2781968

Foreign & Colonial U.S. Smaller Companies PLC

Report & Accounts 2001

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 2001**	30 June 2000	% change
Net assets	**£86.74m**	£80.95m	+ 7.16%
Net assets per share	**267.11p**	243.35p	+ 9.76%
Net Assets per share diluted	**249.22p**	228.44p	+9.10%
Russell 2000 Smaller Companies Index (sterling adjusted)	**364.70**	341.66	+ 6.74%
Share price	**222.50p**	200.00p	+ 11.25%
Warrant price	**120.00p**	103.00p	+ 16.50%
Increase in net asset value per share since inception on 8 March 1993			**+ 176.68%**
Increase since 8 March 1993 in the Russell 2000 Smaller Companies Index (sterling adjusted)			**+ 131.26%**

Financial Calendar

Annual General Meeting	30 October 2001
Interim results for 2001/2002 announced	March 2002
Final Results for 2001/2002 announced	September 2002

Company Registration Number: 02781968

Chairman's Statement

Gordon Grender Chairman

Dear Shareholder

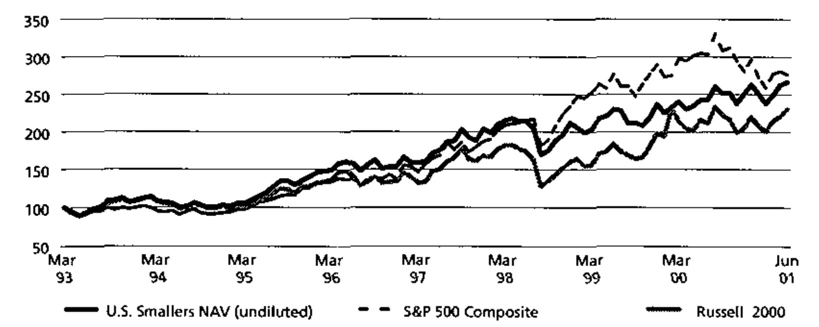
I am pleased to present the annual report for Foreign & Colonial U.S. Smaller Companies PLC for the year ended 30 June 2001. Your Company outperformed the benchmark index against which it is measured. This result is gratifying given that it has beaten the index in all but one of the eight years since its formation, the year to June 2000 being the exception.

For the year to 30 June 2001, the net asset value per share rose by 9.8% compared with a rise of 6.7% for the Russell 2000 Index, our main benchmark. The comparison is even more favourable in relation to the S&P 500 Index, which fell by 9.4%. All these figures are stated in sterling terms. This performance reflects our risk averse investment strategy, which has proved especially beneficial since the fall in technology stocks that began in March 2000.

Since the inception of the Company in March 1993, the net asset value has risen by 176.7% whereas the Russell 2000 Index gained 131.3% in sterling terms.

As in previous years, no dividend is declared for the year to 30 June 2001. This is in line with stated policy.

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



Source: Datastream

I am pleased to report that the price of the shares has risen by 11.3% over the year. There has been no further repurchase of your Company's own shares since the first half of the year. The repurchases in that earlier period were covered by my interim statement. A total of 18,028,885 shares, or 36% of the ordinary shares in issue, have been bought back since 1999. The discount to diluted NAV of the shares stood at 10.7% at 30 June 2001 and the discount as at 5 September 2001 was 7.5%. The Board is committed to buying back shares at appropriate times.

Market Review

During the last year expectations for economic growth in the US have been reduced significantly. In response, the Federal Reserve has reversed its tightening policy and cut interest rates repeatedly. Corporate profits are likely to decline in 2001, perhaps by as much as 5% for small companies, even more for larger companies.

Against this background, the Russell 2000 Index of small companies made little progress, falling almost 1% over the year (in sterling terms it rose) and major indices fell, for example, the S&P 500 dropped 15.8% and the NASDAQ Composite slumped by 45%.

The manager has responded to this uncertain economic background by adding to holdings in the energy sector earlier in the year, to capitalise on the energy shortages in the United States, and by buying cyclical companies later in the year to exploit eventual economic recovery.

Chairman's Statement (continued)

Prospects

This is the second successive year in which small companies have performed better than large. The last occasion that this occurred was in 1990 and the outperformance lasted for more than three years. The outlook for small companies is bright. Historically, they perform well following interest rate cuts and they are currently priced inexpensively relative to large companies.

Over the long run, US small companies should offer very good returns and our conservative approach to investment is aimed at giving protection at times of market uncertainty.

Proposals to allow shareholders to vote on realising their investment prior to the AGM in 2002

The Company's Articles require the Board to propose an ordinary resolution at the AGM in 2002 that the Company should continue as an investment trust for an unlimited period. Your Board undertook in June 1999 to put forward proposals which will allow shareholders to vote on realising their investment at a price which fairly reflects the then net asset value. Similar resolutions are to be placed every three years thereafter. I shall be writing to you in the coming year with recommended proposals to this effect.

Shareholders and the Annual General Meeting

The annual general meeting will be held at Exchange House on Tuesday, 30 October 2001 at 12.30pm. I shall look forward to welcoming all those of you who can attend. A map showing how to find the meeting can be found on page 8 of the accompanying Notice of Meeting.

Gordon Grender
September 2001

Manager's Report

It has been a good year for small companies against a difficult background for the US equity market generally and a turbulent time for technology stocks in particular. US small companies have been a haven of relative stability. The Russell 2000 Index of smaller companies ended the year to 30 June 2001 almost flat, whereas the larger company index, the S&P 500, dropped nearly 16% and the technology-dominated NASDAQ Composite experienced a severe bear market, collapsing by 45%.

