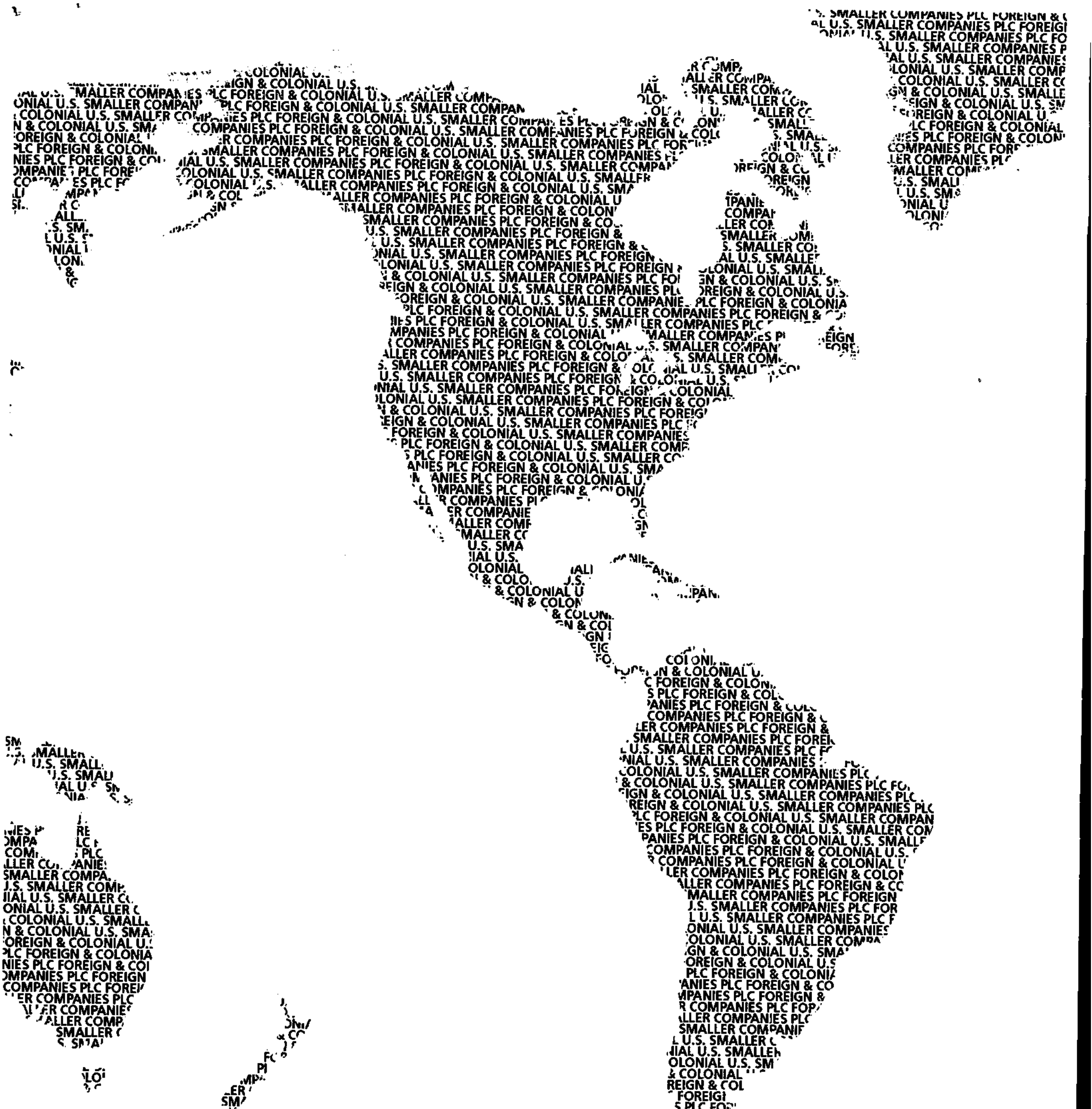


Foreign & Colonial U.S. Smaller Companies PLC

Report & Accounts for the year-ended 30 June 2000

Foreign & Colonial

The objective of Foreign & Colonial U.S. Smaller Companies PLC is to achieve long-term capital growth by investing in a diversified portfolio of quoted US smaller and medium-sized companies.

Contents

Summary of Results

Attributable to equity shareholders	**30 June 2000**	30 June 1999	% change
Net assets	**£80.95m**	£115.96m	– 30.2
Net assets per share	**243.35p**	230.30p	+ 5.7
Russell 2000 Smaller Companies Index (sterling adjusted)	**341.66**	290.34	+ 17.7
Share price	**200.00p**	183.25p	+ 9.1
Warrant price	**103.00p**	105.00p	– 1.9

Increase in net asset value per share since inception on 8 March 1993	**+ 152.3**
Increase in the Russell 2000 Smaller Companies Index (sterling adjusted)	**+ 116.6**

Financial Calendar

Annual General Meeting	8 November 2000
Interim results for 2000/2001 announced	February 2001
Final Results for 2000/2001 announced	September 2001

Company Registration Number: 02781968

Chairman's Statement

Gordon Grender Chairman

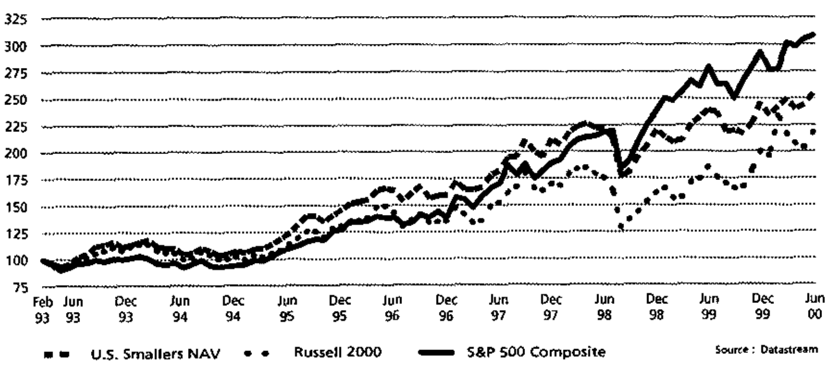
Dear Shareholder,

Results

I am pleased to present the annual report for Foreign & Colonial U.S. Smaller Companies PLC for the year ended 30 June 2000. In the more speculative investment environment of the past year our risk averse investment strategy, with a focus on companies with a history of consistent profitability, has produced below average returns. As a result your Company underperformed its benchmark for the first year in its seven year history.

For the year to 30 June 2000 the net asset value per share rose by 5.7%. This compares with a 17.7% rise in our sterling converted benchmark, the Russell 2000 Smaller Companies Index. Since the inception of the Company in March 1993, the net asset value per share has risen by 152.3%. This compares to an increase of 116.6% in the Russell 2000.

Foreign & Colonial U.S. Smallers NAV v Russell 2000 & S&P 500



Despite several increases in interest rates by the Federal Reserve Board, the US stockmarket has made good progress with particularly strong gains being seen in the technology and health care sectors which rose by 71.6% and 56.6% respectively (Russell 2000 Index, sterling adjusted) over the period under review. Many companies in the technology sector have relatively small revenue bases and are losing money. The investment strategy of the Company is to try to find companies with strong franchises and strong free cash flow to fund expansion. Careful attention is paid to the quality and life of the assets. Despite the rapid growth being achieved by many technology companies, few fit these criteria and the Manager has remained substantially underweight in the sector. This decision has had a major negative impact on performance. In addition a number of our investments in the consumer sector which appeared to offer better value performed poorly as investors concentrated on more rapidly growing areas of the market.

In line with the stated policy in previous years, your Board is not recommending the payment of a dividend for the year ended 30 June 2000.

Share and Warrant Repurchase

At two separate extraordinary general meetings held during the course of the year and at the last annual general meeting shareholders gave the Board the requisite authority to buy back shares for cancellation. Since shareholders first gave the necessary authority in July 1999, 17,132,885, or 34%, of the ordinary shares in issue have been bought back. The share repurchase programme has had the effect of reducing the size of your Company so that at 30 June 2000 the net assets stood at £80.95 million compared with £115.96 million a year earlier.

The programme added approximately 10p per share to the fully diluted net asset value as at 30 June 2000. The discount to net asset value at which the shares trade, 9.5% at 5 September 2000, has ranged between 5.1% and 15.8% over the year.

Your Board remains committed to an active policy of buying back the ordinary shares of the Company, with the aim of reducing the discount to net asset value at which the shares trade and enhancing the net asset value per share.

Your Board also has a policy of repurchasing warrants for cancellation provided such repurchases add to the diluted net asset value. During the last financial year the Company repurchased around 31% of the outstanding warrants at an average price of 92p. Since the inception of the Company in 1993, 56% of the warrants that were issued have either been exercised or repurchased.

