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Contents

Financial Calendar

Annual General Meeting	26 April 1996
Final dividend payable	29 April 1996
Interim results for 1996 announced	15 August 1996
Interim dividend payable	4 October 1996
Final results for 1996 announced	March 1997

Company Registration Number 12901

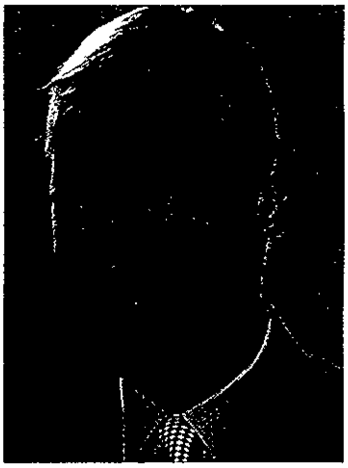
To secure for our shareholders long-term growth in net assets per share and regular increases in dividend which will beat the rate of inflation

Objective of Foreign & Colonial Investment Trust PLC

Summary of Consolidated Results

Attributable to Ordinary Shareholders	**31 Dec 1995**	31 Dec 1994	% change
Consolidated net assets	**£1,685m**	£1,416m	+19.0
Consolidated net assets per share (prior charges at nominal value)	**160.3p**	134.7p	+19.0
Consolidated net revenue	**£26.8m**	£22.8m	+17.8
Consolidated earnings per share	**2.55p**	2.16p	+17.8
Dividends per share	**2.07p**	1.88p	+10.0
Share price	**162.0p**	135.5p	+19.6

Chairman's Statement


John Sclater, Chairman

FT-SE 100 Share Index

On 18 December the progress of your Company was recognised by the London Stock Exchange when Foreign & Colonial shares were for the first time included in the FT-SE 100 Share Index of the largest British companies. Another milestone was that £1,000 invested in 1945, with all subsequent dividends reinvested in the shares, would for the first time be worth over £1m on the basis explained in our usual table on page 11. You may also be interested to know that the value of our assets at the end of the year of £1,685m compares with only £3.9m in 1945, and with £118m in 1969 when Michael Hart first became the investment manager.

Capital Performance

All major markets, apart from Japan, made good progress in 1995 and your Company outperformed its peer group of international general investment trusts, further enhancing our long term record as shown on page 5. Consolidated net asset value per share rose by 19.0% to 160.3p compared with rises in the FT-SE Actuaries All-Share Index of 18.5%, the US Standard & Poors Composite Index of 35.1%, the German FAZ Index of 13.5% and a fall in the Tokyo Topix Index of 1.4%, adjusted for currency movements where appropriate. The price of your shares on the stockmarket rose by 19.6% while the premium to net asset value rose from 0.6% to 1.1%.

In my statement last March, I suggested that the impact of higher interest rates had been discounted by markets and that there was a good prospect of controlled growth and low inflation in many countries. This view proved correct but in addition interest rates in the USA fell further and faster than most commentators had expected.

With this favourable background, coupled with good profits, especially in the high technology area, and substantial takeover activity, Wall Street had a vintage year. The UK also did well for similar reasons. In Europe the main markets made good progress but were held back to some extent by high real interest rates and a slow business recovery.

Japan was a great disappointment in the first half of the year, when mounting bad debts of the banking system, exacerbated by the impact on corporate profits of the overvalued yen, led to a fall of over 20% in the stockmarket by the end of June, although in sterling terms this was mitigated to some extent by the rise in the yen. Drastic action by the authorities to avert even worse trouble, including a cut in the official discount rate to 0.5%, enabled these losses to be recovered in the second half of the year, so that both the stockmarket and the exchange rate ended 1995 close to where they had started.

The volatility of stockmarkets and the yen proved advantageous to our investment performance in 1995. We borrowed substantial sums in yen in 1994 and we increased these loans in 1995 to a maximum of £130m. The loans incurred very low rates of interest and the proceeds were invested at a handsome margin in UK and US bonds yielding upwards of 7%. The bonds were later sold and the loans repaid at better exchange rates. We also added to our Japanese equity holdings at favourable prices.

On the other hand we made some net reduction in our equity investments in the

Chairman's Statement *continued*

USA and UK. Our investment in the USA, at over 20% of the portfolio, is still relatively large, but we were nervous about the speed of the rise on Wall Street which, though justified by the rise in corporate earnings, had reduced dividend yields to record low levels of under 2.5% by the end of the year. The valuations in the UK were more moderate, but with the market up by 18% over the year attractive new investments became more difficult to find while takeovers led to some forced disinvestment.

In the Far East, including both Japan and the smaller markets, we continued our traditional policy of looking for value in depressed markets and invested additional funds. We also added to our South African portfolio. The after effects of the Mexican crisis in December proved longer lasting than expected and affected international investors' perception of all emerging markets. The extent of the poor performance in these markets can be seen on pages 16 and 17 in the Market Reviews.

Our performance was enhanced by having effective gearing in a period of rising equity markets.

Revenue Account and Dividend

Net revenue showed a good increase. The rising stockmarket made it profitable to take a larger amount of stock in lieu of cash dividends than we had in 1994 but 1995 revenue received the special boost described above from the income earned on bonds financed by yen borrowed at very low rates of interest.

As in 1994, substantial foreign income dividends (FIDs) were received from UK companies with large overseas earnings. For technical tax reasons, however, it would not be beneficial for 1995 to pass on the FIDs we have received as FIDs distributed to our shareholders. We therefore propose to pay our final dividend as a conventional dividend and to carry forward the balance of our FIDs received for use in subsequent years if our tax situation changes.

Expenses rose by 13%. This was principally because the management fee, which is based on a 3 year rolling average of assets, rose by 12% reflecting the fact that asset values were substantially higher in 1995 than in 1992. In addition there was a sharp increase in VAT written off due to the higher proportion of securities sales which took place in European Union markets during the year. Private Investor Plan expenses rose by 7% mainly due to the one-off costs of the conversion to the nominee system.

An interim dividend of 0.63p has been paid and your directors now propose a final dividend of 1.4366p making a total of 2.0666p for the year. This is a rise of 10.0%. It is also the 25th consecutive annual increase and compares with a rise of 3.2% in the Retail Price Index in 1995. The long term record of dividend growth is shown on page 9.

Pountney Hill Holdings (PHH)

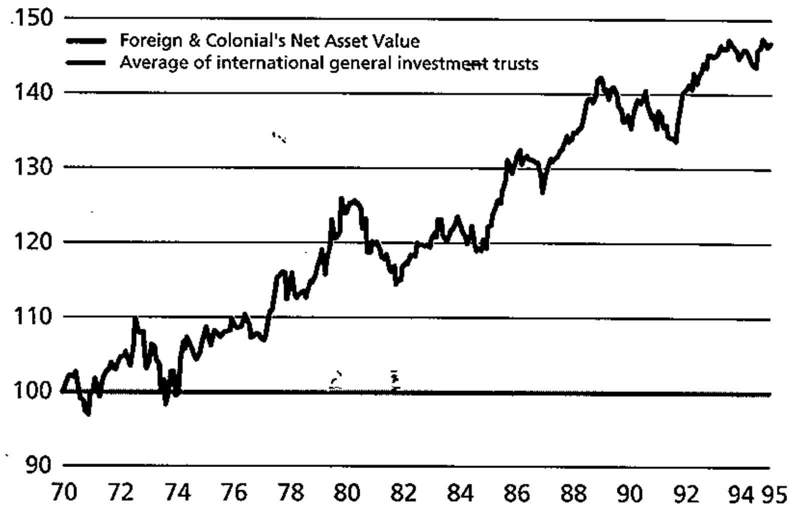
This is the company through which we hold our 30.5% investment in Hypo Foreign & Colonial Management (Holdings), the parent of the group's investment management subsidiaries. Our stake in PHH is our third largest holding. It has been valued independently by Phoenix Securities at £49.7m at the end of 1995. This compares with £39.8m at the end of 1994 and £9.2m at the end of 1989 which was 5 months after the original deal with Hypo-Bank. The main reason for the increase in 1995 is the recommendation by Phoenix to reduce the discount for an unquoted company from 25% to 12.5%, reflecting the high rating in the market for investment management companies, despite the highly competitive conditions. As always the value of this major investment will depend on the level of world stockmarkets and the ability of the management company to attract new money. The progress and structure of the group are described on pages 62 to 65.

Shareholders and Annual General Meeting

The number of shareholders increased from 94,879 to 107,659 during 1995. This is evidence of the continued attractions of our Private Investor Plan, which remains one of the most cost effective ways for the private investor to participate in stock markets. Over 50% of our shares are now owned by private investors compared with 20% for companies generally. Ten years ago we had only 13,417 shareholders and only 25% of the shares were owned by private investors.

During the year we moved the Private Investor Plan to a nominee system. We are aware that problems during the change-over caused inconvenience to some of our shareholders which we and The Royal Bank of Scotland much regret. The Royal Bank of Scotland has assured the Board that the new administrative arrangements are now working properly and we have no doubt that they had to be introduced both to reduce costs and to anticipate the stockmarket's forthcoming change to the CREST electronic system of transfer.

Performance of Foreign & Colonial's Net Asset Value compared with the average of international general investment trusts



Source: Datastream

This year's Annual General Meeting will again be held in the Porter Tun Room at the Whitbread Brewery in Chiswell Street. You are warmly invited to come and we look forward to seeing those of you who do. You will appreciate, however, that it is sometimes difficult at the meeting to answer complex questions satisfactorily because they may need some research. If you have a complicated question you are therefore likely to get a more satisfactory answer if you contact the company secretary or myself in advance.

Directors & Staff

As I reported last year, Eric Elstob retired from the board for health reasons after the 1995 Annual General Meeting. We greatly miss him as a professional and as a friend.

The whole staff of Foreign & Colonial Management, and especially those who deal with our affairs, once again deserve our warmest thanks for delivering a fine service throughout the year.

Directors' Fees

The present limit on aggregate directors' fees is £150,000 per annum, which was set in 1984. This year we are proposing to increase the limit to £250,000. Fees actually paid in 1995 were £132,250. There are two reasons for the proposed increase. First, we need to maintain fees to non-executive directors at a competitive level and, second, we may wish to appoint additional directors. The fees of the non-executive directors have not been raised for 4 years but we are making ever greater demands on their time. It is essential that we remain able to recruit top quality directors and to remunerate them appropriately.

Corporate Governance

We comply with the recommendations for best practice in corporate governance published by the Cadbury Committee and with the Greenbury Committee recommendations as so far adopted by the Stock Exchange.

Association of Investment Trusts (AITC) Statement of Recommended Practice (SORP)

The AITC, in consultation with the Accounting Standards Board, has drawn up a set of recommendations on the form and content of the financial statements of investment trust companies. This will apply for financial years beginning on or after 1 January 1996. Our 1996 accounts will comply with the relevant recommendations of the SORP.

Charitable Donations

During the year we made charitable donations totalling £26,667. These included five language bursaries to the City University under the scheme which we initiated in 1992 to enable their students to learn a European language by taking intensive study courses abroad during the summer vacation. We also gave £2,500, which will be repeated this year, to help our neighbouring inner city school, the Central Foundation School in Cowper Street, with the purchase and installation of computers. The remaining £11,500 was given to 17 other charities involved in medical research, the care of the sick, and education.

Donation to the Conservative Party

The board is inviting shareholders to approve a resolution at the Annual General Meeting for the donation of up to £25,000 to the Conservative Party. If the resolution is passed, we will make our regular annual donation of £12,500 and a further special donation in the event of a General Election being called before our next Annual General Meeting.

We appreciate this is a controversial matter but we feel strongly that a donation is justified. We believe that a Conservative Government with a good majority would be tougher than a Labour Government on inflation and public borrowing and would be less likely to raise corporation and income taxes or impose windfall taxes. We also believe it is in the interests of business in this country to escape the interference which would result from minimum wages and other aspects of the Social Chapter.

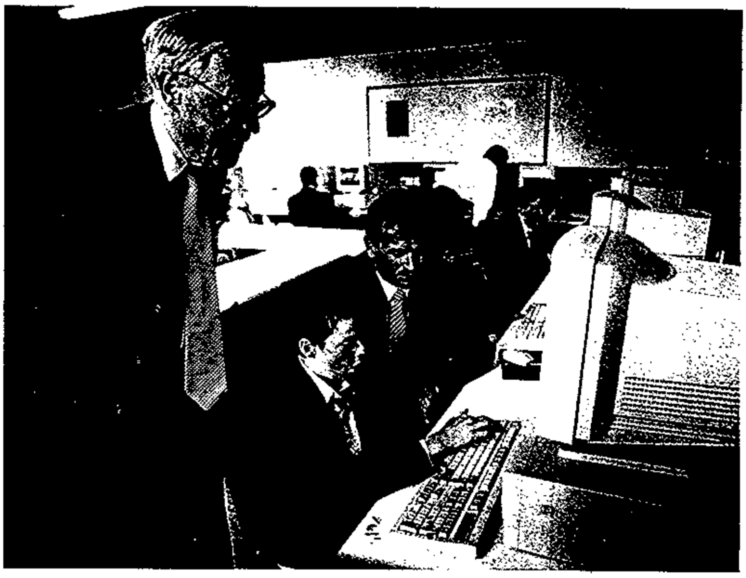
It is worth remembering that in 1979, under the last Labour Government, the highest marginal tax rates on earned and unearned income were 83% and 98% respectively, compared with a single marginal rate of 40% today. It is also noteworthy that the Conservatives have created the circumstances in which our shareholder base has increased from 12,838 at the end of 1979 to 107,659 at the end of 1995.

Foreign & Colonial is one of a very small number of companies which gives shareholders the opportunity to vote on a proposal to make a political donation. It is for the shareholders to decide.

Prospects

The rise in nearly all world stockmarkets at the end of last year, which extended to the opening weeks of 1996, reflected the belief that, led by the USA, the world was looking forward to an ideal combination of sustainable moderate growth with continuing low inflation. The basis of this belief has been that the major world economies have been managed with considerable skill during the past two years. In the USA and UK, the prompt action taken in 1994 to check the incipient boom by raising interest rates proved quickly effective and enabled monetary policy to be relaxed again in 1995. The drastic policy easing in Japan has also begun to work and similar action is now being taken in mainland Europe.

But we also think the risks to the market may be greater than many investors appreciate. In the UK, there will be a General Election within about 12 months which may lead to a change of government and an inevitable period of uncertainty. Whatever the outcome of the election, the present exceptional level of take-over activity is almost certain to end. Moreover, the money supply in this country has been growing rapidly, tax cuts are now coming into effect, and with the benefits from TESSA maturities and windfall gains from building society take-overs, consumer spending may rise quite strongly in 1996 and



Oliver Dawson, Director, Foreign & Colonial Investment Trust PLC, with Andrew Marshall, Headmaster of Central Foundation School, Cowper Street, City of London and pupils using computer equipment provided by the donation from the Foreign & Colonial Investment Trust Charity Committee

leave little scope for further reductions in interest rates. Rates should probably be increased if the economy strengthens further and if US rates start to rise.

The US economy seems to be expanding again after a mild set-back during the winter. As a result, the earnings outlook for 1996 is favourable, but the further cut in interest rates for which the market had been hoping now seems unlikely before the elections in November. The recent weakness of bond markets, combined with the increased volatility in share prices and the very low level of dividend yields, indicate a need for some caution.

Markets in Continental Europe are at an earlier stage of the interest rate cycle and may benefit from cost cutting and restructuring on a greater scale than in the past. But stock-market valuations are high and many economies still suffer from bureaucratic controls and the low priority given to the interests of shareholders. On the other hand, Tokyo could perform well if the Japanese economic recovery continues and if local institutional investors recover their confidence. Asian and Latin American economies are now showing good growth and these markets could also make solid progress if international investors switch funds from the markets which performed particularly well in 1995.

Taking everything into account, we see no reason to believe that we will not in 1996 again achieve our objective–"to secure for our shareholders long-term growth in net assets per share and regular increases in dividend which will beat the rate of inflation."

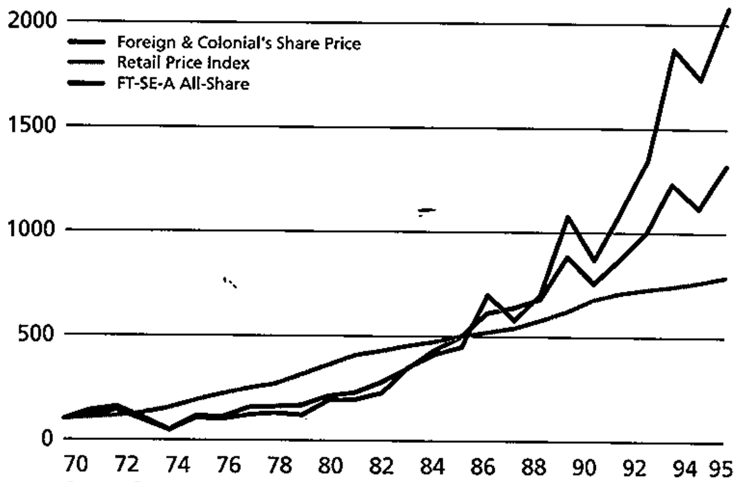
We will this year have one new challenge, which is to stay in the FT-SE 100 Index of the largest British companies. Whether or not we do so will depend largely on factors beyond our control, but we will try our hardest. We must also set about doing our best to ensure that the value of an investment of £1,000 today increases by as much over the next fifty years as it has over the last fifty. We are nothing if not investors with long horizons.

J.R. Sclater

J.R.Sclater
March 1996

Foreign & Colonial's Share Price Performance

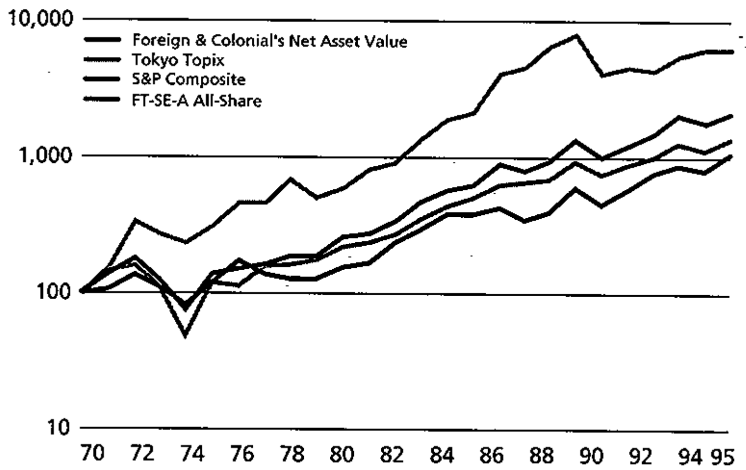
Comparing the growth in the Company's share price with the Retail Price Index and the FT-SE Actuaries All-Share Index



Source: Datastream

Foreign & Colonial's Net Asset Value Record

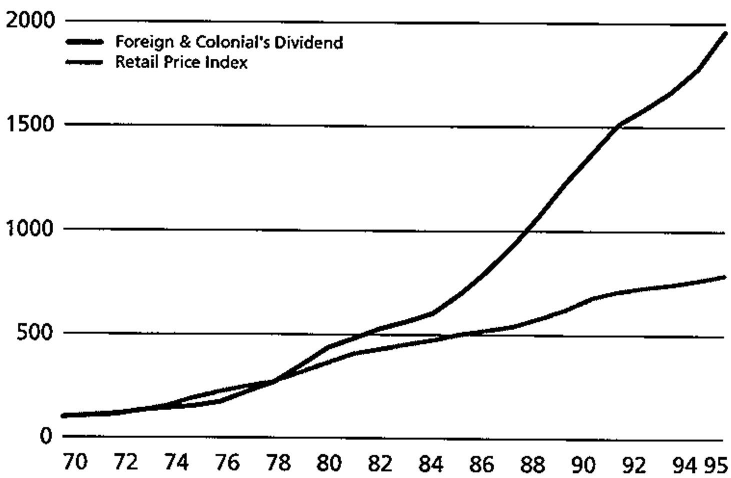
Showing the Company's Net Asset Value per share compared with the FT-SE Actuaries All-Share Index, the Standard & Poor's Composite Index and the Tokyo Topix Index. The indices have been adjusted for exchange rate movements, where appropriate.



