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# F&C US Smaller Companies PLC

Report and Accounts 2003

The objective of F&C US Smaller Companies PLC is to achieve long-term capital growth by investing in a diversified portfolio of companies. It is a long-term investment company.

# About your Company

F&C US Smaller Companies PLC is managed by F&C Management Limited ("F&C"), which is a wholly owned subsidiary of Eureko B.V., a leading pan-European Financial Services Group. F&C is appointed by the Board of F&C US Smaller Companies PLC under an agreement setting out its responsibilities for investment management, administration and marketing.

The savings plans linked to F&C US Smaller Companies PLC are operated by F&C, which is authorised and regulated by the Financial Services Authority.

F&C is a leading manager of investment trusts and also manages pension funds, insurance funds and open-ended funds for a wide range of investors in the UK and Europe. Total assets under management were over £60 billion at 30 June 2003.

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**SUMMARY OF RESULTS**

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Attributable to equity shareholders	30 June 2003	30 June 2002	% change
Net assets	<b>£53.27m</b>	£74.59m	-28.59%
Net assets per share	<b>200.06p</b>	227.10p	-11.91%
Net asset per share - diluted <sup>(1)</sup>	<b>200.06p</b>	218.38p	-8.39%
Russell 2000 Smaller Companies Index <sup>(2)</sup>	<b>271.71</b>	303.52	-10.48%
Share price	<b>192.00p</b>	207.00p	-7.25%
Increase in net asset value per share since inception on 8 March 1993			107.23%
Increase since 8 March 1993 in the Russell 2000 Smaller Companies Index <sup>(2)</sup>			72.30%

(1) There is no difference between the basic and diluted net asset values at 30 June 2003 due to the exercise of the warrants during the year. There are no further potentially dilutive instruments in issue.

(2) The Russell 2000 Index sterling adjusted.

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**FINANCIAL CALENDAR**

Annual General Meeting	14 November 2003
Interim Results for 2003/2004 announced	March 2004
Final Results for 2003/2004 announced	September 2004

Company Registration Number: 02781968

# Chairman's Statement

It was another difficult year for US equity markets. The net asset value (NAV) per share of your Company fell 8.4% to 200.06p, compared to a decline of 10.5% in the Company's benchmark, the sterling-adjusted Russell 2000 Index.

Your Company's NAV performance has exceeded its benchmark for the last three years and in nine of the ten years since formation in March 1993. Since then, the NAV per share has risen by 107.2%, compared with a rise in the sterling-adjusted Russell 2000 Index of 72.3%.

No dividend is declared for the year to 30 June 2003. This is in line with stated policy.

During the year under review the Russell 2000 declined by 3.1%, in dollar terms. This modest fall, however, hides a substantial downturn in the first months of the period: by 9 October 2002, the Russell 2000 had fallen by 27.0%. The reasons for this seem to have been concerns about deflation and Middle East tension. Since then, the stockmarket has gradually recovered, putting on a strong spurt since March.

Within the market, the strongest performance was shown by sectors which had been hardest hit in the previous two years, healthcare, technology and utilities. Poorest performance was seen in the "other" sector (diversified companies), consumer staples, and materials and processing sectors. This reflected, on the one hand, weakness in capital goods and commodity markets, and on the other, profit-taking in staples after two years of out-performance.

The best performing major index during the year, the technology orientated NASDAQ Composite Index, rose 2.5% in sterling terms. As pointed out in my interim statement, the Company's superior relative performance was achieved despite an underweight in technology. This index is, however, still 67.9% below its all time high reached in early March 2000.

## **Discount and Buybacks**

The price of the shares fell by 7.3% to 192p over the year. The discount to NAV per share narrowed during the year from 5.2% to 4.0% and at 3 September 2003 was 12.76%. (The figure for 30 June 2002 is the discount to diluted NAV per share because of the warrants that existed at that time).

The Company bought back its own shares during the

year. Excluding the Tender Offer there were purchases of 1,822,000 shares at an average discount of 9.6%.

Over the financial year, the average discount at which the Company's shares traded was 9.3%. At the time of the war in Iraq, the discount widened to more than 10%. In view of the unusual state of affairs, your Board carefully considered its share buy-back policy, which aimed for a discount over a period of no more than 10%. The volatility of the market meant that it was difficult to establish the true discount when repurchasing shares. In the face of this kind of volatility, the Board took the view that it was not in the long term shareholders' best interests to be active in the market every day. The war ended quickly and the discount narrowed promptly.

The Board will continue to apply its policy of, if necessary, buying back shares at appropriate times with a view to maintaining a longer term discount of approximately 10%.

## **Tender Offer**

As set out in my interim report, the Board fulfilled its 1999 commitment to shareholders, to provide an exit for those who wished to take it. The Board proposed a Tender Offer, which was accepted by shareholders at an EGM in December 2002. As a result of the Tender Offer, 6,935,500 shares (about 20% of the outstanding) were repurchased.

## **Continuation Vote**

Shareholders also voted for the continuation of the Company and for future continuation votes to be held every three years, starting at the AGM in 2005.

## **Warrants**

All the Company's warrants have now been cancelled. This follows from the issue of 1,375,738 ordinary shares on the exercise of warrants on 6 December 2002 and the exercise and tender by the Trustee of the remaining 1,162,191 warrants.

## **AGM**

The Annual General Meeting will be held on 14 November 2003 and I hope that you will attend. The meeting will be held in the offices of F&C Management Limited at Exchange House, Primrose Street, London EC2A 2NY. A map showing the location is on an enclosed card. If you would like to attend, would you please kindly return the

reply card.

**Outlook**

Although over the financial year as a whole, the small company sector under-performed large companies, since March the situation has changed. The smaller company sector has performed strongly since then, continuing the out-performance cycle that began four years ago. The sector still appears cheap and to have better growth prospects than large companies.

Further concerns about the state of the economy may arise in the future but our conservative approach to investment should provide reasonable relative performance.

**Gordon Grender** September 2003

# Manager's Review

The US small company sector suffered a heavy fall during the financial year, along with other equity markets but clawed back most of the loss in the second half of the period. The decline was driven by several factors, including falling US consumer confidence, rising energy prices and fear of a prolonged conflict in Iraq. A recovery in market confidence began as war broke out and was followed by a more gradual improvement in consumer confidence. The technology sector dropped sharply early in our financial year and bounced from its very oversold level in October.

Small companies lagged the performance of large companies over the twelve month period. Concern about the economy caused investors to seek safety in blue chips. However, since March, this relative decline has reversed, re-establishing the trend of out-performance by small companies that began four years ago.

## Overall Strategy

The overall positioning of the portfolio at the beginning of the year reflected both our investment view and the Company's investment style. Firstly, we remained cautious towards technology because of the after-effects of the tech-bubble. Secondly, we expected economic activity to recover after the impact of September 11 and so over-weighted consumer discretionary, and autos and transportation sectors; conversely we under-weighted banks and real estate investment trusts. We took the view that these two sizeable sections of the financial sector were expensive and likely to under-perform in a recovery when interest rates rise. The Company's investment approach is to focus on companies with strong franchises, free cash flow and insider ownership, whose shares are cheap. This leads us to favour consumer discretionary stocks, where many fit these criteria and avoid technology where very few do.

