Foreign & Colonial PEP Investment Trust PLC

Report and Accounts 1997

Foreign & Colonial

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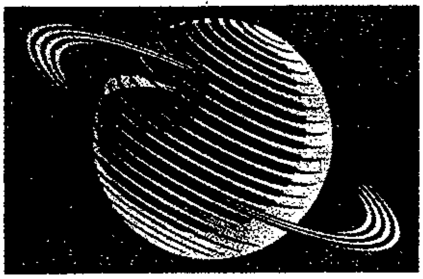
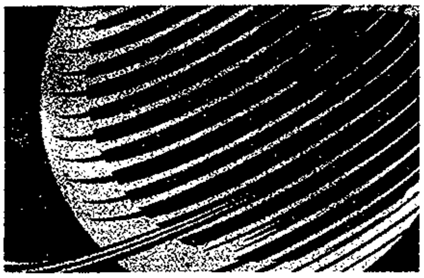


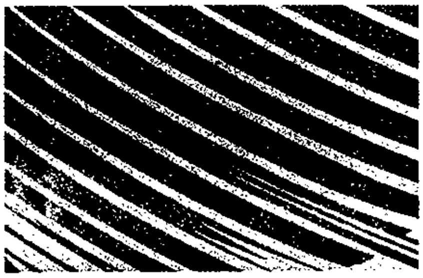
To secure long-term capital and income growth from a portfolio consisting mainly of FTSE All-Share companies and leading European companies

Objective of Foreign & Colonial PEP Investment Trust PLC



Summary of Results

Attributable to Equity shareholders	30 September 1997	30 September 1996 (restated)	% change
Net assets	£103.07m	£84.44m	+ 22.1
Net assets per share	174.60p	143.05p	+ 22.1
Net revenue attributable to ordinary shareholders	£2.70m	£2.71m	– 0.3
Earnings per share	4.58p	4.67p	– 1.9
Dividends per share	4.50p	4.15p	+ 8.4
Share price	145.00p	146.00p	– 0.7



Financial Calendar

Annual General Meeting	10 February 1998
Final dividend payable	11 February 1998
Interim results for 1997/8 announced	June 1998
Interim dividend payable	July 1998
Final results for 1997/8 announced	November 1998

Company Registration Number 2732011

Chairman's Statement

Dear Shareholder

Capital Performance

In the year to 30 September 1997, net assets per share rose by 22.1% to 174.6 pence. The FTSE All-Share Index, your Company's benchmark, rose by 26.2% over the same period. Your Company's total return of 26.4% was slightly ahead of the average return of 26.1% from its UK General Investment Trust peer group as calculated by the Association of Investment Trust Companies.

The UK and European stockmarkets have performed very well over the last year. Economic conditions in the UK have remained favourable with inflation running at low levels. Although the base rate has been raised six times over the course of the year the current level of 7.25% is still relatively moderate and the policy of increasing interest rates before inflation is allowed to gather momentum should be positive for the longer term health of the economy. Corporate profits and dividend increases have been good, and this, combined with the benefits of moderate interest rates and inflation, has allowed the UK stockmarket to make significant progress. In Continental Europe interest rates are lower still as the economies there are at a less advanced stage in the economic cycle. Early signs of a recovery in Continental Europe continue to come through and the prospect of further growth has brought about a large increase in some of these stockmarkets.

The shortfall in returns of the net assets of your Company against its benchmark is due to the performance of the UK part of the portfolio; the Manager's Review examines this more thoroughly, but the main reason was that the portfolio has been underweight in the retail banking sector. This sector has performed strongly as share prices have risen to reflect good financial results, but valuations have become stretched against historic comparisons. The investment policy that we use is a relatively cautious one as we try to identify companies with good long term prospects, but whose share prices are depressed, and therefore we have maintained the underweight position in this sector.

Revenue Performance and Dividend

Most companies have continued to increase their dividends at a good rate and we have been able to meet our own dividend target. The Board is recommending a final dividend of 2.75 pence, which gives a total for the year of 4.5 pence, an increase of 8.4% and in line with the general level of dividend increases in the stockmarket. Over the year to 30 September core retail price inflation, excluding mortgage interest payments, was 2.7%.

The decrease in net revenue attributable to ordinary shareholders of 0.3% is due to a number of factors. As noted in my statement last year, all of your Company's fixed interest holdings were sold and the proceeds reinvested in equities. The residual impact of that is evident in these figures.

There was a further effect as the timing of the recognition of dividends from a number of companies changed from the period under review into the following year. Another element of significance was an increase of 16% in the management fee. This is entirely based on net assets, which grew faster than dividends.

Discount to Net Asset Value

At 30 September 1996 PEPIT's shares stood at a 3% premium to asset value, while at 30 September 1997 the shares had fallen to a 17% discount. Over a period in which the net assets of the Company rose by over 22%, the share price actually fell. Your Company is not alone in having suffered from this as many other investment trusts have also experienced a widening of discounts, but the problem has been particularly marked for PEPIT, whose shares traded at a premium to net asset value for nearly the whole period since launch until the start of 1997.

The move to a substantial discount is of great concern to the Board and the Manager. It is, however, not a situation that can be remedied easily as it is entirely a function of supply of and demand for the Company's shares in the stockmarket. One way that the Board and the Manager may influence these factors is to try to increase net assets faster than the All-Share index and the Company's peer group. There is also a resolution included for a vote at the AGM which will allow the Company to repurchase up to 15% of its own shares.

No new shares were issued during the year and I repeat the firm assurances I have made previously that under no circumstances will your directors make an issue of new shares unless it enhances net asset value per share.

PEP Status

Gordon Brown, the Chancellor of the Exchequer, stated in his Budget on 1 July that Personal Equity Plans would be superseded in April 1999 by tax favoured Individual Savings Accounts (ISAs). On 2 December the Government announced further details on ISAs in a consultative document.

The Board and Manager are considering the consequences of the proposals for your Company, and believe it is positive that most investors will be able to carry forward their PEP investments into ISAs

Statement of Recommended Practice

This is the first year in which we have prepared our accounts in accordance with the Statement of Recommended Practice (SORP) issued by the Association of Investment Trust Companies (AITC). This has resulted in changes to the format of the accounts. The previous year's results have been restated.

Investment Management Agreement

A new management agreement was signed last year which reduced the notice period for termination of the agreement from three years to two years. The Board has now signed an agreement which further reduces the notice period to one year. This is in line with best practice within the investment trust industry.

Annual General Meeting

This year's Annual General Meeting will be held on Tuesday, 10 February at 11:00 am. As in previous years, this will include a report on performance in the quarter to 31 December 1997. I very much hope to see you there.

Prospects

Global stockmarkets are proving to be very volatile at the moment but there are reasons to have confidence in the longer term outlook. The UK economy is still in fairly good shape, although there are some signs that certain areas of the economy are becoming overheated. Further interest rate increases are possible over the next couple of months, but these have largely been anticipated by the stockmarket. If the rises are early and decisive enough they should help to keep inflation under control, and this should underpin current market valuations.

Probably the greatest threat to stockmarkets in the UK and Europe is another correction in the United States or further financial turbulence in the Far East. Valuations on Wall Street are high by historic standards, and higher than in the UK, but if there is a set back in the US, the London and European stockmarkets would also be affected. It may be too soon to judge whether the financial storms that have plagued the Far East have yet blown over, but your Company has relatively small holdings in the companies most closely linked to Hong Kong. We remain convinced of the long term attractions of equities, and their ability to generate a rising stream of dividend income for shareholders.

