Foreign & Colonial Investment Trust PLC - 12901

Report and Accounts 2003

About your Company

The investment objective of Foreign & Colonial Investment Trust is to secure long-term growth in capital and income through a policy of investing primarily in a diversified international portfolio of equities with use of gearing.

Foreign & Colonial Investment Trust PLC ("Foreign & Colonial") aims to fulfil its investment objective by investing in countries, markets, sectors and stocks that should generate long-term growth in capital and income.

When Foreign & Colonial was founded in 1868 its intention was "to give the investor of moderate means the same advantage as the large capitalist, in diminishing the risks of investing in Foreign & Colonial Government Stocks by spreading the investment over a number of different stocks".

Over the years Foreign & Colonial has gained a reputation for reliable performance. £1,000 invested 25 years ago in *1978 would now be worth £29,843*, although past* performance is not necessarily a guide to the future. Share prices and income may go down as well as up and investors may not get back the full amount invested, especially in the short-term.

The Board of Directors of Foreign & Colonial, whose biographical details are set out on page 6, has ultimate responsibility for the Company's performance. The Board has delegated day to day responsibility to F&C Management Limited ("F&C" or the "Manager") under a detailed agreement which is formally reviewed every year.

F&C manages the investment portfolio within the limits set by the Board, organises marketing and provides company secretarial and accounting services. The key individuals responsible for these activities in F&C are listed on page 7. In addition to these key individuals, there is a team of some 100 investment managers who carry out the detailed analysis necessary for selecting the companies to invest in all over the world.

F&C is a leading manager of investment trusts and also manages pension funds, insurance funds and unit trusts for a wide range of investors in the UK and Europe. F&C employs 437 people and manages over £63 billion of assets. It is a wholly owned subsidiary of Eureko, a major European insurance company.

As an investment trust, Foreign & Colonial has several advantages over other forms of savings:

- The freedom to borrow money to invest to improve returns to shareholders. Foreign & Colonial has been active in using different currencies to borrow at low rates for many years.
- The ability to take a long-term view and ride out difficult short-term conditions. Foreign & Colonial has experience of markets since 1868 and has survived two world wars and innumerable stockmarket setbacks.
- The flexibility to invest in a wide range of assets. Foreign & Colonial invests in private equity as well as public companies.
- The ability to buy back shares to enhance net asset value. Foreign & Colonial has bought back 10% of its shares since this became possible in 1999.
- The relatively low level of running costs which means a competitive Total Expense Ratio.

* Source: Standard & Poor's based on mid-market prices, net income reinvested, allowing for a notional deduction of 3.5% to cover transaction costs and the market's spread. Data from 31/12/78 to 31/12/03. £1,000 invested over the five year period from 31/12/98 to 31/12/03 would be worth £1,048.

Contents

SUMMARY OF RESULTS

Attributable to equity shareholders	31 Dec 2003	31 Dec 2002	% change
Net assets	**£2,042m**	£1,697m	+20.3
Net asset value per share (prior charges at nominal value)	**215.15p**	178.87p	+20.3
Net asset value per share (prior charges at market value)	**210.18p**	173.25p	+21.3
Share price	**188.50p**	163.00p	+15.6
Net revenue	**£40.89m**	£38.76m	+5.5
Earnings per share	**4.31p**	4.08p	+5.6
Dividends per share	**3.70p**	3.50p	+5.7

Company Registration Number: 12901

FINANCIAL CALENDAR

AGM	12 May 2004
Final dividend payable	17 May 2004
Interim Results for 2004 announced	July 2004
Interim dividend payable	September 2004
Final Results for 2004 announced	February 2005

Chairman's Statement

2003 was the first year we have made you some money since 2000 and I sincerely hope we can now put the terrible years of 2001 and 2002 firmly behind us. Markets did better than we expected at the start of the year and recovered strongly from their low point in the middle of March at the outbreak of the Iraq war. We got most of the big decisions right in terms of asset allocation and gearing. However, our Manager, F&C, was generally less successful in stock selection, tending to be more cautious and defensively positioned and not adjusting fast enough to changing market conditions.

2004 has had an encouraging start with global economies growing and corporate profits rising. This gives me confidence that we should have a reasonable year ahead of us in stockmarkets around the world.

PERFORMANCE IN 2003

All stockmarkets went up in 2003. Our net asset value per share rose 20.3% to 215.2 pence, while our share price was up only 15.6% to 188.5 pence, because our discount increased during the year from 8.9% to 12.4%. Our net asset value total return was 22.4% and our share price total return 17.9%.

The spread of our assets, particularly our relatively high exposure to Continental Europe and low exposure to the United States, was a big contributor, helped respectively by the strength of the euro and the weakness of the US dollar. Our gearing was also a positive influence, adding 0.5% to asset value. We increased gearing at the start of the year as markets fell which was a good move. Later we gradually switched all our short-term borrowings from yen to US dollars. At the year end effective gearing was 8.3%.

Within markets, the best performing sectors and shares were generally those which had fallen the most in 2001 and 2002, including high technology stocks and smaller companies; these were sectors in which your Company was not heavily invested. Our Manager's stock selection performance in each market reflected how defensively positioned each part of the portfolio was at the start of the year and how quickly it was adjusted to changing market conditions.

Table of Total Returns for the major markets and *our own portfolio in Sterling*

Market	% of our portfolio	Our portfolio performance	Local index % performance
UK	39.3	+21.0	+20.9
North America	23.7	+14.8	+16.4
Europe ex UK	23.4	+27.6	+29.7
Japan	5.7	+16.6	+23.0
Pacific ex Japan	5.3	+36.1	+28.7
Latin America	2.1	+44.0	+53.9
Other	0.5	-	-

The major disappointment in 2003 was our relative underperformance in Japan. F&C was too cautious about the prospects for the Japanese market as a whole and did not have enough invested in the sectors and companies that performed the best. The UK portfolio's performance was in line with the index. The Continental European portfolio produced a good return, but underperformed the index for the first time in several years. US performance was relatively better than in 2002, though still not good enough. The best relative performance was in the Pacific ex Japan region where we added to our exposure during the year. F&C is now managing our investments in Emerging Markets (including China, South Korea, Taiwan, India, Russia, Brazil and Mexico) and Developed Asia (Hong Kong, Singapore, Australia and New Zealand) as a single portfolio, in place of the previous separate portfolios for Pacific ex Japan, Latin America and other emerging markets.

The Board monitors the performance of each geographical area closely; F&C has made changes to the management of the US and Japanese portfolios during the last year. The Board will continue to monitor performance closely, as it is conscious how important performance is to our shareholders.

Overall, our net asset value total return was just ahead of the average for the Global Growth Investment Trust Sector in 2003 and against most of the larger global growth trusts our performance was better still. We are well aware that our performance over three years, particularly on a relative basis, is less good than shareholders and we would wish and our Manager and the Board are striving hard to improve this. As always our focus remains on the long term where we have a good record and are confident our strategy will deliver growth in capital and income for our shareholders.

PRIVATE EQUITY

I reported last year that we had committed US$120 million to limited partnerships managed by HarbourVest partners and €115 million to a limited partnership managed by Pantheon Ventures. During the year our private equity managers called £7.3 million of our commitment; it will take several years for our commitments to be drawn down. I also noted last year that the Board believes private equity will give higher long-term returns than quoted investments, but that we do not expect these investments to affect our results significantly for a number of years. It is therefore too early to comment meaningfully on the performance of our private equity investments as we are only in the early stages of investing.

DIVIDEND AND REVENUE

The Board is recommending a final dividend per share of 1.90 pence, making a total proposed dividend for the year of 3.70 pence. This is an increase of 5.7% on 2002, which is again well ahead of the rate of inflation and our peer group. As I explained in the interim report, the Board decided to rebalance the interim and final dividend payments and in future we will keep the interim and final dividend amounts about the same. We believe that dividends are an important part of shareholders' return and we intend to continue the policy of increasing annually our dividend in real terms. The revenue reserve has been maintained at the equivalent of two years' worth of dividend which gives us plenty of scope and flexibility.

Total revenue was down marginally on the previous year. We have tried to keep a strict control over costs and overall expenses are down. The management fee has continued to reduce as it is based on the average value of assets under management over the last three years, but other expenses are somewhat higher owing to increases in advertising spend, liability insurance cover and saving scheme costs. The tax charge within the revenue account has reduced substantially as a result of the new Statement of Recommended Practice for investment trusts, which meant that our net revenue after tax was higher than in 2002.

FTSE 100 INDEX

In March 2003 the Company's shares entered the FTSE 100 Index which was at a time when the stockmarket was almost at its lowest point during the year. It now seems likely that after one year our shares will fall out of this index. Foreign & Colonial invests in a wide spread of shares, so it is not surprising that our index position tends to rise when markets fall and to fall when markets rise, particularly in relation to other individual industrial, commercial and financial companies.

BUYBACKS AND TREASURY SHARES

Our discount increased last year from 8.9% to 12.4% with an average for the year of around 10.7%. Since the year end the discount has increased further and we have bought back 2,905,000 of our shares at an average discount of 15.5%, enhancing net asset value per share by 0.1 pence. This is the first time we have bought back shares since early

2001. The Board regularly monitors the discount on the shares and its volatility in order to assess whether any permanent trend is developing with a widening of the discount, particularly on a relative basis to the Global Growth investment trust sector. The Board believes that the main reason for buying in shares is to enhance net asset value per share and will continue to buy in shares as appropriate. The discount is now about 12%.

With regard to the recent change in company law which allows companies to repurchase their shares into Treasury and later reissue the shares rather than cancel them as at present, the Board has decided to take no action at this stage. We will watch what happens in practice and we would certainly consult widely before putting any resolution to shareholders.

SHAREHOLDER RELATIONS

Investment trusts are unique companies in that their shareholders are also their customers. I am very keen to develop Foreign & Colonial's high standards of communicating with our shareholders who now number over 120,000. In 2003 I initiated an institutional shareholder communications programme and contacted or met institutions and private client asset managers owning, or advising on, about one third of the Company's shares. I also met several hundred shareholders at the Annual General Meeting in May. As a result of these initiatives and the AGM I have been able to obtain the views of a wide range of shareholders. Despite volatile market conditions, investors in savings plans continued to add to their holdings; by the year-end almost 80% of our shares were owned by individuals rather than institutions. All our shareholders, large and small, are important and I welcome your comments and feed-back, as it is important for us to know where you have any issues or concerns.

CORPORATE GOVERNANCE

We continue to take a vigilant approach to assessing risks, to monitoring controls, to safeguarding your assets and to looking after your interests. This year we are reporting a year earlier than we need on how we are meeting the provisions of the revised Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003, for which the Board was already well positioned. We are also complying with the changes to the Listing Rules published by the Financial Services Authority and adhering to the principles and recommendations of the new Code on Corporate Governance issued by the Association of Investment Trust Companies. As investors ourselves we are very conscious of the need for the highest possible standards of corporate governance and we do not want to impose on others any burden we will not accept ourselves.

DIRECTORS

With regard to changes in Board and Committee membership, Lord Rockley retired from the Board at the last AGM and I stood down from the Private Equity Committee. The Board has also looked closely at those Directors due for re-election this year and, on the recommendation of the Nomination Committee, has approved their standing for re-election. Following an appraisal process I have no hesitation in recommending the re-election of Mr Clarke, Mr Rennocks, Sir Andrew Wood and Ms Fukuda to shareholders, given their experience, contribution and commitment. The Board, under the leadership of the Senior Independent Director, carried out an appraisal of me, as Chairman, and has approved my standing for re-election.

INVESTMENT MANAGEMENT

The Board is responsible for corporate strategy, for the overall investment policy of the Company, for setting limits on gearing and asset allocation and for monitoring investment performance. The Manager is responsible for gearing, asset allocation, and sector and stock selection within the limits set, and regularly monitored and reviewed, by the Board. The Board revised its gearing limits to 0 -15% during the year and set new ranges for its geographical asset allocation, which are now 5% on either side of the rolling monthly weightings in the UK, US and Continental Europe and 2.5% in Japan and Emerging Markets and Developed Asia. At the end of the day our Manager is responsible and accountable for delivering investment performance.

F&C has a disclosed policy on corporate governance, voting, socially responsible investment and shareholder activism in respect of our investee companies. The Board has reviewed and endorsed this policy and receives periodic reports on its implementation from F&C.

A new governance requirement this year is for the Board to state publicly its reasons for re-appointing the Manager. Reviewing all aspects of the Manager's performance and pressing for improvements when necessary has always been an important job for the Board. As I have mentioned earlier, our three year investment performance has been disappointing, but there has been an improvement during the last year and our long-term performance remains good. The Manager also provides excellent company secretarial, administrative, financial and marketing services. In these circumstances, it is the Board's opinion that the continuing appointment of F&C as Manager on the terms agreed is in the interests of shareholders as a whole.

The investment objective of the Company remains the same, to secure long-term growth in capital and income through a policy of investing primarily in a diversified international portfolio of equities, with the use of gearing. Going forward, the Board has set our Manager the objective of out-performing a peer group of the larger Global Growth investment trusts as well as beating the average of the Global Growth sector as a whole over all time periods.

PROSPECTS

The outlook seems rosier than a year ago. Economic activity has picked up significantly in the US and is better than a year ago in most other major economies, while corporate profits have also started to rise. The threat of war in the Middle East has receded even though the threat from global terrorism remains.

There are two main areas of uncertainty which could cause problems in 2004. For a long period interest rates have been at exceptionally low levels, but are now rising in the UK and are likely to rise in the US later this year. Consumer borrowing in the UK and US is at unprecedented levels and it is difficult to predict what impact rising rates will have on consumer spending. The other potential source of concern is the currency market. The recent fall of the US dollar has been large, but so far benign, with little negative impact on stockmarkets. If the US dollar falls more sharply, or if other currencies rise sharply, there could be some destabilising effects in economies and financial markets.

We are alive to these risks, but we think the opportunities are greater, particularly in Emerging Markets and Developed Asia, where our Manager expects to increase the proportion invested towards 15% and to reduce the proportion invested in more mature markets.

Foreign & Colonial is financially strong and has been a reliable investment for many years. Our challenge is to maintain these strengths, while increasing our ability to deliver better performance. Your Board and our Manager are determined to meet this challenge in 2004 and beyond.

Mark Loveday

February 2004

Directors

MARK LOVEDAY† CHAIRMAN
Elected to the Board in May 2001, appointed Chairman in May 2002 and is Chairman of the Nomination Committee. He was senior partner of the corporate advisory, stockbroking and investment management company, Cazenove & Co., for seven years, retiring in April 2001 after 36 years in the firm. He is a member of the Securities Institute and is also a trustee of The Grosvenor Estate and a director of two of its related private companies, Deva Group Limited and Deva Holdings Limited. He has no other directorships. *Age 60.*

ROBERT ADAMS
Appointed a Director in September 1998. He is an executive director of Rio Tinto plc with responsibility for planning and development, a position he has held since 1991. He is chairman of three Rio Tinto subsidiaries which are responsible for managing the assets of Rio Tinto's UK, US and Canadian pension funds respectively. Foreign & Colonial's holding in Rio Tinto represents 1.5% of the portfolio. *Age 58.*

SIR MICHAEL BUNBURY BT*#
Appointed to the Board in March 1998 and is chairman of the Private Equity Committee. He joined the stockbroking firm, Buckmaster & Moore, in 1968 and moved to Smith & Williamson in 1974 where he was subsequently chairman and to which he is now a consultant. He was also chairman of Smith & Williamson Investment Management Ltd for seven years. He has been advising private clients and families on quoted and unquoted investments and property portfolios for 35 years. He is chairman of the Council of the Duchy of Lancaster and a non-executive director of JP Morgan Fleming Claverhouse Investment Trust Plc. *Age 57*

THE RT HON KENNETH CLARKE QC, MP†
Appointed to the Board in August 1997. He has been the Member of Parliament for Rushcliffe since 1970 and served as a minister throughout the Conservative governments of 1979 to 1997. He was Chancellor of the Exchequer between 1993 and 1997. He is deputy chairman of Alliance Unichem plc, chairman of Savoy Asset Management PLC, deputy chairman of British American Tobacco plc, non-executive chairman of British American Racing Holdings Ltd and a non-executive director of Independent News and Media (UK) Limited. *Age 63.*

HARUKO FUKUDA OBE
Appointed to the Board in 1988. A Fellow of the Securities Institute, she joined the stockbroking firm, James Capel & Co., in 1974 and became a partner in 1980. In 1988 she joined Nikko Europe Plc, one of the largest Japanese investment banks, and became vice chairman in 1994. From 1999 to 2002 she was chief executive of the World Gold Council, the marketing arm of the world's largest gold mining companies and is now a non-executive director of AB Volvo, Investec PLC and the Aberdeen Asian Smaller Companies Investment Trust PLC. She also holds advisory positions with Lazard and METRO AG. *Age 57.*

EWEN MACPHERSON*†# SENIOR INDEPENDENT DIRECTOR
Joined the Board in February 1997. He is chairman of Merrill Lynch New Energy Technology plc and of the private equity investment trust, Pantheon International Participations PLC. He retired in July 1997 as chief executive of 3i Group plc, which is Europe's leading venture capital company, and was a non-executive director of Scottish Power plc until July 2003. He is also the chairman of the trustees of the GlaxoSmithKline Pension Fund. *Age 62.*

JOHN RENNOCKS*
Appointed a Director in August 1997 and is Chairman of the Audit & Management Engagement Committee. He is a chartered accountant and was finance director at Smith and Nephew, Powergen and British Steel/Corus throughout the years 1981 to 2001. He is chairman of Nestor Healthcare Group plc and Diploma plc and a non-executive director of Babcock International Group PLC, JP Morgan Fleming Overseas Investment Trust Plc, Wagon plc and Xenova PLC. *Age 58.*

MAXWELL WARD#
Elected a Director in May 2000. He was a partner in Baillie Gifford & Co, the Edinburgh firm of fund managers, for 25 years and was manager of Scottish Mortgage & Trust plc for 11 years. He is chairman of Dunedin Income Growth Investment Trust plc, managing director of The Independent Investment Trust plc and a non-executive director of the life assurance company, Aegon UK plc. *Age 54.*

SIR ANDREW WOOD GCMG
Appointed a Director in December 2000. Served as ambassador in Moscow and Belgrade, he is a senior adviser to Ernst & Young and has acted for Unilever, GlaxoSmithKline, Diageo, BP and other companies interested in the Russian market. He is a member of the Advisory Councils of the leading investment bank in Russia, Renaissance Capital, and the BCCB, which represents the interests of British consultants and construction firms. He is also deputy chairman of the board of the Russo-British Chamber of Commerce, and a director of the PBN Company, a strategic communications firm with offices in the former Soviet Union, London and Washington DC. *Age 64.*

* MEMBERS OF THE AUDIT & MANAGEMENT ENGAGEMENT COMMITTEE
† MEMBERS OF THE NOMINATION COMMITTEE
# MEMBERS OF THE PRIVATE EQUITY COMMITTEE

Management and Advisers

JEREMY TIGUE FUND MANAGER
Appointed Fund Manager in July 1997. He is responsible for the overall portfolio management and investment performance of Foreign & Colonial and for the UK portfolio. He joined F&C in 1981 and is also a director of the Association of Investment Trust Companies.

