2829844

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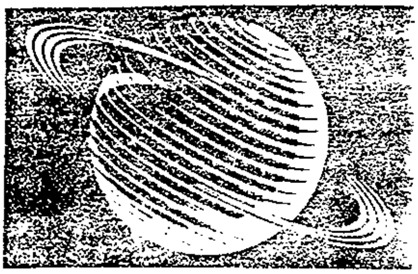


To provide a secure and growing dividend combined with capital appreciation by investing in utility and related companies

Objective of Foreign & Colonial Special Utilities Investment Trust PLC

Summary of Results

		Split Capital Pool			'S' Pool
		Income shares	Capital shares	Package units	Ordinary shares
Net assets	1997	60.37p	115.46p	175.83p	140.23p
per share/unit	1996	60.18p	89.48p	149.66p	120.65p
	% change	0.3	29.0	17.5	16.2
Earnings	1997	5.37p	–	5.37p	3.27p
per share/unit	1996	4.73p	–	4.73p	3.00p
	% change	13.5	–	13.5	9.0
Dividends	1997	5.18p	–	5.18p	3.10p
per share/unit	1996	4.70p	–	4.70p	2.90p
	% change	10.2	–	10.2	6.9
Share/unit price [2]	1997	67.3p	92.5p	159.0p	117.5p
	1996	62.5p	66.3p	127.0p	99.5p
	% change	7.7	39.5	25.2	18.1

[1] The fully diluted net asset value per 'S' share at 30 September 1997 was 133.57p (1996: 117.22p).

[2] The 'S' share warrant price at 30 September 1997 was 39.5p (1996: 35.0p).

Financial Calendar

Annual General Meeting	19 December 1997
Final dividend payable	2 January 1998
Interim results for 1997/8 announced	May 1998
Interim dividend payable	July 1998
Final results for 1997/8 announced	November 1998

Company Registration Number 2829844

Chairman's Statement

Dear Shareholder,

I am pleased to report a fourth successive year of growth in both asset value and dividend for your Company.

During the year the net asset value of the Split Capital Pool grew by 17.5% with the net asset value of the Capital shares in the Split Capital Pool growing by 29.0%.

The net asset value of the 'S' Share Pool grew by 16.2% over the year.

The dividend on the Income shares in the Split Capital Pool is being increased from 4.7p to 5.18p, an uplift of 10.2%. This compares with dividend growth on the FTSE All-Share Index for the year of 5.85%, which is our benchmark for dividend growth in the Split Capital Pool.

While we remain fully committed to outperforming this benchmark in the future, shareholders should not expect that we will continue to outperform by the sort of margin achieved this year.

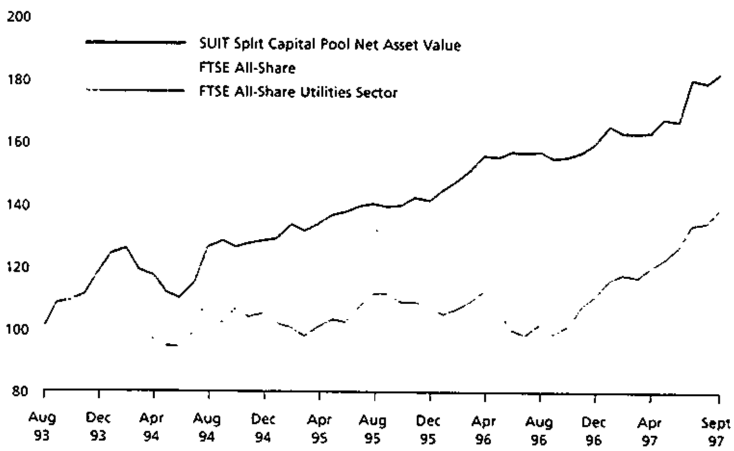
The dividend on the 'S' Shares is being increased from 2.9p to 3.1p, an uplift of 6.9%.

Background to the year

This time last year, I was describing how the UK utility sector's performance had been affected by political worries about the Labour Party's policies towards utilities and how, if Labour were elected, performance would continue to be affected until their policies became clearer. In the event, the FTSE All-Share Utilities Index increased 21.5% between the end of our financial year and the date of the election and was up by a comparable amount after the election. While the UK stockmarket performed strongly over the year, it is now evident that the political and regulatory risk to the utility sector of a Labour election victory had been over discounted. In government, the Labour Party has not yet made the fundamental changes to utility regulation that were feared by some and the windfall tax was within the market's range of estimates. Overall, Labour has so far shown responsibility in fiscal and monetary matters and reaffirmed its support for a healthy private sector. It is continuing the process of privatising government owned enterprises.

Our focus on smaller utilities with special attractions and our limited exposure to the larger capitalisation UK utilities (5.3% of the Split Capital Pool at year end) make it inevitable that the Split Capital Pool will not outperform the FTSE All-Share Utilities Index every year. In the year under review, the FTSE All-Share Utilities Index appreciated by 40.7% with a number of the large capitalisation utilities

Net Asset Value Performance (Package Units)
from inception to 30 September 1997



Source: Datastream and Foreign & Colonial Management Limited having outstanding years. Over the longer term however, we believe our policy will benefit performance as demonstrated by the graph on page 3 which shows that since inception of the Split Capital Pool in 1993, net asset value has grown by 81.3% compared to an increase in the FTSE Utilities Index of 38.7%.

Our largest UK exposure remains to the smaller water only companies (44.8% of the Split Capital Pool at year end). As we had hoped, they were not subject to the windfall tax and we continue to believe they are less exposed to political interference. Some of these companies enhanced shareholder value during the year by capitalisation issues of Preference shares and buy backs. Two of our core holdings, Dee Valley Water and Chester Water merged, and we took the opportunity during the year to sell our shares in Mid Kent Holdings at a significant profit. Overall and reflecting these events, the value of our holdings increased by 10.5% from the beginning of the year.

Pursuing our focus on smaller utilities and related companies, we invested during the year in American Port Services, a UK listed operator of ports and airports in the US, and in Jarvis PLC, which is one of the two principal track maintenance and track renewal companies in the UK. We also increased our investment in Prism Rail. We believe that these investments are serving shareholders well and we continue to look for other comparable investments.

We have carried on the process of gradually increasing the Split Capital Pool's exposure to overseas utilities as we continue to believe that in general they offer more attractive opportunities at the present time, both for dividend growth and capital appreciation. At the year end, 44.4% of the Split Capital Pool's portfolio was invested overseas as compared to 33.6% at 30 September 1996.