Prospects

The signs from around the world generally indicate that economic growth is likely to slow and this could begin to affect the US. For the moment consumer spending in the US is particularly sensitive to swings in the stockmarket as consumer instalment debt, relative to personal income, is at a record high. Energy prices have had their biggest increase for 20 years and the real Federal Funds Rate is at its highest level since 1989. With this background further increases in interest rates may not occur. We have begun to see signs of better relative performance from smaller companies. Much of this performance has been attributable to a relatively narrow group of highly rated technology and biotechnology companies. Since the sharp correction in the NASDAQ index in April and May, the breadth of the market has improved and with it the relative performance of the portfolio. We still believe that many technology issues are overpriced while many of our major investments appear undervalued. We therefore hope that after a disappointing year the relative performance of your Company will improve in the coming months.

G. Grender

Gordon Grender

September 2000

Manager's Report

Market Review

The year to 30 June 2000 was the first year since the launch of the Company in 1993 that we failed to beat our benchmark index. This was a disappointment but reflects an unusually narrow and speculative market.

Smaller companies remain comparatively cheaper than larger companies, while profits growth remains robust. Within both the major indices and smaller companies there remains a wide gap in valuations between sectors perceived to be high growth and the rest of the market. This is producing distortions and market inefficiencies, with highly rated companies able to use their inflated stock price to acquire complementary businesses, while at the other end of the market there are companies selling below book value and on single digit multiples which offer some interesting investment opportunities.

The economic background in the US remains favourable for equity investment; consumer confidence is strong and employment growth remains high. The cycle of rising interest rates appears to be coming to an end as there are signs of a slowing in the rate of economic expansion. Corporate activity has picked up with European buyers particularly active in the US. Demographic trends and the need for individuals to provide for their retirement adds to the flow of funds into stocks creating further support to the equity market.

Investment Strategy

We pay particular attention to the cash flow characteristics and asset life of the companies we consider for investment. Generally we avoid investing in fashionable sectors where realistic long-term prospects are fully discounted. The focus is on companies that can sustain earnings and cash flow in a variety of economic conditions.

We also try to identify future micro-economic and regulatory trends and focus on companies benefiting from these trends before they are more widely recognised. A good example is in the cellular telephone area where we have identified a number of interesting rural operators. The rural companies face less competition, operate in markets that are less heavily penetrated, are growing faster and trade on lower valuations than the national companies. Consolidation of the wireless industry continues apace and the rural operators are becoming strategically important to the national companies.

Portfolio

Our risk-averse investment style, successful in a variety of different stockmarket environments, has not been helpful in the past year. The extraordinary performance of a number of technology companies, many with only limited operating history and no history of profits, has caught the imagination of the investing public in the US. Many technology stocks have seen five to tenfold increases in their share price. We have tended to focus on companies that are non-capital intensive and with a history of profitable trading. The excitement generated by the rapid development of the Internet, wireless technology and optical fibre networks, has resulted in unprecedented speculation. The mapping of the human genome has also led to extraordinary moves in the biotechnology sector, again an area where it is hard to find companies achieving consistent profitability. The extremes seen in the early part of the year have, at least, partially reversed and it appears we may be moving into a more rational investment environment.

Our goal is to produce a high compound annual rate of return with a risk profile below that of most other US small company funds and the benchmark index. This has been achieved historically with a value-orientated approach. The aim with each new investment is to buy a leading company within its industry at a time when the valuation in our view reflects limited risk. New investments are often either under researched or out of favour in the short term, although we like to see a catalyst which will make investors sufficiently more interested so that the stock will be revalued over time.

The sector weightings within the portfolio have changed over the past year, but not significantly. The technology sector represents 9.5% of the portfolio and 25% of the benchmark index. Given the size and importance of the sector we have worked hard to identify stocks that fit our investment criteria. Network security represents a new industry that has evolved with the development of the Internet and we expect that corporations globally will have to spend heavily to ensure they can operate in a secure environment. It is a competitive market place but Entrust and Axent Technologies, two recent additions to the portfolio, address this rapidly growing industry. Exposure to the IT services sector has been built up as demand for consultants to implement Internet strategies for corporations is growing rapidly. This sector trades on a reasonable valuation relative to its growth rate and is not dependent on any single product or technology.

The largest sector weighting continues to be media, particularly radio broadcasting and billboard advertising. The strength of the economy and aggressive advertising by Internet companies has helped the group to achieve record profits growth. This has been reflected in higher valuations and we have taken advantage of this strength to reduce positions in Infinity Broadcasting and Westwood One. Proceeds from these sales have been partially reinvested into the cable TV sector where we expect the growth in digital services, advertising and pay TV will increase the growth rate for cable systems. Cable companies currently trade at a discount to the radio sector and we expect this gap to narrow over the next year as new services start to benefit the bottom line.

The energy sector has enjoyed a good recovery in the last year helped by firming oil and natural gas prices. Exposure to the group has risen to almost 10% over the past year through the purchase of R&B Falcon, a drill ship company, and strong stock price performance from our other energy holdings. Weatherford International has taken advantage of the downturn in drilling in 1999 to acquire complementary businesses. Weatherford International is focused on rig services, while Grant Prideco, which has recently been spun off as a separate company, is the dominant domestic manufacturer of drill pipe. With capacity having been reduced in the downturn last year, returns in the business should improve this year and next.

Exposure to the financial sector has been reduced and changed. Several regional bank holdings and insurance stocks have been sold and replaced by speciality finance companies. Many of the small traditional banking and mortgage companies are seeing greater competition while margins are under pressure both from higher short term interest rates and cost increases associated with labour and technology spending.

The proceeds from reducing our weighting in financial stocks have been reinvested in rural and regional cellular companies.

Commercial and business services remain an important part of the portfolio. The companies within this sector are generally non-capital intensive, enjoy above average returns and generate free cash flow. They are labour intensive and in the current environment of full employment and severe competition for skilled employees this group has not performed as well as we would have hoped. However, most of the companies have a leading position in their respective markets and should do better when the market returns to paying up for companies with attractive financial characteristics.

Several holdings within the portfolio have been subject to acquisition in the last year, mainly in the media sector where consolidation has continued. Several of our larger holdings have been acquired, including Outdoor Systems, US Foodservices, TV Guide, TCA Cable and NFO Research. Most have been acquired for stock and as a result we have several holdings in larger companies. These positions will be sold down over time.

We remain committed to identifying niche businesses with pricing power and strong financial characteristics. We have invested in companies that benefit from the productivity revolution brought on by technological innovation but trade on multiples of earnings that properly recognise the risks in any business as well as the opportunities. Most of the companies in the portfolio should be able to sustain earnings and cash flow growth in a variety of economic conditions. We attempt to purchase such companies when they are not well covered by Wall Street brokers and therefore have 'discovery' potential. This can lead to expanding valuations and enhanced returns. There will be periods, like the last year, when this style works against us but we firmly believe that over the long term our investment strategy will result in highly satisfactory rates of return.

Outlook

Over the last few months the most highly rated stocks, particularly in the technology sector, have come under pressure and there has been a recovery in some of our traditional investment areas. We feel that the downturn in technology has further to run while there is still great potential within the portfolio for stock price appreciation.

G. R. Gle

Graeme Glen
September 2000

Directors and Management

Gordon Grender, Chairman

A director of the Company since its inception in 1993, he became Chairman in October 1998. He has been actively involved in fund management in North American stockmarkets since 1974. He has been the investment adviser to GAMerica Inc. and GAM North American Unit Trust since their respective inceptions in 1983 and 1985 and is a director of GAM International Management Limited. *Age 56.*

Norman Bachop

He was with Mercury Asset Management PLC and its predecessor companies for 30 years, 21 of which were spent managing US equities. He was appointed to the Board in February 1999. *Age 53.*

Peter Barton

Appointed to the Board in February 1998. He is a solicitor and investment banker who has many years experience in the finance sector including 9 years with Lehman Brothers International and 4 years with Robert Fleming & Company Limited following a career of over 20 years as a corporate lawyer. He is deputy chairman of Alliance & Leicester PLC, Chairman of Howard de Walden Estates Limited and a trustee director of the Guinness Trust Group. *Age 63.*

David Hunter

He has worked in the City for more than 35 years and is currently a director of NCL Investments Limited and Aurora Investment Trust PLC. He joined the Board in April 1994. *Age 64.*

All the directors are Members of the Audit Committee

Management

Graeme Glen Manager

He has been managing US funds since 1987. He joined the Foreign & Colonial Management Group in 1996. *Age 41.*

Robert Dowdall

Director of Finance of Foreign & Colonial Management Limited. He joined the group in 1990. *Age 53.*

Rowan Hostler

Carries out the company secretarial duties of the Company on behalf of Foreign & Colonial Management Limited. She joined the Group in 1992. *Age 31.*

Nick Pitt-Lewis

Director of Legal and Compliance of Foreign & Colonial Management Limited. He joined the Group in 1992. *Age 47.*

Secretary and Registered Office:

Foreign & Colonial Management Limited
Exchange House, Primrose Street, London EC2A 2NY.

Regulated by Investment Management Regulatory Organisation Limited (IMRO) and the Personal Investment Authority (PIA).