STEPHEN WHITE DEPUTY FUND MANAGER
Appointed Deputy Fund Manager in March 2000. He joined F&C in 1985 and is responsible for the European portfolio.

SIMON CORDERY
Investor Relations Manager responsible for marketing Foreign & Colonial to private client stockbrokers. He joined F&C in 1993 and took up his present position in 2000.

BOB DOWDALL
Group Finance Director of F&C since 1990. He is responsible for all the financial information reported by Foreign & Colonial.

CAMERON FLEMING
Group Director of Audit & Risk at F&C since 2000. He is responsible for the Internal Audit and Operational Risk departments and the provision of the Internal Corporate Governance Report from F&C to Foreign & Colonial.

GEORGETTE HARRISON
Head of UK Retail Marketing responsible for marketing Foreign & Colonial to individual investors through the savings products operated by F&C. She joined F&C in 1993 and took up her present position in 1997.

NICK PITT-LEWIS
Group Director of Legal and Compliance at F&C since 1992. He is responsible for ensuring that F&C complies with its regulatory responsibilities to investors and others.

HUGH POTTER
Head of Company Secretaries at F&C and responsible for Foreign & Colonial's statutory compliance. He joined F&C in 1982.

MICHAEL WROBEL
Client Relationship Director responsible for F&C's relationship with Foreign & Colonial since 2003.

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Authorised and regulated in the UK by the Financial Services Authority

Registered in England.

Company Registration Number: 12901

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BANKERS:
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JPMorgan Chase

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STOCKBROKERS:
Cazenove & Co. Ltd

SOLICITORS:
Norton Rose

Manager's Review

2003 was Foreign & Colonial's first positive year since 2000. I will explain how our strategy was implemented at three levels – gearing, asset allocation and stock selection.

GEARING

At the start of the year we believed share prices would go up but we had very little conviction about which shares would do best. To exploit the higher share prices we expected, we made a deliberate decision to increase gearing. On 12 March, the day the markets reached their low for the year our effective gearing was 10.8%, coincidentally the same level it had been before the start of the 1991 Gulf War. After markets recovered sharply in March we reduced borrowings slightly and gearing fell back. For several years almost all of Foreign & Colonial's short-term borrowings have been in yen. Interest rates in Japan have been extremely low and the yen has been relatively weak against most other currencies. During 2003 we decided this would not continue. At the same time we became more convinced that the US dollar was going to weaken against most other currencies. This was due to the rapid increase in the US current account and budget deficits and our belief that the US government was relaxed about the dollar falling. Therefore between May and November we switched all short-term borrowings from yen to US dollars. As the chart shows the US dollar was weak against sterling throughout the year but its decline accelerated at the end.

ASSET ALLOCATION

The geographical spread of our portfolio was well matched to market conditions. Our judgment at the start of 2003 was that any recovery in the US would be of more benefit to countries outside the US so we had a relatively small position in the US and were more exposed to Europe, Asia and Latin America. In Europe we had underestimated the pressure of forced selling from insurance companies in 2002. By the start of this year we believed this had run its course and the European markets would bounce back in any global recovery. This happened despite the strength of the euro and very pedestrian growth in most of the eurozone economies. In sharp contrast, better returns from the US market were reduced by the weakness of the US dollar when translated into sterling.

We were too cautious about the UK and Japan. We thought the UK would lag a global recovery in share prices but it performed better than we expected. We also thought Japan would remain in the doldrums but the market had a good year. After almost a decade of Emerging Market crisis after crisis, 2003 was remarkable for the absence of major problems in any country. Investors responded with enthusiasm and these countries were among the best performers. Within Latin America, Brazil outperformed the other major market Mexico. Asia also did very well despite the disruption caused by the SARS epidemic. During the year we decided to make a strategic shift to increase the weighting in Emerging Markets and Developed Asia.

STOCK SELECTION

It was very difficult to get stock selection right all through the year. Companies that performed well in the first quarter when markets were falling then spent the rest of the year marking time. Companies that seem-ed in dire straits at the start of the year showed dramatic price rises after 12 March. There were three themes that explained most of the volatility. Stocks that were dependent on the stockmarket or were exposed to forced selling rebounded quickly when markets recovered. When confidence grew about faster economic growth, technology companies rose very sharply. Finally smaller companies outperformed larger ones.

We began the year more worried about avoiding disasters than anything else and this caution seemed justified when we suffered following serious accounting problems in the Dutch supermarket group Ahold in February. The shares fell 70% and we then bought some more. By the end of the year the price had recovered significantly. One of the disasters of the previous year was Cable & Wireless but this became the best performer in our UK portfolio, tripling after a change of management and strategy.

When markets turned in March we stopped worrying about disasters and started to look for companies that we thought would benefit from faster growth. In particular we concentrated on identifying businesses in the technology sectors which had survived the last three difficult years and could now exploit rising demand with less competition. In the UK we added to LastMinute.com and Vodafone and started a new holding in BSkyB. In the US we bought Amazon and Yahoo. We were esp-ecially interested in the prospects for Asian technology companies supplying global markets, and added to Hon Hai Precision Industry and Taiwan Semiconductor in Taiwan.

Investment changes during the year ended 31 December 2003 - £m

	Valuation 31/12/02	Purchases	Sales	Gains	**Valuation 31/12/03**
UK	763	111	(118)	125	**881**
Europe ex UK	413	183	(174)	102	**524**
North America	465	298	(294)	62	**531**
Japan	114	41	(45)	17	**127**
Pacific ex Japan	74	103	(80)	23	**120**
Other	40	18	(14)	13	**57**
Total	**1,869**	**754**	**(725)**	**342**	**2,240**

STRATEGY AND OBJECTIVES FOR 2004

We have four objectives for 2004. The first and most important is the same every year – to have the best possible results and particularly to improve performance where it was poor in 2003.

The second objective is to increase exposure to Emerging Markets and Developed Asia. We believe these regions will grow faster than more mature economies, their political, economic and corporate governance has improved significantly in the last decade and company valuations are generally lower than in Western markets. As a first step we are increasing the weighting in these markets to 10% and expect it to rise towards 15% over the next year.

Our third objective is to concentrate the portfolio more. When markets were weak and uncertainty rose we deliberately increased the number of holdings to widen the diversity of the portfolio. We are now more optimistic and intend to have larger positions in individual stocks to reflect this, recognising this may increase risk.

We can make plans and projections for the future but in stockmarkets the unexpected keeps on happening. We need to remain vigilant for any changes that could affect our plans so our final objective for 2004 is to remain flexible.

Jeremy Tigue

February 2004

Twenty Largest Equity Holdings

This Year	Last Year	Company/Country Description	% of total investments	Value £'000s
1	(1)	**Shell Transport & Trading/Royal Dutch Petroleum** UK/Netherlands Leading global oil company with a strong financial position.	3.3	74,455
2	(3)	**Vodafone** UK World's largest mobile telephone provider.	2.4	54,153
3	(2)	**GlaxoSmithKline** UK Leading global pharmaceuticals group with scope for substantial cost savings.	2.3	52,480
4	(8)	**HSBC** UK Broadly diversified international bank operating in over 80 countries worldwide.	1.6	35,927
5	(7)	**Royal Bank of Scotland** UK The bank is continuing to benefit from efficiency improvements following its takeover of National Westminster Bank.	1.6	35,636
6	(6)	**Rio Tinto** UK/Australia World leader in finding, mining and processing a wide range of minerals for many different markets.	1.5	32,573
7	(4)	**BP** UK Leading global oil company with a strong record of efficiency gains.	1.4	31,876
8	(5)	**TotalFinaElf** France Fourth largest oil company in the world with significant potential for cost savings.	1.3	29,516
9	(9)	**F&C Portfolios Fund SICAV: US SmallCap** Luxembourg Specialist fund giving exposure to companies where it would be impractical to have direct holdings.	1.3	28,152
10	(10)	**Legal & General** UK Major UK life assurance group which is relatively well placed for difficult market conditions.	1.0	22,049
11	(17)	**BNP Paribas** France Leading French bank with a strong domestic franchise.	1.0	21,692
12	(16)	**Citigroup** USA Largest financial services group in the world with a huge range of products and enormous distribution.	0.9	21,255
13	(11)	**Scottish & Southern Energy** UK Multi-utility group with an attractive dividend yield and commitment to dividend growth.	0.9	20,163
14	(-)	**UBS** Switzerland Major investment banking and asset management business.	0.9	19,167
15	(19)	**British American Tobacco** UK Leading international manufacturer and distributor of cigarettes.	0.8	18,841
16	(-)	**Abbey** UK New management is refocusing the bank on its core high street operations.	0.8	18,718
17	(13)	**BAA** UK Operator of seven UK airports benefiting from continuing growth in air travel.	0.8	18,675
18	(15)	**Pfizer** USA Leading pharmaceutical group whose best known product is Viagra.	0.8	17,885
19	(-)	**AXA** France Leading multi line insurer benefiting from better insurance markets and higher stockmarkets.	0.8	17,518
20	(20)	**AstraZeneca** UK Leading international pharmaceuticals group.	0.8	17,420

The value of the twenty largest equity holdings represents 26.2% (2002: 27.0%) of the Company's total investments. The figures in brackets denotes the position at the previous year end. The country shown is the country of incorporation.

List of Investments

Listed Investments	Holding	31 December 2003 Value £'000s
EUROPE (EXCLUDING UK)		
Equities		
DENMARK		
Danske Bank	208,500	**2,733**
FINLAND		
Nokia	1,767,400	17,073
UPM-Kymmene	241,400	2,572
Total Finland		**19,645**
FRANCE		
Accor	176,800	4,472
Arcelor	982,000	9,562
Aventis	355,300	13,118
AXA	1,465,100	17,518
BNP Paribas	616,700	21,692
Danone	108,400	9,883
France Telecom	211,380	3,375
Lafarge	168,764	8,395
Lagardere	222,300	7,169
L'Oréal	91,700	4,200
Peugeot	241,700	6,880
Saint Gobain	618,800	16,921
Schneider Electric	216,000	7,899
Société Générale	339,700	16,755
ST Microelectronics	160,100	2,425
Télévision Française	195,700	3,817
TotalFinaElf	284,200	29,516
Vivendi Universal	253,400	3,441
Total France		**187,038**
GERMANY		
Adidas	41,000	2,617
Allianz	79,200	5,586
BASF	225,500	7,110
BMW	445,400	11,596
Deutsche Bank	212,700	9,876
Deutsche Telecom	660,500	6,767
E.On	288,400	10,552
SAP	29,100	2,743
Siemens	281,200	12,641
Volkswagen	109,000	3,407
Total Germany		**72,895**
HUNGARY		
Matáv ADS	171,890	**1,786**

Listed Investments	Holding	31 December 2003 Value £'000s
IRELAND		
Paddy Power	240,000	**1,195**
ITALY		
Banca Antonveneta	433,100	4,501
Capitalia	1,889,100	3,088
Enel	1,288,000	4,892
Eni	245,000	2,582
Telecom Italia Mobile	1,157,100	3,514
Unicredito Italiano	2,978,700	8,983
Total Italy		**27,560**
NETHERLANDS		
Ahold	1,291,200	5,495
ABN-Amro	999,800	13,068
ING	1,080,700	14,080
KPN	2,113,800	9,115
Philips Electronics	686,100	11,191
Royal Dutch Petroleum	392,100	11,548
VNU	301,700	5,325
Total Netherlands		**69,822**
POLAND		
Bank Polska Kasa Opieki Grupa GDR	171,909	2,809
Polski Koncern Naftowy GDR	391,064	2,927
Total Poland		**5,736**
ROMANIA		
F&C Romanian Investment Company	350,000	**25**
RUSSIA		
Gazprom ADS	64,873	939
Lukoil	36,300	1,891
Yukos ADR	116,918	2,743
Total Russia		**5,573**
SPAIN		
Iberdrola	595,100	6,570
Telefonica	1,498,980	12,294
Total Spain		**18,864**
SWEDEN		
Atlas "A"	168,100	3,360
Electrolux "B"	563,300	6,910
Hennes & Mauritz	4,316,205	4,154
Total Sweden		**14,424**
SWITZERLAND		
Ciba Speciality Chemicals	160,900	6,955
Credit Suisse	637,000	13,019

Listed Investments	Holding	31 December 2003 Value £'000s
Nestlé	72,800	10,161
Novartis	567,400	14,390
Richemont	370,000	4,963
Roche	89,400	5,037
UBS	*501,000*	*19,167*
Total Switzerland		**73,692**
TURKEY		
Akbank	531,930,717	1,555
Haci Omer sabanci	398,308,654	1,053
Koc	122,614,379	1,165
Yapi Kredi Banikasi	690,881,984	797
Total Turkey		**4,570**
GENERAL		
F&C Portfolios Fund SICAV		
European High Yield Bond Fund	1,387,000	**13,926**
TOTAL EUROPE (EXCLUDING UK)		**519,484**
OTHER		
Equities		
ISRAEL		
Check Point Software	234,000	2,204
Partner Communications	200,704	879
TOTAL OTHER		**3,083**
PACIFIC (EXCLUDING JAPAN)		
Equities		
AUSTRALIA		
Australia & New Zealand Bank	471,992	3,512
BHP Billiton	996,170	5,111
Brambles Industries	166,023	369
Insurance Australia	356,200	637
Lend Lease	285,565	1,208
Macquarie Infrastructure Group	918,732	1,315
National Australia Bank	197,014	2,484
Newcrest Mining	100,415	547
News Corporation	330,722	3,591
News Corporation preferred	456,700	
Publishing & Broadcasting	351,100	1,850
QBE Insurance Group	237,429	1,059
Rio Tinto	106,400	1,666
Sonic Healthcare	*134,950*	398
Telstra	676,280	1,372
Toll Holdings	180,600	627

Listed Investments	Holding	31 December 2003 Value £'000s
Westpac Banking	326,100	2,195
Westfield	140,500	826
Woodside Petroleum	212,100	1,321
Total Australia		**30,088**
CHINA		
BYD	134,500	198
China Merchants	*749,500*	*553*
China Mobile (Hong Kong)	1,003,000	1,721
China Petroleum and Chemical	6,098,000	1,525
China Shipping Development "H"	1,138,000	471
China Telecom	10,600,000	2,441
CNOOC	474,000	518
Legend Group	3,278,000	784
Shanghai Petrochemical	*4,396,000*	*1,091*
UTStarcom	77,000	1,595
Wah Sang Gas	2,304,000	139
Total China		**11,036**
HONG KONG		
Cheung Kong	314,000	1,395
Dah Sing Financial	253,200	1,052
Hang Seng Bank	191,000	1,402
Hong Kong & China Gas	1,255,469	1,070
Hutchison Whampoa	*633,150*	*2,608*
Shangri-la Asia	550,761	289
Sino Land	4,909,025	1,563
Sun Hung Kai Properties	616,000	2,848
Texwinca	476,000	194
Total Hong Kong		**12,421**
INDIA		
Hindustan Lever	870,000	2,180
Hindustan Petroleum	230,000	1,269
ITC	*84,000*	*1,013*
Reliance Industries	430,000	3,017
Total India		**7,479**
INDONESIA		
Bank Dahamon	2,209,000	296
Telekomunikasi Indonesia	1,400,000	627
Total Indonesia		**923**
MALAYSIA		
Gamuda	1,600,000	1,494
Malayan Banking	*1,050,000*	*1,489*
Resorts World	1,091,900	1,621
Telekom Malaysia	1,000,000	1,235

Listed Investments	Holding	31 December 2003 Value £'000s
UMW	1,373,833	1,222
Total Malaysia		**7,061**
SINGAPORE		
DBS Group	699,693	3,383
Overseas-Chinese Banking	408,000	1,624
Singapore Press	76,000	472
Total Singapore		**5,479**
SOUTH KOREA		
Amore Pacific	24,400	2,145
Daeduck Electronics	272,388	1,513
Hyundai Motors	128,000	3,031
Kia Motors	59,200	303
Kookmin Bank	41,852	876
LG Household & Healthcare	48,080	701
Posco	18,430	1,408
Samsung Electro Mechanics	63,800	1,180
Samsung Electronics	34,400	7,274
SK Telecom	7,530	702
Total South Korea		**19,133**
TAIWAN		
Cathay Financial	872,000	732
China Trust Financial Holdings	1,683,870	945
Compal Electronics	1,407,485	1,077
CTCI	2,053,000	929
Eva Airways	2,974,804	678
Far Eastern Textile	2,300,500	632
Faraday Technology	50,375	64
Formosa Plastic	1,522,589	1,403
Fuh Hwa Financial	5,145,988	940
Hon Hai Precision Industry	697,380	1,532
Mega Financial	3,034,600	1,018
Nan Ya Plastic	1,551,708	1,251
Powerchip Semiconductor GDS	124,000	1,945
Powerchip Semiconductor	5,794,000	
President Chain Store	1,045,000	894
Quanta Computer	861,300	1,183
Sunplus Technology	850,000	888
Taiwan Semiconductor	2,126,083	2,221
Yageo	2,981,000	741
Total Taiwan		**19,073**