These sector positions detracted modestly from performance last year because the consumer discretionary sector in particular under-performed. This reflected the greater than expected weakness in the economy that developed in 2002. However, good stock selection in the sector more than offset this. Particularly strong contributions came from Whitman Education, Iron Mountain and SCP Pool, which all delivered better than expected results. Additionally, Whitman was the subject of an agreed merger. Notable contributions elsewhere came from Symantec,

Boston Communications and Cousins Properties. Stock selection was less good in healthcare, where the Company's style meant we did not participate directly in the biotech bounce, and holdings in small service companies, such as VitalWorks and SRI Surgical Express were hurt by economic pressures on their customers.

During the year we reduced exposure to the consumer discretionary sector and added to financials. In the first, we continued to reduce media stocks into strength – valuations are no longer attractive – and in the second we added to specialised insurers and lenders.

## Portfolio Review

The portfolio's largest exposure is the consumer discretionary sector (over 25% of the portfolio). It includes both consumer and business service companies as well as some consumer durables producers. During the year, we invested in two new areas that we expect to benefit as consumer confidence recovers, namely, furniture manufacture, and arts and crafts retailing. Furniture Brands is a leading manufacturer of better quality furniture and has successfully moved much of its production offshore. Michaels Stores is the most successful retailer of arts and crafts products; this is a large, growing market and management is making big improvements by applying up-to-date retailing technology. The portfolio's education holdings were re-organised: we replaced expensive higher education stocks, such as Education Management and Whitman Education, with the much cheaper Sylvan Learning Systems. This subsequently restructured, disposing of its school tuition business in order to focus on its growing overseas universities. As mentioned, we reduced media stocks on the grounds of high valuation. Harte-Hanks, which was our largest holding a year ago, and Lamar Advertising were both reduced, and Westwood One was sold in its entirety.

The financial sector is another substantial part of the portfolio (over 20%). Here we made fresh investments in three areas. Firstly, NDC Health, the leading processor of financial transactions for pharmacies and physicians. This was an opportunistic purchase of a good growth company at a time when there were undue concerns about a refinancing. We also bought ProAssurance, which historically has been the most profitable professional

medical insurer. Industry profitability is depressed by high claims costs but is set to rebound as competitors exit. Saxon Capital has the strongest credit discipline in the non-conforming mortgage business (loans that do not qualify for government sponsored lending via, for example, Fannie Mae). Most of its competitors are not as focused and Saxon capitalises on this to gain market share. We also bought Mercantile Bankshares, a bank with an asset sensitive balance sheet (it should do well when interest rates rise) and an excellent credit record. The portfolio is still heavily underweight in banks. We sold Investment Technology Group because we were concerned that faltering growth was a sign of greater competition, which turned out to be the case.

In other parts of the portfolio we have established new positions in three out-of-favour industries: hospitals, copper producers and commercial aerospace. In healthcare, we bought Community Health Systems, a well-managed operator of rural hospital chains. It has a record of improving acquired hospitals and the shares' valuation has been overly affected by problems at certain larger hospital chains. In the materials and processing sector we bought Freeport-McMoran Copper & Gold. This is by far the world's lowest

cost producer of copper. It should benefit from a recovery in the copper market as well as debt-reduction from its strong free cash flow. Goodrich is the leading supplier of commercial aerospace systems. Its service and spares business has carried it through the downturn – it still generates substantial free cash flow – and the shares, which have a good yield, should gain as the depressed industry conditions improve over the next 1-2 years.

#### **Outlook**

After a year in which the small company sector lagged the S&P500, a return of confidence means that the better relative performance for the sector that began in March should continue given the superior fundamentals. Your portfolio looks well-positioned to benefit over the long term from economic recovery and it is cautiously positioned towards technology.

**Robert Siddles** September 2003

F&C Management Limited

# Twenty Largest Equity Holdings

at 30 June 2003

This year	Last year	Company Description	Market value £m	% of Total Investments
1	(2)	<b>Kirby</b> This leading operator of inland tank barges in the United States has a strong market position in this business which is characterised by strong cash flow and little new competition.	2.30	4.4%
2	(3)	<b>Cousins Properties</b> This Atlanta-based real estate investment trust operates in one of the most attractive growth areas in the US. Management are risk averse and focus on commercial property development. They have used their land bank around Atlanta to their advantage.	1.88	3.6%
3	(4)	<b>SCP Pool</b> SCP Pool is the leading US distributor of swimming pool supplies. It has successfully consolidated its position in this fragmented but growing industry and should benefit from rising margins.	1.65	3.2%
4	(8)	<b>BankUnited Financial</b> This Florida-based community bank is run by well-regarded management and has the opportunity to grow by offering better customer service than its much larger national rivals.	1.32	2.5%
5	(11)	<b>Freds</b> The company operates discount general merchandise stores in the South East, mostly in non-urban locations. The store size is between that of the larger Wal-Mart and the smaller dollar stores. It offers a combination of convenience and low prices that is attractive to elderly and low-income customers. Sales are growing rapidly.	1.23	2.4%
6	(9)	<b>Republic Services</b> Republic Services provides solid waste collection and disposal services. It concentrates on markets where it can win long-term contracts. It has a strong emphasis on generating free cash flow.	1.21	2.3%
7	(-)	<b>American Capital Strategies</b> This is a business development company specialising in private mezzanine lending. It takes equity positions in the companies it lends to. High returns are available in the private debt market. It is structured as a registered investment company and pays out its earnings as a large dividend.	1.20	2.3%
8	(18)	<b>Renal Care</b> 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. This is a growing market and the company achieves some of the best clinical results in the industry.	1.13	2.2%
9	(-)	<b>Community Health Systems</b> Community Health has a strong record of buying and improving rural acute hospitals. The rural locations mean there is limited competition.	1.09	2.1%
10	(15)	<b>Roper Industries</b> Roper is a manufacturer of niche products in industrial controls, fluid handling and analytical instrument markets. These niches typically experience limited competition. It uses its free cash flow to make bolt-on acquisitions in similar areas.	1.08	2.1%

<b>This year</b>	<b>Last year</b>	<b>Company Description</b>	<b>Market Value £m</b>	<b>% of Total Investments</b>
11	(19)	<b>Invitrogen</b> Invitrogen produces research kits used by academic, commercial and government research bodies for gene analysis. The company has acquired a variety of important technologies, capitalising on its academic contacts, and has been successful in marketing these commercially.	1.06	2.0%
12	(17)	<b>Allied Capital</b> Like American Capital Strategies, Allied is a business development company.	1.05	2.0%
13	(14)	<b>Monaco Coach</b> Monaco is a leading manufacturer of luxury 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.	1.05	2.0%
14	(1)	<b>Harte-Hanks</b> The company is the leader in direct marketing, an area with good growth prospects. Its strong balance sheet is an advantage as new growth opportunities often come from acquisitions.	1.02	2.0%
15	(16)	<b>Lithia Motors</b> Lithia owns car dealerships in small markets west of the Mississippi. It acquires underperforming dealerships and boosts their profitability through increased sales of used cars, finance and insurance, warranty and repairs. This consolidation strategy has worked well to grow profits.	1.01	1.9%
16	(-)	<b>SPX</b> The company is a diversified industrial that operates in areas such as fire detection equipment and power transformers. Its management team strictly apply 'Economic Value Added' techniques to get the most out of its business portfolio.	0.99	1.9%
17	(-)	<b>Pride International</b> Pride International is a leading offshore driller. It has done a good job of contracting out its deep water rigs at attractive rates. Its jack-up fleet will benefit as rates in the Gulf of Mexico improve.	0.98	1.9%
18	(-)	<b>Sonic Automotive</b> The company owns car dealerships, a business which generates strong cash flow. Management follow a similar strategy to Lithia - acquiring and improving dealerships.	0.97	1.9%
19	(5)	<b>Iron Mountain</b> 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.	0.97	1.9%
20	(-)	<b>Mentor Graphics</b> Mentor provides software for the automation of electronic design. The company focuses on areas with limited competition where it can sell new or upgraded products to its installed base of customers. As the economy picks up bookings will grow.	0.96	1.8%

The value of the twenty largest equity holdings represents 46.4% (June 2002: 49.5%) of the Company's total investments.