Source: Datastream

Foreign & Colonial's 25th Consecutive Increase in Dividend

Comparing the Company's cumulative annual dividend growth with the Retail Price Index



About Your Company

Share price of Foreign & Colonial compared with the FT30 Share Index and its present constituents

Five Years to 31 December 1995

	Stock	% change
1	British Airways	240.1
2	Reuters Holdings	235.7
3	National Westminster Bank	143.1
4	GKN	142.7
	Foreign & Colonial	**139.1**
5	Thorn EMI	133.1
6	SmithKline Beecham	124.3
7	Glaxo Wellcome	115.8
8	General Electric	108.8
9	Marks and Spencer	101.8
10	BOC Group	85.8
11	Boots	83.1
12	ICI	79.1
13	BTR	72.7
14	Tate & Lyle	72.3
15	Cadbury Schweppes	70.7
16	Blue Circle Industries	61.5
17	British Petroleum	61.4
	FT30 Share Index	**60.7**
18	Grand Metropolitan	37.5
19	Forte	34.9
20	Courtaulds	24.9
21	British Telecommunications	24.7
22	Guinness	24.6
23	Lucas Industries	24.0
24	Asda Group	13.7
25	British Gas	12.9
26	Allied Domecq	10.5
27	Hanson	8.1
28	Royal Insurance Holdings	1.1
29	P&O	–5.8
30	BICC	–13.6

Source: Datastream

Foreign & Colonial was the first public investment trust. Formed in 1868, it operated originally as a common law trust until doubts about the legality of this resulted in a change to limited liability status. This is how investment trusts came to be called trusts although, of course, they are no longer trusts but public companies.

The Company was originally named The Foreign and Colonial Government Trust and specialised in overseas government bonds. British Government securities were then yielding about 3% while overseas bonds offered a much better return. The stated objective was "to provide the investor of moderate means the same advantages as the large capitalists in diminishing the risk of foreign and colonial stocks by spreading the investment over a number of stocks."

The present name was adopted in 1891 and the Company widened its scope by investing in railway and industrial debentures. Equity investments were first made in the early 1920s and the original emphasis on overseas markets has never been lost.

In 1961, Foreign & Colonial was one of the first UK investors to take an interest in post-war Japan. Subsequently, in 1968, the Japanese portfolio was expanded by the acquisition of Anglo-Nippon Trust Limited.

In 1974, Foreign & Colonial made an early move into Latin American equities with investments in Brazil.

In 1984, Foreign & Colonial was the first investment trust to introduce a Private Investor Plan which made it cheap and simple for investors to buy investment trust shares.

An increasing interest by New Zealand investors in Foreign & Colonial shares led to a listing on the New Zealand Stock Exchange in July 1993. Currently there are more than 1,600 New Zealand shareholders.

A simple low cost personal pension plan was launched in February 1994.

In December 1995, Foreign & Colonial shares were included in the FT-SE 100 Share Index.

The Company now serves more than 107,000 shareholders.

The price of Foreign & Colonial Investment Trust shares can be found every day in the investment trust section of the stockmarket page in most of the leading newspapers, normally under 'For. & Col.'.

Performance Record

Price of a Mars Bar	Mars Bar Index[1]	BZW Equity Index[2]	Building Society[3]	Retail Price Index	Foreign & Colonial[4]	
1.4p	£1,000	£1,000	£1,000	£1,000	**£1,000**	1945
2.1p	£1,500	£1,050	£1,188	£1,235	**£1,782**	1950
2.5p	£1,786	£2,080	£1,346	£1,553	**£5,678**	1955
2.5p	£1,786	£3,950	£1,589	£1,712	**£9,108**	1960
2.9p	£2,070	£4,650	£1,955	£2,031	**£15,680**	1965
3.8p	£2,714	£6,820	£2,554	£2,580	**£30,210**	1970
7p	£5,000	£9,440	£3,624	£4,982	**£35,347**	1975
15p	£10,714	£21,960	£5,534	£9,400	**£72,051**	1980
19p	£13,570	£59,940	£8,489	£12,919	**£190,992**	1985
21p	£15,000	£108,820	£13,217	£17,466	**£395,275**	1990
26p	£18,570	£218,140	£17,548	£20,269	**£1,017,116**	1995

The performance record is based on an original investment of £1,000 in December 1945 with net income reinvested.

The Mars Bar Index is based on the price of a Mars Bar over the same period.

[1] Source: Mars UK, Financial Times

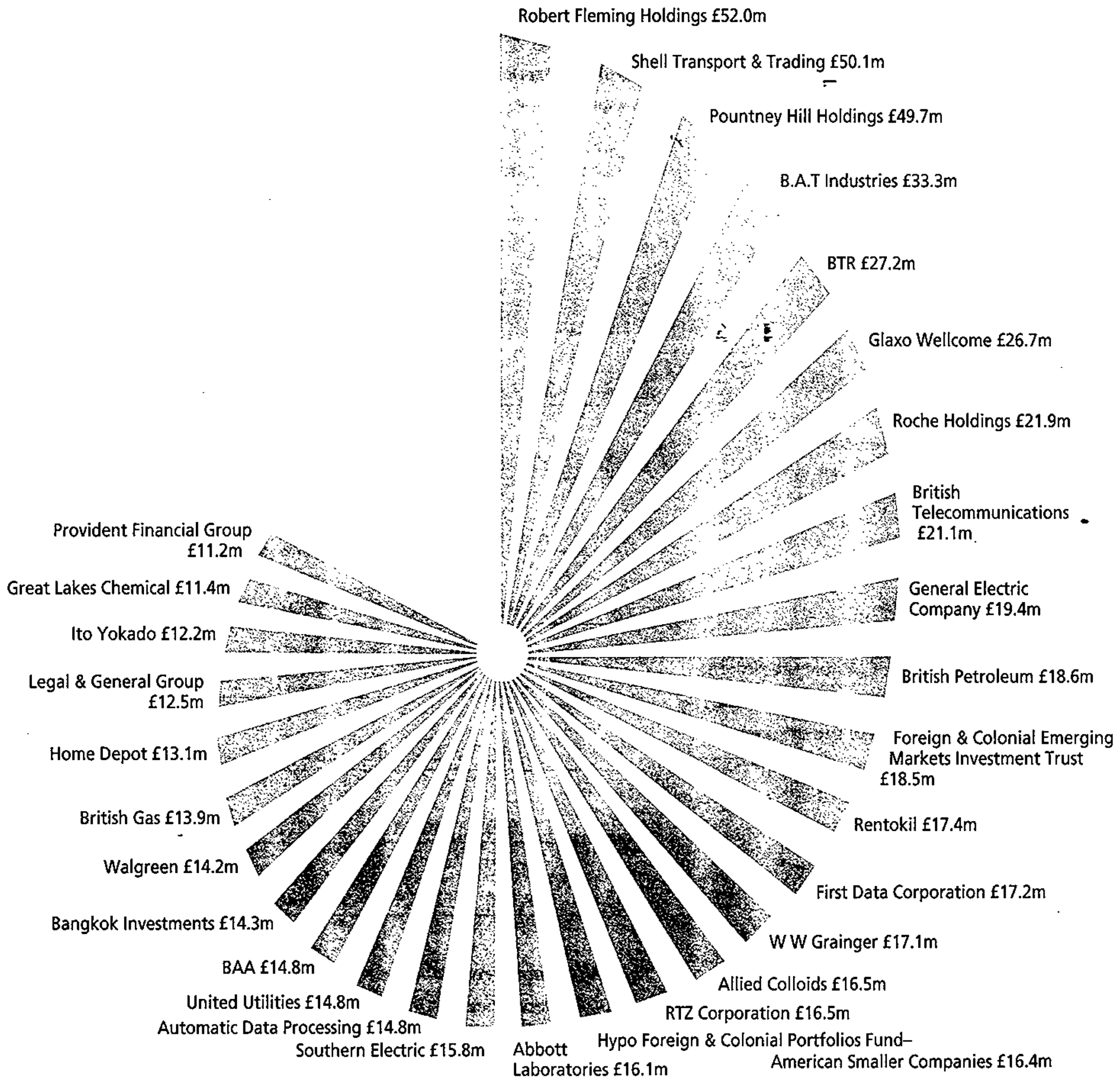
[2] Source: The BZW Equity-Gilt Study (shows the performance of a representative portfolio of UK equities).

[3] Basic net rate to 1962 — Source BZW. Thereafter highest net rate available — Source Micropal.

[4] Calculation by Foreign & Colonial Management Limited, based on mid-market prices, allowing for notional deduction of 3.5% on reinvested income to cover transaction costs and the market's spread as recommended by AITC. Current charges are 0.2% commission and 0.5% Government Stamp Duty (min 50p).

Past performance is no guide to the future. Prices and income may go down as well as up. Investors may not get back the full amount invested in Foreign & Colonial, especially in the short term.

Thirty Largest Equity Holdings



1 (3) Robert Fleming Holdings, UK* 3.08%
An unquoted UK merchant bank with a good reputation in its areas of operation and a strong presence in the Far East.

2 (1) Shell Transport & Trading, UK 2.97%
Leading international oil exploration, production and marketing group, which has a strong balance sheet and an attractive yield.

3 (2) Pountney Hill Holdings, UK* 2.95%
Holding company for our investment in the fast growing fund management business, Foreign & Colonial Management.

4 (4) B.A.T Industries, UK 1.98%
Diversified group with cash generative international tobacco interests, and expanding financial services through Allied Dunbar, Eagle Star and Farmers Group in the US.

5 (5) BTR, UK 1.61%
Major international manufacturing group with an excellent long-term record.

6 (10) Glaxo Wellcome, UK 1.59%
Large research and development expenditure has led to a wide range of new products which will complement the success of its Zantac anti-ulcer drug. The takeover of Wellcome will enable greater economies of scale.

7 (23) Roche Holdings, Switzerland 1.30%
Switzerland's second largest pharmaceutical company. Its strong balance sheet makes further important acquisitions, such as Genentech, likely.

8 (12) British Telecommunications, UK 1.25%
Long-term growth in demand for telecommunication networks should be boosted by falling prices, better marketing and a range of new services.

9 (16) General Electric Company, UK 1.15%
Major electronics group with a strong balance sheet, some interesting new ventures and an attractive yield.

10 (21) British Petroleum, UK 1.11%
Major integrated oil group with further recovery prospects due to continued rationalisation.

11 (6) Foreign & Colonial Emerging Markets Investment Trust, UK 1.10%
Specialist fund giving exposure to fast growing emerging economies across the world.

12 (19) Rentokil, UK 1.03%
International environmental services and healthcare group with an excellent record of growth, profitability and financial strength.

13 (25) First Data Corporation, USA 1.02%
A leading provider of information services, offering a range of data processing, management and storage products.

14 (18) W W Grainger, USA 1.01%
One of America's leading distributors of equipment, components and supplies into a number of different markets.

15 (13) Allied Colloids, UK 0.98%
Manufacturer of speciality chemicals with a record of innovation, growth and a high proportion of overseas earnings.

16 (9) RTZ Corporation, UK 0.98%
A world leader in the mining industry concentrating on the development of large, high quality mineral deposits. It is currently benefiting from a strong recovery in commodity prices.

17 (7) Hypo Foreign & Colonial Portfolios Fund American Smaller Companies, Luxembourg 0.97%
Specialist fund that gives exposure to growth companies which are too small for us to invest in directly.

18 (26) Abbott Laboratories, USA 0.96%
Diversified healthcare firm with a strong market position in pharmaceuticals, nutritional products, diagnostic tests and hospital instruments.

19 (24) Southern Electric, UK 0.94%
The largest regional electricity company in the UK with a strong balance sheet and above average dividend prospects. It may be bid for again by National Power.

20 (30) Automatic Data Processing, USA 0.88%
Provider of data processing services to a wide range of industries. It has an enviable track record and generates a significant cash flow.

21 (–) United Utilities, UK 0.88%
The merger of North West Water and Norweb should create substantial efficiency savings to underpin good dividend growth.

22 (20) BAA, UK 0.88%
Long-term growth in air travel and the further development of retailing give good prospects for the operator of Britain's major airports.

23 (17) Bangkok Investments, Thailand 0.85%
This was the first closed-end fund set up for foreigners investing in Thailand and continues to achieve outstanding performance. Growth of the Thai economy is expected to be 8% in 1996.

24 (–) Walgreen, USA 0.85%
An aggressive store opening programme and increasing contributions from prescription business provide Walgreen, the nation's largest drug-store retailer, with strong growth potential.

25 (–) British Gas, UK 0.83%
Main supplier of gas in the UK, undergoing enormous change to meet more competitive markets and offering a high yield.

26 (15) Home Depot, USA 0.78%
A leading chain of DIY stores which continues to grow rapidly in a highly fragmented market.

27 (–) Legal & General Group, UK 0.74%
One of the largest life insurance companies in the UK which should benefit from its financial strength and brand name as regulation continues to tighten.

28 (–) Ito Yokado, Japan 0.72%
One of Japan's leading diversified retailing companies, operating supermarkets and department stores in Japan and convenience stores in Japan and the US. Subsidiaries include 7-Eleven Japan, and Dennys restaurant chain.

29 (29) Great Lakes Chemical, USA 0.67%
Major chemicals producer with a wide range of products, many of which are used in environmentally friendly applications.

30 (–) Provident Financial Group, UK 0.67%
Leading provider of personal credit with a record of consistent growth in earnings and dividend.

*see pages 17, 18 and 25 for further details on these investments

The value of the thirty largest equity holdings represents 35% (1994– 34%) of the Company's portfolio. The figures in brackets denote the position at the previous year-end. The country shown is the country of incorporation, the percentage is the percentage of the consolidated net assets attributable to ordinary shareholders and the value is the approximate market value.

Market Reviews

United Kingdom

The FT-SE-A All-Share Index rose by 18.5% in 1995. Share prices were buoyed by expectations of lower interest rates, the favourable outlook for profits and dividends, a rush of takeover bids and surging bonds and equities on Wall Street. Sluggish economic growth, the Barings fiasco and the Labour Party remaining well ahead in the opinion polls did little to harm sentiment.

The UK portfolio underperformed the index. Eurotunnel, down 69%, and a low weighting in banks were important factors. As far as Eurotunnel is concerned, Foreign & Colonial was a founder shareholder in this massive enterprise. Sadly, although it shows every sign of being a great success operationally, it may be overwhelmed by the size of the borrowings required to complete the project. We still hope some value can be retained for equity investors.

In the course of the year, money was taken out of the market partly because of bids for large holdings in Eastern Group and Wellcome. We also took advantage of the considerable volatility within the market and moved funds from shares where ratings seemed to be excessive to shares which we thought were unduly depressed.

The best performers in the portfolio were SmithKline Beecham, Guardian Royal Exchange and RJB Mining which all rose by over 64%.

Apart from Eurotunnel, Inchcape down 42% and P&O % down 22% were the most disappointing holdings.

The economy is growing sufficiently slowly to enable further interest rate cuts to be justified. Profits and dividend increases are likely to be lower than last year. Wall Street is unlikely to be such a favourable influence and election prospects may cause increasing concern. However, strong balance sheets and fears of greater political interference later mean that takeover activity should continue to be lively. With continued low inflation prospects, the market should make further progress.

Europe

Continental European markets had a reasonable year. Germany was up 5.5%, France up 0.5%, the Netherlands up 16.2%, but best of all was Switzerland which soared 25.6%. While many optimistic profits forecasts had to be trimmed as the recovery slowed in the second half of the year, share prices were supported by falls in interest rates as inflationary pressures eased. Our overall returns were doubled by the further weakening of sterling against the continental currencies.

We did not increase our allocation to Europe and the only change was to add to the Nordic area. As for companies, the focus continued to be on industrial and growth stocks where we saw favourable earnings development due to steadily improving economic conditions and ongoing rationalisation measures.

Overall, the portfolio performed satisfactorily. The greatest successes came from Switzerland with pharmaceuticals Sandoz and Roche up 55% and 44% respectively and Alusuisse up 40%. We also did well in the Netherlands and France with VNU, the publisher, up 22%, ABN-Amro up 21%, Promodès, the supermarket chain, up 16% and Legrand up 17%. Germany, however, proved more difficult with good returns from blue chips such as Allianz and Veba, up 17% and 13% respectively, offset by poorer performances elsewhere, such as from Hochtief and Preussag, down 35% and 11% respectively.

With business activity hesitant and inflationary pressures well under control short term interest rates in Europe may fall further. This will be the main support to equity markets for the time being as profits expectations may have to be trimmed again. Large blue chip stocks should continue to do better than more cyclical companies assuming we are correct in our assumption that the current hesitancy in the continental economies marks a pause in the upswing, rather than the start of a downturn.

United States of America

The Standard and Poor's Composite Index rose by 34%, beating most forecasts. This was the fifth successive year without a serious stock market correction. The Federal Reserve Board helped sentiment in the second half of the year by reducing interest rates and delivering the hoped for "soft landing". Economic growth and inflation were much as forecast but a weaker dollar enabled corporate profits to exceed expectations. Unlike 1994, company share repurchases and takeovers for cash exceeded new issues. Once again the flow of money into mutual funds was strong but smaller company share prices underperformed for the second year in succession.

We had low weightings in the fashionable technology area and this held back performance. But the health care sector had a good year and Medtronic, which manufactures heart valves, rose by 112%. First Financial Management was acquired by another data processing company, First Data, and the value of our investment increased by 70%. Companies whose business is more consumer related had a tougher year and Home Depot, the leading DIY retailer, only rose by 4%. Our main disappointment was Pep Boys, Manny, Moe & Jack, a supplier of auto parts, down 17%. It suffered from the very tough retail environment but prospects should improve there as competitors go out of business. In 1995, we added to our positions in the health care and financial sectors, buying undervalued companies with good earnings prospects and lowered the weighting in the retail sector. On balance because of large gains achieved during the year we withdrew money from the market.

Turning to 1996 it looks unlikely that the stock market will benefit again from such a powerful combination of positive factors. There is some concern that the economy may pick up too strongly. But at present inflation remains low. By one measure the market is highly valued, currently yielding 2.3%, when 3% is normal. These factors may prevent the stock market moving much higher but corporate profits should rise again in 1996. Bear markets usually occur when the economy is growing too quickly, inflation is rising and interest rates are moving up. At present these conditions are not evident.

Japan

The Japanese stockmarket rose by 1.2% as measured by the TOPIX index. The year fell into two halves; the first half one of weakness and the second of recovery.

There were a number of negative factors in the early part of the year, – the tragic Kobe earthquake, the poison gas attacks in Tokyo and perhaps more importantly the abnormal strength of the yen. The currency rose from ¥100 against the dollar at the beginning of 1995 to ¥80 in the middle of April. This had a serious effect on industrial competitiveness.

Market Reviews *continued*

In July the situation changed. The Bank of Japan began supplying liquidity and short term interest rates were cut. Through joint intervention with the U.S. Federal Reserve the yen's rise was reversed. Subsequent measures included a cut in the Official Discount Rate to the low level of 0.5% and another fiscal package of ¥14 trillion or £88bn. The increasing seriousness of the problems in the financial sector was finally publicly acknowledged and measures to resolve the insolvent housing loan companies were proposed. By the end of the year the stockmarket had rallied 32% from its low.