Graham Ross Russell
December 1997

Manager's Review

UK Stockmarket

The last year has seen another period of strong returns in the stockmarket. These have been driven by a combination of good earnings and dividend growth and a relatively benign economic environment with low levels of inflation and moderate interest rates. This background has been attractive to both domestic and overseas investors. There has also been speculation that the UK will be joining a European single currency and therefore that bond yields would have to move more in line with Continental European rates. This has led to yields on gilt edged government securities falling, which in turn has brought about a higher rating on the stockmarket generally.

Within the stockmarket there has been a noticeable divergence in the performance of sectors over the year with positive performance concentrated in very few sectors. The retail banks and integrated oils sectors increased by 70% and 39% respectively and have accounted for a significant proportion of the index's rise while all general industrial sectors performed relatively poorly. The portfolio has been underweight in the retail banking sector and therefore did not fully capture the strong gains available. We feel that the stockmarket is currently overestimating the long term returns that can be generated by banks in general, and that in the current benign environment investors are ignoring the strong cyclical nature of banking profits. There has also been a technical factor that has affected the banking sector as the converting building societies have added to the sector, forcing many investors to increase their weightings substantially. It is an unusual example of an increase in supply of shares causing an increase in demand, and we do not believe that this situation is sustainable for any length of time. The portfolio was also correspondingly overweight in the general industrial sector and hence suffered poorer performance as a result. A combination of these two factors was the largest reason for PEPIT's underperformance against its benchmark.

The portfolio continues to be managed on a contrarian basis where we try to invest in companies which have good long term prospects, but whose share prices are depressed by adverse short-term sentiment, either because of current difficulties, or simply because they are unfashionable. We aim to focus on long term sustainable growth rates and operating margins for companies and take relatively little account of short term earnings and forecasts. While this may result in periods of underperformance we believe that by taking a more far sighted view we will be able to generate superior results over the longer term.

Within your Company's holdings in the UK there is a higher than average weighting in smaller companies. Performance of smaller companies in general has been disappointing with the FTSE Small Cap index only increasing by 0.9%, but PEPIT's holdings have returned better results. We continue to believe that medium and smaller companies often have greater potential for growth than larger ones and we will continue with our targeted approach of identifying good investments. Given the current attractive valuations of many smaller companies we will hold on to our existing investments, and increase weightings when appropriate.

European Stockmarkets

As noted in the Chairman's Statement Continental European stockmarkets performed strongly last year, with a 28.1% rise in the FTSE-Actuaries Europe Index, excluding UK and adjusted to sterling. Your Company's holdings performed even more strongly.

In local currency terms the Continental markets rose by almost a half. Many of the features that helped the UK market were also influential in Europe. The low level of interest rates and lack of inflationary pressure were clearly beneficial, as was the US dollar strengthening against the Deutschmark. There were also early signs of a pick up in business activity, which led to a marked improvement in the outlook for European company profits. Markets were further boosted by a surge of corporate activity as the pace of reorganisation and restructuring gathered speed. All the markets showed positive returns over the year. For us, however, part of these gains were eroded by sterling's strength relative to European currencies as UK interest rates increased.
Our performance particularly benefited from a concentration on large blue chips, which tended to perform better than smaller companies.

Successes and Failures

The main features at a broad sector level have already been noted. At the underlying stock level the best performing share in the portfolio was Lloyds TSB, which outperformed the FTSE All-Share index by 75% as it benefited from strong results following the merger of the Lloyds and TSB Banks and the acquisition of the Cheltenham & Gloucester building society. Independent Insurance, up 60% relative to the FTSE All-Share index, reported better than expected results and was helped by some good acquisitions. The two worst performing shares were both general retailers, Sears, down 35% and W H Smith, down 22%. Despite a generally favourable environment for retailers both have suffered from disappointing results and a slower than expected turn around of underperforming operations.

Directors

Graham Ross Russell * *Chairman*, joined the Board in January 1993 and became Chairman in June 1993. He is 64, is Chairman of The Securities Institute and was formerly Chairman of EMAP plc.

Oliver Dawson is 66. He retired from the Board of Foreign & Colonial Management in December 1995 and until October 1996 remained as a consultant to that company. He is a Director of Foreign & Colonial Investment Trust PLC and Foreign & Colonial Income Growth Investment Trust PLC. He is a Church Commissioner and is a member of both the investment advisory committee of the Nuffield Foundation and the consultative committee of the Cambridge University Council.

Peter Hardy *, 58, is a Non-Executive Director of Kingfisher plc, Land Securities plc, Howard de Walden Estates Limited and Barnardos. He was formerly a managing director, Investment Banking, of SG Warburg Group plc.

Michael Hart, 64, is Chairman of Foreign & Colonial Management and Latin American Investment Trust PLC, a Director of Brazilian Smaller Companies Investment Trust PLC, Foreign & Colonial Investment Trust PLC, Foreign & Colonial Smaller Companies PLC and Foreign & Colonial Emerging Markets Investment Trust PLC. He is a member of the Investment Committee of the BP Pension Fund and an adviser to the British Steel Pension Fund.

Michael Morley *, 57, is Chairman of Close Brothers Group plc and a Director of Foreign & Colonial Private Equity Trust PLC. He joined the Board in June 1993.

*Independent director and member of the Audit Committee

Management

Julian Cane *Manager* is 28 and joined Foreign & Colonial Management in 1993.

Robert Dowdall is Director of Finance at Foreign & Colonial Management. He is 51 and joined the Group in 1990.

Nick Pitt-Lewis is Director of Compliance at Foreign & Colonial Management. He is 44 and joined the Group in 1992.

Richard Vallance acts as Company Secretary on behalf of Foreign & Colonial Management. He is 36 and joined the Group in 1988.

Secretary and Registered Office: Foreign & Colonial Management Limited, Exchange House, Primrose Street, London EC2A 2NY.
Regulated by the Investment Management Regulatory Organisation Limited (IMRO) and the Personal Investment Authority (PIA).
Registered in England.

Telephone:	0171-628 8000
Telex:	886197 or 8811745 (FORCOL G).
Facsimile:	0171-628 8188

Banker: The Royal Bank of Scotland plc.

Registrars: The Royal Bank of Scotland plc, Registrar's Department, PO Box 435, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 4BR.
Telephone: 0131-556 8555.

Auditors: Price Waterhouse, Southwark Towers, 32 London Bridge Street, London SE1 9SY.

AI TC *Member of The Association of Investment Trust Companies*

Twenty Largest Equity Holdings

at 30 September 1997

1 (3) Glaxo Wellcome 4.76%

Large annual research and development expenditure has led to a wide range of new products and the take-over of Wellcome has produced greater economies of scale.

2 (1) British Petroleum 4.08%

Major international integrated oil group with an excellent record of performance improvement and good prospects for dividend growth.

3 (4) Shell Transport & Trading / Royal Dutch 3.15%

Leading international oil exploration, production and marketing group, which has a strong balance sheet and an attractive yield.

4 (-) HSBC 2.78%

Conservatively managed, well diversified international bank operating in many areas of the world.

5 (2) British Telecom 2.26%

Long-term growth in demand for telecommunications should be boosted by falling prices, better marketing and a range of new services. Although the proposed merger with MCI will no longer be proceeding, BT has the possibility of other deals, or returning surplus capital to shareholders.

6 (5) B·A·T Industries 2.11%

The demerger of the company's tobacco interests and the merger of its financial operations with Zurich Insurance serve to realise the value that was contained in the group.

7 (18) Barclays Bank 2.03%

Strong results are being reported due to a favourable economic environment, good operational control and a progressive approach to capital management.

8 (8) BG 1.94%

Gas pipeline, distribution and exploration and production business formed from the demerger of British Gas. Uniquely for a UK regulated company, it is trading below its 'regulatory asset value'.

9 (6) Allied Domecq 1.84%

Spirits and drinks retailing group which has an attractive yield. It should benefit from a new chairman and consolidation within the spirits industry.