Registered in England.

Telephone:	020 7628 8000
Facsimile:	020 7628 8188
Website:	www.fandc.co.uk
email:	info@fandc.co.uk

Bankers:

Chase Manhattan N.A.
The Royal Bank of Scotland plc.

Registrars:

Computershare Services PLC, PO Box 435, Owen House,
8 Bankhead Crossway North, Edinburgh EH11 4BR.
Telephone: 0870 702 0130

Auditors:

PricewaterhouseCoopers, Southwark Towers,
32 London Bridge Street, London SE1 9SY.

AITC *Member of The Association of Investment Trust Companies*

Twenty Largest Equity Holdings

as at 30 June 2000

% of total investments

1 Harte-Hanks **4.9**

This successful media company has diversified away from traditional markets such as newspapers and television. Future growth will come from direct marketing and customer relationship management, much faster growing sectors. The company has become a leading player in these rapidly growing areas and has a strong balance sheet that will allow further acquisitions.

2 Infinity Broadcasting **4.0**

Outdoor Systems was acquired by Infinity Broadcasting, one of the largest radio companies in the US. It is controlled by Viacom and operated by Mel Karmizan, a powerful media operator. The Company received Infinity Broadcasting stock when the deal closed last December.

3 Lamar Advertising **3.1**

Lamar Advertising is the largest independent outdoor advertising company. Operating in smaller markets, the company is generating high returns as pricing remains robust, driven by the strong advertising environment. The cost per view is still significantly below other advertising media. The company has recently acquired the billboard assets of Chancellor Radio which should accelerate growth.

4 Price Communications **3.0**

Price Communications is a rural wireless operator, offering cellular service in the south-eastern US. They have strong management and cash flow margins of over 55%. Rural systems have little competition and should fetch a good price as the industry consolidates.

5 Kirby **3.0**

This leading operator of inland tank barges in the United States has recently announced the acquisition of their biggest competitor. The new company will have a strengthened position in the market and over time should use it to their advantage.

% of total investments

6 Cox Radio **2.9**

Further consolidation within the radio industry has fuelled a rerating of Cox Radio. However, the stock still sells at a significant discount to the leading operators. The company has recently acquired assets from Clear Channel at a relatively low price after the Justice Department forced Clear Channel to relinquish some stations following their acquisition of AMFM.

7 Waddell & Reed Financial **2.9**

Waddell & Reed Financial is a leading asset manager, benefiting from the strong secular growth trend in mutual funds and personal pension plans. They have a full range of products from value funds through to aggressive growth and technology funds. A change in the fee structure will enhance earnings over the next two years.

8 Interpublic Group of Companies **2.9**

Our holding in NFO Research, a leading market research company, was acquired by the Intepublic Group for stock. Interpublic Group is one of the world's leading advertising agencies. The company is one of three major global agencies that have consolidated the market and are now moving into non-traditional areas like direct marketing. The strength in the US economy and the development of the Internet as a new advertising medium has created a strong advertising environment.

9 Cousins Properties **2.8**

This Atlanta based property development company is growing income by over 15% per annum. Atlanta is one of the most attractive growth areas in the US and the management is highly regarded and risk averse. Over the last two years Cousins Properties has diversified regionally into Charlotte, N.C., Austin, TX. and San Francisco, CA.

10 Weatherford International **2.7**

The company was formed by the merger between EVI and Weatherford International, building a complete oilfield services company. During the recent downturn, the company aggressively acquired smaller companies at depressed prices to round out its offering. The company has recently spun out its commodity drill pipe business – Grant Prideco.

	% of total investments

11 Concord Communications 2.5

Concord Communications develops software that is used to monitor a network's health. Being able to see the performance of different components and applications in a network is essential to ensure quality of service, through indentifying problems before the network fails.

12 Acxiom 2.4

Acxiom is a leading direct marketing and data management company. Historically they have worked closely with the financial services sector, taking their data and using it for targeted advertising campaigns. Through internally developed software, they are now getting involved in customer relationship management, partnering other core software companies such as Oracle to provide data cleansing technology.

13 Grant Prideco 2.4

Grant Prideco was spun out of Weatherford International. Grant Prideco manufactures drill pipe and drill stem products. Pricing and volumes for this consumable item have begun to increase significantly.

14 Emmis Communications 2.3

Emmis Communications is a major radio and TV station operator and also owns several magazine titles. The company has announced that the TV station and radio businesses will be separated. This will allow further acquisitions in the radio area and should add to the value of the business. Emmis currently sells at a discount to the leading radio station companies.

15 CH Robinson Worldwide 2.3

CH Robinson Worldwide has built a highly profitable non-asset based logistics business. The company is benefiting from a trend by companies to outsource truck fleet management. The company recently acquired a large regional competitor, American Backhaulers, and the acquisition has gone very well. The pricing environment is good and the company generates significant free cash flow.

	% of total investments

16 Swift Energy 2.2

Swift Energy is a gas exploration and production company. Swift Energy acquired gas assets from Sonat during the market downturn. They are now reaping the rewards of a substantially higher gas price. The Swift family owns a large part of the company and may sell the company during this cycle.

17 G&K Services 2.0

G&K Services, the second largest uniform rental company in the US, has had a difficult year integrating National Linen, a recent acquisition. Margins have suffered and the growth rate has slowed. The company is developing a direct selling group designed to pull in smaller customers. There is also an opportunity for the company to build additional services alongside the delivery of uniforms.

18 R&B Falcon 2.0

R&B Falcon provides drilling ships to the oil and gas sector. They have a large deepwater fleet and, with stronger energy prices, increased drilling demand is pushing up day rates. Cash flow will be used to pay down debt.

19 Westwood One 1.9

The company is the largest radio network operator in the US. The fundamentals of this industry are improving as a result of management's actions to consolidate the industry. The business requires little capital expenditure and free cash flow is growing rapidly. The recent purchase of Metro Networks further strengthens Westwood One's position in radio programming.

20 Impath 1.8

Impath is a leading cancer information company. Using a patient specific database they can analyse new cases and recommend suitable treatments, which can save time, money and lives. They are also providing data and testing to biotechnology companies that are developing cancer treatments.

The value of the twenty largest equity holdings represented 54.0% (1999: 52.6%) of the Company's total investments.

List of Investments

Listed Investments	Holding	Value at 30 June 2000 £'000s
Equities		
RESOURCES		
Grant Prideco	112,400	1,856
R&B Falcon	100,800	1,569
Swift Energy	92,500	1,734
Transmontaigne	26,900	109
Weatherford International	79,600	2,093
		7,361
GENERAL INDUSTRIALS		
Applied Power	24,400	540
Chyron Corp	150,000	285
McDermott International	168,200	979
Thermo Electron	75,000	1,043
United Dominion Industries	63,200	710
		3,557
CYCLICAL CONSUMER GOODS		
Interface	20,600	52
Westpoint Stevens	179,400	1,318
		1,370
NON-CYCLICAL CONSUMER GOODS		
Impath	40,000	1,433
Infocure	140,800	523
Sterile Recoveries	51,000	262
		2,218
CYCLICAL SERVICES		
Acxiom	105,080	1,891
American Classic Voyages	63,500	865
Bisys Group	25,500	1,036
Carey International	106,800	979
CH Robinson Worldwide	54,300	1,775
Championship Auto Racing Teams	74,700	1,258
Cox Radio	124,500	2,303
Education Management	85,000	1,014
Emmis Communications	66,000	1,804
FYI	23,530	524
G&K Services	96,525	1,598
Harte-Hanks	231,300	3,820
Infinity Broadcasting	130,000	3,129
Insight Communications	87,100	899
Interpublic Group of Companies	80,000	2,272
Iron Mountain	59,250	1,331
Kirby	167,400	2,350
Koala Corporation	65,600	612
Lamar Advertising	86,200	2,466
Regis	135,750	1,121
Republic Services	82,975	877
Tetra Tech	72,400	1,094
TV Guide	45,100	1,020
Vail Resorts	60,900	656
Westwood One	65,450	1,475
Whitman Education	121,100	120
Worldgate Communications	20,700	243
		38,532

Listed Investments	Holding	Value at 30 June 2000 £'000s
NON-CYCLICAL SERVICES		
Commonwealth Telephone Ent.	26,100	811
Millicom International	50,800	1,174
Price Communications	153,535	2,390
PSINet	60,000	996
Western Wireless	25,000	900
		6,271
FINANCIALS		
CNA Surety	109,000	859
Cousins Properties	88,000	2,238
Dime Bancorp	104,700	1,089
Gallagher (Arthur J.) & Co	50,600	1,404
Investment Technology Group	53,400	1,393
Jones Lang Lasalle	145,800	1,288
Sterling Bancorp	32,265	336
Waddell & Reed Financial	106,200	2,302
		10,909
INFORMATION TECHNOLOGY		
Axent Technologies	64,800	1,062
Concord Communications	75,500	1,989
Dupont Photomasks	25,400	1,149
Entrust Technologies	13,250	724
Informix	87,500	430
marchFIRST	52,000	627
PubliCARD	481,150	1,043
Technology Solutions	125,000	511
Telescan	50,000	241
		7,776
VENTURE CAPITAL		
Safeguard Scientifics	28,500	604
		604
Total Portfolio		**78,598**

The number of investments in the portfolio is 65 (1999 - 79).