We outperformed the TOPIX index during the year. Our concentration on value in the domestic areas, such as housing and retail, helped. We were net investors into the decline. The best performing stock in the portfolio was Sekisui Chemical, up 53%. It is a prefabricated housebuilder as well as a supplier of plastic pipes and a beneficiary of earthquake reconstruction. Omron, a control component manufacturer, was up 34% and Fuji Photo up 29%. Disappointments included JGC, a plant engineer suffering from a strong yen, which fell 29%, Sumitomo Electric down 13% and Japan Tobacco, sold before the year end, down 9%.

While the Bank of Japan continues to supply liquidity the outlook for the stockmarket is favourable. A recovery in sales growth should flow through to profits given the restructuring which has occurred over the past few years. Japanese equities look cheap against bonds and cash and domestic institutions should adjust their portfolios as the economic improvement shows through. Despite the high earnings multiples, we believe that further progress will be made during the year.

Asia

Asian markets, with the exception of Hong Kong, disappointed for the second year running as the Mexican crisis took its toll and made international investors hesitant to commit funds to emerging markets. Our relative underperformance was largely attributable to overweight positions in the poorly performing Indian, Taiwanese and South Korean markets.

In 1995, our dominant investment theme was to emphasise the dollar-linked markets in Asia (i.e. markets tied to the US interest rate cycle by means of a pegged or semi-pegged exchange rate). This involved building up our exposure to Hong Kong, Malaysia, Singapore and Thailand in anticipation of a cut in US interest rates which released additional liquidity into the markets. Hong Kong gained 23% over the year but Malaysia and Singapore only rose 2.5% and 4.1% respectively. Thailand was disappointing, falling 6%, as concern about economic overheating and rising interest rates dampened market sentiment.

Among the best performing holdings were Hong Kong property developers Cheung Kong, up 50%, and Hutchison Whampoa, up 51%. In other markets, banking issues outperformed with Malayan Banking Berhad rising 39% and the Development Bank of Singapore up 17%. The worst performing stocks included Daishin Securities, a Korean securities house, which recorded a 31% decline and our investment in the Indian Investment Company, down 43% as a result of its exposure to medium and smaller companies which were hit hardest when the cycle turned down. Dairy Farm fell 27% as food retailing earnings in its core markets of Hong Kong, Australia and the UK suffered from rising levels of competition.

For 1996, we are taking a more bullish stance on the Asian region as a whole, expecting looser OECD monetary policy to provide the liquidity required to lift markets higher. For the second half of 1996, we expect the more "closed" Asian markets of South Korea, Taiwan and India to outperform on the back of strong economic fundamentals. Valuations declined sharply as investors sold these markets in 1995. They now look even more attractive.

Latin America

The Mexican market fell 26% while Brazil declined 15%. Argentina rose 9% in sterling terms.

This region was a great disappointment. The fallout from the Mexican economic crisis and devaluation lasted longer and had wider repercussions than we expected. There was little interest on the part of local investors and international investors withdrew for many months. Only towards the end of the year did confidence begin to return.

Growth in Mexico came to a halt while interest rates and the peso fluctuated wildly. The Brazilian economy made considerable progress as the government persevered with its policy of privatisations and administrative reforms. GDP grew by 4.5%, and inflation was down from 50% a month to 2% a month. In Argentina the link with the dollar was maintained at the cost of low economic growth and considerable friction between President Menem and the Finance Minister, Cavallo.

Our holdings in Brazilian Smaller Companies Investment Trust and Latin American Investment Trust fell by 33% and 23% respectively while Telmex, the Mexican telecoms operator, fell by 24%.

Prospects for Latin America are much better in 1996. Argentina is a clear beneficiary of monetary easing in the USA. If Brazil makes progress with its fiscal reforms the path is clear for a substantial reduction in market rates. Mexico should continue a slow recovery from its major setback.

South Africa

The market rose by 15% in sterling terms as political worries subsided, capital inflows increased and the abolition of the financial rand made South Africa a good area for investment in 1995. During the year bonds were switched into equities and additional funds were committed to the market.

South African Breweries performed very well rising by 36%, but Anglo American Corporation fell 8%.

Despite the ever uncertain political scene, we believe the economy is making progress and that we are investing in strong companies well capable of taking advantage of the opportunities available.

Unquoted Investments

Robert Fleming Holdings is not only the largest unquoted holding but also the largest holding overall. It appreciated by 58%, reflecting its success in fund management and merchant banking and the high valuations placed on this type of business in the market at the present time.

Pountney Hill Holdings (PHH) is the third largest holding. Through PHH, your Company effectively owns a 30.5% stake in Hypo Foreign & Colonial Management (Holdings). A full report of this company's progress is given on pages 62 to 65. Additional detail on Robert Fleming and Pountney Hill Holdings is given on page 25.

Bonds & Currencies

1995 proved to be a much better year for bond markets than 1994. At first the problems of the Mexican and Japanese economies caused major upsets in both bond and currency markets. Later there was a significant improvement in sentiment. It became apparent that the U.S. Federal Reserve's tight monetary policy and the overvalued yen and deutschmark had made overheating of the major economies unlikely. This led to a complete reversal of interest rate expectations world-wide. Central bank easing began in March and bond markets made up most of the losses suffered in 1994.

During 1994 we had been confident that fears of inflation were being overdone. We also felt strongly that the yen was becoming substantially overvalued. In line with traditional Foreign & Colonial policies we cautiously added to our holdings of UK gilts and US Treasuries and financed them with borrowed yen. Although this strategy proved premature, we continued to add to bond holdings and borrow more yen in 1995. Our yen borrowings peaked at £130m. On balance, we obtained a good margin between the cost of the yen borrowing and the yield on the bonds. Also, some of the yen borrowing proved to be at very favourable rates of exchange. By the year end all of the US Treasuries and UK gilts had been sold and all but £15m of the yen loan had been repaid.

Gearing

Foreign & Colonial has always believed in the prudent use of gearing to enhance shareholder value. When it is thought advantageous, we borrow money to invest in stock and bond markets. Gearing can consist of long or short term loans. It may be employed for several reasons:

- To increase equity and fixed interest portfolios when rising markets are expected.
- To increase equity and fixed interest portfolios when favourable income differentials arise, the income gearing thus obtained will enhance earnings per share.
- To adjust the currency exposure of the portfolio, normally when the currency borrowed is expected to be weak. Such borrowing has no gearing effect in itself except, of course, when combined with one of the moves described above.

During 1995 we used gearing for all three reasons.

Holdings of Foreign & Colonial Group Funds

On occasions the most appropriate way to participate in specialist investment areas, especially emerging markets, is through funds managed by Foreign & Colonial or other fund management companies.

The possibility of conflict between the interest of your Company and Foreign & Colonial Management ("FCM") is recognised. All in-house holdings are reviewed by the Board every six months. Before any new investment is made, the approval of the independent directors has to be obtained.

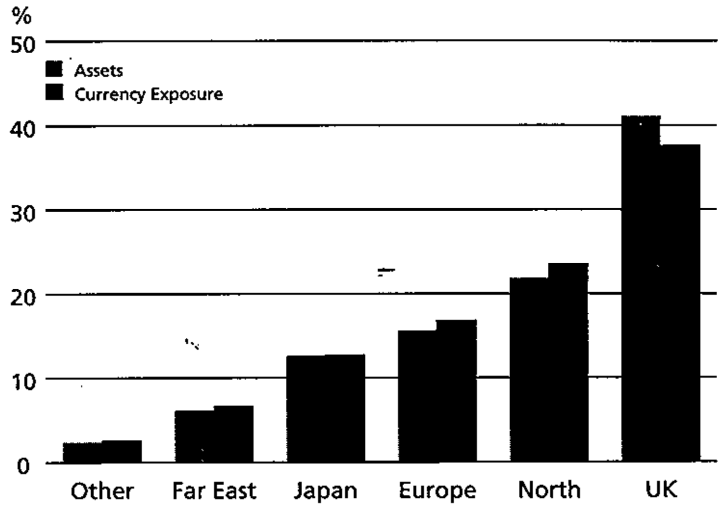
The limit on in-house funds and investment trusts is 5% of total assets less current liabilities (excluding loans), and holdings were 4.5% at 31 December 1995.

There is no double-charging. Only the fee of the fund or investment trust is paid. The Company's management fee of 0.3% per annum, charged by FCM, is waived.

There is also a limit of £1m on the amount of cash that can be deposited with the management company.

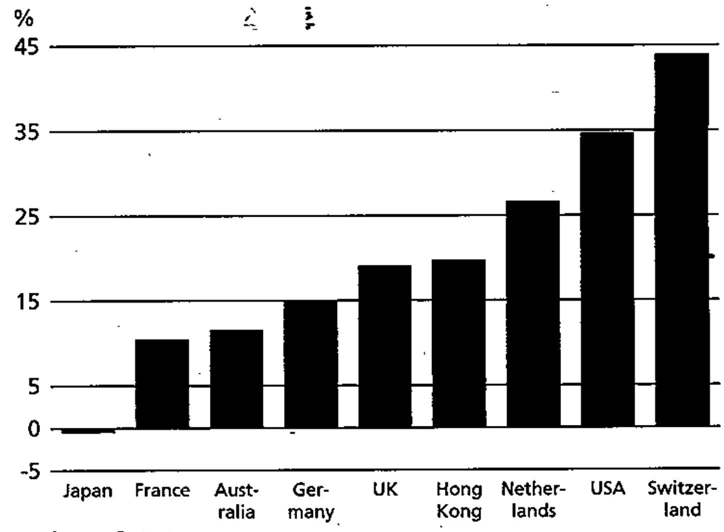
Geographical Distribution of Assets

Geographical distribution of consolidated total assets less current liabilities (excluding loans) and currency exposure at 31 December 1995



Movement of Major Equity Markets

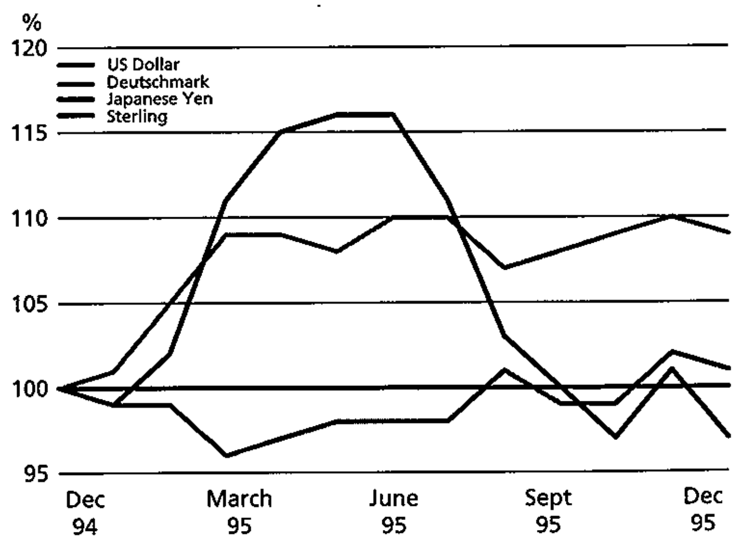
FT/S&P-Actuaries World (Sterling) Indices for the year ended 31 December 1995



Source: Datastream

Currency Movements

This chart shows the movement of the Deutschmark, US Dollar and Japanese Yen against the Pound Sterling for the year ended 31 December 1995



Source: Datastream

List of Investments

Listed Investments	Holding	Value at 31 December 1995 £'000s
Africa:		
South Africa		
Anglo American	122,200	4,750
Anglovaal	205,100	5,363
Nedcor	68,000	3,236
South African Breweries	268,383	6,330
Total Africa		19,679
Continental Europe:		
Belgium		
Générale de Banque	24,000	5,476
Finland		
Nokia	111,000	2,832
France		
Accor	80,000	6,680
Crédit Local de France	100,000	5,057
Générale des Eaux	85,000	5,473
Lafarge-Coppée	123,420	5,128
Legrand	65,000	6,472
Michelin 'B'	170,000	4,373
Promodès	44,000	6,670
Seita	250,000	5,844
Television Francaise 1	75,000	5,186
Total 'B'	180,000	7,835
Valeo	198,000	5,914
Total France		64,632
Germany		
Allianz warrants	16,000	634
Bayer	40,000	6,854
BASF warrants	40,000	1,143
Deutsche Bank	200,000	6,129
Foreign & Colonial German Investment Trust*	3,304,434	4,257
Foreign & Colonial German Investment Trust warrants*	525,886	
Mannesmann	32,500	6,676
Preussag	26,000	4,727
Siemens	21,000	7,447
Veba warrants	40,000	4,068
Volkswagen	25,000	5,411
Total Germany		47,346
Italy		
Fiat	1,810,000	3,792
Italgas	1,650,000	3,236
Telecom Italia	3,825,000	3,836
Telecom Italia Mobile	631,800	717
Total Italy		11,581
Luxembourg		
Hypo Foreign & Colonial Portfolios Fund: Mediterranean Equity	48,828	404

Listed Investments	Holding	Value at 31 December 1995 £'000s
Netherlands		
ABN-AMRO	250,000	7,343
Ahold	250,000	6,579
Akzo	72,700	5,422
Elsevier	640,000	5,503
Phillips	110,000	2,563
KPN	204,200	3,380
VNU	110,000	9,737
Total Netherlands		40,527
Norway		
Norsk Hydro	201,700	5,470
Portugal		
Jeronimo Martins	111,594	3,926
Scandinavia		
Hypo Foreign & Colonial Portfolios Fund: Nordic Equity	123,600	1,628
Spain		
Acerinox	60,000	3,909
Banco Popular Espanol	65,000	7,720
Repsol	245,550	5,182
Telefonica	600,000	5,352
Vallehermoso	209,755	2,511
Total Spain		24,674
Sweden		
Astra 'A'	220,000	9,129
Astra 'B'	135,500	
Ericsson	388,800	4,912
Svenska Cellulosa	440,000	4,405
Volvo	240,000	3,172
Total Sweden		21,618
Switzerland		
Alusuisse-Lonza	14,000	7,163
Nestlé	12,000	8,571
Roche Holdings part. certs.	4,281	21,866
Sandoz	15,000	8,866
Winterthur	15,000	6,851
Total Switzerland		53,317
Total Continental Europe		283,431
Far-East (excluding Japan):		
Australia		
Broken Hill Proprietary	440,000	4,005
Mayne Nickless	1,100,000	3,162
Total Australia		7,167

List of Investments *continued*

Listed Investments	Holding	Value at 31 December 1995 £'000s
Hong Kong		
Asia Financial Holdings	9,215 667	2,073
Cheung Kong Holdings	666,000	2,613
Guangdong Investment	6,200,000	2,402
Hong Kong Electric	1,266,000	2,673
Hong Kong & China Gas	3,341,260	3,465
Hong Kong Telecommunications	2,102,800	2,417
Hutchison Whampoa	1,660,000	6,513
Jardine Strategic Holdings	1,084,000	2,136
Sun Hung Kai Properties	1,286,000	6,776
Swire Pacific 'A'	1,013,072	5,063
Total Hong Kong		**36,131**
India		
Alliance Capital Growth India Liberalisation "A"	588,267	2,588
Indian Investment Company	384,889	1,522
Reliance Industries	85,000	766
Total India		**4,876**
Malaysia		
Malayan Banking	800,000	4,343
New Zealand		
Carter Holt Harvey	2,500,000	3,474
Singapore		
Development Bank of Singapore	1,179,750	9,455
Hypo Foreign & Colonial Portfolios Fund:		
Asian Equity	126,670	1,936
Singapore Airlines	725,000	4,358
Total Singapore		**15,749**
South Korea		
Cho Hung	145,100	1,088
Daishin Securities	150,000	897
Hanil Bank	289,842	1,993
Hyundai	100,000	1,031
Korea Electric Power	233,200	5,964
Pohang Iron & Steel	35,000	1,473
Total South Korea		**12,446**
Taiwan		
Formosa Fund	680	3,329
Taipei Fund	55	2,675
Taiwan Investment Company	200,000	1,429
Total Taiwan		**7,433**
Thailand		
Bangkok Investments	173,160	14,331
Total Far East (excluding Japan)		**105,950**

Listed Investments	Holding	Value at 31 December 1995 £'000s
Japan		
Equities and convertibles		
Canon	791,000	9,236
Daikin Industries	700,000	4,415
Daiwa House Industry	750,000	7,961
Daiwa Securities	600,000	5,919
East Japan Railway	1,700	5,329
Fanuc	75,000	2,093
Fuji Photo Film	425,000	7,908
Fujitsu	966,000	6,936
Hitachi	1,260,000	8,182
Ito Yokado	307,000	12,192
JGC	439,000	2,988
Kajima	750,000	4,777
Kamigumi	500,000	3,413
Kamigumi warrants	6,000	
Keyence	50,000	3,715
Kokuyo	326,000	4,885
Komatsu	900,000	4,777
Kyocera	125,000	5,986
Kyudenko	95,000	807
Marubeni	1,200,000	4,188
Marui	250,000	6,443
Marui 3.5% conv. bond 1999	$1,000,000	
Matsushita Electric Industrial	680,000	7,133
Mitsubishi Heavy Industries	1,800,000	9,250
Mitsui Fudosan	585,000	4,639
Murata Manufacturing	250,000	5,932
NEC 2.875% conv. bond 2000	$1,850,000	4,405
NEC 5.25% conv. bond 1997	$600,000	
Nippon Denso	500,000	6,025
Nomura Securities	300,000	4,215
Olympus Optical	725,000	4,527
Omron	550,000	8,173
Sankyo	165,000	2,390
Secom	90,000	4,035
Sekisui Chemical	600,000	5,695
Sekisui House	385,000	3,932
Sekisui House warrants	540	
Sharp Corporation	600,000	6,182
Shimano	235,000	2,776
Shimano warrants	312	
Sumitomo Corporation	1,025,000	6,720
Sumitomo Electric Industries	700,000	5,420
TDK	145,000	4,771
Tokyo Marine & Fire Insurance	700,000	5,901
Toppan Printing	501,000	4,254
Toyo Seikan	225,000	4,341
Yamanouchi Pharmaceutical	425,000	5,891
Yamaichi Securities	800,000	4,011
Total Japan		**232,768**

Listed Investments	Holding	Value at 31 December 1995 £'000s
Latin America		
Argentinian Investment Company	75,000	918
Brazilian Investment Company	241,698	4,704
Brazilian Smaller Companies Investment Trust*	3,000,000	2,248
Brazilian Smaller Companies Investment Trust warrants*	440,000	
Latin American Extra Yield Fund units	965,000	3,729
Latin American Investment Trust*	3,832,450	4,073
Latin American Investment Trust warrants*	766,490	
Mexican Investment Company	100,000	1,174
Telefonos de Mexico ADS	320,000	6,570
YPF ADS	75,000	1,045
Total Latin America		24,461
North America:		
United States		
Abbott Laboratories	600,000	16,086
American International	49,500	2,949
Automatic Data Processing	310,000	14,825
Banc One	90,000	2,181
Bank America	140,000	5,839
Boeing	110,000	5,553
Bristol-Myers Squibb	100,000	5,531
Browning-Ferris	75,000	1,419
California Energy	633,538	7,957
Capital Cities/ABC	60,000	4,768
Caterpillar	95,000	3,595
Cincinnati Financial	70,000	2,942
Colgate Palmolive	200,000	9,049
Comcast 'A'	140,000	6,363
Comcast 'A' Special	407,500	
Deere	50,000	1,135
Donnelley RR	270,000	6,847
Dresser Industries	250,000	3,925
DST Systems Delaware	60,000	1,101
Dun & Bradstreet	30,000	1,251
Eaton	150,000	5,181
Exide	87,500	2,585
Federal National Mortgage Association	50,000	3,989
First Chicago	165,000	4,198
First Data Corporation	400,000	17,229
Foreign & Colonial US Smaller Companies*	918,169	1,702
Foreign & Colonial US Smaller Companies warrants*	1,000,000	
Gannett	90,000	3,558
General Electric	140,000	6,492
General Instrument	167,500	2,522
General Motors Class 'E'	90,000	3,014
Grainger W.W.	400,000	17,068
Great Lakes Chemical	245,000	11,362
Halliburton	130,000	4,239
Hewlett-Packard	55,000	2,967
Home Depot	425,000	13,071

