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COMPANIES HOUSE 29/07/98

Company Objective

Foreign & Colonial Enterprise Trust PLC is an investment trust which has the principal objective of providing shareholders with long term capital appreciation by investing primarily in unquoted companies. A secondary aim is to provide shareholders with a rising dividend income.

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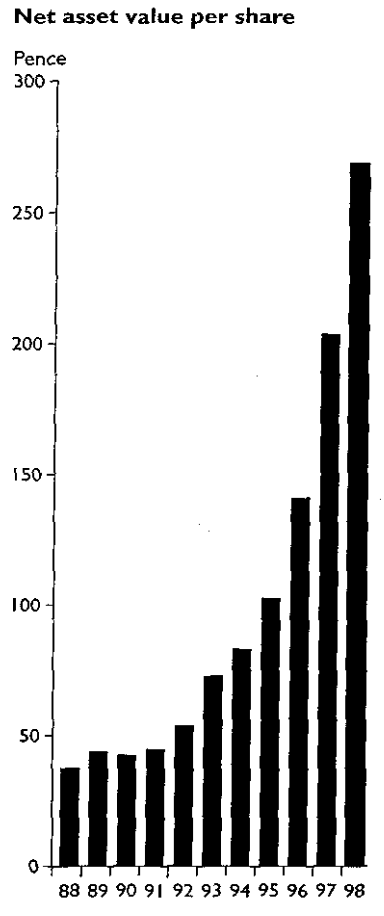
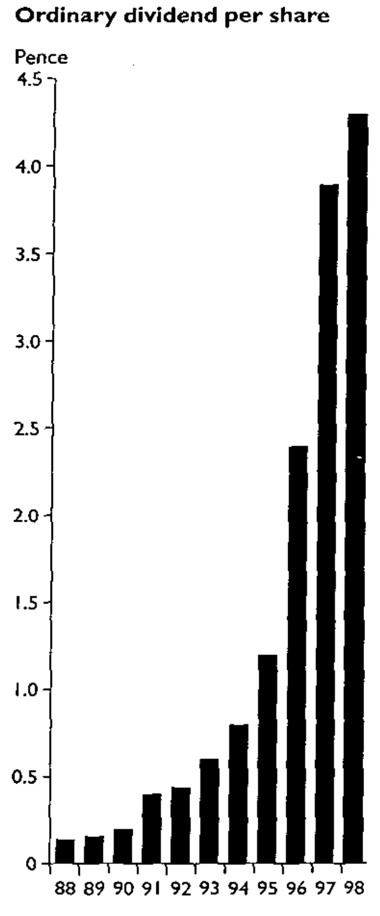
Net Asset Value and Dividend 1988-1998





SOURCE: F&C Ventures

Highlights of the Year

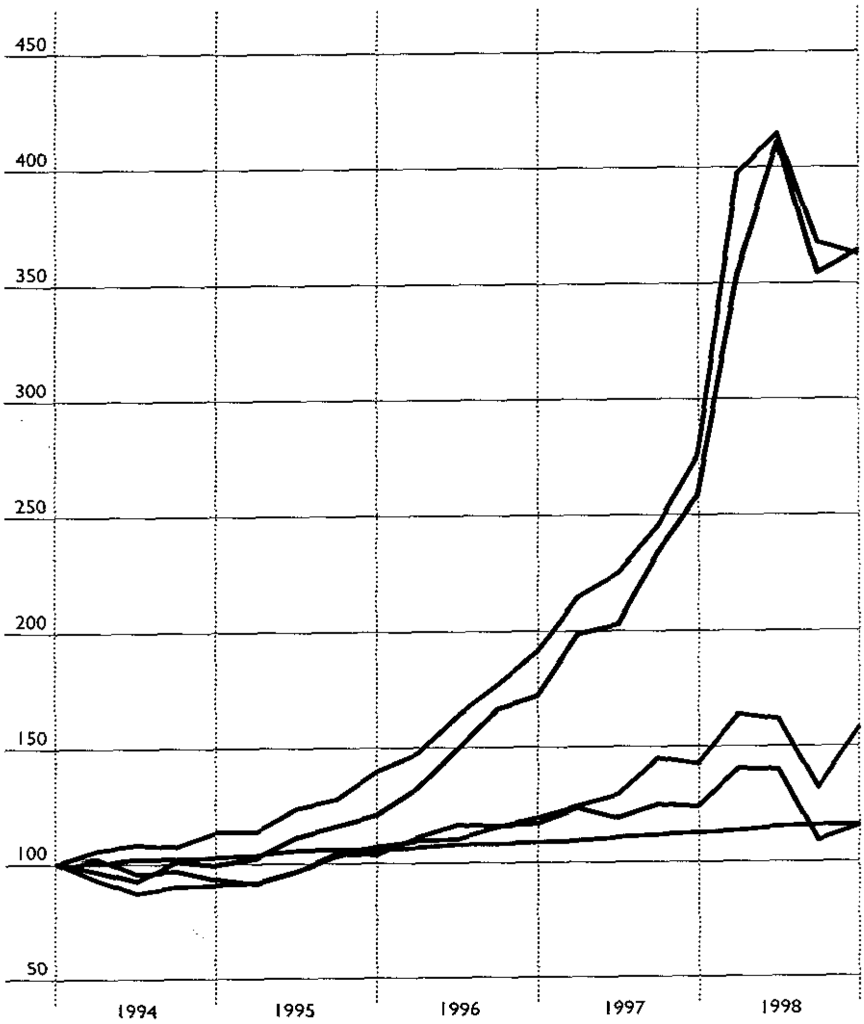
- Shareholders' funds increased by 31.8%
- The investment portfolio rose in value by 38.7%
- Cash proceeds from the investment portfolio totalled £60m
- Commitments to the investment portfolio totalled £52m

Summary of Results

Attributable to ordinary shareholders	1997	**1998**	
Shareholders' funds	£191.6m	**£252.6m**	+31.8%
Net assets per share	203.8p	**268.5p**	+31.8%
Share price	186.0p	**262.5p**	+41.1%
Dividend per share	3.9p	**4.3p**	+10.3%

Five Year Performance to 1998

FACET has consistently outperformed over the last five years



FACET Share price
FACET Net asset value per share
FTSE All-Share Index
Hoare Govett Smaller Companies Index
UK Retail Price Index

SOURCE: Financial Times, Hoare Govett.

Chairman's Statement

Performance

The net assets attributable to shareholders of Foreign & Colonial Enterprise Trust PLC ("FACET") rose by 31.8% to £252.6 million (268.5p per share) in 1998. We were pleased with this result in a year of considerable volatility in stockmarkets generally and poor performance for smaller quoted UK companies in particular. This was the seventh year in succession that FACET outperformed its long term benchmark, the FTSE All-Share Index, which rose by 10.9%. The Hoare Govett Smaller Companies Index fell by 6.9%.

The share price rose by 41.1% from 186.0p to 262.5p in the year. The higher percentage increase in the share price over the net asset value reflected a narrowing of the discount at which shares traded from 8.7% to 2.2%. This compares with the widening of discounts on investment trusts generally from 12.0% to 14.0% in the year.

As FACET makes long term investments in illiquid unquoted companies its performance is likely to be out of line with quoted markets in individual years. We therefore place greater emphasis on relative performance over five and ten years than over shorter periods. FACET's net asset value has risen 3.7 times in the last five years and 7.2 times in the last ten and the share price has risen by 3.7 times and 9.2 times respectively. By comparison, the FTSE All-Share Index has risen 1.6 times and 2.9 times respectively. FACET was listed in the Financial Times as the best performing of all investment trusts over the 3, 5 and 10 years to December 1998.

Balance Sheet

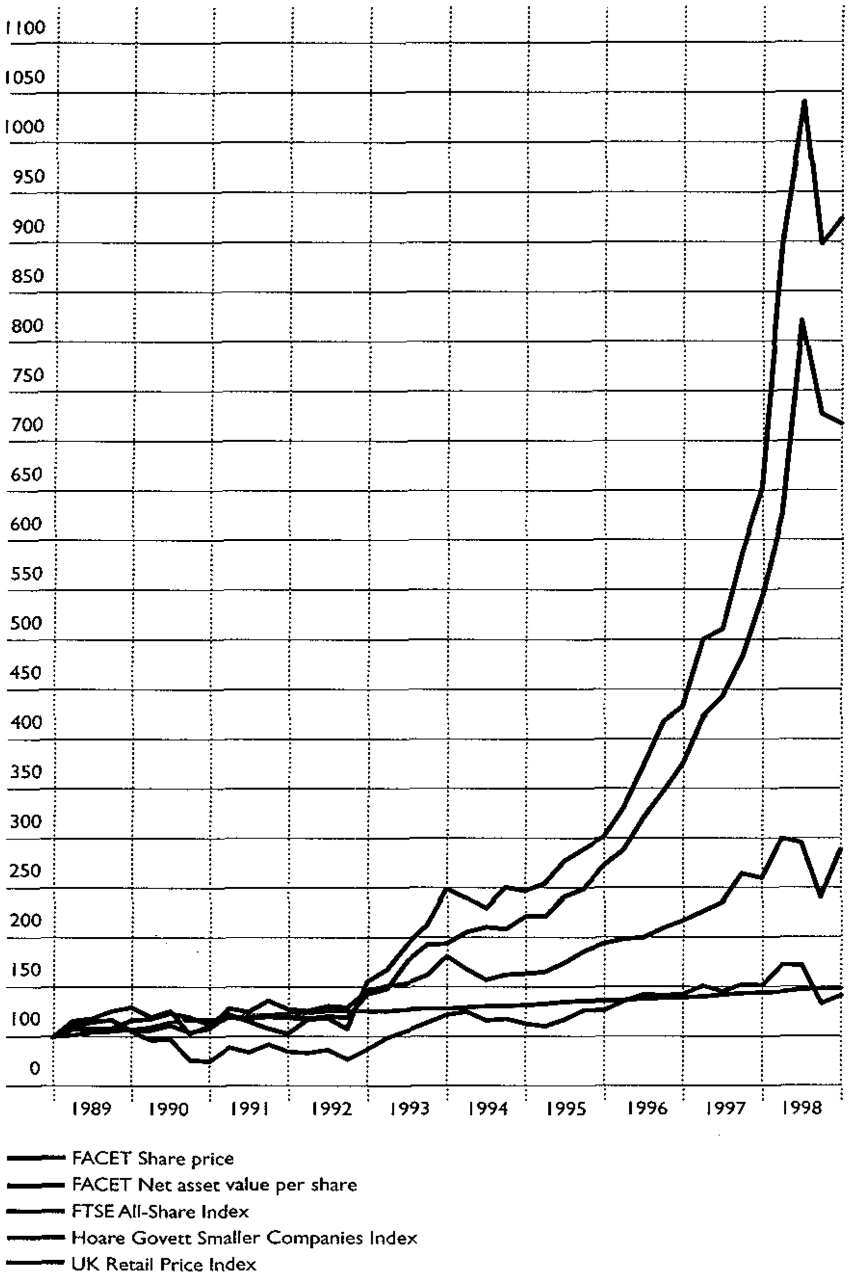
Net assets increased from £191.6 million to £253.8 million during the year. FACET's liquid assets in Treasury Bills, zero coupon preference shares and cash, net of debtors and creditors, rose from £66.3 million to £87.9 million. This represented 34.6% of net assets at the year end, the same percentage as that a year earlier. The quoted portfolio was valued at £109.3 million, accounting for 43.1% of closing net assets, with the balance of £56.6 million (22.3%) being held in the unquoted portfolio.