The value of convertible securities in the total portfolio at 30 June 2000 is £nil (1999 - £nil).

Report of the Directors

The directors present their report and the financial statements of the Company for the year ended 30 June 2000.

Status of Company

During the year under review the Company carried on the business of an investment trust and has since conducted its affairs so as to continue to qualify as such under the provisions of Section 842 of the Income and Corporation Taxes Act 1988. The last accounting period for which the Company has been treated as approved by the Inland Revenue was for the year ended 30 June 1999.

The Company is an investment company as defined by Section 266 of the Companies Act 1985. However, in connection with the implementation of its share buy-back programme, the Company revoked its investment company status on 13 July 1999. Following a subsequent change in the law on 8 November 1999, the Company re-registered as an investment company on 24 December 1999. The change in the law on investment company status is explained in the circular that accompanies this report and accounts.

From 6 April 1999, the shares became eligible for inclusion in the PEP replacement, the Individual Savings Account (ISA).

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

Results and Dividends

No dividend is recommended for payment on the ordinary shares.

Capital

Ordinary Shares

The Company has obtained the following authorities from both the ordinary shareholders and warrantholders to make market purchases of ordinary shares for cancellation:

i) At an Extraordinary General Meeting held on 12 July 1999, up to 7,502,074 shares;

ii) At an Extraordinary General Meeting held on 22 September 1999, up to 6,384,574 shares;

iii) At the Annual General Meeting held on 3 November 1999, up to 6,384,574 shares.

Pursuant to these authorities, each one replacing prior authorities, 17,132,885 ordinary shares were purchased for cancellation at prices ranging between 163.5p and 202p per share during the year under review.

Warrants

On 30 November 1999, 109 holders of the Company's warrants exercised their right to subscribe for a total of 46,392 ordinary shares at the fixed subscription price of 100p per share.

The annual notice reminding warrant holders of their subscription rights will be sent out towards the end of October.

During the year the Company purchased for cancellation a total of 1,960,000 warrants (200,000 at 85p and 1,760,000 at 93p per warrant).

Review of the Business

A review of the Company's activities is given in the Chairman's Statement on pages 2 and 3 and in the Manager's Report on pages 4 to 6.

Substantial Share Interests

As at 6 September 2000 the Company had received notification of the following holdings of more than 3% of its ordinary share capital:

	Ordinary Shares of 25p each	%
Foreign & Colonial Management Limited (including Foreign & Colonial Investment Trust PLC 2,718,169 – 8.1%)	3,730,953	11.2

Directors

The directors are listed on page 7. All the directors held office throughout the year under review. The director retiring by rotation is Mr D.H. Hunter who, being eligible, offers himself for re-election. No director has a service contract with the Company. Details of directors' shareholdings in the Company are contained in note 5 on the accounts.

Management

Note 3 on the accounts provides details of the Company's management agreement with Foreign & Colonial Management Limited.

Policy on Payments to Suppliers

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

At 30 June 2000, the Company's outstanding trade creditors were equivalent to 3 days payments to suppliers.

Duration of the Company

At the Annual General Meeting in 2002, a resolution will be put to the shareholders which, if carried, will enable the Company to continue as an investment trust for an unlimited period thereafter. Full details will be sent to shareholders at that time.

As part of the proposals approved by shareholders and warrantholders at the Extraordinary General Meeting and meeting of the holders of warrants on 12 July 1999 the Board undertook that, prior to the submission of the continuation vote in 2002 and every three years thereafter, it would put forward recommended proposals which would allow shareholders to vote on realising their investment at a price which fairly reflected the then asset value.

Corporate Governance

The Company is committed to high standards of corporate governance and has complied throughout the year under review with the provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange (the "Code").

The Board currently comprises four non-executive directors all of whom are independent of the Company's Manager. Mr D.H.Hunter is the senior independent director of the Company. There is no Chief Executive position within the Company. All of the directors are resident in the UK and their biographical details on page 7 of this annual report demonstrate the wide range of skills and experience that they bring to the Board. New appointees to the Board are given a preliminary briefing on the workings of the Company by the Chairman, the Manager and other appropriate persons.

It is the responsibility of the Board to ensure that there is effective stewardship of the Company's affairs. Strategic issues and all operational matters of a material nature are determined by the Board. In order to enable them to discharge their responsibilities, all directors have full and timely access to relevant information. The Board meets regularly and at each meeting reviews investment performance as well as other high level management information including financial reports. It monitors compliance with the Company's objectives and is directly responsible for monitoring investment strategy and approving asset allocation and gearing.

The Board has established a procedure whereby directors, wishing to do so in the furtherance of their duties, may take independent professional advice at the Company's expense. Despite the requirement of the Company's articles of association that one third of the Board is subject to retirement by rotation each year, the Board complies with the provision contained in the Code whereby all directors are required to submit themselves for re-election at least every three years. At the forthcoming Annual General Meeting it is proposed that the articles of association be amended to make them consistent with this Code provision.

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

Accountability and Audit

The Company has adopted the transitional approach for the internal control aspects of the Code as set out in the letter from the London Stock Exchange to listed companies at the end of September 1999.

The Board confirms that it has established the procedures necessary to implement the guidance "Internal Control Guidance for Directors on the Combined Code".

Time has been allocated by the Board to identify and review risks throughout the year ending 30 June 2001. The identification, control and evaluation of risk is embedded by a series of quarterly investment performance, performance attribution and Manager's reports, a new quarterly risk control report, an annual compliance report and the Manager's Statement of Internal Corporate Governance.

The Board will make a full risk and control assessment, including reviewing the Manager's risk management infrastructure and delegated monitoring processes of other third parties before reporting for the year ending 30 June 2001.

As permitted by the London Stock Exchange and notwithstanding the adoption of the transitional arrangements referred to above, 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 of the Company are safeguarded, proper accounting records are maintained and the financial information used within the business and for publication is reliable. The systems of internal financial controls are designed to provide reasonable, but not absolute, assurance against material mis-statement or loss.

The Board has contractually delegated responsibility for management of the investment portfolio, the arrangement of custodial services and the provision of accounting and company secretarial services to Foreign & Colonial Management Limited. Details of the terms of its agreement with the Manager, as set out in note 3, are reviewed periodically by the Company's Audit Committee.

The Manager has set out in a Statement of Internal Corporate Governance its control policies and procedures with respect to management of its clients' investments. The effectiveness of these controls is monitored by the Manager's group audit committee, which receives regular reports from the Manager's compliance and internal audit functions and the Statement contains a report from the Manager's external auditors.

The Audit Committee of the Company, which comprises all of its directors, operates within written terms of reference clearly setting out its authority and duties. Its primary role is to review the accounting policies and the adequacy and scope of the external audit and compliance with regulatory and financial reporting requirements. The Committee has direct access to the Auditors, PricewaterhouseCoopers, and to the compliance and internal audit directors of the Manager and to the Manager's group audit committee.

The Company's Audit Committee has received and reviewed a report from the Manager's group audit committee on the effectiveness of the internal financial controls maintained on behalf of the Company, together with a copy of the Manager's Statement of Internal Corporate Governance.

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

For and on behalf of
FOREIGN & COLONIAL MANAGEMENT LIMITED

.... SECRETARY

Going Concern

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

Remuneration Committee

The Company has no employees or executive directors and consequently does not have a remuneration committee. Note 5 on the accounts provides information on the remuneration arrangements for directors of the Company.

Investor Relations

Communications with shareholders are given a high priority. In addition to the information provided in the annual and interim accounts, updated information is available on the Foreign & Colonial website at www.fandc.co.uk. All shareholders are encouraged to attend the Annual General Meeting, where they are given an opportunity to question the Chairman and his colleagues on the Board. Saving scheme investors receive a magazine, "Fundamentals", on a regular basis from the Manager.

Year 2000

The Manager has confirmed that all support systems, both internally maintained and delivered through external parties, are fully operational and that no material or significant problems affecting the Company have arisen from the Year 2000 date change.

Auditors

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.

Special Business at the Annual General Meeting

Shareholders will find details, in the enclosed separate circular, of the forthcoming Annual General Meeting of the Company to be held at Exchange House, Primrose Street, London EC2 on Wednesday, 8 November 2000, including the resolutions to be proposed at that meeting.

