

Company Number: 3739055

2000

Report & Accounts
to 31 July 2000

3739055

Framlington Second Dual Trust PLC



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Introduction

Framlington Second Dual Trust PLC is a new investment trust company registered in England and Wales. The Trust was launched on 4 August 1999. The company was incorporated with the name Retainwin Plc with the registered number 3739055 on 24 March 1999. The company's name was changed on 3 June 1999.

Objective

The objective of the Trust is to pay the zero dividend preference shareholders 158.6874p per share on 4 August 2005 and to maximise the income and capital entitlement of the ordinary income shareholders.

The investment strategy of the Trust is to select a portfolio of mainly UK listed equities, equity related securities and fixed interest securities to achieve an initial net portfolio yield of approximately 4.98%.

Capital structure

The Trust has two classes of share capital: ordinary income shares and zero dividend preference shares. The different proportion of each class of share gives the Trust inherent gearing. It also has borrowings in the form of a bank loan which has a face value of £21.5million. The zero dividend preference shares are repayable on 4 August 2005.

Further details of the effects of the Trust's structure and gearing are given on page 13.

Management company

The Trust is managed by Framlington Investment Management Limited, a wholly owned subsidiary of Framlington Group Limited. Framlington Group Limited is ultimately owned by HSBC (51%) and by Munder Capital Management (49%), a US fund management company. As at 31 July 2000, Framlington and its subsidiaries had approximately £5billion of assets under management. Details of the management fee arrangements are given on page 15 of the report of the directors.

ISA

As at 31 July 2000 all the Trust's securities qualified for inclusion in ISAs. The subscription limit for maxi ISAs for 2000/2001 is £7,000.

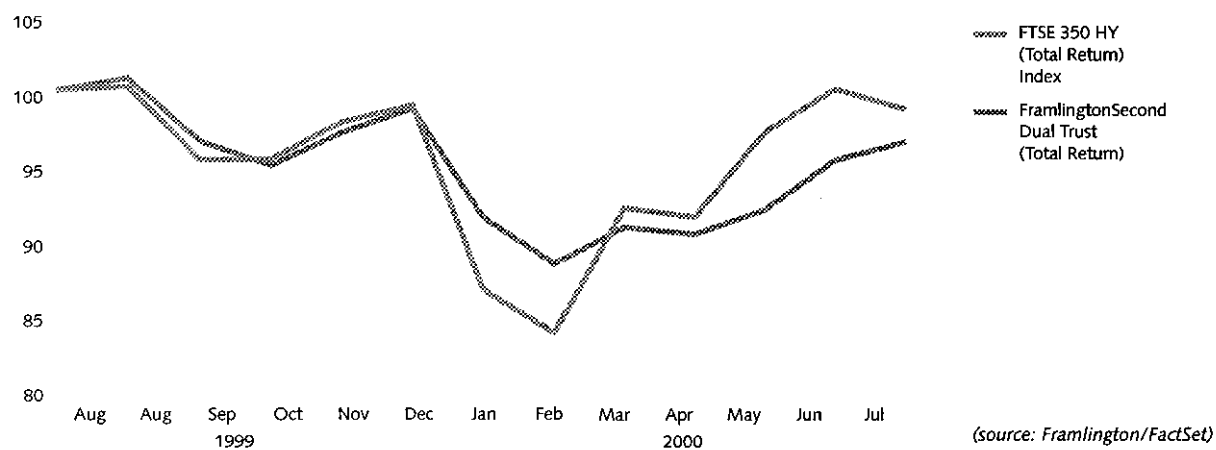


Member of the Association of
Investment Trust Companies

Year's summary

- Trust launched 4 August 1999
- Unprecedented market volatility fuelled by TMT stocks
- Income target exceeded
- Total dividend of 8.1p in line with the prospectus
- Positive sentiment returning to higher-yield stocks

Framlington Second Dual Trust relative to FTSE 350 Higher Yield Index from 4/8/99 to 31/7/00

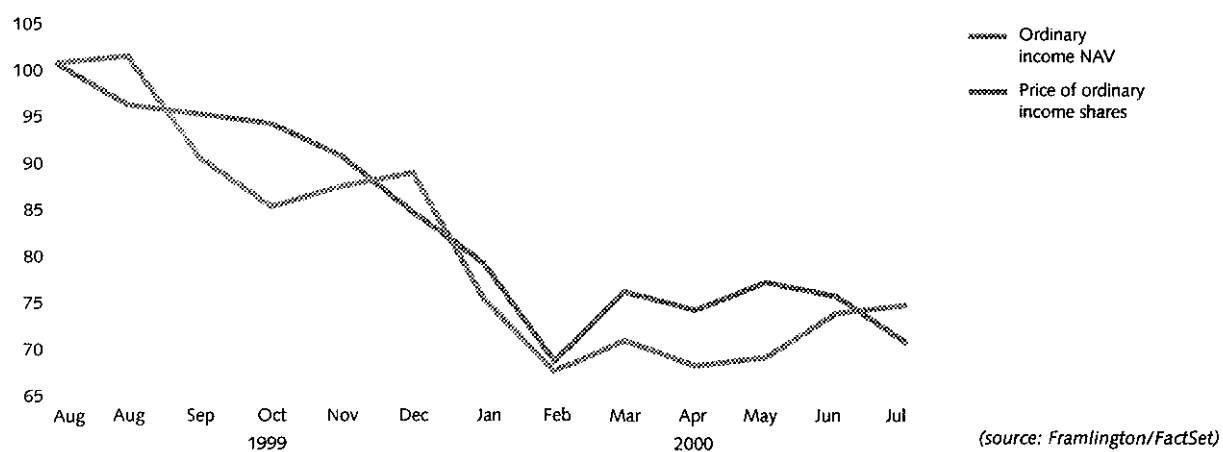


Financial highlights

	2000 p
Net asset value per	
Ordinary income share*	73.83p
Zero dividend preference share	97.96p
Earnings per ordinary income share	8.74p
Dividends	8.10p

* See note 21 on page 34

Ordinary income share price relative to NAV from 4/8/99 to 31/7/00



Total assets

	2000 £000s
Shareholders' funds	68,867
Market capitalisation	71,853

Chairman's statement

The Hon. Nicholas Soames, MP
Chairman

Since the Trust's launch the stock market has seen exceptional volatility, influenced particularly by the interest in technology, media and telecom ("TMT") stocks. The effect on the Trust has been for two stories to develop, one relating to the portfolio's ability to generate revenue and the other capital growth.

I reported to shareholders in March that the Trust was invested in a well-diversified portfolio of stocks offering secure and growing income. These stocks have happily continued to deliver a strong flow of dividend income and the investment manager's initial expectations of income accrued have in fact been exceeded.

As a result the Trust has been able to pay out three interim dividends to ordinary income shareholders of 1.8p per share, in accordance with the prospectus. Given the healthy situation of the Trust's revenue account, set out on page 22, the board has decided to recommend a final dividend of 2.70p per ordinary income share payable on 6 October 2000 to those shareholders entered in the register of members on 15 September 2000. This will bring

the total net dividend payment for the period to 31 July 2000 to 8.10p per share, equivalent to the high 9.0% yield anticipated in the prospectus.