Statement of Total Return and Dividend

Taking the aggregate of the capital and revenue returns, the total return was 69.1p per share or £65.0 million. This represented 33.9% of net assets at the beginning of the year. The capital return, the main elements of which are described in the Manager's Review, represented the great majority of the total. Total revenue increased by 25.6% in the year reflecting in particular the increased income from Treasury Bills. Expenses were also higher with the largest increase being in management fees following the strong growth in assets in the last two years.

Ten Year Performance 1988 - 1998

FACET has performed strongly over the last ten years



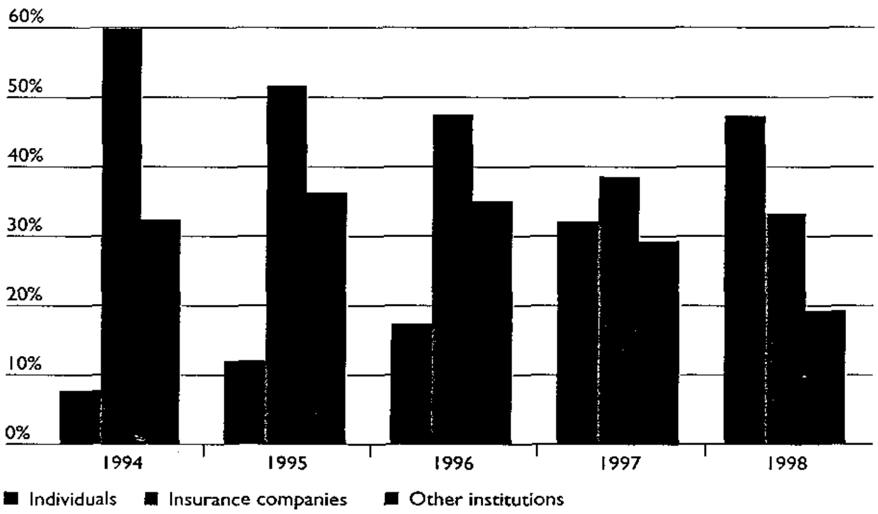
SOURCE: Financial Times, Hoare Govett.

Overall, the revenue return rose by 12.7% to £4.9 million, or 5.2p per share. This has allowed us to propose an increase in the annual dividend of 10.3% to 4.3p per share. This represents the seventeenth consecutive dividend increase and retained revenue reserves will cover this year's dividend 1.03 times. Looking forward, it is possible that the dividend will fall at some point due to lower interest rates and the reinvestment of FACET's liquid assets into low yielding unquoted stocks. In these circumstances we would expect to use the revenue reserves to supplement any fall in current revenues and to smooth any decline in the level of the dividend.

Investors

As the chart below shows, in 1998 private individuals represented the largest class of investors for the first time. At the end of the year they held approximately 47% of the shares, the great majority through the Foreign & Colonial Savings Plans. In the last five years the number of investors has increased over tenfold from under 1,700 to over 20,000 and the proportion of the shares held by institutions has fallen from around 93% to approximately 53%.

Individuals hold approximately 47% of FACET's shares



We believe that FACET is one of a small number of investment vehicles which offers private investors a diversified exposure to the private equity market and we are pleased that they have taken an increasing interest in the company. There is, however, a danger that some private shareholders may have invested in FACET purely as a result of its strong performance record in the last few years without fully taking into account the nature of its business. As FACET has an unusually concentrated portfolio and invests in long term and generally illiquid holdings, its risk profile is very different from that of a conventional investment trust. We therefore believe that FACET should only be held by investors as part of a diversified portfolio and with a view to holding the shares over the longer term. This is particularly the case at present when the assets are so substantially concentrated in a small number of volatile quoted stocks and in liquid assets.

F&C Ventures Limited (FCV)

A number of important changes have taken place in the business of FCV, FACET's manager, in the last year. For a long time FCV has been managed as an independent unit within the Foreign & Colonial Management Group ("Foreign & Colonial") and this independence was extended during the year with the move by FCV to its own separate office. The private equity management business is unusually personal and there is a wide variation in the performance of different teams. Taking this into account, when the new co-investment arrangement was introduced into FACET's structure at the Extraordinary General Meeting in April, the Board negotiated a new clause in the management contract with FCV which allows FACET to terminate the management contract with FCV if key individuals leave and are not adequately replaced. The notice period has also been reduced and is now one year.

In December 1998 the ultimate parent of FCV, Bayerische Hypo- und Vereinsbank, increased its ownership of Foreign & Colonial from 65% to 90%. As part of this transaction FACET sold its remaining 1% holding in Foreign & Colonial and now has no ties of ownership to its manager.

Directors

As I reported last year, under Foreign & Colonial guidelines covering employee membership of investment trust boards, James Nelson and Andrew Barker resigned as directors of FACET. We should like to thank them both for their considerable contribution to the Board from the inception of FACET in 1981. Although he is no longer a member of the Board, James Nelson continues to attend FACET board meetings together with other members of the FCV team. After serving FACET for 14 years, Rod Hall will be leaving the Board following the AGM in April. He has made an invaluable contribution throughout his time in office as an expert observer of and investor in venture capital, and in more recent years also as Chairman of the audit committee.

Following the appointment of Peter Dicks, which I reported with the interim results, I am pleased to welcome Michael Cumming who joined the Board this month. He brings FACET considerable experience of the UK private equity market.

Outlook

In the three years to June 1998 the composition of FACET's assets changed substantially. We judged UK company valuations to be full and took many opportunities to sell or float portfolio companies, realising substantial gains in the process. At the same time we were concerned that from a buyer's viewpoint the prices of UK companies were unattractive and we chose to retain much of the cash realised from disposals rather than to reinvest.

During 1998 conditions started to change as the outlook for the UK and world economies became more uncertain. Quoted markets have been unusually volatile since July and against this background it has become more difficult to take companies public and harder to obtain debt finance for unquoted acquisitions. While we were able to sell or achieve listings for nearly all the companies we had set out to realise, FACET suffered a decline in net assets in the second half of the year as the quoted portfolio fell.

While FACET's quoted holdings remain vulnerable to further unsettled market conditions, the high level of cash and cash equivalents will provide some insulation against any fall in stockmarkets. It will also enable us to take advantage of the increased flow of attractive investment opportunities we have seen in the last six months. Although the outlook for short term performance is uncertain, we look forward to the medium term with confidence.

John Sclater
Chairman

March 1999

Manager's Review

Performance summary

In 1998 the investment portfolio increased in value by 38.7% with the overall increase of £62.9 million attributable almost equally to realised and unrealised gains. Overall net asset value growth was lower at 32.4% due to FACET's substantial holdings in Treasury Bills, cash and zero coupon preference shares. The movement in net assets is analysed in the table below.

Analysis of movements in net assets in 1998

	Investment portfolio £'000s	Net current assets* £'000s	**Total net assets £'000s**	% of net assets
Opening value	**125,356**	**66,263**	**191,619**	**100.0%**
Purchases	37,097	(37,097)	–	–
Sales proceeds	(59,509)	59,509	–	–
Realised gains	33,198	–	**33,198**	17.3%
Unrealised gains	29,717	–	**29,717**	15.5%
Net capital charges	–	(1,629)	**(1,629)**	(0.8%)
Retained profit	–	855	**855**	0.4%
Closing value	**165,859**	**87,901**	**253,760**	**132.4%**

* Including zero coupon preference shares

Investment portfolio

We realised £60 million in cash from the investment portfolio in 1998 which compares with £37 million in the previous year. By far the largest cash disposal was from Computacenter which was also the largest contributor to the increase in the value of the portfolio. At the beginning of the year the holding was valued at £25 million. On flotation in April we realised £27 million in cash and retained a holding worth £37 million at the year end based on the closing share price of £4.40. The share price has been highly volatile, moving within a range of £8.22 and £3.57 since flotation. Despite the substantial cash realisation in 1998 Computacenter remains FACET's largest holding. We continue to be represented on the Computacenter board.

There were four other significant sales or flotations from the unquoted portfolio in the year. The largest of these was Game, the specialist electronic games retailer. On Game's flotation in June we realised £5.2 million and retained a holding which was valued at £4.2 million at the end of the year. Ottakar's, the chain of bookshops, was floated in April. On flotation we received £0.3 million from the redemption of preference shares and retained the entire holding of ordinary shares which was valued at £4.0 million at the end of the year. London & Henley, the developer of residential property in central London, was sold to a US-based property group in August for £4.2 million. After only six months in the portfolio, SodaStream, the supplier of machines, gas cylinders and concentrates for the home fizzy drinks market, was sold to its main competitor for £3.4 million which represented over three times cost.

The total gains of £33.2 million realised during the year represented a premium of over 100% to the opening valuations of £26.3 million. This exceptionally high level of gains reflected both a prudent valuation policy and the buoyancy of the new issues market in the first half of 1998. The great majority of the unrealised gains of £29.7 million was attributable to flotations, with an overall increase, net of provisions against underperforming investments, of £4.0 million in the unquoted portfolio.

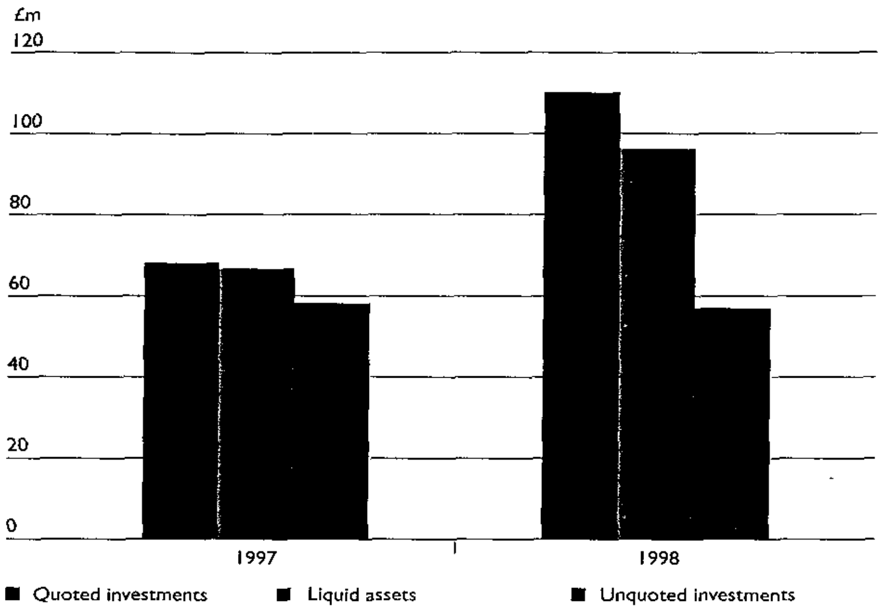
Portfolio additions

The rate of investment rose substantially in 1998, reflecting a steady improvement in conditions for new investments. A total of £43.3 million was committed to new investments, an increase of £26.3 million or 155% over the previous year. The great majority of commitments was to UK companies new to the portfolio. Amongst the purchases was the residual portfolio of Second Consolidated Trust which FCV had managed for realisation until the end of that trust's life. FACET has the advantage over many other private equity funds that it has an unlimited life and this may provide it with future opportunities to buy secondary portfolios.

Future performance

As the chart on the facing page shows, at the end of 1998 £109.3 million or 43.1% of FACET's net asset value was held in quoted securities. Almost all of these were acquired as unquoted investments prior to their flotations. The quoted investments remain highly concentrated, with the three largest holdings representing £65.6 million or 39.5% of the total investment portfolio. Each of these companies reported strong increases in profitability when they last announced results. At the year end £87.9 million (34.6% of the net asset value) was held in liquid assets and £56.6 million (22.3%) in the unquoted portfolio. Short term performance will therefore be determined primarily by movements in the quoted portfolio, with the liquid assets representing a drag on relative performance if markets rise and providing some protection if they fall.