# List of Investments

Listed Investments	30 June 2003		Listed Investments	30 June 2003	
	Holding	Value £'000s		Holding	Value £'000s
<b>AUTOS &amp; TRANSPORTATION</b>			<b>VitalWorks</b>		
Genesee & Wyoming	40,000	499		268,970	634
Kirby	134,400	2,297	<b>6,596</b>		
Monaco Coach	112,590	1,046	<b>MATERIALS &amp; PROCESSING</b>		
<b>3,842</b>			Airgas	47,820	485
<b>CONSUMER DISCRETIONARY</b>			Freeport-McMoran Copper & Gold	53,000	787
Cox Radio	37,200	521	Grant Prideco	39,350	280
Emmis Communications	32,000	449	Jones Lang LaSalle	68,900	660
Furniture Brands	53,780	851	Martin Marietta Materials	36,840	750
Freds	54,407	1,234	Modtech Holdings	16,100	88
Harte-Hanks	88,950	1,024	Mueller Industries	38,500	633
Insight Communications	84,370	682	Shaw Group	64,000	467
Iron Mountain	42,935	965	<b>4,150</b>		
Lithia Motors	102,860	1,008	<b>OTHER</b>		
Kasper	28,312	45	SPX	36,944	<b>986</b>
Lamar Advertising	21,680	466	<b>OTHER ENERGY</b>		
Michaels Stores	25,000	577	FMC Technologies	41,900	534
Regis	30,180	531	Forest Oil	44,660	680
Republic Services	88,000	1,209	Harvest Natural Resources	130,700	505
SCP Pool	79,000	1,646	Pride International	85,700	977
Sonic Automotive	72,720	966	Swift Energy	58,100	387
SOURCECORP	60,750	795	<b>3,083</b>		
Sylvan Learning Systems	47,390	654	<b>PRODUCER DURABLES</b>		
Vail Resorts	75,700	618	Actuant	26,020	746
<b>14,241</b>			Andrew	115,500	654
<b>FINANCIALS</b>			Dupont Photomasks	45,300	516
Allied Capital	75,000	1,050	Goodrich	66,830	850
American Capital Strategies	79,000	1,198	Roper Industries	48,000	1,082
Arthur J Gallagher & Co	30,200	498	<b>3,848</b>		
BankUnited Financial	108,800	1,324	<b>TECHNOLOGY</b>		
Bisys Group	58,000	646	Concord Communications	55,080	460
CNA Surety	122,000	728	Mentor Graphics	108,500	955
Cousins Properties	111,000	1,877	Reynolds & Reynolds	28,400	492
Mercantile Bankshares	29,840	712	Symantec	30,900	822
Midland	49,900	667	<b>2,729</b>		
NDC Health	55,900	622	<b>UTILITIES</b>		
Proassurance	37,100	607	Boston Communications	53,790	552
Saxon Capital	67,960	712	Price Communications	81,835	640
Waddell & Reed Financial	53,150	827	<b>1,192</b>		
<b>11,468</b>			<b>TOTAL INVESTMENTS</b>		
<b>HEALTHCARE</b>			<b>52,135</b>		
Community Health Systems	93,440	1,092	The total number of companies in the portfolio is 68 (2002: 72)		
Genesis Health Ventures	75,400	805			
Harvard Bioscience	211,200	486			
Invitrogen	45,500	1,059			
PracticeWorks	49,622	581			
Prime Medical Services	88,200	252			
Renal Care	53,100	1,133			
SRI Surgical Express	133,400	554			

# 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 59.*

**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 56.*

**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 nine years with Lehman Brothers International and four 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 vice-chairman of the Guinness Trust Group. *Age 66.*

**David Hunter** Senior Independent Director

He has worked in the City for more than 45 years and is currently a director of NCL Investments Limited and Aurora Investment Trust PLC. He joined the Board in April 1994. *Age 67.*

All the Directors are Members of the Audit Committee

# Management and Advisers

## **Robert Siddles**

Responsible for the US portfolio. He joined the Group in 2001. *Age 46.*

## **Robert Dowdall**

Group Finance Director. He joined the Group in 1990. *Age 56.*

## **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 34.*

## **Nick Pitt-Lewis**

Group Legal & Compliance Director. He joined the Group in 1992. *Age 50.*

## **Investment Manager, Secretary and Registered Office**

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Authorised and regulated by the  
Financial Services Authority  
Registered in England

## **Independent Auditors**

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Southwark Towers  
32 London Bridge Street  
London SE1 9SY

## **Bankers**

JP Morgan Chase  
*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  
Authorised and regulated by the  
Financial Services Authority

## **Solicitors**

Charles Russell  
8-10 New Fetter Lane  
London  
EC4A 1RS

## **Stockbrokers**

Cazenove & Co Ltd  
20 Moorgate  
London EC2R 6DA

Member of The Association of  
Investment Trust Companies

# Report of the Directors

## Status of Company

The Company is an investment company as defined by Section 266 of the Companies Act 1985 and has 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 been treated as approved by the Inland Revenue was for the year ended 30 June 2002. This approval is subject to there being no subsequent enquiry under Corporate Tax Self-Assessment. In the opinion of the Directors, the Company has subsequently conducted its affairs so as to enable it to continue to obtain Section 842 approval.

The Company's shares are eligible for inclusion in an *Individual Savings Account ("ISA")* and as an investment for Personal Equity Plan ("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 in the Chairman's Statement 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 and Warrants.** At the Extraordinary General Meeting held on 4 December 2002 the shareholders approved a Tender Offer. The final exercise of warrants took place on 30 November 2002 and 510 holders of the Company's warrants exercised their rights to subscribe for a total of 1,375,738 ordinary shares at the fixed subscription price of 100p per share. The remaining 1,162,191 warrants were exercised and *tendered by the Trustee and the proceeds were distributed to the warrant holders.* There were no further warrants in issue following this event. A total of 6,935,500 shares were purchased and cancelled under the Tender Offer at the Tender Price of £1.7016 pence per share and 36,641 shares were matched under the Matching Facility. The Tender Offer resulted in a reduction of approximately 20% of the Company's issued share capital.

At the Annual General Meeting held on 4 December 2002 shareholders renewed the Board's authority to buy back up to 4,024,780 of the Company's ordinary shares for cancellation. During the year under review 1,822,000 shares were repurchased for cancellation and no warrants were repurchased for cancellation.