This final dividend payment will allow the Trust to retain a revenue reserve of £328,000. This revenue reserve provides ordinary income shareholders with extra security about their dividend income stream for the future.

The portfolio's capital performance has been more problematic. In my interim statement I highlighted the fact that the share prices of high yield stocks had generally suffered, thus causing a negative effect on the net asset value of the Trust's geared ordinary income shares. Despite their proven track record, investors chose generally to ignore the high yield stocks to concentrate on the TMT sectors. Owing to the minimal yields which many of these companies carry, the Trust was largely precluded from participating in this boom because of its commitments to ordinary income shareholders.

Following the interim, the TMT sector underwent a correction

which reassessed the excess valuations seen in January and February. In this environment the share prices of high yield stocks have stabilised in the second half, although market conditions have continued to be volatile. This in turn has meant that the net asset value of the Trust's ordinary income shares has changed little since the interim report. However, investors are looking beyond the over-stretched TMT valuations in search of value in other sectors of the stock market and thus stocks which offer a decent yield with some growth are attracting more attention.

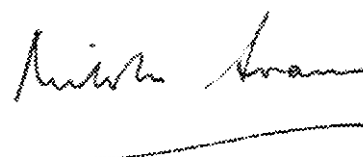
Throughout the Trust's first year the asset performance has also been hindered by its investments in bonds and other split capital trusts, as well as the level of the Trust's structural gearing. Holdings in traditional income shares and ordinary income shares make up more than a quarter of the portfolio. These have provided a very healthy stream of income for the Trust, but the capital performance has been disappointing. These investment company shares have of course also suffered due to the weak price performance of high yield stocks.

The marked underperformance of high yield stocks is reflected in the movements of the different market indices. Over the Trust's first year the portfolio has declined by 2.9% and the FTSE 350 Higher by 1.3% in total return terms, whilst the FTSE All-Share Index has risen by 6.8%. The yield on the Trust's equity portfolio is higher than that of the Higher Yield Index in order to generate the income target. This has exacerbated the problem of achieving capital performance in the unfavourable investment environment experienced for much of the year.

The UK economy has slowed a little as higher interest rates and the strong pound have begun to bite. As a result, the Monetary Policy Committee has paused in its process of raising interest rates, although it appears that further rises are likely in the future. Unfortunately, whilst the UK's finances are in excellent shape, the government's recently announced spending review may cause some of these surpluses to be spent in uneconomic and inefficient ways, as well as imparting a procyclical boost to the economy. The impact of this may keep sterling high and thus provide a continued

and unwelcome pressure on manufacturing industry.

Looking forward equities remain good value against bonds, although the rising tax burden has been a drag on the performance of the market. As investors seem to have developed a more rational approach to the TMT sector, it is hoped that high yield stock share prices will recover further. Your board believes that the Trust's portfolio should then be in a position to create capital growth as well as to continue the successful generation of income.



The Hon. Nicholas Soames, MP
Chairman
29 August 2000

Investment manager's report

Paul Branigan heads the investment management team for Framlington Second Dual Trust PLC.

Stephen Payne and Neil Birrell provide support.

The economy and market background

In the second quarter of 1999 the UK economy was growing robustly following a series of interest rate cuts in the first quarter of 1999. This strength was predominantly consumer led as a strong housing market boosted consumer confidence. This also helped the stock market recover in the first half of 1999. However, by the summer the rally lost momentum as investors started to become concerned about the threat of inflation leading to the need for interest rate rises.

House price inflation was strong and the labour market was tight, causing average earnings growth to accelerate. This, combined with strong domestic demand growth, posed an inflationary threat. The gilt market fell as a result of this and the government's decision to delay consideration of entry into the Euro until at least 2004.

The market's fears were realised in September when the Monetary Policy Committee ("MPC") made the first of a number of interest rate

hikes. Such an environment was not a healthy backdrop for equities in general to perform.

However, in November a very powerful rally in technology, media and telecommunications ("TMT") stocks began. This was driven by hopes of huge industry growth rates as new technologies were adopted around the world. Rising interest rates and strong sterling were hurting the high yielding, 'old economy' sectors but the technology stocks which offered very little, if any yield, were seen as offering a non-cyclical growth story.

Valuations of these new economy sector companies rose to extreme levels as the rally gained momentum through until February. In the four months from the beginning of November to the end of February the FTSE Techmark 100 Index rose 136% whilst the FTSE 350 Higher Yield fell 13%. This extraordinary period came to an end in March as the Nasdaq tumbled, which triggered falls in the TMT sectors in the UK. From March through until May "old economy" sectors such as oils and banks

bounced back strongly as technology stocks gave up some of their gains. The summer months of June and July saw the market trade sideways as technology stocks stabilised and the rally of the 'old economy' sectors ran out of steam.

Portfolio Review

The weighting in FTSE 100 stocks was reduced at the beginning of the year in line with the proposals in the prospectus. Disposals included some of the banks, Allied Domecq and Astra Zeneca. The focus of the Trust's investments has been attractive longer-term yield and earnings growth plays.

During the first half of the year the TMT sectors all performed very strongly. Given these sectors yield very little, it was difficult for the Trust with its high portfolio yield requirement to participate fully in this rally. However, the Trust did benefit through some stock selections such as, Chrysalis and Dmatek.

The Trust has also benefited from building up holdings in value stocks

that also have exposure to the new economy. FKI has developed a significant new business in e-commerce fulfilment hardware, transforming the company's profile. Smiths Industries has rapidly expanded its telecommunications interconnect business alongside its traditional aerospace business. Volex has successfully shifted the focus of its power cards business towards the high growth data and telecommunications areas.

Through the year there has been a notable level of corporate activity involving some of the Trust's holdings. Much of this action has been focused in the industrial sectors of the market. Trust holdings which have been bid for include Tarmac, Meyer, Sanderson Group and Sun Life & Provincial. Charter, an old economy stock, developing new economy businesses, was also bid for by Lincoln Electric, a US company. The offer was almost double Charter's market capitalisation at the time of the bid.

In the second half of the year several stocks were added to the Trust's portfolio of income shares.

Stock was purchased in income shares with exposure to assets in Japan, Asia, Europe, property and technology.

Economic Outlook

The UK economy has slowed a little as higher interest rates and the strong pound have begun to bite. As a result, the MPC has paused in its process of raising interest rates. However, the committee's inflation forecast is still slightly above their target rate and thus further interest rate rises are likely.

On inflation, there are signs that price pressures are moderating. The tightness in the labour market appears to be easing as evidenced by slowing average earnings growth. The housing market has also flattened out in recent months. Consumer price inflation has remained low, helped by the strength of sterling, the squeeze on retailers' margins and low rises in regulated prices.

Economic growth is set to slow moderately through the rest of the year. The tight monetary policy regime is now somewhat countered

Investment manager's report continued

by a procyclical fiscal boost to the economy. The Chancellor's decision to spend some of the government's surplus should boost the economy and could push the MPC into further interest rate rises.

Bottom-up earnings growth estimates for the UK market are probably still too high and are likely to come down towards top-down estimates of around 8% for 2000. The continued strength of sterling and increasing raw material costs is squeezing manufacturing industries' margins. The high street is also still very competitive, so retailers are having to cope with deflation. This is positive for the longer-term interest rate outlook but it will dampen down earnings growth despite solid economic growth.