The 'S' Share Pool's predominantly international portfolio performed favourably against the Datastream World Utility Index, which appreciated by 11.4 % compared to the appreciation in the 'S' Share Pool's net assets of 16.2%, and slightly underperformed the Dow Jones World Utility Index, which appreciated by 17.9%.

Overseas, we increased our exposure to emerging markets, where we believe there are attractive opportunities although often carrying a higher degree of country and currency risk, necessitating selectivity and frequent monitoring. A review of two of these markets, Brazil and China, is set out in the Investment Manager's Review on pages 7 to 19. During the year we sold the positions we had built up in Russian utilities: we invested a total of US$445,000 and achieved a profit of 32% on disposal. At the year end we had investments across both Pools of £3.1 million in Latin American utilities and £1.6 million in Chinese and Hong Kong utilities. We have subsequently increased our investments in Latin American utilities by £1.2 million and in Chinese and Hong Kong utilities by £2.0 million, of which £1 million relates to an investment in China Telecom. We are showing small losses on both our Chinese and Hong Kong investments and our Latin American exposure. We believe the investments represent good value on a medium term basis.

Other new overseas investments made this year include Ocean Wilson, a UK listed company, which is a leading supplier of maritime services in Brazil including port operations, and Lang Corporation, an Australian stevedoring company, which would be a major beneficiary of any reform of waterfront employment practices. We also purchased a convertible bond in Pakistan Telecom denominated in US$ with the covenant of the Pakistan government. We like to invest in convertible instruments when available as they reduce our risk profile.

Having reported last year that the performance of our two Bermudian utilities had been relatively disappointing, it was very pleasing when Bermuda Telecom implemented a restructuring which has greatly enhanced shareholder value.

We continue to keep market and currency risk under review and have hedged against both types of risk during the year where we have felt it appropriate. Markets have performed strongly throughout the year under review and there have been no market losses against which to set off our hedges. On the other hand, our currency hedges saved us potential currency losses of over £1 million in the year under review.

Investment management arrangements

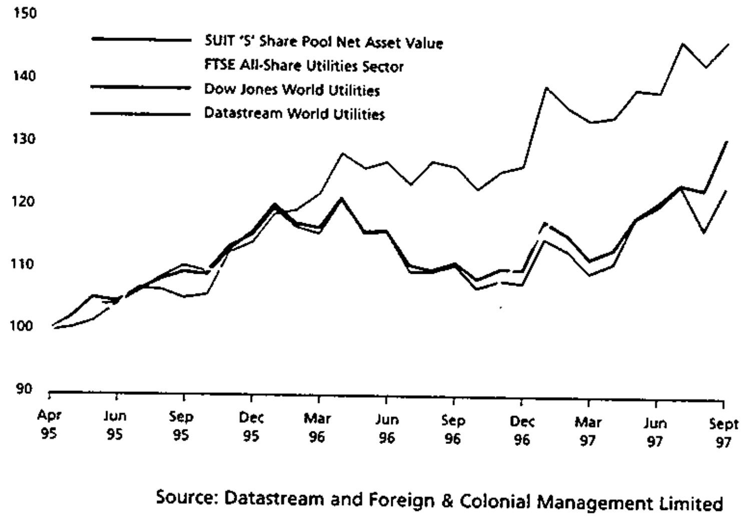
At inception in 1993, Foreign & Colonial Management (FCM) was appointed your Company's investment manager and Duncan Saville, one of your Company's directors, was appointed investment adviser to your Company and to FCM. At this time, your Company's investment portfolio was some £50 million and was essentially invested in the UK. At 30 September 1997, the investment portfolio had increased to £118 million with investments in all continents and over 20 countries. There has therefore been a major build up of investments overseas.

To support Duncan with the expansion and diversification of the portfolio and to provide day to day analysis and research, Duncan's wholly owned company, Utilities Advisory Management Limited, employed Tony Edwards in 1993 and an assistant in 1994. Both continue to be based at FCM's offices.

More recently, your board has been advised that certain organisational changes were appropriate. In particular, it was recommended that Tony Edwards and his assistant should be separately authorised by IMRO and, as a result, Tony has formed Utilities Investment Research Limited (UIRL), which is now authorised by IMRO to provide investment advice to your Company.

At the same time, your board was advised that it would be more appropriate if Duncan Saville's services were provided by his wholly owned

Net Asset Value Performance ('S' Shares) from inception to 30 September 1997



Source: Datastream and Foreign & Colonial Management Limited company, Ingot Capital Management Ltd (Ingot), which is licensed by the Australian Securities Commission.

In substance however there will be no change in the way your Company is provided with investment advice. Nor will there be any change in the management fees payable by your Company as a result of these organisational changes.

The year ahead

The start of the current financial year has been marked by significant falls in most of the world's stockmarkets from what were historically very high levels. As an investor in utilities and related companies, your Company's portfolio has strong defensive qualities and we are reasonably confident that our performance will stand up on a relative basis in what are proving to be difficult markets. We have some hedges against market risk in place.

At the same time, these markets present buying opportunities and we plan to avail ourselves of these on a selective basis.

Alan Wheatley
November, 1997

Investment Manager's Report

Split Capital Pool

We are pleased to report that in our fourth year of operation, net assets have continued to grow. The appreciation in net asset value of the package units was 17.5% and of the Capital shares was 29.0%. The graph on page 3 shows that since inception in August 1993, the net asset value of the package units has appreciated by 81.3%

In addition, we have increased the dividend on the Income shares by 10.2%.

At our year end, 30 September 1997, the Pool's investment portfolio had increased to £87.6 million. Our gross exposure by utility sector can be summarised as follows:

Utility Sector	%
Telecommunications	13.4
Electricity	12.1
Water	52.8
Gas distribution	5.6
Ports, Airports	4.4
Road, rail	3.4
Investment companies	7.2
Other	1.1
	100.0

Our gross exposure is held through a combination of:

	%
Shares	93.8
Convertible securities/warrants	4.6
Fixed income	2.1
Derivatives (net position)	(0.5)
	100.0

Our exposure by currency is as follows:

	%
£ Sterling	60.6
US$/US$ linked	16.0
Other	23.4
	100.0

'S' Share Pool

We are pleased to report that in its second year of operation, net asset value of the 'S' Share Pool grew by 16.2%. The graph on page 5 shows that since inception in April 1995, the net asset value of the 'S' Shares has appreciated by 46.8%.

In addition we have increased the dividend on the 'S' Shares by 6.9%.