By order of the Board,
Foreign & Colonial Management Limited, Secretary
6 September 2000

Directors' Statement of Responsibilities

As required by company law, the directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the Company as at 30 June 2000 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 UK accounting standards and on a going concern basis. The directors are also responsible for ensuring that adequate accounting records are maintained and have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Auditors' Report

Report of the auditors to the members of Foreign & Colonial U.S. Smaller Companies PLC

We have audited the financial statements on pages 16 to 25.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report. As described on page 14, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority 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 United Kingdom 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 the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 12 and 13 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 30 June 2000 and of its total return and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Southwark Towers
32 London Bridge Street
London SE1 9SY

6 September 2000

Statement of Total Return

(incorporating the Revenue Account*) for the year ended 30 June

Revenue Notes	Capital Notes		2000 Revenue £'000s	2000 Capital £'000s	2000 Total £'000s	1999 Revenue £'000s	1999 Capital £'000s	1999 Total £'000s
	9	Gains and losses on investments	–	(202)	(202)	–	8,645	8,645
	18	Exchange gains and losses on currency balances	–	(40)	(40)	–	338	338
2		Income	627	–	627	1,102	–	1,102
3		Management fee	(695)	–	(695)	(830)	–	(830)
	18	Loss on warrants purchased for cancellation	–	(1,158)	(1,158)	–	(376)	(376)
4	18	Other expenses	(182)	(13)	(195)	(147)	(173)	(320)
		Net return before finance costs and taxation	(250)	(1,413)	(1,663)	125	8,434	8,559
6		Interest payable and similar charges	–	–	–	–	–	–
		Return on ordinary activities before taxation	(250)	(1,413)	(1,663)	125	8,434	8,559
7		Taxation on ordinary activities	(69)	–	(69)	(127)	–	(127)
		Return attributable to equity shareholders	(319)	(1,413)	(1,732)	(2)	8,434	8,432
		Dividends on ordinary shares (equity)	–	–	–	–	–	–
18	18	**Amount transferred (from)/to reserves**	(319)	(1,413)	(1,732)	(2)	8,434	8,432
8	8	**Return per ordinary share – pence**	(0.86)	(3.81)	(4.67)	–	16.75	16.75
		Return per ordinary share (diluted) – pence	†	†	†	–	16.00	16.00

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

† There is no dilution (see note 8).

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

Balance Sheet

at 30 June

Notes		£'000s	2000 £'000s	£'000s	1999 £'000s
	Fixed Assets				
9	Listed investments		**78,598**		108,583
	Current assets				
10	Debtors	**171**		1,686	
	Taxation recoverable	**42**		34	
	Cash at bank and short-term deposits	**2,395**		8,062	
		2,608		9,782	
	Current liabilities				
11	Creditors: amounts falling due within one year	**(260)**		(2,410)	
	Net current assets		**2,348**		7,372
	Net assets		**80,946**		115,955
	Capital and reserves				
13	Called up equity share capital		**8,316**		12,587
14	Capital redemption reserve	**4,283**		–	
15	Share premium	**50**		32,782	
16	Warrant reserve	**1,438**		2,101	
17	Special reserve	**27,945**		–	
18	Capital reserves	**39,630**		68,882	
18	Revenue reserve	**(716)**		(397)	
			72,630		103,368
19	Total shareholders' funds - equity		**80,946**		115,955
20	**Net asset value per ordinary share**				
	Basic – pence		**243.35**		230.30
	Diluted – pence		**228.44**		217.82

Approved by the Board on 6 September 2000

C. Grender C. Grender

Gordon Grender

Cash Flow Statement

for the year ended 30 June

Notes		2000 £'000s	2000 £'000s	1999 £'000s	1999 £'000s
	Operating activities				
	Investment income received	**565**		878	
	Interest received	**129**		154	
	Fee paid to the management company	**(765)**		(812)	
	Cash paid to and on behalf of directors	**(48)**		(42)	
	Other cash payments	**(114)**		(104)	
21	**Net cash (outflow)/inflow from operating activities**		**(233)**		74
	Taxation				
	UK tax received	**–**		5	
	Overseas tax paid	**(86)**		(116)	
	Total tax paid		**(86)**		(111)
	Financial investment				
	Purchases of investments	**(45,843)**		(34,369)	
	Sales of investments	**75,030**		40,328	
	Warrants purchased for cancellation	**(1,806)**		(777)	
	Performance-related management fee	**–**		(229)	
	Other capital expenses and credits	**(9)**		(6)	
	Net cash inflow from financial investment		**27,372**		4,947
	Net cash inflow before use of liquid resources and financing		**27,053**		4,910
	Management of liquid resources				
	Decrease/(increase) in short-term deposits		**6,362**		(6,175)
	Financing				
	Net cash inflow from conversion of warrants	**47**		23	
	Purchase of ordinary shares	**(32,764)**		–	
	Net cash (outflow)/inflow from financing		**(32,717)**		23
22	**Increase/(decrease) in cash**		**698**		(1,242)

Notes on the Accounts

1 ACCOUNTING POLICIES

(a) Basis of accounting

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

During the year, as a technical consequence of the purchase of the Company's ordinary shares (see note 13), the Company ceased to be an investment company within the meaning of S266, Companies Act 1985. However, the directors consider that in order to give a true and fair view the accounts should continue to be prepared in accordance with the SORP as explained in note 23.

(b) Valuation of investments

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

(c) Foreign currency

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

(d) Income

Income from equity shares is brought into account on the ex-dividend date or, where no ex-dividend date is quoted, when the Company's right to receive payment is established.

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

(e) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except those expenses incidental to the acquisition or disposal of investments and perfomance-related management fees (calculated under the terms of the management agreement) which are charged through capital reserves.

(f) Finance costs

Finance costs are accounted for on an accruals basis and are charged through the revenue account.

(g) Taxation

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

(h) Capital reserves

Capital reserve – realised

The following are accounted for in this reserve:

- gains and losses on the realisation of investments
- realised exchange differences of a capital nature
- losses on warrants purchased for cancellation
- costs of purchasing ordinary share capital (prior to establishment of the special reserve).
- other capital charges and credits charged or credited to this account in accordance with the above policies.

Capital reserve – unrealised

The following are accounted for in this reserve:

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

2 INCOME

	2000 £'000s	1999 £'000s
Overseas dividends	442	871
Interest from investments	59	37
Interest on cash and short-term deposits	126	194
Total income	**627**	1,102

3 MANAGEMENT FEE

	2000 £'000s	1999 £'000s
Management fee	**695**	830

Under the terms of a management agreement dated 11 February 199, the Manager provides investment management and general administrative services to the Company, for a quarterly management fee payable in arrears equal to 0.20% of the funds under management.

The Manager is also eligible for a performance-related management fee, charged through capital reserves, of 5% of any annual outperformance by the net asset value (NAV) of "target performance", defined as a margin of 2% over the Russell 2000 Smaller Companies Index (in both cases converted to sterling). If the NAV performance (adjusted to exclude the relevant performance-related fee) exceeds the target, the performance-related fee is payable on the excess. If the NAV underperforms the Russell 2000 Smaller Companies Index by 2% or more, the under-performance will be carried forward and no further performance-related fee will be payable until the NAV has both recovered the accumulated under-performance and exceeded the target performance for the year. The maximum performance-related fee which may be payable in respect of any year is 0.7% of gross assets. No performance-related fee is payable in respect of the year ended 30 June 2000 (1999: £nil).

The management agreement may be terminated upon one year's notice given by either party.

4 OTHER EXPENSES

Under the arrangements for the Company's management and administration the Company does not employ any staff.

	2000 £'000s	1999 £'000s
Directors' emoluments:		
fees for services to the Company (see note 5)	45	41
General expenses	120	89
Auditors' remuneration:		
for audit services	14	13
for audit-related services	3	4
	182	147

5 DIRECTORS' REMUNERATION AND CONTRACTS

(a) Remuneration

The Company had no employees during the year.

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

	2000 £'000s	1999 £'000s
G.D.Grender (Chairman)	15	13
N.M.Bachop	10	3
M.P.S. Barton	10	10
W.T.Griffin	–	5
D.H.Hunter	10	10
Totals	**45**	41

None of the directors of the Company other than those listed above received any remuneration from the Company in either period.

(b) Directors' interests in shares

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

	30 June 2000		30 June 1999	
	Ordinary Shares	**Warrants**	Ordinary Shares	Warrants
N.M.Bachop	-	-	–	–
M.P.S. Barton	5,000	-	5,000	–
G.D.Grender	15,000	3,000	15,000	3,000
D.H.Hunter	10,000	–	5,000	25,000

No director held any interest, beneficial or otherwise, in the issued shares or warrants of the Company other than stated above. Since the Company's year end, there have been no changes in any of the directors' holdings detailed above.

6 INTEREST PAYABLE AND SIMILAR CHARGES

	2000 £'000s	1999 £'000s
On overdrafts	–	–

7 TAXATION ON ORDINARY ACTIVITIES

	2000 £'000s	1999 £'000s
Overseas taxation	69	127

8 RETURN PER EQUITY SHARE

Revenue return

The revenue return per share is based on the revenue return attributable to equity shareholders of £319,000 loss (1999: £2,000 loss).