Economic growth in the US has decelerated over the last year as a result of the impact of a series of interest rate rises which began in 1999 and a reining in of capital spending by corporations. Although it appears so far that a recession has been avoided, some areas of manufacturing have suffered severely, as has the over-heated technology sector, which has gone from boom to bust. Amongst traditional manufacturing, consumer durable industries suffered a retrenchment after a long period of strong consumer spending. The fall-out in technology has led to bankruptcies, especially in the new-wave telecommunication service industry. One bright spot within the economy has been the energy sector which received a shot in the arm from higher prices, particularly of gas, resulting from years of under-investment. So far, the financial sector has been relatively unscathed by credit losses, although the situation could deteriorate. A recovery in pricing came to the rescue of the insurance sector. Within the market, the best performing sectors were financials, transportation, consumer staples and energy. The weakest were technology and utilities, the latter hurt by weakness in the communications segment.

The Company's Approach

The Company's approach to US smaller company investment is a conservative one. The focus is on companies with strong, stable franchises that generate free cash flow. Management should have a substantial holding in the company's stock as we believe this is one of the most effective performance incentives. Finally, the valuation of the shares should be attractive and offer good downside-protection. Investment is for the long term, typically taking a 2–3 year view or longer.

Primarily, the focus is on picking attractive stocks, however a view may be taken on an industry or sector, in particular, aiming to buy when it is depressed.

Portfolio Review

The portfolio performed well over the year, benefiting from our under-weighting in technology and overweighting in energy. For a long time, share valuations have looked expensive in the technology sector. Within the energy sector our focus is on gas-heavy exploration and production companies and oil services. This assisted performance particularly in the first three quarters of the year but has been subject to profit taking in the last quarter. We have added stocks that we believe are well-positioned to benefit from higher future gas prices, for example, Magnum Hunter, which is very efficient at exploiting acquired reserves, and Forest Oil, which has a steadily rising production profile, mainly in North America. We took advantage of the higher valuations in the second half of the year to take profits in several holdings in the sector.

We have focused attention recently on stocks which should benefit from an economic recovery, given the Federal Reserve's determination to restart growth using lower interest rates. New holdings in both consumer and industrial areas have been added to the portfolio. Examples include Monaco Coach and Roper Industries. Monaco, a leading manufacturer of high-end recreational vehicles, has a loyal and growing customer base and generates free cash flow. Roper is a well run industrial conglomerate that uses its free cash to make bolt-on acquisitions. We also added to existing transportation positions, such as Kirby, the leading inland barge operator.

The media area will benefit from a recovery of economic activity in the US and we have maintained a sizeable weighting, favouring radio broadcasting and billboard advertising, two segments which are gaining a greater share in the advertising market. In addition, these companies have especially attractive cash flow characteristics.

The services sector is well-represented in the portfolio and we exploited lower valuations to add to FYI Inc, a beneficiary of continued growth in demand for the outsourcing of electronic document storage, and TETRA Tech, a specialised engineering consultant.

Two longer-term holdings disappointed and have been sold, namely G&K Services and Acxiom. G&K, which provides uniforms for rental, had delivered a series of disappointments and Acxiom, a direct marketer, was sold after poor results and a lack of confidence in the medium-term outlook.

Many of our sales have been in healthcare and financials, trimming positions that have performed strongly, for example SRI/Surgical Express, which offers hospitals a delivery and collection service for reusable surgical equipment, and Bisys, a provider of data processing services to financial institutions.

Outlook

We are optimistic on the outlook for US small companies. For much of the 1990s the stock market was dominated by a group of companies with very large capitalisations. Partly, this was due to the success of several technology companies and an extraordinary investor stampede into the sector. Partly, it also reflects the success of large global companies, helped by an extended economic cycle, that were able to exploit new opportunities abroad. This has now been largely recognised in their valuations.

Small companies should extend the two years of outperformance over their larger brethren because their shares are cheap and historically they do well after interest rates are cut.

Robert Siddles
September 2001

Directors

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., GAM North American Unit Trust, GAMerica Capital Fund and GAM Star America since their respective inceptions in 1983, 1985, 1995 and 1998 and is a director of GAM International Management Limited. *Age 57.*

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 54.*

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 64.*

David Hunter, Senior Independent Director

He has worked in the City for more than 44 years and is currently a director of NCL Investments Limited and Aurora Investment Trust PLC. He joined the Board in April 1994. *Age 65.*

All the directors are Members of the Audit Committee

Management

Robert Siddles Manager

He joined F&C Management Limited in January 2001 when he assumed responsibility for management of the Company's portfolio. *Age 44.*

Nicholas Barr-Hamilton

Nicholas Barr-Hamilton works with Robert Siddles and specialises in US smaller companies. He joined the Group in 1997. *Age 26.*

Robert Dowdall

Director of Finance of F&C Management Limited. He joined the group in 1990. *Age 54.*

Rowan Hostler

Carries out the company secretarial duties of the Company on behalf of F&C Management Limited. She joined the Group in 1992. *Age 32.*

Nick Pitt-Lewis

Group Legal & Compliance Director. He joined the Group in 1992. *Age 48.*

Secretary and Registered Office

F&C Management Limited
(formerly 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:

J P Morgan
The Royal Bank of Scotland plc.