At our year end, 30 September 1997, the Pool's investment portfolio had increased to £29.8 million. The gross exposure by utility sector can be summarised as follows:

Utility Sector	%
Telecommunications	25.9
Electricity	22.3
Water	17.8
Gas distribution	5.2
Ports, Airports	9.0
Road, rail	7.0
Investment companies	11.3
Other	1.5
	100.0

Our gross exposure is held through a combination of:

	%
Shares	96.9
Convertible securities/warrants	2.4
Fixed income	1.4
Derivatives (net position)	(0.7)
	100.0

Our exposure by currency is as follows:

	%
£ Sterling	30.0
US$/US$ linked	29.1
Other	40.9
	100.0

Investment Manager's Report
continued

This year we are reviewing the opportunities for investing in utilities in emerging markets and, in particular, two of the largest emerging markets, Brazil and China. These markets have a number of attractions for utility investors including higher rates of volume growth in comparison with the developed markets and the opportunity to invest at a time when there is still major scope for efficiency gains. At the same time, these markets carry undoubted risks. There is the risk that the growth potential may not be fully realised due for example to continuing unresolved weaknesses in the economy, an imbalanced industry structure or the absence of an even-handed regulatory system. There is also the risk of volatility inherent in emerging market share prices. Inevitably there will be emerging market utility companies that will produce very high returns for shareholders and there will be others that lose money for shareholders.

Brazil and China are amongst the largest nation states in the world both in terms of geographical size and population.

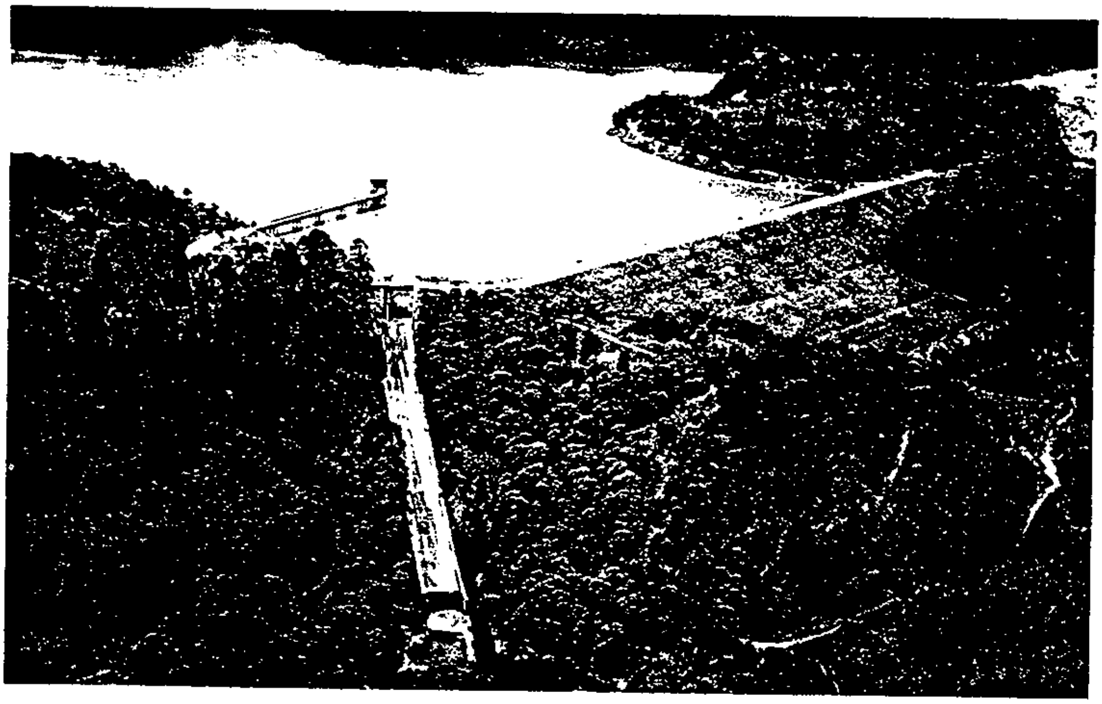
	Brazil	China	USA	UK
Population (millions)	159	1,200	266	59
GDP/capita (US$)	4,746	680	29,744	19,303
Area (million sq km)	8.5	9.6	9.1	0.24

Based on estimates for 1996.

The potential for utilities in these countries to achieve higher rates of volume growth is illustrated by the following tables of electricity consumption/capita and telephone lines/100 population.

	Brazil	China	USA	UK
kWh/capita	1,680	864	11,400	5,082
Lines(fixed)/100 pop.	9.5	4.5	64	51

Based on estimates for 1996.



Reservatorio Usina Hidreletrica Gov. Parigot de Souza

Cia Paranaense de Energia-Copel, Brazil

BRAZIL

Brazil's political, economic and legal systems are closer to those of the developed western countries than are those of China. Protection of commercial and shareholder rights is also closer to that afforded by developed western countries than that recognised by China. There is already a significant level of foreign investment, both direct and portfolio.

Potential for growth

Brazil's electricity consumption in 1996 of 1,680 kWh compares with around 4,000 kWh in Spain and Italy. Analysts believe Brazilian consumption will move towards these levels as the economy moves into a growth phase and expect consumption to grow by at least 5% pa for the next ten years.

Telephone lines (fixed) per 100 population were 9.5 in Brazil in 1996 compared with 18 in Argentina, the country with the highest penetration in Latin America, and with 38 and 45 for Spain and Italy respectively. Cellular penetration in Brazil in 1996 was 1.6% compared with 2.3% in Chile, the country with the highest penetration in Latin America, and 7.6% and 11.2% in Spain and Italy respectively.

At the present time there are some 16 million lines installed in Brazil. It takes on average 24 months to obtain a line in Brazil and it is estimated that more than 3 million customers are waiting to acquire a line in Brazil in the short-term.

Will this growth potential be realised

In our view there are three key drivers to the fulfilment of this potential, which are inter-linked.

(a) attracting the necessary investment to build the infrastructure, whether it is generating capacity, other electricity infrastructure, telephone lines or transport infrastructure.

(b) a conducive macro-economic environment, and

(c) a viable industry structure with an even-handed regulatory system

(a) To date, Brazil has had little difficulty in attracting the necessary investment, either foreign or domestic. In fact, significant premiums have been achieved over minimum and expected bids in recent auctions. Top international operators from USA, Europe and other Latin American countries have already entered the Brazilian market.

However, much more investment is required as a result of which the Government has initiated a widespread privatisation programme.

(b) Turning to the macro-environment, we can see dramatic changes since the introduction of the Real plan in July 1994 with inflation coming down from levels in excess of 5,000% pa at that time to estimates for 1997 of 4-5% pa. Fiscal policy does not have such a good record with Brazil currently running a budget deficit of 5% of GDP contributing to a Government financing requirement of $50 billion this year. The US$ linked exchange rate is probably overvalued and Brazil's current account deficit is running at 4.5% of GDP. The hope is that the potential for around $80 billion of privatisation revenues in the three years to 1999 will provide the time to address on a long term basis the unsustainable fiscal weaknesses. The recent currency crisis has provided the impetus for greater fiscal stringency.

