. A key element of this assessment was the Statement of Internal Corporate Governance for the year to 31 December 2002 (the

"Statement") prepared by the Manager for its investment trust clients to the standards of the Financial Reporting and Auditing Group Technical Release 21/94 (FRAG21) issued by the Institute of Chartered Accountants in England and Wales. Containing a report from independent external accountants, the Statement sets out the Manager's control policies and procedures with respect to the management of its clients' investments. The effectiveness of these controls is monitored by the Manager's group audit committee, which receives regular reports from the Manager's compliance and audit and risk departments. The Audit Committee has received and reviewed the Statement, together with a report from the Manager's group audit committee on the effectiveness of the internal controls maintained on behalf of the Company, and an annual compliance report from the Manager's director of compliance.

By means of the procedures set out above, and in accordance with "Internal Control: Guidance for Directors on the Combined Code" published by the Working Party of the Institute of Chartered Accountants in England and Wales, the Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and has regularly reviewed the effectiveness of the internal control systems for the period. This process has been in place throughout the year under review and to the date hereof and will continue to be regularly reviewed by the Board going forward.

#### **Going Concern**

As referred to in the Duration of the Company paragraph below, and in note 1(a) on the accounts, resolution 8 of the Notice of Meeting on page 38, proposing the continuation of the Company, will be put to shareholders at the forthcoming Annual General Meeting on 27 June 2003. The Directors are recommending that shareholders vote "FOR" this resolution. The Directors believe that the Company has adequate resources to continue in operation for the foreseeable future. Accordingly, the Directors continue to believe that it is appropriate to adopt the going concern basis in preparing the accounts.

#### **Investor Relations**

Communications with shareholders are given a high priority. In addition to the information provided in the annual

and interim accounts, updated information is available on the F&C website at [www.fandc.com](http://www.fandc.com). All shareholders are encouraged to attend the Annual General Meeting, where they are given an opportunity to question the Chairman and his colleagues on the Board. Proxy voting figures are announced to shareholders at the Meeting.

#### **Special Business at the Annual General Meeting**

Shareholders will find on pages 37 and 38 the notice of the forthcoming Annual General Meeting of the Company to be held at Exchange House, Primrose Street, London EC2 on Friday, 27 June 2003. In addition to the ordinary business of the meeting, the resolutions numbered 5 to 8 are proposed as special business.

#### **Auditors (Resolution 5)**

Following the transfer of substantially all of the business of PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned from office on 12 May 2003 and the Directors appointed its successor, PricewaterhouseCoopers LLP, as auditors to the Company.

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and special notice has been received for resolution 5 to be proposed at the Annual General Meeting to re-appoint them as auditors and authorise the Directors to determine their remuneration.

#### **Authority to Allot Shares (Resolution 6)**

Resolution 6 is similar to the authorities given to the Directors at previous Annual General Meetings. By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders. In addition, directors require specific authority from shareholders before allotting new shares (or granting rights over shares) for cash without first offering them to existing shareholders in proportion to their holdings. Resolution 6 gives the Directors for the period until the conclusion of the Annual General Meeting in 2004, the necessary authority to allot securities up to an aggregate nominal amount of £1,033,119, equivalent to approximately 10% of the issued ordinary share capital of the Company at the date of this report, and empowers the Directors to allot such securities for cash, otherwise than to existing shareholders on a pro-rata basis. This authority

# Report of the Directors (continued)

and power provide the Directors with a degree of flexibility to increase the assets of the Company by the issue of new shares, should any favourable opportunities arise to the advantage of shareholders.

The Directors can, if necessary, use this authority and power to satisfy demand from participants in the F&C Private Investor and Pension Savings Plans and from holders of F&C Individual Savings Accounts when they believe it is advantageous to plan participants and the Company's shareholders and warrant holders to do so.

Under no circumstances would the Directors use the authority and power to dilute the interests of existing shareholders by issuing shares at a price which is less than the net asset value attributable to the shares at the time of issue.

## **Authority for the Company to purchase its own shares (Resolution 7)**

At the Annual General Meeting held on 28 June 2002 the Company was authorised to purchase up to 5,961,257 of its own ordinary shares (representing approximately 14.9% of the issued share capital) in the market at a minimum price of 25p and a maximum (exclusive of expenses) of 5% above the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days before the relevant purchase was made.

Resolution 7 seeks to renew this authority in respect of 6,157,393 ordinary shares, representing 14.9% of the ordinary shares in issue at the date of this report. This authority will continue until 26 September 2004 or, if earlier, the conclusion of the Annual General Meeting in 2004.

The Directors would use this authority with the objective of enhancing shareholder value. Purchases would only be made, within guidelines established from time to time by the Board, through the market for cash at prices below the prevailing net asset value per ordinary share, which would have the effect of increasing net asset value per ordinary share for the remaining shareholders. Any ordinary shares which are purchased would be cancelled.

The Directors consider that it would be advantageous to shareholders for the Company to have the authority to make such purchases as and when it considers the timing to be favourable. However, use of this authority, if given,


will depend upon market conditions and the Board's judgement of its likely effectiveness in increasing net asset value per share and/or reducing the discount.

It is proposed that any purchase of ordinary shares would be funded from the Company's own cash resources or, if appropriate, from short-term borrowings.

## **Duration of the Company (Resolution 8)**

Under the Company's Articles of Association, the Directors are required to put a resolution to shareholders at the Annual General Meeting in 2003 to the effect that the Company should continue as an investment trust. Accordingly, Resolution 8 proposes the continuation of the Company as an investment trust company. The Directors recommend that shareholders vote "FOR" this resolution, as they intend to do so in respect of their beneficially held shares. If this resolution is passed, further continuation votes will be proposed at each subsequent fifth Annual

General Meeting.  
**For and on behalf of**  
**F&C MANAGEMENT LIMITED**

  
By order of the Board ..... Secretary  
F&C Management Limited, Secretary  
12 May 2003

# Directors' Statement of Responsibilities

As required by company law, the Directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the Company at 31 March 2003 and of the results for the year then ended. In preparing the financial statements, suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made. The financial statements are prepared in accordance with applicable accounting standards and on a going concern basis. The Directors are also responsible for ensuring that adequate accounting records are maintained and have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The financial statements are published on the [www.fandc.com](http://www.fandc.com) website, which is a website maintained by F&C Management Limited (F&C). The maintenance and integrity of the website maintained by F&C or any of its subsidiaries is, so far as it relates to the Company, the responsibility of F&C. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

# Directors' Remuneration Report

## Remuneration Committee

As the Board of Directors is comprised solely of non-executive directors, it is exempt under the Listing Rules from appointing a Remuneration Committee. The determination of the Directors' fees is a matter dealt with by the whole Board.