10 (-) National Westminster Bank 1.82%

Of all the UK retail banks, National Westminster has the greatest scope to improve returns and it is the most cheaply valued of its peer group.

11 (7) Grand Metropolitan 1.68%

Proposed merger with Guinness will bring some cost savings, and will enhance distribution, particularly in emerging markets.

12 (-) Lloyds TSB 1.64%

High quality retail bank which has increased its dividend every year for the last 28 years. The acquisitions of the Cheltenham and Gloucester building society and TSB are proving positive for earnings and dividend growth.

13 (9) BTR 1.49%

Major international manufacturing group. The new management team are expected to improve on recent lacklustre results.

14 (14) Zeneca 1.47%

International pharmaceutical company with good growth prospects underpinned by its new product pipeline. A likely participant in the global consolidation of the industry.

15 (12) Tomkins 1.36%

Lowly rated diversified industrial company with strong cash flow. It should benefit from recent acquisitions and a share buy back.

16 (13) Land Securities 1.33%

The UK's largest property investment company with strong management. It is currently benefiting from a favourable operating environment.

17 (-) Legal & General 1.30%

Favourable demographics and returns generated by shareholders' retained capital will generate a good rate of dividend increase for shareholders.

18 (-) United Utilities 1.30%

The merger of North West Water and Norweb should create substantial efficiency savings to underpin good rates of dividend growth.

19 (-) Marks and Spencer 1.29%

Leading UK retailer reporting strong results in its core business and expanding its operations overseas.

20 (-) Rio Tinto 1.25%

A world leader in the mining industry concentrating on the development of large, high quality mineral deposits, with a number of new projects set to drive earnings ahead.

The value of the twenty largest equity holdings represents 40.7% (1996 - 40.8%) of the Company's portfolio. The figures in brackets denote the position at the previous year end and the percentage is the proportion of net assets attributable to ordinary shareholders.


Glaxo Wellcome £4.91m
British Petroleum £4.21m
Shell Transport & Trading / Royal Dutch £3.24m
HSBC £2.86m
British Telecommunications £2.33m
B·A·T Industries £2.17m
Barclays Bank £2.09m
BG £2.00m
Allied Domecq £1.89m
National Westminster Bank £1.87m
Grand Metropolitan £1.73m
Lloyds TSB £1.69m
BTR £1.54m
Zeneca £1.52m
Tomkins £1.40m
Land Securities £1.37m
Legal & General £1.34m
United Utilities £1.34m
Marks and Spencer £1.33m
Rio Tinto £1.29m

List of Investments

Listed Investments	Holding	Value at 30 September 1997 £'000s
United Kingdom		
Equities		
Aegis	600,000	392
Alliance & Leicester	70,001	485
Allied Domecq	385,000	1,891
Anglian Group	250,000	586
Anglian Water	120,000	982
BAA	140,000	842
Bank of Scotland	203,600	1,042
B.A.T Industries	400,000	2,171
Barclays Bank	125,000	2,092
Bass	115,000	961
BBA Group	280,000	1,182
BG	742,000	1,999
Blick	86,500	228
Booker	206,000	662
British Petroleum	450,000	4,209
British Sky Broadcasting	140,000	653
British Telecommunications	570,000	2,333
Brixton Estate	380,000	827
Bullough	370,000	364
BTP	125,000	433
BTR	611,666	
BTR Warrants 1997	14,666	1,538
BTR Warrants 1998	11,111	
Bunzl	160,000	421
Cable & Wireless	160,000	844
Cairn Energy	65,000	325
Caradon	190,620	365
Carlton Communications	187,500	965
Centrica	842,000	783
City Centre Restaurants	250,000	353
Close Brothers	81,999	407
Coats Viyella	200,000	240
Courtaulds Textiles	100,000	362
Dalgety	440,000	1,131
Fine Art Developments	100,000	327
FKI	411,000	847
Forth Ports	50,000	310
General Accident	60,000	654
General Electric	210,000	821
Glaxo Wellcome	352,200	4,911
Graham Group	205,000	287
Granada Group	100,000	876
Grand Metropolitan	292,000	1,729
Great Universal Stores	100,000	691
Guardian Royal Exchange	250,000	791
Halifax	100,000	730
Harrisons & Crosfield	383,000	471
Hazlewood Foods	235,000	351
Highland Distilleries	95,000	273
HSBC	136,300	2,862
Hunting	210,000	459
Iceland	426,327	443
Inchcape	370,000	1,064
Independent Insurance	97,778	1,115
Johnson Matthey	174,600	1,181
Kingfisher	110,000	934

Listed Investments	Holding	Value at 30 September 1997 £'000s
Kwik-Fit	140,000	449
Land Securities	140,000	1,373
Laird Group	180,000	841
Legal & General	277,500	1,342
Liberty International	76,675	384
Limit	500,000	630
Lloyds TSB	202,000	1,686
Low & Bonar	90,000	261
Meyer	117,000	500
Marks and Spencer	209,500	1,327
Marley	600,000	660
Midland Independent Newspapers	232,000	471
Mirror Group Newspapers	150,000	301
National Grid	47,520	134
National Power	119,000	678
National Westminster Bank	200,000	1,873
NFC	500,000	738
Northern Foods	330,000	800
Norwich Union	49,000	165
Peninsular & Oriental Steam Navigation	120,000	795
Prudential	140,000	967
Railtrack	55,000	493
Reuters	160,000	1,176
Rio Tinto	130,000	1,288
RMC	40,000	394
Roxboro	152,000	320
Royal Bank of Scotland	55,000	380
Sainsbury (J)	210,000	975
Scapa Group	364,000	855
Scottish & Newcastle	100,000	707
Securicor	110,000	297
Seton Healthcare	70,000	320
Serco	64,100	532
Sears	850,000	510
Shell Transport & Trading	660,000	2,993
SIG	281,400	864
Smith (W.H.)	220,000	810
Southern Electric	123,618	578
Standard Chartered	40,000	339
Storehouse	420,000	1,067
Tesco	100,000	471
Tomkins	400,000	1,398
Triplex Lloyd	200,000	405
T & S Stores	135,000	252
Unilever	50,000	907
United News and Media	50,000	389
United Utilities	174,857	1,340
Vardon	305,132	357
VCI	140,000	302
Vitec	50,000	311
Wagon Industrial	163,000	409
Walker Greenbank	430,000	220
Wardle Storeys	65,000	242
Wimpey (George)	444,000	543
Zeneca	75,000	1,518
Total United Kingdom		94,532

Listed Investments	Holding	Value at 30 September 1997 £'000s
Continental Europe		
France		
Accor	1,700	193
Elf Aquitaine	7,500	620
Compagnie de St-Gobain	1,600	153
Dexia France	2,425	142
Legrand	2,550	217
Michelin 'B'	5,675	200
Rhone Poulenc	5,600	138
Total 'B'	5,270	373
Total France		2,036
Germany		
Allianz	810	121
Bayer	19,700	485
Deutsche Bank	8,200	356
Deutsche Telekom	12,330	148
Mannesmann	840	247
RWE	8,000	240
Siemens	5,200	217
Volkswagen	745	320
Total Germany		2,134
Italy		
Istituto Bancario San Paolo di Torino	36,000	177
Telecom Italia	88,888	367
Total Italy		544
Netherlands		
Ahold	13,650	229
Akzo Nobel	885	94
ING	8,000	228
Polygram	7,300	262
Royal Dutch Petroleum	7,200	250
VNU	16,180	233
Total Netherlands		1,296
Spain		
Banco Central Hispanoamericano	15,500	402
Repsol	6,750	182
Telefonica	16,500	321
Total Spain		905

Listed Investments	Holding	Value at 30 September 1997 £'000s
Sweden		
Ericsson 'B'	11,070	329
Sparbanken Sverige	12,600	188
Volvo 'B'	22,500	400
Total Sweden		917
Switzerland		
Nestlé	365	315
Novartis	190	181
Roche Holdings part. certs	75	412
Schweizerische Bankgesellschaft	365	262
Total Switzerland		1,170
Total Continental Europe		**9,002**
Total Investments		**103,534**

The total number of companies in the portfolio is 126 (1996: 122).