Listed Investments	Holding	Value at 31 December 1995 £'000s
Hypo Foreign & Colonial Portfolios Fund:		
American Equity	110,000	1,842
American Smaller Companies Equity	801,522	16,423
Illinois Tool Works	260,700	9,907
Johnson & Johnson	100,000	5,507
Kimberley-Clark	50,000	2,665
M.B.N.A	200,000	4,750
Medtronic	180,000	6,478
Minnesota Mining & Manufacturing	110,000	4,703
Mobil	40,000	2,879
Motorola	185,000	6,792
Northern Trust	160,000	5,771
Partner Re Holdings	345,000	6,111
Pep Boys, Manny, Moe & Jack	650,000	10,728
Philip Morris	145,000	8,429
Pioneer Hi Bred International	190,000	6,807
Red Lion Hotel	300,000	3,381
Schlumberger	90,000	4,014
Seagram	170,000	3,778
Sysco Corporation	475,000	9,943
Tandy	150,000	4,009
Tele-communications International	280,000	4,103
Thermo Electron	147,500	4,940
Unocal	250,000	4,690
United Healthcare	150,000	6,316
Union Pacific Corporation	140,000	5,951
UST	200,000	4,299
Vishay Intertechnology	270,000	5,478
Walgreen	740,000	14,239
Wal-Mart Stores	260,000	3,726
Wells Fargo	35,000	4,869
William Wrigley Junior	320,000	10,821
Others individually valued at less than £100,000		117
Total United States		396,959
Canada		
Alberta Energy	300,000	3,096
Total North America		400,055
United Kingdom		
Equities and convertibles		
Allied Colloids	12,248,000	16,535
Allied-Domecq	1,936,153	10,165
Anglian Water	1,480,210	8,955
Argyll	1,434,146	4,876
Asda Property Holdings	1,199,000	1,831
Asda Property Holdings 5.125% conv. preference	416,515	
BAA	3,045,000	14,753
B.A.T Industries	5,870,913	33,317
BBA	2,100,000	6,069
Booker	2,835,000	10,149
British Gas	5,490,422	13,918
British Petroleum	3,459,580	18,647

List of Investments *continued*

Listed Investments	Holding	Value at 31 December 1995 £'000s
British Sky Broadcasting	229,956	934
British Steel	2,250,000	3,662
British Telecommunications	5,965,000	21,086
BTR	8,049,196	
BTR warrants 1995/96	495,033	
BTR warrants 1997	461,700	27,175
BTR warrants 1998	276,340	
Dalgety	1,224,000	4,963
Electrocomponents	2,720,424	9,794
Eurotunnel Units	4,828,800	4,201
F.& C. Buy-out Trust 'A' #	10,000	123
Foreign & Colonial Emerging Markets Investment Trust	15,384,975	
Foreign & Colonial Emerging Markets Investment Trust warrants	6,076,995	18,477
Foreign & Colonial Enterprise Trust	8,633,975	7,425
Foreign & Colonial Private Equity Trust	1,250,000	1,150
Foreign & Colonial Special Utilities Investment Trust "S" Pool	5,000,000	
Foreign & Colonial Special Utilities Investment Trust "S" Pool warrants	1,000,000	4,675
General Electric Company	5,469,918	19,391
Glaxo Wellcome	2,922,879	26,744
Grand Metropolitan	1,500,000	6,960
Great Universal Stores	1,450,000	9,925
Guardian Royal Exchange	1,797,446	4,961
Harrisons & Crosfield	6,080,000	9,728
Inchcape	2,075,000	5,167
Johnson Matthey	230,000	1,203
Kingfisher	2,050,285	11,113
Ladbroke Group	2,107,077	3,076
Land Securities	760,000	4,689
LASMO	4,441,665	
LASMO oil production units	140,000	7,829
Legal & General Group	1,865,789	12,501
Logica	1,150,000	5,273
Marley	1,675,000	1,859
NFC	4,190,000	5,950
National Westminster Bank	1,625,000	10,546
Northern Foods	1,975,000	3,377
Paterson Zochonis	105,000	
Paterson Zochonis 'A'	430,000	2,054
Pearson	726,745	4,535
Peninsular & Oriental Steam Navigation	1,428,333	6,799
Provident Financial Group	1,368,362	11,207
Redland	2,057,902	7,995
Rentokil	5,200,000	17,420
RJB Mining	652,213	3,574
RMC Group	500,000	4,955
RTZ Corporation	1,761,615	16,480
Sainsbury J.	1,575,000	6,190
Scapa Group	1,550,000	3,441
Shell Transport & Trading	5,880,000	50,098
SmithKline Beecham 'A'	1,080,432	7,671
Smith W.H.	695,000	2,947
Smiths Industries	1,110,000	7,060
Southern Electric	1,745,000	15,775
Sun Alliance Group	1,032,000	3,849
Suter	2,250,000	
Suter warrants 1996-1998	293,449	3,822
Suter warrants 1999-2004	215,000	
Tarmac	6,930,416	7,104
Tomkins	2,534,651	7,148
Unilever	385,000	5,094
Unitech	800,000	3,896
United Utilities	2,395,808	14,758
Wagon Industrial Holdings	970,000	
Wagon Industrial Holdings 7.25% conv. preference	1,557,173	6,261
Total United Kingdom		613,305
Total Listed Investments		1,679,649

Unlisted Investments	Holding	Value at 31 December 1995 £'000s
United Kingdom		
Equities		
F. & C. Ventures Limited Partnership II	£500	1,072
Robert Fleming Holdings (see details below)	7,050,000	51,959
Total equities		53,031
Bonds		
Foreign & Colonial Smaller Companies 11.5% debenture 2014	£10,000,000	12,750
Total United Kingdom		65,781
United States		
U.S. Ventures	802,164	1,826
Fuel Technology	121,000	360
Venture Associates	43	160
Total United States		2,346

Unlisted Investments	Holding	Value at 31 December 1995 £'000s
Other Countries		
Peregrine International	3,200	3,450
GP Capital Partners	1	1,308
Korea International Trust IDR's	25	950
Others individually valued at less than £100,000		62
Total other countries		5,770
Total Unlisted Investments		73,897
Subsidiary undertakings (see details below and note 12 on the accounts)		49,373
Total Portfolio		1,802,919

*Listed in Great Britain.
Listed outside Great Britain.

The total number of companies in the portfolio is 282 (1994 – 274).

The value of convertible securities in the total portfolio at 31 December 1995 is £9,929,000 or 0.5% of total consolidated assets less current liabilities (excluding loans) (1994 – £19,933,000 or 1.3%).

Additional information on significant unlisted investments

Robert Fleming Holdings – (RFH) (4.7% of equity held)
An unquoted holding company of a merchant bank.
The investment is held at directors' valuation of £52.0 million, representing an unrealised profit of £49.5 million on the cost of £2.5 million.
The following information relates to RFH's results for the year ended 31 March 1995.
Net assets £694.4 million.
Profit after tax and minorities £119.6 million.
Earnings per share 82.1p.
Dividends per share 20p.
Gross dividends received by Foreign & Colonial Investment Trust in 1995, from RFH, were £1.8 million.

Pountney Hill Holdings Limited – (PHH) (61% of equity held)
Our subsidiary PHH is an unquoted UK holding company with a 50% investment in Hypo Foreign & Colonial Management (Holdings) Limited (HFCM).
The investment is held at directors' valuation of £49.7 million, representing an unrealised profit of £43.5 million on the cost of £6.2 million.
The following information relates to PHH's results for the year ended 31 December 1995 (after equity accounting for its interest in HFCM).
Net assets £81.5 million.
Profit after tax and minorities £5.2 million.
Earnings per share 309.2p.
Dividends per share 248.29p.
Gross dividends received by Foreign & Colonial Investment Trust in 1995, from PHH, were £2.8 million.

Directors and Management

John Sclater*§ *Chairman* is 55. He was appointed a director in 1981 and became Chairman in 1985. He is Chairman of Hill Samuel Bank Limited, Berisford International PLC, Foreign & Colonial Private Equity Trust PLC and Foreign & Colonial Enterprise Trust PLC; Deputy Chairman of Union PLC and Yamaichi International (Europe) Limited; President of The Equitable Life Assurance Society; a director of James Cropper PLC and Angerstein Underwriting Trust PLC. He is a trustee of The Grosvenor Estate, a member of the Council of the Duchy of Lancaster and a member of the CBI City Advisory Group.

Andrew Barker† is 50 and is head of the Group's North American Department. He joined the Group in 1970 and was appointed a director in 1991. He is Chairman of The Bankers Investment Trust PLC and Henderson American Capital and Income Trust PLC, a Deputy Chairman of the Association of Investment Trust Companies and a director of Foreign & Colonial Smaller Companies PLC, Foreign & Colonial Enterprise Trust PLC, Foreign & Colonial U.S. Smaller Companies PLC and National Provident Institution.

Sir Timothy Bevan*§ *Deputy Chairman*, 68, was appointed a director in 1988 and is Chairman of the Audit Committee. He was Chairman of Barclays Bank PLC from 1981 to 1987.

Oliver Dawson is 65 and was appointed a director in 1982. He retired from the board of Foreign & Colonial Management in December 1995 but remains as a consultant to that company. He is a director of Foreign & Colonial PEP Investment Trust PLC and Foreign & Colonial Income Growth Investment Trust PLC. He is a Church Commissioner and a member of both the investment advisory committee of the Nuffield Foundation and the consultative committee of the Cambridge University Council.

Sir John Egan* is 56 and was appointed a director in 1985. He is Chairman of the London Tourist Board Limited, Chief Executive of BAA plc and a director of Legal & General Group PLC and the British Tourist Authority Limited.

Haruko Fukuda* is 49 and was appointed a director in 1988. She is Japanese and is Vice-Chairman of Nikko Europe Plc and a director of First Ireland Investment Company.

Michael Hart†§ *Manager*, is 63. He is Chairman of Foreign & Colonial Management and has been with the Group for 42 years. He became a director in 1973 and is also Chairman of Brazilian Smaller Companies Investment Trust PLC and Latin American Investment Trust PLC, a director of Foreign & Colonial PEP Investment Trust PLC, Foreign & Colonial Smaller Companies PLC, Foreign & Colonial High Income Trust PLC and Foreign & Colonial Emerging Markets Investment Trust PLC, a member of the Investment Committee of the BP Pension Fund and an adviser to the British Steel Pension Fund.

The Rt. Hon. Lord Kingsdown K.G., P.C.* is 69 and was appointed a director in 1993 following his retirement as Governor of the Bank of England. He is also a director of Glaxo Wellcome plc, Hambros PLC and Redland PLC.

The Lord Nicholas Gordon Lennox*§ is 65 and was appointed a director in 1990 after a distinguished career in the Diplomatic Service in which his last post was Ambassador to Spain. He is a director of Sotheby's and a Governor of the BBC.

The Hon. James Ogilvy† is 61 and was appointed to the board in 1989. He was a partner of stockbrokers, Rowe & Pitman for many years and Vice-Chairman of Mercury Asset Management before becoming Chief Executive of Foreign & Colonial Management in 1988. He is also a director of Foreign & Colonial Emerging Markets Investment Trust PLC.

The Lord Rockley* is 61 and was appointed a director in 1991. He is a director of Kleinwort Benson Group plc, Abbey National plc, Christies International plc and other companies.

† Director of Foreign & Colonial Management Limited.

* Independent non-executive director. With the exception of the Chairman, these directors constitute the Audit Committee.

§ Member of the Nomination Committee.

Secretary and Registered Office Foreign & Colonial Management Limited, Exchange House, Primrose Street, London EC2A 2NY.
Authorised Institution under the Banking Act 1987.
Regulated by Investment Management Regulatory Organisation Limited (IMRO) and the Personal Investment Authority.
Registered in England.
Telephone: 0171-628 8000, Telex: 886197 or 8811745 (FORCOL G), Facsimile: 0171-628 8188.

Banker The Royal Bank of Scotland plc.

Registrars The Royal Bank of Scotland plc, Registrar's Department, PO Box 435, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 4BR. Telephone: 0131-556 8555.

Auditors Price Waterhouse, Southwark Towers, 32 London Bridge Street, London SE1 9SY.

AI TC

Member of the Association of Investment Trust Companies

Directors and Management *continued*

Arnab Banerji*† is Chief Investment Officer of Foreign & Colonial Emerging Markets Limited. He is 39 and joined the Group in 1993.

Rob Donkin† is Joint Company Secretary of Foreign & Colonial Management Limited. He is 50 and joined the Group in 1973.

Robert Dowdall† is Finance Director of Foreign & Colonial Management Limited. He is 49 and joined the Group in 1990.

Nick Pitt-Lewis† is Audit & Compliance Director of Foreign & Colonial Management Limited. He is 42 and joined the Group in 1992.

Tony Thomson† is Chief Investment Officer of Foreign & Colonial Management Limited. He is 53 and joined the Group in 1994.

Jeremy Tigue† is 36 and joined the Group in 1981. He assists Michael Hart in the management of the UK portfolio.

Graham Walker† is Chief Operating Officer and Group Finance Director of the Foreign & Colonial Management Group. He is 49 and joined the Group in 1994.

Stephen White† manages the Group's investment trust European portfolios. He is 40 and joined the Group in 1985.

Ian Wright† manages the Group's investment trust Japanese portfolios. He is 42 and joined the Group in 1981.

* Director of Foreign & Colonial Emerging Markets Limited.
† Director of Foreign & Colonial Management Limited.

Foreign & Colonial Investment Managers
left to right: Andrew Barker, Ian Wright, Michael Hart, Stephen White, Jeremy Tigue.

Report of the Directors

The directors present the financial statements of the Group and of the Company for the year ended 31 December 1995.

Principal Activity and Review of the Business

The principal activity of Foreign & Colonial Investment Trust PLC is to carry on the business of an investment trust. A review of the business is given in the Chairman's Statement on pages 3 to 8 and in the Market Reviews on pages 14 to 20.

Status of Company

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

During the year under review the Company carried on the business of an investment trust and has since conducted its affairs so as to continue 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 December 1994.

Subsidiary and Associated Undertakings

The principal subsidiary is Pountney Hill Holdings Limited, which, through its holding in Hypo Foreign & Colonial Management (Holdings) Limited, has an interest in 50% of Foreign & Colonial Management Limited (the Manager). Details of the management agreement are given on page 30.

Details of subsidiary and associated undertakings are given in note 12 to the accounts. Note 1 to the accounts states the accounting policies adopted.

Consolidated Results and Dividends

	£'000s	£'000s
Net revenue after taxation and minority interests		26,891
Dividends paid or payable:		
Preference Shares	94	–
Ordinary Shares		
Interim of 0.63p per share paid 6 October 1995	6,622	
Recommended final of 1.4366p per share payable on 29 April 1996 to shareholders registered at the close of business on 11 April 1996.	15,099	
		21,815
Amount transferred to reserve		5,076

The final dividend now recommended of 1.4366p per share, together with the interim dividend, make a total dividend of 2.0666p per ordinary share for the year ended 31 December 1995. This represents an increase of 10.0% over 1.8787p per share for the previous year.

Substantial Share Interests

At 20 March 1996 the Company had received notification of the following disclosable interests in its ordinary share capital:

	Ordinary shares	%
GAN Life Holdings PLC	42,243,686	4.02
Standard Life Assurance Company	41,622,812	3.96
Skandia Life Group	31,811,740	3.03

Donations

During the year the Group contributed £26,667 for charitable purposes. Further details of these donations are shown on page 6.

A donation of £12,500 was made to the Conservative Party following the passing of the resolution at the 1995 Annual General Meeting.

Directors

The directors of the Company, all of whom held office throughout the year under review, are listed on pages 26 and 27. Mr. E.C. Elstob retired from the board on 12 April 1995. Mr. A.C. Barker, Mr. M.J. Hart and the Lord Nicholas Gordon Lennox retire by rotation and, being eligible, offer themselves for re-election.

No director has a service contract with the Company. Mr. A.C. Barker, Mr. M.J. Hart and the Hon. James Ogilvy have two-year rolling contracts with the Manager.

Management

The Manager provides investment management and general administrative services to the Company for a quarterly fee of 0.075% based upon a three-year historic average of assets under management. The quarterly management fee is calculated on an amount equal to 0.075% of the average of the value of the funds of the Company managed by the Manager (excluding all holdings in funds or companies managed or advised by the Manager or any of its subsidiaries) as at the relevant calculation date, a date one year before such calculation date and a date two years before such calculation date. The management agreement may be terminated upon three years' notice given by either party.

The Foreign & Colonial 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 not exceed 15% of total commission in any one year; in 1995 the figure was less than 13%.

It is the Company's policy to exercise its voting rights at shareholders' meetings of investee companies.

Decisions on contested take-over bids are always referred to the board of directors.

Insurance

Directors' and officers' liability insurance in relation to the Company has been maintained throughout the year under review.

SPECIAL BUSINESS AT THE ANNUAL GENERAL MEETING

Shareholders will find on pages 66 to 68 the notice of the forthcoming Annual General Meeting of the Company to be held on 26 April 1996. In addition to the ordinary business of the meeting, five resolutions (numbered 5 to 9) are proposed as special business.

Authority of directors to allot securities

Resolutions 5 and 6 are similar to the authorities given to the directors at the last Annual General Meeting. 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 5 gives the directors, for the period until the conclusion of the Annual General Meeting in 1997, the necessary authority to allot securities up to an aggregate nominal amount of £13,138,080, which is equivalent to 5 per cent. of the issued ordinary share capital. Resolution 6 empowers the directors until the conclusion of the Annual General Meeting in 1997 or, if earlier, the expiry of fifteen months from the date on which resolution 6 is passed, to allot securities for cash, otherwise than to existing shareholders on a *pro-rata* basis, up to an aggregate nominal amount of £13,138,080. This authority provides 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 to satisfy demand from participants in the Foreign & Colonial Private Investor and Personal Equity Plans when they believe it is advantageous to plan participants and the Company's shareholders to do so. Under no circumstances would the directors use the authority 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.

1991 second interim dividend

The directors have been advised that the payment of the second interim dividend of 2.12p per ordinary share in respect of the year ended 31 December 1991 (amounting in aggregate to £11,141,000) in April 1992 four days before the audited accounts of the Company for the year ended 31 December 1991 were presented to the Company's 1992 Annual General Meeting contravened the Companies Act 1985, notwithstanding that there were sufficient distributable reserves to cover the dividend.

As a result of this oversight the Company may have claims against present and past shareholders who were recipients of the dividend to recover the amount paid and may have claims against those directors who participated in the decision to pay the dividend. Any sums recovered from shareholders and directors would be payable with interest.

Having regard to the technical nature of the problem and the fact that it was clearly the intention of the Company that the shareholders should receive and retain the dividend when it was paid to them, the directors believe that the matter can best be addressed by passing a special resolution which will enable shareholders to be put into the position in which it was always intended that they should be.

The board, having consulted the Company's professional advisers, believes it to be appropriate to ask the Company's shareholders to pass the special resolution which is resolution 7 in the notice of Annual General Meeting, thereby (i) sanctioning the appropriation of distributed profits and the payment of the dividend and (ii) authorising the Company to release the shareholders and the directors from any liability arising from the payment of the dividend.

The Inland Revenue has provided written confirmation that the dividend will continue to be treated as a distribution for tax purposes (made at the time at which the dividend was paid) and that the proposed waiver will have no tax implications for shareholders or for the Company. Accordingly, the Inland Revenue will treat the tax position of UK tax resident shareholders as being unaffected. If any non-UK tax resident shareholder has any doubt about his foreign tax position, he should consult his professional advisers.