Registrars

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

Auditors

PricewaterhouseCoopers
Southwark Towers
32 London Bridge Street
London SE1 9SY

Stockbrokers

Cazenove & Co
12 Tokenhouse Yard
London EC2R 7AN

Member of The Association of Investment Trust Companies

Twenty Largest Equity Holdings

This Year	Last Year	Company Description	% of total investments
1	(1)	**Harte-Hanks (£4.1m)** 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 participant in these rapidly growing areas and has a strong balance sheet that will allow further acquisitions.	4.7
2	(5)	**Kirby (£3.5m)** This leading operator of inland tank barges in the United States has recently announced the acquisition of its biggest competitor. The new company will have a strengthened position in the market and over time should use it to its advantage.	4.0
3	(9)	**Cousins Properties (£3.0m)** 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.	3.4
4	(14)	**Emmis Communications (£2.5m)** The company is a radio broadcaster with stations in Los Angeles, Chicago and New York. It has made several recent acquisitions of properties in other cities. Emmis also owns some TV and magazine publishing properties.	2.9
5	(6)	**Cox Radio (£2.5m)** The company is a major radio broadcaster with stations concentrated in the faster-growing sunbelt cities, including Atlanta. It has made several acquisitions and should reap the benefit of improving profitability.	2.9
6	(4)	**Price Communications (£2.4m)** Price Communications is a rural wireless operator, offering cellular service in the south-eastern US. It has strong management and cash flow margins. Rural systems have little competition and should fetch a good price as the industry consolidates.	2.8
7	(7)	**Waddell & Reed Financial (£2.4m)** Waddell & Reed Financial is a leading asset manager, benefiting from the strong secular growth trend in mutual funds and personal pension plans. It has a full range of products from value funds through to aggressive growth and technology funds. A change in the fee structure will enhance earnings.	2.8
8	(-)	**Iron Mountain (£2.4m)** This is the leader in record archiving and information management. Growth comes from the need by companies to retain document records as a result of new regulations or potential litigation. It has made several acquisitions in Europe which should be a fruitful area for growth.	2.8
9	(-)	**Dime Bancorp (£2.3m)** Dime is a New York City-based savings bank with a particularly strong franchise in Brooklyn. It survived two bids for the company in recent years but more recently has agreed to a bid from Washington Mutual, the acquisitive West Coast-based financial services company.	2.7
10	(-)	**Education Management (£2.2m)** The company offers degree and diploma level educational courses in subjects ranging from media arts to paralegal studies. The business has good recurring revenue characteristics and should prove economically insensitive.	2.5

Twenty Largest Equity Holdings (continued)

This Year	Last Year	Company Description	% of total investments
11	(–)	**Monaco Coach (£2.2m)** Monaco is a leading manufacturer of high-end recreational vehicles. This is a growing market as baby-boomers approach retirement and the company has been innovative in introducing new designs and in retaining customer loyalty. In the recent downturn it has gained market share.	2.5
12	(10)	**Weatherford International (£2.1m)** The company was formed by the merger between EVI and Weatherford International, building a complete oilfield services company. During the last downturn, the company aggressively acquired smaller companies at depressed prices to round out its offering.	2.5
13	(–)	**FYI (£2.0m)** FYI provides information outsourcing services to a variety of clients, for example, in healthcare, law, financial services and the government. Its customers typically make intensive use of online customer records. The business process outsourcing industry is experiencing rapid growth.	2.4
14	(–)	**Lamar Advertising (£2.0m)** 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.	2.4
14	(–)	**Millicom International Cellular (£2.0m)** This is an operator of cellular telephone networks in a variety of international markets. It stands out because of its focus on under-developed markets with limited competition and moderate capital spending requirements. It has focused on pre-paid phones which also reduces capital needs. Unlike some other players it is profitable on an earnings before interest, tax, depreciation and amortisation ("EBITDA") basis.	2.3
16	(–)	**SPX (£1.9m)** The company recently acquired our holding in United Dominion, a diversified manufacturer. SPX also has diverse manufacturing operations and new management has transformed the prospects for its business. Earnings and cash flow have grown despite weakness in the economy.	2.2
17	(–)	**Renal Care (£1.9m)** Renal Care specialises in providing kidney dialysis services in out-patient centres. Kidney disease can result from conditions such as diabetes and high blood pressure. A shortage of kidney donors means that dialysis is the only treatment available in many cases for kidney failure. Indeed such treatment is critical. Out-patient treatment is far more economic than in a hospital.	2.2
18	(–)	**Gallagher (Arthur J.) Co. (£1.9m)** Gallagher primarily provides insurance brokerage and risk management services. It has a solid track record of good growth and strong cash flow. Currently it benefits from firmer insurance rates in the US and from those customers who wish to look for non-traditional insurance through its risk management business.	2.2
19	(19)	**Westwood One (1.7m)** 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.	2.0
20	(–)	**Insight Communications Co. (£1.7m)** Insight is an operator of cable systems with a focused area of operation in Indiana, Kentucky, Ohio and Illinois. It has already invested in the provision of new services, such as high-speed data access, and these promise to reaccelerate customer growth and revenues.	2.0

The value of the twenty largest equity holdings represents 54.2% (2000 – 54.0%) of the Company's total investments.

List of Investments

Listed Investments	Holding	Value at 30 June 2001 £'000s
Equities		
RESOURCES		
FMC Technologies	79,200	1,163
Forest Oil	34,000	677
Grant Prideco	102,400	1,273
Magnum Hunter Resources	147,500	933
Swift Energy	69,100	1,480
Transocean Sedco Forex	13,900	408
Weatherford International	62,100	2,119
		8,053
BASIC INDUSTRIALS		
Martin Marietta Materials	12,000	422
Mueller Industries	35,500	831
SCP Pool	60,300	1,477
		2,730
GENERAL INDUSTRIALS		
Actuant	30,160	358
APW	191,400	1,381
McDermott International	117,400	972
Roper Industries	42,000	1,247
SPX	21,422	1,907
Thermo Electron	27,500	431
		6,296
CYCLICAL CONSUMER GOODS		
Monaco Coach	92,060	2,173
Westpoint Stevens	187,900	182
		2,355
NON-CYCLICAL CONSUMER GOODS		
Barr Laboratories	14,000	689
Harvard Bioscience	122,200	958
Impath	32,000	1,008
Invitrogen	17,500	893
Practiceworks	60,242	356
Renal Care	80,100	1,873
SRI Surgical Express	40,000	865
Vitalworks	240,970	408
		7,050
CYCLICAL SERVICES		
AHL Services	26,500	151
American Classic Voyages	69,300	172
C.H. Robinson Worldwide	77,500	1,537
Cox Radio	124,500	2,465
Education Management	77,000	2,193
EGL	37,500	466
Emmis Communications	116,000	2,536
Fred's	54,625	1,000
FYI	70,230	2,047
Harte-Hanks	231,300	4,072
Insight Communications Co.	96,100	1,708
Iron Mountain	74,250	2,367
Kirby	198,400	3,477
Koala	125,600	357
Lamar Advertising	65,200	2,040
Regis	57,950	865
Republic Services	97,975	1,383
TETRA Tech	81,300	1,572
Vail Resorts	60,900	810
Westwood One	65,450	1,715
Whitman Education	121,100	245
Worldgate Communications	20,700	75
		33,253