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £100,000 per annum. Subject to this overall limit, it is the Company's policy to determine the level of Directors' fees having regard to the level of fees payable to non-executive directors in the industry generally, the role that individual Directors fulfil in respect of Board and Committee responsibilities, and the time committed to the Company's affairs.

No element of the Directors' remuneration is performance related.

No Director has a service contract with the Company.

No Director past or present has any entitlement to pensions, and the Company has not awarded any share options or long-term performance incentives to any of the Directors.

Directors' and Officers' liability insurance cover is maintained by the Company on behalf of the Directors.

## Total Shareholder Return

## Remuneration for Qualifying Services

Director	2003 Fees for services to the Company £'000s	2002 Fees for services to the Company £'000s
R A E Herbert (Chairman)	15	15
O N Dawson†	-	2
M E Beckett	10	10
The Viscount Churchill	10	10
J R K Emly	10	10
P S Wilmot-Sitwell	10	10
<b>Totals</b>	<b>55</b>	<b>57</b>

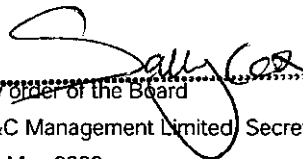
† Retired 25 June 2001

The Chairman receives a fee of £15,000 per annum and the other Directors £10,000 per annum, unchanged since 2000.

The information in the above table has been audited (see the Independent Auditors' Report on page 21).

The amounts paid by the Company to the Directors were for services as non-executive Directors.

**For and on behalf of  
F&C MANAGEMENT LIMITED**

  
By order of the Board .....Secretary  
F&C Management Limited Secretary  
12 May 2003

Source: Datastream

# Independent Auditors' Report

## **Independent auditors' report to the members of F&C Income Growth Investment Trust PLC**

We have audited the financial statements which comprise the statement of total return of the Company, the Company balance sheet, the cash flow statement and related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' remuneration report ('the auditable part').

## **Respective responsibilities of Directors and auditors**

The Directors' responsibilities for preparing the annual report, and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities. The Directors are also responsible for preparing the Directors' remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the Directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's statement, the Manager's Review, the Report of the Directors, the unaudited part of the Directors' Remuneration Report, and the corporate governance statement.

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 of the Financial Services Authority, 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 to form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

## **Basis of audit opinion**

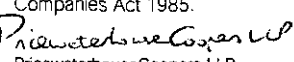
We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and

disclosures in the financial statements and the auditable part of the Directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

## **Opinion**

In our opinion: the financial statements give a true and fair view of the state of affairs of the Company at 31 March 2003 and of its total return and cash flows for the year then ended; the financial statements have been properly prepared in accordance with the Companies Act 1985; and those parts of the Directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the

Companies Act 1985.  
  
PricewaterhouseCoopers LLP  
Chartered Accountants and Registered  
Auditors  
London  
12 May 2003

# Statement of Total Return

Revenue Notes Capital Notes	(incorporating the Revenue Account)* for the year ended 31 March	2003			2002		
		Revenue £'000s	Capital £'000s	Total £'000s	Revenue £'000s	Capital £'000s	Total £'000s
10	Gains and losses on investments	-	(16,677)	(16,677)	-	1,439	1,439
2	Income	2,062	-	2,062	2,060	-	2,060
3 19	Management fee	(173)	(173)	(346)	(206)	(206)	(412)
4 19	Other expenses	(219)	(3)	(222)	(233)	(3)	(236)
	<b>Net return before finance costs and taxation</b>	<b>1,670</b>	<b>(16,853)</b>	<b>(15,183)</b>	<b>1,621</b>	<b>1,230</b>	<b>2,851</b>
6	Interest payable and similar charges	-	-	-	(1)	(1)	(2)
	<b>Return on ordinary activities before taxation</b>	<b>1,670</b>	<b>(16,853)</b>	<b>(15,183)</b>	<b>1,620</b>	<b>1,229</b>	<b>2,849</b>
7	Taxation on ordinary activities	-	-	-	-	-	-
	<b>Return attributable to equity shareholders</b>	<b>1,670</b>	<b>(16,853)</b>	<b>(15,183)</b>	<b>1,620</b>	<b>1,229</b>	<b>2,849</b>
8	Dividends on ordinary shares (equity)	(1,697)	-	(1,697)	(1,620)	-	(1,620)
19 19	<b>Amount transferred (from)/to reserves</b>	<b>(27)</b>	<b>(16,853)</b>	<b>(16,880)</b>	<b>-</b>	<b>1,229</b>	<b>1,229</b>
9 9	<b>Return per ordinary share – pence</b>	<b>4.14</b>	<b>(41.75)</b>	<b>(37.61)</b>	<b>4.06</b>	<b>3.08</b>	<b>7.14</b>
9 9	<b>Return per ordinary share (diluted) – pence</b>	<b>4.08</b>	<b>†</b>	<b>†</b>	<b>3.98</b>	<b>3.02</b>	<b>7.00</b>

\*The Revenue column of this statement is the profit and loss account of the Company.