Because of their interests in its subject matter, the directors (other than Lord Kingsdown, who was appointed a director after the declaration and payment of the dividend) will not be voting on resolution 7 in respect of their beneficial holdings, which amount to 3,251,865 ordinary shares (0.31 per cent of the issued ordinary share capital), and have undertaken to take all reasonable steps to ensure that their respective associates will abstain from voting on the resolution. If the resolution is duly passed, the Company will enter into the deeds of release referred to in the resolution.

Directors' fees

The total of directors' fees is authorised by the Company's articles of association and was last fixed at £150,000 per annum in 1984. Resolution 8 proposes an increase in this amount to an aggregate sum of £250,000 per annum, which should allow sufficient scope for reasonable future increases in directors' fees as well as any possible increase in the number of directors drawing fees from the Company. Present levels of directors' fees, which have remained unchanged since March 1992, are shown in note 7(a) to the accounts.

Donation to the Conservative Party

At this year's Annual General Meeting the directors are seeking, by resolution 9, authority to donate up to £25,000 to the Conservative Party. If passed, this resolution would allow the board to pay the regular donation of £12,500 to the Conservative Party in 1996 and also enable a special contribution to be made should a general election be called before the date of next year's Annual General Meeting.

CORPORATE GOVERNANCE

Throughout the year under review the Group complied, where necessary, with all the recommendations of the Code of Best Practice of the Cadbury Committee (The Committee on the Financial Aspects of Corporate Governance).

Price Waterhouse have reviewed those matters which the Cadbury Committee recommended that the auditors should review. Their report on the results of the review is set out on page 35.

It is the responsibility of the board to ensure that there is effective stewardship of the Group's affairs. The board is comprised of eleven directors, of whom seven are independent of the Manager. Strategic issues and all operational matters of a material nature are determined by the board.

Internal Financial Control and Audit Committee

The directors have overall responsibility for the Group's systems of internal financial controls. These aim to ensure that assets of the Group are safeguarded, proper accounting records are maintained and the financial information used within the business and for publication is reliable. The systems of internal financial controls are designed to provide reasonable, but not absolute, assurance against material mis-statement or loss.

The board meets monthly 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.

The board has contractually delegated responsibility for management of the portfolio, custody, accounting and company secretarial services to the Manager. Details of the terms of the agreement with the Manager as set out on page 30 are reviewed annually by the Company's Audit Committee.

The Manager has established an internal control framework to provide reasonable assurance on the effectiveness of the internal controls operated on behalf of its clients. The effectiveness of these controls is monitored by the Manager's Group Audit Committee, which receives regular reports from the Manager's compliance and internal audit functions.

The independent directors of the Company, with the exception of the Chairman, constitute the Company's Audit Committee, of which the "core" members are Sir Timothy Bevan (Chairman), Sir John Egan and Haruko Fukuda. The primary role of the committee, which met on five occasions during the year, is to review the Group's accounting policies, the contents of its interim and annual 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, Price Waterhouse, and to the compliance and internal audit director of the Manager and to the Manager's Group Audit Committee.

The Company's Audit Committee has received and reviewed a report from the Manager's Group Audit Committee on the effectiveness of the internal financial controls maintained on behalf of the Group.

By means of the procedures set out above the directors have reviewed the effectiveness of the internal financial control systems for the period.

Going concern

The directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts as the assets of the Group consist mainly of securities which are readily realisable.

Nomination Committee

A Nomination Committee, comprising Mr. J.R. Sclater (Chairman), Sir Timothy Bevan, the Lord Nicholas Gordon Lennox and Mr. M.J. Hart, meets on an *ad hoc* basis to consider suitable candidates to recommend to the board for appointment as directors. All such appointments are subject to confirmation by shareholders.

Remuneration Committee

The Company has no employees and consequently does not have a remuneration committee. The salaries, bonuses and options awarded to those directors of the Company employed by the Manager are determined by a remuneration committee appointed by the board of Hypo Foreign & Colonial Management (Holdings) Limited.

Details of the composition of this committee and the basis upon which its decisions are taken can be found in the information relating to Hypo Foreign & Colonial Management (Holdings) Limited on page 63. In addition, notes 7(b) and 8 to the accounts provide detailed information on the remuneration arrangements for directors of the Company.

Auditors

The auditors, Price Waterhouse, have indicated their willingness to continue in

Report of the Directors *continued*

office and a resolution re-appointing them and authorising the directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the board.
Foreign & Colonial Management Limited,
Secretary
20 March 1996

For and on behalf of
FOREIGN & COLONIAL MANAGEMENT LIMITED
.... SECRETARY

Directors' Statement of Responsibility

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 and Group as at 31 December 1995 and of the results for that year.

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 balance sheet treatment of the Group's investment in associated undertakings is explained in the accounting policies in note 1 to the accounts. In all other respects 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 Group and to prevent and detect fraud and other irregularities.

Report by the Auditors on Corporate Governance

To the Directors of Foreign & Colonial Investment Trust PLC

In addition to our audit of the financial statements we have reviewed your statements on pages 32 and 33 concerning the Group's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code, if not otherwise disclosed.

Basis of opinion

We carried out our review having regard to the Bulletin 1995/1 "Disclosures relating to corporate governance" issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures nor on the ability of the Group to continue in operational existence.

Opinion

In our opinion, your statements on internal financial controls on pages 32 and 33 and on going concern on page 33, having provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related Guidance for directors) and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain directors and officers of the Company and examination of relevant documents, your statement on page 32 appropriately reflects the Group's compliance with the other paragraphs of the Code specified for our review.

Price Waterhouse
Chartered Accountants
20 March 1996

Southwark Towers
32 London Bridge Street
London SE1 9SY

Auditors' Report

To the Members of Foreign & Colonial Investment Trust PLC

We have audited the financial statements on pages 38 to 58 which have been prepared under the historical cost convention, modified to include fixed asset investments and freehold investment properties at valuation, and the accounting policies set out on page 43.

Respective responsibilities of directors and auditors

As described on page 34, the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1995 and of the net revenue, total recognised gains and losses of the Company and the Group and cash flows of the Group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse
Chartered Accountants
and Registered Auditors
20 March 1996

Southwark Towers
32 London Bridge Street
London SE1 9SY

Financial Statements

1995

Company Revenue Account

for the year ended 31 December

Notes		£'000s	1995 £'000s	£'000s	1994 £'000s
2	*Dividends and interest on investments*				
	Franked		26,058		21,078
	Unfranked		27,814		28,528
			53,872		49,606
	Interest on loans and deposits		843		243
			54,715		49,849
	Underwriting commission		328		203
3	Other revenue		325		294
	Total revenue		55,368		50,346
5	Interest payable and similar charges		14,103		15,385
	Net revenue after interest payable		41,265		34,961
6	Expenses		7,911		7,011
	Net revenue on ordinary activities before taxation		33,354		27,950
9	Taxation		7,363		6,692
	Net revenue on ordinary activities after taxation		25,991		21,258
	Dividend on preference shares (non-equity)		94		94
	Net revenue attributable to ordinary shareholders		25,897		21,164
	Dividends on ordinary shares (equity)				
	Interim of 0.63p (1994: 0.60p)	6,622		6,306	
	Proposed final of 1.4366p (1994: 1.1255p)	15,099		11,830	
	Foreign income dividend (1994: 0.1532p)	–		1,610	
			21,721		19,746
23	*Amount transferred to reserve*		4,176		1,418
10	*Earnings per share*		2.46p		2.01p

Company Statement of Total Recognised Gains and Losses

for the year ended 31 December

	1995 £'000s	1994 £'000's
Capital surplus/(deficit) on investing activities		
Realised gains and losses	105,907	53,122
Unrealised gains and losses	155,415	(191,656)
Exchange gains and losses	3,341	(3,836)
Other capital charges and credits	(11)	(1)
Expenses in respect of the capitalisation of reserves	–	(79)
Capital surplus/(deficit) for the year	264,652	(142,450)
Net revenue after taxation	25,991	21,258
Total recognised gains and losses for the year	290,643	(121,192)
Revenue profits		
Net revenue after taxation	25,991	21,258
Dividend on preference shares	(94)	(94)
Dividends on ordinary shares	(21,721)	(19,746)
Transfer to revenue reserve	4,176	1,418
Transfer to/(from) capital reserve	264,652	(142,450)
	268,828	(141,032)

All activities are continuing

Consolidated Revenue Account

for the year ended 31 December

Notes		1995 £'000s	1995 £'000s	1994 £'000s	1994 £'000s
2	*Dividends and interest on investments*				
	Franked		23,247		18,995
	Unfranked		27,814		28,528
			51,061		47,523
	Interest on loans and deposits		827		231
			51,888		47,754
	Share of profits of associated undertakings		8,912		9,271
	Underwriting commission		328		203
3	Other revenue		378		326
4	*Total revenue*		61,506		57,554
5	Interest payable and similar charges		14,114		15,395
	Net revenue after interest payable		47,392		42,159
6	Expenses		7,977		7,059
	Net revenue on ordinary activities before taxation		39,415		35,100
9	Taxation		9,819		9,401
	Net revenue on ordinary activities after taxation		29,596		25,699
	Minority equity interests		2,705		2,855
	Net revenue after taxation and minority interests		26,891		22,844
	Dividend on preference shares (non-equity)		94		94
	Net revenue attributable to ordinary shareholders		26,797		22,750
	Dividends on ordinary shares (equity)				
	Interim of 0.63p (1994: 0.60p)	6,622		6,306	
	Proposed final of 1.4366p (1994: 1.1255p)	15,099		11,830	
	Foreign income dividend (1994: 0.1532p)	–		1,610	
			21,721		19,746
23	*Amount transferred to reserve*		5,076		3,004
10	*Earnings per share*		2.55p		2.16p

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31 December

	1995 £'000s	1994 £'000's
Capital surplus/(deficit) on investing activities		
Realised gains and losses	105,907	53,122
Unrealised gains and losses	154,740	(192,637)
Exchange gains and losses	3,341	(3,833)
Other capital charges and credits	(11)	(1)
Expenses in respect of the capitalisation of reserves	–	(79)
Capital surplus/(deficit) for the year	263,977	(143,428)
Net revenue after taxation and minority interests	26,891	22,844
Total recognised gains and losses for the year	290,868	(120,584)
Revenue profits		
Net revenue after taxation and minority interests	26,891	22,844
Dividend on preference shares	(94)	(94)
Dividends on ordinary shares	(21,721)	(19,746)
Transfer to revenue reserve	5,076	3,004
Transfer to/(from) capital reserve	263,977	(143,428)
Revenue reserve movements in group undertakings	107	(8)
	269,160	(140,432)

All activities are continuing

Company Balance Sheet

at 31 December

Notes		£'000s	1995 £'000s	£'000s	1994 £'000s
	Fixed assets				
11	*Tangible assets*		1,360		1,368
12	*Investments*				
	Listed in Great Britain	625,462		655,427	
	Listed outside Great Britain	1,054,187		894,044	
		1,679,649		1,549,471	
	Unlisted at Directors' valuation	73,897		61,744	
	Subsidiary undertakings	49,373		39,574	
			1,802,919		1,650,789
	Current assets				
13	Debtors	6,290		4,599	
14	Taxation recoverable	5,255		4,200	
15	Short term deposits	11,008		2,328	
	Cash at bank	9,344		388	
		31,897		11,515	
	Current liabilities				
	Creditors: amounts falling due within one year				
16	Foreign currency and sterling loans	14,986		118,395	
17	Other	26,288		19,203	
		41,274		137,598	
	Net current liabilities		(9,377)		(126,083)
	Total assets less current liabilities		1,794,902		1,526,074
	Creditors: amounts falling due after more than one year				
19	Debentures		(110,575)		(110,575)
			1,684,327		1,415,499
	Capital and reserves				
20	Called up share capital: including non-equity share capital		265,452		265,452
	Reserves				
22	Capital reserve	1,398,375		1,133,723	
23	Revenue reserve	20,500		16,324	
			1,418,875		1,150,047
	Total shareholders' funds		1,684,327		1,415,499
	Equity interests		1,681,637		1,412,809
	Non-equity interests		2,690		2,690
	Total shareholders' funds		1,684,327		1,415,499
24	*Net assets per ordinary share*		160.0p		134.4p

Approved by the board on 20 March 1996

J. R. Sclater

M. J. Hart

Directors

Consolidated Balance Sheet

at 31 December

Notes		£'000s	1995 £'000s	£'000s	1994 £'000s
	Fixed assets				
11	*Tangible assets*		1,360		1,368
12	*Investments*				
	Listed in Great Britain	625,462		655,427	
	Listed outside Great Britain	1,054,187		894,044	
		1,679,649		1,549,471	
	Unlisted at Directors' valuation	74,041		61,887	
	Associated undertakings	81,506		65,250	
			1,835,196		1,676,608
	Current assets				
13	Debtors	10,626		8,366	
14	Taxation recoverable	6,320		5,126	
15	Short term deposits	11,025		2,517	
	Cash at bank	9,358		395	
		37,329		16,404	
	Current liabilities				
	Creditors: amounts falling due within one year				
16	Foreign currency and sterling loans	15,171		118,580	
17	Other	29,043		21,655	
		44,214		140,235	
	Net current liabilities		(6,885)		(123,831)
	Total assets less current liabilities		1,829,671		1,554,145
	Creditors: amounts falling due after more than one year				
19	Debentures		(110,575)		(110,575)
	Minority equity interests		(31,730)		(25,364)
			1,687,366		1,418,206
	Capital and reserves				
20	Called up share capital: including non-equity share capital		265,452		265,452
	Reserves				
22	Capital reserve	1,397,477		1,133,500	
23	Revenue reserve	24,437		19,254	
			1,421,914		1,152,754
	Total shareholders' funds		1,687,366		1,418,206
	Equity interests		1,684,676		1,415,516
	Non-equity interests		2,690		2,690
	Total shareholders' funds		1,687,366		1,418,206
24	*Net assets per ordinary share*		160.3p		134.7p

Approved by the board on 20 March 1996

J. R. Sclater

M. J. Hart

Directors

Consolidated Cash Flow Statement

for the year ended 31 December

Notes		1995 £'000s	1995 £'000s	1994 £'000s	1994 £'000s
	Operating Activities				
	Investment income received	46,452		43,481	
	Dividend from associated undertaking	3,756		2,752	
	Interest received	840		232	
	Underwriting commission received	364		254	
	Other revenue	198		284	
	Fee paid to the management company	(4,547)		(4,057)	
	Cash paid to and on behalf of directors	(185)		(129)	
	Other cash payments	(2,619)		(2,720)	
27	*Net cash inflow from operating activities*		44,259		40,097
	Returns on investments and servicing of finance				
	Interest paid	(14,316)		(15,247)	
	Preference dividend paid	(94)		(94)	
	Ordinary dividends paid	(21,510)		(19,834)	
	Net cash outflow from returns on investments and servicing of finance		(35,920)		(35,175)
	Taxation				
	UK Tax paid	(215)		(163)	
	Overseas tax paid	(2,496)		(2,276)	
	Total tax paid		(2,711)		(2,439)
	Investing activities				
	Purchase of fixed interest securities	(83,873)		(56,050)	
	Purchase of equities and other investments	(329,190)		(205,722)	
	Sales of fixed interest securities	203,747		3,532	
	Sales of equities and other investments	318,471		201,455	
	Other capital charges and credits	(1)		(30)	
	Net cash inflow/(outflow) from investing activities		109,154		(56,815)
	Net cash inflow/(outflow) before financing		114,782		(54,332)
	Financing				
	Net sterling loans repaid	(6,600)		(3,400)	
	Net currency loans (repaid)/raised	(94,456)		59,595	
	Debentures repaid	–		(2,500)	
	Share capital raised in group undertakings	2,856		1,662	
	Expenses in respect of the capitalisation of reserves	–		(79)	
	Net cash (outflow)/inflow from financing		(98,200)		55,278
28	*Increase in cash and cash equivalents*		16,582		946

Notes on the Accounts

1 Accounting policies

The accounts have been prepared on the historical cost basis of accounting, modified to include fixed asset investments and freehold investment properties at valuation and have been prepared in accordance with applicable accounting standards, except as noted below for the carrying value of investments in associated undertakings.

Assets, liabilities and results of subsidiary undertakings and the share of results of associates are included in the consolidated accounts made up to 31 December.

Hypo Foreign & Colonial Management (Holdings) Limited ("HFCM"), the group's associated undertaking, is accounted for in the revenue account using the equity method prescribed in SSAP 1. The carrying value is restated in the consolidated balance sheet at directors' or market valuation, to be consistent with the group's accounting policy for investments. As the investment in HFCM forms part of the group's investment portfolio, the directors believe adoption of the equity method in the balance sheet would not show a true and fair view. The effect of this departure from SSAP 1 is set out in note 12 on the accounts.

As an investment trust, the Company treats all transactions on the realisation and revaluation of investments held as fixed assets as transactions on capital account. These items, whether profits or losses, are not part of and are not reflected in the revenue account of the year but are credited or charged to capital reserve. Dealing profits of the investment dealing subsidiary undertakings are included in the consolidated revenue account.

Listed investments are shown at middle market value and unlisted investments at directors' valuation except that investments held by the dealing subsidiary undertakings are included in the consolidated balance sheet under the heading of current assets and are shown at the lower of cost and market value.

Foreign currency assets and liabilities are expressed in sterling at rates of exchange ruling at the balance sheet date. Foreign currency transactions are translated at the rates of exchange ruling at the dates of those transactions.

Dividends and interest received from investments are credited to revenue on the due payment dates without making any adjustment for amounts accrued at the dates of acquisition and disposal of the securities. Franked investment income includes the imputed tax credit attaching to dividends receivable and this tax has been written off within the taxation charge.

In accordance with Statement of Standard Accounting Practice 19 "Accounting for Investment Properties", the freehold investment property is valued periodically, the aggregate surplus or deficit being transferred to capital reserve, and no provision is made for depreciation. Compliance with Statement of Standard Accounting Practice 19 continues to require departure from the provisions of the Companies Act 1985 relating to depreciation. The departure is, in the opinion of the directors, necessary for the accounts to show a true and fair view in accordance with applicable accounting standards.

Enhanced scrip dividends are included in the revenue account at an amount equivalent to the cash dividend foregone.

Foreign income dividends are included in the revenue account without the related notional income tax credit.

Deferred tax is provided in full on any material timing differences expected to crystallise in the foreseeable future.

Notes on the Accounts *continued*

2 Dividends and interest on investments

Company

	Franked £'000s	Unfranked £'000s	1995 Total £'000s	Franked £'000s	Unfranked £'000s	1994 Total £'000s
Dividends						
Listed investments	21,441	19,375	40,816	17,502	17,326	34,828
Unlisted investments	4,617	152	4,769	3,576	90	3,666
Interest						
Listed investments	–	7,137	7,137	–	9,962	9,962
Unlisted investments	–	1,150	1,150	–	1,150	1,150
	26,058	27,814	53,872	21,078	28,528	49,606

Group

	Franked £'000s	Unfranked £'000s	1995 Total £'000s	Franked £'000s	Unfranked £'000s	1994 Total £'000s
Dividends						
Listed investments	21,441	19,375	40,816	17,502	17,326	34,828
Unlisted investments	1,806	152	1,958	1,493	90	1,583
Interest						
Listed investments	–	7,137	7,137	–	9,962	9,962
Unlisted investments	–	1,150	1,150	–	1,150	1,150
	23,247	27,814	51,061	18,995	28,528	47,523

Unfranked dividends from listed investments include £nil in respect of enhanced scrip dividends received (1994 - £60,000) and £2,161,000 in respect of foreign income dividends received (1994 - £1,610,000).

Investment income shown above includes interest received on British and Foreign Government stocks and bonds of £7,133,000 (1994 - £9,261,000). The interest accruing on such stocks and bonds during the year amounted to £5,704,000 (1994 - £9,544,000).

Franked income from unlisted investments in respect of the Company includes £2,833,000 (1994 - £2,098,000) received from subsidiary undertakings.