Listed Investments	Holding	Value at 30 June 2001 £'000s
NON CYCLICAL SERVICES		
Millicom International Cellular	110,400	1,970
Price Communications	167,835	2,409
Western Wireless	7,500	229
		4,608
FINANCIALS		
Allied Capital	50,000	823
Bank United Financial	44,200	442
CNA Surety	159,000	1,583
Cousins Properties	155,000	2,959
Dime Bancorp Warrants	104,700	2,344
Dime Bancorp	87,700	
Gallagher (Arthur J.) & Co	101,200	1,871
Investment Technology Group	43,400	1,552
Jones Lang Lasalle	175,800	1,650
Midland Co	1,300	41
Waddell & Reed Financial	106,200	2,398
		15,663
INFORMATION TECHNOLOGY		
Andrew	65,500	859
Dupont Photomasks	26,900	923
Bisys Group	25,000	1,049
Chyron	150,000	75
Concord Communications	62,500	400
Publicard	481,150	308
Symantec	35,174	1,093
Technology Solutions	103,000	130
THQ	24,400	1,036
		5,873
VENTURE CAPITAL		
Safeguard Scientific	40,200	147
		147

TOTAL INVESTMENTS **86,028**

The number of investments in the portfolio is 71 (2000 – 65).

The value of convertible securities in the portfolio at 30 June 2001 is £21,000 (2000 – £nil).

Report of the Directors

The directors present their report and the financial statements of the Company for the year ended 30 June 2001.

Status of Company

The Company is an investment company as defined by Section 266 of the Companies Act 1985 and conducted its affairs during the year under review, and subsequently, so as to continue to qualify as an investment trust under the provisions of Section 842 of the Income and Corporation Taxes Act 1988.

The last accounting period for which the Company has received approval from the Inland Revenue was the year ended 30 June 2000.

The Company's shares are eligible for inclusion in an Individual Savings Account (ISA) and from 6 April 2001 became eligible for PEP transfers.

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

Review of the Business

A review of the Company's activities is given on pages 2 and 3 and in the Manager's Report on pages 4 and 5.

Dividends

No dividend is recommended for payment on the ordinary shares.

Capital

Ordinary Shares. At the last annual general meeting, the Company was authorised by both the ordinary shareholders and the warrantholders to make market purchases of up to 4,956,186 ordinary shares for cancellation.

During the year under review 896,000 ordinary shares were purchased for cancellation at prices ranging between 195.5p and 209p per share.

Warrants. On 30 November 2000, 158 holders of the Company's warrants exercised their right to subscribe for a total of 107,004 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 no warrants were repurchased for cancellation.

Substantial Share Interests

As at 30 August 2001 the Company had received notification of the following holdings of more than 3% of its ordinary share capital:

	Ordinary Shares of 25p each	%
F&C Management Limited	3,341,470	10.3
(including Foreign & Colonial Investment Trust PLC	2,718,169	8.4)

Directors

The directors are listed on page 6. All the directors held office throughout the year under review. The director retiring by rotation is Mr M P S Barton 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(b) on the accounts.

Management

Note 3 on the accounts provides details of the Company's management agreement with F&C Management Limited (formerly Foreign & Colonial Management Limited) (the "Manager").

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 2001, the Company had no outstanding trade creditors.

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. 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. Full details will be sent to shareholders at that time.

Corporate Governance

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

The Board regularly reviews the independence of its members and is currently comprised of 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 of the Company are resident in the UK and their biographical details on page 6 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 or 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 has established a predetermined annual programme of agenda items under which it reviews management, investment and marketing 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 investment strategy, asset allocation and gearing. A schedule of matters reserved for the decision of the Board has been adopted.

The Board has established a procedure whereby directors, wishing to do so in the furtherance of their duties, may take independent professional advice at the Company's expense. The Board has direct access to the advice and services of the Company Secretary, F&C Management Limited, which is responsible for ensuring that the Board and Committee procedures are followed and applicable regulations are complied with.

Under the articles of association all directors are required to submit themselves for re-election at least every three years.

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 Audit Committee of the Company, chaired by Mr G D Grender, operates within written terms of reference clearly setting out its authority and duties. The directors, denoted on page 6, constitute the Committee. The primary role of the Committee is to review the Company's accounting policies, the contents of its annual financial statements, the adequacy and scope of the external audit and compliance with regulatory and financial reporting requirements. The Committee has direct access to the auditors, PricewaterhouseCoopers, and to the compliance and internal audit directors of the Manager and to the Manager's group audit committee, and reports its findings to the Board.

The Board has overall responsibility for the Company's systems of internal controls and for reviewing their effectiveness. These aim to ensure that assets of the Company are safeguarded, proper accounting records are maintained and the financial information used within the business and for publication is reliable. Control of the risks identified, covering financial, operational, compliance and risk management, is embedded by a series of investment performance, performance attribution and Manager's reports and a quarterly control report. The control report incorporates a key risk table and includes those risks that are not directly the responsibility of the Manager. It also provides details of any known internal control failures. The systems of internal controls are designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board has contractually delegated the management of the investment portfolio, the operation of custodial services and the provision of accounting and company secretarial services to the Manager. Details of the terms of its agreement with the Manager, as set out in note 3 on the accounts, are reviewed periodically by the Company's Audit Committee.