Listed Investments	Holding	31 December 2003 Value £'000s
THAILAND		
Advanced Information Service	680,000	810
Kasikornbank	4,830,000	4,767
Thai Airways International	2,070,000	1,335
Total Thailand		**6,912**
TOTAL PACIFIC (EXCLUDING JAPAN)		**119,605**
JAPAN		
Equities		
Advantest	13,400	594
Ajinomoto	95,000	611
Alps Electronic	70,000	572
Asahi Breweries	294,000	1,497
Asahi Kasei	706,000	2,142
Bank of Fukuoka	245,000	575
Bank of Yokohama	301,000	781
Bridgestone	355,000	2,666
Canon	128,800	3,350
Capcom	110,300	759
Chuba	88,800	1,034
Daiwa House Industry	22,000	131
East Japan Railway	577	1,519
Eisai	90,100	1,357
Fanuc	21,000	703
Fuji Photo Film	127,000	2,290
Fuji Television Network	233	704
Fujisawa Pharmaceutical	71,000	846
Hitachi Construction	105,000	888
Hokuetsu Paper Mills	418,000	1,323
Honda Motor	94,700	2,350
Hoya	33,800	1,734
Ito Yokado	21,000	369
Itochu	746,000	1,377
Japan Tobacco	260	1,064
JFE Holdings	129,000	1,967
Kansai Electric Power	25,500	250
KDDI	249	797
Keyence	4,300	506
Koa	208,000	2,364
Kuraray	271,000	1,277
Kyocera	29,700	1,105
Marui	287,800	2,025
Matsumotokiyoshi	43,832	1,098
Matsumotokiyoshi New	43,832	

Listed Investments	31 December 2003 Holding	Value £'000s
Matsushita Electric Industrial	272,000	2,101
Millea	317	2,313
Mitsubishi Corporation	184,000	1,090
Mitsubishi Estate	151,000	800
Mitsubishi Heavy Industries	560,000	870
Mitsubishi Tokyo Financial	615	2,680
Mitsui Fudosan	354,000	1,786
Mitsui O.S.K.Lines	734,000	2,001
Mitsui Sumitomo Insurance	787,000	3,610
Mizuho	912	1,545
Murata Manufacturing	16,500	498
Namco	48,900	757
Nec Electronics	10,600	433
Nintendo	40,800	2,127
Nippon Electric Glass	191,000	2,076
Nippon Express	469,000	1,237
Nippon Sheet Glass	1,331,000	1,596
Nissan Motor Company	89,200	569
Nissin Company	350,900	891
Nomura	402,000	3,824
Nitto Denko	76,500	2,273
NTN	204,000	543
NTT Corp	847	2,283
NTT Docomo	4,187	5,303
Omron	104,000	1,179
Oji Paper	158,000	570
Ricoh	144,000	1,587
Rinnai	45,300	601
Rohm	14,700	962
Secom	72,500	1,511
Sekisui House	349,000	2,014
Seven-Eleven Japan	72,000	1,220
Sharp	92,000	811
Shimachu	58,500	648
Shin-Etsu Chemical	54,100	1,235
Sky Perfect Communications	885	582
Sony	99,400	1,922
Sumitomo Chemical	384,000	885
Sumitomo Electric Industries	235,000	1,173
Sumitomo Mitsui Financial	720	2,143
Takeda Chemical	218,100	4,832
Tokyo Electric Power	196,200	2,403
Tokyo Gas	629,000	1,252
Toppan Printing	349,000	2,028

Listed Investments	31 December 2003 Holding	Value £'000s
Toshiba	362,000	766
Toyota Motor	386,600	7,295
Ushio	63,000	584
West Japan Railway	481	1,055
Yakult Honsha	56,000	489
Yamanouchi Pharmaceutical	87,700	1,522
TOTAL JAPAN		**127,100**
LATIN AMERICA		
Equities and convertibles		
BRAZIL		
Ambev	132,200	1,884
Banco Bradesco	69,200	1,021
Banco Itau	71,300	1,942
Cia Saneamento Basico ADR	128,200	995
Petróleo Brasileiro ADR	319,000	4,751
Tele Norte Leste ADR	465,643	4,014
Total Brazil		**14,607**
MEXICO		
America Moviles ADR	278,000	4,246
Grupo Financiero BBVA ADR	450,000	4,323
Grupo Televisa GDR	263,000	5,856
Telefonos de Mexico ADR	168,000	3,100
Total Mexico		**17,525**
OTHER		
F&C Latin American Investment Trust*	7,332,450	9,636
F&C Latin American Investment Trust warrants*	766,490	
Latin American Extra Yield Fund	965,000	5,121
Total Other		**14,757**
TOTAL LATIN AMERICA		**46,889**
NORTH AMERICA		
Equities		
CANADA		
Alcan	202,000	5,298
Encana	103,500	2,282
Nortel Networks	885,600	2,101
Total Canada		**9,681**
UNITED STATES		
Air Products	164,400	4,852
Altria	94,600	2,876

* Listed in Great Britain

Listed Investments	Holding (31 December 2003)	Value £'000s (31 December 2003)
American Express	261,600	7,048
American International	200,600	7,427
Amazon	98,400	2,892
Amgen	145,300	5,015
Applied Materials	169,100	2,120
Bank of America	148,100	6,654
Barr Laboratories	114,900	4,939
Carnival	251,900	5,591
Chiron	74,900	2,384
Cisco Systems	603,300	8,166
CIT	450,300	9,043
Citigroup	783,900	21,255
Colgate-Palmolive	186,600	5,217
Comcast "A" special	265,600	4,642
Countrywide Financial	184,799	7,830
Dell Computer	382,600	7,262
Dominion Resources	169,700	6,051
Eaton	131,000	7,902
Ecolab	134,814	2,061
EMC	704,400	5,084
Exxon Mobil	325,500	7,455
F&C Portfolios Fund SICAV: US SmallCap	819,999	28,152
F&C US Smaller Companies*	2,968,169	6,456
Fannie Mae	279,100	11,702
Federated Department Stores	89,700	2,362
First Data	297,800	6,836
Fiserv	219,000	4,837
Forest Laboratories	166,900	5,762
General Electric	948,700	16,418
Globalsantafe	485,100	6,729
Goldman Sachs	141,600	7,809
Guidant	188,500	6,339
Halliburton	351,200	5,101
Hewlett Packard	217,100	2,786
Honeywell International	153,700	2,870
Illinois Tool Works	159,800	7,490
Intel	668,900	11,976
International Paper	104,400	2,514
International Business Machines	88,800	4,597
Johnson & Johnson	96,300	2,779
Lear	170,800	5,851

* Listed in Great Britain

Listed Investments	Holding (31 December 2003)	Value £'000s (31 December 2003)
Liberty Media	670,100	4,451
Mattel	525,800	5,660
MBNA	218,500	3,033
Merck	187,400	4,836
Microsoft	985,700	15,071
Navistar International	97,800	2,616
Nabors Industries	198,400	4,599
Nextel Communications	363,000	5,690
Oracle Systems	594,500	4,394
Pepsico	360,200	9,380
Pfizer	906,200	17,885
Praxair	327,600	6,991
Procter & Gamble	179,100	9,993
Prudential Financial	233,500	5,448
Sanmina	398,600	2,806
Siebel	870,100	6,766
Target	247,200	5,303
Texas Instruments	579,500	9,511
Tyco International	843,700	12,489
US Bancorp	328,400	5,463
United Healthcare	311,900	10,137
United Technologies	149,300	7,904
Veritas Software	277,600	5,741
Verizon Communications	218,900	4,290
Viacom "B"	146,000	3,620
Wal-Mart Stores	406,400	12,043
Washington Mutual	286,200	6,414
Wellpoint Health	93,200	5,049
Wells Fargo	224,000	7,369
Wendys International	245,700	5,386
Yahoo	238,100	5,989
Zimmer Holdings	225,700	8,876
Total United States		**518,335**
TOTAL NORTH AMERICA		**528,016**
AFRICA		
Equities		
SOUTH AFRICA		
Amal Banks of South Africa	617,523	2,178
First Rand	3,800,169	2,837
Naspers	322,383	1,120
Sappi	147,452	1,123
TOTAL AFRICA		**7,258**

Listed Investments	31 December 2003 Holding	Value £'000s
UNITED KINGDOM		
Equities and convertibles		
Abbey National	3,525,000	18,718
Abacus	309,308	939
Acambis	745,359	2,273
Alea Group	1,385,702	3,554
Alizyme	272,000	471
Alliance & Leicester	1,000,000	8,880
Alliance Unichem	1,250,000	6,488
Allied Domecq	2,795,153	12,047
Antisoma	1,138,698	444
Amersham	1,301,000	9,959
Associated British Ports	993,000	4,459
AstraZeneca	650,000	17,420
Autologic	318,670	975
Aveva Group	240,000	1,152
AWG New	97,378,120	3,829
AWG	695,558	
British American Tobacco	2,446,908	18,841
BRIT Insurance	7,274,000	5,292
BSkyB	1,293,000	9,090
BAA	3,763,255	18,675
Barclays Bank	2,500,000	12,456
BG	1,808,286	5,185
Big Yellow Group	909,481	978
Blacks Leisure	352,000	1,216
BP	7,036,678	31,876
BT Group	7,000,500	13,178
Bunzl	700,000	2,987
Cable & Wireless	1,727,338	2,306
Cadbury Schweppes	1,425,000	5,846
Center Parcs	665,000	718
Charles Taylor Consulting	317,000	837
Close Brothers	610,000	4,477
CLS Holdings	233,861	631
Compass Group	2,000,000	7,600
Computacenter	828,100	3,892
Cookson Group	7,800,000	3,120
Cranswick	260,000	835
Crest Nicholson	256,213	792
Detica Group	228,916	1,408
Diageo	1,628,001	11,966
East Surrey	1,131,340	3,496
Electrocomponents	2,489,229	8,090

Listed Investments	31 December 2003 Holding	Value £'000s
Emap	600,000	5,142
Eurotunnel units	5,487,270	2,058
First Technology	150,000	500
F&C Buyout Trust A†	10,000	102
F&C Buyout Trust B†	500	
F&C Emerging Markets Investment Trust	15,384,975	11,000
Friends Provident	2,420,971	3,196
GlaxoSmithKline	4,100,000	52,480
Graphite Private Equity	1,250,000	25
Gus	1,370,000	10,597
GYRUS	430,300	716
HSBC	4,091,864	35,927
Imperial Tobacco	399,911	4,399
International Power	3,776,000	4,663
Intertek Group	850,000	3,919
Inventive Leisure	600,000	405
Johnson Matthey	803,400	7,881
Kingfisher	2,043,895	5,692
Lambert Howarth Group	430,000	1,161
Land Securities	899,500	8,923
Lasmo OPS	140,000	49
LastMinute.com	1,441,434	3,207
Legal & General	21,994,418	22,049
Liberty International	1,500,000	10,238
Liontrust Asset Management	185,232	889
Lloyds TSB	3,879,000	17,378
LogicaCMG	1,900,000	4,869
Lookers	336,500	890
Luminar	1,400,000	5,698
Maclellan Group	1,351,538	963
Majestic Wine	150,000	1,331
Morgan Sindall	286,000	1,044
National Grid Transco	1,171,995	4,691
Novar	43,943,000	6,821
Provident Financial	2,087,296	13,578
Reed Elsevier	703,000	3,285
Regus Group	815,990	445
Rexam	1,772,727	7,583
Rio Tinto	6,120,078	30,907
RMC	822,000	5,733
Royal Bank of Scotland	2,165,000	35,636
RPS Group	513,825	757

† Listed in Jersey

Listed Investments	Holding	31 December 2003 Value £'000s
Sainsbury J.	2,259,559	7,067
Sanctuary Group	2,200,000	1,067
Scottish & Newcastle	1,250,000	4,728
Scottish & Southern Energy	2,996,030	20,163
Second Advance Value	188,766	311
Second Advance Value Prfs	192,012	189
Shell Transport & Trading	15,140,000	62,907
SIG	176,667	574
Singer & Friedlander	400,000	833
Somerfield	3,380,297	4,682
Sondex	513,000	770
Spectris	1,166,666	4,967
Standard Chartered	805,000	7,426
Standard Life European	8,000,000	6,600
Synstar	1,413,082	926
Television Corporation	476,083	333
Tesco	6,445,350	16,613
Tomkins	970,651	2,597
Topps Tiles	215,000	1,220
Unilever	1,234,714	6,430
United Utilities	2,084,844	13,857
United Utilities "A"	1,158,245	
Utilico Investment Trust	11,689,636	14,413
Utilico Investment Trust Warrants	2,337,927	
Victrex	319,000	1,110
Vodafone	39,099,410	54,153
Wagon 7.25% conv preference	1,085,635	1,086
White Young Green	690,238	1,191
William Hill	2,329,275	9,946
Wolfson Microelectronics	56,818	182
Wolverhampton & Dudley	957,592	7,378
Workspace Group	80,000	1,140
TOTAL UNITED KINGDOM		**859,082**

TOTAL LISTED INVESTMENTS		**2,210,517**

Unlisted Investments	Holding	31 December 2003 Value £'000s
UNLISTED INVESTMENTS		
UNITED KINGDOM		
Equities		
Cazenove Group	1,200,000	3,180
Cazenove New Europe Access Fund	300,000	3,084
Vesta Capital Partners	–	371
Wireless Frontiers	–	509
Fixed Interest Stocks		
F&C Smaller Companies 11.5% debenture stock 2014	10,000,000	14,294
EUROPE		
Pantheon Europe Fund III L.P.	–	4,584
UNITED STATES		
HarbourVest Partnership VII - Buyout Fund L.P.	–	1,397
HarbourVest Partnership VII - Mezzanine Fund L.P.	–	251
HarbourVest Partnership VII - Venture Fund L.P.	–	400
US Ventures Series 2	355,533	1,031
OTHER		
GP Capital Partners	–	751
TOTAL UNLISTED INVESTMENTS		**29,852**
TOTAL INVESTMENTS		**2,240,369**

The total number of companies in the portfolio is 453 (2002: 512). The value of convertible securities in the total portfolio at 31 December 2003 is £2,286,000 or 0.1% of total assets less current liabilities (2002: £2,129,000 or 0.1% of total assets less current liabilities).

Report of the Directors

STATUS OF COMPANY

During the year under review the Company carried on the business of an investment trust and has since conducted its affairs 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 2002. This approval is subject to there being no subsequent enquiry under Corporation Tax Self Assessment.

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

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

Details of subsidiary undertakings and substantial interests are given in note 10 on the accounts.

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

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

INVESTMENT OBJECTIVE AND POLICY

The Company's investment objective is to secure long-term growth in capital and income through a policy of investing primarily in a diversified international portfolio of equities, with use of gearing. The Board has determined that there will be no material change to its investment objective or to its investment policy without prior shareholder approval.

Under the Company's Articles of Association, with limited exceptions, no investment can be made by the Company which exceeds 10% of the value of its total portfolio at the time of investment. Furthermore, the Company announced on 16 October 2003 that it is its policy to invest no more than 15% of its gross assets in other UK listed investment companies (including investment trusts); under the Listing Rules, no more than 10% of the value of the gross assets of a listed investment company can be invested in other listed investment companies which have not stated that they will not invest more than 15% of their gross assets in other listed investment companies. The Company is thus further restricted to investing no more than 10% of its gross assets in those companies that have not made such a statement. As at 31 December 2003 the Company's investments in such companies represented 0.64% of its gross assets.

REVIEW OF THE BUSINESS

A review of the Company's activities is given in the Chairman's Statement on pages 2 to 5 and in the Manager's Review on pages 8 and 9.

RESULTS AND DIVIDENDS

The net assets of the Company as at 31 December 2003 were £2,042m (215.15p per share).

Revenue **Attributable to equity shareholders**	**£'000s**	**£'000s**
Revenue return attributable to equity shareholders		40,893
Dividends paid or payable on ordinary shares:		
Interim of 1.80p per share paid 19 September 2003	(17,082)	
Proposed final of 1.90p per share payable on 17 May 2004 to shareholders registered at close of business on 12 March 2004	(18,031)	(35,113)
Amount transferred to revenue reserve		5,780

The Company receives over half of its income in the first six months of the year, but has traditionally paid a higher proportion of the total dividend as a final dividend. In order to reduce the disparity between the interim and final payments, the Company paid a significantly higher interim dividend of 1.80 pence per share in September 2003 which, together with the final dividend now recommended of 1.90 pence per share, makes a total dividend of 3.70 pence per ordinary share for the year ended 31 December 2003. This represents an increase of 5.7% over the 3.50 pence per share paid in the previous year. (Resolutions 1 and 3 at the forthcoming Annual General Meeting relate to the Annual Report and Accounts and the final dividend.)

SHARE CAPITAL

Details relating to the share capital can be found in note 16 on the accounts. At the Annual General Meeting held on 7 May 2003, shareholders renewed the Board's authority to buy back the Company's ordinary shares for cancellation. Shareholders gave authority for the buy-back of up to 141,401,725 such shares. No shares were bought back during the year. Since the year-end, however, 2,905,000 shares have been bought back at prices ranging between 182p and 187p, enhancing net asset value per share by 0.1p. As at 26 February 2004, the number of ordinary shares in issue stood at 946,099,873. A resolution to renew the authority will be put to shareholders at the Annual General Meeting (Resolution 12). A resolution to authorise the Directors to allot shares will also be proposed (Resolution 11).

SUBSTANTIAL SHARE INTERESTS

At 26 February 2004 the Company had received notification of the following disclosable interest in its ordinary share capital:

	Ordinary shares	%
Skandia Life Group	49,142,891	5.2

DIRECTORS

Information in relation to each Director can be found on page 6 and reference to the Board can also be found on pages 21 and 22. All the Directors held office throughout the year under review. Lord Rockley retired at the annual general meeting held on 7 May 2003.