The picture in the US economy has improved recently which is good news for global stock markets. US economic growth is showing signs of slowing, core inflation is under control and bond markets have rallied. The risk of further interest rate rises is consequently reduced, although still possible.

Market Outlook

The strong rises in 'new economy' sectors over the year has reduced the market's focus on dividends. Most of these technology related companies pay very little if any dividend, so as their proportion of the market has increased the yield on the market and dividend growth estimates have come down. The forecast net dividend growth rate for the FTSE All-Share is predicted to be around only 4%.

The correction in the TMT sectors in the later months of the Trust's year has been beneficial. The valuation gap between new and old economy companies has significantly narrowed although it is still substantial. As a result there are some companies with 'new economy' exposure on reasonable valuations of which the Trust can take advantage. There are also still a number of quality oversold companies offering both high yields and decent earnings growth prospects.

With UK interest rates close to a peak and a soft-landing looking likely in the US, the backdrop for

the UK stock market looks good. Equities represent good value against bonds so as sentiment improves the market should perform well in the next year.

Framlington Investment
Management Limited

Portfolio analysis

Portfolio breakdown by broad industrial sector

	2000
	%
Financials	45.2
Cyclical services	16.3
General industrials	7.8
Non-cyclical consumer goods	7.6
Bonds	7.4
Utilities	6.0
Basic industries	4.6
Resources	3.1
Non-cyclical services	1.8
Information technology	0.2

Portfolio breakdown by market capitalisation

	2000
	%
FTSE Mid 250	35.2
Investment companies	31.2
FTSE SmallCap	12.5
FTSE 100	8.5
Bonds	7.4
Miscellaneous equities	3.3
FTSE Fledgling	1.4
AIM	0.5

Valuation

at 31 July 2000

Stock		Holding	Market value £	Fixed assets %
Investment Trust of Inv Tst	ord 5p	2,500,000	2,325,000	2.45
Great Portland Estates	ord 50p	1,000,000	2,280,000	2.41
European Technology & Income Co	uts (1 inc 1p & 1 cap 1p)	2,950,000	2,153,500	2.27
Exeter Enhanced Income Fund	ord 25p	2,000,000	2,025,000	2.14
BFS Overseas Income & Growth	income 1p	1,750,000	1,837,500	1.94
Framlington NetNet.Inc	ord inc 1p	5,200,000	1,794,000	1.89
Lonmin	ord £1	210,000	1,738,800	1.83
Gallaher Group	ord 10p	485,000	1,732,663	1.83
Martin Currie Enhanced Inc Tst	ord 25p	1,800,000	1,512,000	1.59
Murray Global Return Trust	ord 25p	1,250,000	1,421,875	1.50
Top ten holdings			18,820,338	19.85
Orange	8.625% Nts 2008 £(Br)	1,280,000	1,415,040	1.49
Quarterly High Income Trust	ord 25p	1,251,000	1,401,120	1.48
Prudential	ord 5p	150,000	1,362,000	1.44
Charter	ord 2p (regd)	350,000	1,356,250	1.43
British Telecommunications	ord 25p	148,500	1,293,435	1.36
Premier Farnell	ord 5p	250,000	1,285,000	1.36
Williams	ord 28p	350,000	1,267,000	1.34
Gallaher Group	6.625% Gtd Bds 2009 £(Var)(Br)	1,352,000	1,253,236	1.32
Brixton Estate	Ord 25p	525,000	1,241,625	1.31
Vodafone Group	7.5% Nts 2004 £(Var)(Br)	1,190,000	1,205,530	1.27
Top twenty holdings			31,900,574	33.65
Clydeport	ord 5p	500,000	1,192,500	1.26
RPC Group	ord 5p	750,000	1,188,750	1.25
BP Amoco	\$0.25	200,000	1,174,000	1.24
Govett Enhanced Income Inv	ord 1p	1,400,000	1,165,500	1.23
Smiths Industries	ord 25p	126,418	1,154,828	1.22
Standard Chartered Bank	6.75% sub nts 27/04/2009	1,200,000	1,151,700	1.21
Fairey Group	ord 5p	230,000	1,144,250	1.21
Anglian Water	ord 47 1/7p	200,000	1,140,000	1.20
SmithKline Beecham	ord 6.25p	130,000	1,112,150	1.17
Signet Group	ord 0.5p	2,000,000	1,110,000	1.17
Top thirty holdings			43,434,252	45.81

Stock		Holding	Market value £	Fixed assets %
Capital Shopping Centres	5.75% Bds 05/03/09 £(Br)	1,250,000	1,104,125	1.17
Johnson Service Group	ord 10p	401,949	1,089,282	1.15
Dartmoor Investment Trust	ord 10p	700,000	1,081,500	1.14
McKechnie	ord 25p	290,000	1,080,250	1.14
Countrywide Assured Group	ord 5p	750,000	1,080,000	1.14
Viridian Group	ord 25p	160,000	1,078,400	1.14
Aberdeen Preferred Income Trust	ord 10p	750,000	1,065,000	1.12
Chrysalis Group	ord 2p	379,000	1,042,250	1.10
Smith WH	ord 55 5/9p	275,000	1,035,375	1.09
BFS Income & Growth Trust	income 25p	1,025,000	1,035,250	1.09
Top forty holdings			54,125,684	57.09
Shanks Group	ord 10p	500,000	1,032,500	1.09
Scottish Power	ord 50p	185,000	1,030,450	1.09
Arriva	ord 5p	500,000	1,028,750	1.08
City of Oxford Geared Inc Tst	Inc 5p	1,000,000	1,010,000	1.07
BFS Absolute Return Trust	Inc Shs 0.1p	1,200,000	1,008,000	1.06
Alliance UniChem	ord 10p	200,000	1,000,000	1.05
Harveys Furnishing	ord 20p	500,000	992,500	1.05
Thames Water	ord 23p	125,000	986,250	1.04
Kelda Group	ord 15 5/9p	300,000	964,500	1.02
First Ireland Investment Co	ord 5/13p	592,008	956,093	1.01
Top fifty holdings			64,134,727	67.65
Cattles	ord 10p	350,000	948,500	1.00
London Clubs International	ord 5p	610,890	940,771	0.99
FKI	ord 10p	400,000	940,000	0.99
Next	ord 10p	145,000	933,075	0.98
Menzies (John)	ord 25p	240,000	926,400	0.98
Hitachi Credit (UK)	ord 25p	275,000	906,125	0.95
Senior	ord 10p	1,500,000	900,000	0.95
Smith (David S.)(Hldgs)	ord 10p	537,000	894,105	0.94
Voilex Group	ord 25p	50,000	881,250	0.93
ASDA Group	8.375% Nts 2007 £(Var)(Br)	784,000	848,641	0.90
Top sixty holdings			73,253,594	77.26