Investment Manager's Report
continued

It has also resulted in higher interest rates and lowered estimates of GDP growth for 1998 (down to 0% real in the view of some economists). Longer term however, the potential for growth will be improved by the impetus to greater fiscal stringency resulting from the currency crisis.

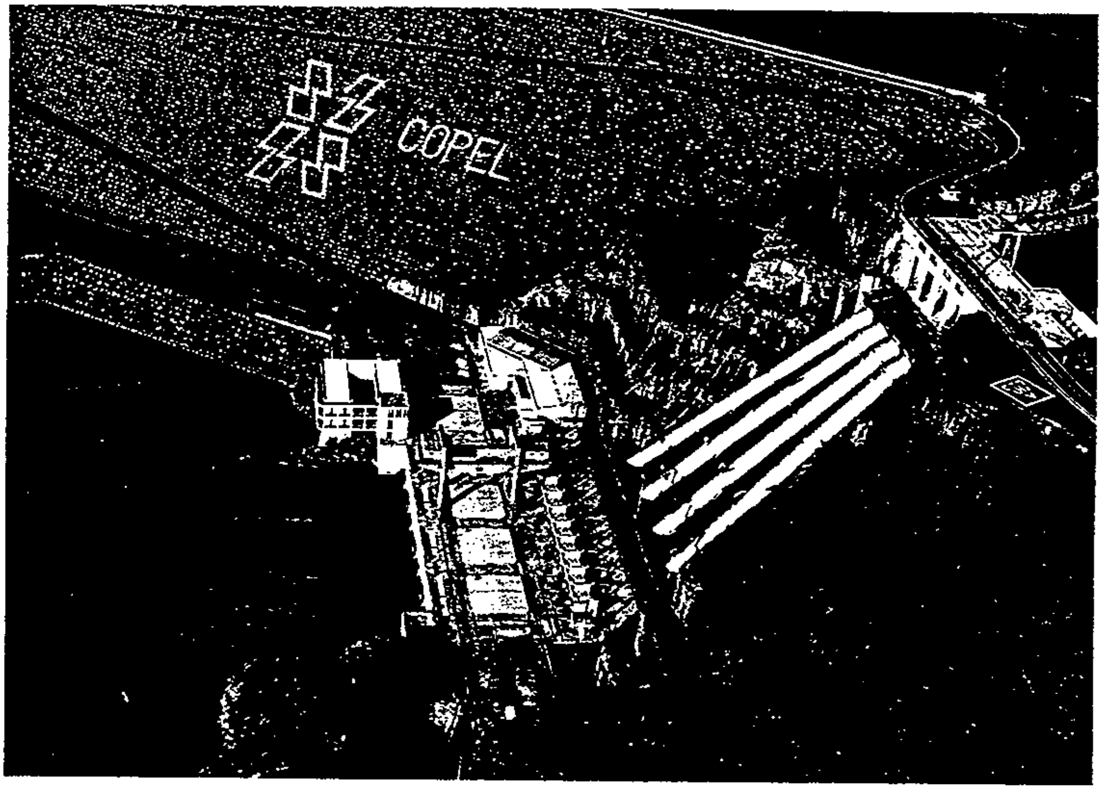
(c) In both electricity and telecommunications, new industry structures and new regulatory frameworks are underway. Although uncertainty remains, progress is being made and investors are willing to accept the uncertainties in order to gain access to such a large growth market.

Coopers & Lybrand were appointed by the Government to propose a new regulatory framework for electricity that would reward investors appropriately, gear the system towards higher efficiency and lead to lower tariffs in the medium to long term (after a period of higher tariffs in the short term). The sector remains inefficient, the legacy of decades of under investment and poor management while under government control, and needs to attract long term investment.

Coopers & Lybrand propose the separation of generation, distribution and transmission under which generation will become competitive and the natural monopolies of distribution and transmission will be regulated. Distribution companies can continue to own generation businesses but can only purchase up to 30% of electricity from their own generation. A new independent regulatory body, ANEEL, will be created. Initial contracts between generators and distributors covering existing generation capacity will be set by ANEEL for a maximum period of 15 years. The proposal includes a volume reduction of 10% pa in the last 10 years of the contracts. At the same time a spot market will be created to trade both new generation capacity and existing capacity as the initial contracts come off, to the extent that new contracts with distributors are not entered into.

Distribution tariff formulas will allow distributors to retain the benefits of efficiencies and an independent transmission operator (ISO) will be set up to operate the transmission grid and for dispatching functions. This is currently carried out by Eletrobras, which will continue to own most of the grid.

In November, the Government set up ANATEL, a new telecommunications regulatory agency, which is intended to be independent, to take over the regulatory functions previously carried out by the Ministry of Communications. This is preparatory to the Government's splitting up of Telebras, which has 90% of Brazil's telecommunications infrastructure, and the subsequent sale of the Government's 50% holdings in the constituent parts. This is targeted for July 1998 and analysts estimate it could raise $30 billion. Although there is much detail to be worked out, Telebras will be split into one long distance company, three fixed line carriers and 9 mobile operators. ANATEL will set rates for these companies for the five years after they are sold and will define their minimum yearly investment requirements. However, the industry structure will be complex. Telebras currently owns 27 local fixed line operating companies and one long distance company. These companies will continue to exist and will be owned by the constituent parts into which



Usina Hidreletrica Segredo

Cia Paranaense de Energia-Copel, Brazil

Telebras is split, making 32 fixed line operating companies in all. There will also be a total of 19 cellular companies in existence. On top of this, it is suggested that competitive, second providers to the four fixed line constituent parts of Telebras be set up after 1998 adding a further four operating companies. This is unlikely to be sustainable in the long term and it is probable that some of the existing Telebras subsidiaries will be absorbed by their new parents after July 1998. Moreover, most of Telebras' existing subsidiaries have minority shareholders and their shares are listed. Under the proposed new industry structure, the liquidity of these shares will become even more of an issue.

Investment possibilities in the utility sector

Electricity

The Brazilian electricity sector is significantly the largest in Latin America with some 58,000 MW of installed capacity. Installed capacity is over 90% hydro and 8-9% thermal including some nuclear.

Utilities where either Federal or State Government has a controlling shareholding dominate all sectors of the industry; generation, transmission and distribution.