## Duration of the Company

At the Annual General Meeting in 2002, the shareholders voted in favour of the continuation of the Company as an investment trust for an indefinite period. At that time the Articles of Association were amended and a continuation vote will be put to shareholders every three years, starting at the Annual General Meeting in 2005.

## Substantial Share Interests

As at 4 September 2003 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 (including Foreign & Colonial Investment Trust PLC	3,160,296 2,968,169	11.9 11.1)

## Directors

The Directors are listed on page 9. 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 (b) on the accounts.

## Management

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

*The Manager has developed and published a policy on Corporate Governance and a Voting Policy.*

## Policy on Payments to Suppliers

The Company's principal supplier, the Manager, 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.

# Report of the Directors (continued)

At 30 June 2003, the Company had no trade creditors.

## **Change of Name**

At the Annual General Meeting held on 4 December 2002, shareholders approved the change of name to F&C US Smaller Companies PLC.

## **Corporate Governance**

The Company is committed to high standards of corporate governance. The Board has considered the principles set out in the Combined Code on Corporate Governance issued by the UK Listing Authority (the "Code") and believes that the Company's current practice, given the special circumstances of an investment trust company, is in all material aspects consistent with the principles of the Code. The Company has complied throughout the year under review with the provisions set out in Section 1 of the Code.

The Board regularly reviews the independence of its members and is currently comprised of four non-executive Directors. Having due regard to the definitions and guidelines on independence, the Board remains of the opinion that all the directors are independent. 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 9 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 an 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. The Board 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. There has been no professional advice or training taken by the Directors during the year, other than in relation to the Tender Offer, which has incurred expense to the Company. 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 submit themselves for re-election at least every three years in accordance with the Code.

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. The final decision always rests with the full Board and all such appointments are subject to confirmation by shareholders.

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

## **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. All of the Directors constitute the Committee (see page 9). 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 LLP, 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, ensuring that the risk management and control processes are embedded in day-to-day operations. These controls 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 that identifies the risks to which the Company is exposed and the controls in place to mitigate them including 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.

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 2002 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 independent reporting accountants. 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, updated by control reports to 30 June 2003 from the Managers' director of Group Audit and Risk.

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 year to 30 June 2003. 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.

#### **Directors' Remuneration**

The Company has no employees or executive directors and consequently does not have a Remuneration Committee. The Directors' Remuneration Report on page 17 provides detailed information on the remuneration arrangements for the Directors of the Company. The ordinary business of the Annual General Meeting this year includes a resolution (numbered 2) which asks shareholders to approve the Directors' Remuneration Report. This is now a requirement of company law, introduced by the Directors' Remuneration Report Regulations 2002, which came into force in August 2002. The Directors' remuneration is not conditional upon resolution 2 being passed.

#### **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.com](http://www.fandc.com). A

# Report of the Directors (continued)

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 and the Board. Proxy voting figures are announced to the shareholders at the meetings.

## **Special Business at the Annual General Meeting**

Shareholders will find on pages 35 to 36 the Notice of the forthcoming Annual General Meeting of the Company to be held at Exchange House, Primrose Street, London EC2 on 14 November 2003. In addition to the ordinary business of the meeting, three resolutions (numbered 4, 5 and 6) are proposed as special business

### **Auditors (Resolution 4)**

Following the transfer of substantially all of the business of PricewaterhouseCoopers to a limited liability partnership ("LLP") from 1 January 2003, PricewaterhouseCoopers resigned from office on 12 March 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors of the Company.

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and special notice has been received for resolution 4 to be proposed at the Annual General Meeting to reappoint them as auditors and authorise the Directors to determine their remuneration.

### **Authority to allot shares (Resolution 5)**

Resolution 5 is similar in content to the authorities given to the Directors at previous annual general meetings. By law, Directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders. In addition, Directors require specific authority from shareholders before allotting new shares (or granting rights over shares) for cash without first offering them to existing shareholders in proportion to their holdings. Resolution 5 gives the Directors the necessary authority to allot securities up to an aggregate nominal amount of £332,809, which is equivalent to approximately 5 per cent of the issued share capital of the Company, and empowers the Directors to allot such securities for cash, otherwise than to existing shareholders, on a pro-rata basis. Such authority expires at the conclusion of the annual general meeting in 2004. This authority provides the Directors with a degree of flexibility to increase the

assets of the Company by the issue of new shares, should any favourable opportunities arise to the advantage of shareholders.

The Directors can, if necessary, use this authority to satisfy demand from participants in the F&C Private Investor and Pension Savings Plans and from holders of F&C Individual Savings Accounts when they believe it is advantageous to plan participants and the Company's shareholders to do so.

Under no circumstances would the Directors use the authority to issue shares at a price which would result in a dilution of net asset value per ordinary share.

### **Authority for the Company to purchase its own shares (Resolution 6)**

Resolution 6 authorises the Company, until the conclusion of the Annual General Meeting in 2004 or, if earlier, the expiry of 15 months from the date of the passing of such resolution, to purchase in the market up to a maximum of 3,991,050 ordinary shares (equivalent to approximately 14.99 per cent of the issued share capital) for cancellation at a minimum price of 25p per share and a maximum price per share of not more than 5 per cent above the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the date of purchase.

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

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

be financed out of realised revenue and/or capital reserves and funded from the Company's own cash resources or, if appropriate, from short term borrowings.

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

By order of the Board,  
F&C Management Limited, Secretary  
4 September 2003

**For and on behalf of  
F&C MANAGEMENT LIMITED**

  
.....Secretary

# Directors' Statement of Responsibilities

As required by company law, the Directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the Company at 30 June 2003 and of the results for the year then ended. In preparing the financial statements, suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made. The financial statements are prepared in accordance with applicable accounting standards and on a going concern basis. The Directors are also responsible for ensuring that adequate accounting records are maintained and have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

# Directors' Remuneration Report

## Remuneration Committee

As the Board of Directors is comprised solely of non-executive directors, it is exempt under the Listing Rules from appointing a remuneration committee. The determination of the Directors' fees is a matter dealt with by the whole Board.

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £75,000 per annum. Subject to this overall limit, it is the Company's policy to determine the level of Directors' fees having regard to the level of fees payable to non-executive directors in the industry generally, the role that individual Directors fulfil in respect of Board and Committee responsibilities, and the time committed to the Company's affairs.

No element of the Directors' remuneration is performance related.

No Director has a service contract with the Company.

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

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

## Total Shareholder Return over 5 years

Source: Datastream

## Remuneration for Qualifying Services

Director	2003 Fees for services to the Company £'000s	2002 Fees for services to the Company £'000s
G. D. Grender	20	20
N. M. Bachop	12	12
M.P.S. Barton	12	12
D.H. Hunter	12	12
Totals	56	56

The information in the above table has been audited (see Independent Auditors Report on page 18).

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

By order of the Board  
F&C Management Limited, Secretary  
4 September 2003

# Independent Auditors' Report

## **Independent auditors' report to the members of F&C US Smaller Companies PLC**

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

### **Respective responsibilities of Directors and auditors**

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part

of the Directors' remuneration report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the report of the Directors 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 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. The other information comprises only the Chairman's Statement, the Manager's Review, the Report of the Directors, the Directors' remuneration report, other than the auditable part, and the corporate governance statement.