There are no convertible securities in the portfolio (1996: nil).

Report of the Directors

The Directors present their report and the financial statements of the Company for the year ended 30 September 1997.

Status of Company

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

During the year under review the Company carried on the business of an investment trust and has since conducted its affairs so as to continue to qualify as such under the provisions of Section 842 of the Income and Corporation Taxes Act 1988. The last accounting period for which the Company has been treated as approved by the Inland Revenue was for the year ended 30 September 1996.

The Company is a "qualifying" investment trust under the Personal Equity Plan Regulations 1989, as amended. Up to £6,000 may be invested in the Company's shares via a Personal Equity Plan in any one fiscal year.

Capital

At the fourth Annual General Meeting of the Company held on 8 January 1997, the Board was given a further authority to issue shares otherwise than pro-rata to existing shareholders. This authority, which the Board will be seeking to renew at its fifth Annual General Meeting to be held on 10 February 1998, empowered the Board to issue a total of 40,969,109 ordinary shares of 25p each which represented the aggregate nominal amount of the Company's authorised but unissued share capital as at 25 November 1996, the latest practicable date which could be used for such calculation.

No shares have been issued during the year under review and, likewise, no shares have been issued since the end of the said year on 30 September 1997.

Review of the Business

A review of the Company's activities is given in the Chairman's Statement on pages 3 to 5 and in the Manager's review on pages 6 and 7.

Results and Dividends

	£'000s	£'000s
Net revenue available for distribution		2,704
Dividends paid or payable		
Interim of 1.75p per share paid on 9 June 1997	(1,033)	
Proposed final of 2.75p per share payable on 11 February 1998 to shareholders registered at the close of business on 5 December 1997	(1,623)	(2,656)
Amount transferred to revenue reserve		48

Substantial Share Interests

At 21 November 1997 the Company had received notification of the following holding of more than 3% of its ordinary share capital:

	Ordinary shares	%
Glyn Mills Nominees (Lombard Street) Limited	51,754,455	87.67

Directors

A list of the Directors is shown on page 8. All of them held office throughout the year under review. Mr M.H.F. Morley retires by rotation and, being eligible, offers himself for re-election.

Management

Details of the Company's management agreement with Foreign & Colonial Management Limited are contained in note 3 to the accounts.

Further to the execution of a deed of variation on 21 November 1997, the period of notice required to be given by either party to terminate the said management agreement was reduced from a period of two years to a period of one year.

Details of the Directors' holdings in shares of the Company are contained in note 6 to the accounts.

No Director has a service contract with the Company. Throughout the year under review Mr M.J. Hart was a Director of Foreign & Colonial Management Limited and had a continuing two-year service contract with that company. On 24 December 1997, Mr Hart will retire as Chairman and as a director and employee of Foreign & Colonial Management Limited

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 and conditions of the management agreement. Other suppliers are paid in accordance with the individual payment terms agreed with each supplier. At 30 September 1997, the Company had no outstanding trade creditors.

CORPORATE GOVERNANCE

Throughout the year under review, the Company complied with the Code of Best Practice of the Cadbury Committee (The Committee on the Financial Aspects of Corporate Governance) as incorporated in the Listing Rules of the London Stock Exchange.

Price Waterhouse has reviewed those matters which the Listing Rules require that the Auditors should review. Their report on the results of the review is set out on page 20. It is the responsibility of the Board to ensure that there is effective stewardship of the Company's affairs. The Board is comprised of five Directors. One of these Directors, Mr M. J. Hart, is an executive Director of the management company and another, Mr O.N. Dawson, held the same office for a number of years. The three other Directors on the Board, including the Chairman, are wholly independent of the management company. The Board meets quarterly and determines strategic issues and all operational matters of a material nature.

The Board does not operate a nominations committee. New Directors are appointed on the basis of selection criteria laid down by the Board.

Internal Financial Control and Audit Committee

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

The Board meets quarterly and at each meeting reviews investment performance and financial results. The Board monitors compliance with the Company's objectives and is directly responsible for investment strategy, asset allocation and gearing.

Report of the Directors
continued

The Board has contractually delegated responsibility for management of the investment portfolio, together with responsibility for the provision of custody, accounting and company secretarial services, to the Manager. Details of the terms of its agreement with the Manager, as set out in note 3 to the accounts, are periodically reviewed by the Audit Committee of the Company.The Manager has established an internal control framework to provide reasonable assurance on the effectiveness of the internal controls operated on behalf of its clients. The effectiveness of these controls is monitored by the Manager's Group Audit Committee, which receives regular reports from the Manager's compliance and internal audit functions.

The independent Directors of the Company constitute the Audit Committee. The primary role of the Committee is to review the accounting policies and contents of the annual report, the adequacy and scope of the external audit, and compliance with regulatory and financial reporting requirements. The Committee has direct access to the Auditors, Price Waterhouse, to the Internal Audit and Compliance Directors of the Manager and to the Manager's Group Audit Committee.

The Company's Audit Committee has received and reviewed a report from the Manager's Group Audit Committee on the effectiveness of the internal financial controls maintained on behalf of the Company.

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

Going Concern

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 and therefore does not have a remuneration committee. The salaries and bonuses awarded by the Manager are determined by a remuneration committee appointed by the Board of Hypo Foreign & Colonial Management (Holdings) Limited.

Note 6 to the accounts provides information on the remuneration paid to the Directors of the Company.

Auditors

The Auditors, Price Waterhouse, 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 36 to 38 the notice of the forthcoming Annual General Meeting of the Company to be held on 10 February 1998. In addition to the ordinary business of the meeting, four resolutions (numbered 5, 6, 7and 8) are proposed as special business.

Authority of Directors to allot shares

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, for the period until the conclusion of the Annual General Meeting in 1999, the necessary authority to allot shares representing the entire authorised but unissued share capital of the Company. Resolution 6 empowers the Directors until the conclusion of the Annual General Meeting in 1999 or, if earlier, at the expiry of fifteen months from the passing of resolution 6, to allot such shares for cash, otherwise than to existing shareholders on a pro-rata basis. It is intended that these authorities should be renewed at successive Annual General Meetings of the Company.

The Directors will issue new shares in the Company under this authority only if the issue price is at a premium to the net asset value per share at the time of issue and, as a result, would enhance net asset value per share.

Authority for the Company to purchase its own ordinary shares

It is proposed that the Company be authorised to purchase in the market and cancel up to 8,848,730 of its issued Ordinary Shares (equivalent to 14.99 per cent. of the Company's Ordinary Shares in issue as at the date of this document). The aim of any purchases would be to reduce the discount at which the Ordinary Shares trade in the market while also increasing the net asset value per Ordinary Share for those shareholders who retain their Ordinary Shares in the Company.

Under the London Stock Exchange rules, the maximum price to be paid on any exercise of the authority must not exceed 105 per cent. of the average of the middle market quotations for the Company's Ordinary Shares for the five business days immediately preceding the date of purchase. The minimum price to be paid will be 25p per Ordinary Share (being the nominal value of the Ordinary Shares). Any purchases of Ordinary Shares will be made within guidelines established from time to time by the Board. Purchases will only be made through the market for cash at prices below the prevailing net asset value per Ordinary Share. In making purchases the Company will only deal with member firms of the London Stock Exchange.