Report of the Directors (continued)

The Board has carried out a risk and control assessment including a review of the Manager's risk management infrastructure. A key element of this assessment is the Statement of Internal Corporate Governance for the year to 31 December 2000 prepared by the Manager for its investment trust clients to the standards of the Financial Reporting and Auditing Group Technical Release 21/94 ("FRAG21") issued by the Institute of Chartered Accountants in England and Wales. The Statement sets out the Manager's control policies and procedures with respect to the management of its clients' investments. The effectiveness of these controls is monitored by the Manager's group audit committee, which receives regular reports from the Manager's compliance and audit and risk departments and the Statement contains a report from the Manager's external auditors. The Audit Committee has received and reviewed the Statement, together with a report from the Manager's group audit committee on the effectiveness of the internal controls maintained on behalf of the Company, and an annual compliance report from the Manager's director of compliance.

By means of the procedures set out above, and in accordance with "Internal Control: Guidance for Directors on the Combined Code" published by the Working Party for the Institute of Chartered Accountants in England and Wales, the Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and has regularly reviewed the effectiveness of the internal control systems for the period. This process has been in place throughout the year under review and to the date hereof and will continue to be regularly reviewed by the Board going forward.

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(a) 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 F&C website at www.fandc.co.uk. A regular dialogue is maintained with the Company's institutional investors and, at the annual general meeting, all investors have the opportunity to question the Chairman, the Board and the Manager. Proxy voting figures are announced to the shareholders at the meeting.

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 on pages 5 and 6 of the accompanying document the notice of the forthcoming annual general meeting of the Company to be held at Exchange House, Primrose Street, London EC2 on Tuesday, 30 October 2001. Details of the resolutions to be proposed at the annual general meeting are contained in that document.

By order of the Board,
F&C Management Limited, Secretary
6 September 2001

For and on behalf of
F&C MANAGEMENT LIMITED

....**Secretary**

Statement of Directors' 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 2001 and of the results for the year then ended. In preparing the financial statements, suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made. The financial statements are prepared in accordance with applicable accounting standards and on a going concern basis. The directors are also responsible for ensuring that adequate accounting records are maintained and have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Auditors' Report

Independent auditors' report to the members of Foreign & Colonial U.S. Smaller Companies PLC

We have audited the financial statements on pages 16 to 25 which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out on page 19.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the 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 mis-statements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Investment Manager's Report and the corporate governance statement.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 mis-statement, 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 2001 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
Chartered Accountants and Registered Auditors
Southwark Towers
32 London Bridge Street
London SE1 9SY

6 September 2001

Balance Sheet

at 30 June

Notes		2001 £'000s	2001 £'000s	2000 £'000s	2000 £'000s
	Fixed Assets				
8	Listed investments		**86,028**		78,598
	Current assets				
9	Debtors	**37**		171	
	Taxation recoverable	**5**		42	
	Cash at bank and short-term deposits	**932**		2,395	
		974		2,608	
	Current liabilities				
10	Creditors: amounts falling due within one year	**(259)**		(260)	
	Net current assets		**715**		2,348
	Net assets		**86,743**		80,946
	Capital and reserves				
12	Called up equity share capital		**8,119**		8,316
13	Capital redemption reserve	**4,507**		4,283	
14	Share premium	**165**		50	
15	Warrant reserve	**1,403**		1,438	
16	Special reserve	**26,088**		27,945	
17	Capital reserves	**47,534**		39,630	
17	Revenue reserve	**(1,073)**		(716)	
			78,624		72,630
18	**Total shareholders' funds – equity**		**86,743**		80,946
19	**Net asset value per ordinary share**				
	Basic – pence		**267.11**		243.35
	Diluted – pence		**249.22**		228.44

Approved by the Board on 6 September 2001

G. Grender

Gordon Grender

Statement of Total Return

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

Revenue Notes	Capital Notes		2001 Revenue £'000s	2001 Capital £'000s	2001 Total £'000s	2000 Revenue £'000s	2000 Capital £'000s	2000 Total £'000s
	8	Gains and losses on investments	–	**7,740**	**7,740**	–	(202)	(202)
	17	Exchange gains and losses on currency balances	–	**171**	**171**	–	(40)	(40)
2		Income	**498**	–	**498**	627	–	627
3		Management fee	**(660)**	–	**(660)**	(695)	–	(695)
		Loss on warrants purchased for cancellation	–	–	–	–	(1,158)	(1,158)
4	17	Other expenses	**(141)**	**(7)**	**(148)**	(182)	(13)	(195)
		Net return before finance costs and taxation	**(303)**	**7,904**	**7,601**	(250)	(1,413)	(1,663)
		Interest payable and similar charges	–	–	–	–	–	–
		Return on ordinary activities before taxation	**(303)**	**7,904**	**7,601**	(250)	(1,413)	(1,663)
6		Taxation on ordinary activities	**(54)**	–	**(54)**	(69)	–	(69)
		Return attributable to equity shareholders	**(357)**	**7,904**	**7,547**	(319)	(1,413)	(1,732)
		Dividends on ordinary shares (equity)	–	–	–	–	–	–
17	17	**Amount transferred (from)/to reserves**	**(357)**	**7,904**	**7,547**	(319)	(1,413)	(1,732)
7	7	**Return per ordinary share – pence**	**(1.09)**	**24.19**	**23.10**	(0.86)	(3.81)	(4.67)
		Return per ordinary share (diluted) – pence	**†**	**22.64**	**21.62**	†	†	†

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

† There is no dilution (see note 7).