£109 million was held in quoted securities at the end of 1998



A year ago we wrote that we believed that the private equity market was generally overheated. While there is still considerable competition for high quality unquoted investments and plentiful capital available for investment, in the last nine months there has been a general cooling of the market in relation to the previous three years. Economic and market uncertainty have made debt providers, equity investors and vendors of businesses more cautious with the result that it should be possible to acquire companies on more favourable terms. We aim to take advantage of these conditions and to reinvest the proceeds from the disposals of the last few years in new unquoted investments.

F&C Ventures
Manager

March 1999

F&C Ventures

F&C Ventures, FACET's manager, is a specialist provider of private equity finance to small and medium-sized companies. It has funds under management of over £340 million in six funds which all concentrate on the unquoted sector.

Our objective is to provide shareholders with a higher rate of return than they could expect from a representative portfolio of UK quoted companies. We make investments with an anticipated holding period of between three and five years in companies valued typically at between £5 million and £50 million. Our main emphasis is on mature, UK-based companies. While aiming to maintain a reasonably well diversified portfolio, we take an opportunistic approach and have invested in almost all sectors of the economy. As well as supporting management buy-outs and buy-ins, we provide finance for acquisitions, expansion and to replace existing shareholders. Generally we invest in unquoted companies, but we also invest in quoted companies which are unable or unwilling to raise equity through conventional rights issues. We act as lead or sole investors in a high proportion of our investments.

The investments we make are generally illiquid in the short term and they can be dependent on one or two key managers or products. We believe, however, that flexibility and potential for growth in smaller companies can far outweigh the associated risks. As we usually have unrestricted access to potential investments, we are able to conduct thorough investigations into their markets, their operations and their forecasts. We negotiate rights to a comprehensive flow of monthly information and are frequently represented on the boards of investee companies. We are therefore able to monitor investments closely and to take early action if performance fails to meet agreed plans. In these respects we have considerable advantages over investors in quoted equities and are able to mitigate substantially the risks of unquoted investments.

From top to bottom,
left to right:
Rod Richards
William Eccles
Jeremy Gough
James Nelson
Simon ffitch
Michael Boxford
Andrew Gray
Stephen Cavell
Perry Chapman
Markus Golser

Foreign & Colonial Enterprise Trust PLC

Directors

John Sclater CVO (Chairman) is Chairman of Foreign & Colonial Investment Trust PLC, Foreign & Colonial Private Equity Trust PLC, Argent Group Europe Limited and Berisford plc. He is also President of The Equitable Life Assurance Society, Deputy Chairman of Millennium & Copthorne Hotels PLC, a director of James Cropper PLC, a Trustee of The Grosvenor Estate and a Member of the Council of the Duchy of Lancaster.

Peter Burton*† is a director of Costain Group PLC and an executive director of AGC Consultants Ltd. He is also Chairman of Kingsmead Holdings Limited.

Michael Cumming* is a former managing director of BZW Private Equity. He is also a director of Enterprise Capital Trust PLC and The East German Investment Trust PLC.

Peter Curry* is a director of George Wimpey PLC, The Roxboro Group PLC and Titus International PLC. He was a co-founder and Chairman of Unitech plc. He is the senior independent non-executive director on the FACET board.

Peter Dicks*† is Chairman of Second London American Growth Trust PLC, Enterprise Capital Trust PLC and The East German Investment Trust PLC. He is also a non-executive director of a number of companies including Henderson Technology Trust PLC, Action Computer Supplies Holdings PLC and Standard Microsystems Corporation, a United States company.

Roderick Hall*† is Chairman of Oxford Molecular Group PLC. He is President and a director of US Ventures SA, US Ventures II SA and US Ventures V Limited. He is a director of Kalibrant Limited.

Christopher Weston*† was until recently Chairman and Chief Executive of Phillips the international fine art auctioneers. He is Chairman of Hodder Headline plc and a director of Foreign & Colonial Pacific Investment Trust PLC and Oxford Molecular Group PLC.

*Independent non-executive director. †Member of audit committee.

Manager
F&C Ventures Limited
(Regulated by IMRO)

Secretary
Foreign & Colonial Management Limited
(Regulated by IMRO and the
Personal Investment Authority)

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Auditors
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Southwark Towers, 32 London Bridge Street
London SE1 9SY

The 30 Largest Investments

	Percentage of equity held by FACET	Cost £'000s	Value at 31 Dec 98 £'000s	Percentage of portfolio	Country and year of investment
1 **Computacenter†**	5.2	411	36,857	22.2	UK 1985

Computacenter plc is the leading provider of information technology and related services to large corporate and public sector organisations in the UK. It also has fast growing operations in France and Germany. It was floated on the London Stock Exchange in May 1998. Computacenter performed strongly in 1997 with sales increasing by 28% and operating profits by 31%. In the first six months of 1998 sales increased by 39% and operating profits by 34%.

The holding of 8,376,489 shares is valued at the share price of £4.40 on 31 December 1998. No income was received or due in the year.

31 December £m	1996	1997	6 months to 30 Jun 98*
Turnover	882.5	1,133.5	775.7
Operating Profit	39.9	52.3	33.3
Profit Before Tax	34.2	47.1	31.3
Profit After Tax	22.4	31.1	20.9
Net Assets	8.0	31.3	101.8

	Percentage of equity held by FACET	Cost £'000s	Value at 31 Dec 98 £'000s	Percentage of portfolio	Country and year of investment
2 **Independent Insurance†**	3.3	1,511	20,360	12.3	UK 1987

Independent Insurance is a UK-based general insurance company formed from the management buy-in of Allstate Insurance's UK activities in 1987. It was floated on the London Stock Exchange in November 1993. The company reported strong growth in 1997 with gross written premiums increasing by 26% and profit before tax by 25%. In the first six months of 1998 gross written premiums fell by 7% but profit before tax increased by 49%. In 1998 the share price rose by 10.9%.

The holding of 8,000,000 ordinary shares is valued at the share price of £2.55 on 31 December 1998. In 1998 FACET received gross dividends of £355,000.

31 December £m	1996	1997	6 months to 30 Jul 98*
Gross Written Premiums	438.9	552.2	250.5
Profit Before Tax	52.0	65.1	38.5
Profit After Tax	36.5	45.6	27.6
Net Assets	169.7	223.9	251.8

† Quoted * Unaudited

The 30 Largest Investments

	Percentage of equity held by FACET	Cost £'000s	Value at 31 Dec 98 £'000s	Percentage of portfolio	Country and year of investment
3 **PSD Group†**	9.5	8	8,358	5.0	UK 1991

PSD Group is a recruitment company specialising in professional staff recruitment and operating in the technology, professional services and executive search and selection sectors. The company was floated on the London Stock Exchange in February 1997. Performance has been strong since flotation with pre-tax profits increasing by 54% in the year to 31 December 1998 and by 27% in the previous year.

The holding of 2,354,500 shares is valued at the share price of £3.55 on 31 December 1998. In 1998 FACET received gross dividends of £333,000.

31 December £m	1997	1998
Turnover	32.3	47.5
Operating Profit	8.8	12.2
Profit Before Tax	9.1	14.0
Profit After Tax	6.2	9.9
Net Assets	7.2	14.0

4 **Hiscox†**	2.7	4,470	7,380	4.5	UK 1993

Hiscox is an integrated insurance group serving both the Lloyds and the corporate insurance markets. The company's shares are listed on the London Stock Exchange. In the year ended 31 December 1997 gross written premiums increased by 58% and profit before tax by 8%. In the six months to June 1998 gross written premiums increased by 25% and profit before tax increased by £1.25 million. In 1998 the share price fell by 4%.

The holding of 4,000,000 ordinary shares is valued at the share price of £1.85 on 31 December 1998. In 1998 FACET received gross dividends of £170,000.

31 December £m	1996	1997	6 months to 30 Jun 98*
Gross Written Premiums	93.1	146.8	99.5
Profit Before Tax	14.3	15.4	0.3
Profit After Tax	9.9	10.1	0.6
Net Assets	87.5	95.8	124.9

† Quoted * Unaudited

The 30 Largest Investments

	Percentage of equity held by FACET	Cost £'000s	Value at 31 Dec 98 £'000s	Percentage of portfolio	Country and year of investment
5 Intermediate Capital Group†	3.1	810	6,656	4.0	UK 1989

Intermediate Capital Group is a UK-based arranger and provider of mezzanine finance to unquoted companies throughout Europe. FACET was a founding shareholder in 1989. In June 1994 the company was floated on the London Stock Exchange. In the year to 31 January 1998 profit before tax increased by 11.9% to £22.6 million. In the six months to 31 July 1998 gross income and profitability increased by 54% and 69% respectively. The share price rose by 18% in 1998.

The holding of 1,450,000 ordinary shares is valued at the share price of £4.59 on 31 December 1998. In 1998 FACET received gross dividends of £328,000.

31 January £m	1997	1998	6 months to 31 Jul 98*
Gross Income	42.1	49.8	38.0
Profit Before Interest and Tax	32.3	38.5	27.9
Profit Before Tax	20.2	22.6	19.4
Profit After Tax	13.6	15.4	13.6
Net Assets	75.5	82.8	93.6

6 Close Brothers†	0.8	626	5,552	3.3	UK 1992

Close Brothers is a group engaged in merchant banking and financial services. FACET's shares were acquired in August 1992 as part consideration for the sale of Business Advisory Services. The company is listed on the London Stock Exchange. In the year ended 31 July 1998 operating income rose by 24% and profit before tax by 26%. In the six months to 31 January 1999 operating income fell by 5% and profit before tax by 10%. The share price rose by 4% in 1998.

The holding of 1,014,130 ordinary shares is valued at the share price of £5.48 on 31 December 1998. In 1998 FACET received gross dividends of £183,000.

31 July £m	1997	1998	6 months to 31 Jan 99*
Operating Income	133.7	166.3	78.3
Profit Before Tax	55.4	69.6	33.2
Profit After Tax	37.1	47.2	22.5
Profit After Tax and Minority Interests	36.1	46.2	22.1
Net Assets	195.5	206.4	213.1

† Quoted * Unaudited

The 30 Largest Investments

	Percentage of equity held by FACET	Cost £'000s	Value at 31 Dec 98 £'000s	Percentage of portfolio	Country and year of investment
7 Countrywide Freight	48.2	4,290	4,290	2.6	UK 1998

Countrywide Freight is an express parcels business which concentrates on deliveries between Great Britain and Northern Ireland. FACET invested in a secondary management buy-out of Countrywide in August 1998. The company has performed well in the period since the management buy-out was completed. The volume of traffic is showing strong like for like growth and two important acquisitions have been completed.

The holding is valued at cost. In 1998 FACET received gross interest of £149,000.

31 December £m	1996	1997
Turnover	10.8	13.2
Operating Profit	1.4	1.6
Profit Before Tax	1.1	1.3
Profit After Tax	0.7	0.9
Net Assets	4.5	4.6

8 B Elliott	9.6	4,180	4,180	2.5	UK 1998

B Elliott is an engineering group which has three divisions: specialist engineering, electrical and electronic systems, and manufacturing systems. FACET originally invested in B Elliott in 1992 and participated in a management buy-out to take the company private in April 1998. In the year prior to the buy-out the company reported a strong improvement in profitability.

The holding is valued at cost. No income was due or received in the year.

£m	31 March 1997	3 April 1998
Turnover	113.7	111.4
(Loss)/Profit Before Tax	(1.0)	6.0
(Loss)/Profit After Tax	(1.4)	6.0
(Loss)/Profit After Tax and Minority Interests	(1.8)	5.5
Net Assets	13.7	20.5

The 30 Largest Investments

	Percentage of equity held by FACET	Cost £'000s	Value at 31 Dec 98 £'000s	Percentage of portfolio	Country and year of investment
9 **Game†**	4.1	585	4,167	2.5	UK 1993

Game is a specialist retailer of electronic games with 83 stores in the UK and Ireland. FACET first invested in Game in 1993 and provided further finance in 1996. The company was floated in June 1998 having increased sales by 48% and multiplied operating profits tenfold in the year to 3 May 1998. In the six months ended 1 November 1998 turnover increased by 21% and profit before tax rose by £0.6 million. FACET sold half of its holding on flotation.