The Rt. Hon. Kenneth Clarke, Mr John Rennocks, Mr Mark Loveday and Sir Andrew Wood retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting (Resolutions 4 to 7). The Nomination Committee considered the re-elections of these Directors at a meeting held in January 2004. Mr Loveday and Mr Clarke absented themselves from that part of the meeting during which their respective positions were considered. Following recommendations of the Nomination Committee arising from the meeting and following an appraisal of the performance of each of these Directors and a review of their status as independent Directors, the Board (with each respective Director abstaining) has concurred that each makes a valuable and effective contribution as a non-executive Director, and as Chairman in the case of Mr Loveday, based on their individual skills, knowledge and experience and from the time they give to the Company in fulfilling their duties. The Board believes that Mr Clarke and Mr Rennocks, who have both served in excess of six years, are committed to their roles as non-executive Directors of the Company and that their respective re-elections would be in the interests of the Company.

In accordance with the requirement of the revised Combined Code on Corporate Governance published in July 2003, that directors having served more than nine years should stand for re-election at each annual general meeting, Ms Haruko Fukuda offers herself for re-election for a further period of one year (Resolution 8). The Nomination Committee has considered the re-election of Ms Fukuda, who has served the Company as a Director for 15 years, and the Board has appraised her performance and reviewed her independent status. Ms Fukuda, who will retire from the Board immediately following the annual general meeting in 2005, has a wealth of international and investment trust experience, not least through her role as Chairman of the Company's Audit and Management Engagement Committee for five years. The Board therefore recommends that Ms Fukuda be re-elected for a further one year until the conclusion of the annual general meeting in 2005.

Each Director has signed a Terms of Appointment letter, which are available for inspection at the Company's registered office during normal business hours and will also be available at the Annual General Meeting; no Director has a service contract with the Company.

Details of Directors' shareholdings in the Company are contained in note 5 on the accounts.

DIRECTORS' REMUNERATION

The Directors' Remuneration Report, which can be found on page 26, and note 5 on the accounts provide detailed information on the remuneration arrangements for Directors of the Company. Shareholders will be asked to approve the Directors' Remuneration Report at the Annual General Meeting (Resolution 2).

MANAGEMENT

The Company has a management agreement (the "Agreement") with F&C Management Limited (the "Manager"). The Manager provides investment management, marketing, company secretarial, financial 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 (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 fee is paid in advance in the month following the end of each calender quarter for the subsequent quarter. The quarterly fee of 0.075% applies to the first £2,500 million of chargeable assets. On reaching that figure, the fee will reduce by 0.00625% per £500 million of additional assets to a minimum of 0.0375% on chargeable assets in excess of £5,000 million. Either party may terminate the Agreement upon one year's notice.

A separate review of the Manager has been carried out by the Board in accordance with the Listing Rules published by the Financial Services Authority. This considered the investment performance record over short to long-term time periods and the quality and adequacy of resources which have been allocated, or are otherwise available to, the management of the Company for the purpose of continuing to achieve its performance objectives and obligations to shareholders. Following this review, and that carried out by the Audit & Management Engagement Committee in relation to the other services provided by the Manager as described on page 24, it is the Board's opinion that the continuing appointment of the Manager on the terms agreed is in the interests of shareholders as a whole.

The Manager has arrangements under which stockbrokers pay for various investment services which it uses in return for stated amounts of commission. The Manager's policy is that this commission should be within a range of 10% to 15% of total commissions paid by its clients in any one year.

RISK CONTROL

A summary of the risk control measures taken by the Board is set out in the Corporate Governance section on pages 24 and 25. By means of the procedures set out in the summary, and in accordance with the Internal Control: Guidance for Directors on the Combined Code ("the Turnbull guidance"), the Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, and has regularly reviewed the effectiveness of the internal control systems for the period. This process has been in place throughout the year under review, and to the date hereof, and will continue to be regularly reviewed by the Board on an ongoing basis.

POLICY ON PAYMENT OF SUPPLIERS

The Company's principal supplier, the Manager, is paid in accordance with the terms and conditions of the Agreement as summarised on page 19. Other suppliers are paid in accordance with the individual payment terms agreed with each supplier. At 31 December 2003, the Company's outstanding trade creditors were equivalent to one day's payments to suppliers.

CHARITABLE DONATIONS

The Company made no contribution for charitable purposes during the year but, having retained a small balance of funds within its account with the Charities Aid Foundation from its contribution in 2002, made a small number of charitable donations in the period. As the role of an investment trust is somewhat different to most other types of companies, and as taxation incentives towards charitable donations are now balanced in favour of direct contributions by individuals rather than companies, the Board has decided to discontinue the Company's annual contribution of £25,000.

AUDITORS

PricewaterhouseCoopers LLP have indicated their willingness to continue in office, and a resolution will be proposed at the Annual General Meeting to re-appoint them as auditors (Resolution 9). A separate resolution to authorise the Directors to determine the remuneration of the Auditors will also be proposed (Resolution 10).

The Auditors provide some non-audit services to the Company, the details of which are set out in notes 4 and 18 on the accounts and on page 24.

ORDINARY AND SPECIAL BUSINESS AT THE ANNUAL GENERAL MEETING

Shareholders will find a separate enclosure which contains the Notice of the forthcoming Annual General Meeting of the Company to be held at The Brewery, Chiswell Street, London EC1 on 12 May 2004 at 12 noon. In addition to the ordinary business of the Meeting, resolutions numbered 11 and 12 are proposed as special business. Further information with regard to both the ordinary and special business to be proposed at the Meeting is contained in the enclosure.

By order of the Board
H. N. Potter
For and on behalf of
F&C Management Limited, Secretary
26 February 2004

Corporate Governance

INTRODUCTION

The Board has considered the principles set out in the Combined Code on Corporate Governance issued by the UK Listing Authority (the "Code") and has also considered the revised Combined Code on Corporate Governance issued by the Financial Reporting Council (the "revised Code") and the AITC Code on Corporate Governance (the "AITC Code"), both of which were published in July 2003. The Company has complied throughout the year under review with the provisions set out in Section 1 of the Code. The Board believes that the Company's current practice, given the special circumstances of an investment trust company, is in all material respects consistent with the principles of the Code, and that it has taken the necessary steps to comply with the principles of the revised Code, save that the Company does not have in place its own internal audit function (the reasons for which are explained on page 24). The Board is also adhering to the principles and recommendations of the AITC Code.

THE BOARD

The biographical details of the Directors, all of whom are resident in the UK, and information on those Directors standing for re-election at the Annual General Meeting can be found on pages 6, 19 and 22 respectively.

The Board, which met 10 times in 2003, is responsible for the effective stewardship of the Company's affairs and has reviewed the schedule of matters reserved for its decision, which are categorised under various headings, including strategy, policy, finance, risk, investment restrictions, performance, appointments, the Board and public documents. It has responsibility for all corporate strategic issues, dividend policy, share buy-back policy and corporate governance matters. In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information. At each meeting the Board reviews the Company's investment performance and considers financial analyses and other reports of an operational nature. The Board monitors compliance with the Company's objectives and is responsible for setting asset allocation, investment and gearing limits within which the Manager has discretion to act, and thus supervises the management of the investment portfolio which is contractually delegated to the Manager. The Board has responsibility for the approval of private equity and unquoted investments and all investments in in-house funds managed or advised by the Manager. Certain strategic issues, including acquisition opportunities and the rationale for not introducing a continuation vote, have been considered at various meetings of the Board, and a separate strategy session is planned to be held later in 2004. The Board has reviewed and endorsed the Manager's approach to corporate governance, socially responsible investment, shareholder activism and voting policy which is set out under "Investment Management" on page 25, and receives periodic reports on its implementation.

In 2003, the Chairman and Mr Macpherson attended all of the 10 Board meetings. Mr Clarke attended eight Board meetings and each of the other Directors attended nine of the meetings. Prior to his retirement on 7 May 2003, Lord Rockley attended one of the three Board meetings that he was entitled to attend. The overall attendance rate of current Directors at Board meetings in 2003 was over 90%. All the Directors attended the Annual General Meeting. The Board also met in closed session, without any representation from the Manager, on one occasion during the year.

The Board believes that it has at present a reasonable balance of skills, experience, ages and length of service. The Board recognises the value of progressive refreshing of, and succession planning for, company boards. Accordingly, the appointment of each Director retiring at the forthcoming Annual General Meeting has been reviewed by the Nomination Committee prior to submission for re-election; under the Articles of Association, all Directors are required to submit themselves for re-election at least every three years and it is a requirement of the revised Code that a Director having served in excess of nine years should stand for re-election annually. The Board acknowledges the rationale of the revised Code under which any term beyond six years for a non-executive director should be subject to particularly rigorous review, and also the rationale for annual re-election after nine years. Nevertheless, the Board is of the view that length of service will not necessarily compromise the independence or contribution of directors of an investment trust company, where continuity and experience can add significantly to the strength of a board. No limit on the overall length of service of any of the Company's Directors, including the Chairman, has therefore been imposed.

In order to review the effectiveness of the Board, the Committees and the individual Directors, the Chairman has put in place and carried out a thorough appraisal process. This encompasses both quantitative and qualitative measures of performance in respect of the Board and the Committees implemented by way of an Evaluation Survey, a questionnaire and interviews with the Chairman. The Fund Manager and the Company Secretary also participated in this part of the process to provide all-round feedback to the Board. With regard to individual Directors, the performance appraisal was qualitative, implemented by way of a questionnaire and an appraisal meeting with the Chairman. The Chairman introduced meetings with each individual Director in 2002 and a formal appraisal process was conducted for the first time in December 2003 and January 2004 in accordance with the best practice recommendations of the revised Code in respect of the year under review. The appraisal of the Chairman follows the same process and is carried out by the Board as a whole under the leadership of the Senior Independent Director in the absence of the Chairman. The process is considered by the Board to be constructive in terms of identifying areas for improving the functioning and performance of the Board and the Committees and the contribution of individual Directors, as well as building on and developing individual and collective strengths. The Board has considered the option of using external appraisal consultants and, whilst it believes that this is unlikely to provide any meaningful advantage over the internal process that has been adopted, the option of using such consultants will be kept under review.

The Board has established a procedure whereby Directors, wishing to do so in the furtherance of their duties, may take independent professional advice at the Company's expense. The Board has direct access to company secretarial advice and services of the Manager which, through its nominated representative, is responsible for ensuring that Board and Committee procedures are followed, and that applicable regulations are complied with. During the year the Company has maintained appropriate insurance cover in respect of legal action against the Directors.

INDEPENDENCE OF DIRECTORS

The Board, which is composed solely of non-executive Directors, regularly reviews the independence of its members. All the Directors are independent of the Manager, on the grounds that none of the Directors has a past or current connection with the Manager. All the Directors are also independent of the Company itself as, in the opinion of the Board, each Director is independent in character and judgement and there are no relationships or circumstances relating to the Company that are likely to affect their judgement. Whilst the Board currently comprises independent directors only, it is nevertheless prepared to have a minority of non-independent directors should this be considered appropriate at any stage. There is no chief executive position within the Company, as day-to-day management of the Company's affairs, with the exception of private equity investment, has been delegated to the Manager.

The Chairman, Mr Mark Loveday, retired as senior partner of the Company's corporate stockbroker, Cazenove & Co., in April 2001, and retired on 30 April 2003 as a director of one of its subsidiaries, which provides in-house services within the Cazenove Group. Mr Loveday held the directorship, receiving nominal directors' fees, for reasons unrelated to the business and affairs of the Cazenove Group, in which he was no longer involved. Mr Loveday and the Company have small shareholdings in Cazenove Group plc. Mr Loveday did not advise the Board personally during his time as senior partner of Cazenove & Co. and the Board does not consider that his independence is compromised by this past connection. Other than Mr Loveday's trusteeship of the Grosvenor Estate and related directorships of Deva Group Limited and Deva Holdings Limited, he has no other external business responsibilities.

The Board appointed Mr Macpherson as the Senior Independent Director of the Company following the retirement of Lord Rockley on 7 May 2003. Mr Macpherson has been a non-executive director of Pantheon International Participations PLC ("PIP") since 1998 and was appointed non-executive chairman of that company in November 2003. PIP is a listed investment trust managed on an arms length basis by Pantheon Ventures Limited, a private independent management company, which also manages part of the Company's private equity portfolio. Mr Macpherson is not a director of, nor does he receive any fees from, Pantheon Ventures Limited, and neither he, PIP nor the Company hold shares in Pantheon Ventures Limited. The Board does not consider that this appointment compromises Mr Macpherson's independence as a Director of the Company as the Company and PIP have no connection and consequently there has not arisen, nor, in the Board's opinion, is there likely to arise, any potential conflict of interest from Mr Macpherson's relationships with the Company and PIP.

Ms Haruko Fukuda has served as a Director for 15 years and is assessed by the Nomination Committee, such assessment being endorsed by the Board, as continuing to be independent of the Company, on the grounds that she has always been, and remains, independent in character and judgement. Having served in excess of nine years, Ms Fukuda will stand for re-election at the Annual General Meeting in 2004. It is Ms Fukuda's intention to retire from the Board immediately following the annual general meeting in 2005.

BOARD COMMITTEES

The Board has appointed a number of committees as set out below. Copies of the terms of reference of each committee are available on request, and can also be found on the F&C website at www.fandc.com.

NOMINATION COMMITTEE

The Nomination Committee comprises Mr Mark Loveday (Chairman), The Rt. Hon. Kenneth Clarke and Mr Ewen Macpherson, who replaced Lord Rockley upon the latter's retirement from the Board following the annual general meeting in 2003. The Committee met with all members in attendance, on one occasion in 2003. It is planned to hold at least two meetings of the Committee in 2004 and in future years.

The role of the Committee is to review and make recommendations with regard to the Board structure, size and composition, the balance of knowledge, experience, skill ranges and age profile and consider succession planning and tenure policy. It also considers the criteria for future Board appointments and the methods of recruitment, selection, appointment and induction. The Committee makes recommendations to the Board with regard to committee membership, the re-appointment of those Directors standing for re-election at annual general meetings, variations in terms of appointment and the question of each Director's independence prior to publication of the full Annual Report and Accounts. These matters were carried out at meetings of the Committee held in September 2003 and January 2004.

No new appointments were made to the Board during the year. The final decision with regard to appointments always rests with the Board and all such appointments are subject to confirmation by shareholders.

An induction process has been prepared for new appointees to the Board. This will involve a full briefing on the workings and processes of the Company by the Chairman, the Fund Manager, the Company Secretary and other appropriate persons within F&C. New appointees will also be issued with a Company Handbook and other key documentation. Major shareholders will be given the opportunity to meet any newly appointed Director.

The Committee's terms of reference, which fully set out its responsibilities, were reviewed at its meeting in September 2003 and amended to incorporate the best practice recommendations and requirements of the revised Code.

REMUNERATION COMMITTEE

As the Board has no executive Directors and no employees, and is composed solely of non-executives, it does not have a Remuneration Committee. It is the responsibility of the Board as a whole to determine and approve the Directors' fees, following a recommendation from the Chairman who will have given the matter proper consideration, having regard to the level of fees payable to non-executive directors in the industry generally, the role that individual Directors fulfil in respect of Board and Committee responsibilities and the time committed to the Company's affairs. The Chairman's remuneration is decided and approved by the Board under the leadership of the Senior Independent Director. The Company's Articles of Association limit the aggregate fees payable to the Board to a total of £350,000 per annum. Detailed information on the remuneration arrangements for the Directors of the Company can be found in the Directors' Remuneration Report on page 26 and in note 5 on the accounts.

PRIVATE EQUITY COMMITTEE

The Board has established a Private Equity Committee comprising Sir Michael Bunbury (Chairman), Mr Ewen Macpherson and Mr Max Ward, which met on two occasions in 2003 and in February 2004 with all members in attendance. Mr Mark Loveday was a member of the Committee from its inception in July 2002 until November 2003 when he stood down. The function of the Committee is to monitor and assess the performance of the Company's private equity investments managed by HarbourVest Partners and Pantheon Ventures Limited and these responsibilities have been carried out in respect of the period under review. Sir Michael Bunbury was appointed to the Pantheon Advisory Board and to the HarbourVest Partners Advisory Committee during the year for the purpose of representing the interests of the Company. No remuneration is paid by the private equity managers to Sir Michael Bunbury in respect of these appointments.

CHARITY COMMITTEE

As explained on page 20 of the Report of the Directors, the Board decided during the course of the year to discontinue regular donations to charities. As a result of this decision the Charity Committee was discontinued in November 2003. The Committee members were Mr Robert Adams and Sir Andrew Wood, the latter having been appointed to replace Mr Rennocks on 7 May 2003.

AUDIT AND MANAGEMENT ENGAGEMENT COMMITTEE (THE "AUDIT COMMITTEE")

The Audit Committee comprises Mr John Rennocks (Chairman), Mr Ewen Macpherson and Sir Michael Bunbury and met, with all members in attendance, on three occasions in 2003 and in February 2004. Ms Haruko Fukuda stepped down from the Audit Committee on 7 May 2003 whereupon Mr Rennocks was appointed Chairman and Sir Michael Bunbury joined. Mr Rennocks is a Chartered Accountant and was previously finance director at Smith and Nephew, Powergen and British Steel/Corus.

The primary responsibilities of the Audit Committee are to monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance; to review the Company's internal financial controls and the internal control and risk management systems applicable to the Company; to review annually the need for the Company to have its own internal audit function; to make recommendations to the Board in relation to the re-appointment of the Auditors and to approve their remuneration and terms of engagement; to review and monitor the Auditor's independence and objectivity and the effectiveness of the audit process; and to develop and implement policy on the engagement of the Auditors to supply non-audit services. The Audit Committee has responsibility for considering the performance of the Manager in providing company secretarial, accounting, administrative and marketing services provided by the Manager. It is also responsible for carrying out a full annual review of the investment management contract with the Manager, including the level and structure of fees payable and the length of the notice period, details of which are set out in the Report of the Directors on page 19.