The sector comprises three integrated utilities, Cemig, Copel and Cesp, one principal generating company, Eletrobras, which accounts for over 40% of the nation's generation, and a number of distribution companies spread throughout the country. Of these the largest are Eletropaulo,

Investment Manager's Report
continued

Light, CPFL and Cerj, based around either Rio de Janeiro or Sao Paulo, and CEEE in the south of Brazil. In addition, Eletrobras owns Brazil's 50% shareholding in Itaupu, Latin America's largest hydro plant with a total capacity of 12,600 MW.

It is possible to invest in all these companies, which are listed. Cerj and CPFL are currently owned as to more than 50% by private sector investors while 48% of Cemig's voting shares are owned by private sector investors. Of the others which are still government controlled, Eletropaulo is expected to be privatised in 1998 as are two out of four of Eletrobras' principal generating subsidiaries.

Telecommunications

Brazil is the 11th largest country in the world in terms of installed telephone lines. It is possible to invest in Telebras and nearly all Telebras' fixed line operating subsidiaries. The Federal Government owns just over 50% of the voting shares in Telebras, with the private sector owning the balance, and Telebras retains over 80% of the voting shares in its subsidiaries.

There are four companies outside the Telebras system, of which three are owned by State governments and one is owned by the private sector, representing about 9% of Brazil's telecommunications infrastructure. It is possible to invest in one of these, CRT.

Currently, cellular services are provided by the 27 fixed line subsidiaries of Telebras, known as "A band width" operations. The Government has also created 10 competing regional licences, Band B, and has already successfully auctioned off four of these to bidding consortia recently.

When Telebras is split up in 1998, it is proposed to group the existing Band A operations into 9 regional areas which, except in Sao Paulo, will correspond to the Band B regions and Telebras will then look to sell its 50% shareholdings in the 9 Band A cellular operations. There are therefore no current possibilities to invest in a pure cellular operator.

Water

The only Brazilian water company in which it is possible to invest is SABESP, which has the concession from the Sao Paulo State Government to provide water and sewerage services in Sao Paulo State, the most populous state in Brazil. SABESP serves approximately 70% of households in the State. The State of Sao Paulo owns 92 % of the voting shares.

Ports

Terminals at Brazilian ports are being privatised in an endeavour to improve productivity which is significantly less than in many other countries. The terminals have been sold to consortia and there are no pure port companies in which to invest. Ocean Wilson plc, with interests in towage and other maritime services in Brazil, was a member of the winning consortium in the first of the two terminals to be privatised to date and is bidding on others and is the closest proxy to a Brazilian port operator.

Rail, roads and airports

State governments have sold rail and road concessions to the private sector but, as with ports, there are no pure road or rail transport companies in which to invest. The Federal Government has stated that Infraero, which operates and manages all Brazil's principal airports, is to be privatised.

CHINA

China is a Communist country under one party rule. Political and legal rights are more limited than those in western democracies. The economy is still in transformation from a centrally planned economy to a more market oriented economy and it is less open to foreign investment than Brazil. It is important in China for a utility developer or operator to align himself with government, central or local, often as joint shareholders in the project.

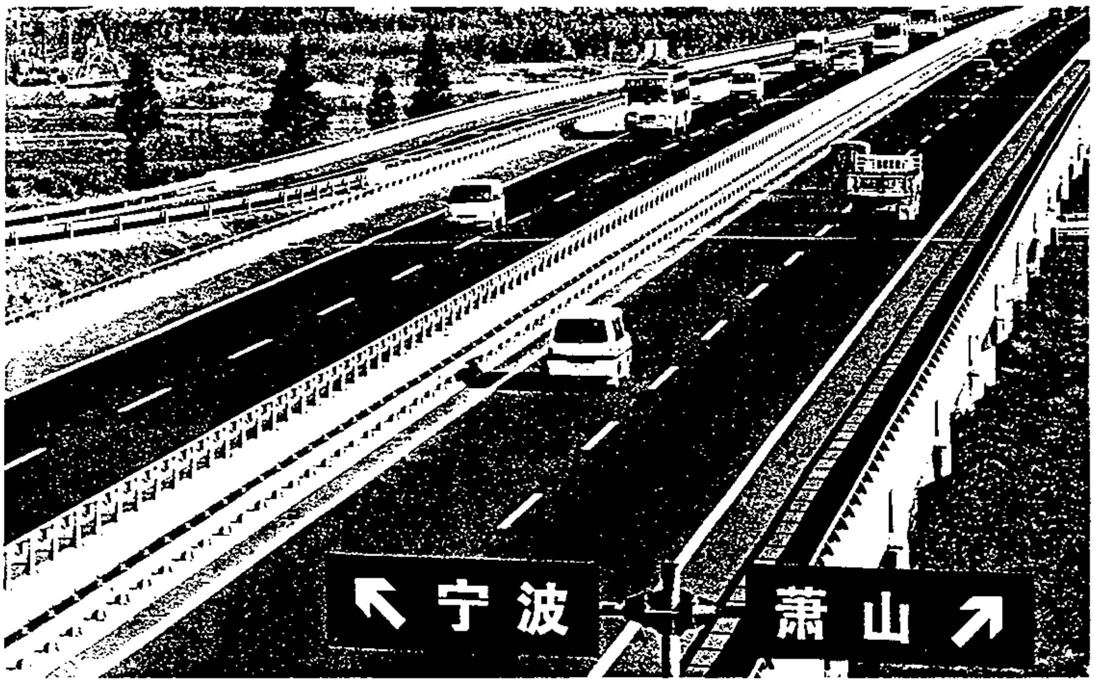
Potential for growth

China's per capita electricity consumption in 1996 was 864 kWh. In comparison, per capita consumption in Hong Kong in 1996 was 4,400 kWh. Analysts are looking for electricity demand in China to grow at an annual rate of 7-9% pa. To keep pace with this growth in demand, to eliminate existing capacity shortages and to establish a comfortable reserve margin, enormous capacity additions will be required.

Generating capacity is planned to increase by a total of 20–25% between 1996 and 2000 and then 90% between 2001 and 2010. The Government has estimated the investment required in generation between 1996 and 2000 at US$84 billion. Analysts estimate that a further $US50 billion is required to be spent on transmission and distribution assets in the period.

Telephone lines (fixed) per 100 population were 4.5 in China in 1996. This compares with 7.0 in Thailand, 18.3 in Malaysia and 55 in Hong Kong. Cellular penetration in China was 0.6% in China in 1996 compared with 2.8% in Thailand, 7.4% in Malaysia and 21.5% in Hong Kong.

Under the current Five-Year Plan, covering the period 1996 to 2000, the intention is to double China's telecommunications capacity and business volume through total planned investments over the period of US$57.5 billion.