3 Other revenue

Included within "other revenue" of the Company and the Group is the sum of £97,000 (1994: £197,000) in respect of stocklending fees receivable.

4 Geographical classification: Revenue

Total consolidated revenue was received from the following geographical areas. 1994 comparatives are given in brackets. UK: 71.2% (68.0%), Europe: 10.9% (9.3%), North America: 8.9% (11.7%), Far East: 4.3% (4.2%), Japan: 3.4% (2.8%), Other: 1.3% (4.0%). Substantially all expenses are incurred in the UK.

Income from interests in associated undertakings arises wholly within the UK.

5 Interest payable and similar charges

	1995 Company £'000s	1995 Group £'000s	1994 Company £'000s	1994 Group £'000s
Debenture stocks	12,399	12,399	12,566	12,566
Foreign currency and sterling loans	1,690	1,690	2,810	2,820
Other	14	25	9	9
	14,103	14,114	15,385	15,395
The interest is further analysed as follows:				
Loans repayable within five years, not by instalments	1,704	1,715	2,986	2,996
Long term loans	12,399	12,399	12,399	12,399
	14,103	14,114	15,385	15,395

6 Expenses

Under the arrangements for the Company's management and administration (see Report of the Directors for details), which commenced on 1 April 1985, the Group does not employ any staff.

	1995 Company £'000s	1995 Group £'000s	1994 Company £'000s	1994 Group £'000s
Management fee	4,547	4,547	4,057	4,057
Directors' emoluments:				
fees for services to Group companies	132	152	130	140
pension to widow of former director	13	13	13	13
General expenses	2,285	2,327	2,280	2,312
Irrecoverable VAT	861	861	455	455
Auditors' remuneration:				
for audit services	29	33	28	33
for audit related services	42	42	33	33
for non-audit services	2	2	15	16
	7,911	7,977	7,011	7,059

7 Directors' remuneration and contracts

(a) Remuneration from the Company and its subsidiary undertakings

Neither the Company nor any of its subsidiary undertakings had any employees during the year.

The amounts paid by the Company and its subsidiary undertakings to the Directors of the Company were as follows:

	John Sclater (Chairman) £'000s	Sir Timothy Bevan £'000s	Sir John Egan £'000s	Haruko Fukuda £'000s	Lord Nicholas Gordon Lennox £'000s	Lord Kingsdown £'000s	Lord Rockley £'000s	Total £'000s
1995 – Fees from:								
The Company	**30**	**22**	**17**	**17**	**15**	**16**	**15**	**132**
Subsidiary undertakings	**20**	**–**	**–**	**–**	**–**	**–**	**–**	**20**
	50	**22**	**17**	**17**	**15**	**16**	**15**	**152**
1994 – Fees from:								
The Company	30	22	17	17	15	14	15	130
Subsidiary undertakings	10	–	–	–	–	–	–	10
	40	22	17	17	15	14	15	140

None of the Directors of the Company other than those listed above received any remuneration from the Company or its subsidiary undertakings in either period.

(b) Remuneration from Foreign & Colonial Management Limited (FCM) attributable to the Company and its subsidiary undertakings

The Directors of the Company who were also Directors of FCM during the year were Messrs. A. C. Barker, O. N. Dawson, E. C. Elstob, M. J. Hart and the Hon. James Ogilvy. Mr. Elstob retired as a director and employee of FCM and as a Director of the Company in April 1995. Mr. Dawson retired as a director and employee of FCM in December 1995. The costs of employment of the above Directors were met in full during the year by FCM.

Company law requires that proportion of the emoluments received by these Directors from FCM in connection with the management of the affairs of the Company and its subsidiaries to be disclosed even though the Company neither determines nor pays these emoluments. These proportions of their emoluments from FCM are detailed below. Disclosure of their full remuneration arrangements with FCM is given in note 8.

	A. C. Barker £'000s	O. N. Dawson £'000s	E. C. Elstob £'000s	M. J. Hart** £'000s	The Hon. James Ogilvy £'000s	Total £'000s
Salary	20	12	8	102	4	146
Benefits	2	1	1	7	–	11
Performance-related bonuses	2	–	–	40	11	53
1995 Total	**24**	**13**	**9**	**149**	**15**	**210**
1994 Total	25	13	28	248	15	329
1995 Pension contributions	**7**	**2**	**11**	**83**	**–**	**103**
1994 Pension contributions	13	2	7	125	–	147

**Highest paid Director

(c) Bandings

The amounts paid by the Company and its subsidiary undertakings disclosed in note 7(a) above together with the amounts paid by FCM disclosed in note 7(b) above (but excluding pension contributions) have been taken into account in providing the following disclosure:

	1995 Number	1994 Number
£5,001 to £10,000	1	–
£10,001 to £15,000	4	4
£15,001 to £20,000	3	3
£20,001 to £25,000	2	2
£25,001 to £30,000	–	1
£35,001 to £40,000	–	1
£45,001 to £50,000	1	–
£145,001 to £150,000	1	–
£245,001 to £250,000	–	1

(d) Directors' interests in shares

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

	31 December 1995		31 December 1994	
	Beneficial	**Other**	Beneficial	Other
A. C. Barker	**93,548**	**7,000**	88,390	7,000
	***37,286**		*36,526	–
Sir Timothy Bevan	**3,000**	**–**	3,000	–
O. N. Dawson	**84,208**	**250,000**	77,610	250,000
	***37,744**		*38,424	
Sir John Egan	**234,106**	**–**	234,106	–
Haruko Fukuda	**16,000**	**–**	16,000	–
Lord Nicholas Gordon Lennox	**2,000**	**–**	2,000	–
M. J. Hart	**247,453**	**1,300**	246,045	1,300
	***40,842**		*40,740	
Lord Kingsdown	**3,364**	**–**	3,364	–
The Hon. James Ogilvy	**8,936**	**–**	3,390	–
	***37,742**	**–**	*37,322	–
Lord Rockley	**2,389,000**	**2,476,000**	2,389,000	2,476,000
J. R. Sclater	**20,000**	**622,473**	20,000	614,138

*Shares allocated under the terms of the F&C profit sharing scheme as part of the performance-related bonus arrangements within FCM. The shares are held by the trustees of the scheme on behalf of these Directors. The Company's register of Directors' interests contains full details of Directors' shareholdings.

There have been no changes in any of the Directors' shareholdings detailed above. No Director held any interests in the issued shares of the Company other than stated above.

(e) Directors' interests in contracts with group companies

Other than the management agreement referred to in the Directors' Report on page 30, in which Messrs. A. C. Barker, O. N. Dawson, E. C. Elstob, M. J. Hart and the Hon. James Ogilvy were interested by reason of their employment with FCM, and other than the subscription of shares in Pountney Hill Holdings Limited (PHH) as disclosed below, no contract of significance to which the Company or any of its subsidiary undertakings is a party and in which a Director of the Company is or was materially interested subsisted during the year.

During the year, the Company paid £1,742,000 (1994 - £999,000) in subscribing for shares in PHH. The transaction arose out of an increase in the issued share capital of Hypo Foreign & Colonial Management (Holdings) Limited (HFCM) to purchase shares in FCM issued to Directors and employees of FCM pursuant to the exercise of options granted to those Directors and employees under the FCM share option scheme. Of such payment by the Company, £231,000, £46,000, £41,000, £88,000 and £134,000 (1994 - £nil, £148,000, £131,000, £71,000 and £nil) related to the exercise of options by Messrs. A. C. Barker, O. N. Dawson, E. C. Elstob, M. J. Hart and the Hon. James Ogilvy respectively.

8 Remuneration and share option arrangements within the HFCM Group

Salaries, performance-related bonuses and options awarded to Directors and employees of FCM are approved by a remuneration committee appointed by the board of HFCM. Details of the remuneration committee are given on page 63.

The full emoluments received from FCM by Messrs. A. C. Barker, O. N. Dawson, E. C. Elstob, M. J. Hart and the Hon. James Ogilvy were as follows:

	A. C. Barker £'000s	O. N. Dawson £'000s	E. C. Elstob £'000s	M. J. Hart £'000s	The Hon. James Ogilvy £'000s	Total £'000s
Salary	119	153	38	170	250	730
Benefits (i)	12	12	3	12	13	52
Performance-related bonuses (ii)	11	–	–	67	638	716
1995 Total	**142**	**165**	**41**	**249**	**901**	**1,498**
1994 Total	145	214	138	414	986	1,897
1995 Pension contributions (iii)	**42**	**20**	**55**	**138**	**–**	**255**
1994 Pension contribution (iii)	76	41	33	209	–	359

(i) Salaries and benefits represent the amounts earned by and paid to Directors during the relevant year. Benefits are all tax-assessable, arising from employment by FCM, and include such benefits as a company car and medical insurance.

(ii) The performance-related bonus is paid in the year following that in which it was earned. The Hon. James Ogilvy participates in the FCM phantom share option scheme. The net profit of £386,000 (1994 – £nil) accruing to him from the exercise of options under the scheme is included in performance-related bonuses. Further details of the scheme are given on pages 49 and 50.

(iii) The figures shown above for pension contributions are those paid by FCM on behalf of the Directors to non-contributory pension schemes.

The FCM share option scheme was established in 1985. The scheme is not approved by the Inland Revenue and therefore the realised gain on the exercise of the options (i.e. the excess of the market value of the shares acquired on exercise over the amount paid for them, including the amount paid on grant of the option) is subject to income tax at the time of exercise. The maximum number of ordinary shares in FCM under option is limited to 10% of the number of ordinary shares in issue at any time.

Shares issued pursuant to the exercise of options are required to be sold immediately on issue to HFCM at a price calculated, in the case of options granted prior to 31 March 1994, by reference to a fixed multiple of group pre-tax earnings per share of FCM, or, in the case of options granted on or after 31 March 1994, at a price derived from a valuation of FCM provided by an independent valuer.

In addition to the exercises of options detailed above, 11 other Directors and employees of FCM exercised options in respect of 90,110 shares in FCM, for which the aggregate consideration paid by HFCM on the purchase of those shares was £3,945,000. At 31 December 1995, options in respect of 153,350 shares in FCM, representing 4.3% of the shares in issue at that date, were held by 27 Directors and employees of FCM (including the Directors detailed above).

These options are exercisable between 1996 and 2002. The aggregate subscription price payable by the option holders to FCM on the exercise of the options, based on exercise prices applying at 31 December 1995 and after adjusting for 7,000 options lapsed since that date, would be £4,141,000. The aggregate consideration for the purchase by HFCM of the FCM shares issued pursuant to the exercise of the options, based on the 1995 sale price, would be £6,584,000. The Company would, under normal circumstances, expect to fund £2,008,000 of this consideration by means of subscription for additional shares in PHH, which in turn would subscribe for additional shares in HFCM. Options in respect of 50,601 shares in FCM, based on exercise prices applying at 31 December 1995, are exercisable in 1996. Were all these options to be exercised, the aggregate subscription price payable by the option holders to FCM would be £1,359,000. The aggregate consideration for the purchase by HFCM of FCM shares issued pursuant to the exercise of such options, based on the 1995 sale price, would be £2,277,000. The Company would expect, under normal circumstances, to fund £694,000 of this consideration by means of subscription for additional shares in PHH, which in turn would subscribe for additional shares in HFCM. Of such amounts of £2,008,000 and £694,000, £36,000 and £Nil, £Nil and £Nil, £364,000 and £272,000, £558,000 and £372,000 would relate to options granted to Messrs. A. C. Barker, O. N. Dawson, M. J. Hart and The Hon. James Ogilvy respectively if these options were exercised in full.

The FCM phantom share option scheme was established in 1989. On the grant of an option under the scheme a number of FCM shares is allocated to the grantee. On exercise of the option a payment equal to the increase in value of such shares between the dates of grant and exercise is made by FCM to the grantee; the FCM shares are not issued. The increase in value is determined by an independent valuer. The scheme is not approved by the Inland Revenue and therefore the payment is subject to income tax when made. Following the exercise in 1995 of the options granted to the Hon. James Ogilvy detailed on page 50, there are no outstanding options, and it is not proposed to grant further options, under the scheme.

Details of the interests of the Directors of the Company in options granted under the FCM share option scheme and of exercises of those options are given below.

Number of FCM shares under option

	1 January 1994	Granted/ (Exercised) during 1994	1 January 1995	Granted/ (Exercised) during 1995	31 December 1995	Exercisable between	Exercise price per FCM share £	1994 Sale price to HFCM per FCM share £	1995 Sale price to HFCM per FCM share £
A. C. Barker	2,400	–	2,400	(2,400)	–		1.55		43.56
	1,750	–	1,750	(1,750)	–		1.60		43.56
	4,000	–	4,000	(4,000)	–		3.20		43.56
	500	–	500	(500)	–		4.94		43.56
	8,650	–	8,650	(8,650)	–		6.00		43.56
	1,700	–	1,700	–	1,700	1997 & 2000	15.25		
	–	1,000	1,000	–	1,000	1998 & 2001	32.21		
	19,000	1,000	20,000	(17,300)	2,700				
O. N. Dawson	2,630	(1,400)	1,230	(1,230)	–		1.55	34.76	43.56
	1,320	(700)	620	(620)	–		1.60	34.76	43.56
	3,000	(1,600)	1,400	(1,400)	–		3.20	34.76	43.56
	380	(200)	180	(180)	–		4.94	34.76	43.56
	9,750	(9,750)	–	–	–		6.00		
	17,080	(13,650)	3,430	(3,430)	–				
E. C. Elstob	1,800	(960)	840	(840)	–		1.55	34.76	43.56
	1,320	(700)	620	(620)	–		1.60	34.76	43.56
	3,000	(1,600)	1,400	(1,400)	–		3.20	34.76	43.56
	380	(200)	180	(180)	–		4.94	34.76	43.56
	8,650	(8,650)	–	–	–		6.00		
	15,150	(12,110)	3,040	(3,040)	–				
M. J. Hart	2,400	(1,560)	840	(840)	–		1.55	34.76	43.56
	1,750	(1,140)	610	(610)	–		1.60	34.76	43.56
	4,000	(2,600)	1,400	(1,400)	–		3.20	34.76	43.56
	500	(330)	170	(170)	–		4.94	34.76	43.56
	11,150	(970)	10,180	(3,580)	6,600	1993 & 1997	6.00	34.76	43.56
	–	20,000	20,000	–	20,000	1995 & 1997	32.21		
	19,800	13,400	33,200	(6,600)	26,600				
The Hon. James Ogilvy	10,000	–	10,000	(10,000)	–		6.00		43.56
	–	40,000	40,000	–	40,000	1995 & 1997	32.21		
	10,000	40,000	50,000	(10,000)	40,000				

The Hon. James Ogilvy also had an interest in the FCM phantom share option scheme. The details of his interest is given below:

Number of phantom shares

1 January 1994	Granted/ (Exercised) during 1994	1 January 1995	Granted/ (Exercised) during 1995	31 December 1995	Exercisable between	Exercise price £	Net profit on exercise 1994 £	Net profit on exercise 1995 £
10,000	–	10,000	(10,000)	–	1990/1995	4.94	–	386,000

The net profit on exercise of the phantom shares is included in the Hon. James Ogilvy's emoluments disclosure on page 48 as part of performance-related bonuses.

9 Taxation

	1995 Company £'000s	1995 Group £'000s	1994 Company £'000s	1994 Group £'000s
Corporation tax at 33% (1994 – 33%)	1,711	1,703	1,700	1,700
Taxation on associated undertakings profits	–	3,026	–	3,122
Relief for overseas tax	(1,711)	(1,703)	(1,700)	(1,700)
	–	3,026	–	3,122
Overseas tax	2,151	2,157	2,058	2,064
Imputed tax credit on franked income	5,212	4,649	4,216	3,799
Irrecoverable advance corporation tax	–	–	418	418
Adjustment for prior years	–	(13)	–	(2)
	7,363	9,819	6,692	9,401

10 Earnings per share

The basic earnings per share are calculated on the "net" basis of consolidated earnings of £26,797,000 (1994 – £22,750,000) and Company earnings of £25,897,000 (1994 – £21,164,000) and on 1,051,047,680 (1994 – same) ordinary shares in issue at the year end. Earnings on the "net" and "nil" basis for 1995 are the same. Earnings on the "nil" basis for 1994 were £23,168,000 (2.20p per share) in respect of consolidated earnings and £21,582,000 (2.05p per share) for the Company.

11 Tangible assets

Company and Group	Freehold investment property £'000s	Paintings £'000s	Total £'000s
Cost or valuation at 1 January 1995	1,360	8	1,368
Disposals	–	(8)	(8)
Valuation at 31 December 1995	**1,360**	–	**1,360**

The freehold investment property is owned by three investment trusts managed by Foreign & Colonial Management Limited and the amount shown above represent this Company's proportion. An independent valuation of the freehold property was conducted by Chesterton's at 31 December 1993 on the basis of open market value for its existing use.

The original cost of the property plus additions was £2,853,000 against which depreciation of £281,000 would have been provided under historical cost accounting rules. Paintings included at cost in 1994 were sold within the year for £9,000.

12 Investments

	Valuation		Cost	
	Company £'000s	Group £'000s	Company £'000s	Group £'000s
Balance at 1 January 1995	1,650,789	1,676,608	998,434	1,013,402
Purchases	414,948	416,062	414,948	416,062
Sales	(524,140)	(524,140)	(418,233)	(418,233)
Realised profit on sale of investments	105,907	105,907	–	–
Increase in unrealised appreciation	155,415	160,759	–	–
Balance at 31 December 1995	**1,802,919**	**1,835,196**	**995,149**	**1,011,231**

Subsidiary undertakings	**Company 1995 £'000s**	Company 1994 £'000s
Shares at cost or valuation less provision for losses	**52,611**	42,596
Amounts due from subsidiary undertakings	**116**	226
	52,727	42,822
Amounts due to subsidiary undertakings	**(3,354)**	(3,248)
	49,373	39,574

The following were subsidiary undertakings at 31 December 1995

Company and business	Country of registration, incorporation and operation	Number and class of shares held	Holding %	Capital and reserves at 31.12.95 £'000s	Profit after tax for the year ended 31.12.95 £'000s
Amphion Securities Limited (investment dealing)	England	134,400 ordinary shares of £1	64	171	–
Anglo-Nippon Trust Limited (dormant) (investment trust—used only as nominee company)	England	5,250,000 ordinary shares of 25p	100	3,248	–
F. & C. Securities Limited (dormant) (investment dealing)	England	100 ordinary shares of £1	100	(538)	–
Martindale Securities Limited (venture capital)	England	64 ordinary shares of £1	64	(334)	27
Pountney Hill Holdings Limited (investment holding)	England	1,033,068 ordinary shares of £1	61	81,509	4,205

The percentage shareholding specified above corresponds directly to the voting rights of the parent undertaking in each of the subsidiary undertakings.

Associated undertakings

At 31 December 1995, Pountney Hill Holdings, a 61% owned subsidiary, held all the "A" ordinary shares of £1 (50% of the voting rights) of Hypo Foreign & Colonial Management (Holdings) Limited whose issued share capital comprised 1,789,717 "A" and 1,789,717 "B" ordinary £1 shares. The group's indirect interest in HFCM therefore represents 30.5% of the voting rights. HFCM operates out of and is registered in England. It acts as a holding company through which Foreign & Colonial Investment Trust and four other publicly-quoted investment trusts in the Foreign & Colonial group and Bayerische Hypotheken-und Wechsel-Bank hold their interests in an investment management business. HFCM's profit for the year ended 31 December 1995 was £10,409,000 and its capital and reserves as at that date were £18,187,000.