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

### **Basis of audit opinion**

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and

disclosures in the financial statements and the auditable part of the Directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the 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 and the auditable part of the Directors' remuneration report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion: the financial statements give a true and fair view of the state of affairs of the Company at 30 June 2003 and of its total return and cash flows for the year then ended; the financial statements have been properly prepared in accordance with the Companies Act 1985; and those parts of the Directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the

  
PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London  
4 September 2003

# Statement of Total Return

Revenue Notes Capital Notes	(incorporating the Revenue Account)* for the year ended 30 June	2003			2002		
		Revenue	Capital	Total	Revenue	Capital	Total
		£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
8	Losses on investments	-	(8,632)	(8,632)	-	(10,837)	(10,837)
1a	Exchange losses on currency balances	-	(2)	(2)	-	(83)	(83)
7	Income	526	-	526	537	-	537
3	Management fee	(430)	-	(430)	(630)	-	(630)
	Loss on warrants purchased for cancellation	-	-	-	-	(837)	(837)
4 1a	Other expenses	(164)	(6)	(170)	(153)	(4)	(157)
	<b>Net return before finance costs and taxation</b>	<b>(68)</b>	<b>(8,640)</b>	<b>(8,708)</b>	<b>(246)</b>	<b>(11,761)</b>	<b>(12,007)</b>
	Interest payable and similar charges	-	-	-	-	-	-
	<b>Return on ordinary activities before taxation</b>	<b>(68)</b>	<b>(8,640)</b>	<b>(8,708)</b>	<b>(246)</b>	<b>(11,761)</b>	<b>(12,007)</b>
6	Taxation on ordinary activities	(75)	-	(75)	(76)	-	(76)
	<b>Return attributable to equity shareholders</b>	<b>(143)</b>	<b>(8,640)</b>	<b>(8,783)</b>	<b>(322)</b>	<b>(11,761)</b>	<b>(12,083)</b>
	Dividends on ordinary shares (equity)	-	-	-	-	-	-
18 1a	<b>Amount transferred from reserves</b>	<b>(143)</b>	<b>(8,640)</b>	<b>(8,783)</b>	<b>(322)</b>	<b>(11,761)</b>	<b>(12,083)</b>
7 7	<b>Return per ordinary share - pence</b>	<b>(0.49)</b>	<b>(29.62)</b>	<b>(30.11)</b>	<b>(0.99)</b>	<b>(35.98)</b>	<b>(36.97)</b>
	<b>Return per ordinary share (diluted) - pence</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>f</b>	<b>f</b>	<b>f</b>

\* The revenue column of the 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.

# Balance Sheet

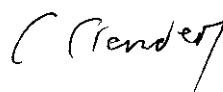
at 30 June

Notes	2003		2002	
	£'000s	£'000s	£'000s	£'000s
<b>Fixed Assets</b>				
8		52,135		73,336
<b>Current assets</b>				
9	Debtors	20	262	
	Taxation recoverable	-	1	
	Cash at bank and short-term deposits	1,295	1,384	
		1,315	1,647	
<b>Current liabilities</b>				
10	Creditors: amounts falling due within one year	(185)	(393)	
	Net current assets	1,130	1,254	
	<b>Net assets</b>	<b>53,265</b>		<b>74,590</b>

<b>Capital and reserves</b>				
12	Called up equity share capital	6,656		8,211
13	Capital redemption reserve	6,696	4,507	
14	Share premium	2,468	565	
15	Non-distributable reserve	841	-	
16	Warrant reserve	-	841	
17	Special reserve	11,009	26,088	
18	Capital reserves	27,133	35,773	
18	Revenue reserve	(1,538)	(1,395)	
		46,609		66,379
19	<b>Total shareholders' funds - equity</b>	<b>53,265</b>		<b>74,590</b>
<b>Net asset value per ordinary share:</b>				
	Basic - pence	200.06		227.10
	Diluted - pence	200.06		218.38

Approved by the Board on 4 September 2003 and signed on its behalf by:

Gordon Grender



# Cash Flow Statement

for the year ended 30 June

Notes	2003		2002	
	£'000s	£'000s	£'000s	£'000s
<b>Operating activities</b>				
	508		517	
Investment income received				
Interest received	27		31	
Fee paid to the management company	(472)		(654)	
Cash paid to and on behalf of Directors	(28)		(56)	
Other cash payments	(86)		(116)	
<b>21 Net cash outflow from operating activities</b>		<b>(51)</b>		<b>(278)</b>
<b>Taxation</b>				
UK tax received	-		4	
Overseas tax paid	(76)		(77)	
<b>Total tax paid</b>		<b>(76)</b>		<b>(73)</b>
<b>Financial investment</b>				
Purchases of investments	(14,131)		(22,270)	
Sales of investments	26,721		24,067	
Warrants purchased for cancellation	-		(1,277)	
Other capital expenses and credits	(9)		(4)	
<b>Net cash inflow from financial investment</b>		<b>12,581</b>		<b>516</b>
<b>Net cash inflow before use of liquid resources and financing</b>				
		<b>12,454</b>		<b>165</b>
<b>Financing</b>				
Net cash inflow from conversion of warrants	2,538		370	
Purchase of ordinary shares	(15,079)		-	
<b>Net cash (outflow)/inflow from financing</b>		<b>(12,541)</b>		<b>370</b>
<b>22 (Decrease)/increase in cash</b>		<b>(87)</b>		<b>535</b>

# 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 on all timing differences that have originated but not reversed by the balance sheet date other than those differences regarded as permanent. Any liability to deferred tax is provided at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money. Deferred tax assets are only recognised to the extent that they are regarded as recoverable.

### (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

	2003 £'000s	2002 £'000s
Overseas dividends	499	509
Interest on cash and short-term deposits	27	28
Total income	526	537

## 3 MANAGEMENT FEE

	2003 £'000s	2002 £'000s
Management fee	430	630
Irrecoverable VAT thereon	-	-
	430	630

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 2003 (2002: £nil).

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

## 4 OTHER EXPENSES

	2003 £'000s	2002 £'000s
Directors' emoluments:		
fees for services to the Company (see note 5)	56	56
General expenses	89	80
Auditors' remuneration:		
for audit services	14	14
for other services	5	3
	164	153

The auditors were also paid £10,000 in respect of services relating to the Tender Offer (See note 17 Special Reserve).

# Notes on the Accounts

## 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, which were for services as non-executive Directors and did not include any payments or rights to pensions, are detailed in the Directors' Remuneration Report on page 17.

None of the Directors of the Company received any other remuneration from the Company.

### (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 2003	30 June 2002	
	Ordinary Shares	Ordinary Shares	Warrants
N M Bacnop	10,000	-	-
M P S Barton	5,000	5,000	-
G D Grender	18,000	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.

Mr G D Grender exercised his warrants on 30 November 2002.