Zhejiang Expressway Co. Limited

China

Will this growth potential be realised

In our view there are three key drivers to the fulfilment of this potential, which are inter-linked.

(a) attracting the necessary investment to build the infrastructure, whether it is generating capacity, other electricity infrastructure, telephone lines or transport infrastructure.
(b) a conducive macro-economic environment, and
(c) a viable industry structure and even handed regulatory system

(a) China is less willing to accept foreign investment than Brazil.

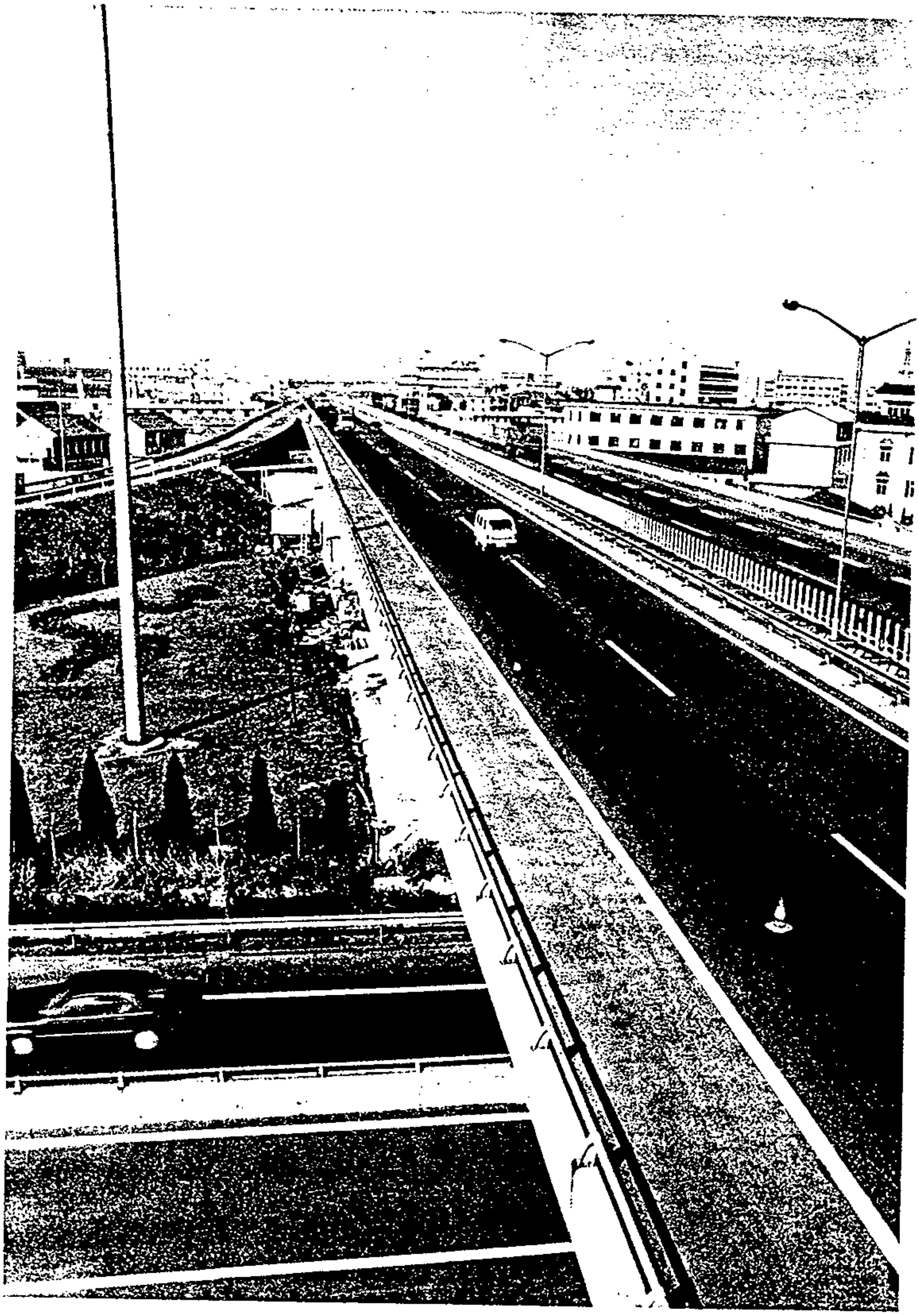
Foreign investment is not currently permitted in electricity transmission and distribution. The level of investment required in electricity generation however is such that significant foreign investment will be required. China has targeted 20% or $17 billion as the foreign investment contribution to the capacity additions in generation in the period 1996-2000. In telecommunications, direct foreign participation is not permitted; foreigners are not permitted to own or operate telecommunications assets in China.

China will therefore continue to rely principally on domestic funding from power bureaux and central and local government. Lending from agencies like the World Bank and Asian Development Bank and stock market listings of electricity and telecommunications companies like Huaneng Power and China Telecom to raise domestic and foreign capital will continue to make a contribution.

However, there remains an undoubted requirement for significant foreign funding via project finance, debt and, where permitted, direct investment. There is also undoubted foreign interest in providing the funding because of the size of the potential market. Lack of government guarantees on currency convertibility and repatriation and uncertainty on allowable returns and delays in approvals has meant only a handful of projects have been financeable to date. More recently however there are signs that compromises are being made by the Chinese authorities that give hope that more projects will become financeable from the view point of foreign investors

(b) the macro-economic outlook is still encouraging. The exchange rate should remain stable, inflation is benign and interest rates have been reduced. In 1996 there was a budget surplus and a small current account deficit. GDP growth is still expected to grow at 9-10% pa. Longer term there is the need to deal with the large numbers of inefficient State owned enterprises and the potentially large unemployment that will follow.

(c) the Electric Power Law promulgated in 1996 has targeted various reforms in an initiative to overcome some of the perceived shortcomings of the electricity industry and which should encourage investment in the industry. These include the massive increase in generating capacity referred to above, a trend towards larger and more efficient generating units, increased availability of electricity to residential and rural end-users, listings of power companies to raise capital to fund capacity additions, creation of a reasonably transparent regulatory



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China

mechanism, creation of a national transmission network by increasing and improving interconnection between regional and provincial grids and a plan to revise the existing tariff system and subsidised prices. Notwithstanding the Government's commitment to the development and reform of the industry, major challenges remain and development may not progress in a straight line but in fits and starts.

The Electric Power Law encourages competition, but while there is a shortage of generating capacity most regions will remain a sellers' market in the near to medium term. Guangdong province, one of the most economically developed, is an exception.

Regulation of the industry is undertaken by the Ministry of the Electric Power Industry (MEPI), which is comprised of the representatives of the various central, regional and provincial grids.