Valuation continued

Stock		Holding	Market value £	Fixed assets %
Green Property	ord 0.35	215,530	815,781	0.86
Northern Rock	ord 25p	228,000	796,290	0.84
Tate & Lyle	ord 25p	250,000	741,250	0.78
Technology & Income Tst	Inc 10p	700,000	738,500	0.78
Anglo Irish Bank Corp	ord 0.32	500,000	717,500	0.76
Edinburgh Income & Value Trust	ord 1p	725,000	692,375	0.73
Exeter Equity Growth & Income Fd	ord 10p	675,000	688,500	0.73
Leveraged Income Fund	ord inc 25p	750,000	686,250	0.72
Grantchester Holdings	ord 10p	409,000	680,985	0.72
Glaxo Wellcome	ord 25p	35,000	668,500	0.71
Top seventy holdings			80,479,525	84.89
Barratt Developments	ord 10p	300,000	664,500	0.70
BFS Asian Assets Trust	Geared ord uts (1 inc & 1 cap)	655,670	652,392	0.69
Laporte	ord 50p	135,000	618,300	0.65
Leggmason Inv Inc & Grwth Trust	ord 25p	600,000	606,000	0.64
Dmatek	ord lls0.01	250,000	583,750	0.61
Capital & Regional 6.75% conv subord uns In stk 2006/16		475,000	546,250	0.58
Rank Group	ord 10p	340,000	544,000	0.57
Bank of Scotland (Governor & Co of)	stk 25p	101,651	534,684	0.56
Clarke(T.)	ord 10p	250,000	531,250	0.56
Global Opportunities Trust	units (1 cap 1p & 1 inc 1p)	525000	530,250	0.56
Top eighty holdings			86,290,901	91.01
Other			8,519,119	8.99
Total fixed asset investments			94,810,020	100.00

Structure and gearing

Ordinary income shareholders' funds
£38,171,000

Zero dividend preference shareholders' funds
£33,763,000

Bank loan
£21,541,000

Ordinary income shares as at 31 July 2000

There are 51,697,859 ordinary income shares of 5p each in issue. Ordinary income shares are entitled to all the revenue profits of the Trust by way of a dividend and all the capital assets of the Trust after payment of all debts including the payment to holders of the zero dividend preference shares and the bank loan. The underlying value of assets attributable to the ordinary

Price: 70.00p
Gross yield: 12.86%
Net asset value ("NAV"): 73.83p
Discount to NAV: 5.19%

income shares is geared to the performance of the total assets relative to the rising capital entitlements of the zero dividend preference shares. Ordinary income shareholders will therefore benefit from any outperformance of the total assets relative to the rise in capital entitlements of the zero dividend preference shares, but conversely will suffer from any underperformance. Reference should be made to note 23 of the accounts (page 34).

Zero dividend preference shares as at 31 July 2000

There are 34,465,239 zero dividend preference shares of 5p each in issue. They carry no right to income but will be repaid at 158.6874p on 4 August 2005.

Price: 103.50p
Net asset value ("NAV"): 97.96p
Premium to NAV: 5.66%

Units

A Unit consists of one ordinary income share and one zero dividend preference share. Units were only issued under the Framlington Dual Trust PLC scheme of reconstruction. Units are separately quoted on the London Stock Exchange. Shareholders can instruct the registrar to combine a holding of equal numbers of zero dividend preference shares and ordinary income shares into units or to split a unit into its constituent parts.

Bank loan

The Trust has a £21,541,000 bank loan with Bank of Scotland which bears a fixed interest rate of 7.0841% per annum. The loan is due to be repaid on 4 August 2005.

Reconstruction and winding up

The directors are required to consider a scheme of reconstruction pursuant to section 425 of the Companies Act 1985 prior to the repayment date for the zero dividend preference shares - 4 August 2005. If the scheme cannot be implemented prior to this date and the board are unable to propose some other reconstruction enabling the zero dividend preference shareholders to be repaid on 4 August 2005, then the directors will convene an extraordinary general meeting to wind up the Trust. Both classes of shareholder are entitled to vote at such a meeting. If a scheme of reconstruction is implemented and the zero dividend preference shareholders are repaid, the Trust will have an indefinite life. However, the board intends to convene a meeting of the ordinary income shareholders prior to 4 August 2005 to consider the future direction of the Trust.

Directors

All the Directors of Framlington Second Dual Trust PLC are non-executive and, with the exception of Mr Walton, are independent of Framlington and are members of the management engagement and audit committees.

All the directors were appointed on 4 June 1999.

**The Hon. Nicholas Soames, MP
(Chairman of the Board)**

Aged 52.

Nicholas Soames is a member of Parliament and has been a Conservative MP since 1983. He is the Chairman of the Property Merchant Group Limited and a director of Wiltons (St James's) Limited and of The Marsh European Development Group Limited.

**Mr Jonathan Carr
(Chairman of the
Audit Committee)**

Aged 61.

Jonathan Carr worked in the City of London from 1962 to 1997. He was a director of the investment trust team of Warburg Dillon Read until 1997 when he retired. He specialised in investment trusts since 1969. He is chairman of Govett Enhanced Income Investment Trust PLC and is a non-executive director of BFS Income & Growth Trust PLC, Finsbury Smaller Quoted Companies PLC and First Global Group PLC, a financial services company.

Mr Richard Granville

Aged 61.

Richard Granville worked for Hoare Govett from 1959 to 1986, during which time he became a partner and latterly a director and had responsibility for their investment trust division. He was a member of the Stock Exchange Council from 1981 to 1984 and deputy chairman of Neilson Cobbold from 1988 to 1992. He is a non-executive director of two other investment trust companies, Pennine AIM VCT II PLC and Framlington Income & Capital Trust PLC.

**Mr Terry Hitchcock
(Chairman of the Management
Engagement Committee)**

Aged 48.

Terry Hitchcock worked for Simon & Coates, a stockbroking firm, from 1973 to 1986. From 1986 to 1988 he was Head of Institutional Equities at Chase Manhattan Securities Limited, before co-founding Square Mile Gate Limited, corporate finance advisers. In 1990 he became a director of the stockbroking firm, Allied Provincial Securities PLC and then left to co-found Collins Stewart, stockbrokers, in 1991. He is a director of Collins Stewart and John Lusty Group Plc and chairman of Pure Entertainment Games Plc.

Mr Craig Walton

Aged 39.

Craig Walton joined Henderson Unit Trust Management in 1986 and was later appointed to the board as Director of Marketing. In 1993, he moved to Foreign & Colonial where, as a director of the management company, he was responsible for the marketing and product development of investment trusts and open-ended funds. He joined Framlington in May 1996 as Head of Marketing and Product Development and is a director of Framlington Group Limited and Framlington Investment Management Limited.

Report of the directors

The directors submit their report with the accounts of the Trust for the period to 31 July 2000 and recommend that a final dividend of 2.70p per ordinary income share be declared on the issued ordinary income share capital. If approved, the dividend payment will be paid to shareholders on 6 October 2000 to those shareholders listed in the register of members on 15 September 2000.

Dividends and retentions	£000s	£000s
Net revenue from ordinary activities after taxation		4,516
Dividends per ordinary income share		
Paid January: first interim 1.8p	931	
Paid April: second interim 1.8p	931	
Paid July: third interim 1.8p	931	
Proposed: final 2.7p	1,395	
		(4,188)
Revenue reserve carried forward		328

Principal activities

The Trust has carried on business as an investment trust throughout the period. Application will be made to the Inland Revenue for authorisation under section 842 of the Income and Corporation Taxes Act 1988 for the accounting period ended 31 July 2000. The Trust's affairs have been subsequently directed to enable approval to continue to be sought.