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

Cash Flow Statement

for the year ended 30 June

Notes		2001 £'000s	2001 £'000s	2000 £'000s	2000 £'000s
	Operating activities				
	Investment income received	**368**		565	
	Interest received	**124**		129	
	Fee paid to the management company	**(652)**		(765)	
	Cash paid to and on behalf of directors	**(52)**		(48)	
	Other cash payments	**(95)**		(114)	
20	**Net cash outflow from operating activities**		**(307)**		(233)
	Taxation				
	UK tax received	**38**		–	
	Overseas tax paid	**(53)**		(86)	
	Total tax paid		**(15)**		(86)
	Financial investment				
	Purchases of investments	**(30,637)**		(45,843)	
	Sales of investments	**31,081**		75,030	
	Warrants purchased for cancellation	**–**		(1,806)	
	Other capital expenses and credits	**(9)**		(9)	
	Net cash inflow from financial investment		**435**		27,372
	Net cash inflow before use of liquid resources and financing		**113**		27,053
	Management of liquid resources				
	Decrease in short-term deposits		–		6,362
	Financing				
	Net cash inflow from conversion of warrants	**107**		47	
	Purchase of ordinary shares	**(1,854)**		(32,764)	
	Net cash outflow from financing		**(1,747)**		(32,717)
21	**(Decrease)/increase in cash**		**(1,634)**		698

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).

(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 performance-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

	2001 £'000s	2000 £'000s
Overseas dividends	367	442
Interest from investments	7	59
Interest on cash and short-term deposits	124	126
Total income	**498**	**627**

3 MANAGEMENT FEE

	2001 £'000s	2000 £'000s
Management fee	660	695
Irrecoverable VAT thereon	–	–
	660	695

Under the terms of a management agreement dated 11 February 1993, 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 2001 (2000: £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.

	2001 £'000s	2000 £'000s
Directors' emoluments:		
fees for services to the Company (see note 5)	52	45
General expenses	70	120
Auditors' remuneration:		
for audit services	14	14
for other services	5	3
	141	182

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:

	2001 £'000s	2000 £'000s
G.D.Grender (Chairman)	19	15
N.M.Bachop	11	10
M.P.S. Barton	11	10
D.H.Hunter	11	10
Totals	52	45

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 2001		30 June 2000	
	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	–	10,000	–

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.

Notes on the Accounts (continued)

6 TAXATION ON ORDINARY ACTIVITIES

	2001 £'000s	2000 £'000s
Overseas taxation	**54**	69

7 RETURN PER EQUITY SHARE

Revenue return

The revenue return per share is based on the revenue return attributable to equity shareholders of £357,000 loss (2000: £319,000 loss).

Capital return

The capital return per share is based on the capital return attributable to equity shareholders of £7,904,000 profit (2000: £1,413,000 loss).
Both the revenue and capital returns are based on a weighted average of 32,669,278 ordinary shares in issue during the year (2000: 37,094,953).
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:

	2001	2000
Weighted average number of ordinary shares in issue – for basic return calculations	32,669,278	37,094,953
Dilutive potential shares	2,237,612	2,977,677
Weighted average number of ordinary shares in issue – for diluted return calculations	**34,906,890**	40,072,630

In the current year the reported revenue loss, when divided by the weighted average number of ordinary shares in issue of 34,906,890, results in smaller losses per share than the basic return calculations and hence there is no dilution of the basic returns.

8 LISTED INVESTMENTS

	Total £'000s
Cost at 1 July 2000	63,153
Unrealised appreciation at 1 July 2000	15,445
Valuation at 1 July 2000	78,598
Movements in the year:	
Purchases at cost	30,637
Sales – proceeds	(30,947)
– realised losses on sales	(2,705)
Increase in unrealised appreciation	10,445
Valuation at 30 June 2001	**86,028**
Cost at 30 June 2001	65,203
Unrealised appreciation at 30 June 2001	20,825
	86,028

Gains and losses on investments	2001 £'000s	2000 £'000s
Realised gains based on historical cost	2,360	17,407
Less: amounts recognised as unrealised in previous years	(5,065)	(36,829)
Realised losses based on carrying value at previous balance sheet date	(2,705)	(19,422)
Increase in unrealised appreciation	10,445	19,220
Gains/(losses) on investments	**7,740**	(202)

9 DEBTORS

	2001 £'000s	2000 £'000s
Investment debtors	–	102
Prepayments and accrued income	26	22
Other debtors	11	47
	37	171

Notes on the Accounts (continued)

10 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £'000s	2000 £'000s
Investment creditors	54	–
Accruals	205	260
	259	260

11 GEOGRAPHICAL AND INDUSTRIAL CLASSIFICATION: TOTAL ASSETS LESS CURRENT LIABILITIES

	USA %	UK %	2001 Total %	2000 Total %
Assets				
Equities and fixed interest stocks				
Resources	9.3	–	9.3	9.1
Basic industrials	3.1	–	3.1	–
General industrials	7.3	–	7.3	4.0
Cyclical consumer goods	2.7	–	2.7	1.7
Non-cyclical consumer goods	8.1	–	8.1	2.7
Cyclical services	38.3	–	38.3	46.3
Non-cyclical services	5.3	–	5.3	7.7
Financials	18.1	–	18.1	13.5
Information technology	6.8	–	6.8	11.2
Venture capital	0.2	–	0.2	0.7
Total equities and fixed interest stocks	99.2	–	99.2	96.9
Net current assets	0.8	–	0.8	3.1
Total assets less current liabilities	**100.0**	**–**	**100.0**	
2000 Totals:	99.3	0.7		100.0

12 EQUITY SHARE CAPITAL

	Authorised Number	Nominal £'000s	Issued, allotted and paid up Number	Nominal £'000s
Ordinary shares of 25p each				
Balance brought forward	75,000,000	18,750	33,262,998	8,316
Transfer to capital redemption reserve (see note 13)	–	–	(896,000)	(224)
Shares issued on conversion of warrants	–	–	107,004	27
Balance carried forward	**75,000,000**	**18,750**	**32,474,002**	**8,119**

During the year 896,000 ordinary shares were purchased at a cost of £1,857,000 out of Special Reserve (see note 16).