The listed power companies are regulated via a return on asset formula. The pricing mechanism allows recovery of all operating costs (including fuel), depreciation, interest, currency losses on foreign currency debt and taxes. It also allows a 15% return on average net fixed assets including construction work in progress less an adjustment on the debt financed portion of net fixed assets. The pricing mechanism provides that tariffs are set annually for the upcoming year based on projected costs, capital expenditures and assumed levels of output. Tariff increases under the mechanism have to be approved by local government bodies and in some cases by central government.

While the structure appears attractive for the listed power companies and their investors, in practice delays in tariff increase approvals are common and in some cases tariff increases are not made fully retroactive.

Much of the interest in the companies is driven by the likelihood of new projects and the resultant additional capacity. New projects in China require approvals from both central and local government and the process has resulted in delays in the past. However with the huge increases in capacity that have been targeted, approvals should be forthcoming on a more timely basis.

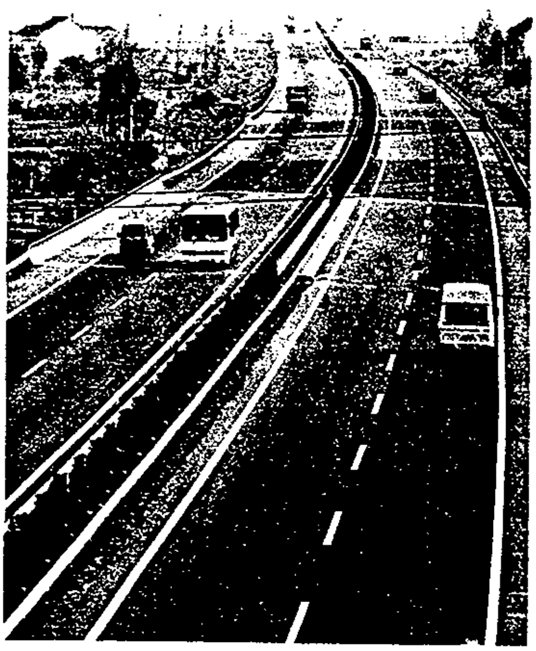
Unlike other Asian telecoms markets, foreigners cannot own, operate or participate in the operation of telecoms services in China without approval from the central government. The only exception is China Telecom (Hong Kong) Limited, which acquired certain cellular assets of the Ministry of Posts and Telecommunications (MPT) and was floated in October 1997 in Hong Kong. Nor is there a policy of aggressive liberalisation of the Chinese telecoms market. The only competition to the MPT (and the provincial Posts and Telecommunications Administrations and municipal Posts and Telecommunications Bureaux under its control) is very limited. The competing operators are Unicom and Great Wall, which are owned by other Chinese government bodies. A form of indirect foreign participation has evolved to ease the financing requirement for these operators but with limited success to date. So long as the focus among the Chinese leadership is to deal with the issue of the unprofitable State owned enterprises, some analysts do not expect any early change to the foreign ownership and liberalisation situation given the good financial performance of the telecommunications sector to date.

In 1994, the MPT split its role between an operating arm, the DGT , and a regulatory arm, the MPT. The industry in China is extensively regulated. The MPT controls entry to the industry, scope of business, interconnection and transmission line arrangements, technology and equipment standards and capital investment priorities. With other Government bodies, the MPT regulates tariff policies and spectrum allocation.

Unlike telecommunications, road transport in the form of toll expressways is a sector where foreigners have participated directly and via listings of expressway companies. It is another sector which the Chinese have earmarked for massive growth.

In the late 1970's, road transport accounted for less than 70% of total traffic volumes while in 1995 it exceeded 95%. The number of civilian motor vehicles rose from 3.2 million in 1985 to 10.4 million in 1995. Since 1990, passenger traffic has grown at a compound annual growth rate of 10% and freight traffic at 7%. Between 1990 and 1995, 92,000 kms of new roads were built. China's highway development strategy is centred around the construction by 2010 of the National Highways Trunk System comprising 12 national trunk highways which will link all provincial capitals and all major cities with a population of 1 million or more. The Ninth Five-Year Plan projects that $65 billion is to be spent on road construction between 1996 and 2000, of which 10% is to be sought from foreign investors, who will invest in toll expressways. Both central and provincial governments are involved in the administration of China's highway sector. As central government funding for highway construction continues to fall, it becomes key for highway developers and operators to align themselves with provincial governments if they are to secure new projects.

Toll rates must be approved at the provincial government level. Toll roads apply for toll increases every year. Some of the recently listed operators have annual RPI linked toll increase formulas. It is probably too early to assess whether the system is working efficiently and toll operators are receiving the toll increases to which they are entitled.



Zhejiang
Expressway Co.
Limited

China

Investment possibilities in the utility sector

Electricity

Installed capacity was 236,500 MW at the end of 1996. Under the current Five Year Plan this is projected to increase to 290,000 MW at the end of 2000. This compares with Brazil's installed capacity at the end of 1996 of 58,000 MW. Approximately 70-75% of electricity is generated by thermal stations, the bulk of which is coal fired, and approximately 25% is hydro electricity.

There are a number of partly investor-owned, listed generating companies in which foreigners can invest including Huaneng Power International, Shandong Huaneng, Beijing Datang, Zhejiang South East Electric Power, Heilongjiang Electric Power and Guangdong Electric Power.

Telecommunications

The only listed telecommunications company in which foreigners can invest is China Telecom (Hong Kong), which is the dominant provider of cellular telecommunications services in Guangdong and Zhejang provinces. These are the two provinces with the largest number of cellular subscribers. The company was set up to acquire these operations from the MPT.

Expressways

There are a number of investor owned and partly investor owned, listed expressway companies in which foreigners can invest including Zhejiang Expressway, Guangdong Provincial Expressway, Sichuan Expressway, GZI Transport, Anhui Expressway, Jiangsu Expressway and Road King Infrastructure. There are also some broadly based, listed infrastruture companies with expressway operations including New World Infrastructure and Cheung Kong Infrastructure.

To date, new expressway development has been weighted toward the more developed provinces like Guangdong and we may see increasing interest in the less developed inland provinces.

Ports

There is not enough port capacity to meet China's transport needs requiring both significant capacity expansion at existing ports and the construction of new ports, with a particular focus on container terminal development. Significant investment in technology is also required to improve efficiencies.

There are some investor owned or partly investor owned, listed port service companies in which foreigners can invest including Pacific Ports, Chiwan Wharf and China Merchants Shekou Port Services. Some of the Hong Kong operators like Hutchison Whampoa and COSCO Pacific have significant port interests in China.