	1995 Group including minority interest £'000s	1995 Minority interest £'000s	1995 Group excluding minority interest £'000s	1994 Group including minority interest £'000s	1994 Minority interest £'000s	1994 Group excluding minority interest £'000s
1 January						
Share of net assets at acquisition	5,218	2,035	3,183	4,931	1,924	3,007
Share of post acquisition retained reserves	2,584	1,007	1,577	973	380	593
Investment in associate using SSAP 1 equity method at 1 January	7,802	3,042	4,760	5,904	2,304	3,600
Acquisition during year	377	147	230	287	111	176
Profit before tax for year	8,912	3,475	5,437	9,271	3,616	5,655
Taxation	3,026	1,180	1,846	3,122	1,217	1,905
Profit after tax for year	5,886	2,295	3,591	6,149	2,399	3,750
Less: minority equity interests	682	266	416	770	301	469
Profit after tax and minorities	5,204	2,029	3,175	5,379	2,098	3,281
Dividends	4,250	1,657	2,593	3,756	1,466	2,290
Transferred to revenue reserve	954	372	582	1,623	632	991
Reserve movements	(39)	(15)	(24)	(12)	(5)	(7)
	915	357	558	1,611	627	984
Investment in associate using SSAP 1 equity method at 31 December	9,094	3,546	5,548	7,802	3,042	4,760
Comprising:						
Share of net assets at acquisition	5,595	2,182	3,413	5,218	2,035	3,183
Share of post acquisition retained reserves	3,499	1,364	2,135	2,584	1,007	1,577
Revaluation at 1 January	57,448	22,404	35,044	57,379	22,377	35,002
Movement in year	14,964	5,836	9,128	69	27	42
Revaluation at 31 December	72,412	28,240	44,172	57,448	22,404	35,044
Investment in associate at directors' or market valuation at 31 December	81,506	31,786	49,720	65,250	25,446	39,804

Substantial interests

At 31 December 1995 the Group held more than 5% of one class of the share capital of the following undertakings held as investments, none of which represented a participating interest.

	Country of registration and incorporation	Number and class of shares held	Holding %
F. & C. Buyout Trust	Jersey	10,000 "A" units of £100	10.0
Foreign & Colonial Emerging Markets Investment Trust PLC	England	15,384,975 ordinary shares of 10p	8.2
		6,076,995 warrants	16.3
Foreign & Colonial Enterprise Trust PLC	England	8,633,975 ordinary shares of 10p	9.2
Foreign & Colonial German Investment Trust PLC	England	3,304,434 ordinary shares of 25p	8.4
		525,886 warrants	6.7
Foreign & Colonial Special Utilities Investment Trust PLC 'S' Pool	England	5,000,000 ordinary "S" shares of 1p	25.0
		1,000,000 "S" warrants	25.0
Hypo Foreign & Colonial Portfolios Fund:			
American Equity	Luxembourg	110,000 shares	49.8
American Smaller Companies Equity		801,522	25.3
Mediterranean Equity		48,828	21.4
Nordic Equity		123,600	72.1
Asian Equity		126,670	17.9
Latin American Investment Trust PLC	England	3,832,450 ordinary shares of US$0.10	5.1
		766,490 warrants	5.1
Process Scientific Innovations Limited (held by Martindale Securities Limited, a 64% subsidiary of the Company)	England	143,500 ordinary shares of £1	34.6

Investments managed or advised by the Foreign & Colonial group

Investments include £80.9m (1994: £91.9m) of funds and investment trusts managed or advised by the Company's manager, Foreign & Colonial Management Limited (FCM) or its subsidiaries. These investments represent 4.5% (1994: 5.6%) of total assets less current liabilities (excluding loans) of the Company. Under the terms of the Company's management agreement with FCM, set out on page 30, the management fee calculation excludes the value of all such holdings.

13 Debtors

	1995 Company £'000s	1995 Group £'000s	1994 Company £'000s	1994 Group £'000s
Investment debtors	5,954	5,954	4,127	4,127
Amounts owed by associated undertakings	–	4,250	–	3,758
Prepayments and accrued income	327	354	426	435
Other debtors	9	68	46	46
	6,290	10,626	4,599	8,366

14 Taxation recoverable

Company and Group

Taxation recoverable includes advance corporation tax recoverable of £3,775,000 (1994: £2,958,000) in respect of the proposed final dividend on ordinary shares which in the opinion of the directors will be fully recoverable against tax credits on franked income received in 1995 and receivable in 1996.

15 Short term deposits

Short term deposits include an amount of £nil (1994: £300,000) cash on deposit with Foreign & Colonial Management Limited, an authorised institution under the Banking Act 1987.

16 Creditors: Amounts falling due within one year

Foreign currency and sterling loans

	1995 Company £'000s	1995 Group £'000s	1994 Company £'000s	1994 Group £'000s
Yen 2,400,000,000 repaid January 1996	14,986	14,986	–	–
Other	–	185	–	185
Yen 17,450,000,000 repaid January 1995	–	–	111,795	111,795
£6,600,000 repaid January 1995	–	–	6,600	6,600
	14,986	15,171	118,395	118,580

At 20 March 1996 borrowings of the Group totalled £185,000.

17 Creditors: Amounts falling due within one year

Other

	1995 Company £'000s	1995 Group £'000s	1994 Company £'000s	1994 Group £'000s
Bank overdrafts	–	–	74	81
Investment creditors	6,188	6,188	1,433	1,433
Other creditors	104	162	147	194
Proposed final dividend on ordinary shares	15,099	16,739	11,830	13,278
Foreign income dividend on ordinary shares	–	–	1,610	1,610
Advance corporation tax	3,775	4,826	3,375	4,304
Accruals and deferred income	1,122	1,128	734	755
	26,288	29,043	19,203	21,655

18 Geographical and industrial classification: Consolidated total assets less current liabilities (excluding loans)

	UK %	North America %	Europe %	Japan %	Far East %	Others %	**1995 Total %**	1994 Total %
Assets								
Equities and convertibles								
Mineral extraction	5.2	1.0	1.0	–	0.2	0.6	**8.0**	6.6
General manufacturers	7.5	7.5	5.0	8.5	1.1	–	**29.6**	25.0
Consumer goods	6.0	3.8	2.9	0.4	–	0.3	**13.4**	11.6
Services	6.1	4.8	2.4	2.1	0.4	–	**15.8**	16.3
Utilities	4.0	0.7	1.2	–	0.8	0.4	**7.1**	10.1
Financials	9.9	3.2	2.4	1.3	3.2	0.8	**20.8**	19.5
Investment trusts	1.7	0.1	0.2	–	0.1	0.3	**2.4**	2.8
Miscellaneous	–	0.7	0.3	0.3	0.2	0.1	**1.6**	0.7
Total	40.4	21.8	15.4	12.6	6.0	2.5	**98.7**	92.6
Fixed interest	0.7	–	–	–	–	–	**0.7**	7.7
Total investments	41.1	21.8	15.4	12.6	6.0	2.5	**99.4**	100.3
Freehold property	0.1	–	–	–	–	–	**0.1**	0.1
Net current assets	(0.2)	0.1	0.3	0.1	0.2	–	**0.5**	(0.4)
Consolidated total assets less current liabilities (excluding loans)	**41.0**	**21.9**	**15.7**	**12.7**	**6.2**	**2.5**	**100.0**	–
1994 Totals	44.7	19.9	14.2	12.8	5.7	2.7	–	100.0
Financed by:								
Debentures	6.0	–	–	–	–	–	**6.0**	6.6
Foreign currency and sterling loans	–	–	–	0.8	–	–	**0.8**	7.1
Preference shares	0.1	–	–	–	–	–	**0.1**	0.2
Equity shareholders' exposure	34.9	21.9	15.7	11.9	6.2	2.5	**93.1**	86.1
Total funds employed	41.0	21.9	15.7	12.7	6.2	2.5	**100.0**	100.0

Note: Geographical classification for the investments held as fixed assets is determined by the location of the major part of the investee companies' business. The net assets of associated undertakings are all located in the UK.

19 Debentures

	1995 Company £'000s	**1995 Group £'000s**	1994 Company £'000s	1994 Group £'000s
11.25% debenture stock 2014	**110,000**	**110,000**	110,000	110,000
4.25% perpetual debenture stock	**575**	**575**	575	575
	110,575	**110,575**	110,575	110,575

The above debenture stocks are secured by floating charges against the assets of the Company.

The 11.25% debenture stock is redeemable at par on 31 December 2014.

20 Share capital

	Authorised Number	Nominal £'000s	Issued, allotted and paid up Number	Nominal £'000s
Non-equity share capital				
3.5% cumulative preference shares of £1 each				
Balance at 1 January and 31 December 1995	2,690,000	2,690	2,690,000	2,690
Equity share capital				
Ordinary shares of 25p each:				
Balance at 1 January and 31 December 1995	1,103,600,000	275,900	1,051,047,680	262,762
Ordinary shares of 25p each:				
Balance at 1 January 1994	700,696,000	175,174	525,523,840	131,381
Increase in authorised share capital	402,904,000	100,726	–	—
Additional shares issued in respect of the capitalisation issue in April 1994	–	–	525,523,840	131,381
Balance at 31 December 1994	1,103,600,000	275,900	1,051,047,680	262,762

21 Share premium

	1995 £'000s	1994 £'000s
Balance at 1 January	Nil	14
Capitalisation of reserves on the issue of ordinary shares	–	(14)
Balance at 31 December	Nil	Nil

22 Capital reserve

	1995 Company £'000s	1995 Group £'000s	1994 Company £'000s	1994 Group £'000s
Balance at 1 January	1,133,723	1,133,500	1,407,540	1,408,295
Net surplus on realisation of investments during the year	105,907	105,907	53,122	53,122
Exchange gains and losses	3,341	3,341	(3,836)	(3,833)
Other capital charges and credits	(11)	(11)	(1)	(1)
Capitalisation of reserves on the issue of ordinary shares	–	–	(131,367)	(131,367)
Expenses in respect of the capitalisation of reserves	–	–	(79)	(79)
Increase/(decrease) in unrealised appreciation on investments	155,415	154,740	(191,656)	(192,637)
Balance at 31 December	1,398,375	1,397,477	1,133,723	1,133,500
Representing:				
Capital reserve	590,605	594,595	481,368	485,358
Unrealised appreciation on investments	807,770	802,882	652,355	648,142
	1,398,375	1,397,477	1,133,723	1,133,500

23 Revenue reserve

	1995 Company £'000s	1995 Group £'000s	1994 Company £'000s	1994 Group £'000s
Balance at 1 January	**16,324**	**19,254**	14,906	16,258
Amount transferred to reserve	**4,176**	**5,076**	1,418	3,004
Reserve movements in group undertakings	**–**	**107**	–	(8)
Balance at 31 December	**20,500**	**24,437**	16,324	19,254

24 Net assets per ordinary share

Net assets per ordinary share are calculated on 1,051,047,680 shares in issue (1994: same) and the following assets:

	1995 Company £'000s	1995 Group £'000s	1994 Company £'000s	1994 Group £'000s
	1,681,637	**1,684,676**	1,412,809	1,415,516

25 Reconciliation of movement in ordinary shareholders' funds

	1995 Company £'000s	1995 Group £'000s	1994 Company £'000s	1994 Group £'000s
Net revenue after taxation and minority interests	**25,991**	**26,891**	21,258	22,844
Dividends	**(21,815)**	**(21,815)**	(19,840)	(19,840)
Revenue reserve movements in group undertakings	**–**	**107**	–	(8)
Other recognised net gains and losses for the year	**264,652**	**263,977**	(142,450)	(143,428)
Net addition to ordinary shareholders' funds	**268,828**	**269,160**	(141,032)	(140,432)
Ordinary shareholders' funds at 1 January	**1,412,809**	**1,415,516**	1,553,841	1,555,948
Ordinary shareholders' funds at 31 December	**1,681,637**	**1,684,676**	1,412,809	1,415,516

26 Contingent liabilities

Company

	1995 £'000s	1994 £'000s
Uncalled liabilities on nil and partly paid holdings	**Nil**	569

The Company has guaranteed rental payments to third parties in respect of properties leased by Foreign & Colonial Management Limited. The current annual rentals in respect of these guarantees are £1,700,000.

Notes on the Consolidated Cash Flow Statement

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

	1995 £'000s	1994 £'000s
Net revenue on ordinary activities before taxation	**39,415**	35,100
Add back interest payable	**14,114**	15,395
Income before interest payable and taxation	**53,529**	50,495
Exchange profits and losses of a revenue nature	**(134)**	—
Decrease/(increase) in accrued income	**45**	(178)
(Increase) in other debtors	**(630)**	(1,336)
Increase in creditors	**1,258**	1,478
Enhanced scrip dividends	**—**	(60)
Adjustment to exclude share of profits of associated undertakings	**(8,912)**	(9,271)
Dividend from associated undertaking	**3,756**	2,752
Tax on franked investment income included within income from UK companies	**(4,653)**	(3,783)
Net cash inflow from operating activities	**44,259**	40,097

28 Analysis of changes in cash and cash equivalents during the year

	1995 £'000s	1994 £'000s
Balance at 1 January	**2,831**	3,388
Exchange gains and losses	**970**	(1,503)
Net cash inflow	**16,582**	946
Balance at 31 December	**20,383**	2,831
Represented by:		
Cash at bank	**9,358**	395
Short term deposits	**11,025**	2,517
Bank overdrafts	**—**	(81)
	20,383	2,831

Information for Shareholders

The following general notes are for guidance only for the fiscal year ended 5 April 1996. Investors are recommended to seek professional advice on their particular taxation position.

PEP Status

Your Company is not a Qualifying Investment Trust. The maximum value of Foreign & Colonial Investment Trust's shares that may be invested in a General PEP in any one year is therefore £1,500.

Capital Gains Tax

An approved investment trust does not pay tax on capital gains. Individuals may realise net capital gains of up to £6,000 in the 1995/6 tax year without incurring any tax liability. Subject to enactment of the Finance Bill, this amount is increased to £6,300 for the 1996/7 tax year. Net gains over £6,000 (£6,300 for 1996/7) are added to income and taxed at an individual's highest rate of income tax. Gains may be reduced by an appropriate adjustment for inflation. The base prices at 31 March 1982 for indexation relief, adjusted for capital changes, are as follows:

	Unit of quotation	Market price
Ordinary Shares	25p	14.875p
3.5% cumulative preference shares	£1	32.50p
4.25% perpetual debenture stock	£100	£28.25

The Inland Revenue operates an optional rule for calculating the capital gains on shares purchased on a monthly basis through the Private Investor Plan. This allows purchases made within the Company's accounting year to be aggregated and treated as a single investment in July of that year. You are advised to keep a separate note of purchases through the Plan, as other purchases are not eligible for inclusion in the option. Guidance notes prepared by The Association of Investment Trust Companies are available free of charge from the Company.

Income Tax

Dividends are paid to shareholders net of a tax credit of 20%. Shareholders liable to tax at the higher rate will have additional tax to pay. Shareholders who pay no tax may recover from the Inland Revenue the tax credit applicable to their dividends. Overseas investors not liable to UK income tax can obtain a form from the:

Financial Intermediaries and Claims Office (FICO), Inland Revenue, Fitz Roy House, PO Box 46, Nottingham, NG2 1BD.

If any shareholder is in doubt as to their tax position, they should consult their professional adviser.

Ten Year Record

Assets

at 31 December 1995

£m†	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Total assets less current liabilities (excluding loans)	632	858	801	928	1,166	983	1,175	1,358	1,756	1,673	**1,845**
Prior charges (including loans)	125	149	166	187	118	186	198	164	173	232	**128**
Available for ordinary shares	507	709	635	741	1,048	797	971	1,185	1,556	1,416	**1,685**
Net asset value per share* (prior charges at nominal value)	48.3p	67.4p	60.5p	70.5p	99.7p	75.9p	92.4p	112.8p	148.0p	134.7p	**160.3p**
Mid market price per share*	35.0p	54.5p	45.0p	54.5p	84.0p	67.8p	85.3p	104.8p	146.8p	135.5p	**162.0p**
High*	36.8p	54.8p	72.5p	56.3p	84.8p	87.3p	91.0p	106.0p	147.0p	155.0p	**162.5p**
Low*	29.5p	34.0p	43.0p	45.3p	54.3p	62.5p	62.0p	75.0p	101.5p	127.5p	**125.5p**

Revenue

year ended 31 December 1995

£'000s†	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Total revenue	21,691	26,527	29,935	32,619	35,090	43,974	48,234	48,271	57,370	57,554	**61,506**
Interest payable	8,015	11,208	11,569	12,334	9,927	15,618	16,489	15,130	15,711	15,395	**14,114**
Expenses	1,676	2,024	2,686	3,193	3,982	5,232	5,501	5,677	6,449	7,059	**7,977**
Net revenue before taxation	12,000	13,295	15,680	17,092	21,181	23,124	26,244	27,464	35,210	35,100	**39,415**
Taxation	3,970	4,176	4,484	5,061	6,020	5,753	7,493	7,601	8,496	9,401	**9,819**
Available for ordinary shares	7,936	9,025	11,102	11,937	15,067	17,277	18,236	19,206	24,734	22,750	**26,797**
Earnings per share*	0.76p	0.86p	1.06p	1.14p	1.44p	1.65p	1.74p	1.83p	2.35p	2.16p	**2.55p**
Dividends per share*	0.74p	0.85p	0.98p	1.13p	1.30p	1.45p	1.60p	1.68p	1.76p	1.88p	**2.07p**

*Adjusted for the 1 for 1 capitalisation issue in 1994.

†Accounts for the years 1984 to 1991 were not consolidated, but the figures for 1991 have been restated on a consolidated basis. The accounts for subsequent years were prepared on a consolidated basis.

Analysis of Ordinary Shareholders

at 31 December 1995

Percentage of share capital held by

	1990	1991	1992	1993	1994	**1995**
Investment companies	6.3	5.6	3.5	1.8	1.4	**1.5**
Insurance companies	22.4	22.3	22.7	19.1	19.1	**19.2**
Other companies	3.4	3.6	3.6	2.6	1.9	**0.9**
Pension funds	21.4	17.2	15.3	15.3	12.6	**12.1**
Universities, schools and other corporate bodies	4.2	4.0	3.9	3.1	2.4	**1.8**
Bank and other nominee companies	13.0	12.3	12.1	12.2	13.3	**13.6**
Individuals	29.3	35.0	38.9	45.9	49.3	**50.9**
Total	100.0	100.0	100.0	100.0	100.0	**100.0**

Number of shareholders

	1990	1991	1992	1993	1994	**1995**
Investment companies	47	42	39	44	50	**34**
Insurance companies	57	48	51	43	35	**34**
Other companies	169	208	217	280	190	**133**
Pension funds	84	67	67	80	73	**82**
Universities, schools and other corporate bodies	196	210	226	257	288	**230**
Bank and other nominee companies	263	215	206	167	217	**228**
Individuals	37,429	48,657	55,945	74,040	94,026	**106,918**
Total	38,245	49,447	56,751	74,911	94,879	**107,659**

Shareholder range analysis – percentage*

	1990	1991	1992	1993	1994	**1995**
1 – 1,000	1.1	1.5	1.7	2.4	0.9	**1.3**
1,001 – 5,000	8.1	10.5	12.5	16.0	9.9	**11.0**
5,001 – 10,000	6.6	7.7	8.5	9.6	10.1	**7.5**
10,001 – 100,000	15.7	16.3	16.5	17.4	24.4	**24.2**
100,001 – 500,000	9.1	8.2	8.1	7.9	6.5	**9.3**
500,001 – 1,000,000	5.9	5.0	4.9	5.0	3.6	**3.6**
1,000,001 & over	53.5	50.8	47.8	41.7	44.6	**43.1**
Total	100.0	100.0	100.0	100.0	100.0	**100.0**

*Pre 1994 figures are not adjusted for 1 for 1 capitalisation issue in April 1994

Hypo Foreign & Colonial Management (Holdings) Limited

Your Company, with total assets of £1.8bn, accounts for approximately 15% of the £12bn of assets managed by the subsidiaries of Hypo Foreign & Colonial Management (Holdings) Limited Group ("HFCM").