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

† There is no dilution (see note 9)

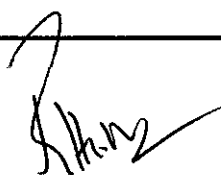


# Balance Sheet

at 31 March

Notes	2003		2002	
	£'000s	£'000s	£'000s	£'000s
<b>Fixed assets</b>				
<b>Investments</b>				
10 Listed in Great Britain		44,761		60,195
<b>Current assets</b>				
11 Debtors	567		434	
Cash at bank and short-term deposits	261		957	
	828		1,391	
<b>Current liabilities</b>				
12 Creditors: amounts falling due within one year:	(805)		(797)	
Net current assets		23		594
<b>Net assets</b>		<b>44,784</b>		<b>60,789</b>
<b>Capital and reserves</b>				
14 Called up share capital		10,200		10,002
15 Share premium	9,552		8,738	
16 Capital redemption reserve	1,020		1,020	
17 Special reserve	16,373		16,373	
18 Warrant reserve	1,202		1,339	
19 Capital reserves	6,069		22,922	
19 Revenue reserve	368		395	
		<b>34,584</b>		<b>50,787</b>
20 <b>Total shareholders' funds – equity</b>		<b>44,784</b>		<b>60,789</b>
20 <b>Net asset value per ordinary share</b>				
Basic – pence		109.77		151.94
Diluted – pence		108.61		147.80

Approved by the Board on 12 May 2003  
and signed on behalf by:



R A E Herbert

# Cash Flow Statement

for the year ended 31 March

Notes	2003		2002	
	£'000s	£'000s	£'000s	£'000s
<b>Operating activities</b>				
Investment income received	2,008		2,022	
Interest received	36		48	
Other income	4		-	
Fee paid to the management company	(317)		(381)	
Cash paid to and on behalf of Directors	(55)		(57)	
Other cash payments	(232)		(181)	
<b>22 Net cash inflow from operating activities</b>		<b>1,444</b>		<b>1,451</b>
<b>Servicing of finance</b>				
Interest paid	-		(1)	
<b>Net cash outflow from servicing of finance</b>		<b>-</b>		<b>(1)</b>
<b>Taxation</b>				
UK tax received	-		-	
Total tax received		<b>-</b>		<b>-</b>
<b>Financial investment</b>				
Purchases of equities and other investments	(5,482)		(5,515)	
Sales of equities and other investments	4,238		5,684	
Capital expenses and credits	(3)		(3)	
<b>Net cash (outflow)/inflow from financial investment</b>		<b>(1,247)</b>		<b>166</b>
<b>Equity dividends paid</b>		<b>(1,653)</b>		<b>(1,615)</b>
<b>Net cash (outflow)/inflow before use of liquid resources and financing</b>		<b>(1,456)</b>		<b>1</b>
<b>Management of liquid resources</b>				
Decrease/(increase) in short-term deposits		<b>900</b>		<b>(500)</b>
		<b>(556)</b>		<b>(499)</b>
<b>Financing</b>				
Warrants exercised	391		-	
Share capital issued	369		379	
<b>Net cash inflow from financing</b>		<b>760</b>		<b>379</b>
<b>23 Increase/(decrease) in cash</b>		<b>204</b>		<b>(120)</b>

# Notes on the Accounts

## 1 ACCOUNTING POLICIES

### (a) Going concern

As referred to in the Chairman's Statement on page 2 and the Report of the Directors on page 18, resolution 8, proposing the continuation of the Company, will be put to shareholders at the forthcoming Annual General Meeting on 27 June 2003. The Directors are recommending that shareholders vote for this resolution. The Directors believe that it is appropriate for the accounts to be prepared on a going concern basis.

### (b) Basis of accounting

The accounts have been prepared under the historical cost convention, modified to include fixed asset investments at valuation, and in accordance with accounting standards applicable in the United Kingdom and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (SORP- issued December 1995). The principal accounting policies are set out below.

### (c) Valuation of investments

As an investment trust, the Company treats all transactions on realisation and the revaluation of investments held as transactions on the capital account. These items, whether profits or losses, are not part of, and are not reflected in, the revenue account but are charged or credited to capital reserves. Listed investments are shown at middle market value.

### (d) Income

Income from quoted equity shares is brought into the revenue account (except where, in the opinion of the Directors, their nature indicates they should be recognised as capital) on the ex-dividend date or, where no ex-dividend date is quoted, when the Company's right to receive payment is established. Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis so as to reflect the effective yield on the investment.

Franked dividends are accounted for in accordance with Financial Reporting Standard 16 (FRS16) 'Current Taxation' on the basis of the income actually receivable, without adjustment for the tax credit attaching to the dividends.

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

### (e) Expenses

All expenses are charged to the revenue account, except:

- expenses which are incidental to the acquisition or disposal of investments are charged to capital reserve realised; and
- 50% of management fees, including related VAT, and interest expense are allocated to capital reserve realised, in accordance with the board's long-term expected split of returns from the investment portfolio of the Company.

All expenses are accounted for on an accruals basis.

### (f) Taxation

Deferred tax is provided in accordance with FRS19 on all timing differences that have originated but not reversed, by the balance sheet date. Deferred tax assets are only recognised to the extent that they are regarded as recoverable.

### (g) Capital reserves

#### Capital Reserve Realised

The following are accounted for in this reserve:

- gains and losses on the realisation of investments
- realised exchange differences of a capital nature
- other capital charges and credits charged or credited to this account in accordance with the above policies.

#### Capital Reserve Unrealised

The following are accounted for in this reserve:

- increases and decreases in the valuation of fixed assets held at the year-end
- unrealised exchange differences of a capital nature.

# Notes on the Accounts

## 2 INCOME

	2003 £'000s	2002 £'000s
<b>Income from investments</b>		
UK franked dividends	1,857	1,912
UK unfranked interest	98	97
Scrip dividends	69	-
	<b>2,024</b>	<b>2,009</b>
<b>Other income</b>		
Interest on cash and short-term deposits	34	51
Underwriting commission	4	-
	<b>38</b>	<b>51</b>
<b>Total income</b>	<b>2,062</b>	<b>2,060</b>
	<b>2003 £'000s</b>	<b>2002 £'000s</b>
<b>Total income comprises:</b>		
Dividends	1,926	1,912
Interest from investments	132	97
Other income	4	51
	<b>2,062</b>	<b>2,060</b>
<b>Income from investments:</b>		
Listed UK	2,024	2,009
	<b>2,024</b>	<b>2,009</b>

## 3 MANAGEMENT FEE

	2003 £'000s	2002 £'000s
Management fee	294	351
Irrecoverable VAT thereon	52	61
	<b>346</b>	<b>412</b>
Less: allocated to Capital Reserve Realised (see note 19)	(173)	(206)
	<b>173</b>	<b>206</b>

The Manager provides investment management and general administrative services to the Company for a quarterly fee payable in arrears equal to 0.15% of the funds under management. The management agreement may be terminated upon one year's notice given by either party. Management fees have been allocated 50% to capital reserve realised in accordance with the accounting policy.