The holding of 3,016,328 ordinary shares is valued at a 10% discount to the share price of £1.535 on 31 December 1998 to reflect sale restrictions. In 1998 FACET received gross dividends of £186,000.

3 May £m	1997	1998	6 months to 1 Nov 98*
Turnover	52.3	77.6	31.0
Operating Profit	0.7	7.1	0.6
Profit Before Tax	0.4	7.2	0.7
Profit After Tax	0.4	5.6	0.5
Net Assets	4.0	7.6	13.0

	Percentage of equity held by FACET	Cost £'000s	Value at 31 Dec 98 £'000s	Percentage of portfolio	Country and year of investment
10 **Ottakar's†**	8.4	474	4,006	2.4	UK 1995

Ottakar's is a chain of 62 bookshops concentrated in mid-sized towns and suburban centres. FACET invested £0.7 million in Ottakar's between 1995 and 1997. The company was floated in April 1998 having reported annual like for like sales growth of 15% in the three preceding years. FACET retained all of its ordinary shareholding on floating. In the six months to 1 August 1998 the company continued to expand and sales increased by 62%.

The holding of 1,686,900 ordinary shares is valued at the share price of £2.38 on 31 December 1998. In 1998 FACET received gross dividends and interest of £92,000.

31 January £m	1997	1998	6 months to 1 Aug 98*
Turnover	23.7	38.6	20.4
Operating Profit/(Loss)	1.3	2.6	(0.3)
Profit/(Loss) Before Tax	1.2	2.2	(0.5)
Profit/(Loss) After Tax	1.1	1.5	(0.3)
Net Assets	4.0	5.3	10.0

	Cost £'000s	Value at 31 Dec 98 £'000s	Percentage of portfolio
Total of ten largest investments	17,365	101,806	61.3

† Quoted * Unaudited

The 30 Largest Investments

	Cost £'000s	Value at 31 Dec 98 £'000s	Percentage of portfolio	Country and year of investment
11 Jarvis†	1,283	3,594	2.2	UK 1998
An infrastructure services, facilities management and construction group				
12 Telos Corporation	3,487	3,502	2.1	USA 1998
A broadly based US computer systems business				
13 Wagamama	1,469	2,988	1.8	UK 1996
A chain of Japanese noodle restaurants				
14 Sealine	2,500	2,500	1.5	UK 1998
A manufacturer of luxury motor cruisers				
15 Paperchase	331	2,457	1.5	UK 1996
A specialist retailer of greetings cards and stationery				
16 Horace Small Apparel†	3,320	2,242	1.4	USA 1990
A US-based manufacturer and distributor of uniforms				
17 Tesla Magnetic	1,472	2,208	1.3	UK 1995
A manufacturer of large magnets and gradient coils				
18 Charterhouse Partners V	16	2,088	1.3	Europe 1994
A partnership formed to invest in large management buy-outs				
19 Potter & Moore	1,913	1,908	1.2	UK 1991
A manufacturer of toiletries and fragrance products				
20 Porvair†	1,180	1,873	1.1	UK 1982
A manufacturer of domestic and industrial microporous products				
Total of twenty largest investments	34,336	127,166	76.7	

† Quoted

The 30 Largest Investments

	Cost £'000s	Value at 31 Dec 98 £'000s	Percentage of portfolio	Country and year of investment
·21 **Detektor**	1,694	1,694	1.0	Germany 1997
A stolen car recovery service in Germany				
22 **SIA**	1,500	1,685	1.0	France 1998
A pan-European distributor of home decoration products				
23 **MGE**	1,645	1,614	1.0	France 1997
A manufacturer of uninterruptable power supplies				
24 **Gateway**	1,627	1,588	1.0	USA 1997
A home healthcare provider based in the mid western United States				
25 **Ennis Foods**	1,616	1,584	0.9	Eire 1998
A producer of snack-based breakfast cereals				
26 **BNB Resources†**	1,810	1,518	0.9	UK 1983
A human resources and regional advertising group				
27 **Nutreco†**	11	1,278	0.8	Netherlands 1994
An international agriculture and fish feed business				
28 **Leapfrog**	1,278	1,278	0.8	UK 1998
A developer and operator of day care nurseries				
29 **Charterhouse Capital Partners VI**	1,255	1,255	0.7	Europe 1997
A partnership formed to invest in large management buy-outs				
30 **Elmeg**	1,133	1,131	0.7	Germany 1998
A manufacturer of specialist telephone equipment				
Total of thirty largest investments	**47,905**	**141,791**	**85.5**	
Other investments	**28,277**	**24,067**	**14.5**	
Total investment portfolio	**76,182**	**165,858**	**100.0**	

† Quoted

Analysis of Net Assets

	Cost £'000s	Value at 31 Dec 98 £'000s	Percentage of net assets
Portfolio Investments			
UK Unquoted	32,303	33,811	13.3
UK Quoted*	17,125	104,369	41.1
Total UK	**49,428**	**138,180**	**54.4**
North America Unquoted	10,104	8,620	3.4
North America Quoted*	4,616	3,638	1.4
Total North America	**14,720**	**12,258**	**4.8**
Continental Europe Unquoted	12,023	14,142	5.6
Continental Europe Quoted*	11	1,278	0.5
Total Continental Europe	**12,034**	**15,420**	**6.1**
Total portfolio investments	**76,182**	**165,858**	**65.3**
Zero coupon preference shares	10,845	11,863	4.7
	87,027	**177,721**	**70.0**
Net current assets		**76,039**	**30.0**
Net assets		**253,760**	**100.0**

*Quoted investments include both listed investments and those traded on other organised markets.

Analysis of Investors

31 December 1998	Number of Investors	Shares held Number	Shares held %	Average Holding
Bank and nominee companies	30	3,964,052	4.2	132,135
Individuals	21,446	44,464,964	47.3	2,073
Insurance companies	15	31,440,181	33.4	2,096,012
Investment companies	31	7,292,666	7.7	235,247
Other companies	7	164,012	0.2	23,430
Pension funds	7	1,566,712	1.7	223,816
Universities, schools and other corporate bodies	4	5,152,250	5.5	1,288,063
	21,540	94,044,837	100.0	4,366

Historical Record

Revenue and Assets

Year ended 31 December	Earnings per share p	Ordinary dividend per share p	Fully diluted net asset value per share p	Mid-market price per share p	Shareholders' funds £'000s
1998	5.21	4.30	268.5	262.5	252,555
1997	4.62	3.90	203.8	186.0	191,619
1996	2.99	2.40	140.9	123.3	132,530
1995	1.72	1.20	102.6	86.0	96,456
1994	1.42	0.80	83.2	70.5	78,287
1993	0.89	0.60	72.9	71.0	68,523
1992	0.45	0.44	53.8	44.5	50,596
1991	0.96	0.40	44.8	29.5	42,114
1990	0.21	0.20	42.5	31.0	38,176
1989	0.17	0.16	43.8	30.5	39,435
1988	0.13	0.14	37.5	28.5	33,473

Realisation of Portfolio Investments

Year ended 31 December	Realisation proceeds £'000s	Prior year valuation £'000s	Original cost £'000s
1998	59,509	26,311	10,161
1997	36,649	26,284	11,427
1996	45,086	30,889	24,172
1995	25,810	16,840	9,716
1994	15,710	12,536	8,402

Tax on Capital Gains

The market value of the Company's ordinary shares at 31 March 1982 was 16p. The market value of the warrants in issue at that date was 6p.

Private Investor Plan

The Foreign & Colonial Private Investor Plan ("the Plan") provides a convenient and economical way for investors to purchase shares in Foreign & Colonial Enterprise Trust ("FACET") and other investment trusts managed by the Foreign & Colonial Group. At least once a week the administrators of the Plan aggregate individual orders and purchase shares in the investment trusts on behalf of investors. Expenses, excluding 0.5% Stamp Duty, are normally about 0.2% and for a small investor are substantially lower than those incurred on other similar types of investment. Amounts of £10,000 and above are invested immediately cheques are cleared.

1 Monthly purchases of shares
Savings can be made on a regular basis by monthly purchase subject to a minimum of £50.

2 Occasional purchases of shares
An investor can send a cheque to the Plan administrator with an application form requesting a purchase of shares. For existing investors the minimum is £50. The minimum for others is £250.

3 Gifts of shares
An investor can send a cheque to the Plan administrator who will buy shares for another person. The minimum amount is £250.

4 Investment of dividends
The Plan administrator can apply investors' net dividend payments to the purchase of additional shares to be added to their holdings.

5 Share exchange
Shares can be sold through Charles Schwab Europe and the proceeds invested in the Foreign & Colonial Private Investor Plan.

A brochure on the Private Investor Plan is available with further details and application forms.

Please telephone our Investor Services Team on 0171 454 1415 or by fax on 0171 825 2108 for further information.

Pension Savings Plan

The Foreign & Colonial Pension Savings Plan ("PSP") provides a simple, tax efficient and low cost way of saving for retirement.

1 Two pension choices
There are two choices, the Personal Pension Plan and the Additional Voluntary Contribution Plan.

2 Low charges
The charges for the PSP are far lower than those levied by almost all insurance companies. The initial charge is £100, the annual management fee is 0.5% and there is an annual administration charge of £50.

3 Lump sum or regular contributions
For both Plans the minimum monthly contribution is £50 into each trust or £1,000 lump sum (£500 minimum into each trust).

4 Investment potential
All of the contributions can be invested in FACET and in other investment trusts managed by the Foreign & Colonial Group.

5 Share exchange
Shares can be sold through Charles Schwab Europe and the proceeds invested in the Foreign & Colonial Pension Savings Plan.

A brochure on the Pension Savings Plan is available with further details and application forms.

Please telephone our Investor Services Team on 0171 454 1415 or by fax on 0171 825 2108 for further information.

Personal Equity Plan

The Foreign & Colonial Investment Trust PEP (the "Foreign & Colonial PEP") offers the combination of Foreign & Colonial's investment trust expertise and tax concessions given by the government. In the 1998/99 tax year up to £6,000 can be invested in the Foreign & Colonial PEP. However, after 5 April 1999 it will not be possible to pay any new funds into PEPs although they will be able to continue to grow after that date. The PEP is being replaced with a new tax efficient vehicle, the Individual Savings Account ("ISA").

1 Choice of Foreign & Colonial investment trusts
Investors can purchase shares in FACET and in other investment trusts managed by the Foreign & Colonial Group.

2 Low initial charges
There is a flat rate charge of £50 + VAT to invest in the Foreign & Colonial PEP and no commission is paid to intermediaries.

3 Low ongoing charges
There is a fixed annual administration charge of £61.44 + VAT.

4 Transfer from other Personal Equity Plans
No additional charge is made for transfers into the Foreign & Colonial PEP.

5 Share exchange
Shares can be sold through Charles Schwab Europe and the proceeds invested in the Foreign & Colonial PEP.

A brochure on the Foreign & Colonial PEP is available with further details and application forms.

ISA

The new individual savings account from Foreign & Colonial will give investors the opportunity to invest in our complete range of investment trusts, including FACET, within the tax-efficient structure of an ISA.

1 Choice of Foreign & Colonial investment trusts
Investors will be able to purchase shares FACET and in other investment trusts managed by the Foreign & Colonial Group.