Investment policy

The investment policy of the Trust and a general review of the business, together with its prospects, are set out on page 1, in the Chairman's Statement on page 4 and the Investment Manager's Report on pages 6 to 8.

Board of directors

Information on current directors is given on page 14 and the structure of the board and its committees are set out under the Corporate Governance section of

this report. Instant Companies Limited and Swift Incorporation Limited were the first directors of the company, resigning on 12 May 1999. Mr Andrew Sutch and Ms Elizabeth Field served as directors from 12 May 1999 until 4 June 1999.

Management arrangements

Under a management agreement dated 14 June 1999, Framlington Investment Management Limited ("FIM") was appointed as investment manager to manage and advise the Trust including the provision of accounting, secretarial, office and administrative services. The manager is paid a quarterly investment management and administration fee (exclusive of VAT) of 0.2375% of the Trust's gross assets measured at the end of the relevant quarter. The management fees are allocated 63% to capital and 37% to revenue based on the directors' expected long-term split of returns in the form of capital gains and income respectively (see notes 3 and 5 on pages 27 and 28 respectively). The management agreement is terminable on two years notice. There are provisions for summary termination in certain circumstances including a change of control of the manager.

Craig Walton is a director of FIM and an executive director of Framlington Group Limited, the immediate parent company of FIM.

Contracts of significance

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

Report of the directors continued

Major shareholders

As at 29 August 2000 the Trust had received the following information disclosed to it in accordance with sections 198 to 208 of the Companies Act 1985.

Ordinary income shares of 5p 51,697,859 in issue	Number of shares	% held
Aberdeen Asset Managers Limited ¹	6,500,000	12.57
CGU plc ² (managed by Morley Fund Management)	6,452,615	12.48
Broker Financial Services PLC ³	5,363,964	10.38
Aegon UK Plc ⁴	3,000,000	5.80
Geared Income Investment Trust PLC	2,529,631	4.89
Govett High Income Investment Trust PLC	2,000,000	3.87
Framlington NetNet. Inc PLC	1,930,000	3.73
Total non-notifiable interests	23,921,649	46.28
Total	51,697,859	100.00

1 Danae Investment Trust – 300,000
Jove Investment Trust – 600,000
Second St David's Investment Trust PLC – 4,400,000
Fund of Investment Trust Unit Trust – 200,000
Leveraged Income Fund Limited – 1,000,000

2 CUIM Nominees Limited – 4,506,270
Vidacos Nominees Limited – 1,946,345

3 Geared Income Investment Trust – 2,277,226
BFS Income & Growth Trust PLC – 2,096,518
BFS Overseas Income & Growth Ltd – 990,220

4 Includes holdings held by or managed by Scottish Equitable and Guardian

As at 29 August 2000 the Trust had received no other notification that the above holdings had changed and was not aware of any other holdings of 3% or more of the issued ordinary income shares of the Trust.

Directors' shareholdings

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

Beneficial interests

as at		31.07.00	04.08.99
The Hon. N Soames	Ord. Inc.	1,800	-
	Zero	1,500	-
Jonathan Carr	Ord. Inc.	5,000	5,000
	Zero	5,000	5,000
Terry Hitchcock	Ord. Inc.	10,000	10,000
	Zero	10,000	10,000

None of the remaining directors at any time during the period under review held any interest in the share capital of the Trust.

Individual Savings Accounts ("ISAs")

As at 31 July 2000 the ordinary income shares of the Trust qualified for inclusion in ISAs.

Savings scheme

Framlington operates an investment trust savings scheme to allow low cost dealings in the Trust's shares. In October 1999 the scheme was extended for ISA investment.

CREST

The Trust's share capital is entered into the CREST system of computerised settlement and therefore the holders of the Trust's shares have the choice of maintaining their interests in either electronic or certificated form.

Auditors

A resolution to re-appoint Deloitte & Touche as auditors of the Trust will be proposed at the forthcoming annual general meeting.

Year 2000

Each of the Trust's service providers has reported on

their projects to deal with the Year 2000 systems issue or "millennium bug" which ensured that the Trust did not experience any adverse effects from date changes prior and subsequent to 31 December 1999. The Trust has been assured that continued testing will be undertaken by its service providers to ensure that any future date changes will not cause any problems.

Corporate governance

Introduction

The directors support The Combined Code (the "Code") issued by The London Stock Exchange, which sets out principles of good governance and a code of best practice. The board considers that the Trust has complied with Section 1 of the Code throughout the accounting period to 31 July 2000 except where otherwise disclosed in the explanation below as to how the Trust has applied the principles of good governance and adopted the code of best practice.

The board

The Trust currently has five non-executive directors. Information on each of them is set out on page 14 and demonstrates a breadth of investment and commercial experience. The board normally meets four times a year. In between meetings there is regular contact with the investment manager. Matters specifically reserved for decision by the board have been defined and a procedure adopted for directors, in the furtherance of their duties, to take independent professional advice at the expense of the Trust.

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

Each director seeks to bring an independent judgement when considering issues of the Trust's

Report of the directors continued

strategy, performance and resources and when considering the appointment of directors and standards of conduct generally.

Owing to the level of experience that would be sought from any new director joining the board it is unlikely that he would require training on the role of a listed company director. However, any new director appointed will be provided with appropriate information and a suitable induction process is undertaken.

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

Board balance

The board has considered the independence of each of the five non-executive directors. Only Mr Craig Walton is regarded by the board as not being independent from the investment manager (see page 14).

Supply of information

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

Appointments to the board

The board does not intend to appoint a nomination committee as, given the board's size, this function is better performed by the full board of directors.

Re-election

The Code requires each director to put himself up for re-election at least once every three years. The articles of

association satisfy this provision of the Code by requiring one third of the directors to retire, or if their number is not a multiple of three, then the nearest whole number exceeding one third. Owing to these provisions, the board does not regard it as necessary for limits to be put on directors' terms of appointment as set out under provision A.6.1 of the Code.

In accordance with the articles, all the directors retire at the Trust's first annual general meeting ("AGM") and offer themselves for re-election.

Management engagement committee

The Trust is not required by the Listing Rules to comply with the Code in relation to directors' remuneration, because there are no executive directors serving the Trust. Consequently, a remuneration committee has not been established. Instead, in accordance with the AITC recommendation, a management engagement committee, consisting of all the independent directors, with defined terms of reference and duties, was established to review annually the terms of the agreement with the investment manager. Mr Hitchcock is the chairman of this committee.

Relations with shareholders

The board recognises the importance of maintaining good relations with all the Trust's shareholders. The investment manager meets with institutional shareholders on a regular basis and reports back to the board on these meetings. In addition, the Trust's AGM presents the directors with an opportunity to meet and hear the views of shareholders.

The chairmen of the board, audit committee and management engagement committee are available at the AGM to answer any questions. At every AGM each substantial separate issue is dealt with in a separate resolution and where a vote is decided on a show of hands, the chairman will subsequently report on the number of proxy votes lodged.