## 4 OTHER EXPENSES

	2003 £'000s	2002 £'000s
AIRC promotional activity	3	11
Auditors' remuneration:		
for audit services	14	14
for non-audit services	5	5
Directors' emoluments – fees	55	57
Irrecoverable VAT	20	20
Sundry expenses	122	126
	<b>219</b>	<b>233</b>

## 5 DIRECTORS' REMUNERATION AND CONTRACTS

### (a) Remuneration

The Company had no employees during the year.

The amounts paid by the Company to the Directors of the Company were as follows:

	2003 £'000s	2002 £'000s
Robin Herbert (Chairman)*	15	15
Michael Beckett	10	10
The Viscount Churchill	10	10
Oliver Dawson**	-	2
John Emly	10	10
Peter Wilmot-Sitwell	10	10
	55	57

\* Highest paid Director

\*\* Retired 25 June 2001

### (b) Directors' interests in shares and warrants

The beneficial interests of the Directors in the ordinary shares and warrants of the Company were as follows:

	Ordinary shares	31 March 2003 Warrants	Ordinary shares	31 March 2002 Warrants
Robin Herbert (Chairman)	11,789	1,000	11,593	1,000
Michael Beckett	5,000	1,000	5,000	1,000
The Viscount Churchill	16,002	2,400	15,586	2,400
John Emly	-	-	-	-
Peter Wilmot-Sitwell	12,000	2,400	12,000	2,400

There have been no changes in any of the Directors' holdings detailed above since the Company's year end.

### (c) Directors' interests in contracts

No contract of significance to which the Company is a party and in which a Director is or was materially interested subsisted during the year.

## 6 INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £'000s	2002 £'000s
On loans and overdrafts, repayable within one year	-	2
Less: allocated to Capital Reserve Realised	-	(1)
	-	1

Interest expense has been allocated 50% to capital reserve realised in accordance with the accounting policy.

## 7 TAXATION ON ORDINARY ACTIVITIES

### (a) Analysis of tax charge/(credit) for the year

	Revenue £'000s	Capital £'000s	2003 Total £'000s	Revenue £'000s	Capital £'000s	2002 Total £'000s
Corporation tax at 30% (2002: 30%)	-	-	-	-	-	-

# Notes on the Accounts

## 7 TAXATION ON ORDINARY ACTIVITIES (CONTINUED)

(b) Factors affecting the current tax charge/(credit) for the year

	Revenue £'000s	Capital £'000s	2003 Total £'000s	Revenue £'000s	Capital £'000s	2002 Total £'000s
Return on ordinary activities before tax	1,670	(16,853)	(15,183)	1,620	1,229	2,849
Return on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	501	(5,056)	(4,555)	486	369	855
Effects of:						
Franked investment income*	(557)	-	(557)	(574)	-	(574)
Capital gains not taxed*	-	5,003	5,003	-	(431)	(431)
Scrip dividends*	(21)	-	(21)	-	-	-
Expenses disallowed	16	-	16	-	-	-
Expenses not utilised	61	53	114	88	62	150
Current tax charge/(relief) for the year (note 7(a))	-	-	-	-	-	-

\*These items are not subject to corporation tax within an investment trust company.

The deferred tax asset of £745,000 in respect of unutilised expenses at 31 March 2003 (31 March 2002: £510,000) has not been recognised as it is unlikely that these expenses will be utilised.

## 8 DIVIDENDS ON ORDINARY SHARES

	pence per share	£'000s	2003 Shares in issue	pence per share	£'000s	2002 Shares in issue
1st quarter paid	0.85	343	40,399,789	0.80	320	40,008,437
2nd quarter paid	0.85	343	40,399,789	0.85	340	40,008,437
3rd quarter paid	0.85	346	40,699,789	0.85	340	40,008,437
Proposed final payable/paid	1.63	665	40,799,789	1.55	620	40,008,437
	4.18	1,697		4.05	1,620	

## 9 RETURN PER ORDINARY SHARE

The basic and diluted revenue returns per share are based on the revenue return attributable to equity shareholders of £1,670,000 (2002: £1,620,000).

The basic and diluted capital returns are based on the capital return attributable to equity shareholders of £16,853,000 loss (2002: £1,229,000 gain).

The diluted returns per share have been calculated in accordance with FRS14, under which the Company's outstanding warrants are considered dilutive only if the exercise price is lower than the average market price of the ordinary shares during the year. The dilution is calculated by reference to the additional number of ordinary shares which warrant holders would have received on exercise as compared with the number of ordinary shares which the subscription proceeds would have purchased in the open market ("dilutive potential shares").

	2003	2002
Weighted average number of ordinary shares in issue – for basic return calculations	40,366,491	39,882,782
Dilutive potential shares	609,073	836,476
Weighted average number of ordinary shares in issue – for diluted return calculations	40,975,565	40,719,258

For the year ended 31 March 2003, the capital losses, when divided by the weighted average number of ordinary shares in issue for the diluted return calculation, result in smaller capital losses per share than the basic return calculation, hence there is no dilution of the basic capital return.

## 10 INVESTMENTS

	Listed Total £'000s
Cost at 1 April 2002	43,396
Unrealised appreciation at 1 April 2002	16,799
Valuation at 1 April 2002	60,195
Movements in the year:	
Purchases at cost	5,482
Sales – proceeds	(4,239)
– realised gains and losses on sales	(1,319)
Movement in unrealised appreciation	(15,358)
Valuation at 31 March 2003	<b>44,761</b>
Cost at 31 March 2003	43,665
Unrealised appreciation at 31 March 2003	1,096
	<b>44,761</b>

### Gains and losses on investments

	2003 £'000s	2002 £'000s
Realised losses based on historical cost	(974)	(822)
Less: amounts recognised as unrealised (losses)/gains in previous years	(345)	142
Realised losses based on carrying value at previous balance sheet date	(1,319)	(680)
Net movement in unrealised appreciation in the year	(15,358)	2,119
(Losses)/gains on investments	<b>(16,677)</b>	1,439

### Investments managed or advised by the Company's Manager

Investments include £nil (2002: £nil) of funds managed by the Company's Manager, F&C Management Limited (FCM), representing nil% (2002: nil%) of the net assets of the Company. Under the terms of the management agreement with FCM, set out in note 3, the management fee calculation excludes the value of all such holdings.