## 6 TAXATION ON ORDINARY ACTIVITIES

### (a) Analysis of tax charge for the year

	2003 £'000s	2002 £'000s
Corporation tax at 30% (2002: 30%)	-	-
Overseas tax	75	76
Current tax charge on ordinary activities (note 6 (b))	75	76

### (b) Factors affecting the current tax charge for the year

	2003 £'000s	2002 £'000s
Loss on ordinary activities before tax	(68)	(246)
Return on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	(20)	(74)
Expenses not utilised in the current year	51	48
Income taxable in different periods	(9)	1
Withholding tax claimed as an expense	-	25
Overseas tax written off	53	76
Current tax charge for the year (note 6 (a))	75	76

The deferred tax asset of £493,000 in respect of unutilised expenses at 30 June 2003 (2002: £442,000) has not been recognised as it is unlikely that these expenses will be utilised. Gains and losses on investments are not included within the above analysis as under the provisions of Section 842 of the Income and Corporation Taxes Act 1988 these items are not subject to corporation tax.

## 7 RETURN PER EQUITY SHARE

### Revenue return

The revenue return per share is based on the revenue return attributable to equity shareholders of £143,000 loss (2002: £322,000 loss).

### Capital return

The capital return per share is based on the capital return attributable to equity shareholders of £8,640,000 loss (2002: £11,761,000 loss).

Both the revenue and capital returns are based on a weighted average of ordinary shares in issue during the year of 29,169,023 (2002: 32,689,103).

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 warrant-holders 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:

The warrants in issue were all exercised during the year. There is therefore no dilution of total return as at 30 June 2003 and there are no further potentially dilutive instruments in issue.

	2003	2002
Weighted average number of ordinary shares in issue – for basic return calculations	29,169,023	32,689,103
Dilutive potential shares	-	1,379,057
Weighted average number of ordinary shares in issue – for diluted return calculations	29,169,023	34,068,160

In the year ended 30 June 2002 the reported revenue and capital losses when divided by the weighted average number of ordinary shares in issue for diluted return calculations of 34,068,160, 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 2002	70,034	
Unrealised appreciation at 1 July 2002	3,302	
Valuation at 1 July 2002	73,336	
Movements in the year:		
Purchases at cost	13,958	
Sales – proceeds	(26,527)	
– realised losses on sales	(5,831)	
Decrease in unrealised appreciation	(2,801)	
Valuation at 30 June 2003	52,135	
Cost at 30 June 2003	52,505	
Unrealised depreciation at 30 June 2003	(370)	
Valuation at 30 June 2003	52,135	
<b>(Losses)/gains on investments</b>	<b>2003</b>	<b>2002</b>
	<b>£'000s</b>	<b>£'000s</b>
Realised (losses)/gains based on historical cost	(4,960)	6,686
Less: amounts recognised as unrealised in previous years	(871)	(7,981)
Realised losses based on carrying value at previous balance sheet date	(5,831)	(1,295)
Decrease in unrealised appreciation	(2,801)	(9,542)
Losses on investments	(8,632)	(10,837)

# Notes on the Accounts

## 9 DEBTORS

	2003 £'000s	2002 £'000s
Investment debtors	-	195
Prepayments and accrued income	20	29
Other debtors	-	38
	<b>20</b>	<b>262</b>

## 10 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003 £'000s	2002 £'000s
Investment creditors	18	191
Taxation and social security creditors	1	9
Accruals	166	193
	<b>185</b>	<b>393</b>

## 11 INDUSTRIAL CLASSIFICATION: TOTAL ASSETS LESS CURRENT LIABILITIES

	2003 Total %	2002 Total %
<b>Equities</b>		
Autos & Transportation	7.2	6.3
Consumer Discretionary	26.7	33.5
Financials	21.6	17.0
Healthcare	12.4	11.1
Materials & Processing	7.8	7.4
Other	1.9	2.7
Other Energy	5.8	6.9
Producer Durables	7.2	5.3
Technology	5.1	4.0
Utilities	2.2	4.1
<b>Total equities</b>	<b>97.9</b>	<b>98.3</b>
<b>Net current assets</b>	<b>2.1</b>	<b>1.7</b>
<b>Total assets less current liabilities</b>	<b>100.0</b>	<b>100.0</b>

## 12 EQUITY SHARE CAPITAL

	Authorised Number	Nominal £'000s	Issued, allotted and paid up Number	Nominal £'000s
<b>Ordinary shares of 25p each</b>				
Balance brought forward	75,000,000	18,750	32,844,340	8,211
Shares issued on conversion of warrants†	-	-	2,537,929	634
Transferred to capital redemption reserve*	-	-	(8,757,500)	(2,189)
Balance carried forward	75,000,000	18,750	26,624,769	6,656

† 1,375,738 warrants were exercised on 30 November 2002. A further 1,162,191 warrants were exercised by Law Debenture Trust Corporation PLC, an appointed trustee, on 6 December 2002.

\* 1,597,000 ordinary shares were purchased at various dates prior to the Tender Offer. A further 6,935,500 were purchased through the Tender Offer on 6 December 2002. Subsequent to the Tender Offer a further 225,000 shares were purchased.

**13 CAPITAL REDEMPTION RESERVE**

	2003 £'000s	2002 £'000s
Balance brought forward	4,507	4,507
Transferred from equity share capital	2,189	-
Balance carried forward	6,696	4,507

**14 SHARE PREMIUM**

	2003 £'000s	2002 £'000s
Balance brought forward	565	165
Received on issue of 2,537,929 (2002: 370,338) ordinary shares on conversion of warrants	1,903	278
Transferred from warrant reserve on conversion of warrants (see note 16)	-	122
Balance carried forward	2,468	565

**15 NON-DISTRIBUTABLE RESERVE**

	2003 £'000s	2002 £'000s
Balance brought forward	-	-
Transferred from warrant reserve	841	-
Balance carried forward	841	-

**16 WARRANT RESERVE**

	2003 £'000s	2002 £'000s
Balance brought forward	841	1,403
Transferred to share premium on conversion of warrants	-	(122)
Warrants purchased for cancellation	-	(440)
Transferred to non-distributable reserve	(841)	-
Balance carried forward	-	841

**17 SPECIAL RESERVE**

	2003 £'000s	2002 £'000s
Balance brought forward	26,088	26,088
Cost of purchase of ordinary shares*	(15,079)	-
Balance carried forward	11,009	26,088

\* Included within the cost of purchase of ordinary shares is £272,000 of professional fees relating to the Tender Offer. These costs were charged to the capital reserve in the company's interim report but have now been shown as a charge on special reserve as they represent an integral part of the cost of the Tender Offer. This has had no impact of the net asset value of the company.

# Notes on the Accounts

## 18 OTHER RESERVES

	Capital reserve – realised £'000s	Capital reserve – unrealised £'000s	Capital reserves total £'000s	Revenue reserve £'000s
Realised losses on investments	(5,831)	–	(5,831)	–
Transfers on disposal of investments	871	(871)	–	–
Exchange losses on currency balances	(2)	–	(2)	–
Other capital charges	(6)	–	(6)	–
Decrease in unrealised appreciation	–	(2,801)	(2,801)	–
Amount transferred from revenue reserve	–	–	–	(143)
	(4,968)	(3,672)	(8,640)	(143)
Balance brought forward	32,471	3,302	35,773	(1,395)
Balance carried forward	27,503	(370)	27,133	(1,538)

## 19 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	2003 £'000s	2002 £'000s
Revenue return on ordinary activities after taxation	(143)	(322)
Capital return on ordinary activities after taxation	(8,640)	(11,761)
Net decrease in equity shareholders' funds	(8,783)	(12,083)
New share capital subscribed on exercise of warrants	2,537	370
Cost of purchase of ordinary shares out of special reserve	(15,079)	–
Warrants purchased for cancellation	–	(440)
Total equity shareholders' funds brought forward	74,590	86,743
Total equity shareholders' funds carried forward	53,265	74,590

## 20 NET ASSET VALUE PER ORDINARY SHARE

Net asset value per ordinary share is based on total net assets of £53,265,000 (2002: £74,590,000) and on 26,624,769 (2002: 32,844,340) ordinary shares in issue at 30 June 2003.