Capital return

The capital return per share is based on the capital return attributable to equity shareholders of £1,413,000 loss (1999: £8,434,000 gain). Both the revenue and capital returns are based on a weighted average of 37,094,953 ordinary shares in issue during the year (1999: 50,339,695).

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

	2000	1999
Weighted average number of ordinary shares in issue – for basic return calculations	37,094,953	50,339,695
Dilutive potential shares	2,977,677	2,375,514
Weighted average number of ordinary shares in issue – for diluted return calculations	**40,072,630**	52,715,209

In the current year the reported revenue and capital losses, when divided by the weighted average number of ordinary shares in issue of 40,072,630, result in smaller losses per share than the basic return calculations and hence there is no dilution of the basic returns.

9 LISTED INVESTMENTS

	Total £'000s
Cost at 1 July 1999	75,529
Unrealised appreciation at 1 July 1999	33,054
Valuation at 1 July 1999	108,583
Movements in the year:	
Purchases at cost	43,904
Sales - proceeds	(73,687)
- realised losses on sales	(19,422)
Increase in unrealised appreciation	19,220
Valuation at 30 June 2000	**78,598**
Cost at 30 June 2000	63,153
Unrealised appreciation at 30 June 2000	15,445
	78,598

Gains and losses on investments	2000 £'000s	1999 £'000s
Realised gains based on historical cost	17,407	9,691
Less: amounts recognised as unrealised in previous years	(36,829)	(12,232)
Realised losses based on carrying value at previous balance sheet date	(19,422)	(2,541)
Increase in unrealised appreciation	19,220	11,186
(Losses)/gains on investments	**(202)**	8,645

10 DEBTORS

	2000 £'000s	1999 £'000s
Investment debtors	102	1,492
Prepayments and accrued income	22	118
Other debtors	47	76
	171	1,686

11 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2000 £'000s	1999 £'000s
Investment creditors	–	1,939
Accruals	260	471
	260	2,410

12 GEOGRAPHICAL AND INDUSTRIAL CLASSIFICATION: TOTAL ASSETS LESS CURRENT LIABILITIES

	USA %	UK %	2000 Total %	1999 Total %
Assets				
Equities and fixed interest				
Resources	9.1	–	9.1	2.6
Basic industrials	–	–	–	1.5
General industrials	4.0	–	4.0	2.2
Cyclical consumer goods	1.7	–	1.7	3.3
Non-cyclical consumer goods	2.7	–	2.7	3.0
Cyclical services	46.3	–	46.3	53.6
Non-cyclical services	7.7	–	7.7	3.0
Financials	13.5	–	13.5	17.7
Information technology	11.2	–	11.2	6.0
Venture capital	0.7	–	0.7	0.8
Total equities and fixed interest	96.9	–	96.9	93.7
Net current assets	2.4	0.7	3.1	6.3
Total assets less current liabilities	**99.3**	**0.7**	**100.0**	
1999 Totals:	100.2	(0.2)		100.00

13 SHARE CAPITAL

	Authorised Number	Nominal £'000s	Issued, allotted and paid up Number	Nominal £'000s
Equity share capital				
Ordinary shares of 25p each				
Balance brought forward	75,000,000	18,750	50,349,491	12,587
Transfer to capital redemption reserve (see note 14)	–	–	(17,132,885)	(4,283)
Shares issued on conversion of warrants	–	–	46,392	12
Balance carried forward	**75,000,000**	**18,750**	**33,262,998**	**8,316**

During the year 17,132,885 ordinary shares were purchased at a cost of £32,676,000. Purchases prior to the creation of the special reserve have been taken through capital reserve realised (see note 18). Purchases subsequent to that date have been taken to the special reserve (see note 17).

14 CAPITAL REDEMPTION RESERVE

	2000 £'000s
Balance brought forward	–
Transferred from equity share capital	4,283
Balance carried forward	**4,283**

The capital redemption reserve has arisen following the purchase during the year of 17,132,885 ordinary shares with a nominal value of 25p each.

15 SHARE PREMIUM

	2000 £'000s	1999 £'000s
Balance brought forward	32,782	32,756
Transferred to special reserve (see note 17)	(32,782)	–
Received on issue of 46,392 (1999: 23,370) ordinary shares on conversion of warrants	35	18
Transferred from warrant reserve on conversion of warrants (see note 16)	15	8
Balance carried forward	**50**	32,782

16 WARRANT RESERVE

	2000 £'000s	1999 £'000s
Balance brought forward	2,101	2,509
Transferred to share premium on conversion of warrants	(15)	(8)
Warrants purchased for cancellation	(648)	(400)
Balance carried forward	**1,438**	2,101

On 30 November 1999, 109 (1999: 63) holders of the Company's warrants exercised their right to subscribe for a total of 46,392 (1999: 23,370) ordinary shares at the fixed subscription price of 100p per share. On several occasions during the year, the Company bought warrants for cancellation at prices ranging from 85p to 93p. A total of 1,960,000 were bought at a total cost of £1,806,800.

At 30 June 2000 there were 4,342,484 (1999: 6,348,876) warrants outstanding.

Warrant holders have the right to subscribe for one ordinary share per warrant at 100p in cash on 30 November or 30 days after the audited accounts have been despatched to holders, whichever is the later, in any year up to, and including, 2002.

17 SPECIAL RESERVE

	2000 £'000s
Balance brought forward	–
Transferred from share premium	32,782
Cost of purchase of ordinary shares	(4,837)
Balance carried forward	**27,945**

Following approval of the Court on 29 October 1999, £32,782,000 has been transferred from share premium to the special reserve which can be used to fund the purchase by the Company of its own ordinary shares.

18 OTHER RESERVES

	Capital reserve – realised £'000s	Capital reserve – unrealised £'000s	Capital reserves total £'000s	Revenue reserve £'000s
Realised gains and losses on investments	(19,422)	–	(19,422)	–
Transfers on disposal of investments	36,829	(36,829)	–	–
Exchange gains and losses on currency balances	(40)	–	(40)	–
Other capital charges and credits	(13)	–	(13)	–
Loss on warrants purchased for cancellation	(1,158)	–	(1,158)	–
Increase in unrealised appreciation on investments	–	19,220	19,220	–
Amount transferred from revenue reserve	–	–	–	(319)
	16,196	(17,609)	(1,413)	(319)
Cost of purchase of ordinary shares	(27,839)	–	(27,839)	–
Balance brought forward	35,828	33,054	68,882	(397)
Balance carried forward	**24,185**	**15,445**	**39,630**	**(716)**

Included within the capital reserve movement for the year is £237,000 (1999: £nil) of dividends recognised as capital.

19 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	2000 £'000s	1999 £'000s
Revenue return on ordinary activities after taxation	(319)	(2)
Capital return on ordinary activities after taxation	(1,413)	8,434
Net (decrease)/increase in equity shareholders' funds	(1,732)	8,432
New share capital subscribed on exercise of warrants	47	23
Cost of purchase of ordinary shares out of special reserve and capital reserve	(32,676)	–
Warrants purchased for cancellation	(648)	(400)
Total equity shareholders' funds brought forward	115,955	107,900
Total equity shareholders' funds carried forward	**80,946**	115,955

20 NET ASSET VALUE PER ORDINARY SHARE

Net asset value per ordinary share is based on total net assets of £80,946,000 (1999: £115,955,000) and on 33,262,998 (1999: 50,349,491) ordinary shares in issue at 30 June 1999.

The diluted net assets per share assumes the exercise of 4,342,484 (1999: 6,348,876) warrants outstanding at 30 June 2000 at 100p per warrant. The diluted net asset values per ordinary share have been calculated in accordance with FRS14, under which the Company's outstanding warrants are considered dilutive only if the exercise price is lower than the market price of the ordinary shares at the year-end. The dilution is calculated by reference to the additional number of ordinary shares which warrantholders would have received on exercise as compared with the number of ordinary shares which the subscription proceeds would have purchased in the open market ("dilutive potential shares").

	2000	1999
Ordinary shares in issue at 30 June – for basic net asset value calculations	33,262,998	50,349,491
Dilutive potential shares at 30 June	2,171,242	2,884,278
Ordinary shares in issue at 30 June – for diluted net asset value calculations	**35,434,240**	53,233,769

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

	2000 £'000s	1999 £'000s
Net revenue return before finance costs and taxation	(250)	125
Decrease/(increase) in accrued income	96	(70)
Decrease in other debtors	29	12
(Decrease)/increase in creditors	(108)	7
Net cash (outflow)/inflow from operating activities	**(233)**	74

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

	2000 £'000s	1999 £'000s
Increase/(decrease) in cash	698	(1,242)
(Decrease)/increase in deposits	(6,362)	6,175
Movement resulting from cash flows	(5,664)	4,933
Exchange movement	(3)	338
Movement in net funds	(5,667)	5,271
Net funds brought forward	8,062	2,791
Net funds carried forward	**2,395**	8,062

Represented by:	Balance at 1 July 1999 £'000s	Cash flow £'000s	Exchange movement £'000s	Balance at 30 June 2000 £'000s
Cash at bank	1,718	698	(21)	2,395
Short-term deposits	6,344	(6,362)	18	–
	8,062	**(5,664)**	**(3)**	2,395

23 INVESTMENT COMPANY STATUS

During the year, as a technical consequence of its share buy-back programme, the Company ceased to be an investment company within the meaning of Section 266 of the Companies Act 1985. However, following a change in the legislation on investment company status on 8 November 1999, the Company re-registered as an investment company on 24 December 1999. Throughout the year it continued to conduct its affairs as an investment trust for taxation purposes under Section 842 of the Income and Corporation Taxes Act 1988.