## 11 DEBTORS

	2003 £'000s	2002 £'000s
Prepayments and accrued income	452	434
Proceeds of share issue	115	–
	<b>567</b>	434

## 12 CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003 £'000s	2002 £'000s
Proposed final dividend on ordinary shares	665	620
Accruals	140	177
	<b>805</b>	797

The Company has a committed loan facility of £8 million, expiring on 11 September 2003, upon which commitment commission of 0.1% per annum is charged on any undrawn amounts.

# Notes on the Accounts

## 13 GEOGRAPHICAL AND INDUSTRIAL CLASSIFICATION (TOTAL ASSETS LESS CURRENT LIABILITIES)

	2003 Total %	2002 Total %
Assets		
Equities		
Resources	13.0	13.7
Basic industrials	4.6	5.2
General industrials	1.4	2.4
Non-cyclical consumer goods	22.5	22.5
Cyclical services	14.5	17.7
Non-cyclical services	6.4	4.1
Utilities	7.3	6.7
Financials	27.1	24.4
Information technology	0.2	0.2
Total equities	97.0	96.9
Fixed interest	2.9	2.1
Total investments	99.9	99.0
Net current assets	0.1	1.0
Total assets less current liabilities – all UK	100.0	100.0

Note: Geographical classification of the investments held as fixed assets is determined by the location of the major part of the investee companies' business

## 14 SHARE CAPITAL

	Authorised Number	Nominal £'000s	Issued and fully paid Number	Issued and fully paid £'000s
Equity share capital				
Ordinary shares of 25p each at 1 April 2002	383,200,000	95,800	40,008,437	10,002
Warrants exercised	–	–	391,352	98
Issue of new shares	–	–	400,000	100
Balance at 31 March 2003	383,200,000	95,800	40,799,789	10,200

On 31 July 2002, 101 holders of the Company's warrants exercised their rights to subscribe for a total of 391,352 ordinary shares at a fixed subscription price of £1 per share.

On 6 December 2002, 300,000 shares were issued at £1.23 each.

On 31 March 2003, 100,000 shares were issued at £1.15 each.

Following the year-end a further 525,000 shares were issued on 28 April 2003 at a price of £1.195 per share for total proceeds of £627,000.

## 15 SHARE PREMIUM

	2003 £'000s	2002 £'000s
Balance brought forward	8,738	8,321
Premium on new shares issued on conversion of warrants	293	284
Transfer from warrant reserve on conversion of warrants	137	133
Premium on new shares issued	384	–
Balance carried forward	9,552	8,738



**16 CAPITAL REDEMPTION RESERVE**

	2003 £'000s	2002 £'000s
Balance brought forward and carried forward	1,020	1,020

**17 SPECIAL RESERVE**

	2003 £'000s	2002 £'000s
Balance brought forward and carried forward	16,373	16,373

**18 WARRANT RESERVE**

	2003 £'000s	2002 £'000s
Balance brought forward	1,339	1,472
Transfer to share premium account on conversion of warrants	(137)	(133)
Balance carried forward	1,202	1,339

On 31 March 2003 there were 3,432,539 (31 March 2002: 3,823,891) warrants outstanding.

Warrant holders have the right to subscribe for one ordinary share per warrant at £1 on the later of 30 days after the date on which the audited accounts are despatched to the shareholders or 31 July 2003. On 31 July 2002, a total of 391,352 warrants were exercised by 101 holders.

**19 OTHER RESERVES**

	Capital reserve (realised) £'000s	Capital reserve (unrealised) £'000s	Capital reserves Total £'000s	Revenue reserve £'000s
Realised gains and losses on investments	(1,319)	-	(1,319)	-
Transfer on disposal of investments	345	(345)	-	-
Movement in unrealised appreciation on investments	-	(15,358)	(15,358)	-
Management fees and related VAT (see note 3)	(173)	-	(173)	-
Other capital charges and credits	(3)	-	(3)	-
Amount transferred from revenue reserve	-	-	-	(27)
	(1,150)	(15,703)	(16,853)	(27)
Balance brought forward	6,123	16,799	22,922	395
Balance carried forward	4,973	1,096	6,069	368

Included within the capital reserves movement for the year is £nil (31 March 2002: £nil) of dividends recognised as capital.

# Notes on the Accounts

## 20 NET ASSET VALUE PER ORDINARY SHARE

The movements during the year in the total net assets attributable to ordinary shares, used in the calculation of both basic and diluted net asset value per ordinary share, were as follows :

	Ordinary shares £'000s
Total net assets brought forward	60,789
Total recognised gains and losses for the year	(15,183)
Dividends	(1,697)
Conversion of warrants	391
Issue of shares	484
Total net assets carried forward	<b>44,784</b>

The diluted net asset values per ordinary share have been calculated in accordance with FRS14, under which the Company's outstanding warrants are considered dilutive only if the exercise price is lower than the market price of the ordinary shares at the year-end. The dilution is calculated by reference to the additional number of ordinary shares which warrant holders would have received on exercise as compared with the number of ordinary shares which the subscription proceeds would have purchased in the open market ("dilutive potential shares").