Other responsibilities that are carried out by the Audit Committee include the review of key delegated services, Directors' and Officers' liability insurance renewal, dealing costs and efficiency, stock lending limits, soft commission arrangements, custodian arrangements and intellectual property rights.

The Audit Committee has direct access to the Auditors, PricewaterhouseCoopers LLP, and to the compliance and internal audit and risk directors of the Manager, and to the Manager's group audit committee and reports its findings to the Board. The Board retains ultimate responsibility for all aspects relating to the annual and interim accounts and other significant published financial information.

All of the Audit Committee's responsibilities have been carried out at its meetings held over the course of 2003 and in February 2004. A meeting has been held with the Auditors to review the work carried out for the audit of the annual financial statements. The Auditors also attend each Audit Committee meeting and, on the basis of these meetings, the Audit Committee has been able to assess the effectiveness of the external audit. In completing this review, the Audit Committee has taken into account the standing, experience and tenure of the audit partner and his team, the nature and level of services provided, and confirmation that they have complied with the relevant UK independence standards. The Manager and the Company use different audit firms. The Audit Committee has also reviewed the provision of non-audit services and considers them to be cost effective and in no way impede the independence of the Auditors. The non-audit services include taxation and corporate governance matters and the review of the interim results. The Chairman of the Audit Committee is advised of non-audit work required and a decision to authorise is taken on a case by case basis. The cost, which for 2003 was £32,000 and is found in notes 4 and 18 on the accounts, is not normally of a material nature.

Following a recommendation from the Audit Committee, the Board has concluded that there is no current need for the Company to have an internal audit function; all of the Company's management functions, with the exception of private equity investment, are delegated to the Manager, which has its own Internal Audit and Risk department, and whose controls are monitored by the Board. The Audit Committee has received and reviewed the Statement referred to under "Internal Controls and Management of Risk" below, together with a report from the Manager's group audit committee on the effectiveness of the internal controls maintained on behalf of the Company and an annual compliance report from the Manager's director of compliance.

The Audit Committee has reviewed, and is satisfied with, the "whistleblowing" policy that has been put in place by the Manager under which its staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The necessary arrangements are in place for proportionate and independent investigation of such matters and for appropriate follow-up action.

The Audit Committee's terms of reference, which fully set out its responsibilities, were reviewed at its meetings in October 2003 and February 2004 and amended to incorporate the best practice recommendations and requirements of the revised Code.

INTERNAL CONTROLS AND MANAGEMENT OF RISK

The Board has overall responsibility for the Company's systems of internal controls and for reviewing their effectiveness. These aim to ensure that assets of the Company are safeguarded, proper accounting records are maintained, and the financial information used within the business and for publication is reliable. Control of the risks identified, covering financial, operational, compliance and risk management, is embedded in the controls of the Company by a series of monthly investment performance and attribution statements, financial and risk analyses and Manager's reports, and a quarterly control report. Typical areas of risk material to investment trusts in general, and which have been identified and are monitored as part of the control process, include excessive gearing, inappropriate long term investment strategy, loss of management personnel and potential loss of section 842 status under the provisions of the Income and Corporation Taxes Act 1988. The control report incorporates a key risk table that identifies the risks to which the Company is exposed and the controls in place to mitigate them, and includes those risks that are not directly the responsibility of the Manager and details of any known internal control concerns. The systems of internal controls are designed to manage rather than eliminate risk of failure to achieve business objectives, and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board has carried out a risk and control assessment including a review of the Manager's risk management infrastructure. A key element of this assessment was the Statement of Internal Corporate Governance for the year ended 31 December 2003 (the "Statement") prepared by the Manager for its investment trust clients to the standards of the Financial Reporting and Auditing Group Technical Release 21/94 ("FRAG21") issued by the Institute of Chartered Accountants in England and Wales. Containing a report from independent external accountants, the Statement sets out the Manager's control policies and procedures with respect to the management of its clients' investments. The effectiveness of these controls is monitored by the Manager's group audit committee which receives regular reports from the Manager's compliance and audit and risk departments. As reported above under "Audit and Management Engagement Committee", the Board has concluded that there is no current need for the Company to have its own internal audit function.

INVESTMENT MANAGEMENT

The Board has contractually delegated the management of the investment portfolio to the Manager (except in respect of certain private equity investments managed by other fund managers), giving the Manager responsibility for gearing, asset allocation and sector and stock selection within the limits set and regularly reviewed and monitored by the Board. The Board has also delegated the monitoring of the operation of custodial services and the provision of accounting, company secretarial and marketing services to the Manager. The Board receives regular reports on the marketing activities carried out by the Manager which has no open-end fund business competing with the Company.

The Manager has developed and published a policy on corporate governance, voting policy and socially responsible investment ("SRI"). The policy reflects the Statement of Principles on the Responsibilities of Institutional Shareholders and Agents drawn up in 2002 by the Institutional Shareholders' Committee. The Manager believes that the interests of its clients are served by investing in companies that adopt best practice in corporate governance.

The Manager seeks to encourage companies to be socially responsible and is attracted to invest in those that are. Its approach to SRI is designed to contribute to maintaining and improving standards of social responsibility in the corporate sector. It also aims to avoid investing in any company that does not meet generally accepted standards of social responsibility, unless there is a reasonable prospect of improvements that would raise the company's standards to an adequate level. Should the Manager become aware of occurrences of social irresponsibility at a company in which its clients are invested, it will state its dissatisfaction to the management with the objective of achieving desirable changes. If this approach fails to achieve the desired objective, then the Manager will attempt to change or further influence the management concerned or, alternatively, consider selling the investment in the company.

The Manager supports the boards of companies unless it sees clear investment reasons for doing otherwise. During the year the Manager wrote to 32 UK companies on corporate governance matters, including succession, contract periods and remuneration issues, and on occasion has exercised its right to vote against resolutions or to abstain from voting; it is the Manager's policy to exercise its voting rights at shareholder meetings of UK investee companies and, as far as practicable, all overseas companies. Decisions on contested takeover bids are always referred to the Company's Board of Directors.

The Manager's current policy, which is available on the F&C website, has been reviewed and endorsed by the Board, which encourages and supports the Manager on its voting policy and its stance towards SRI and shareholder activism. The Board receives periodic reports on the implementation of this policy.

RELATIONS WITH SHAREHOLDERS

Shareholder communication is given a high priority. Shareholders can receive either an Annual Review and Summary Financial Statement, which is designed to meet the information needs of most investors, or, upon request, a copy of the full Annual Report and Accounts of the Company. At the half-year stage an Interim Report is sent out to all shareholders. Information in updated form is also available on the F&C website at www.fandc.com.

A regular dialogue is maintained with the Company's institutional shareholders and private client asset managers and, at annual general meetings, all investors have the opportunity to question the Chairman, the Board and the Fund Manager. Proxy voting figures are announced to the shareholders at the annual general meeting.

During the year the Chairman wrote to the top 18 institutional shareholders and to 24 of the largest private client asset managers as a result of which meetings were held with 16 of these shareholders, some of which were also attended by the Fund Manager. In total, shareholders representing 33% of the share capital were invited to meet with the Chairman and those owning 15% of the share capital took the opportunity to do so. The meetings were constructive in providing a two-way forum for the canvassing of shareholder views and gauging opinion. The programme will be continued in 2004 and the Senior Independent Director will attend some of the meetings with the Chairman and, if so required, will attend on his own.

Shareholders wishing to communicate with the Chairman, the Senior Independent Director or any other member of the Board may do so by writing to the Company, for the attention of the Secretary at the address set out on page 7 or by e-mailing to FCITCoSec@fandc.com.

Directors' Remuneration Report

REMUNERATION COMMITTEE

As the Board of Directors is comprised solely of non-executive Directors, it has not appointed a Remuneration Committee.

It is the responsibility of the Board as a whole to determine and approve the Directors' fees following a recommendation from the Chairman who will have given the matter proper consideration, having regard to the level of fees payable to non-executive directors in the industry generally, the role that individual Directors fulfil in respect of Board and Committee responsibilities, and the time committed to the Company's affairs. The Chairman's remuneration is decided and approved by the Board under the leadership of the Senior Independent Director.

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £350,000 per annum.

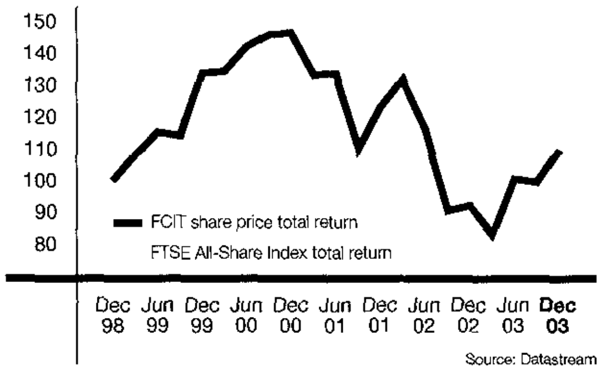
No element of the Directors' remuneration is performance related.

No Director has a service contract with the Company.

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

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

Total shareholder return



The Company does not consider it appropriate to benchmark performance against one specific index. A performance comparison is required to be presented in this report. Accordingly, the FTSE All-Share Index total return is shown because approximately 40% of the Company's portfolio is invested in UK stocks and this index is a widely used indicator for the UK equity market.

Remuneration for qualifying services

Director	2003 Fees for services to the Company £'000s	2002 Fees for services to the Company £'000s
Mark Loveday (Chairman and highest paid Director[1])	**43**	35
Robert Adams	**23**	23
Sir Michael Bunbury[2]	**33**	23
The Rt. Hon. Kenneth Clarke	**24**	24
Haruko Fukuda	**24**	29
Ewen Macpherson	**28**	26
John Rennocks	**27**	26
The Lord Rockley[3]	**10**	29
Maxwell Ward	**24**	23
Sir Andrew Wood	**23**	23
John Sclater[4]	**-**	18
Totals	**259**	279

1 Appointed Chairman on 8 May 2002.

2 Includes £5,000 paid for additional duties carried out in 2003 in respect of private equity investments.

3 Retired as Director on 7 May 2003.

4 Retired as Chairman on 8 May 2002.

Each Director (with the exception of The Lord Rockley in 2003 and Mr Sclater in 2002) received in addition a benefit in kind for the year to 31 December 2003 of £264 (31 December 2002: £250), except Ms Fukuda and Mr Clarke, who received £132 (31 December 2002: £125). The Lord Rockley received in addition a gift on retirement with a value of £2,800. The Directors bear the tax liability arising on the benefits in kind received.

The information in the above table has been audited (see the Independent Auditor's Report on page 28).

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

Annual fees for Board appointments as at 31 December 2003	£'s
Board	
Chairman	40,000
Director	22,500
Audit Committee	
Chairman	6,000
Members	3,500
Nominations Committee	
Chairman	1,000
Members	1,000
Private Equity Committee	
Chairman	3,500
Members	1,750

By order of the Board, H.N. Potter,
for and on behalf of F&C Management Limited, Secretary,
26 February 2004

Directors' Statement of Responsibilities

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

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

Analysis of Ordinary Shareholders

Analysis of Ordinary Shareholders at 31 December 2003

Category	Number of Shares	% Holding
F&C savings plans	277,109,423	29.2
Nominee holdings	301,783,550	31.8
Direct individual holdings	179,361,921	18.9
Institutions	190,749,979	20.1
	949,004,873	**100.0**

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FOREIGN & COLONIAL INVESTMENT TRUST PLC

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the annual report, the Directors' Remuneration Report and the accounts in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities.

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

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

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

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the auditable part of the Directors' Remuneration Report. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion:

- the accounts give a true and fair view of the state of affairs of the Company at 31 December 2003 and of the total return and cash flows of the Company for the year then ended;
- the accounts have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London 26 February 2004

Statement of Total Return

Revenue Notes	Capital Notes	(incorporating the Revenue Account)* for the year ended 31 December	2003 Revenue £'000s	2003 Capital £'000s	2003 Total £'000s	2002 Revenue £'000s	2002 Capital £'000s	2002 Total £'000s
	9	Gains/(losses) on investments	**–**	**341,722**	**341,722**	–	(657,785)	(657,785)
	18	Exchange gains	**24**	**7,404**	**7,428**	22	3,457	3,479
2		Income	**57,763**	**–**	**57,763**	58,138	–	58,138
3	18	Management fee	**(3,850)**	**(3,986)**	**(7,836)**	(4,411)	(4,411)	(8,822)
4	18	Other expenses	**(3,759)**	**(135)**	**(3,894)**	(3,520)	(83)	(3,603)
		Net return before finance costs and taxation	**50,178**	**345,005**	**395,183**	50,229	(658,822)	(608,593)
6	18	Interest payable and similar charges	**(6,486)**	**(6,486)**	**(12,972)**	(6,455)	(6,455)	(12,910)
		Return on ordinary activities before taxation	**43,692**	**338,519**	**382,211**	43,774	(665,277)	(621,503)
7	18	Taxation on ordinary activities	**(2,799)**	**–**	**(2,799)**	(5,016)	2,317	(2,699)
		Return attributable to equity shareholders	**40,893**	**338,519**	**379,412**	38,758	(662,960)	(624,202)
		Dividends on ordinary shares:						
		Interim of 1.80p (2002: 1.05p)	**(17,082)**	**–**	**(17,082)**	(9,957)	–	(9,957)
		Proposed final of 1.90p (2002: 2.45p)	**(18,031)**	**–**	**(18,031)**	(23,251)	–	(23,251)
			(35,113)	**–**	**(35,113)**	(33,208)	–	(33,208)
18	18	**Amount transferred to/(from) reserves**	**5,780**	**338,519**	**344,299**	5,550	(662,960)	(657,410)
8	8	**Return per ordinary share – pence**	**4.31**	**35.67**	**39.98**	4.08	(69.85)	(65.77)

* The revenue column of this statement is the profit and loss account of the Company.
All revenue and capital items in the above statement derive from continuing operations.

Balance Sheet

at 31 December

Notes		£'000s	2003 £'000s	£'000s	2002 £'000s
	Fixed assets				
	Investments				
	Listed in Great Britain	**875,072**		750,773	
	Listed outside Great Britain	**1,335,445**		1,093,368	
9	Listed investments	**2,210,517**		1,844,141	
9	Unlisted at Directors' valuation	**29,852**		24,665	
			2,240,369		1,868,806
	Current assets				
11	Debtors	**4,898**		5,419	
	Taxation recoverable	**597**		694	
	Cash at bank and short-term deposits	**15,913**		65,702	
		21,408		71,815	
	Current liabilities				
	Creditors: amounts falling due within one year				
12	Foreign currency loans	**(90,048)**		(107,251)	
13	Other	**(19,409)**		(25,349)	
		(109,457)		(132,600)	
	Net current liabilities		**(88,049)**		(60,785)
14	Total assets less current liabilities		**2,152,320**		1,808,021
	Creditors: amounts falling due after more than one year				
15	Debentures		**(110,575)**		(110,575)
14	**Net assets**		**2,041,745**		1,697,446
	Capital and reserves				
16	Called up share capital		**237,251**		237,251
17	Capital redemption reserve	**25,511**		25,511	
18	Capital reserves	**1,706,739**		1,368,220	
18	Revenue reserve	**72,244**		66,464	
			1,804,494		1,460,195
19	***Total shareholders' funds – equity***		**2,041,745**		1,697,446
20	**Net asset value per ordinary share – pence**		**215.15**		178.87

Approved by the Board on 26 February 2004 and signed on its behalf by:

Mark Loveday

John Rennocks

Cash Flow Statement

for the year ended 31 December

Notes		2003 £'000s	2003 £'000s	2002 £'000s	2002 £'000s
	Operating activities				
	Investment income	**55,229**		54,197	
	Interest received	**1,099**		2,018	
	Stock lending fees received	**548**		493	
	Other revenue	**28**		101	
	Management fees paid	**(7,320)**		(8,312)	
	Cash paid to and on behalf of directors	**(324)**		(213)	
	Other cash payments	**(3,623)**		(3,811)	
21	**Net cash inflow from operating activities**		**45,637**		44,473
	Servicing of finance				
	Interest paid	**(12,913)**		(12,892)	
	Cash outflow from servicing of finance		**(12,913)**		(12,892)
	Taxation				
	UK tax received/(paid)	**32**		(6)	
	Overseas tax paid	**(2,731)**		(2,407)	
	Total tax paid		**(2,699)**		(2,413)
	Financial investment				
	Purchases of equities and other investments	**(754,551)**		(712,559)	
	Sales of equities and other investments	**725,015**		708,568	
	Other capital charges and credits	**(147)**		(73)	
	Net cash outflow from financial investment		**(29,683)**		(4,064)
	Equity dividends paid		**(40,333)**		(31,784)
	Net cash outflow before use of liquid resources and financing		**(39,991)**		(6,680)
	Management of liquid resources				
	Decrease in short-term deposits		**35,349**		20,519
	Financing				
	Net loans (repaid)/raised	**(11,954)**		1,198	
	Net cash (outflow)/inflow from financing		**(11,954)**		1,198
22	**(Decrease)/increase in cash**		**(16,596)**		15,037

Notes on the Accounts

1 ACCOUNTING POLICIES

(a) Basis of accounting

The accounts have been prepared under the historical cost convention, modified to include fixed asset investments at valuation, and in accordance with accounting standards applicable in the United Kingdom and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (SORP) issued in January 2003. The Company had no material subsidiaries at any time during the year to 31 December 2003. Consequently, consolidated accounts have not been prepared. The principal accounting policies are set out below.

(b) Valuation of investments

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

(c) Foreign currency

Foreign currency assets and liabilities are expressed in sterling at rates of exchange ruling at the balance sheet date. Purchases and sales of investment securities, dividends, interest income and expenses are translated at the rates of exchange prevailing at the respective dates of such transactions. Exchange profits and losses on currency balances are credited or charged to capital reserves except where they relate to revenue items.