The HFCM Group has grown from Foreign & Colonial Management ("FCM"), which was formed in 1953 by investment trusts within the Group. In 1985 FCM was restructured in order to widen its range of business activities.

The Group now employs 279 people including 77 investment professionals of 17 nationalities speaking 18 languages. In addition to investment trusts, it provides investment management services to unit trusts and offshore funds, UK pension funds, charities, corporations and overseas institutions. Overseas clients now represent more than 50% of the total business.

In 1989, the Company, Foreign & Colonial Pacific Investment Trust, Foreign & Colonial Smaller Companies, Foreign & Colonial Enterprise Trust and Foreign & Colonial Eurotrust sold 50% of their holdings in FCM to the Bayerische Hypotheken-und Wechsel-Bank AG of Munich ("Hypo Bank"). Hypo Bank is the fifth largest commercial bank in Germany. The strategic objective of this partnership is to combine Foreign & Colonial's skills and experience of international investment management with Hypo Bank's strong retail base and distribution capabilities in Germany.

Investment in securities by private and institutional investors in Germany is growing substantially. Your Company benefits directly from the greater expertise the Group now has in Europe, and also from the enhanced financial backing for a global investment management business. We believe that the link with Hypo Bank is one of the most successful relationships in the City of London between UK and Continental financial institutions.

Hypo Bank and the five investment trust shareholders control FCM and its subsidiaries through HFCM.

FCM has two principal subsidiary companies – Foreign & Colonial Emerging Markets Limited ("FCEM") and Foreign & Colonial Ventures Limited ("FCV").

FCEM was established as a specialist investment manager in 1987 as a 50/50 joint venture between FCM and Banco de Investimentos Garantia of Brazil. In July 1993 FCM transferred its South East Asian business to FCEM and increased its shareholding in FCEM to its present interest of 75.1%. FCEM has developed into one of the world's largest emerging markets money managers.

FCV is a wholly-owned subsidiary of FCM and was formed in 1985 to provide private equity finance to small and medium sized companies.

FCM has joint ventures in international investment management with The Long Term Credit Bank of Japan, National Securities (closely associated with the Matsushita Group) and Petercam in Brussels.

FCM joined with Massachusetts Financial Services, Boston, a leading US investment manager, to launch three international mutual funds in October 1995. By the year end, these funds had raised $100 million.

In 1995, business conditions were highly competitive in the fund management industry.

They were particularly difficult in the emerging markets area where confidence was affected by the Mexican economic crisis. Despite this, profits for the year compare favourably with most of the competitors.

Corporate Governance

The Group is conscious of the need to observe the highest standards of corporate governance.

The Company's board has a majority of directors who are independent of FCM. In any situation where there could be a conflict of interest between the Company and FCM, the directors of the Company who are employed by FCM have not taken part in the decision. The Company's investment strategy is decided by the board taking account of the advice of FCM. Hypo Bank has no influence on the investment policy of the trust.

The Company is an independent public company. The management company is fully answerable to the board and the independent directors of the Company review the management contract every year. Performance, security of assets and management charges are some of the main areas reviewed. The management contract cannot be taken for granted by FCM. Every decision made on behalf of the Company must be clearly seen to be for the benefit of the shareholders of the Company.

The directors of FCM have two-year rolling contracts. Directors and senior employees also have share option arrangements with the management company.

Remuneration Committee

Mr. A.C.Barker, Mr. M.J.Hart and the Hon. James Ogilvy are employees of FCM and the costs of their employment are met in full by FCM – **they receive no emoluments directly from your Company.** Only part of their remuneration relates to the management of the Company. The annual management fee of 0.3% covers the cost of their services and all other investment management and general administrative services provided by FCM.

Salaries, bonuses and options of the directors and staff of the HFCM Group are decided by a remuneration committee comprising:

John Sclater, Chairman
The Lord Rockley, Director
Martin Kölsch, Director, Hypo Bank

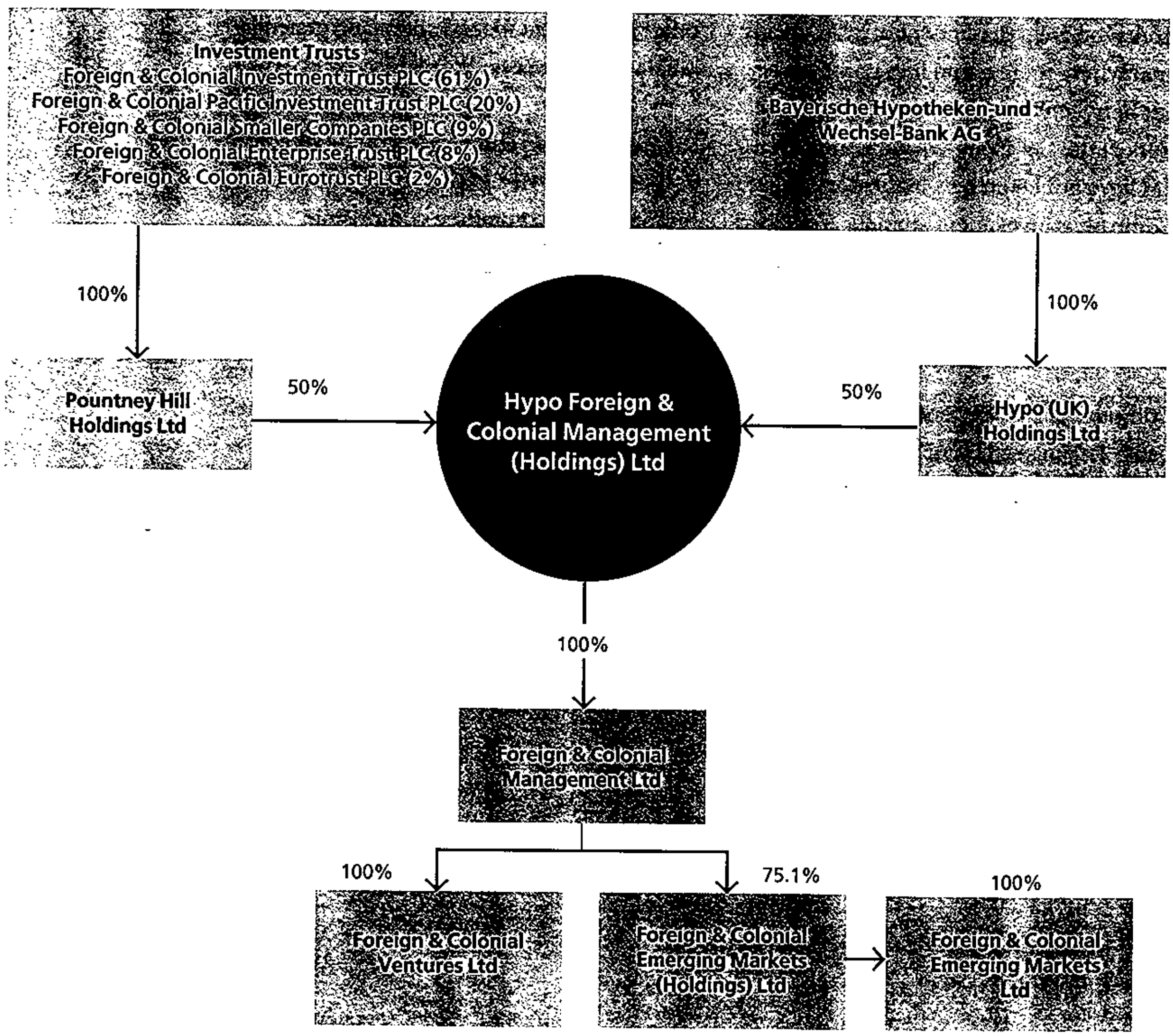
Remuneration committee decisions are made on the basis of rewarding individuals for their performance, initiative and effort and the need to retain top quality, highly motivated professionals taking into consideration the remuneration being paid by competing firms in the City of London.

Hypo Foreign & Colonial Management (Holdings) Limited *continued*

HFCM Group – Funds under management

At 31 December (£m)	1987	1988	1989	1990	1991	1992	1993	1994	1995
Investment Trusts	1,097	1,272	1,660	1,360	1,699	1,991	2,666	2,536	**2,700**
UK Tax Exempt Institutions	504	591	996	840	1,057	1,290	1,481	1,639	**1,855**
Open-ended Funds	172	183	216	160	240	418	855	858	**838**
International Institutions	137	208	295	304	535	581	1,885	1,954	**2,114**
Hypo Bank Funds	—	—	158	461	923	2,715	3,042	4,008	**4,464**
Venture Capital	47	79	88	76	100	176	182	196	**186**
Other Funds	—	—	—	—	—	104	192	143	**173**
	1,957	2,333	3,413	3,201	4,554	7,275	10,303	11,334	**12,330**

Group Structure



Summary Consolidated Profit & Loss Account

for the year ended 31 December

	1995 £'000s	1994 £'000s
Profit on ordinary activities before taxation	17,825	18,542
Taxation	(6,051)	(6,246)
Minority interests	(1,365)	(1,537)
Dividends	(8,500)	(7,511)
Amount transferred to reserves	1,909	3,248

Summary Consolidated Balance Sheet

at 31 December

	1995 £'000s	1994 £'000s
Fixed assets	6,581	6,549
Net current assets	17,311	14,920
Creditors: Amounts falling due after more than one year	(3,716)	(4,108)
Minority interests	(1,989)	(1,756)
	18,187	15,605
Represented by:		
Capital and reserves	18,187	15,605

The financial information set out above does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985.

The 1995 statutory accounts of HFCM will be filed with the Registrar of Companies in due course.

The auditors have made a report under section 235 of the Companies Act 1985 on the accounts for the year ended 31 December 1995. Their report was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

The only activity of HFCM is to act as a holding company for Foreign & Colonial Management Limited.

The HFCM group is independently valued at 31 December each year by Phoenix Securities Limited on the basis of both the profitability and funds under management of the group, discounted to reflect its private company status.

The Company holds its interest in the HFCM group through its 61% subsidiary, Pountney Hill Holdings Limited ("PHH"), the only activity of which is to hold the five investment trust shareholders' interest in the group.

The HFCM group and shareholder structure chart are set out on page 64.

The valuation of PHH's interest in the HFCM group, and therefore of PHH itself, at 31 December 1995 amounted to £81.5 m.

Notice of Meeting

Notice is hereby given that the one hundred and seventeenth Annual General Meeting of Foreign & Colonial Investment Trust PLC will be held at The Brewery, Chiswell Street, London EC1, on Friday, 26 April 1996 at 12 noon for the following purposes:

Ordinary Business

1 To receive and adopt the directors' report and accounts for the year ended 31 December 1995.

2 To declare a dividend on the ordinary shares.

3 To re-elect the following directors:
(a) Mr. A.C. Barker
(b) Mr. M.J. Hart
(c) The Lord Nicholas Gordon Lennox.

4 To re-appoint the auditors and authorise the directors to fix their remuneration.

Special Business

5 To consider and, if thought fit, pass the following resolution as an ordinary resolution:

THAT:
(a) the directors be and they are hereby 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 (as defined in that section) up to an aggregate nominal amount of £13,138,080 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 1997, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry;

(b) all authorities previously conferred under section 80 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.

6 To consider and, if thought fit, pass the following resolution as a special resolution:

THAT, subject to and conditional upon the passing as an ordinary resolution of the resolution numbered 5 set out in the notice of this meeting:

(a) the directors be and they are hereby empowered, pursuant to section 95 of the Companies Act 1985 ("the Act"), to allot equity securities (as defined in section 94 of the Act) pursuant to the authority given in accordance with section 80 of the Act by the said resolution numbered 5 as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £13,138,080 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 1997 or, if earlier, fifteen months from the date of the passing of this resolution, but so that this power shall enable the Company to make offers or agreements which would or might require equity securities to be allotted after the expiry of this power;

(b) all powers previously conferred under 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 To consider and, if thought fit, pass the following resolution as a special resolution:

THAT:

(a) the entries in the audited accounts of the Company for the year ended 31 December 1991, whereby distributable profits of the Company were appropriated to the payment of the second interim dividend on the Company's ordinary shares at the rate of 2.12p per ordinary share paid on 3 April 1992 to ordinary shareholders on the register of members on 19 March 1992 be and they are hereby ratified and confirmed;

(b) any and all claims which the Company may have against the ordinary shareholders who appeared on the register of members on such record date or other recipients of such dividend, or any of them, be released and for the purpose of giving effect to such release any two directors be and they are hereby authorised to execute on behalf of the Company a deed of release in favour of such shareholders and other recipients (in the form of the deed produced to this meeting and signed by the Chairman for the purpose of identification);

(c) any distribution involved in the giving of such release in relation to such dividend be made out of the profits appropriated to such dividend as aforesaid by reference to a record date identical to the record date for such dividend; and

(d) any and all claims which the Company may have against its directors, both past and present, or any of them, arising out of the payment of such dividend be released and for the purpose of giving effect to such release any two directors be and they are hereby authorised to execute on behalf of the Company a deed of release in favour of such directors (in the form of the deed produced to this meeting and signed by the Chairman for the purpose of identification).

8 To consider and, if thought fit, pass the following resolution as an ordinary resolution:

THAT the maximum aggregate remuneration which the directors are entitled to receive pursuant to article 26(A) of the articles of association of the Company be increased to £250,000.

9 To consider and, if thought fit, pass the following resolution as an ordinary resolution:

THAT the directors be and they are hereby authorised to make a donation of up to £25,000 to the Conservative Board of Finance.

2 April 1996

Registered Office:	*By Order of the Board,*
Exchange House	*Foreign & Colonial*
Primrose Street	*Management Limited,*
London EC2A 2NY	*Secretary*

Notes

Only the holders of ordinary shares are entitled to attend and vote or to be represented at the meeting.

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

To be valid, an instrument 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 of attorney, must be deposited with the Company's registrars, The Royal Bank of Scotland plc, Registrar's Department, P.O. Box 457, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 OXG, not less than 48 hours before the time appointed for holding the meeting.

The register of directors' holdings and copies of the following documents will be available for inspection at the registered office of the Company during usual business hours on any weekday and will be available at the place of the Annual General Meeting from 15 minutes prior to the commencement of the meeting until the conclusion thereof:

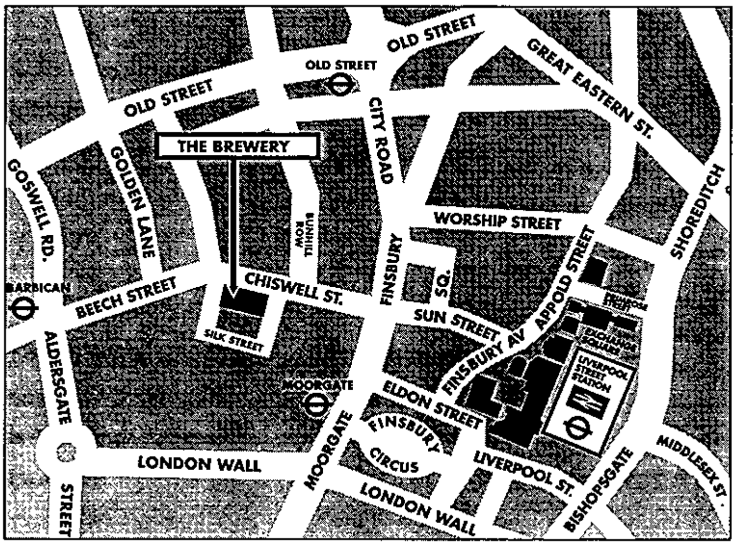
(i) the memorandum and articles of association of the Company;

(ii) the audited accounts of the Company for the year ended 31 December 1991; and

(iii) drafts (subject to amendment) of the two deeds of release in favour of the ordinary shareholders and of the directors respectively, referred to in resolution 7 in the notice of the Annual General Meeting.

The final dividend in respect of the year ended 31 December 1995 will, if approved, be paid on 29 April 1996 to holders of ordinary shares on the register at the close of business on 11 April 1996.

Location



Group Funds

INVESTMENT TRUSTS
Foreign & Colonial Investment Trust PLC
Foreign & Colonial Emerging Markets Investment Trust PLC
Foreign & Colonial Enterprise Trust PLC
Foreign & Colonial Eurotrust PLC
Foreign & Colonial German Investment Trust PLC
Foreign & Colonial High Income Trust PLC
Foreign & Colonial Income Growth Investment Trust PLC
Foreign & Colonial Pacific Investment Trust PLC
Foreign & Colonial PEP Investment Trust PLC
Foreign & Colonial Private Equity Trust PLC
Foreign & Colonial Smaller Companies PLC
Foreign & Colonial Special Utilities Investment Trust PLC
Foreign & Colonial U.S. Smaller Companies PLC
Brazilian Smaller Companies Investment Trust PLC
Latin American Investment Trust PLC
Second Consolidated Trust PLC
Contact. The Investment Trust Helpdesk on 0171-454 1415

SPECIALIST OFFSHORE FUNDS
Foreign & Colonial Reserve Asset Fund Limited*
Hypo Foreign & Colonial Portfolios Fund SICAV
HYPO Capital Management Investmentgesellschaft Luxembourg S.A.
Contact. Helpdesk on 0171-454 1434

Argentinian Investment Company SICAV
Brazilian Investment Company SICAV
Colombian Investment Company SICAV*
Global Emerging Markets Investment Company SICAV
Indian Investment Company SICAV*
Latin American Extra Yield Fund*
Latin American Investment Company SICAV
Mexican Investment Company SICAV
Peruvian Investment Company SICAV*
Polish Investment Company SICAV*
Taiwan Investment Company SICAV*
Contact. Juliet Bullick on 0171-628 1234

US REGISTERED FUNDS
The Foreign & Colonial Emerging Middle East Fund, Inc.
Contact. Juliet Bullick on 0171 -628 1234

AUTHORISED UNIT TRUSTS
Foreign & Colonial Emerging Asian Fund
Foreign & Colonial European Smaller Companies Fund
Foreign & Colonial High Income Fund
Foreign & Colonial Japanese Smaller Companies Fund
Foreign & Colonial UK Income Fund
Foreign & Colonial UK Smaller Companies Fund
Foreign & Colonial U.S. Smaller Companies Fund
Contact. Helpdesk on 0171-454 1434

AUTHORISED EXEMPT FUNDS
Foreign & Colonial Anglo-Nippon Exempt Fund
Foreign & Colonial European Exempt Fund
Foreign & Colonial North American Exempt Fund
Foreign & Colonial South East Asia Exempt Fund
Foreign & Colonial UK Bond Exempt Fund
Foreign & Colonial UK Exempt Fund
Contact. Nigel Morecroft on 0171-628 8000

UNAUTHORISED EXEMPT FUNDS
Foreign & Colonial Balanced Exempt Fund
Foreign & Colonial Global Emerging Markets Exempt Fund
Foreign & Colonial Latin American Exempt Fund
Contact. Nigel Morecroft on 0171-628 8000

PENSION FUNDS
Balanced and specialist investment services are provided for a wide range of institutional pension funds.
Contact. Nigel Morecroft on 0171-628 8000

PRIVATE EQUITY FUNDS
Foreign & Colonial Ventures manages or advises seven funds concentrating on unquoted investment including three of the investment trusts above.
Contact. James Nelson on 0171- 782 9829

CHARITY FUNDS
A comprehensive management service is available for larger charities while smaller ones can use our general and specialist pooled funds. We also offer two Charity Common Investment Funds (The Common Fund for Growth and The Common Fund for Income) and a Portfolio Management Service.
Contact. Nicola Ternan on 0171-628 8000

The information on this page has been issued and approved by Foreign & Colonial Management Limited, regulated by IMRO and the Personal Investment 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. Past performance is no guide to the future. The value of your investment may be adversely affected by fluctuations in exchange rates. The stockmarkets and currencies of emerging markets can be extremely volatile and investors should be prepared to accept a high degree of risk.

Exchange House, Primrose Street, London EC2A 2NY

*Professional investors only.