Relations with portfolio companies

Generally, the Trust seeks to comply with Section 2 of the Code relating to institutional shareholders.

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

Audit committee

The board has appointed an audit committee with defined terms of reference and duties. All the independent directors are members of the committee, which is chaired by Mr Carr. The duties of the committee are to review the Trust's internal controls, the annual report and accounts and interim report, the auditors' remuneration and engagement, as well as the auditors' independence and the non-audit services provided by them, if any.

Internal control

The directors acknowledge that they are ultimately responsible for the Trust's system of internal control and for reviewing its effectiveness. It is important to recognise that a system of internal control can provide only a reasonable, and not an absolute, assurance against material misstatement or loss. The Code requires directors to conduct, at least annually, a review of the Trust's systems of internal control, covering all controls, including financial, operational and compliance controls and risk management. The directors are also required to review the need for an internal audit function where one does not exist.

Following the publication of the Code, the Institute of Chartered Accountants in England and Wales set up a working party, the Turnbull Committee, to produce a guide on internal control which was published in

1999. The board has sought to monitor and report on internal controls in accordance with these guidelines.

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

It is the role of the audit committee to examine the internal controls on which the Trust is reliant and report its findings to the board. The audit committee reviews the effectiveness of internal controls semi-annually. At the request of the audit committee, a report is presented on all areas of FIM's internal controls which relate to the affairs of the Trust during the accounting period. In addition to this, the audit committee also receives audited statements on internal controls (FRAG 21 statements) from HSBC Bank plc, the Trust's custodian bank and Capita IRG plc, the Trust's registrars.

In view of the circumstances set out above, the Trust does not have an internal audit function. The board, having reviewed the need for one, does not regard it as necessary.

In conclusion, the Trust has in place a continuing process for identifying, evaluating and managing the significant risks faced by it. This process has been in place for the reporting period and to the date of this report, and it is regularly reviewed by the board in accordance with the Turnbull Committee's guidelines.

Financial reporting - Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give

Report of the directors continued

a true and fair view of the state of affairs of the Trust as at the end of the financial year and of the revenue of the Trust for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for ensuring that proper accounting records are kept, which disclose with reasonable accuracy at any time the financial position of the Trust, enabling them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the

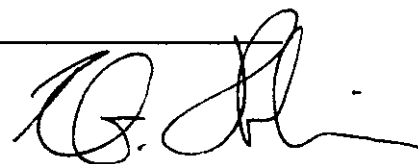
assets of the Trust and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

By order of the board

Framlington Investment
Management Limited, Secretary
155 Bishopsgate
London EC2M 3XJ

29 August 2000



Auditors' report

To the members of Framlington Second Dual Trust PLC

We have audited the financial statements on pages 22 to 34 which have been prepared under the accounting policies set out on page 26.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report including, as described on pages 19 and 20, the financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the UK Listing Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Trust has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Trust is not disclosed.

We review whether the statement on pages 17 to 20 reflects the Trust's compliance with the seven provisions of the Combined Code specified for our review by the UK Listing Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Trust's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance

statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

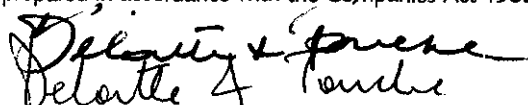
Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Trust from 24 March 1999 to 31 July 2000 and of its total return for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche

Chartered Accountants and Registered Auditors,
Stonecutter Court

1 Stonecutter Street, London EC4A 4TR

29 August 2000

Statement of total return

for the period ended 31 July

	Note	Revenue £000s	2000 Capital £000s	Total £000s
Realised losses	17	-	(3,659)	(3,659)
Unrealised losses	16	-	(5,622)	(5,622)
Income	1/2	5,557	-	5,557
Investment management fee	3	(378)	(645)	(1,023)
Other expenses	4	(145)	-	(145)
Net return before finance costs and taxation		5,034	(9,926)	(4,892)
Interest payable and similar charges	5	(518)	(862)	(1,380)
Provision for redemption zero dividend preference shares		-	(3,067)	(3,067)
Return on ordinary activities before taxation		4,516	(13,855)	(9,339)
Taxation on ordinary activities	6	-	-	-
Return on ordinary activities after taxation for the financial year		4,516	(13,855)	(9,339)
Dividends in respect of ordinary income shares	7(a)	(4,188)	-	(4,188)
Transfer to/(from) reserves		328	(13,855)	(13,527)
Return per ordinary income share		8.74p	(26.80p)	(18.06p)

The Revenue column of this statement is the profit and loss account of the Trust. All revenue and capital items in this statement derive from continuing operations. No operations were acquired or discontinued in the year.

Balance sheet

as at 31 July

Approved by the board of directors

and signed on their behalf by:

Mr Terry Hitchcock

Mr Craig Walton

29 August 2000

T. J. Hitchcock
Craig Walton

	Note	£000s	2000 £000s
Fixed assets	9		
Investment portfolio			
Listed - Full listing		94,342	
- Aim listing		468	
			94,810
Current assets			
Debtors	10	935	
Cash at bank		1,008	
		1,943	
Creditors: amounts falling due within one year			
Creditors	11	1,882	
Dividends payable		1,396	
		3,278	
Net current (liabilities)			(1,335)
Total assets less current liabilities			93,475
Creditors: amounts falling due after more than one year			
Bank loan	11(a)		(21,541)
Provision for redemption of zero dividend preference shares	12		(3,067)
			68,867
Called up share capital	14(b)		4,308
Capital reserves			
Share premium account	15	78,086	
Revaluation deficit	16	(5,622)	
Realised capital loss	17	(8,233)	
			64,231
Revenue reserve	18		328
Shareholders' funds			68,867
Equity shareholders' funds			38,171
Non-equity shareholders' funds			30,696
			68,867
Net asset value per share	23		
Ordinary income shares			73.83p
Zero dividend preference shares			97.96p

Reconciliation of movements in shareholders' funds

for the period ended 31 July

	£000s	2000 £000s
Issue of ordinary income shares		51,698
Issue of zero dividend preference shares		34,465
Issue costs		(3,769)
		82,394
Net revenue after taxation	4,516	
Dividends in respect of income shares	(4,188)	
Net surplus transferred	328	
Other recognised losses	(13,855)	
Net reduction to shareholders' funds		(13,527)
Shareholders' funds at 31 July 2000		68,867

Cash flow statement

for the period ended 31 July

	Note	£000s	2000 £000s
Operating activities			
Investment income received		4,601	
Interest received		182	
Underwriting commission		7	
Investment management fee charged to income		(285)	
Fees and expenses paid to and on behalf of directors		(47)	
Other cash payments		(72)	
Net cash inflow from operating activities	20		4,386
Servicing of finance			
Interest paid		(1,058)	
Capital expenditure and financial investment			
Net purchases	21	(69,708)	
Investment management fee charged to capital	21	(485)	
Dividends			
Dividends paid		(2,792)	
Net cash (outflow) before financing			(69,657)
Financing			
Receipt of bank loan	11	21,541	
Issue of ordinary income share capital		41,571	
Issue of zero dividend preference share capital		11,322	
Issue costs		(3,769)	
Net cash inflow from financing			70,665
Increase in cash	22		1,008

Accounting policies

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

Accounting convention

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

Fixed asset investments

Listed investments are valued at mid-market value and unlisted investments at directors' valuation. Income from fixed asset investments and dividend income is included on the date when the investment is first listed "ex-dividend". Interest on fixed interest securities is accrued on a daily basis.