There were no outstanding warrants at 30 June 2003 (2002: 2,537,929) and no further dilutive events for the diluted net assets per share calculation. 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 warrant holders 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").

	2003	2002
Ordinary shares in issue at 30 June – for basic net asset value calculations	26,624,769	32,844,340
Dilutive potential shares at 30 June	–	1,311,876
Ordinary shares in issue at 30 June – for diluted net asset value calculations	26,624,769	34,156,216

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

	2003 £'000s	2002 £'000s
Net revenue return before finance costs and taxation	(68)	(246)
Decrease in accrued income	9	11
Decrease/(increase) in other debtors	46	(35)
Decrease in creditors	(38)	(8)
Net cash outflow from operating activities	(51)	(278)

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

	2003 £'000s	2002 £'000s
(Decrease)/increase in cash	(87)	535
Movement resulting from cash flows	(87)	535
Exchange movement	(2)	(83)
Movement in net funds	(89)	452
Net funds brought forward	1,384	932
Net funds carried forward	1,295	1,384

Represented by:	Balance at 1 July 2002 £'000s	Cash flow £'000s	Exchange movement £'000s	Balance at 30 June 2003 £'000s
Cash at bank	1,384	(87)	(2)	1,295

# Notes on the Accounts

## 23 FUND RISK PROFILE

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 portfolio held throughout the year and at the year-end is in line with the Company's investment objective. During the year, Russell 2000 futures were purchased to enable the Company to maintain its exposure to equities in a cost efficient manner whilst holding sufficient cash balances to satisfy the need of the Tender Offer. 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, which have been applied consistently throughout the current and preceding period, are set out on page 31.

### Financial Assets

The interest rate profile of the Company's financial assets was:

Currency: 30 June 2003	Floating rate financial assets £'000s	Financial assets on which no interest is paid £'000s	Total financial assets £'000s
Sterling	170	9	179
US dollars	1,125	52,146	53,271
	<b>1,295</b>	<b>52,155</b>	<b>53,450</b>

Currency: 30 June 2002	Floating rate financial assets £'000s	Financial assets on which no interest is paid £'000s	Total financial assets £'000s
Sterling	156	49	205
US dollars	1,228	73,550	74,778
	<b>1,384</b>	<b>73,599</b>	<b>74,983</b>

The floating rate financial assets comprise cash and bank balances that earn interest by reference to LIBOR or the foreign equivalent.

### Financial Liabilities

Excluding short-term creditors, the Company had no financial liabilities at 30 June 2003 (2002: £nil).

### Net Monetary Assets

The profile of the Company's net monetary assets, by currency, was:

	Sterling £'000s	US\$ £'000s	Total £'000s
<b>30 June 2003</b>	<b>12</b>	<b>53,253</b>	<b>53,265</b>
30 June 2002	4	74,586	74,590

### 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.

## 23 RISK PROFILE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

### Risk Management

Risk	Management of Risk
<b>Credit</b> 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.
<b>Liquidity</b> 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 an overdraft facility of £1 million.
<b>Market Price</b> The Company's assets consist principally of quoted equities, the values of which are determined by market forces.	The Board manages the market price risks inherent in the Company's portfolio by ensuring full and timely access to relevant information from the Manager. The Board meets regularly and at each meeting reviews investment performance and financial results. It monitors compliance with the Company's objectives and is directly responsible for investment strategy, asset allocation and gearing.
<b>Currency</b> The majority 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.

# Ten Year Record

## ASSETS

at 30 June

£'000s	1994	1995	1996†	1997†	1998†	1999†	2000†	2001†	2002†	2003†
Total assets less current liabilities (excl. loans)	50,448	60,217	79,282	88,386	107,900	115,955	80,946	86,743	74,590	53,265
Prior charges (incl. loans)	-	-	-	-	-	-	-	-	-	-
Available for ordinary shares	50,448	60,217	79,282	88,386	107,900	115,955	80,946	86,743	74,590	53,265

## NET ASSET VALUE

at 30 June

	1994	1995	1996†	1997†	1998†	1999†	2000†	2001†	2002†	2003†
NAV per share	100.7p	120.0p	157.9p	175.8p	214.4p	230.3p	243.4p	267.11p	227.10p	200.06p
NAV per share - fully diluted	100.6p	116.7p	148.3p	164.9p	202.1p	217.8p	228.4p	249.22p	218.38p	-
NAV total return on 100p - 5 years (per AITC)										100.5p
NAV total return on 100p - 10 years (per AITC)										209.8p

## SHARE PRICE

at 30 June

	1994	1995	1996†	1997†	1998†	1999†	2000†	2001†	2002†	2003†
Mid-market price per share	98.5p	106.5p	136.5p	137.5p	168.0p	183.3p	200.0p	222.5p	207.0p	192.0p
Discount/(premium) to NAV	2.1%	8.7%	8.0%	16.6%	16.9%	15.8%	12.5%	10.7%	5.2%	4.0%
Share price High	119.0p	109.5p	136.5p	155.0p	179.0p	189.5p	215.8p	232.5p	254.0p	206.0p
Share price Low	97.0p	90.0p	107.0p	123.0p	138.0p	119.0p	164.0p	192.5p	168.0p	142.5p
Share price total return on 100p - 5 years (per AITC)										114.4p
Share price total return on 100p - 10 years (per AITC)										196.9p

## REVENUE

for the year ended 30 June

£'000	1994*	1995	1996†	1997†	1998†	1999†	2000†	2001†	2002†	2003†
Available for ordinary shares	89	(8)	(197)	(103)	(215)	(2)	(319)	(357)	(322)	(143)
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	(0.99)p	(0.49p)
Dividends per share	-	-	-	-	-	-	-	-	-	-

## PERFORMANCE

at 30 June

	1993	1994	1995	1996†	1997†	1998†	1999†	2000†	2001†	2002†	2003†
NAV per share*	100	104	124	164	182	222	239	252	277	235	207
Mid-market price per share*	100	102	110	142	143	174	190	207	231	214	199
Russell 2000 Smaller Companies Capital Index*	100	99	113	142	151	174	184	217	231	192	172
RPI*	100	104	108	110	113	117	119	123	125	126	128

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

\* Period from 8 March 1993 to 30 June 1994.

### COST OF RUNNING THE COMPANY

for the year-ended 30 June

%	1994	1995	1996†	1997†	1998†	1999†	2000†	2001†	2002†	2003†
Operating costs as a percentage of:										
Average net assets and average total assets	2	2	3	1	1	1	1	1	1	1

### NET LIQUIDITY

at 30 June

%	1994	1995	1996†	1997†	1998†	1999†	2000†	2001†	2002†	2003†
Net liquidity	1	4	0	3	2	7	3	1	2	2

† 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 the 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 weekly, on the working day following the calculation date (every Wednesday), to the London Stock Exchange.