13 CAPITAL REDEMPTION RESERVE

	2001 £'000s	2000 £'000s
Balance brought forward	4,283	–
Transferred from equity share capital (see note 12)	224	4,283
Balance carried forward	**4,507**	4,283

14 SHARE PREMIUM

	2001 £'000s	2000 £'000s
Balance brought forward	50	32,782
Transferred to special reserve (see note 16)	–	(32,782)
Received on issue of 107,004 (2000: 46,392) ordinary shares on conversion of warrants	80	35
Transferred from warrant reserve on conversion of warrants (see note 15)	35	15
Balance carried forward	**165**	50

Notes on the Accounts (continued)

15 WARRANT RESERVE

	2001 £'000s	2000 £'000s
Balance brought forward	1,438	2,101
Transferred to share premium on conversion of warrants	(35)	(15)
Warrants purchased for cancellation	–	(648)
Balance carried forward	**1,403**	**1,438**

On 30 November 2000, 158 (2000: 109) holders of the Company's warrants exercised their right to subscribe for a total of 107,004 (2000: 46,392) ordinary shares at the fixed subscription price of 100p per share.

At 30 June 2001 there were 4,235,480 (2000: 4,342,484) 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.

16 SPECIAL RESERVE

	2001 £'000s	2000 £'000s
Balance brought forward	27,945	–
Transferred from share premium	–	32,782
Cost of purchase of ordinary shares	(1,857)	(4,837)
Balance carried forward	**26,088**	27,945

17 OTHER RESERVES

	Capital reserve – realised £'000s	Capital reserve – unrealised £'000s	Capital reserves total £'000s	Revenue reserve £'000s
Realised gains and losses on investments	(2,705)	–	(2,705)	–
Transfers on disposal of investments	5,065	(5,065)	–	–
Exchange gains and losses on currency balances	171	–	171	–
Other capital charges and credits	(7)	–	(7)	–
Increase in unrealised appreciation on investments	–	10,445	10,445	–
Amount transferred from revenue reserve	–	–	–	(357)
	2,524	5,380	7,904	(357)
Balance brought forward	24,185	15,445	39,630	(716)
Balance carried forward	**26,709**	**20,825**	**47,534**	**(1,073)**

18 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	2001 £'000s	2000 £'000s
Revenue return on ordinary activities after taxation	(357)	(319)
Capital return on ordinary activities after taxation	7,904	(1,413)
Net increase/(decrease) in equity shareholders' funds	7,547	(1,732)
New share capital subscribed on exercise of warrants	107	47
Cost of purchase of ordinary shares out of special reserve and capital reserve	(1,857)	(32,676)
Warrants purchased for cancellation	–	(648)
Total equity shareholders' funds brought forward	80,946	115,955
Total equity shareholders' funds carried forward	**86,743**	80,946

19 NET ASSET VALUE PER ORDINARY SHARE

Net asset value per ordinary share is based on total net assets of £86,743,000 (2000: £80,946,000) and on 32,474,002 (2000: 33,262,998) ordinary shares in issue at 30 June 2001.

The diluted net assets per share assumes the exercise of 4,235,480 (2000: 4,342,484) warrants outstanding at 30 June 2001 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").

	2001	2000
Ordinary shares in issue at 30 June – for basic net asset value calculations	32,474,002	33,262,998
Dilutive potential shares at 30 June	2,331,893	2,171,242
Ordinary shares in issue at 30 June – for diluted net asset value calculations	**34,805,895**	35,434,240

20 RECONCILIATION OF REVENUE RETURN BEFORE FINANCE COSTS AND TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001 £'000s	2000 £'000s
Net revenue return before finance costs and taxation	(303)	(250)
(Increase)/decrease in accrued income	(7)	96
(Increase)/decrease in other debtors	(4)	29
Increase/(decrease) in creditors	7	(108)
Net cash outflow from operating activities	**(307)**	(233)

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

	2001 £'000s	2000 £'000s
(Decrease)/increase in cash	(1,634)	698
Decrease in short-term deposits	–	(6,362)
Movement resulting from cash flows	(1,634)	(5,664)
Exchange movement	171	(3)
Movement in net funds	(1,463)	(5,667)
Net funds brought forward	2,395	8,062
Net funds carried forward	**932**	2,395

Represented by:	Balance at 1 July 2000 £'000s	**Cash flow £'000s**	**Exchange movement £'000s**	**Balance at 30 June 2001 £'000s**
Cash at bank	2,395	**(1,634)**	**171**	**932**

22 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 'The Company's Approach' 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. Only approved counterparties are used.

Notes on the Accounts (continued)

22 FUND RISK PROFILE (CONTINUED)

	Risk	Management of Risk
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 2001 the Company did not make use of derivatives (2000: same).