Whilst the Company is seeking authority to purchase up to 8,848,730 Ordinary shares, it is currently proposed that any such purchases be financed out of accumulated distributable revenue reserves of the Company. As at 30 September 1997 these reserves stood at £1,191,000.

Ordinary Shares would not be purchased by the Company in the period of 2 months immediately preceding the preliminary announcement of the Company's interim and annual results or, if shorter, the period from the end of the Company's financial period up to and including the time of the relevant announcement. The Company will utilise the authority to purchase Ordinary Shares by either a single purchase or series of purchases, where market conditions allow, with the aim of maximising the benefit to shareholders.

Report of the Directors
continued

Accordingly, shareholders will find set out in the notice of Annual General Meeting a special resolution to authorise the Company to purchase its own shares which will last until the next Annual General Meeting of the Company to be held in 1999 or the expiry of 12 months from the date of the passing of the resolution, whichever is earlier. This authority will be subject to renewal by shareholders at the Annual General Meeting of the Company to be held in 1999.

The Board recommends that shareholders vote in favour of this resolution. Any purchases of the Ordinary Shares may reduce the discount at which Ordinary Shares trade in the market, initially because the Company will be a new source of demand for the Ordinary Shares and over time because there would be fewer Ordinary Shares in issue. Since any purchases will be made at a discount to the net asset value, the net asset value of the remaining Ordinary Shares should increase.

A shareholder who sells Ordinary Shares in the market for purchase by the Company will be treated, for the purposes of UK taxation, as though the shareholder had sold them in the normal way to a third party.

As regards the Company, dependent on the purchase price, part of the amount paid by it on the purchase of its own Ordinary Shares may be treated, for tax purposes, as a distribution in respect of which the Company would be obliged to account for advance corporation tax which is currently payable at the rate of 20/80ths of the amount of distribution.

Stamp duty at the rate of 50p per £100 or part therefore of the purchase price of any Ordinary Shares will be payable by the Company.

Directors' Remuneration

The maximum amount of Directors' remuneration that may be paid by the Company has remained unchanged since it was launched in 1992. An ordinary resolution will be proposed at the Annual General Meeting to increase the total maximum amount which may be paid from £50,000 to £80,000 per annum.

The Chairman's remuneration is presently £10,000 per annum and the remuneration of each of the other non-executive Directors is presently £7,500 per annum.

The proposed change should allow sufficient scope for reasonable increases in Directors' fees to be made in the future.

By Order of the Board,
Foreign & Colonial Management Limited,
Secretary
21 November 1997

For and on behalf of
FOREIGN & COLONIAL MANAGEMENT LIMITED
.... SECRETARY

Directors' Statement of Responsibility

As required by company law, the directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the Company as at 30 September 1997 and of the results for that year.

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.

Report by the Auditors on Corporate Governance Matters

To the Directors of Foreign & Colonial PEP Investment Trust PLC

In addition to our audit of the financial statements we have reviewed your statements on pages 15 and 16 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and the adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43 (j) and 12.43 (v), if not otherwise disclosed.

Basis of opinion

We carried out our review having regard to guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or corporate governance procedures nor on the ability of the Company to continue in operational existence.

Opinion

In our opinion, your statements on internal financial controls on pages 15 and 16 and on going concern on page 16, have provided the disclosures required by the Listing Rules referred to above and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain directors and officers of the Company and examination of relevant documents your statement on page 15 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Price Waterhouse

Price Waterhouse
Chartered Accountants
21 November 1997

Southwark Towers
32 London Bridge Street
London SE1 9SY

Auditors' Report

To the Members of Foreign & Colonial PEP Investment Trust PLC

We have audited the financial statements on pages 22 to 34, which have been prepared under the historical cost convention as modified to include fixed asset investments at valuation, and the accounting policies set out on pages 25 and 26.

Respective responsibilities of directors and auditors

As described on page 19, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 30 September 1997 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.

Price Waterhouse

Price Waterhouse
Chartered Accountants
and Registered Auditors
21 November 1997

Southwark Towers
32 London Bridge Street
London SE1 9SY

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

for the year ended 30 September

Revenue Notes	Capital Notes		1997 Revenue £'000s	1997 Capital £'000s	1997 Total £'000s	1996 (restated) Revenue £'000s	1996 (restated) Capital £'000s	1996 (restated) Total £'000s
	9	Gains on investments	-	18,606	18,606	-	6,823	6,823
	16	Exchange gains and losses on currency balances	(4)	(12)	(16)	(1)	(2)	(3)
2		Income	3,945	-	3,945	3,877	-	3,877
3		Management fee	(436)	-	(436)	(377)	-	(377)
4		Other expenses	(115)	(13)	(128)	(108)	4	(104)
		Net return before finance costs and taxation	3,390	18,581	21,971	3,391	6,825	10,216
5		Interest payable and similar charges	(2)	-	(2)	-	-	-
		Return on ordinary activities before taxation	3,388	18,581	21,969	3,391	6,825	10,216
7		Taxation on ordinary activities	(684)	-	(684)	(678)	-	(678)
		Return on ordinary activities after taxation	2,704	18,581	21,285	2,713	6,825	9,538
		Dividends on ordinary shares (equity)						
		Interim of 1.75p (1996: 1.65p)	(1,033)	-	(1,033)	(971)	-	(971)
		Final 2.75p (1996: 2.50p)	(1,623)	-	(1,623)	(1,476)	-	(1,476)
16	16	Amount transferred to reserves	48	18,581	18,629	266	6,825	7,091
8	8	Return per equity share – pence	4.58	31.48	36.06	4.67	11.75	16.42

17 17 **The cumulative effect of prior year adjustments is to increase net assets at 30 September 1996 by £797,000.**

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

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

Balance Sheet

at 30 September

Notes		1997 £'000s	1997 £'000s	1996 (restated) £'000s	1996 (restated) £'000s
	Fixed assets				
	Investments				
	Listed in Great Britain	94,532		74,637	
	Listed outside Great Britain	9,002		7,398	
9			103,534		82,035
	Current assets				
10	Debtors	808		1,511	
11	Taxation recoverable	468		433	
	Cash at bank and short-term deposits	854		2,457	
		2,130		4,401	
	Current liabilities				
12	Creditors: amounts falling due within one year	2,594		1,995	
	Net current (liabilities)/assets		(464)		2,406
13	Net assets		103,070		84,441
	Capital and reserves				
14	Called up equity share capital		14,757		14,757
15	Share premium	50,394		50,394	
16	Capital reserves	36,728		18,147	
16	Revenue reserve	1,191		1,143	
			88,313		69,684
18	Total equity shareholders' funds		103,070		84,441
19	Net asset value per ordinary share – pence		174.60p		143.05p

Approved by the board on 21 November 1997

Graham Ross Russell Director

Michael Hart Director

Cash Flow Statement

for the year ended 30 September

Notes		1997 £'000s	1997 £'000s	1996 (restated) £'000s	1996 (restated) £'000s
	Operating activities				
	Investment income received	3,260		2,888	
	Interest received	107		122	
	Underwriting commission received	17		14	
	Fee paid to the management company	(349)		(309)	
6(a)	Cash paid to and on behalf of directors	(49)		(23)	
	Other cash payments	(145)		(130)	
20	Net cash inflow from operating activities		2,841		2,562
	Servicing of finance				
	Interest paid		(2)		-
	Taxation				
	UK tax recovered/(paid)	17		(19)	
	Overseas tax paid	(43)		(32)	
	Total tax paid		(26)		(51)
	Financial investment				
	Purchases of equities and other investments	(21,875)		(24,568)	
	Sales of fixed interest securities	-		19,562	
	Sales of equities and other investments	19,988		2,648	
	Other capital charges and credits	(9)		(11)	
	Net cash outflow from investing activities		(1,896)		(2,369)
	Equity dividends paid		(2,509)		(2,324)
	Financing				
	Share capital raised		-		3,064
21	(Decrease)/increase in cash		(1,592)		882

Notes on the Accounts

1 ACCOUNTING POLICIES

(a) Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards. Where necessary the Company has changed its accounting policies to comply with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (SORP). The comparative figures for the prior year have been restated to reflect the changes (see note 17).