Taxation

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

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

Revenue and capital reserves

Capital gains and losses arising from the sale and revaluation of investments are dealt with through capital reserves. Investment management fees and administration fees are calculated on the basis set out in the Report of the Directors on page 15. Based on the directors' estimated long-term split of returns in the form of capital growth and income, 63% of management fees and finance costs are charged to capital and 37% to revenue. All other expenses are charged to revenue apart from investment transaction costs which are charged to capital reserves.

Notes to the financial statements

at 31 July

1 Income from fixed asset investments

	Franked*	Unfranked
	2000	2000
	£000s	£000s
Income from investments was derived from:		
Dividends		
Listed investments - United Kingdom		
Full listing	4,163	688
Interest		
Listed investments - United Kingdom	-	518
	4,163	1,206

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

2 Other income

	2000
	£000s
Deposit and other interest receivable	182
Underwriting commission	6
	188

3 Investment management fee

	2000
	£000s
Management and administration fee	871
Irrecoverable VAT thereon	152
Less amount charged to capital (note 17)	(645)
	378

Details of the management and administration fees are set out in the Report of the Directors on page 15. Other than the disclosed transactions with the investment manager and the information given in the directors' shareholdings section of the Report of the Directors, there are no related party transactions.

4 Other expenses

	2000
	£000s
General expenses (including irrecoverable VAT)	84
Directors' emoluments (note 8)	48
Auditors' remuneration (including irrecoverable VAT)	13
	145

Notes to the financial statements continued

5 Interest payable

	2000 £000s
Overdraft interest	12
Interest on bank loan	1,368
	1,380
Less amount charged to capital (note 17)	(862)
	518

Interest charged to capital represents 63% of the finance costs on the Trust's long-term debt.

6 Tax on net revenue from ordinary activities

The Trust has tax losses of approximately £1,243,000 available to be carried forward. No deferred tax asset is reflected in the accounts in respect of these losses as they are not expected to be used in the foreseeable future.

Tax credits on UK dividend income have been netted to that income in accordance with FRS 16 (see note 1).

7 Dividends and earnings per share

	2000 p	2000 £000s
(a) Ordinary income Shares		
- first interim paid January	1.8	931
- second interim paid April	1.8	931
- third interim paid July	1.8	931
Proposed - final	2.7	1,395
	8.1	4,188

(b) Earnings per share are based on the net revenue after tax of £4,516,000 and on 51,697,859 ordinary income shares of 5p each in issue throughout the period.

8 Directors' emoluments

	2000 £
The Hon. Nicholas Soames, MP	15,000
J D Carr	10,000
R Granville	10,000
T J Hitchcock	10,000
C A Walton	-
	45,000
National Insurance	2,524
	47,524

9 Fixed asset investments

	Investments £000s
(a) Summary	
Cost	
Acquired from Framlington Dual Trust PLC	51,969
Other acquisitions	116,728
Disposals	(68,265)
At 31 July 2000	100,432
Revaluation deficit (note 16)	(5,622)
Valuation at 31 July 2000	94,810

The consideration for the investments acquired from Framlington Dual Trust PLC was made up of cash of £18,700,000 and the issue of shares in Framlington Second Dual Trust PLC of £33,269,000 (see note 14).

(b) The thirty largest investments as at 31 July 2000 with a total market value of £43,434,252 are shown on page 10. These investments amounted to 33.65% of total fixed asset investments.

(c) The holdings in the undermentioned companies represent more than 3% of that particular class of equity share capital as at 31 July 2000:

Stock	Class of share	Percentage %
Martin Currie Enhanced Income Trust	ord 25p	5.98
Investment Trust of Investment Trusts	ord 5p	5.15
Framlington NetNet.Inc	income 1p	4.33
Framlington NetNet.Inc	growth 1p	4.33
BFS Overseas Income & Growth	income 1p	3.14
Govett Enhanced Income Investment Trust	ord 1p	3.09
Edinburgh Income Value Trust	ord 1p	3.06

10 Debtors

	2000 £000s
Amounts due from brokers	64
Accrued income and other debtors	742
Tax recoverable	129
	935

£34,000 of the tax recoverable is recoverable after more than one year.

Notes to the financial statements continued

11 Creditors

	2000 £000s
Amounts due to brokers	1,273
Management fee accruals	175
General accruals	434
	1,882
Amounts falling due after more than one year	2000 £000s
Bank loan	21,541
	21,541
Repayments due after 5 years	21,541
	21,541

(a) Bank Loan

On 24 August 1999 the loan facility of £21.5 million running from 24 August 1999 until 4 August 2005 was taken out with the Bank of Scotland. It carries a rate of interest of 7.0841% per annum.

(b) Interest Rates

The weighted average interest rate on the sterling fixed rate borrowings shown above is 7.0841%. The weighted average time for which rates are fixed is five years.

12 Provision for redemption of zero dividend preference shares

Balance at 4 August 1999	-
Provision made during year	3,067
Balance at 31 July 2000	3,067

13 Financial instruments

The Trust's financial instruments comprise its investment portfolio (see note 9), cash balances, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income, and the debenture and bank loan used to finance the Trust's operations.

The main risks that the Trust faces arising from its financial instruments are i) interest rate risk; and ii) market price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency rate movement. Since the Trust invests primarily in UK equities, any currency risk is not significant. As at 31 July 2000, £3,564,056 of the Trust's investments were denominated in currencies other than sterling.

i) Interest rate risk

The Trust finances its operations through a mixture of retained profits and long term borrowings. The borrowings have fixed rate of interest (see note 11).

ii) Market risk

The Trust's investment portfolio is exposed to market price fluctuations which are monitored by the investment manager in pursuance of the investment objective. Further information on the investment portfolio is set out in the Investment Manager's Report on pages 6 to 8, which is not subject to audit.

The Trust held the following categories of financial instruments at 31 July 2000:

	Book Value £000s	Fair Value £000s
Financial assets		
Investment portfolio	94,810	94,810
Financial liabilities		
Bank loan	21,541	21,541

The investment portfolio consists of listed investments, which are valued at mid-market price (see note 9).

The "fair values" of the ordinary income and zero dividend preference shares are based on quoted market prices as at 31 July 2000. The fair value of the loan has been estimated according to the discounted value of future cash flows.

The Trust also has an overdraft facility with HSBC Bank plc for £3,500,000 at an interest rate of 1% per annum over base rate. At the balance sheet date none of this facility had been drawn down.