(d) Income

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

Dividends are accounted for in accordance with Financial Reporting Standard 16 "Current Taxation" (FRS16) on the basis of income actually receivable, without adjustment for the tax credit attaching to the dividends. Dividends from overseas companies continue to be shown gross of withholding tax.

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

(e) Expenses, including Finance Costs

Expenses are charged to the Revenue Account, other than:

- expenses incidental to the acquisition or disposal of investments which are charged to capital reserve realised; and
- 50% of management fees (except in relation to fees incurred on certain private equity investments described below), including related irrecoverable VAT, and 50% of finance costs (both net of applicable tax relief) which are allocated to capital reserve realised, in accordance with the Board's long-term expected split of returns from the investment portfolio of the Company.
- 100% of management fees invoiced to the Company in respect of certain private equity investments are allocated to capital reserve realised in accordance with the Board's long-term expected split of returns from those investments.

All expenses are accounted for on an accruals basis.

(f) Taxation

Deferred tax is provided in accordance with FRS19 on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are only recognised to the extent that they are regarded as recoverable. In line with the recommendations of the SORP, the allocation method used to calculate the tax relief on expenses charged to capital has been changed to the "marginal" basis. Under this basis if taxable income is capable of being offset entirely by revenue expenses then no tax relief is transferred to capital. As this is a change in allocation method only, the prior year figures have not been restated.

The effect of this change in allocation basis has been to reduce the current year revenue charge by £1.8million, although the total tax charge is unchanged.

(g) Capital Reserves

Capital reserve – realised

The following are accounted for in this reserve:

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

Capital reserve – unrealised

The following are accounted for in this reserve:

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

2 INCOME

	2003 £'000s	2002 £'000s
Income from investments		
UK franked dividends	**28,275**	27,809
UK unfranked interest	**1,150**	1,150
Overseas dividends	**25,901**	25,551
Scrip dividends	**752**	1,047
	56,078	55,557
Other Income		
Interest on cash and short-term deposits	**1,095**	1,986
Stock lending fees	**538**	511
Underwriting commission	**52**	84
	1,685	2,581
Total income	**57,763**	58,138
Total income comprises:		
Dividends	**54,928**	54,407
Interest from investments	**1,150**	1,150
Other income	**1,685**	2,581
	57,763	58,138
Income from investments comprises:		
Listed UK	**28,764**	28,570
Listed overseas	**26,092**	25,669
Unlisted	**1,222**	1,318
	56,078	55,557

3 MANAGEMENT FEE

	2003 £'000s	2002 £'000s
Management fee paid to F&C Management Limited	**7,185**	8,312
Management fee paid to Pantheon Ventures Limited	**136**	-
Irrecoverable VAT thereon*	**515**	510
	7,836	8,822
Less: allocated to capital reserve realised (see note 18)	**(3,986)**	(4,411)
	3,850	4,411

The Manager, F&C Management Limited, provides investment management, company secretarial, financial, marketing and general administrative services to the Company for a quarterly fee based upon a three year historic average of assets under management (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 quarterly fee amounts to 0.075% on the first £2,500 million of chargeable assets, reducing thereafter by 0.00625% per £500 million of additional assets to a minimum of 0.0375% on chargeable assets in excess of £5,000 million. 50% of these fees are allocated to capital reserve realised. The management agreement may be terminated upon one year's notice given by either party.

In respect of Pantheon Europe Fund III LP, management fees are invoiced directly by Pantheon Ventures Limited. These fees are allocated fully to capital reserve realised.

In respect of all other private equity investments, management fees are not directly invoiced by the respective managers.

* The proportion of VAT that is irrecoverable is determined broadly by the ratio of outputs (mainly proceeds of sales of investments) within European Union member countries to outputs worldwide.

4 OTHER EXPENSES

	2003 **£'000s**	2002 £'000s
Auditors' remuneration:		
for audit services	**33**	32
for other services*	**23**	19
Custody fees	**177**	222
Directors' emoluments (see Directors' Remuneration Report on page 26):		
fees for services to the Company	**259**	279
benefits in kind	**5**	2
Irrecoverable VAT	**168**	205
AITC subscription and promotional activity	**100**	138
Marketing expenses	**1,087**	946
Private Investor Plan expenses	**892**	831
Loan commitment fees	**213**	133
Directors and Officers Liability insurance	**163**	72
Registrars fees	**162**	166
Sundry expenses	**477**	475
	3,759	3,520

* Total Auditors' remuneration for other services amounts to £32,000 (2002: £19,000), of which £9,000 (2002: £nil) has been charged to capital reserve realised (see note 18).

5 DIRECTORS' REMUNERATION AND CONTRACTS

(a) Remuneration from the Company

The Company had no employees during the year. The amounts paid by the Company to the Directors of the Company, which were for services as non-executive Directors and which did not include any payments or rights to pensions, are detailed in the Directors' Remuneration Report on page 26.

(b) Remuneration from Related Parties

No Director received remuneration during the year for services to related parties.

(c) Directors' interests in shares

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

	31 December 2003		31 December 2002	
	Beneficial	**Other**	Beneficial	Other
Robert Adams	16,941	–	16,614	–
Sir Michael Bunbury	94,500	26,500	64,500	26,500
The Rt. Hon. Kenneth Clarke	31,394	–	22,034	–
Haruko Fukuda	16,000	–	16,000	–
Mark Loveday	20,000	674,761	20,000	674,761
Ewen Macpherson	14,500	–	14,500	–
John Rennocks	72,756	–	62,325	–
Maxwell Ward	20,000	–	20,000	–
Sir Andrew Wood	32,754	–	19,377	–

The Company's register of Directors' interests contains full details of Directors' shareholdings.

Since the year end, John Rennocks and The Rt. Hon. Kenneth Clarke, have acquired a further 1,600 and 7,571 ordinary shares respectively. There have been no changes in any of the other Directors' shareholdings detailed above. No Director held any interests in the issued stocks or shares of the Company other than stated above.

5 DIRECTORS' REMUNERATION AND CONTRACTS (CONTINUED)

(d) Directors' interests in contracts

No contract of significance, to which the Company or any of its subsidiary undertakings is or was materially interested, subsisted during the year.

(e) Details of aggregate remuneration

During the year the aggregate amount of emoluments, paid to or receivable by the Directors for their services as Directors of the Company and their services, while a Director of the Company, as Director of any of its subsidiary undertakings or otherwise in connection with the management of the affairs of the Company or any of its subsidiary undertakings was £264,000 (2002: £281,000). Emoluments attributable to the highest paid Director amounted to £42,828 (2002: £34,938).

6 INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £'000s	2002 £'000s
Debenture stocks	**12,399**	12,399
Foreign currency loans	**564**	*500*
Overdrafts	**9**	11
	12,972	12,910
Less: allocated to capital reserve realised (see note 18)	**(6,486)**	(6,455)
	6,486	6,455

The interest on debentures, bank loans and overdrafts is further analysed as follows:		
Loans and overdrafts repayable within 1 year, not by instalments	**573**	511
Loans and overdrafts repayable between 2 to 5 years, not by instalments	**–**	–
Debentures repayable in more than 5 years, not by instalments	**12,399**	*12,399*
	12,972	12,910

7 TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of charge for the year

	Revenue £'000s	**Capital £'000s**	**2003 Total £'000s**	Revenue £'000s	Capital £'000s	2002 Total £'000s
Corporation tax at 30% (2002: 30%)	**2,987**	**–**	**2,987**	3,033	–	3,033
Relief for overseas taxation	**(2,987)**	**–**	**(2,987)**	(3,033)	–	(3,033)
	–	**–**	**–**	–	–	–
Overseas taxation	**3,055**	**–**	**3,055**	3,047	–	3,047
Avoir fiscal – recovery of tax credits	**(256)**	**–**	**(256)**	*(348)*	–	*(348)*
Transfer of taxation relief on expenses allocated to capital	**–**	**–**	**–**	2,317	(2,317)	–
Total current taxation/(relief) (note 7b)	**2,799**	**–**	**2,799**	5,016	(2,317)	2,699

7 TAXATION ON ORDINARY ACTIVITIES (CONTINUED)

(b) Factors affecting tax charge for the year

	Revenue £'000s	**Capital £'000s**	**2003 Total £'000s**	Revenue £'000s	Capital £'000s	2002 Total £'000s
Return on ordinary activities before tax	**43,692**	**338,519**	**382,211**	43,774	(665,277)	(621,503)
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 30% (2002: 30%)	**13,108**	**101,556**	**114,664**	13,132	(199,583)	(186,451)
Effects of:						
UK franked dividends*	**(8,482)**	**–**	**(8,482)**	(8,343)	–	(8,343)
UK scrip dividends*	**(168)**	**–**	**(168)**	(298)	–	(298)
Overseas income not subject to corporation tax	**(57)**	**–**	**(57)**	(126)	–	(126)
Capital returns*	**–**	**(104,738)**	**(104,738)**	–	196,323	196,323
Overseas tax in excess of double tax relief	**69**	**–**	**69**	14	–	14
Avoir fiscal – recovery of tax credits	**(180)**	**–**	**(180)**	(244)	–	(244)
Expenses not deductable for tax purposes	**282**	**–**	**282**	–	–	–
Expenses utilised from prior years	**(1,773)**	**–**	**(1,773)**	–	–	–
Expenses not utilised in the year	**–**	**3,182**	**3,182**	881	943	1,824
Total current taxation/(relief) (note 7a)	**2,799**	**–**	**2,799**	5,016	(2,317)	2,699

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

The deferred tax asset of £11.2 million (2002: £9.8 million) in respect of unutilised expenses at 31 December 2003 has not been recognised as it is likely that the unrecognised asset will increase in amount in the future. Of this amount £5.6 million (2002: £7.4 million) relates to revenue expenses and £5.6 million (2002: £2.4 million) to capital expenses.

8 RETURN PER ORDINARY SHARE

Revenue return

Revenue return per share is based on the revenue return attributable to equity shareholders of £40,893,000 (2002: £38,758,000).

Capital return

Capital return per share is based on the capital return attributable to equity shareholders of £338,519,000 (2002: loss £662,960,000).
Both the revenue and capital return are based on a weighted average of 949,004,873 ordinary shares in issue (2002: 949,004,873).

9 INVESTMENTS

	Listed £'000s	Unlisted £'000s	Total £'000s
Cost at 1 January 2003	1,816,832	33,060	1,849,892
Unrealised appreciation/(depreciation) at 1 January 2003	27,309	(8,395)	18,914
Valuation at 1 January 2003	1,844,141	24,665	1,868,806
Movements in the year			
Purchases at cost	745,555	8,664	754,219
Sales – proceeds	(723,655)	(723)	(724,378)
– realised profits on sales	69,313	285	69,598
Increase in unrealised appreciation/(depreciation)	275,163	(3,039)	272,124
Valuation at 31 December 2003	**2,210,517**	**29,852**	**2,240,369**
Cost at 31 December 2003	1,785,355	41,720	1,827,075
Unrealised appreciation/(depreciation)			
at 31 December 2003	425,162	(11,868)	413,294
	2,210,517	**29,852**	**2,240,369**

Gains/(losses) on investments

	2003 £'000s	2002 £'000s
Realised losses based on historical cost	**(52,661)**	(89,107)
Less: amounts recognised as unrealised in previous years	**122,259**	(58,539)
Realised gains/(losses) based on carrying value at previous balance sheet date	**69,598**	(147,646)
Net movement in unrealised appreciation	**272,124**	(510,139)
Gains/(losses) on investments	**341,722**	(657,785)

Stock lending

	2003 £'000s	2002 £'000s
Aggregate value of securities on loan at 31 December	**363,495**	213,845
Maximum aggregate value of securities on loan during the year	**390,087**	377,856
Income from stock lending during the year	**538**	511

In respect of securities on loan at the year end, the Company held £383,071,000 (2002: £235,441,000) as collateral, the value of which exceeds the value of the loan securities by 5% (2002:10%).

In respect of the maximum aggregate value of securities on loan during the year, the Company held £411,284,000 (2002: £398,575,000) as collateral, the value of which exceeded the value of the securities on loan by 5% (2002: 5%).

F&C Management Limited received remuneration of £179,000 (2002: £170,000) for managing the Company's stock lending activities.

Investments managed or advised by the F&C Group

Investments include £63.8 million (2002: £56.7 million) of funds and investment trusts managed or advised by the Company's Manager, F&C Management Limited ("F&C") or its subsidiaries. These investments represent 3.3% (2002: 3.0%) of total assets less current liabilities (excluding loans) of the Company. Under the terms of the Company's Management Agreement with F&C set out in note 3, the management fee calculation excludes the value of all such holdings. During the year the Company purchased £nil (2002: £nil) of holdings and received proceeds of £3.3m (2002: £7.4m) from the sale of investments managed by F&C.

10 SUBSIDIARIES AND SUBSTANTIAL INTERESTS

Subsidiary undertakings

The consolidation of the subsidiary undertakings is not material for the purpose of giving a true and fair view and hence in accordance with *Section 229 of the Companies Act 1985, the Company has not prepared consolidated accounts. The following were subsidiary undertakings* of the Company at 31 December 2003:

Company and business	Country of registration, incorporation and operation	Number and class of shares held	Holding %	At 31 Dec 2003 Capital and reserves £'000s	Year ended 31 Dec 2003 Profit/(loss) after tax £'000s	Year ended 31 Dec 2003 Earnings per share pence
F&C Securities Limited (dormant - investment dealing)	England	100 ordinary shares of £1	100	(538)	n/a	n/a
Martindale Securities Limited (private equity)	England	64 ordinary shares of £1	64	(108)	(2)	(16.3)p

Substantial interests

At 31 December 2003 the Company held more than 5% of one class of the capital of the following undertakings held as investments, none of which, in the opinion of the Directors, represented a participating interest.

	Country of registration and incorporation	Number and class of shares held	Holding %
Investment Funds			
Cazenove New Europe Access Fund Limited Partnership	England	–	6.40
F&C Buy-out Trust	Jersey	10,000 'A' units of £100	10.00
F&C Latin American Investment Trust*	England	7,332,450 ordinary shares of $0.10	9.94
		766,490 warrants	5.91
F&C Portfolios Fund SICAV *			
US SmallCap	Luxembourg	819,999 shares	74.40†
European High Yield Bond Fund	Luxembourg	1,387,000 shares	64.75†
F&C Romanian Investment Company*	Eire	350,000 shares	5.15
F&C US Smaller Companies*	England	2,968,169 ordinary shares of 25p	11.15
F&C Emerging Markets Investment Trust*	Scotland	15,384,975 ordinary shares of 10p	8.98
Graphite Private Equity Trust	England	1,250,000 ordinary shares of 1p	5.00
Latin American Extra Yield Fund*	Eire	965,000 shares	38.96
Pantheon Europe Fund III Limited Partnership	United States	–	44.41
Utilico Investment Trust	England	11,689,636 ordinary shares of 1p	11.66
		2,337,927 warrants	11.66
U.S. Ventures V Limited	Cayman Islands	355,533 shares	27.43
Vesta Capital Partners Limited Partnership	England	–	27.91
Wireless Frontiers Limited Partnership	England	–	7.67

* Investment funds managed by companies within the F&C Group.

† Combined holdings represents 3.1% of voting rights in the F&C Portfolios Fund SICAV.

11 DEBTORS

	2003 £'000s	2002 £'000s
Investment debtors	**20**	670
Prepayments and accrued income	**4,866**	4,745
Other debtors	**12**	4
	4,898	5,419

12 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Foreign currency loans

Non-installment debt payable on demand or within one year	2003 £'000s	2002 £'000s
US$ 60.0m repayable January 2004	**33,516**	–
US$ 51.2m repayable January 2004	**28,601**	–
US$ 50.0m repayable January 2004	**27,931**	–
¥1,000m repaid January 2003	**–**	5,234
¥7,000m repaid January 2003	**–**	36,640
¥5,240m repaid January 2003	**–**	27,428
¥7,250m repaid January 2003	**–**	37,949
	90,048	107,251

At 26 February 2004 short-term borrowings totalled £108,236,000.

The exchange rate at which short-term debt was converted to sterling is US$1.7902 (31 December 2002 ¥191.0469)

At 31 December 2003 the Company had committed loan facilities of £100 million expiring in August 2004, £40m expiring in September 2004 and £60m expiring in October 2004, upon which commitment commissions are charged on any undrawn amounts at commercial rates. The terms of these loan facilities, including those relating to accelerated repayment and costs of repayment, are typical of those normally found in facilities of this nature.