	2003	2002
Ordinary shares in issue at 31 March – for basic net asset value calculations	<b>40,799,789</b>	40,008,437
Dilutive potential shares at 31 March	<b>434,688</b>	1,121,495
Ordinary shares in issue at 31 March – for diluted net asset value calculations	<b>41,234,477</b>	41,129,932

## 21 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	2003 £'000s	2002 £'000s
Revenue return on ordinary activities after taxation	<b>1,670</b>	1,620
Dividends	<b>(1,697)</b>	(1,620)
Capital return for the year	<b>(16,853)</b>	1,229
Premium on warrants conversion	<b>293</b>	284
Warrants exercised	<b>98</b>	95
Issue of shares	<b>484</b>	–
Net movement in equity shareholders' funds	<b>(16,005)</b>	1,608
Equity shareholders' funds brought forward	<b>60,789</b>	59,181
Equity shareholders' funds carried forward	<b>44,784</b>	60,789

## 22 RECONCILIATION OF REVENUE RETURN BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2003 £'000s	2002 £'000s
Revenue return before finance costs and taxation	<b>1,670</b>	1,621
(Increase)/decrease in accrued income	<b>(16)</b>	19
(Decrease)/increase in creditors	<b>(37)</b>	17
Management fee allocated to capital	<b>(173)</b>	(206)
Net cash inflow from operating activities	<b>1,444</b>	1,451

## 23 RECONCILIATION OF NET CASH FLOW MOVEMENT TO MOVEMENT IN NET FUNDS/(DEBT)

	2003 £'000s	2002 £'000s
Increase/(decrease) in cash	204	(120)
(Decrease)/increase in short-term deposits	(900)	500
Movement in net (debt)/funds resulting from cash flows	(696)	380
Net funds brought forward	957	577
Net funds carried forward	261	957

	Balance at April 2002 £'000s	Cash flow £'000s	Balance at 31 March 2003 £'000s
Represented by:			
Cash at bank	57	204	261
Short term deposits	900	(900)	-
	957	(696)	261

## 24 RISK PROFILE OF FINANCIAL ASSETS AND LIABILITIES

The Company is an investment company as defined by Section 266 of the Companies Act 1985 and conducts its affairs so as to qualify as an investment trust under the provisions of Section 842 of the Income and Corporation Taxes Act 1988.

The Company's investment objective is to secure a high rate of total return from long-term income growth greater than the rate of UK inflation, and capital growth greater than the FTSE 350 Index. The Company seeks to meet its investment objective by investing principally in a diversified portfolio of UK quoted equity and fixed interest securities. The Company has the power to take out both short and long-term borrowings.

This approach has been followed throughout the year under review. In pursuing its investment objectives, the Company faces risks to both assets and revenue. These risks, and the Directors' approach to the management of the risks, are set out on page 34. In the year to 31 March 2003 (and year to 31 March 2002) the Company did not make use of derivatives, engage in hedging activities or take out any long-term borrowings.

### Financial Assets

All the interest-bearing investments and cash of the Company are denominated in sterling. The interest rate risk profile of the Company's financial assets at 31 March (excluding short-term loans) was:

	Fixed rate investments		Cash		Total	
	2003	2002	2003	2002	2003	2002
Floating rate interest assets (£'000s)	-	-	261	57	261	57
Fixed rate interest assets (£'000s)	1,314	1,285	-	900	1,314	2,185
Weighted average interest rate %	8.5	8.5	n/a	3.5	n/a	n/a
Weighted average period for which rate is fixed	3.2 years	3.3 years	n/a	3 days	n/a	n/a

n/a - not applicable

### Financial Liabilities

The Company does not have any interest-bearing financial liability at 31 March 2003 (31 March 2002: nil).

### Currency Risk

The assets of the Company are wholly denominated in sterling, the Company's functional currency. Therefore the Company is not subject to any significant risk of currency movements.

### Fair Value

The Directors are of the opinion that the financial assets and liabilities of the Company are stated at fair value in the balance sheet.

# Notes on the Accounts

## 24 RISK PROFILE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

### Risk Management

Risk	Management of Risk
<b>Credit</b> Failure by counterparties to deliver securities which the Company has paid for, or to pay for securities which the Company has delivered.	All transactions are settled on the basis of delivery against payment. Only approved counterparties are used.
<b>Liquidity</b> Difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments.	The Company's investments are principally quoted equities and fixed interest stocks and are readily realisable. The Company has the power to take out borrowings, both short- and long-term, and in addition has a committed overdraft facility.
<b>Market Price</b> The Company's assets consist principally of quoted equities, the values of which are determined by market forces.	The Board manages the interest rate, currency and market price risks inherent in the Company's portfolio by ensuring full and timely access to relevant information from the Manager. The Board meets at least quarterly and at each meeting reviews investment performance and financial results. It monitors compliance with the Company's objectives and is directly responsible for investment strategy, asset allocation and gearing.
<b>Interest Rate</b> Assets, liabilities and net revenue may be affected by interest rate movements.	The Company's assets include fixed interest stocks, the values of which are regularly reviewed by the Board. The Company finances part of its activities through overdrafts at levels approved and monitored by the Board.
<b>Revenue Cash Flow</b> Insufficient net revenue to meet the Company's dividend objective.	The Board receives regular revenue account forecasts from the Manager through which it monitors dividend paying capacity against the dividend objectives of the Company.

# Historical Record

## ASSETS

at 31 March

£'000s	29 Mar 1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total assets less current liabilities	41,196	40,676	45,796	49,862	63,074	62,931	59,076	59,181	60,789	44,784

## NET ASSET VALUE

at 31 March

	29 Mar 1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
NAV per share	96.0p	94.8p	105.9p	115.2p	145.7p	144.8p	144.2p	149.3p	151.9p	109.8p
NAV per share (diluted)*	n/a	n/a	105.0p	112.8p	139.6p	139.0p	139.9p	144.6p	147.4p	109.0p
NAV per share (diluted) total return on 100p – 5 years (per AITC)										86.8p

## SHARE PRICE

at 31 March

	29 Mar 1994 **	1995	1996	1997	1998	1999	2000	2001	2002	2003
Mid-market price per share	96.0p	93.5p	102.0p	94.0p	117.5p	110.5p	107.8p	123.8p	141.5p	114.5p
Warrant price	–	23.0p	20.0p	11.5p	32.0p	24.5p	23.5p	26.0p	43.0p	12.0p
Discount/(premium) to NAV (diluted where applicable)	–	1%	3%	17%	18%	23%	25%	14%	4%	(5%)
Share price High	–	105.0p	112.0p	107.0p	123.0p	126.0p	124.0p	131.0p	142.5p	142.0p
Share price Low	–	91.0p	95.0p	88.0p	92.0p	92.0p	106.0p	104.5p	110p	105.8p
Share price total return on 100p – 5 years – Company (per AITC)										113.4p