14 Called up share capital

	£000s
(a) Authorised	
300,000,000 ordinary income shares of 5p each	15,000
300,000,000 zero dividend preference shares of 5p each	15,000
	30,000
(b) Allotted and fully paid	
Ordinary income shares of 5p	
Issued on 4 August 1999 - 51,697,859 shares	2,585
Zero dividend preference shares of 5p	
Issued on 4 August 1999 - 34,465,239 shares	1,723
Total allotted share capital	4,308

The company was incorporated with an authorised share capital of 100,000 ordinary shares of 100p each. On 14 June 1999 the ordinary shares were sub-divided and re-designated as ordinary income shares of 5p each and the authorised share capital was increased to £30,000,000 by the creation of 298,000,000 ordinary income shares of 5p each and 300,000,000 zero dividend preference shares of 5p each. Under the Framlington Dual Trust PLC reconstruction 23,142,768 zero dividend preference shares and 10,126,649 ordinary income shares were allotted to Framlington Dual shareholders in consideration for the transfer of £33,269,000 of assets from Framlington Dual Trust PLC to Framlington Second Dual Trust PLC (see note 9). The remaining issued shares were allotted for cash under the placing and offer for subscription.

15 Share premium account

	£000s
Premium on issue of ordinary income shares	49,113
Premium on issue of zero dividend preference shares	32,742
Issue costs	(3,769)
	78,086

Notes to the financial statements continued

16 Revaluation deficit

	£000s
At 4 August 1999	-
Net decrease in the period	(5,622)
At 31 July 2000	(5,622)
Deficit arising on valuation of:	
- LSE listed investments	(5,505)
- Aim listed investments	(117)
	(5,622)

17 Realised capital losses

	£000s
At 4 August 1999	-
Realised in the period - Listed investments	(3,659)
Investment management fee (note 3)	(645)
Interest charged to capital (note 5)	(862)
Provision for redemption of zero dividend preference shares (note 12)	(3,067)
At 31 July 2000	(8,233)

18 Revenue reserve

	£000s
At 4 August 1999	-
Net surplus for the year	328
At 31 July 2000	328

19 Contingent liabilities and other commitments

At 31 July 2000 the Trust had no underwriting commitments and no commitments in respect of holdings of partly paid shares.

20 Reconciliation of operating profit to net cash inflow from operating activities

	2000 £000s
Net revenue from operating activities before interest payable and taxation	5,034
Increase in debtors	(742)
Scrip dividends	(32)
Increase in creditors	127
Net cash inflow from operating activities	4,387

21 Gross cash flows

	2000 £000s
Capital expenditure and financial investment	
Purchases of investments	(137,153)
Sales of investments	67,445
	(69,708)
Capital management fee paid	(485)
	(70,193)

22 Reconciliation of net cash flow to net debt

	2000 £000s
Increase in cash for the year	1,008
Cash inflow from movement in debt for the period	(21,541)
Change in net debt	(20,533)
Net debt at 4 August 1999	-
Net debt at 31 July 2000	(20,533)

Analysis of changes in net debt

	At 4 August 1999 £000s	Cash flows £000s	At 31 July 2000 £000s
Cash at bank	-	1,008	1,008
Debt due after one year	-	(21,541)	(21,541)
Net debt at 31 July 2000	-	(20,533)	(20,533)

Notes to the financial statements continued

23 Net asset value per share

The net asset value per share and the net asset values attributable to each class of share at the year end calculated in accordance with the articles of association were as follows:

	Net asset value per share 2000 p	Net asset value attributable 2000 £000s
Ordinary income shares	73.83	38,171
Zero dividend preference shares	97.96	33,763

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

	Ordinary income shares £000s	Zero dividend preference shares £000s	Total £000s
Total net assets attributable at beginning of period	-	-	-
Issue of shares	51,698	30,696	82,394
Total recognised gains/(losses) for the period	(9,339)	3,067	(6,272)
Dividends appropriated in the period	(4,188)	-	(4,188)
Total net assets attributable at end of period*	38,171	33,763	71,934

Net asset value per ordinary income share is based on net assets attributable to ordinary income shares and on 51,697,859 ordinary income shares in issue at the period end.

Net asset value per zero dividend preference share is based on net assets attributable to zero dividend preference shares and on 34,465,239 zero dividend preference shares in issue at the period end.

Gearing

	£000s
Total assets	93,473
Ordinary income shareholders' funds	38,171
Gearing $(93,475/38,171) \times 100$	245%

* Includes provision for redemption of zero dividend preference shares.

Notice of meeting

Notice is hereby given that the first Annual General Meeting of the Trust will be held on 22 September 2000 at 12.00 noon at 155 Bishopsgate, London, EC2M 3XJ for the following purposes:

- 1 To receive the accounts for the period ended 31 July 2000 together with the reports of the directors and auditors.
- 2 To declare a final dividend of 2.7p per share on the ordinary income shares.
- 3 To elect as a director The Hon. Nicholas Soames, MP.
- 4 To elect as a director Mr Jonathan Carr.
- 5 To elect as a director Mr Richard Granville.
- 6 To elect as a director Mr Terry Hitchcock.
- 7 To elect as a director Mr Craig Walton.
- 8 To re-appoint Deloitte & Touche as auditors and to authorise the directors to fix their remuneration.

By order of the board
Framlington Investment Management Limited
Secretary
155 Bishopsgate
London EC2M 3XJ
29 August 2000



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

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

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

Investor information

Contacts

- **Secretary**
Framlington Investment Management Limited:
020 7374 4100
- **Registrar**
Capita IRG plc: 020 8639 2000
- **Select Investment Trust Plan/PEP/ISA:**
020 7452 1394

Share prices, asset value and performance information sources:

- Financial Times under the Investment Companies section or their website: www.FT.com
- Reuters
Ordinary income shares - FDSi.L
Zero dividend preference shares - FDS0.L
Units - FDS_u.L
- Framlington's website:
www.framlington.co.uk
- The Times

Annual General Meeting

2000: 22 September

2001: October

Dividends

- Final dividend - payment on 6 October 2000
(x/d on 11 September 2000)
- First interim - payment on 20 January 2001
(x/d on 27 December 2000)
- Second interim - payment on 20 April 2001
(x/d on 28 March 2001)
- Third dividend - payment on 20 July 2001
(x/d on 27 June 2001)*

* *estimate*

Results

It is the Trust's aim to announce to the London Stock Exchange interim results for the period to 31 January 2001 in March and to also post out the interim report during that month.

How to invest

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

- a stockbroker
- the Framlington Select Investment Trust Plan offers four investment trusts managed by Framlington and eight others managed by well-known fund management companies. Investments can be from £50 per month or lump sums from £500.
- Framlington Investment Trust ISA allows investments of up to £7,000 in the shares of any Framlington managed investment trusts completely free of income or capital gains tax. Investments can be from £50 per month or lump sums from £500.

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

Directors, officers and advisers

Directors

The Hon. Nicholas Soames, MP (Chairman)

Mr Jonathan Carr

Mr Richard Granville

Mr Terry Hitchcock

Mr Craig Walton

Registered Office

155 Bishopsgate, London EC2M 3XJ

Tel: 020 7374 4100

Manager and Secretary

Framlington Investment Management Limited

155 Bishopsgate, London EC2M 3XJ

Regulated by IMRO

Registrars

Capita IRG plc

390-398 High Road, Ilford, Essex IG1 1NQ

Tel: 020 8639 2000

Stockbrokers

UBS Warburg

Auditors

Deloitte & Touche

Chartered Accountants

Solicitors

Stephenson Harwood

Bankers

HSBC Bank plc

Bank of Scotland