2 Low initial charges
There will be a flat rate charge of £60 + VAT to invest in the Foreign & Colonial ISA.

3 Low ongoing charges
There will be a fixed annual administration charge of £60 + VAT.

Please telephone our Investor Services Team on 0171 454 1415 or by fax on 0171 825 2108 for further information on either PEPs or ISAs.

The information on pages 24 and 25 has been issued and approved by Foreign & Colonial Management Limited, regulated by IMRO and the Personal Investment Authority, Exchange House, Primrose Street, London EC2A 2NY.

Investors are reminded that the price of shares, and the income from them, may go down as well as up and they may not recover the full amount invested. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances.

Report of the Directors

for the Year Ended 31 December 1998

Status of Company

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

During the year under review the Company carried on the business of an investment trust. The last accounting period for which the Company has been approved by the Inland Revenue in accordance with the provisions of Section 842 of the Income and Corporation Taxes Act 1988 was for the year ended 31 December 1997. The Company has subsequently directed its affairs so as to enable it to continue to seek such approval.

The Company is a qualifying investment trust under the Personal Equity Plan Regulations 1989, as amended. The Company's shares will be eligible from 6 April 1999 for inclusion in Individual Savings Accounts ("ISAs").

The Company makes investments both directly and through a subsidiary partnership, Foreign & Colonial Enterprise Trust Limited Partnership (together "the Group").

Foreign & Colonial Enterprise Trust PLC is registered in England (No. 1571089).

Results and Dividend

	£'000s
Net revenue for the year available for distribution	4,899
Proposed dividend of 4.3p per share payable on 23 April 1999	4,044
Amount set aside to revenue reserve	855

Review of the Business

A review of the Company's activities is given in the Chairman's Statement on pages 4 to 8 and in the Manager's Review on pages 9 to 11.

Directors

Mr P. F. Dicks and Mr M.R. Cumming were appointed to the Board on 29 July 1998 and 2 March 1999, respectively. All of the other directors listed on page 14 held office throughout the year under review. Mr A.C. Barker and the Hon. J.J. Nelson, both of whom resigned from the Board on 31 December 1998, also served as directors during the year. The resignations of Mr Barker and Mr Nelson were in accordance with the policy guidelines covering employee membership of investment trust boards issued by the Foreign & Colonial Management Group in February 1998. In accordance with the Articles of Association, Mr Dicks and Mr Cumming will retire at the Annual General Meeting and, being eligible, will offer themselves for re-election. The directors retiring by rotation are Mr C.J. Weston and Mr P.L. Burton, who, also being eligible, likewise offer themselves for re-election. None of Mr Dicks, Mr Cumming, Mr Weston or Mr Burton has a service contract with the Company.

Manager

On 30 June 1998 the Company entered into a new management agreement (the "Management Agreement") under which F&C Ventures Limited ("FCV" or "the Manager"), which is regulated by the Investment Management Regulatory Organisation Limited ("IMRO"), provides investment management and general administrative services to the Company for a quarterly fee payable in arrears of 0.375% of total assets less all liabilities other than borrowings. With effect from 16 February 1999, the notice period under the Management Agreement was reduced from two years to one year. The Management Agreement can be terminated on the giving of such notice by either the Company or the Manager.

FCV advises or manages two funds in which FACET has investments, F.&C. Buy-out Trust and F&C Ventures Limited Partnership II. The value of these investments is excluded from the value of the Company's total assets for the purpose of calculating its management fees.

An Allocation of Investments Agreement, which was executed on 8 March 1994 and to which the Company was a party, governs the allocation of investments between Foreign & Colonial Private Equity Trust PLC and the Group.

Co-Investment Scheme

Following shareholder approval at the Extraordinary General Meeting in April 1998, the Group entered into a Co-Investment Scheme with a subsidiary of the Manager and its executives (the "Scheme"). Under the terms of the Scheme a subsidiary limited partnership, Foreign & Colonial Enterprise Limited Partnership (the "Partnership") was established. The executives of FCV, including the Hon J.J. Nelson, or their nominees and a subsidiary of FCV (together the "Co-investors") co-invest with the Company through the Partnership. For so long as FCV is the manager of the Group, the Co-investors will be required to subscribe 0.5% of the cost of each new investment. From every investment made by the Partnership which achieves at least an 8% per annum compound return the Co-investors will be entitled to a share of the proceeds equivalent to 10% of the gross income and capital gains from the Group's investment. If this compound return is not achieved on any individual investment, the Co-investors will lose the amount committed by them in respect of that investment. The Scheme that was introduced varied in some minor respects from that detailed in the circular sent to shareholders. The principal difference was that not all the unquoted investments were transferred to the limited partnership. This was to ensure that FACET continued to be eligible for PEPs. The principles of the Scheme are unaltered from those set out in the circular.

Policy on payments to suppliers

The Company's principal supplier is the Manager which is paid for its services in accordance with the terms and conditions of the Management Agreement. Payment terms are negotiated with other suppliers on an individual basis. At 31 December 1998 the Company had no outstanding trade creditors.

Substantial Share Interests

At 2 March 1999, the Company had received notification of the following holdings of 3% or more of its issued share capital:

	Number of ordinary shares	%
Royal & Sun Alliance Insurance Group	9,153,000	9.7
The Equitable Life Assurance Society	8,400,000	8.9
The AXA Group	7,390,306	7.9
Co-operative Insurance Society Limited	3,775,000	4.0

Corporate Governance

The Board is comprised of seven directors, six of whom are wholly independent of the Manager. The Chairman, Mr J.R. Sclater, is deemed to be non-independent by virtue of his directorship in Hypo Foreign & Colonial Management (Holdings) Limited, which is a holding company of the Manager. The senior independent director of the Company, which does not have a chief executive officer, is Mr P.A.M. Curry. All of the directors of the Company are resident in the U.K. and their biographical details on page 14 of this Annual Report demonstrate the wide range of skills and experience which they bring to the Board. New appointees to the Board are given a preliminary briefing on the workings of the Company by the Chairman and executives of the Manager.

It is the responsibility of the Board to ensure that there is effective stewardship of the Group's affairs. The Board monitors compliance with the Group's objective and determines investment policy and other strategic issues. In order to enable them to discharge their responsibilities, all directors have full and timely access to relevant information. The Board, which meets quarterly, reviews the Group's investment portfolio and investment performance. It also considers financial reports. There is also contact with the directors between meetings where this is necessary to progress the Group's business.

The Board has established a procedure under which directors, wishing to do so in the furtherance of their duties, may take independent professional advice at the Company's expense. The Company's Articles of Association require that one third of the Board is subject to retirement by rotation each year and the Board will ensure that all directors submit themselves for re-election at least once every three years.

The Board considers that the Company has complied with the provisions contained within Section 1 of the Principles of Good Governance and Code of Best Practice ("the Combined Code") in force from time to time.

The Combined Code was published in June 1998 by the London Stock Exchange but required compliance as from 1 January 1998. The posting of the 1997 Report and Accounts and the holding of the Annual General Meeting both took place in accordance with the requirements of the Company's articles of association and corporate governance best practice at that time. The 1997 Report and Accounts containing the Notice of the Annual General Meeting was not sent to shareholders at least 20 working days before the Annual General Meeting and, at that meeting, the Chairman did not indicate the level of proxies lodged on each resolution, and the balance for and against the resolution, after it had been dealt with on a show of hands. These technical breaches were inadvertent as they took place before the relevant provisions of the Combined Code were published.

The entire Board is non-executive and is involved in the nomination of directors. It has not delegated this function to a separate committee.

Internal Financial Control

As permitted by the London Stock Exchange, the Company has complied with Code Provision D.2.1 on internal control by reporting on internal financial control in accordance with the guidance for directors on internal control and financial reporting that was issued in December 1994.

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

The Company has an agreement with the Manager under which it receives the services described on page 26. Details of the terms of this agreement, which are periodically reviewed by the Audit Committee of the Company, are also described on page 26. The Manager has established an internal control framework to provide reasonable assurance on the effectiveness of the internal financial controls operated on behalf of its clients. The framework is described in a statement by the directors of the Manager on Internal Corporate Governance. PricewaterhouseCoopers have reported on this statement to the directors of the Manager. In addition, the effectiveness of the internal controls framework is assessed by the Foreign & Colonial Management Group's ("FCM's") compliance and internal audit functions on an ongoing basis.

The Audit Committee, whose activities are described in greater detail below, has received and reviewed the Manager's Statement of Internal Corporate Governance.

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

Going Concern

Having reviewed the balance sheet and current activities of the Group, the directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Audit Committee

The Audit Committee of the Company operates within written terms of reference setting out its authority and duties. It is comprised of four independent directors, namely, Mr R.C.M. Hall as Chairman, Mr P.L. Burton, Mr P.F. Dicks and Mr C.J. Weston. The primary role of the Committee is to review the accounting policies and the contents of the annual report, the adequacy and scope of the external audit and compliance with regulatory and financial reporting requirements. The Committee meets at least twice a year with the Company's auditors being present at each meeting. The Committee has met this year to consider the Company's audit process, its financial statements and the report of the auditors. The Committee has direct access to the auditors, PricewaterhouseCoopers, to FCM's Compliance and Internal Audit Directors and to FCM's Audit Committee.

Remuneration Committee

Under the London Stock Exchange's Listing Rule 21.20(i), where an investment trust company has no executive directors the Code principles relating to directors' remuneration do not apply.

Investor Relations

Both the Company's Annual Report and Accounts, containing a detailed review of performance and of the changes made to the investment portfolio and the Interim Report, containing updated information in a more abbreviated form, are sent to all investors. At the Annual General Meeting investors are given an opportunity to question the Chairman and the other directors.

Year 2000

The principal risks faced by the Company in respect of year 2000 compliance centre around the ability of the Manager, to whom the Board has contractually delegated responsibility for the arrangement of custodial services and the provision of all accounting, secretarial and administrative duties, to address and correct problems that may cause systems not to function as they are intended to as a result of year 2000 issues. Accordingly, the Company does not itself directly face exposure to costs resulting from ensuring year 2000 compliance. The Manager has established a working group which is seeking to identify any area where a problem may arise in connection with year 2000 and is taking steps to address any potential problems in good time.

Charitable and Political Donations

The Company has a covenant with the Charities Aid Foundation for £3,000 per annum. No political donations were made in 1998.

Authority to Allot Shares

The notice of the forthcoming Annual General Meeting of the Company to be held on Wednesday, 21 April 1999 is set out on pages 47 and 48. In additon to the ordinary business of the meeting, two resolutions (numbered 5 and 6) giving directors authority to allot shares are proposed as special business. Resolutions 5 and 6 are similar to the authorities given to the directors at the last Annual General Meeting. By law directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders. In addition, directors require specific authority from shareholders before allotting new shares (or granting rights over shares) for cash without first offering them to existing shareholders in proportion to their holdings. Resolution 5 gives the directors the necessary authority, for the period until the conclusion of the Annual General Meeting in 2000, to allot securities up to an aggregate nominal amount of £470,000 which is equivalent to 5% of the issued share capital. Resolution 6 empowers the directors until the conclusion of the Annual General Meeting in 2000, to allot securities for cash, otherwise than to existing shareholders on a pro-rata basis, up to an aggregate nominal amount of £470,000. This authority provides the directors with some flexbility to increase the assets of the Company by the issue of new shares should any favourable opportunities arise to the advantage of shareholders. The directors can, if necessary, use this authority to satisfy demand from participants in the Foriegn & Colonial Private Investor, Personal Equity and Pension Savings Plans when they believe it is advantageous to plan participants and the Company's shareholders to do so. Under no circumstances would the directors use the authority to dilute the interests of existing shareholders by issuing shares at a price which is less than the net asset value attributable to the shares at the time of issue.