The current share price of F&C US 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 annual 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.com](http://www.fandc.com) (select your language and profile, UK Private Investor, Investment Trusts, US Smaller Companies). 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)**

F&C US Smaller Companies PLC is a member of the AITC, which publishes a monthly statistical information service in respect of member companies. The publication also has details of ISA, PEP and other investment plans available. For further details, please contact the AITC on 020 7282 5555, or visit the website: [www.itsonline.co.uk](http://www.itsonline.co.uk).

## **UK Capital Gains Tax (CGT)**

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

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

# Notice of Annual General Meeting

Notice is hereby given that the Tenth Annual General Meeting of F&C US Smaller Companies PLC will be held at the registered office of the Company, Exchange House, Primrose Street, London EC2 on 14 November 2003 at 12.30 pm for the following purposes:

## Ordinary Business:

- 1 To receive and adopt the Directors' report and accounts for the year ended 30 June 2003.
- 2 To approve the Directors' Remuneration Report.
- 3 To re-elect Mr D H Hunter as a Director.

## Special Business

- 4 To re-appoint PricewaterhouseCoopers LLP as auditors of the Company (having previously been appointed by the Board to fill the vacancy arising by reason of the resignation of PricewaterhouseCoopers and special notice having been received of the intention to propose the resolution as an ordinary resolution) and to authorise the Directors to determine their remuneration.
- 5 To consider and, if thought fit, pass the following resolution as a special resolution:

THAT:

- (a) the Directors be and they are hereby:
  - (i) generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £332,809 during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the Annual General Meeting of the Company in 2004, and
  - (ii) empowered, pursuant to section 95 of the Act, to allot equity securities (within the meaning of section 94 of the Act) pursuant to the authority referred to in paragraph (a)(i) of this resolution as if section 89(1) of the Act did not apply to any such allotment, but so that this authority and power shall enable the Company to make offers or agreements which would or might require relevant

securities or equity securities to be allotted after the expiry of this authority and power and notwithstanding such expiry the Directors may allot relevant securities and/or equity securities in pursuance of such offers or agreements; and

- (b) all authorities and powers previously conferred under section 80 or section 95 of the Act be and they are hereby revoked, provided that such revocation shall not have retrospective effect.
- 6 To consider and, if thought fit, pass the following resolution as a special resolution:

THAT the Company be and is hereby generally and unconditionally authorised in accordance with section 166 of the Companies Act 1985 (the "Act") to make market purchases (within the meaning of section 163 of the Act) of ordinary shares of 25p each in the capital of the Company ('ordinary shares') on such terms and in such manner as the Directors may from time to time determine, provided that:

    - a) the maximum number of ordinary shares hereby authorised to be purchased shall be 3,991,050;
    - b) the minimum price which may be paid for an ordinary share is 25p;
    - c) the maximum price which may be paid for an ordinary share is an amount equal to 105 per cent of the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased;
    - d) the minimum and maximum prices per ordinary share referred to in sub-paragraphs (b) and (c) of this resolution are in each case exclusive of any expenses payable by the Company;
    - e) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2004 or, if earlier, on the expiry of 15 months from the passing of this resolution, unless such authority is varied, revoked or renewed prior to such time by the Company in general meeting by special resolution; and

# Notice of Annual General Meeting (continued)

- f) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed or executed wholly or partly after the expiry of such authority.

By order of the Board  
F&C Management Limited  
Secretary  
18 September 2003  
Registered Office:  
Exchange House  
Primrose Street  
London EC2A 2NY

## **Location of Meeting**

## **Notes:**

Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, only shareholders registered on the register of members of the Company at 12.30 pm on 12 November 2003 shall be entitled to attend and vote at the meeting in respect of the shares registered in their name at that time. Changes to entries on the register of members after 12.30 pm on 12 November 2003 shall be disregarded in determining the rights of any person to attend and vote at the Meeting.

If the Meeting is adjourned to a time not more than 48 hours after the time applicable to the original Meeting, the above specified time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned Meeting. If, however, the Meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at 11.00pm on the day which is two days before the time fixed for the adjourned Meeting, or, if the Company gives notice of the adjourned Meeting, at any time specified on that notice.

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

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

The register of Directors' holdings is available for inspection at the registered office of the Company during normal business hours on any weekday and will be available at the place of the Meeting from 15 minutes prior to the commencement of the Meeting until the conclusion thereof.

No Director has any contract of service with the Company.

Shareholders should note that further details of the Annual General Meeting, including an explanation of the special business proposed thereat, can be found in the Report of the Directors on pages 11 to 15 of these Report and Accounts.

# How to Invest in F&C US Smaller Companies PLC

You can buy F&C US Smaller Companies shares using a bank or stockbroker or through any of the Plans listed below. All of the Plans have been set up to provide cost effective and flexible ways to invest. Alternatively, on our website we have a link to comdirect, Europe's biggest stockbroker. If your preference is to purchase shares in F&C US Smaller Companies directly through an online and telephone dealing service then visit our website at [www.fandc.com/comdirect](http://www.fandc.com/comdirect).

## **Private Investor Plan (PIP)**

It only costs 0.2% (plus 0.5% Government Stamp Duty) to invest in F&C US Smaller Companies PLC via this simple savings scheme and there are no ongoing charges. You can invest a lump sum or set up a Direct Debit to make regular monthly payments from just £50 per month. Dividend reinvestment is also available.

## **Pension Savings Plan (PSP)**

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

## **Individual Savings Account (ISA)**

You can invest up to £7,000 tax-free\* in F&C's Maxi ISA, or £3,000 in the Mini ISA either by completing an application form or investing online. You can make regular monthly payments by Direct Debit and/or invest a lump sum. Dividend reinvestment is also available.

## **Personal Equity Plan (PEP)**

Although PEPs are no longer available for new subscriptions you can transfer investments from one manager to another, subject to Inland Revenue requirements.

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

The information on this page has been issued and approved by F&C Management Limited, authorised and regulated by the Financial Services Authority. Potential investors are reminded that the value of investments and the income from them may go down as well as up and investors may not receive back the full amount invested. Tax benefits may vary as a result of statutory changes and their value will depend on individual circumstances.

\*Free of capital gains tax; income received has been taxed at source.

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For further details and application forms, please contact:

Investor Services on **0845 600 30 30** or

Broker Support on **0845 600 1868**

(UK calls charged at the local rate)

Fax **020 7825 2108**

You can also visit us on our website:

**[www.fandc.com](http://www.fandc.com)** 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 2NY

Or contact your Independent Financial Adviser

**Registered Office:**

Exchange House, Primrose Street, London EC2A 2NY

**Tel:** 020 7628 8000 **Fax:** 020 7628 8188 **Website:** [www.fandc.com](http://www.fandc.com)

**Email:** [info@fandc.com](mailto:info@fandc.com)

**Registrars:** Computershare Investor Services PLC, PO Box 435, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 4BR

**Tel:** 0870 702 0130 **Fax:** 0870 703 6141 **Website:** [www.computershare.com](http://www.computershare.com) **Email:** [web.queries@computershare.co.uk](mailto:web.queries@computershare.co.uk)