Financial Assets

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

30 June 2001	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)	**234**	**–**	**–**	**–**
US Dollars	**698**	**–**	**–**	**–**
30 June 2000				
Currency:				
Sterling (undated)	531	–	–	–
US Dollars	1,864	–	–	–

Financial Liabilities

Excluding short-term creditors, the Company had no financial liabilities at 30 June 2001 (2000: £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 2001	**43**	**672**	**715**
30 June 2000	359	1,989	2,348

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†	2001†
Total assets less current liabilities (excl. loans)	50,448	60,217	79,282	88,386	107,900	115,955	80,946	**86,743**
Prior charges (incl. loans)	–	–	–	–	–	–	–	–
Available for ordinary shares	50,448	60,217	79,282	88,386	107,900	115,955	80,946	**86,743**

NET ASSET VALUE

at 30 June

	1994	1995	1996†	1997†	1998†	1999†	2000†	2001†
NAV per share	100.7p	120.0p	157.9p	175.8p	214.4p	230.3p	243.4p	**267.11p**
NAV per share – fully diluted	100.6p	116.7p	148.3p	164.9p	202.1p	217.8p	228.4p	**249.22p**
NAV total return on 100p – 5 years (per AITC)								**174.6p**

SHARE PRICE

at 30 June

	1994	1995	1996†	1997†	1998†	1999†	2000†	2001†
Mid-market price per share	98.5p	106.5p	136.5p	137.5p	168.0p	183.3p	200.0p	**222.50p**
Discount/(premium) to NAV	2.1%	8.7%	8.0%	16.6%	16.9%	15.8%	12.5%	**10.7%**
Share price High	119.0p	109.5p	136.5p	155.0p	179.0p	189.5p	215.8p	**232.5p**
Share price Low	97.0p	90.0p	107.0p	123.0p	138.0p	119.0p	164.0p	**192.5p**
Share price total return on 100p – 5 years (per AITC)								**163.0p**

REVENUE

for the year ended 30 June

£'000s	1994*	1995	1996†	1997†	1998†	1999†	2000†	2001†
Available for ordinary shares	89	(8)	(197)	(103)	(215)	(2)	(319)	**(357)**
Earnings per share	0.18p	(0.02)p	(0.39)p	(0.21)p	(0.43)p	0.00p	(0.86)p	**(1.09)p**
Dividends per share	–	–	–	–	–	–	–	–

PERFORMANCE

at 30 June

	1993	1994	1995	1996†	1997†	1998†	1999†	2000†	2001†
NAV per share	100	104.4	124.4	163.6	182.2	222.2	238.7	252.3	**276.68**
Mid-market price per share	100	102.1	110.4	141.5	142.5	174.1	189.9	207.3	**230.57**
Russell 2000 Smaller Companies Capital Index	100	98.7	113.1	141.5	151	173.8	184.1	216.6	**231.26**
RPI	100	103.9	107.5	109.8	113.1	117.3	118.9	122.8	**125.20**

† 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.

Historical Record (continued)

COST OF RUNNING THE COMPANY

for the year-ended 30 June

%	1994	1995	1996	1997	1998	1999	2000	2001
Operating costs as a percentage of:								
Average net assets and average total assets	1.53	1.50	1.01	1.1	1.16	0.94	1.02	0.97

NET LIQUIDITY

at 30 June

%	1994	1995	1996†	1997†	1998†	1999†	2000†	2001
Net liquidity	1.0	4.2	0.3	2.6	2.1	7.0	3.0	1.1

† 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

Net Asset Value and Share Price

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

The current share price of Foreign & Colonial U.S. Smaller Companies PLC is shown in the investment trust section of the stockmarket page in most leading newspapers, usually under 'F&C US Smlr'.

Performance Information

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

More up-to-date performance information is available on the Internet at www.fandc.co.uk (select F&C Management Ltd, Investment Trusts, Private Investor, US Smaller Cos). This website provides a monthly update on the Company's largest holdings, along with comments from the fund manager.

Association of Investment Trust Companies (AITC)

Foreign & Colonial U.S. Smaller Companies PLC is a member of the AITC, which publishes a monthly statistical information service in respect of member companies.

For further details, please contact:
AITC on 020 7282 5555,
or visit the website: www.itsonline.co.uk

UK Capital Gains Tax (CGT)

An approved investment trust does not pay tax on capital gains. UK resident individuals may realise net capital gains of up to £7,500 in the tax year ended 5 April 2002 without incurring any tax liability (£7,200 in the tax year ended 5 April 2001).

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

Investing in Foreign & Colonial U.S. Smaller Companies PLC

You can buy shares directly using a bank or stockbroker or use the savings products outlined below.

Private Investor Plan (PIP)

It only costs 0.2% (plus 0.5% Government Stamp Duty) to invest in Foreign & Colonial U.S. Smaller Companies PLC via this simple savings scheme. You can invest a lump sum or make regular monthly payments.

Pension Savings Plan (PSP)

You can maximise your tax benefits and save for your retirement using this low cost Plan, which includes a Personal Pension and free standing AVC.

Individual Savings Account (ISA)

You can invest up to £7,000 tax free in our ISA and our fixed rate charging structure provides excellent value for money. You can invest a lump sum or make regular monthly payments.

Personal Equity Plan (PEP)

PEPs are no longer available for new subscriptions. You can, however, continue to hold investments in any existing PEPs and transfer investments from one manager to another, subject to Inland Revenue requirements. Our fixed rate charging structure makes our PEP a cost effective option.

For further details and application forms, please contact:

Investor Services on **0845 600 3030** or
Broker Support on **0845 600 1868**
(UK calls charged at the local rate)

You can also visit us on our website:
www.fandc.co.uk under Investment Trusts

If you wish to write to us, the address is:

Investor Services Team
F&C Management Limited
Exchange House
Primrose Street
London EC2A 7NY

Or contact your Independent Financial Adviser.

The information on this page has been issued and approved by F&C 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. Tax benefits may vary as a result of statutory changes and their value will depend on individual circumstances.

Registrars
Computershare Investor Services PLC
PO Box 435
Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR
Telephone 0870 702 0130
Fax 0870 703 6143

Registered Office
Exchange House
Primrose Street
London EC2A 2NY
Telephone 020 7628 8000
Fax 020 7628 8188
Website www.fandc.co.uk