(b) Valuation of investments

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

(c) Foreign currency

Foreign currency assets and liabilities are expressed in sterling at rates of exchange ruling at the balance sheet date. Foreign currency transactions are translated at the rates of exchange ruling at the dates of those transactions. Exchange profits and losses on currency balances are credited or charged to capital reserves except where they relate to revenue items.

(d) Income

Income from quoted 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. Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis so as to reflect the effective yield on the investment.

Franked investment income includes the imputed tax credit attaching to dividends credited and this tax has been written off within the taxation charge.

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.

Foreign income dividends are included in the revenue account without the related notional income tax credit.

(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 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

Advance corporation tax ('ACT') payable on dividends paid or payable for the year is written off, except when recoverability is considered to be reasonably certain. Irrecoverable ACT is charged to the revenue account. 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
- 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

	1997 £'000s	1996 (restated) £'000s
Income from investments		
Franked dividends	3,309	3,285
UK unfranked interest	–	82
Overseas dividends	170	209
Foreign income dividends	357	165
	3,836	3,741
Other Income		
Interest on cash and short-term deposits	105	108
Underwriting commission	4	28
	109	136
Total income	3,945	3,877
Total income comprises:		
Dividends	3,836	3,659
Interest from investments	–	82
Other income	109	136
	3,945	3,877
Income from investments:		
Listed UK	3,666	3,532
Listed overseas	170	209
	3,836	3,741

3 MANAGEMENT FEE

	1997 £'000s	1996 £'000s
Management fee	369	319
Irrecoverable VAT thereon	67	58
	436	377

The Manager provides investment management and general administrative services to the Company for a quarterly management fee payable in arrears equal to 0.1% of the funds under management.The management agreement may be terminated upon one years' notice given by either party. The period of notice was reduced from two years' by a deed of variation to the management agreement signed on 21 November 1997.

4 OTHER EXPENSES

	1997 £'000s	1996 £'000s
Directors' emoluments		
fees for services to the Company	34	32
General expenses	57	55
Irrecoverable VAT	7	5
Auditors' remuneration:		
for audit services	12	12
for non-audit services	5	4
	115	108

Notes on the Accounts
continued

5 INTEREST PAYABLE AND SIMILAR CHARGES

	1997 £'000s	1996 £'000s
On bank loans and overdrafts repayable within 5 years, not by instalments	2	-

6 DIRECTORS' REMUNERATION AND CONTRACTS

(a) Remuneration

The amounts paid or payable by the Company to the Directors of the Company were as follows:

	Oliver Dawson £'000s	Peter Hardy £'000s	Michael Morley £'000s	Graham Ross Russell (Chairman) £'000s	Total £'000s
1997	**8**	**8**	**8**	**10**	**34**
1996	6	8	8	10	32

The amounts disclosed as "cash paid to and on behalf of directors" in the cash flow statement relate to the emoluments paid or payable by the Company as disclosed above.

Michael Hart did not receive any remuneration from the Company in 1997 or 1996. Oliver Dawson received remuneration from the Company following his retirement from Foreign & Colonial Management Limited (FCM) in December 1995.

The amounts paid by FCM to Oliver Dawson and Michael Hart, disclosed in note 6 (b), together with amounts, excluding pension contributions, paid by the Company to the other directors disclosed above, total £52,000 (1996: £47,000).

(b) Remuneration from Foreign & Colonial Management Limited (FCM) attributable to the Company

Michael Hart is the only director of the Company who was also a director of FCM during the year.

The cost of his employment (excluding share option arrangements) was met in full during the year by FCM.

Company law requires the proportions of the emoluments received by these directors from FCM in connection with the management of the affairs of the Company to be disclosed, even though the Company neither determines nor pays these emoluments. These proportions of their emoluments from FCM are detailed below.

	Oliver Dawson* £'000s	Michael Hart** £'000s	Total £'000s
Salary	–	9	9
Benefits (i)	–	1	1
Performance-related bonuses (ii)	–	8	8
1997 Total	**–**	**18**	**18**
1996 Total	2	13	15
1997 Pension contributions	–	6	6
1996 Pension contributions (iii)	–	6	6

* Oliver Dawson retired as a director and employee of FCM in December 1995 but continued as a consultant to FCM until October 1996. In his capacity as consultant to FCM, he received £25,000 in 1996.

** Highest paid director.

(i) Salary and benefits represent the amounts earned by and paid to directors during the relevant year. Benefits are all tax assessable, arising from employment or engagement by FCM, and include such benefits as a company car and medical insurance.

(ii) The performance-related bonus is paid in the year following that in which it was earned.

(iii) The figures shown above for pension contributions are those paid by FCM on behalf of Michael Hart to a defined benefit pension scheme of £5,000 (1996: £5,000) and a defined contribution scheme of £1,000 (1996: £1,000). Michael Hart is the only director of the Company to whom retirement benefits are accruing under any pension scheme.

(c) Directors' interests in shares

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

	30 September 1997 Beneficial	30 September 1996 Beneficial
Michael Hart	23,164	22,384
Peter Hardy	58,666	49,228
Michael Morley	4,732	4,615
Graham Ross Russell	20,000	20,000

Since the year end the following directors have acquired further ordinary shares through the Foreign & Colonial Personal Equity Plan.

	Number of shares
Peter Hardy	606
Michael Morley	50

(d) Directors' interests in contracts with the Company

Other than the management agreement referred to in note 3, in which Michael Hart was interested by reason of his employment with FCM no contract of significance to which the Company is a party and in which a director is or was materially interested subsisted during the year.

7 TAXATION ON ORDINARY ACTIVITIES

	1997 £'000s	1996 £'000s
Corporation tax at 31% (1996: 33%)	-	-
Relief for overseas tax	-	-
	-	-
Overseas taxation	22	30
Tax attributable to franked dividends	662	656
Adjustment for prior years	–	(8)
	684	678

8 RETURN PER EQUITY SHARE

Revenue return

Revenue return per share and earnings per share are synonymous terms.

Earnings per share are based on the revenue return attributable to equity shareholders of £2,704,000 (1996: £2,713,000).

Capital return

Capital return per share is based on the capital return attributable to equity shareholders of £18,581,000 (1996: £6,825,000).

Both the revenue and capital return are based on 59,030,891 ordinary shares being in issue (1996: weighted average of 58,073,991).

9 INVESTMENTS

	Listed in Great Britain £'000s	Listed outside Great Britain £'000s	Total £'000s
Cost at 1 October 1996	66,541	6,174	72,715
Unrealised appreciation at 1 October 1996	8,096	1,224	9,320
Opening valuation	74,637	7,398	82,035
Movements in the year			
Purchases at cost	19,246	3,033	22,279
Sales – proceeds	(15,686)	(3,700)	(19,386)
– realised gains on sales	1,685	481	2,166
Increase in unrealised appreciation	14,650	1,790	16,440
Closing valuation	94,532	9,002	103,534
Cost at 30 September 1997	72,170	6,344	78,514
Unrealised appreciation at 30 September 1997	22,362	2,658	25,020
	94,532	9,002	103,534

Gains on investments

	1997 £'000s	1996 (restated) £'000s
Realised gains based on historical cost	2,905	4,295
Less: amounts recognised as unrealised in previous years	(739)	(2,176)
Realised gains based on carrying value at previous balance sheet date	2,166	2,119
Net movement in unrealised appreciation	16,440	4,704
Gains on investments	18,606	6,823

10 DEBTORS

	1997 £'000s	1996 (restated) £'000s
Investment debtors	75	679
Prepayments and accrued income	733	832
	808	1,511

11 TAXATION RECOVERABLE

Taxation recoverable includes amounts recoverable from UK and overseas tax authorities.