## REVENUE

for the year ended 31 March

	1995§	1996	1997	1998	1999†	2000	2001	2002	2003
Available for ordinary shares (£'000s)	1,462	1,470	1,556	1,681	1,808	1,545	1,672	1,620	1,670
Earnings per share	3.41p	3.41p	3.60p	3.88p	4.16p	3.61p	4.16p	4.06p	4.14p
Dividends per share	3.25p	3.40p	3.55p	3.65p	3.75p	3.85p	3.95p	4.05p	4.18p

## PERFORMANCE

	29 Mar (rebased at date of initial share issue**)1994**	1995§	1996	1997	1998	1999	2000	2001	2002	2003
NAV per share (diluted)*	100.0	98.8	109.4	117.5	148.3	148.8	149.1	152.5	154.0	113.5
Mid-market price per share	100.0	97.4	106.3	97.9	122.4	115.1	112.2	129.0	147.4	119.3
Earnings per share	–	100.0	100.0	105.6	113.8	122.0	105.9	122.0	119.1	121.4
Dividends per share	–	100.0	104.6	109.2	112.3	115.4	118.5	121.5	124.6	128.6
RPI	–	100.0	102.7	105.4	108.1	111.0	113.2	115.3	118.0	121.9

n/a There is no dilution.

\* Diluted NAV calculated in accordance with AITC method.

\*\* Initial shares issued on 29 March 1994.

† Restated for the allocation of management fees to capital.

§ Period from incorporation on 3 February 1994 to 31 March 1995.

# Historical Record (continued)

## COST OF RUNNING THE COMPANY

for the year-ended 31 March

%	1995§	1996	1997	1998	1999	2000	2001	2002	2003
Operating costs as a percentage of:									
Average net assets	1.05	1.04	1.01	0.99	1.02	1.05	1.09	1.11	1.11

§ Period from incorporation on 3 February 1994 to 31 March 1995.

## Definitions

Operating costs	All costs charged to revenue and capital, excluding related taxation relief, interest costs, taxation, the costs of purchase of share capital and the costs of buying and selling of investments.
NAV	Net asset value.
RPI	All-items excluding mortgage interest payment Retail Price Index.
Average net assets	Average of net assets at end of each calendar quarter.
NAV total return	Return on net assets per share assuming that all dividends paid to shareholders were reinvested.
Price total return	Return to the investor on mid-market prices, assuming that all dividends received were reinvested.
AITC	Association of Investment Trust Companies.

# Notice of Annual General Meeting

Notice is hereby given that the ninth Annual General Meeting of the Company will be held at the registered office of the Company, Exchange House, Primrose Street, London EC2, on Friday, 27 June 2003 at 12.15 pm for the following purposes:

## Ordinary Business

- 1 To receive and adopt the Directors' report and accounts for the year ended 31 March 2003.
- 2 To approve the Directors' remuneration report.
- 3 To declare a dividend on the ordinary shares.
- 4 To re-elect Mr M E Beckett as a Director.

## Special Business

- 5 To re-appoint PricewaterhouseCoopers LLP as auditors of the Company (having previously been appointed by the Board to fill the vacancy arising by reason of the resignation of PricewaterhouseCoopers and special notice having been received of the intention to propose the resolution as an ordinary resolution) and to authorise the Directors to determine their remuneration.

To consider and, if thought fit, pass the following resolutions as special resolutions:

### 6 THAT:

- (a) the Directors be and they are hereby:
  - (i) generally and unconditionally authorised, in accordance with Section 80 of the Companies Act 1985 (the "Act"), to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £1,033,119 during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the Annual General Meeting of the Company in 2004; and
  - (ii) empowered, pursuant to Section 95 of the Act, to allot equity securities pursuant to the authority referred to in paragraph (a)(i) of this resolution as if Section 89(1) of the Act did not apply to any such allotment.

but so that this authority and power shall enable the Company to make offers or agreements which would or might require relevant securities or equity securities to be allotted after the expiry of this authority and power; -

- (b) all authorities and powers previously conferred under Section 80 or Section 95 of the Act be and they are hereby revoked, provided that such revocation shall not have retrospective effect; and
- (c) words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings in this resolution.

- 7 THAT the Company be and is hereby generally and unconditionally authorised, in accordance with Section 166 of the Companies Act 1985 (the "Act"), to make market purchases (within the meaning of Section 163 of the Act) of ordinary shares of 25 pence each in the capital of the Company ("ordinary shares") on such terms and in such manner as the Directors may from time to time determine, provided that:

- (a) the maximum number of ordinary shares hereby authorised to be purchased shall be 6,157,393;
- (b) the minimum price which may be paid for an ordinary share is 25 pence;
- (c) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased;
- (d) the minimum and maximum prices per ordinary share referred to in sub-paragraphs (b) and (c) of this resolution are in each case exclusive of any expenses payable by the Company;
- (e) the authority hereby conferred shall expire on 26 September 2004 or, if earlier, at the conclusion of the Annual General Meeting of the Company in 2004, unless such authority is varied, revoked or renewed prior to such time by the Company in general meeting by special resolution; and
- (f) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed or executed wholly or partly after the expiry of such authority.

- 8 To consider and, if thought fit, pass the following resolution as an ordinary resolution:  
THAT the Company should continue as an investment trust.

By Order of the Board  
F&C Management Limited  
Secretary  
28 May 2003

Registered office:  
Exchange House  
Primrose Street  
London EC2A2NY

#### Location of Meeting

#### NOTES

Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, only holders of ordinary shares registered on the register of members of the Company at 11.00 pm on 25 June 2003 (the "specified time") shall be entitled to attend and vote or be represented at the meeting in respect of the shares registered in their name at that time. Changes to entries on the register of members after 11.00 pm on 25 June 2003 shall be disregarded in determining the rights of any person to attend and vote at the meeting. If the meeting is adjourned to a time not more than 48 hours after the time applicable to the original meeting, the specified time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at 11.00 pm on the day which is two days before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at any time specified in that notice.