Auditors

On 29 July 1998 Price Waterhouse, having entered into a merger with Coopers & Lybrand, resigned as auditors of the Company. The successor partnership resulting from the merger, PricewaterhouseCoopers, was thereupon appointed to fill the casual vacancy which had arisen. PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution re-appointing them and authorising the directors to fix their remuneration will be submitted at the Annual General Meeting.

For and on behalf of
Foreign & Colonial Management Limited

By order of the Board, R. M. Cayle Secretary
Foreign & Colonial Management Limited,
Secretary

2 March 1999

Consolidated Statement of Total Return (incorporating the Revenue Account*)

For the year ended 31 December	Notes	1998 Revenue £'000s	1998 Capital £'000s	1998 Total £'000s	1997 Revenue £'000s	1997 Capital £'000s	1997 Total £'000s
Gains on investments	10	–	64,105	64,105	–	59,768	59,768
Income	2	8,955	–	8,955	7,131	–	7,131
Investment management fee	3	(1,105)	(3,313)	(4,418)	(681)	(2,041)	(2,722)
Other expenses	4,15	(873)	(195)	(1,068)	(500)	43	(457)
Net return before finance costs and taxation		6,977	60,597	67,574	5,950	57,770	63,720
Interest payable and similar charges	6	(67)	–	(67)	(56)	–	(56)
Return on ordinary activities before tax		6,910	60,597	67,507	5,894	57,770	63,664
Tax on ordinary activities	7,15	(2,011)	1,029	(982)	(1,548)	641	(907)
Return on ordinary activities after tax		4,899	61,626	66,525	4,346	58,411	62,757
Minority interest	22	–	(1,545)	(1,545)	–	–	–
Return attributable to equity shareholders		4,899	60,081	64,980	4,346	58,411	62,757
Dividends in respect of ordinary shares (equity) Proposed final of 4.3p (1997 – 3.9p)		(4,044)	–	(4,044)	(3,668)	–	(3,668)
Transfer to reserves	15	855	60,081	60,936	678	58,411	59,089
Return per ordinary share (basic and diluted)	8	5.21p	63.88p	69.09p	4.62p	62.11p	66.73p

*The column of this statement headed "Revenue" is the Revenue Account of the Group.

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

Consolidated Balance Sheet

At 31 December	Notes	1998 £'000s	1998 £'000s	1997 £'000s	1997 £'000s
Fixed assets					
Investments	10				
Listed in Great Britain		114,714		65,969	
Listed outside Great Britain		4,916		3,667	
		119,630		69,636	
Unlisted at directors' valuation		58,091		59,832	
			177,721		**129,468**
Current assets					
Debtors	11	838		1,094	
Investments		48,390		52,243	
Cash at bank and short term deposits		33,019		14,673	
		82,247		**68,010**	
Current liabilities					
Creditors: amounts falling due within one year	12	6,208		5,859	
Net current assets			**76,039**		**62,151**
Total assets less current liabilities			**253,760**		**191,619**
Capital and reserves					
Called up share capital	14		9,404		9,404
Share premium	15		12,936		12,936
Capital reserve	15		226,064		165,983
Revenue reserve	15		4,151		3,296
Shareholders' funds (equity)	17		**252,555**		**191,619**
Minority interests	22		1,205		–
			253,760		**191,619**
Net asset value per share (basic and diluted)	16		**268.5p**		**203.8p**

The financial statements were approved by the Board of Directors on 2 March 1999.

J. R. Sclater
P. A. M. Curry
} Directors

Parent Company Balance Sheet

At 31 December	Notes	1998 £'000s	1998 £'000s	1997 £'000s	1997 £'000s
Fixed assets					
Investments	10				
Listed in Great Britain		106,422		65,969	
Listed outside Great Britain		4,916		3,667	
		111,338		69,636	
Unlisted at directors' valuation		46,938		59,832	
Subsidiary undertaking	9	18,236		–	
			176,512		**129,468**
Current assets					
Debtors	11	976		1,094	
Investments		48,390		52,243	
Cash at bank and short term deposits		32,900		14,673	
		82,266		**68,010**	
Current liabilities					
Creditors: amounts falling due within one year	12	6,223		5,859	
Net current assets			**76,043**		**62,151**
Total assets less current liabilities			**252,555**		**191,619**
Capital and reserves					
Called up share capital	14		9,404		9,404
Share premium	15		12,936		12,936
Capital reserve	15		226,064		165,983
Revenue reserve	15		4,151		3,296
Shareholders' funds (equity)	17		**252,555**		**191,619**
Net asset value per share (basic and diluted)	16		**268.5p**		**203.8p**

The financial statements were approved by the Board of Directors on 2 March 1999.

J. R. Sclater } Directors
P. A. M. Curry }

Consolidated Cash Flow Statement

For the year ended 31 December	Notes	1998 £'000s	1998 £'000s	1997 £'000s	1997 £'000s
Operating activities					
Cash received from investments		7,317		4,481	
Interest received from deposits		1,364		1,288	
Other income received		37		102	
Cash paid to and on behalf of directors		(86)		(82)	
Investment management fees paid		(4,476)		(2,494)	
Other cash payments		(816)		(729)	
Net cash inflow from operating activities	18		**3,340**		**2,566**
Returns on investments and servicing of finance					
Interest paid		(65)		(56)	
			(65)		**(56)**
Taxation					
Tax recovered		–		71	
Tax paid		(293)		–	
Net cash (outflow)/inflow from taxation			**(293)**		**71**
Acquisitions and disposals					
Purchase of portfolio investments		(37,097)		(17,808)	
Sale of portfolio investments		59,276		36,649	
Purchase of zero coupon preference shares		(10,846)		(3,983)	
Sale of zero coupon preference shares		4,286		–	
Net cash inflow from investing activities			**15,619**		**14,858**
Equity dividends paid			**(3,668)**		**(2,257)**
Cash inflow before use of liquid resources and financing			**14,933**		**15,182**
Management of liquid resources	19				
Decrease/(increase) in investment in Treasury Bills		3,852		(14,222)	
(Increase)/decrease in short term deposits		(16,000)		100	
Net cash outflow from management of liquid resources			**(12,148)**		**(14,122)**
Financing					
Investment by minority interests		620		–	
Distribution to minority interests		(964)		–	
Loans received		–		1,645	
Net cash (outflow)/inflow from financing			**(344)**		**1,645**
Increase in cash			**2,441**		**2,705**

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Notes	1998 £'000s	1997 £'000s
Increase in cash as above		2,441	2,705
Cash inflow from change in debt		–	(1,645)
Cash outflow from change in liquid resources		12,148	14,122
Change in net liquid funds resulting from cash flows		14,589	15,182
Exchange difference		(195)	43
Movement of net liquid funds		14,394	15,225
Net liquid funds at 1 January		65,401	50,176
Net liquid funds at 31 December	20	**79,795**	**65,401**

Notes to the Accounts

1 ACCOUNTING POLICIES

a) Basis of accounting

The accounts have been prepared on the historical basis of accounting, modified to include fixed asset investments at valuation and have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies".

All transactions on the realisation of investments are taken through the capital account.

b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertaking. The results of the subsidiary undertaking are included in the consolidated statement of total return from the date of its formation.

c) Valuation of investments

The investments in the portfolio are valued by the directors, as advised by the Manager, according to the following rules, adjusted for currency movements where appropriate. These rules have been drawn up having regard to the Guidelines for the Valuation and Disclosure of Venture Capital Portfolios issued by the British Venture Capital Association:

Quoted Investments and Treasury Bills
Quoted investments include both listed investments and those traded on other recognised markets. They are held at the mid-market value ruling at the balance sheet date, although, in certain circumstances, a discount may be applied to this value.

Unquoted Investments
a) Unquoted investments are held at cost unless they are valued under rules b) to d) below.
b) Where a third party transaction has taken place, the implicit value may be used as the basis for the investment valuation. If appropriate, a discount will be applied.
c) Where an investment is underperforming, it may be revalued downwards by reference to its last audited accounts and/or current performance.
d) Where an investment is performing well and, in the opinion of the directors, it is significantly undervalued, it may be revalued on a conservative basis.

d) Income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date. Dividends receivable on equity shares where no ex-dividend date is applicable are brought into account when the Group's right to receive payment is established.

Fixed returns on non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield on the shares. Other returns on non-equity shares are recognised when the right to the return is established. The fixed return on a debt security is recognised on a time apportionment basis so as to reflect the effective yield on the debt security. Where reasonable doubt exists that income which falls to be recognised in the period will actually be received, income is recognised on a receipts basis.

Franked investment income includes the imputed tax credit relating to dividends receivable. This tax has been written off within the taxation charge to the extent that it is not recoverable.

e) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account with the following exceptions:

Expenses which are incidental to the acquisition of investments are included within the cost of investments.

Expenses which are incidental to the disposal of investments are deducted from the disposal proceeds of investments.

Expenses are charged to realised capital reserve where a connection with the maintenance or enhancement of the value of investments can be demonstrated. The Board expects the substantial majority of long-term returns from the portfolio to be generated from capital gains and the remainder to be generated from income. The investment management fee has been allocated 75% to the capital account and 25% to the revenue account, reflecting this expectation.

f) Finance costs

Finance costs are accounted for on an accruals basis. Finance costs of debt, insofar as they relate to the financing of the Group's investments or to financing activities aimed at maintaining or enhancing the value of the Group's investments, are allocated 75% to the capital account and 25% to the revenue account, on the same basis as the investment management fee. However, where there is a specific relationship between a particular finance cost and the returns or expected returns from a particular investment or part of the investment portfolio, the allocation between capital and revenue reflects this.

g) Taxation

The tax effect of different items of income or gain and expenditure or loss is allocated between capital and revenue on the same basis as the particular item to which it relates, using the Group's effective rate of tax for the accounting period. Advance Corporation Tax payable on dividends paid or proposed for the year is written off except to the extent that recoverability is considered to be reasonably certain and foreseeable.

h) Foreign currency

Foreign currency assets and liabilities are expressed in sterling at the rates of exchange at the balance sheet date. Foreign currency transactions are translated at the rates of exchange ruling on the dates of those transactions. Exchange differences arising from translation are credited or charged to capital or revenue reserve as appropriate.

2 INCOME

	1998 £'000s	1997 £'000s
Income from investments		
Franked dividends	2,599	2,713
UK unfranked investment income	4,647	2,876
Overseas dividends	22	23
Overseas interest	204	72
	7,472	5,684
Other income		
Deposit interest	1,446	1,344
Underwriting commission	37	27
Other	–	76
	1,483	1,447
Total income	8,955	7,131
Analysis of total income		
Dividends	2,621	2,736
Interest from investments	4,851	2,948
Other income	1,483	1,447
	8,955	7,131
Analysis of income from investments		
Listed UK	1,991	1,465
Listed overseas	22	42
Unlisted	5,459	4,177
	7,472	5,684

3 INVESTMENT MANAGEMENT FEE

	1998			1997		
	Revenue £'000s	Capital £'000s	Total £'000s	Revenue £'000s	Capital £'000s	Total £'000s
Investment management fee	962	2,885	3,847	626	1,877	2,503
Irrecoverable VAT thereon	143	428	571	55	164	219
	1,105	3,313	4,418	681	2,041	2,722

F&C Ventures Limited ("FCV") provides investment management and general administrative services to the Group for a quarterly fee payable in arrears equal to 0.375% of the total assets less all liabilities other than borrowings and less the value of the investments in two funds which are also advised or managed by FCV, F.&C. Buy-out Trust and F&C Ventures Limited Partnership II. The value of these two investments at 31 December 1998 was £1,027,000 (1997 - £1,196,000).

The allocation of the management fee and irrecoverable VAT in 1998 was unchanged with 75% allocated to the capital account and 25% to the revenue account.

4 OTHER EXPENSES

The Group does not directly employ any staff.