Advance corporation tax of £406,000 (1996: £369,000) in respect of the proposed final dividend is included as in the opinion of the directors this will be recoverable against tax credits on franked investment income receivable in 1997.

12 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1997 £'000s	1996 £'000s
Investment creditors	405	-
Proposed final dividend on ordinary shares	1,623	1,476
Advance corporation tax on proposed dividend	406	369
Accruals	160	150
	2,594	1,995

13 GEOGRAPHICAL AND INDUSTRIAL CLASSIFICATION :
Net assets

	UK %	Europe %	1997 Total %	1996 (restated) Total %
Assets				
Equities				
General manufacturers	17.3	2.7	**20.0**	29.0
Services	20.3	0.9	**21.2**	18.4
Financials	19.5	1.8	**21.3**	13.3
Consumer goods	16.4	0.9	**17.3**	17.2
Utilities	9.7	1.0	**10.7**	11.6
Mineral extraction	8.6	1.4	**10.0**	7.7
Total equities	91.8	8.7	**100.5**	97.2
Net current (liabilities)/assets	(0.5)	-	**(0.5)**	2.8
Net assets	**91.3**	**8.7**	**100.0**	-
1996 Totals: (restated)	91.1	8.9	-	100.0

14 SHARE CAPITAL

	Authorised		Issued and fully paid	
Equity share capital	**Number**	**Nominal £'000s**	**Number**	**Nominal £'000s**
Ordinary shares of 25p each				
Balance at 1 October 1996	100,000,000	25,000	59,030,891	14,757
Additional shares issued in year	-	-	-	-
Balance at 30 September	100,000,000	25,000	59,030,891	14,757

15 SHARE PREMIUM

	1997 £'000s	1996 £'000s
Balance at 1 October	50,394	47,872
Premium on issue of ordinary shares	-	2,529
Issue expenses	-	(7)
Balance at 30 September	50,394	50,394

16 RESERVES

	Capital reserve – realised (restated) £'000s	Capital reserve – unrealised £'000s	Capital reserves – Total (restated) £'000s	Revenue reserve (restated) £'000s
Balance at 1 October 1996 as previously stated	8,836	9,320	18,156	337
Prior year adjustments (see note 17)	(9)	–	(9)	806
Balance at 1 October 1996 as restated	8,827	9,320	18,147	1,143
Realised gains and losses on investments	2,166	–	2,166	–
Transfer on disposal of investments	739	(739)	–	–
Exchange gains and losses on currency balances	(12)	–	(12)	–
Other capital charges and credits	(13)	–	(13)	–
Increase in unrealised appreciation on investments	–	16,440	16,440	–
Amount transferred to revenue reserve	–	–	–	48
Balance at 30 September	**11,707**	**25,021**	**36,728**	**1,191**

Included within the capital reserves movement for the year is £199,000 (1996: £247,000) of dividends recognised as capital.

17 EFFECT OF CHANGES IN ACCOUNTING POLICY

Following the adoption of the Statement of Recommended Practice (SORP) "Financial Statements of Investment Trust Companies", issued by the Association of Investment Trust Companies (AITC) in December 1995 the Company has changed its accounting policies to recognise dividend income on an ex-dividend basis and interest on fixed income securities on an accruals basis. Previously, dividends and interest received were credited to revenue on the due payment dates without any adjustment for amounts accrued at the dates of acquisition and disposal of the investments.

The comparative figures in respect of the year ended 30 September 1996 have been restated. The principal effects of this restatement are detailed below.

(a) Effect of restatement on previously reported amounts

	Net assets £'000s	Capital reserves £'000s	Revenue reserve £'000s
30 September 1995 as previously stated	73,676	11,322	267
Effect of change in accounting policies:			
Prior year adjustment	610	–	610
30 September 1995 restated	74,286	11,322	877
30 September 1996 as previously stated	83,644	18,156	337
Prior year adjustment	610	–	610
	84,254	18,156	947
Effect of change in accounting policies on total return after taxation	187	(9)	196
30 September 1996 restated	**84,441**	**18,147**	**1,143**

(b) Effect of restatement had reported amounts been stated on previous basis

	Net assets £'000s	Capital reserves £'000s	Revenue reserve £'000s
30 September 1997 in accordance with previous accounting policies	102,370	36,728	491
Effect of change in accounting policies on total return after taxation	700	–	700
30 September 1997 in accordance with new accounting policies	**103,070**	**36,728**	**1,191**

18 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	1997 £'000s	1996 £'000s
Prior year equity interests as previously stated	83,644	73,676
Prior year adjustments (see note 17)	797	610
Prior year equity interests as restated	84,441	74,286
Return attributable to equity shareholders	21,285	9,538
Dividends	(2,656)	(2,447)
New share capital on issue of ordinary shares	–	3,064
Equity shareholders' funds at 30 September	103,070	84,441

19 NET ASSET VALUE PER ORDINARY SHARE

Net asset value per ordinary share is based on total net assets of £103,070,000 (1996: £84,441,000) year-end, and on 59,030,891 ordinary shares in issue at the year end (1996: same).

20 RECONCILIATION OF NET REVENUE RETURN TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1997 £'000s	1996 (restated) £'000s
Net revenue return before finance costs and taxation	3,390	3,391
Exchange profits and losses of a revenue nature	4	(1)
Decrease/(increase) in accrued income	101	(196)
Increase in creditors	8	24
Tax on franked investment income included within income from UK companies	(662)	(656)
Net cash inflow from operating activities	2,841	2,562

Notes on the Accounts
continued

21 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	1997 £'000s	1996 £'000s
Cash at bank and short-term deposits		
(Decrease)/increase in cash	(1,592)	882
Exchange movement	(11)	2
Movement in net debt in the period	(1,603)	884
Net debt at 1 October	2,457	1,573
Net debt at 30 September	854	2,457

Net debt at 30 September 1997 comprises cash at bank and short-term deposits of £854,000 (1996 - £2,457,000)

Historical Record

ASSETS
at 30 September

£'000s	1993	1994	1995	1996†	1997
Net assets	46,666	62,731	73,676	84,441	103,070
Net asset value per share	116.9p	117.6p	129.6p	143.1p	174.6p
Market price per share	117.5p	119.5p	136.5p	146.0p	145.0p

REVENUE
for the year ended 30 September

£'000s	1993	1994	1995	1996†	1997
Total revenue	2,169	2,716	3,423	3,877	3,945
Interest payable	74	1	1	-	2
Expenses	232	352	419	486	555
Net revenue before taxation	1,863	2,363	3,003	3,391	3,388
Taxation	489	526	628	678	684
Available for ordinary shareholders	1,374	1,837	2,375	2,713	2,704
Earnings per share	4.32p	3.88p	4.29p	4.67p	4.58p
Dividends per share	3.40p	3.50p	3.85p	4.15p	4.50p

† The accounts for 1996 have been restated.

Notice of Meeting

Notice is hereby given that the fifth Annual General Meeting of Foreign & Colonial PEP Investment Trust PLC will be held at the registered office of the Company, Exchange House, Primrose Street, London EC2, on Tuesday, 10 February 1998 at 11.00 a.m. for the following purposes:

Ordinary Business:

1 To receive and adopt the directors' report and accounts for the year ended 30 September 1997.

2 To declare a dividend on the ordinary shares.

3 To re-elect Mr M.H.F. Morley as a director.

4 To re-appoint the auditors and authorise the directors to fix their remuneration.

Special Business:

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

THAT:

(a) the directors be and they are hereby generally and unconditionally authorised, in accordance with section 80 of the Companies Act 1985 ("the Act"), to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £10,242,277.25 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 1999 (both dates inclusive), but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry;

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

(c) words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings in this resolution.