13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Other

	2003 £'000s	2002 £'000s
Investment creditors	-	1,084
Proposed final dividend on ordinary shares	**18,031**	23,251
Other accrued expenses	**1,378**	1,014
	19,409	25,349

14 GEOGRAPHICAL AND INDUSTRIAL CLASSIFICATION

(a) Total assets less current liabilities (excluding loans)

	UK %	North America %	Europe (ex UK) %	Japan %	Pacific %	Others %	**2003 Total %**	2002 Total %
Equities and convertibles								
Resources	5.9	1.1	2.3	0.0	0.6	0.2	**10.1**	11.7
Basic industrials	1.1	0.7	2.3	0.6	0.5	0.1	**5.3**	4.4
General industrials	0.5	2.3	1.8	1.0	0.1	0.0	**5.7**	5.8
Cyclical consumer goods	0.1	0.9	1.4	0.8	0.5	0.0	**3.7**	1.8
Non-cyclical consumer goods	6.9	4.5	2.5	0.7	0.0	0.1	**14.7**	17.0
Cyclical services	5.6	2.1	1.8	0.9	0.4	0.3	**11.1**	12.7
Non-cyclical services – including telecoms	4.4	0.4	1.6	0.4	0.5	0.3	**7.6**	7.8
Utilities	2.3	0.3	1.0	0.2	0.1	0.0	**3.9**	5.5
Financials including banks	10.6	4.7	6.9	0.9	1.6	0.5	**25.2**	22.3
Information technology	0.6	4.5	0.9	0.2	1.0	0.3	**7.5**	5.2
Investment trusts & unit trusts	0.3	1.6	0.0	0.0	0.0	0.4	**2.3**	2.4
Miscellaneous	0.3	0.7	0.3	0.0	0.0	0.2	**1.5**	0.4
Total equities and convertibles	38.6	23.8	22.8	5.7	5.3	2.4	**98.6**	97.0
Fixed interest stocks	0.7	0.0	0.6	0.0	0.0	0.0	**1.3**	0.7
Total investments	39.3	23.8	23.4	5.7	5.3	2.4	**99.9**	97.7
Net current (liabilities)/assets	(0.3)	0.1	0.2	0.0	0.1	0.0	**0.1**	2.3
Total assets less current liabilities (excluding loans)	**39.0**	**23.9**	**23.6**	**5.7**	**5.4**	**2.4**	**100.0**	
2002 Totals	38.8	24.1	23.6	7.1	4.0	2.4		100.0

(b) Net assets

	UK %	North America %	Europe (ex UK) %	Japan %	Pacific %	Others %	**2003 Total %**	2002 Total %
2003 Totals	**37.5**	**24.5**	**25.8**	**3.5**	**5.9**	**2.8**	**100**	
2002 Totals	37.6	27.1	26.6	1.4	4.5	2.8		100

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

15 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

Debentures	**2003 £'000s**	2002 £'000s
11.25% debenture stock 2014 – secured	**110,000**	110,000
4.25% perpetual debenture stock – secured	**575**	575
	110,575	110,575

The debenture stocks are secured by floating charges over the assets of the Company and are stated at nominal value. The 11.25% debenture stock 2014 is redeemable at par on 31 December 2014.

The market value of debenture stocks at 31 December 2003 was £157,682,000 (31 December 2002: £163,893,000).

The terms of the debenture stocks, which have been issued including those relating to accelerated repayment and the costs of repayment, are typical of those normally found in financial instruments of this nature.

16 SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number	Nominal £'000s	Number	Nominal £'000s
Equity share capital				
Ordinary shares of 25p each				
Balance brought forward and carried forward	1,103,600,000	275,900	949,004,873	237,251

Since the year end 2,905,000 ordinary shares have been purchased at a total cost of £5,396,000.

17 CAPITAL REDEMPTION RESERVE

	2003 £'000s	2002 £'000s
Balance brought forward and carried forward	**25,511**	25,511

18 OTHER RESERVES

	Capital reserve – realised £'000s	Capital reserve – unrealised £'000s	Capital reserves – total £'000s	Revenue reserve £'000s
Realised gains on investments	69,598	–	69,598	–
Transfer on disposal of investments	(122,259)	122,259	–	–
Increase in unrealised appreciation on investments	–	272,124	272,124	–
Exchange gains and losses on currency balances	3,504	3,900	7,404	–
Management fees and related VAT (see note 3)	(3,986)	–	(3,986)	–
Interest expense (see note 6)	(6,486)	–	(6,486)	–
Other capital charges and credits*	(135)	–	(135)	–
Amount transferred to revenue reserve	–	–	–	5,780
Amount transferred to reserve	(59,764)	398,283	338,519	–
Balance brought forward	1,353,772	14,448	1,368,220	66,464
Balance carried forward	1,294,008	412,731	1,706,739	72,244

Included within the capital reserve movement for the year is £1,527,000 (2002: £1,043,000) of dividends recognised as capital.

* Included within other capital charges and credits is £9,000 paid to PricewaterhouseCoopers LLP for advisory services in respect of private equity investments. (2002: nil).

19 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2003 £'000s	2002 £'000s
Revenue return on ordinary activities after taxation	**40,893**	38,758
Capital return for the year	**338,519**	(662,960)
Net addition to shareholders' funds	**379,412**	(624,202)
Dividends on equity shares	**(35,113)**	(33,208)
Total shareholders' funds brought forward	**1,697,446**	2,354,856
Total shareholders' funds carried forward	**2,041,745**	1,697,446

20 NET ASSET VALUE PER ORDINARY SHARE

The net asset value per ordinary share (with debenture stocks at nominal value) of 215.15 pence (31 December 2002: 178.87 pence) is based on net assets of £2,041,745,000 (31 December 2002: £1,697,446,000) and on 949,004,873 ordinary shares of 25 pence each in issue at 31 December 2003 (31 December 2002: same).

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

	2003 £'000s	2002 £'000s
Revenue return before finance costs and taxation	**50,178**	50,229
Management fee allocated to capital	**(3,986)**	(4,411)
Exchange profits of a revenue nature	**(24)**	(22)
Increase in accrued income	**(106)**	(282)
Decrease/(increase) in prepayments	**17**	(51)
Increase in creditors	**310**	57
Scrip dividends	**(752)**	(1,047)
Net cash inflow from operating activities	**45,637**	44,473

22 RECONCILIATION OF NET CASH FLOW MOVEMENT TO MOVEMENT IN NET DEBT

	2003 £'000s	2002 £'000s
Net cash movement	**(16,596)**	15,037
(Decrease) in short-term deposits	**(35,349)**	(20,519)
Decrease/(increase) in loans	**11,954**	(1,198)
Change in net debt resulting from cash flows	**(39,991)**	(6,680)
Exchange movement	**7,404**	3,457
Movement in net debt in the year	**(32,587)**	(3,223)
Net debt brought forward	**(152,124)**	(148,901)
Net debt carried forward	**(184,711)**	(152,124)

Represented by:	Balance at 1 January 2003 £'000s	Cash flow £'000s	Exchange movement £'000s	**Balance at 31 December 2003 £'000s**
Cash at bank	22,545	(16,596)	(36)	**5,913**
Short-term deposits	43,157	(35,349)	2,192	**10,000**
	65,702	(51,945)	2,156	**15,913**
Foreign currency loans	(107,251)	11,954	5,248	**(90,049)**
Debentures	(110,575)	–	–	**(110,575)**
	(152,124)	(39,991)	7,404	**(184,711)**

23 CONTINGENCIES AND CAPITAL COMMITMENTS

(a) Contingencies

The Company has guaranteed rental commitments by F&C Management Limited ("F&C") in respect of a property leased and fully sub-let by F&C. Eureko BV (the ultimate holding company of F&C) has provided a full indemnity to the Company in respect of this guarantee.

(b) Capital commitments

	2003 Currency	2002 Currency	2003 £'000s	2002 £'000s
Private equity investments:				
HarbourVest Partners VII-Mezzanine Fund L.P.	**US$11.4m**	US$12.0m	**6,368**	7,454
HarbourVest Partners VII-Buyout Partnership Fund L.P.	**US$75.3m**	US$78.0m	**42,047**	48,450
HarbourVest Partners VII-Venture Partnership Fund L.P.	**US$29.3m**	US$30.0m	**16,339**	18,635
Pantheon Europe Fund III L.P.	**€108.0m**	€115.0m	**76,083**	74,598
Cazenove New Europe Access Fund L.P.	**£8.3m**	£9.3m	**8,265**	9,338
Vesta Capital Partners L.P.	**US$0.4m**	US$0.8m	**201**	481
Wireless Frontiers L.P.	**US$0.02m**	US$0.02m	**9**	10
	–	–	**149,312**	158,966
Uncalled liabilities on nil and partly-paid holdings	**£0.122m**	–	**122**	–
	–	–	**149,434**	158,966

Subsequent to the year end an investment of £0.1m has been made in Cazenove New Europe Access Fund L.P., £0.1m in HarbourVest Partners VII - Mezzanine Fund L.P., £0.4m in HarbourVest Partners VII - Buyout Partnership Fund L.P., £0.2m in HarbourVest Partners VII - Venture Partnership Fund L.P. and £2.3m in Pantheon Europe Fund III L.P.

24 FUND RISK PROFILE

The Company conducts its affairs so as to qualify as an investment trust under the provisions of Section 842 of the Income and Corporation Taxes Act 1988.

The Company's investment objective is to secure for its shareholders long-term growth in capital and income through a policy of investing primarily in a diversified international portfolio of equities with use of gearing. The portfolio held throughout the year and at the year end is in line with the Company's investment objective. The Company has the power to take out both short and long-term borrowings.

In pursuing its investment objective, the Company faces risks to both assets and revenue. These risks, and the Directors' approach to the management of the risks, are set out in the table on page 45.

Financial Assets

The interest rate profile of the Company's financial assets (excluding short-term debtors) at 31 December 2003 was:

Currency	Floating rate financial assets £'000s	Fixed rate financial assets £'000s	Weighted average interest rate %	Weighted average period for which rate *is fixed*
Euro (undated)	3,007	–	–	–
Japanese yen	1	–	–	–
US dollars (undated)	192	–	–	–
Sterling (undated)	1,118	–	–	–
Sterling (fixed period)	–	10,000	3.69	3 days
Sterling long-term (fixed period)	–	14,294	8.05	11 years
Other	1,628	–	–	–

The Company's investments in equity shares and similar instruments have been excluded from the interest rate risk profile, as they do not pay interest nor do they have maturity dates.

The floating rate financial assets comprise sterling bank deposits that earn interest based on the six-month London Inter Bank Offer Rate (LIBOR) and foreign currency bank deposits that earn interest at competitive rates set by JPMorganChase.

24 FUND RISK PROFILE (CONTINUED)

The interest rate profile of the Company's financial assets (excluding short-term debtors) at 31 December 2002 was:

	Floating rate financial assets £'000s	Fixed rate financial assets £'000s	Weighted average interest rate %	Weighted average period for which rate is fixed
Euro (undated)	201	–	–	–
Euro (fixed period)	–	35,914	3.03	8 days
Japanese yen	16,211	–	–	–
US dollars (undated)	85	–	–	–
US dollars (fixed period)	–	1,242	1.30	4 days
Sterling (undated)	1,362	–	–	–
Sterling (fixed period)	–	6,000	4.38	4 days
Sterling long-term (fixed period)	–	14,856	7.74	12 years
Other	4,685	–	–	–

Financial Liabilities

The interest rate profile of the Company's financial liabilities (including loans and debentures but excluding other short-term creditors) at 31 December 2003 was:

Currency	Floating rate financial liabilities £'000s	Fixed rate financial liabilities £'000s	Weighted average interest rate %	Weighted average period for which rate is fixed
US dollars	–	90,048	1.44	42 days
Sterling	–	110,575	11.21	11 years
Maturity analysis:				
Payable on demand within one year		90,048		
Payable in more than five years		110,575		

The maturity analysis of loans and debentures are set out in notes 12 and 15 respectively.

The interest rate profile of the Company's financial liabilities (including loans and debentures but excluding other short-term creditors) at 31 December 2002 was:

Currency	Floating rate financial liabilities £'000s	Fixed rate financial liabilities £'000s	Weighted average interest rate %	Weighted average period for which rate is fixed
Japanese yen	–	107,251	0.34	55 days
Sterling	–	110,575	11.21	12 years
Maturity analysis:				
Payable on demand within one year		107,251		
Payable in more than five years		110,575		

The maturity analysis of loans and debentures are set out in notes 12 and 15 respectively.

24 FUND RISK PROFILE (CONTINUED)

Currency Exposure

The profile of the Company's net monetary assets/(liabilities) at 31 December, by currency, was:

	€ £'000s	¥ £'000s	US$ £'000s	Other £'000s	Total £'000s
2003: Net monetary assets/(liabilities)	**3,007**	**69**	**(88,725)**	**1,787**	**(73,862)**
2002: Net monetary assets/(liabilities)	36,115	(90,351)	1,351	4,768	(48,117)

Fair Value

The Directors are of the opinion that the financial assets and liabilities of the Company are stated at fair value in the balance sheet with the exception of the debenture stocks which are stated at par in accordance with FRS4. The market value of debenture stocks at 31 December 2003 was £157,682,000 (2002: £163,893,000) - *see note 15*.

Risk Management

Risk	Management of Risk
Credit Failure by counterparties to deliver securities which the Company has paid for, or to pay for securities which the Company has delivered.	All transactions are settled on the basis of delivery against payment, except where local market conditions do not permit. Only approved counterparties are used.
Liquidity Difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments.	The Company's investments are principally quoted equities and fixed interest stocks and are for the most part readily realisable. The Company has the power to take out borrowings, both short- and long-term, and in addition, at 31 December 2003, had an overdraft facility of £2 million and committed loan facilities of £200 million. Covenants relating to these borrowings are continuously monitored.
Market Price The Company's assets consist principally of quoted equities and fixed interest stocks, the values of which are determined by market forces.	The Board manages the market price risks inherent in the Company's portfolio by ensuring full and timely access to relevant information from the Manager. The Board meets regularly and at each meeting reviews investment performance and financial results.
Interest Rate Assets, liabilities and net revenue may be affected by interest rate movements.	The Company's assets include fixed interest stocks, the values of which are regularly reviewed by the Board. The Company finances part of its activities through loans and debentures, in currencies and at levels approved and monitored by the Board.
Currency Certain of the Company's assets and liabilities are denominated in currencies other than sterling. As a result, movements in exchange rates may affect the sterling value of the portfolio, cash, investment purchases and sales and income.	Income denominated in foreign currencies is converted to sterling on receipt. Borrowings are limited to currencies and amounts commensurate with the asset exposure to those currencies.

Ten Year Record

ASSETS

at 31 December

£m	1993	1994	1995†	1996†	1997†	1998†	1999†	2000†	2001†	2002†	**2003†**
Total assets less current liabilities (excl. loans)	1,727	1,645	1,814	1,951	2,251	2,592	3,234	3,137	2,573	1,915	**2,242**
Prior charges (incl. loans)	173	232	128	181	113	202	212	208	218	218	**201**
Available for ordinary shares	1,554	1,413	1,686	1,770	2,138	2,390	3,022	2,929	2,355	1,697	**2,042**

NET ASSET VALUE

at 31 December

	1993	1994	1995†	1996†	1997†	1998†	1999†	2000†	2001†	2002†	**2003†**
NAV per share*	147.8p	134.4p	160.4p	168.4p	203.4p	227.4p	296.2p	296.9p	248.1p	178.9p	**215.2p**
NAV total return on 100p – 5 years (per AITC)											**101.2p**
NAV total return on 100p – 10 years (per AITC)											**165.6p**

SHARE PRICE

at 31 December

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	**2003**
Mid-market price per share *	146.8p	135.5p	162.0p	150.3p	175.8p	188.3p	247.5p	267.5p	221.5p	163.0p	**188.5p**
Discount/(premium) to NAV %	0.7	(0.8)	(1.0)	10.7	13.6	17.2	16.4	9.9	10.8	8.9	**12.4**
Share price High*	147.0p	155.0p	162.5p	169.5p	185.5p	210.0p	247.5p	288.5p	272.5p	235.0p	**191.8p**
Share price Low*	101.5p	127.5p	125.5p	147.3p	147.5p	153.3p	188.3p	229.8p	180.5p	150.0p	**141.0p**
Share price total return on 100p – 5 years (per AITC)											**108.5p**
Share price total return on 100p – 10 years (per AITC)											**149.0p**

REVENUE

for the year ended 31 December

£'000s	1993	1994	1995†	1996†	1997†	1998†	1999†#	2000†	2001†	2002†	**2003†**
Available for ordinary shares	22,794	21,164	24,480	29,178	30,060	34,181	39,100	37,542	38,294	38,758	**40,893**
Earnings per share*	2.17p	2.01p	2.33p	2.78p	2.86p	3.25p	3.76p	3.76p	4.03p	4.08p	**4.31p**
Dividends per share*	1.76p	1.88p	2.07p	2.28p	2.51p	2.77p	2.90p	3.10p	3.30p	3.50p	**3.70p**

PERFORMANCE

(rebased at 31 December 1993)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	**2003**
NAV per share	100.0	90.9	108.5	113.9	137.6	153.9	200.4	200.9	167.9	121.0	**145.6**
Mid-market price per share	100.0	92.3	110.4	102.4	119.8	128.3	168.6	182.2	150.9	111.0	**128.4**
Earnings per share	100.0	92.6	107.4	128.1	131.8	149.8	173.3	173.2	185.7	188.0	**198.6**
Dividends per share	100.0	106.8	117.6	129.5	142.6	157.4	164.8	173.3	187.5	198.9	**210.2**
RPI	100.0	102.9	106.2	108.8	112.8	115.9	117.9	121.4	122.2	124.2	**127.8**

† Stated in accordance with the Investment Trust SORP. Earlier years have not been restated.

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

Restated for change in accounting policy.

COST OF RUNNING THE COMPANY

for the year ended 31 December

%	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	**2003**
Management fees as a percentage of:											
Average total assets	0.23	0.24	0.26	0.26	0.24	0.24	0.24	0.25	0.32	0.38	**0.36**
Other operating costs as a percentage of:											
Average net assets	0.21	0.21	0.22	0.16	0.14	0.14	0.17	0.20	0.22	0.21	**0.24**
Average total assets	0.19	0.18	0.20	0.15	0.13	0.14	0.16	0.18	0.20	0.18	**0.22**
Total operating costs as a percentage of:											
Average net assets	0.47	0.49	0.52	0.44	0.40	0.40	0.42	0.46	0.57	0.63	**0.64**
Average total assets	0.42	0.42	0.46	0.41	0.37	0.38	0.40	0.43	0.52	0.56	**0.58**

GEARING

at 31 December

%	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	**2003**
Effective gearing	4.2	7.0	5.5	4.7	1.8	0.3	4.1	4.6	5.7	8.1	**8.3**
Fully invested gearing	11.0	16.2	7.4	10.1	5.2	8.3	7.0	7.1	9.3	12.8	**9.8**

Definitions

Prior charges	All debentures, loans, overdrafts, etc., used for investment purposes.
Management fees	All management fees charged to revenue and capital excluding VAT.
Operating costs	All costs charged to revenue and capital, excluding related taxation relief, interest costs, taxation, the costs of purchase of share capital and the costs of buying and selling of investments
Effective gearing	Prior charges at balance sheet value, less cash and fixed interest stocks, as a percentage of net assets (also termed "Actual gearing").
Fully invested gearing	Prior charges at balance sheet value as a percentage of net assets (also termed "Potential gearing").
Total assets	Total assets less current liabilities before deducting prior charges.
NAV	Net asset value (assuming prior charges at balance sheet value).
RPI	All-items Retail Prices Index.
Average net assets	Average of net assets at end of each calendar quarter.
Average total assets	Average of total assets at end of each calendar quarter.
NAV total return	Return on net assets per share assuming that all dividends paid to shareholders were reinvested.
Price total return	Return to the investor on mid-market prices assuming that all dividends received were reinvested.
AITC	Association of Investment Trust Companies.