	1998 £'000s	1997 £'000s
Directors' fees	87	82
Auditors' remuneration:		
for services as auditors	18	21
for non audit services	6	4
General expenses	762	393
	873	500

5 DIRECTORS' REMUNERATION AND INTERESTS

a) Remuneration from the Company

The amounts paid by the company as directors' fees were as follows:

	1998 £'000s	1997 £'000s
J. R. Sclater (Chairman)	20	20
A. C. Barker	10#	10#
P. L. Burton	11	11
P. A. M. Curry	10	10
P. F. Dicks	5	–
R. C. M. Hall	11	11
J. J. Nelson	10*	10*
C. J. Weston	10	10
	87	82

Assigned to Foreign & Colonial Management
* Assigned to F&C Ventures – see b)

3 INVESTMENT MANAGEMENT FEE

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J. J. Nelson	10*	10*
C. J. Weston	10	10
	87	82

Assigned to Foreign & Colonial Management
* Assigned to F&C Ventures – see b)

b) Emoluments from F&C Ventures

The Hon J. J. Nelson receives emoluments paid by F&C Ventures ("FCV"). The proportion of his emoluments paid by FCV which relate to the management of the affairs of the Company amounts to £64,000 (1997 - £69,000) which can be analysed as follows:

	1998 £'000s	1997 £'000s
Salaries and other benefits	34	31
Performance-related bonus	15	1
Payments to pension schemes	15	37
	64	69

Aggregate emoluments paid to directors by the Company and FCV amounted to £141,000 (1997 - same).

c) Directors' interests in shares

The interests of the directors in the share capital of the Company, which are beneficial unless otherwise noted, were as follows:

Ordinary Shares

	31 December 1998	31 December 1997
A. C. Barker	60,000	60,000
P. L. Burton	19,063	19,063
P. A. M. Curry	47,663	47,663
R. C. M. Hall	15,990	15,990
J. J. Nelson – beneficial	112,130	112,130
– held as trustee	16,800	16,800
C. J. Weston	5,000	5,000

There has been no change in the above shareholdings since the end of the financial year and no director has held any interest in the Company's share capital other than as shown above.

d) Directors' interests in contracts with the Group

The Co-investment arrangements are described in note 22. During the year ended 31 December 1998 the Hon J. J. Nelson subscribed an amount of £70,000 (1997 - nil) and received cash payments of £115,000 (1997 - nil) under these arrangements.

No other contracts in which any director of the Group was materially interested and which were significant in relation to the Group's business have existed at any time during the year.

6 INTEREST PAYABLE AND SIMILAR CHARGES

	1998 £'000s	1997 £'000s
On bank loans and overdrafts:		
Repayable within 5 years, not by instalments	67	56
	67	56

7 TAXATION

	1998 £'000s	1997 £'000s
UK Corporation tax at 31.0% (1997 – 31.5%)	1,494	1,002
Tax attributable to franked investment income	521	542
Adjustment for prior years	(4)	4
	2,011	1,548

8 RETURN PER ORDINARY SHARE

Revenue return per ordinary share is based on revenue return attributable to equity shareholders of £4,899,000 (1997 - £4,346,000). Calculated on both the basic and diluted basis the revenue return per share is 5.21p per share (1997 - 4.62p).

Capital return per ordinary share is based on capital return attributable to equity shareholders for the financial year of £60,081,000 (1997 - £58,411,000). Calculated on both the basic and diluted basis the capital return per share is 63.88p per share (1997 - 62.11p).

Both the revenue and capital returns are based on 94,044,837 ordinary shares in issue at the year end (1997 - same).

9 SUBSIDIARY UNDERTAKING

The following was a subsidiary undertaking as at 31 December 1998:

Company and business	Country of registration
Foreign & Colonial Enterprise Trust Limited Partnership (limited partnership)	England

The Company makes investments through Foreign & Colonial Enterprise Trust Limited Partnership (the "Partnership"). With the exception of the executives of FCV, including the Hon J. J. Nelson, (or their nominees) and a subsidiary of FCV, (together the "Co-investors"), the Company is the only investor in the Partnership. The Co-investors invest alongside the Company under the co-investment arrangements described in note 22. Contributions by the Company and the Co-investors take the form of loans to the Partnership. As a limited partner the Company's liability is restricted to the amount of its loans to the Partnership. Reflecting its 97.5% contribution to investments, the Partnership is considered to be a subsidiary undertaking of the Company and accordingly consolidated accounts have been prepared. The amount contributed by the Co-investors, together with their share of the gains on investments, is shown as minority interest on the balance sheet.

In the Company's accounts the Partnership is valued at an amount reflecting its underlying assets and liabilities. Investments held by the Partnership are valued in accordance with the valuation policy as set out in note 1.

10 INVESTMENTS

Group	Listed £'000s	Unlisted £'000s	Total £'000s
Cost at 1 January 1998	21,522	32,481	54,003
Unrealised appreciation at 1 January 1998	48,114	27,351	75,465
Valuation at 1 January 1998	69,636	59,832	129,468
Movements in the year:			
Purchases at cost	16,316	31,627	47,943
Transfer from unlisted to listed	65,996	(65,996)	–
Sales – proceeds	(16,555)	(47,240)	(63,795)
– realised gains based on carrying value at previous balance sheet date	4,912	28,459	33,371
(Decrease)/increase in unrealised appreciation	(20,675)	51,409	30,734
Valuation at 31 December 1998	119,630	58,091	177,721
Cost at 31 December 1998	31,452	55,575	87,027
Unrealised appreciation at 31 December 1998	88,178	2,516	90,694
	119,630	58,091	177,721

	1998 £'000s	1997 £'000s
Realised gains based on cost	48,876	25,222
Less: amounts recognised as unrealised in previous years	(15,505)	(14,857)
Realised gains based on carrying values at previous balance sheet date	33,371	10,365
Increase in unrealised appreciation	30,734	49,403
Gains on investments	64,105	59,768

Parent	Listed £'000s	Unlisted £'000s	Subsidiary Undertaking £'000s	Total £'000s
Cost at 1 January 1998	21,522	32,481	–	54,003
Unrealised appreciation at 1 January 1998	48,114	27,351	–	75,465
Valuation at 1 January 1998	69,636	59,832	–	129,468
Movements in the year:				
Purchases at cost	16,104	28,752	2,762	47,618
Transfer to subsidiary undertaking – cost	(83)	(8,393)	8,476	–
– unrealised appreciation	(8,995)	515	8,480	–
Transfer from unlisted to listed	65,996	(65,996)	–	–
Sales – proceeds	(16,426)	(46,137)	(567)	(63,130)
– realised gains based on carrying value at previous balance sheet date	4,881	27,986	–	32,867
(Decrease)/increase in unrealised appreciation	(19,775)	50,379	(915)	29,689
Valuation at 31 December 1998	111,338	46,938	18,236	176,512
Cost at 31 December 1998	31,156	44,971	10,671	86,798
Unrealised appreciation at 31 December 1998	80,182	1,967	7,565	89,714
	111,338	46,938	18,236	176,512

	1998 £'000s	1997 £'000s
Realised gains based on cost	48,311	25,222
Less: amounts recognised as unrealised in previous years	(15,444)	(14,857)
Realised gains based on carrying values at previous balance sheet date	32,867	10,365
Increase in unrealised appreciation	29,689	49,403
Gains on investments	62,556	59,768

A geographical and sector analysis of the portfolio is given in note 23. Details of the 30 largest investments are given on pages 15 to 21.

The Group held 20% or more of the following classes of shares:

Company	Country of incorporation or registration	Number and class of shares held	Percentage of class held
Adderbury Industries Limited	England	3,000 ordinary shares of £1	30.0
Angloarch Limited	England	16,230 'B' ordinary shares of 0.1p	32.5
Caremark Holdings Limited	England	192,511 'A' ordinary shares of 10p	43.8
Countrywide Freight Group Limited	England	288,964 ordinary shares of £1	74.1
Deutsche Tecalemit GmbH	Germany	2 shares	50.0
Ennis Foods Limited	Eire	1,142,150 'A' ordinary shares of IEP 0.001	48.7
First Mortgage Group Limited	England	314,500 ordinary shares of 25p	49.9
		44,744 ordinary non voting shares of 25p	100.0
Gateway Homecare Inc.	USA	118,498 series 'A' convertible preferred shares of $.01	37.1
		71,429 series 'B' convertible preferred shares of $.01	39.1
Global Money Transfer Limited	England	66,119 'B' ordinary shares of 30p	55.8
		346,694 preference shares of 50p	63.6
Hill Leigh Holdings Limited	England	53,362 'B' ordinary shares of £1	94.0
		84,626 'C' preference shares of £1	94.0
		470,146 'D' preference shares of £1	94.0
		6,769,387 deferred shares of £1	91.4
Leapfrog Day Nurseries Limited	England	585,859 'B' preferred ordinary shares of 10p	22.2
		691,919 redeemable preference shares of £1	22.2
Manifest Information Services Limited	England	3,600 ordinary shares of £1	36.0
		569,998 preference shares of £1	70.2
		2 'A' preference shares of £1	66.7
Martinelli Holdings Limited	England	100,000 'A' ordinary shares of 25p	50.0
Paperchase Products Limited	England	476,072 'B' ordinary shares of 10p	33.3
		133,334 preferred ordinary shares of 10p	33.3
		236,658 'B' preference shares of £1	33.3
PIFC Holdings Limited	England	6,373 preferred ordinary shares	33.3
		333,333 preference shares of £1	33.3
Strayfield Limited	England	162,500 'A' ordinary shares of 1p	33.3
		583,333 preference shares of £1	33.3
Wagamama (Holdings) Limited	England	521,507 preference shares of £1	21.5
		70,968 'B' ordinary shares of £1	21.5
		45,879 'A' ordinary shares of £1	21.5

None of the above holdings represents a participating interest as defined in the Companies Act 1985.

In addition to the above, the Company had a holding of 3% or more that is material in the context of the financial statements in the following investments:

Company	Country of incorporation or registration	Number and class of shares held	Percentage of class held
Computacenter plc	England	8,376,489 ordinary shares of 5p	5.2
Independent Insurance Group PLC	England	8,000,000 ordinary shares of 5p	3.3

During the year material disposals of the following unquoted investments were made:

Company	Cost at 1/1/98 £'000s	Carrying value at 1/1/98 £'000s	Purchases £'000s	Disposal proceeds £'000s	Gain over cost £'000s	Cost at 31/12/98 £'000s	Carrying value at 31/12/98 £'000s
Computacenter plc	616	25,000	–	26,629	26,424	411	36,857
Game PLC	1,007	1,007	581	5,223	4,220	585	4,167

11 DEBTORS

	1998 Group £'000s	1998 Parent £'000s	1997 Group £'000s	1997 Parent £'000s
Prepayments and accrued income	356	348	1,063	1,063
Other debtors	482	628	31	31
	838	976	1,094	1,094

12 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 Group £'000s	1998 Parent £'000s	1997 Group £'000s	1997 Parent £'000s
Accruals	181	179	371	371
Other creditors	43	39	5	5
Dividend payable on ordinary shares	4,044	4,044	3,668	3,668
Bank loans (see note 13)	1,614	1,614	1,515	1,515
Taxation payable	326	347	300	300
	6,208	6,223	5,859	5,859

13 LOANS

	1998 £'000s	1997 £'000s
FFr15,000,000 at 3.875%	1,614	1,515
	1,614	1,515

The loans outstanding were drawn down under an uncommitted unsecured multi-currency overdraft and short term fixtures facility of £10 million, available until June 1999, with annual reviews.