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

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

(a) the directors be and they are hereby empowered, pursuant to section 95 of the Companies Act 1985 ("the Act"), to allot equity securities (as defined in section 94 of the Act) pursuant to the authority given in accordance with section 80 of the Act by the said resolution numbered 5 as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £10,242,277.25 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 1999 or, if earlier, fifteen months from the passing of this resolution, but so that this power shall enable the Company to make offers or agreements which would or might require equity securities to be allotted after the expiry of this power;

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

(c) words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings in this resolution.

7 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"), provided that:

(a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 8,848,730;

(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 taken from the London Stock Exchange Daily Official List for the 5 business days immediately preceding the day on which the Ordinary Share is purchased;

(d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 1999 or, earlier, on the expiry of 12 months from the passing of this Resolution, unless such authority is renewed prior to such time; and

(e) 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 executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares pursuant to any such contract.

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

THAT the maximum aggregate remuneration which the directors are entitled to receive pursuant to article 99 of the articles of association be increased to £80,000 per annum.

Dated: 15 January 1998
By Order of the Board,
Foreign & Colonial Management Limited,
Secretary

Registered Office:
Exchange House,
Primrose Street,
London EC2A 2NY

Notice of Meeting

continued

Notes

Only those shareholders registered on the Register of Members of the Company at 7.00am on 8 February 1998 shall be entitled to attend and vote at the meeting in respect of the shares registered in their name at that time. Changes to entries on the Register of Members after 7.00am on 8 February 1998 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

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

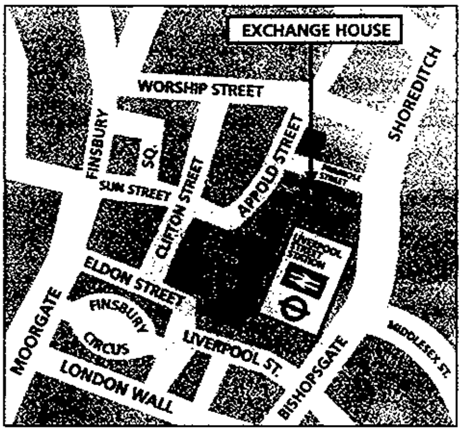
To be valid, a form of proxy for use at the meeting and the power of attorney or other authority (if any) under which it is signed, or a notarially certified or office copy of such power or authority, must be deposited with the Company's registrars, The Royal Bank of Scotland plc, Registrar's Department, P.O. Box 457, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 OXG, not less than 48 hours before the time appointed for holding the meeting.

The register of directors' holdings and the Company's memorandum and articles of association are available for inspection at the registered office of the Company during normal business hours on any weekday and will be available at the place of the above meeting from 15 minutes prior to the commencement of the above meeting until the conclusion thereof.

No director has any contract of service with the Company.

The dividend in respect of the year ended 30 September 1997 will, if approved, be paid on 11 February 1998 to holders of ordinary shares on the register at the close of business on 5 December 1997.

The Location



Foreign & Colonial Group Funds

INVESTMENT TRUSTS
Foreign & Colonial Investment Trust PLC†
Foreign & Colonial Emerging Markets Investment Trust PLC
Foreign & Colonial Enterprise Trust PLC§
Foreign & Colonial Eurotrust PLC§
Foreign & Colonial German Investment Trust PLC§
Foreign & Colonial Income Growth Investment Trust PLC§
Foreign & Colonial Pacific Investment Trust PLC†
Foreign & Colonial PEP Investment Trust PLC§
Foreign & Colonial Private Equity Trust PLC
Foreign & Colonial Smaller Companies PLC†
Foreign & Colonial Special Utilities Investment Trust PLC§
Foreign & Colonial U.S. Smaller Companies PLC†
Brazilian Smaller Companies Investment Trust PLC
Latin American Investment Trust PLC
Second Consolidated Trust PLC

For details of our investment trust products;
Private Investor Plan – regular or lump sum savings
Personal Equity Plan – tax-free savings
Pension Savings Plan – saving for retirement
please contact...Investor Services on 0171-454 1415
or Broker Services on 0171-454 1434

SPECIALIST OFFSHORE FUNDS
Foreign & Colonial Portfolios Fund SICAV
Foreign & Colonial Reserve Asset Fund Ltd*
HYPO Capital Management Investmentgesellschaft Luxembourg S.A.
Contact Helpdesk on 0171-454 1434

Argentinian Investment Company SICAV
Brazilian Investment Company SICAV
Colombian Investment Company SICAV*
Global Emerging Markets Investment Company SICAV
Indian Investment Company SICAV*
Latin American Extra Yield Fund*
Latin American Investment Company SICAV
Mexican Investment Company SICAV
Peruvian Investment Company SICAV*
Polish Investment Company SICAV*
Russian Investment Company SICAV*
Taiwan Investment Company SICAV*
Contact: Jane Davies on 0171-628 1234

US REGISTERED FUNDS
The Foreign & Colonial Emerging Middle East Fund, Inc.*
Contact: Jane Davies on 0171-628 1234

PENSION FUNDS
Balanced and specialist investment services are provided for a wide range of institutional pension funds.
Contact: Nigel Morecroft on 0171-628 8000

AUTHORISED UNIT TRUSTS
Foreign & Colonial European Smaller Companies Fund§
Foreign & Colonial High Income Fund§
Foreign & Colonial Japanese Smaller Companies Fund†
Foreign & Colonial UK Smaller Companies Fund§
Foreign & Colonial U.S. Smaller Companies Fund†
Contact: Investor Services on 0171-454 1415
or Broker Services on 0171-454 1434

AUTHORISED EXEMPT FUNDS
Foreign & Colonial Anglo-Nippon Exempt Fund
Foreign & Colonial European Exempt Fund
Foreign & Colonial North American Exempt Fund
Foreign & Colonial Overseas Bond Exempt Fund
Foreign & Colonial South East Asia Exempt Fund
Foreign & Colonial UK Bond Exempt Fund
Contact: Nigel Morecroft on 0171-628 8000

UNAUTHORISED EXEMPT FUNDS
Foreign & Colonial Global Emerging Markets Exempt Fund
Foreign & Colonial Latin American Exempt Fund
Contact: Nigel Morecroft on 0171-628 8000

PRIVATE EQUITY FUNDS
Foreign & Colonial Ventures manages or advises seven funds concentrating on unquoted investments including three of the investment trusts above.
Contact: James Nelson on 0171-782 9829

CHARITY FUNDS
A comprehensive management service is available for larger charities while smaller ones can use our general and specialist pooled funds. We also offer two Charity Common Investment Funds (The Common Fund for Growth and The Common Fund for Income) and a Portfolio Management Service.
Contact: Nicola Ternan on 0171-628 8000

† Part-qualifying for PEP purposes (maximum investment £1,500 p.a.)
§ Fully-qualifying for PEP purposes (maximum investment £6,000 p.a.)
* Professional investors only

The information on this page has been issued and approved by Foreign & Colonial Management Limited, regulated by IMRO and the Personal Investment Authority. Potential investors are reminded that the value of investments and the income from them may go down as well as up and investors may not receive back the full amount invested. Past performance is no guide to the future. The value of your investment may be adversely affected by fluctuations in exchange rates. The stockmarkets and currencies of emerging markets can be extremely volatile and investors should be prepared to accept a high degree of risk.

Registrars
The Royal Bank of Scotland plc
Registrar's Department
PO Box 435
Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR

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Facsimile 0131 442 4924

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Foreign & Colonial