Information for Shareholders

NET ASSET VALUE AND SHARE PRICE

The Company's Net Asset Value (NAV) is released daily, on the working day following the calculation date, to the London Stock Exchange.

The current share price of Foreign & Colonial Investment Trust is shown in the investment trust section of the stockmarket page in most leading newspapers, usually under "For & Col". Investors in New Zealand and Germany can obtain share prices from leading newspapers in those countries.

PERFORMANCE INFORMATION

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

More up-to-date performance information is available on the Internet at www.fandc.com (select your country, click on "Private Investors", then "Funds & Products", followed by "Investment Trusts"). This website also provides a monthly update on the Company's geographic spread and largest holdings, along with comments from the Fund Manager.

SUMMARY FINANCIAL STATEMENT

An Annual Review and Summary Financial Statement for the year ended 31 December 2003 is obtainable during normal working hours from the Company's Registered Office at Exchange House, Primrose Street, London EC2A 2NY. This document contains the Chairman's Statement and Manager's Review, together with a Summary Report of the Directors and their compliance with the Combined Code on Corporate Governance, Directors' Remuneration Report, Summary Statement of Total Return, Summary Balance Sheet and Notes. It does not contain sufficient information to allow as full an understanding of the results and state of affairs of the Company as is provided by the full Annual Report and Accounts.

The full Annual Report and Accounts and Annual Review and Summary Financial Statement are also published on the Internet at www.fandc.com.

ASSOCIATION OF INVESTMENT TRUST COMPANIES ("AITC")

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

UK CAPITAL GAINS TAX ("CGT")

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

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

For UK investors who acquired Foreign & Colonial Investment Trust stock prior to 31 March 1982, the costs for CGT purposes, based on the price at that date, adjusted for capital changes, are as follows:

	Unit of Quotation	Market Price
Ordinary shares	25p	14.875p
4.25% perpetual debenture stock	£100	£28.25

INCOME TAX

The proposed final dividend is payable in May 2004. Individual UK resident shareholders who are subject to UK income tax at the lower rate or the basic rate have no further tax liability.

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

How to Invest

Our manager, F&C Management Limited, runs a number of savings products which have been set up to provide cost effective and flexible ways to invest (details of these products are listed below). You can also buy Foreign & Colonial Investment Trust shares using a bank or stockbroker or alternatively, directly through an online and telephone dealing service. The F&C website has a link to comdirect, Europe's biggest stockbroker,at www.fandc.com/comdirect.

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

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

INDIVIDUAL SAVINGS ACCOUNT ("ISA")
You can invest up to £7,000 each year in F&C's Maxi ISA, or £3,000 in the Mini ISA, either by completing an application form or investing online. You can make regular monthly payments by Direct Debit, invest a lump sum or use the phasing option.

Gains arising from assets held in an ISA are exempt from tax. Interest and dividends received on assets in the ISA are free of income tax (and a 10% tax credit is payable on dividends received from UK equities before 6 April 2004).

Phased Investing
If you are concerned about market volatility, you can choose to phase your investment over three or six months. This is especially useful near the end of the tax year when the option for monthly investment is no longer viable.

PERSONAL EQUITY PLAN ("PEP")
Although PEPs are no longer available for new subscriptions you can transfer investments from one manager to another, subject to Inland Revenue requirements.

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

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

For further details on the savings schemes and application forms, please contact:

Investor Services on **0845 600 30 30** or
Broker Support on **0845 600 1868**
(UK calls charged at the local rate)
Fax **020 7825 2108**

You can also find more information on the website:
www.fandc.com under Investment Trusts

If you wish to write, the address is:
Investor Services Team, F&C Management Limited,
Exchange House, Primrose Street, London EC2A 2NY

The information on this page has been issued and approved by F&C Management Limited, authorised and regulated in the UK by the Financial Services Authority. Potential investors are reminded that the value of investments and the income from them may go down as well as up and investors may not receive back the full amount invested. Tax benefits may vary as a result of statutory changes and their value will depend on individual circumstances. Please note that with effect from 6 April 2004 you will no longer be able to reclaim the 10% tax credit currently given to dividends within a stocks and shares ISA, neither are you able to reclaim tax paid on foreign income dividends. Within the ISA and PEP capital gains remain tax-free.

Registered Office:
Exchange House, Primrose Street,
London EC2A 2NY
Tel: 020 7628 8000 Fax: 020 7628 8188
www.fandc.com info@fandc.com

Registrars:
Computershare Investor Services PLC,
PO Box 82, The Pavilions,
Bridgwater Road,
Bristol BS99 7NH
Tel: 0870 702 0130 Fax: 0870 703 6119
www.computershare.com
web.queries@computershare.co.uk

(Incorporated and registered in England and Wales under the Companies Act, 1862 with registered number 12901)

(An investment company within the meaning of section 266 of the Companies Act 1985)

Annual General Meeting 2004

The Annual General Meeting of the Company is to be held at 12 noon on Wednesday, 12 May 2004 at The Brewery, Chiswell Street, London EC1. The Notice of Meeting can be found on page 4. A map showing the location of the Meeting can be found on page 5.

Details of the items of business to be proposed at the meeting are set out below, together with information relating to the Annual Review and Summary Financial Statement. You are also referred to the Report of the Directors in the full Annual Report and Accounts or the summary thereof in the Annual Review and Summary Financial Statement.

Your Fund Manager, Jeremy Tigue, will also be giving a presentation covering progress in the year to date and his views on the markets for the remainder of the year. There will be an opportunity to ask questions during the course of the meeting and, on completion, there will be refreshments and some time to meet the Directors and the Managers more informally.

ANNUAL REPORT AND ACCOUNTS (RESOLUTION 1)

The first item of business concerns the Annual Report and Accounts. Your Directors must lay the accounts of the Company for the financial period ended 31 December 2003, the Report of the Directors and the Report of the Auditors of the Company on those accounts before the Meeting.

DIRECTORS' REMUNERATION REPORT (RESOLUTION 2)

Resolution 2 asks shareholders to approve the Directors' Remuneration Report. This contains the remuneration policy and is set out on page 26 of the full Annual Report and Accounts and on page 15 of the Annual Review and Summary Financial Statement.

FINAL DIVIDEND (RESOLUTION 3)

A final dividend of 1.90p per share, payable on 17 May 2004, is recommended by your Directors. Shareholders are asked to approve the recommendation.

RE-ELECTION OF DIRECTORS (RESOLUTIONS 4 TO 8)

The Articles require a proportion of the Directors to retire at each annual general meeting. Information relating to each of the Directors retiring by rotation and subsequently standing for re-election is contained in the full Annual Report and Accounts and in the Annual Review and Summary Financial Statement.

At the forthcoming Meeting The Rt. Hon. Kenneth Clarke, Mr John Rennocks, Sir Andrew Wood and I will retire by rotation in accordance with the Articles and resolutions 4 to 7 (inclusive) propose each re-election.

Resolution 8 deals with the re-election of Ms Haruko Fukuda, who has served for 15 years and intends to retire from the Board in May 2005; the new Combined Code on Corporate Governance issued in July 2003 requires directors having served in excess of nine years to stand for re-election at each annual general meeting.

During December 2003 and early January 2004, I carried out an appraisal of the performance of each of the Directors, and the Senior Independent Director also led the Board in an appraisal of me as Chairman. Following these appraisals and recommendations from the Nomination Committee, the Board has concurred that each Director standing for re-election makes a valuable and effective contribution as a non-executive Director based on their individual skills, knowledge and experience and from the time given to the Company in fulfilling their duties. In particular, the Board also believes that Mr Clarke and Mr Rennocks, who have both served in excess of six years, and Ms Fukuda, who has served in excess of nine years, remain committed to their roles as non-executive Directors of the Company. Likewise, the Board believes this in respect of Sir Andrew Wood and myself.

Mr Clarke and I absented ourselves from that part of the Nomination Committee meeting during which our respective positions were considered, and at the subsequent Board meeting at which the recommendations on those Directors standing for re-election were considered each respective Director abstained on the resolution approving his/her standing.

All the Directors are assessed by the Nomination Committee as being independent of the Company as each is independent in character and judgement and there are no relationships or circumstances relating to the Company that are likely to affect their judgement. The Board has endorsed these assessments including that of Ms Fukuda who, in the opinion of the Board, has always been, and remains, independent notwithstanding her length of service. All the Directors are independent of F&C Management Limited (the "Manager"), on the grounds that none of the Directors has a past or current connection with the Manager.

RE-APPOINTMENT AND REMUNERATION OF AUDITORS (RESOLUTIONS 9 AND 10)

The Company is required to appoint auditors at each general meeting at which accounts are laid before the Company, who will then hold office until the next such meeting. PricewaterhouseCoopers LLP have indicated their willingness to continue in office and Resolution 9 therefore deals with their re-appointment. Resolution 10 authorises the Directors to determine their remuneration.

AUTHORITY OF DIRECTORS TO ALLOT SHARES (RESOLUTION 11)

Resolution 11 is similar in content to the authority and power given to the Directors at previous annual general meetings. By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders. In addition, directors require specific authority from shareholders before allotting new shares (or granting rights over shares) for cash without first offering them to existing shareholders in proportion to their holdings. Resolution 11 gives the Directors the necessary authority to allot securities up to an aggregate nominal amount of £11,700,000 (46,800,000 ordinary shares). This is equivalent to approximately 5% of the issued share capital of the Company and empowers the Directors to allot such securities for cash otherwise than to existing shareholders on a pro-rata basis. The authority expires at the conclusion of the annual general meeting in 2005.

This authority and power 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 the authority to satisfy demand from participants in the F&C Private Investor, Personal Equity and Pension Savings Plans and those holding an F&C Individual Savings Account when they believe it is advantageous to such participants and the Company's shareholders to do so. Under no circumstances would the Directors use the authority and power to issue shares at a price which would result in a dilution of net asset value per ordinary share.

AUTHORITY FOR THE COMPANY TO PURCHASE ITS OWN SHARES (RESOLUTION 12)

Resolution 12 authorises the Company, until the conclusion of the annual general meeting in 2005, to purchase in the market up to a maximum of 140,600,000 ordinary shares (equivalent to approximately 14.9% of the issued share capital) for cancellation at a minimum price of 25 pence per share and a maximum price per share of not more than 5% above the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately before the date of purchase.

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

The Directors consider that it would be advantageous to shareholders for the Company to have the authority to make such purchases as and when it considers the timing to be favourable. However, use of this authority, if renewed, will depend upon market conditions and the Board's judgement of its likely effectiveness in increasing net asset value per share and/or reducing any discount.

It is proposed that any purchase of ordinary shares will be financed out of realised revenue and/or capital reserves and funded from the Company's own cash resources or, if appropriate, from short term borrowings.

The Board intends to seek a renewal of such authority at subsequent annual general meetings.

VOTING

You will find enclosed either a form of proxy or a form of direction for use at the Annual General Meeting. Please complete, sign and return the enclosed form as soon as possible in accordance with the instructions printed thereon, whether or not you intend to be present at the Annual General Meeting. The return of a form of proxy will not preclude you from attending the Meeting and voting in person if you wish to do so.

A form of proxy should in any event be returned so as to be received not less than 48 hours before the time appointed for holding the Annual General Meeting. In view of this requirement, investors holding shares in the Company through the F&C Private Investor, Personal Equity or Pension Savings Plans or in an F&C Individual Savings Account should ensure that forms of direction are returned to Computershare Investor Services PLC not later than 96 hours before the time appointed for holding the Meeting.

ANNUAL REVIEW AND SUMMARY FINANCIAL STATEMENT

Your Company publishes two types of report: a full Annual Report and Accounts and a separate Annual Review and Summary Financial Statement.

The Annual Review and Summary Financial Statement contains the Chairman's Statement and Manager's Review and a summary of the Company's Statement of Total Return, Balance Sheet, Report of the Directors and the full Directors' Remuneration Report. It also contains a statement by the auditors as to whether it is consistent with the Annual Report and Accounts of the same year, whether it complies with section 251 of the Companies Act 1985 and the Companies (Summary Financial Statement) Regulations 1995, which set out the requirements for summary financial statements, and whether or not the auditors' report on the Annual Report and Accounts was qualified. The Annual Review and Summary Financial Statement does not contain sufficient information to give shareholders as full an understanding of the results and state of affairs of the Company as the Annual Report and Accounts.

If you hold your shares through the F&C Private Investor, Personal Equity or Pensions Savings Plans or in an F&C Individual Savings Account and wish to change the type of report that you receive, you should tick the appropriate box on the Annual Report Request Card which you have also received and return the card. If you do not wish to change the type of report you receive then no action is necessary.

If you have become a registered shareholder (for these purposes if you are an investor in a savings plan you are deemed not to be a registered shareholder) during the last twelve months you have been sent both the full Annual Report and Accounts and the Annual Review and Summary Financial Statement for 2003. In future, however, you will receive only the Annual Review and Summary Financial Statement unless you notify the Company in writing that you wish to receive the Annual Report and Accounts instead. If you do wish to receive the Annual Report and Accounts in future years, please complete the "New registered shareholders" section of the enclosed Annual Report Request Card accordingly. New registered shareholders wishing to receive only the Annual Review and Summary Financial Statement in future years need do nothing.

If you are not a new registered shareholder you need take no action unless you wish to receive a different type of report to that which you received with this letter. In such case you should tick the relevant box in the "Other registered shareholders" section of the enclosed Annual Report Request Card and return the card.

If you wish to receive the full Annual Report and Accounts for the year ending 31 December 2004 and have not previously elected to receive them, please ensure that you return the Annual Report Request Card not later than 31 January 2005.

Mark Loveday CHAIRMAN
31 March 2004

Notice of Annual General Meeting

Notice is hereby given that the one hundred and twenty-fifth Annual General Meeting of the Company will be held at The Brewery, Chiswell Street, London EC1, on Wednesday, 12 May 2004 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 2003.
2 To approve the directors' remuneration report.
3 To declare a dividend on the ordinary shares.
4 To re-elect the Rt. Hon. Kenneth Clarke as a Director.
5 To re-elect Mr John Rennocks as a Director.
6 To re-elect Mr Mark Loveday as a Director.
7 To re-elect Sir Andrew Wood as a Director.
8 To re-elect Ms Haruko Fukuda as a Director.
9 To re-appoint PricewaterhouseCoopers as auditors to the Company.
10. To authorise the directors to determine the remuneration of the auditors.

SPECIAL BUSINESS:

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

11 THAT:
 (a) the Directors be and they are hereby:
  (i) generally and unconditionally authorised, in accordance with section 80 of the Companies Act 1985 (the "Act"), to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £11,700,000 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 2005; and
  (ii) empowered, pursuant to section 95 of the Act, to allot equity securities pursuant to the authority referred to in paragraph (a)(i) of this resolution as if section 89(1) of the Act did not apply to any such allotment, but so that this authority and power shall enable the Company to make offers or agreements which would or might require relevant securities or equity securities to be allotted after the expiry of this authority and power and notwithstanding such expiry the Directors may allot relevant securities and/or equity securities in pursuance of such offers or agreements; and
 (b) all authorities and powers previously conferred under section 80 or section 95 of the Act be and they are hereby revoked, provided that such revocation shall not have retrospective effect; and
 (c) words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings in this resolution.

12 THAT the Company be and is hereby generally and unconditionally authorised, in accordance with section 166 of the Companies Act 1985 (the "Act"), to make market purchases (within the meaning of section 163 of the Act) of ordinary shares of 25 pence each in the capital of the Company ("ordinary shares") on such terms and in such manner as the Directors may from time to time determine, provided that:
 (a) the maximum number of ordinary shares hereby authorised to be purchased shall be 140,600,000;
 (b) the minimum price which may be paid for an ordinary share is 25 pence;
 (c) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased;
 (d) the minimum and maximum prices per ordinary share referred to in sub-paragraphs (b) and (c) of this resolution are in each case exclusive of any expenses payable by the Company;
 (e) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2005 unless such authority is varied, revoked or renewed prior to such time by the Company in general meeting by special resolution; and
 (f) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed wholly or partly after the expiration of such authority.

By Order of the Board
H.N. Potter
For and on behalf of
F&C Management Limited
Secretary
31 March 2004

Registered office:
Exchange House
Primrose Street
London EC2A 2NY

LOCATION OF MEETING

NOTES:

Pursuant to regulation 41 of The Uncertificated Securities Regulations 2001, only shareholders registered on the register of members of the Company at 11p.m. on 10 May 2004 (the "specified time") shall be entitled to attend and vote or be represented at the Meeting in respect of the shares registered in their name at that time. Changes to entries on the register of members after 11 p.m. on 10 May 2004 shall be disregarded in determining the rights of any person to attend and vote at the Meeting.

If the Meeting is adjourned to a time not more than 48 hours after the time applicable to the original meeting, the above specified time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the Meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at 11 p.m. on the day which is two days before the day of the adjourned meeting or, if the Company gives notice of the adjourned meeting, at any time specified in that notice.

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

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

The register of Directors' holdings and Directors' Terms of Appointment letters are available for inspection at the registered office of the Company during normal business hours on any weekday and will be available at the place of the Meeting from 15 minutes prior to the commencement of the Meeting until the conclusion thereof. No Director has any contract of service with the Company.

The final dividend in respect of the year ended 31 December 2003 will, if approved, be paid on 17 May 2004 to holders of ordinary shares on the register at the close of business on 12 March 2004.