14 SHARE CAPITAL

	1998 £'000s	1997 £'000s
Authorised		
120,000,000 (1997 – same) ordinary shares of 10p	12,000	12,000
Called Up, Issued and Fully Paid		
94,044,837 (1997 – same) ordinary shares of 10p	9,404	9,404

15 RESERVES

Group	Realised capital reserve £'000s	Unrealised capital reserve £'000s	Total capital reserves £'000s	Share premium £'000s	Revenue reserve £'000s
Balance at 1 January 1998	89,171	76,812	165,983	12,936	3,296
Exchange difference	(99)	(96)	(195)	–	–
Transfer on disposal of investments	16,722	(16,722)	–	–	–
Net gain on realisation of investments	33,371	–	33,371	–	–
Increase in unrealised appreciation	–	30,734	30,734	–	–
Management fee charged to capital	(3,313)	–	(3,313)	–	–
Tax effect of capital items	1,029	–	1,029	–	–
Minority interests	(965)	(580)	(1,545)	–	–
Retained revenue for the year	–	–	–	–	855
Balance at 31 December 1998	135,916	90,148	226,064	12,936	4,151

Parent	Realised capital reserve £'000s	Unrealised capital reserve £'000s	Total capital reserves £'000s	Share premium £'000s	Revenue reserve £'000s
Balance at 1 January 1998	89,171	76,812	165,983	12,936	3,296
Exchange difference	(99)	(96)	(195)	–	–
Transfer on disposal of investments	16,657	(16,657)	–	–	–
Net gain on realisation of investments	32,871	–	32,871	–	–
Increase in unrealised appreciation	–	29,689	29,689	–	–
Management fee charged to capital	(3,313)	–	(3,313)	–	–
Tax effect of capital items	1,029	–	1,029	–	–
Retained revenue for the year	–	–	–	–	855
Balance at 31 December 1998	136,316	89,748	226,064	12,936	4,151

The profit after taxation of the parent company was £4,899,000 (1997 – £4,346,000). A separate revenue account for the Company has not been included, as permitted by Section 230 of the Companies Act 1985.

16 NET ASSET VALUE PER SHARE

The net asset value per share is based on shareholders' funds of £252,555,000 (1997 – £191,619,000) and on 94,044,837 (1997 – same) ordinary shares in issue at the year end. Calculated on both the basic and the diluted basis the net asset value per share is 268.5p (1997 – 203.8p).

17 RECONCILIATION OF MOVEMENTS IN ORDINARY SHAREHOLDERS' FUNDS

	1998		1997	
	Group £'000s	Parent £'000s	Group £'000s	Parent £'000s
Net revenue attributable to ordinary shareholders	4,899	4,899	4,346	4,346
Dividend	(4,044)	(4,044)	(3,668)	(3,668)
Revenue surplus	855	855	678	678
Opening shareholders' funds	191,619	191,619	132,530	132,530
Capital surplus	60,081	60,081	58,411	58,411
Revenue surplus	855	855	678	678
Closing shareholders' funds	252,555	252,555	191,619	191,619

18 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1998 £'000s	1997 £'000s
Net revenue on ordinary activities before taxation	6,910	5,894
Add back interest payable	67	56
Income before interest payable and taxation	6,977	5,950
Decrease/(increase) in debtors	420	(682)
Decrease in creditors	(84)	(57)
Tax on investment income included within income	(660)	(604)
Management fee to capital	(3,313)	(2,041)
Net cash inflow from operating activities	3,340	2,566

19 MANAGEMENT OF LIQUID RESOURCES

During the year there were purchases of Treasury Bills of £105,777,000 (1997 - £60,092,000) and maturities of £109,629,000 (1997 - £45,871,000). Short term deposits were made of £78,600,000 (1997 - £40,900,000) and there were maturities of £62,600,000 (1997 - £41,000,000).

20 ANALYSIS OF NET LIQUID FUNDS

	At 1 Jan 1998 £'000s	Cash flow £'000s	Exchange movement £'000s	At 31 Dec 1998 £'000s
Cash at bank and short term deposits	14,673	18,442	(96)	33,019
Debt	(1,515)	–	(99)	(1,614)
Current asset investments	52,243	(3,853)	–	48,390
Total	65,401	14,589	(195)	79,795

21 CAPITAL COMMITMENTS AND CONTIGENCIES

Most investments made by the Group are allocated 80% to the Company and 20% to the Partnership. Under this arrangement the Company is committed to provide funds to the Partnership to enable it to take up its 20% share.

The Group had uncalled commitments to the following portfolio companies at 31 December:

	1998 £'000s	1997 £'000s
Hibernia Development Capital Partners	3,953	–
Charterhouse Capital Partners VI	3,745	4,975
Leapfrog Day Nurseries	2,722	–
Ennis Foods	1,905	–
Deutsche Tecalemit	722	–
Highclear Homes/Minster Care	517	–
Charterhouse Capital Partners V	177	259
Charterhouse European Limited Partnership	–	116
B Elliott	97	–
London & Henley	–	985
Detektor	–	725
Global Money Transfer	–	306
Total	13,838	7,366

22 MINORITY INTERESTS

The minority interests, which are also described in note 9, represent the interests of the Co-investors in the assets of the Partnership at 31 December 1998.

The executives of FCV or their nominees and a subsidiary of FCV (together the "Co-investors") co-invest with the Company through the Partnership. For so long as FCV is the manager of the Company, the Co-investors are required, for each investment made by the Partnership, to subscribe 0.5% of the cost of the Group's investment. During the year ended 31 December 1998 the Co-investors subscribed an amount of £620,000 (1997 - nil) and received cash payments totalling £964,000 (1997 - nil) under the co-investment arrangements. From every investment made by the Partnership which achieves at least an 8% per annum compound return the Co-investors are entitled to a share of the proceeds equivalent to 10% of the gross income and capital gains (the "Share") from the Group's investment. If this compound return is not achieved on any individual investment, the Co-investors lose the amount committed by them in respect of that investment. The Share is calculated and, if applicable, paid on the cash receipt by the Partnership of gross income and capital proceeds from investments or on the flotation of portfolio companies when it may be satisfied in specie.

23 SECTOR ANALYSIS at 31 December 1998

	UK		Europe		North America		1998 Total	1997 Total
	Q	U	Q	U	Q	U		
	%	%	%	%	%	%	%	%
Advertising and recruitment	6.0	–	–	–	–	–	6.0	13.1
Breweries, pubs and restaurants	–	1.8	–	–	–	–	1.8	0.6
Chemicals	–	–	0.8	–	–	–	0.8	3.1
Communications and office equipment	0.6	–	–	1.7	–	–	2.3	1.1
Computer services and software	22.2	–	–	–	–	2.3	24.5	21.2
Consumer goods manufacturing	–	3.0	–	1.0	–	0.3	4.3	1.5
Consumer services	0.6	1.2	–	1.0	–	–	2.8	0.9
Electronics	–	–	–	–	0.5	–	0.5	2.0
Engineering	0.8	2.9	–	–	–	–	3.7	2.5
Health care and pharmaceuticals	–	2.7	–	–	–	1.3	4.0	3.3
Industrial materials and services	1.1	2.3	–	1.9	1.4	1.1	7.8	7.1
Insurance	16.7	–	–	–	–	–	16.7	20.8
Investment management	–	–	–	–	–	–	–	1.9
Leisure	–	–	–	0.3	–	–	0.3	0.4
Merchant banking and finance	7.7	0.4	–	–	–	–	8.1	9.2
Mortgages and personal finance	–	0.4	–	–	–	–	0.4	1.3
Newspapers and publishing	–	0.3	–	–	–	–	0.3	0.3
Private equity funds	0.1	0.6	–	2.4	–	0.2	3.3	2.8
Property	–	–	–	0.3	–	–	0.3	2.0
Retailing	4.9	1.8	–	–	–	0.1	6.8	3.3
Transport and distribution	2.2	2.9	–	–	0.2	–	5.3	1.6
Totals	62.9	20.3	0.8	8.6	2.1	5.3	100.0	100.0
1997 Totals	51.1	37.1	0.5	4.7	2.3	4.3		100.0

Q Quoted investments include both listed investments (excluding zero coupon preference shares) and those traded on other organised markets.

U Unquoted investments.

Note: The value of convertible securities is £2,026,000 or 1.1% of the portfolio. The value of fixed income securities is £7,445,000 or 4.2% of the portfolio.

Directors' Statement of Responsibility

As required by company law, the directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1998 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 the Statement of Recommended Practice "Financial Statements of Investment Trust Companies". The directors are also responsible for ensuring that adequate accounting records are maintained and have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent fraud and other irregularities.

Auditors' Report

To the members of Foreign & Colonial Enterprise Trust PLC

We have audited the financial statements on pages 30 to 44.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described above the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

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

We read other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 27 and 28 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Group's corporate governance procedures or its internal controls.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes as assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and the Group at 31 December 1998 and of the total return and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Acs 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors
2 March 1999

Southwark Towers
32 London Bridge Street
London SE1 9SY

Notice of Meeting

Notice is hereby given that the eighteenth Annual General Meeting of Foreign & Colonial Enterprise Trust PLC will be held at the registered office of the Company, Exchange House, Primrose Street, London EC2A 2NY, on Wednesday, 21 April 1999 at 12.15 p.m. for the following purposes:

Ordinary Business

1 To receive and adopt the directors' report and accounts for the year ended 31 December 1998.

2 To declare a dividend on the ordinary shares.

3 To re-elect the following directors:
- a) Mr P. F. Dicks
- b) Mr M. R. Cumming
- c) Mr C. J. Weston
- d) Mr P. L. Burton

4 To re-appoint PricewaterhouseCoopers as auditors to the Company (having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of Price Waterhouse and special notice having been received of the intention to propose the resolution) and authorise the directors to fix their remuneration.

Special Business

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

THAT:

a) the directors be and they are hereby generally and unconditionally authorised, in accordance with Section 80 of the Companies Act 1985 ("the Act"), to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £470,000 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 2000, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry and notwithstanding such expiry the directors may allot relevant securities in pursuance of such offers or agreements; and

b) all authorities previously conferred under Section 80 of the Act be and they are hereby revoked, provided that such revocation shall not have retrospective effect.

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

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

a) the directors be and they are hereby empowered, pursuant to Section 95 of the Companies Act 1985 (the "Act"), to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the authority given in accordance with Section 80 of the Act by the said resolution numbered 5 as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £470,000 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 2000, but so that this power shall enable the Company to make offers or agreements before the expiry of this authority which would or might require equity securities to be allotted after the expiry of this power and notwithstanding such expiry the directors may allot equity securities in pursuance of such offers or agreements; and

b) all powers previously conferred under Section 95 of the Act be and they are hereby revoked, provided that such revocation shall not have retrospective effect.

By order of the Board
Foreign & Colonial Management Limited
Secretary

19 March 1999

Registered office
Exchange House
Primrose Street
London EC2A 2NY

Notes

Only shareholders registered on the register of members of the Company at 7.00 a.m. on 20 April 1999 shall be entitled to attend and vote at the meeting in respect of the shares registered in their name at that time. Changes to entries on the register of members after 7.00 a.m. on 20 April 1999 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and vote instead of him. 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 of authority, must be deposited with the Company's registrars, Computershare Services PLC, PO Box 457, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 0XG, 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 Foreign & Colonial Private Investor, Personal Equity or Pensions Savings Plans should ensure that forms of direction are returned to Computershare Services PLC not later than 96 hours before the time appointed for holding the meeting.

The register of directors' holdings and the Company's memorandum and articles of association 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 dividend in respect of the year ended 31 December 1998 will, if approved, be paid on 23 April 1999 to holders of ordinary shares on the register at the close of business on 19 March 1999.

F&C Ventures Limited
Berkeley Square House
Berkeley Square
London W1X 5PA
(Regulated by IMRO)

F&C Ventures