A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and vote instead of him/her. A proxy need not be a member of the Company.

To be valid, a form of proxy for use at the meeting and the power of attorney or other authority (if any) under which it is signed, or a notarially certified or office copy of such power or authority, must be deposited with the Company's registrars, Computershare Investor Services PLC, PO Box 1075, Bristol BS99 3ZZ, not less than 48 hours before the time appointed for holding the meeting. In view of this requirement, investors holding shares in the Company through the F&C Private Investor, Personal Equity or Pension Savings Plans or in a F&C Individual Savings Account should ensure that forms of direction are returned to Computershare Investor Services PLC not later than 96 hours before the time appointed for holding the meeting.

The register of Directors' holdings is available for inspection at the registered office of the Company during normal business hours on any weekday and will be available at the place of the meeting from 15 minutes prior to the commencement of the meeting until the conclusion thereof.

No Director has any contract of service with the Company.

The final dividend in respect of the year ended 31 March 2003 will, if approved, be paid on 30 June 2003 to holders of ordinary shares on the register at the close of business on 23 May 2003.



# Information for Shareholders

## **Net Asset Value and Share Price**

The Company's net asset value (NAV) is released daily, on the working day following the calculation date, to the London Stock Exchange.

The current share price of F&C Income Growth Investment Trust is shown in the investment trust section of the stockmarket page in most leading newspapers, usually under "F&C Inc Growth".

## **Performance Information**

Information on the Company's performance is provided in the interim and final reports which are sent to shareholders in November and May respectively.

More up-to-date performance information is available on the Internet at [www.fandc.com](http://www.fandc.com) (select your language and profile UK Private Investor, Investment Trusts, Income Growth). This website provides a monthly update on the Company's largest holdings, along with comments from the fund manager.

## **Association of Investment Trust Companies (AITC)**

F&C Income Growth Investment Trust is a member of the AITC, which publishes a monthly statistical information service in respect of member companies. The publication also has details of ISA, PEP and other investment plans available. For further details, please contact the AITC on 020 7282 5555, or visit the website: [www.itsonline.co.uk](http://www.itsonline.co.uk).

## **UK Capital Gains Tax (CGT)**

An approved Investment Trust does not pay tax on capital gains. UK resident individuals may realise net capital gains of up to £7,900 in the tax year ended 5 April 2004 without incurring any tax liability.

Up to April 1998, the cost of investments for CGT purposes was adjusted to allow for inflation between the month of acquisition and the month of disposal of the investments. For investments held at 6 April 1998 and disposed of after that date, this indexation allowance will be computed for the period from the date of acquisition to April 1998, with taper relief applying after April 1998. For assets acquired on or after 6 April 1998, only taper relief applies. The taper reduces the amount of chargeable gain according to the number of complete years after 5 April 1998 for which the investment has been held.

## **Income Tax**

The proposed final dividend is payable in June 2003, net of a notional tax credit of 10%. Individual UK resident shareholders who are subject to UK income tax at the lower rate or the basic rate have no further tax liability.

Tax credits on dividends received from shares held within a PEP or ISA are recoverable from the Inland Revenue.

Shareholders not resident in the UK, and any shareholders in doubt as to their tax position, should consult their professional advisers.

## **How to buy shares in F&C Income Growth Investment Trust PLC**

### **Private Investor Plan (PIP)**

It only costs 0.2% (plus 0.5% Government Stamp Duty) to invest in F&C Income Growth Investment Trust via this simple savings scheme and there are no ongoing charges. You can invest a lump sum or set up a Direct Debit to make regular monthly payments from just £50 per month.

### **Pension Savings Plan (PSP)**

You can maximise your tax benefits and save for your retirement using this low cost Plan, which includes a Personal Pension and Free Standing AVC. Contributions can be made via a lump sum or by Direct Debit. Now that personal pensions are no longer restricted to those with earnings of their own, almost everyone under the age of 75 is eligible. This means that you can invest on behalf of non-working spouses or partners and children.

### **Individual Savings Account (ISA)**

You can invest up to £7,000 tax-free\* in F&C's Maxi ISA, or £3,000 in the Mini ISA either by completing an application form or investing online. You can make regular monthly payments by Direct Debit and/or invest a lump sum.

### **Personal Equity Plan (PEP)**

Although PEPs are no longer available for new subscriptions you can transfer investments from one manager to another, subject to Inland Revenue requirements.

F&C's fixed rate charging structure provides excellent value for money as you pay one fixed annual management fee no matter how many Investment Trust PEPs or ISAs you hold with F&C.

If you have trouble reading smaller print, please let us know. We can provide literature in alternative formats, for example, large print or on audiotape. Please call 0845 600 3030 for more details.

For further details and application forms, please contact:  
**Investor Services on 0845 600 30 30 or**  
**Broker Support on 0845 600 1868**  
(UK calls charged at the local rate)  
**Fax 020 7825 2108**  
You can also visit us on our website:  
**[www.fandc.com](http://www.fandc.com)** under Investment Trusts

If you wish to write to us, the address is:

The information on this page has been issued and approved by F&C Management Limited, authorised and regulated by the Financial Services Authority. Potential investors are reminded that the value of investments and the income from them may go down as well as up and investors may not receive back the full amount invested. Tax benefits may vary as a result of statutory changes and their value will depend on individual circumstances.  
\*Free of capital gains tax; income received has been taxed at source.

**Registered Office:**

Exchange House, Primrose Street, London EC2A 2NY

**Tel:** 020 7628 8000 **Fax:** 020 7628 8188 **Website:** [www.fandc.com](http://www.fandc.com)

**Email:** [info@fandc.com](mailto:info@fandc.com)

**Registrars:** Computershare Investor Services PLC, PO Box 435, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 4BR

**Tel:** 0870 702 0130 **Fax:** 0870 703 6141 **Website:** [www.computershare.com](http://www.computershare.com) **Email:** [web.queries@computershare.co.uk](mailto:web.queries@computershare.co.uk)