Even though the Company was not an investment company for the entire year ended 30 June 2000, the Directors consider it appropriate to continue to present the accounts in accordance with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (SORP). Under the SORP, the financial performance of the Company is presented in a statement of total return in which the revenue column is the profit and loss account of the Company. The revenue column excludes certain capital items which, since the Company was not an investment company for the entire accounting period, the Companies Act and/or FRS3 would ordinarily require to be included in the profit and loss account: loss on disposal of investments of £19,422,000 (1999: £12,232,000 loss) calculated by reference to their previous carrying amount; loss on warrants purchased for cancellation of £1,158,000 (1999: £376,000) and; exchange losses on capital items of £40,000 (1999: £388,000 gain). In the opinion of the Directors the inclusion of these items in the profit and loss account would obscure and distort both the revenue and capital performance of the Company, and would not show clearly the revenue profits emerging to be distributable by way of dividend. The Directors therefore consider that these departures from accounting standards and from provisions of Schedule 4 of the Companies Act 1985, relating to the form and content of accounts for companies other than investment companies are necessary to give a true and fair view. The departures have no effect on total return or on the balance sheet.

24 FUND RISK PROFILE

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

The Company's investment objective is to achieve long-term capital growth by investing in a diversified portfolio of quoted US smaller and medium-sized companies. The Company seeks to meet its investment objective by investing principally in a diversified portfolio of listed smaller companies. The portfolio held throughout the year and at the year-end is in line with the Company's investment objective. Further information is contained in the section of the Manager's Report entitled 'Investment Strategy' on page 4. The Company has the power to take out both short and long-term borrowings. No borrowings were entered into during the year.

In pursuing its investment objectives, the Company faces risks to both assets and revenue. These risks, and the directors' approach to the management of the risks, are as follows:-

	Risk	Management of Risk
Credit	Failure by counterparties to deliver securities which the Company has paid for, or to pay for securities which the Company has delivered.	All transactions are settled on the basis of delivery against payment.
Liquidity	Difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments.	The Company's investments are principally quoted equities and are readily realisable. The Company has the power to take out borrowings, both short and long-term, and in addition has a committed overdraft facility of £1million.
Market Price	The Company's assets consist principally of quoted equities and fixed interest stocks, the values of which are determined by market forces.	The board reviews the market price risks inherent in the Company's portfolio by ensuring full and timely access to relevant information from the Manager. The board meets regularly and at each meeting reviews investment performance and financial results. It monitors compliance with the Company's objectives and is directly responsible for investment strategy, asset allocation and gearing.
Currency	Certain of the Company's assets and liabilities are denominated in currencies other than sterling. As a result movements in exchange rates may affect the sterling value of the portfolio, cash, investment purchases and sales and income.	All transactions in shares and securities are settled on the basis of delivery versus payment, using approved counterparties. Income denominated in foreign currencies is converted to sterling on receipt.

In the year to 30 June 2000 the Company did not make use of derivatives.

Financial Assets

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

30 June 2000	Floating rate financial assets £'000s	Fixed rate financial assets £'000s	Weighted average interest rate %	Weighted average period for which rate is fixed
Currency:				
Sterling (undated)	**531**	**–**	**–**	**–**
US Dollars	**1,864**	–	–	–
30 June 1999				
Currency:				
Sterling (undated)	185	–	–	–
US Dollars	7,877	–	–	–

Financial Liabilities

Excluding short-term creditors, the Company had no financial liabilities at 30 June 2000 (1999: £nil).

Net Monetary Assets/(Liabilities)

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

	£ £'000s	US$ £'000s	Total £'000s
30 June 2000	**359**	**1,989**	**2,348**
30 June 1999	(209)	7,581	7,372

Fair Value

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

Historical Record

ASSETS

at 30 June

£'000s	1994	1995	1996†	1997†	1998†	1999†	**2000†**
Total assets less current liabilities (excl. loans)	50,448	60,217	79,282	88,386	107,900	115,955	**80,946**
Prior charges (incl. loans)	–	–	–	–	–	–	**–**
Available for ordinary shares	50,448	60,217	79,282	88,386	107,900	115,955	**80,946**

NET ASSET VALUE

at 30 June

	1994	1995	1996†	1997†	1998†	1999†	**2000†**
NAV per share	100.7p	120.0p	157.9p	175.8p	214.4p	230.3p	**243.4p**
NAV per share - fully diluted	100.6p	116.7p	148.3p	164.9p	202.1p	217.8p	**228.4p**
NAV total return on 100p - 5 years (per AITC)							**210.7p**

SHARE PRICE

at 30 June

	1994	1995	1996†	1997†	1998†	1999†	**2000†**
Mid-market price per share	98.5p	106.5p	136.5p	137.5p	168.0p	183.3p	**200.0p**
Discount/(premium) to NAV	2.1%	8.7%	8.0%	16.6%	16.9%	15.8%	**12.5%**
Share price High	119.0p	109.5p	136.5p	155.0p	179.0p	189.5p	**215.8p**
Share price Low	97.0p	90.0p	107.0p	123.0p	138.0p	119.0p	**164.0p**
Share price total return on 100p - 5 years (per AITC)							**187.8p**

REVENUE

for the year ended 30 June

£'000s	1994*	1995	1996†	1997†	1998†	1999†	**2000†**
Available for ordinary shares	89	(8)	(197)	(103)	(215)	(2)	**(319)**
Earnings per share	0.18p	(0.02)p	(0.39)p	(0.21)p	(0.43)p	–	**(0.86)p**
Dividends per share	–	–	–	–	–	–	**–**

PERFORMANCE

at 30 June

	1993**	1994	1995	1996†	1997†	1998†	1999†	**2000†**
NAV per share	100.0	104.4	124.4	163.6	182.2	222.2	238.7	**252.3**
Mid-market price per share	100.0	102.1	110.4	141.5	142.5	174.1	189.9	**207.3**
Russell 2000 Smaller Companies Capital Index	100.0	98.7	113.1	141.5	151.0	173.8	184.1	**216.6**
RPI	100.0	103.9	107.5	109.8	113.1	117.3	118.9	**122.8**

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

* Period from 8 March 1993 to 30 June 1994.

** Rebased at 8 March 1993.

COST OF RUNNING THE COMPANY

for the year-ended 30 June

%	1994*	1995	1996	1997	1998	1999	2000
Operating costs as a percentage of:							
Average net assets and average total assets	1.53	1.50	1.01	1.10	1.16	0.94	**1.02**

NET LIQUIDITY

at 30 June

%	1994	1995	1996†	1997†	1998†	1999†	2000†
Net liquidity	1.0	4.2	0.3	2.6	2.1	7.0	**3.0**

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

* Period from 8 March 1993 to 30 June 1994.

Definitions

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

Information for Shareholders

Individual Savings Accounts

Individual Savings Accounts (ISAs) were introduced on 6 April 1999. Up to £7,000 can be invested in an ISA in the tax year to 5 April 2001. Foreign & Colonial U.S. Smaller Companies PLC is a qualifying investment for the purposes of investment in the stocks and shares component of either a mini or maxi ISA.

By law any dividends paid by a UK company to shareholders must be paid net of basic rate tax. Your ISA manager will claim the tax, currently 10%, on your behalf.

Existing holdings in Personal Equity Plans (PEPs) can be maintained and will benefit from the same tax concessions as an ISA, but no new PEP subscriptions can be opened.

Capital Gains Tax (CGT)

Capital gains realised on disposal of investments held within an ISA or PEP are not subject to Capital Gains Tax.

Individuals may realise other net capital gains of up to £7,200 in the 2000/2001 tax year without incurring any tax liability.

Up to 5 April 1998 the cost of investments for CGT purposes was adjusted to allow for inflation. However, since 6 April 1998 this indexation has been replaced by a taper relief, and from this date chargeable gains will be reduced in line with the length of time the investment has been held.

Income Tax Investor Information

Net asset values for Foreign & Colonial U.S. Smaller Companies PLC are announced to the London Stock Exchange daily, on the working day following the date of calculation. The Company's ordinary shares are listed on the London Stock Exchange. Share price information is published in the Investment Trust section of leading UK newspapers, under "F&C US Small".

Up-to-date investment information and fund manager comments are available on the Internet at www.fandc.co.uk. Foreign & Colonial Management operates an Investor Services desk (telephone 0845 600 30 30 - calls from anywhere in the UK are charged at local rate) for general enquiries about Foreign & Colonial U.S. Smaller Companies PLC and other funds managed by the Foreign & Colonial Group. Further details of these funds can be found on the inside back cover.

Funds managed by the Hypo Foreign & Colonial Group

INVESTMENT TRUSTS

Foreign & Colonial Investment Trust PLC
Foreign & Colonial Eurotrust PLC
Foreign & Colonial Pacific Investment Trust PLC
Foreign & Colonial Smaller Companies PLC
Foreign & Colonial Enterprise Trust PLC
Foreign & Colonial Emerging Markets Investment Trust PLC
Foreign & Colonial U.S. Smaller Companies PLC
Foreign & Colonial Income Growth Investment Trust PLC
Foreign & Colonial PEP and ISA Investment Trust PLC
F&C Latin American Investment Trust PLC
Contact: Investor Services on 0845 600 30 30
(calls from anywhere in the UK are charged at local rate)

For details of investment trust products;
Private Investor Plan – regular or lump sum savings
Pension Savings Plan – saving for retirement
Individual Savings Account – tax-efficient savings*
Personal Equity Plan – transfers only**
Contact: Investor Services on 0845 600 30 30
or Broker Support on 0845 600 1868
(calls from anywhere in the UK are charged at local rate)

SPECIALIST OFFSHORE FUNDS

F&C New Economy Fund SICAV
Foreign & Colonial Portfolios Fund SICAV
Foreign & Colonial Reserve Asset Fund Ltd†
Contact: Broker Support on 0845 600 1868
(calls from anywhere in the UK are charged at local rate)

Argentinian Investment Company SICAV
Brazilian Investment Company SICAV
Colombian Investment Company SICAV†
Global Emerging Markets Investment Company SICAV
Indian Investment Company SICAV†
Mexican Investment Company SICAV
Peruvian Investment Company SICAV†
Polish Investment Company SICAV†
Russian Investment Company SICAV†
Taiwan Investment Company SICAV†
(SICAV - Open-ended investment company registered in Luxembourg)
Contact: FCEM Marketing Department on 020 7628 1234

DUBLIN REGISTERED FUNDS

Foreign & Colonial Emerging High Yield Investment Company plc†
Foreign & Colonial Romanian Investment Company plc†
Latin American Extra Yield Fund†
Contact: FCEM Marketing Department on 020 7628 1234

PENSION FUNDS

Balanced and specialist investment services are provided for a wide range of institutional pension funds.
Contact: Tim Watson on 020 7628 8000

AUTHORISED UNIT TRUSTS

Foreign & Colonial European Smaller Companies Fund
Foreign & Colonial High Income Fund
Foreign & Colonial Japanese Smaller Companies Fund
Foreign & Colonial UK Smaller Companies Fund
Foreign & Colonial U.S. Smaller Companies Fund
Contact: Investor Services on 0845 600 30 30
or Broker Support on 0845 600 1868
(calls from anywhere in the UK are charged at local rate)

AUTHORISED EXEMPT FUNDS

Foreign & Colonial Anglo-Nippon Exempt Fund
Foreign & Colonial European Exempt Fund
Foreign & Colonial North American Exempt Fund
Foreign & Colonial Overseas Bond Exempt Fund
Foreign & Colonial South East Asia Exempt Fund
Foreign & Colonial UK Bond Exempt Fund
Contact: Tim Watson on 020 7628 8000

UNAUTHORISED EXEMPT FUNDS

Foreign & Colonial Emerging Markets Ex Pacific-Asia Exempt Fund
Foreign & Colonial Latin American Exempt Fund
Foreign & Colonial Sterling Corporate Bond Exempt Fund
Contact: Tim Watson on 020 7628 8000

PRIVATE EQUITY FUNDS

F&C Ventures manages or advises six funds concentrating on unquoted investments, including Foreign & Colonial Enterprise Trust PLC.
Contact: James Nelson on 020 7825 5300

CHARITY FUNDS

A comprehensive management service is available for larger charities.
Contact: Tim Watson on 020 7628 8000

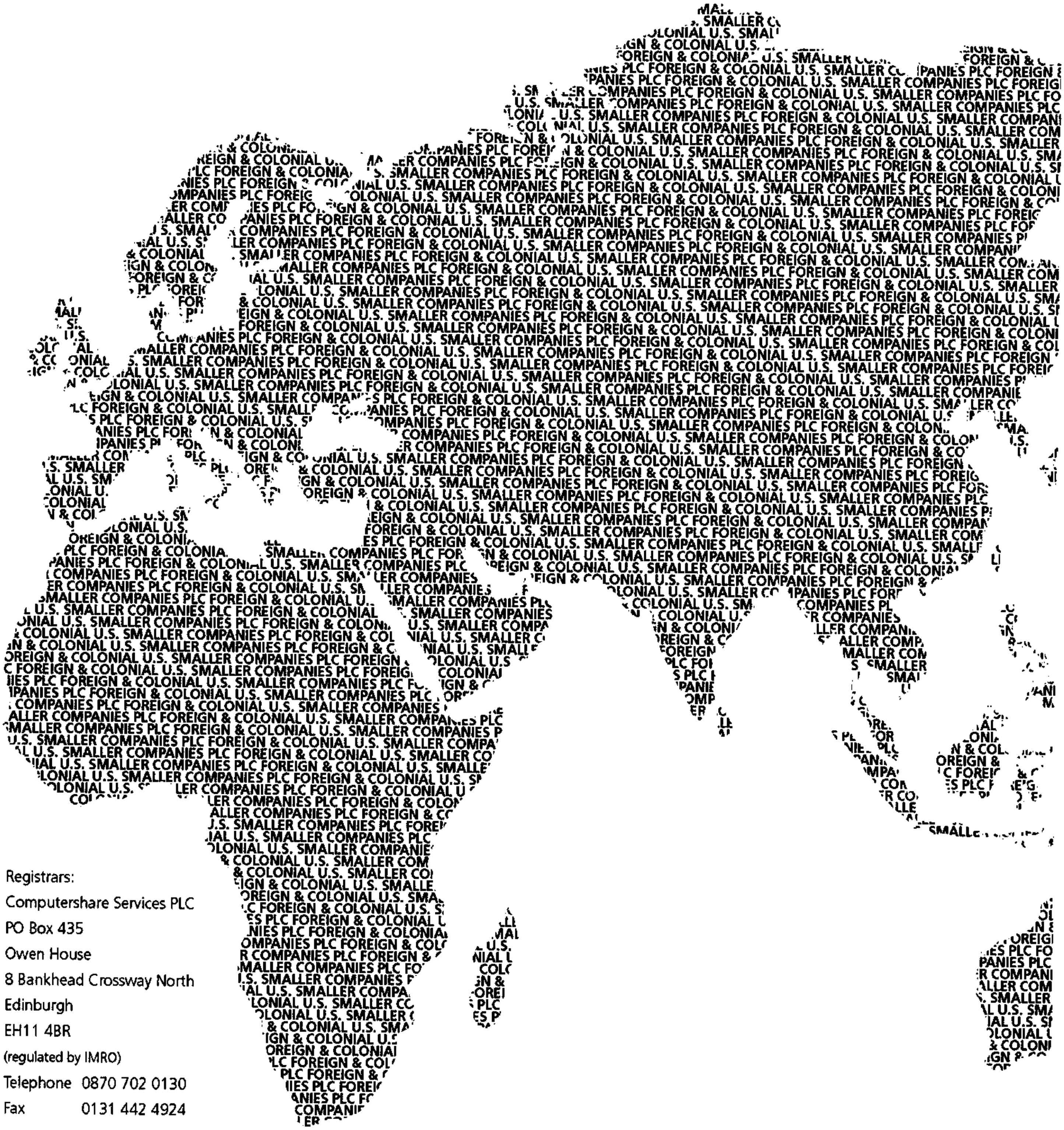
Visit us on our website: www.fandc.co.uk

* All Foreign & Colonial investment trusts listed above and the Foreign & Colonial High Income Fund are available through a Foreign & Colonial ISA.

** PEPs are no longer available for new subscriptions, however, you can continue to hold investments in any existing PEPs and transfer investments from one manager to another, subject to Inland Revenue requirements.

† Professional investors only.

The information on this page has been approved for the purposes of Section 57 of the Financial Services Act 1986 by Foreign & Colonial Management Limited, regulated by IMRO and the Personal Investment Authority. Potential investors are reminded that the value of investments and the income from them may go down as well as up and investors may not receive back the full amount invested. Past performance is not necessarily a guide to the future. The value of your investment may be adversely affected by fluctuations in exchange rates. In the tax year 2000/2001 the maximum amount which can be invested in a maxi ISA is £7,000. The favourable tax treatment of ISAs could change as a result of UK government legislation. The stockmarkets and currencies of emerging markets can be extremely volatile and investors should be prepared to accept a high degree of risk. Telephone calls to Foreign & Colonial may be recorded.



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Foreign & Colonial