CONCLUSION

Brazil and China are two emerging markets which long term investors in international utilities should not ignore. Their utilities offer the higher growth rates generally found in emerging markets. In addition, their economies are much larger and there is a greater universe of utility companies to choose from. Brazil and China are different markets and investors need to know what these differences are. Brazil has fiscal weaknesses and an overvalued currency and is more open to foreign investment. China is facing the huge challenge of restructuring its highly inefficient State owned industries and government connections remain the key.

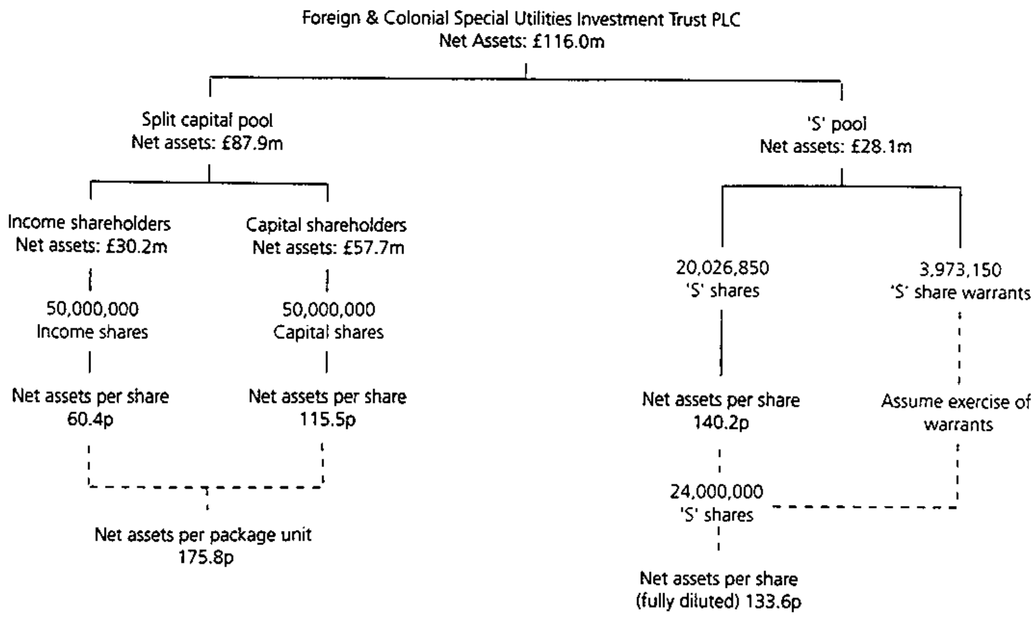
Usina Hidreletrica
Gov. Bento Munhoz
da Rocha

Cia Paranaense de
Energia-Copel,
Brazil

Undoubtedly there are risks to investing in either market, macro economic risk and risks relating to industry structure, minority shareholder rights and regulation. Investment decisions for fund managers may be more difficult than for utility companies in the developed economies.

Your Managers believe both these markets will outperform on a long term basis. They continue to carry out their research and have already made a number of investments.

Capital Structure



Company History

Foreign & Colonial Special Utilities Investment Trust PLC (SUIT) commenced operations on 23 August 1993 as a split capital trust comprising 50m income shares and 50m capital shares. Its purpose was to invest in utilities with special attractions. The original portfolio included several large holdings in water only companies.

On 4 April 1995 the Company issued 20m 'S' ordinary shares with 4m warrants attached. The proceeds from this issue have been used to form a separate pool of assets, with its own income, expenses and capital transactions.

Entitlements

Split Capital Pool

- Income shareholders are entitled to all the revenue profits attributable to the split-capital pool. On a winding up, they are entitled to 60p per income share plus any undistributed revenue profits of the Company attributable to the split capital pool.
- Capital shareholders have no entitlement to income. On a winding up, they are entitled to all the surplus assets of the Company attributable to the split capital pool, after payment has been made to the income shareholders.
- Package units are available, consisting of one income share and one capital share. These package units are separately traded on the London Stock Exchange and are separately listed in the Daily Official List.

'S' Pool

- 'S' shareholders are entitled to all the income available for distribution from the 'S' pool and, on a winding up, to all the surplus capital of that pool.
- 'S' warrant holders are entitled to subscribe for 'S' shares at £1 each.

Relationship between the Split Capital and 'S' Pools

The costs of managing and administering the two pools are borne by each of the pools separately. Where expenses are not specifically attributable to the split capital pool or the 'S' pool, each pool will generally bear a proportion of such expenses calculated by reference to the respective gross assets of each pool.

Each pool will, subject to the availability of funds, generally participate in new investment opportunities in proportion to the gross assets of the pool as shown in its latest monthly valuation (subject to adjustment for any material realisation, acquisition or revaluation). However, the Directors will have discretion to allocate the investment participations between the split capital and 'S' pools on a different basis where considered appropriate. Where one pool does not invest, the other pool may invest and take up all or any part of the first pool's proportion.

The two pools will remain separate and will be managed for the exclusive benefit of the relevant class or classes of shareholders save that the Directors may adjust the allocation of assets between the two pools to compensate for or reflect the contribution of each pool to the overall tax position of the Company. Any borrowings to fund acquisitions for the split capital pool or the 'S' pool will be attributed to that pool and, if secured, will be secured only on the assets of that pool. In addition the Directors will seek to ensure that borrowings to fund acquisitions for a particular pool are made on the basis that the lender has recourse only to the assets of that pool. The Directors do not expect that the Company will incur any significant long-term balance sheet gearing for the account of either pool. The Directors will ensure that the affairs of the two pools are managed, in particular in relation to borrowings, so as to minimise the risk of a revenue or capital deficit arising in either pool.

If, in exceptional circumstances, a revenue deficit were to arise in one of the pools, this could reduce the amount of profits which would otherwise be available for distribution to the shareholders of the other pool. If the corporation tax paid by the Company in any year is reduced or increased by reference to the revenue account or the nature of the investments of one pool, the other pool may retain a tax benefit as a result of that reduction or suffer a tax liability as a result of that increase.

Unless they have agreed otherwise, creditors of SUIT can have recourse to all the assets of SUIT in satisfaction of their claims and would not be limited to recourse against one or other of the asset pools.

Twenty Largest Equity Holdings (Split Capital Pool)

1 (1) East Surrey Holdings (UK) 20.3%
Water only company supplying East Surrey and parts of Kent, Sussex and the London Borough of Croydon.

2 (2) Dee Valley Water (UK) 16.8%
Water only company supplying an area of North Wales.

3 (10) Bermuda Telephone (Bermuda) 4.3%
The Bermudian domestic telecommunications utility.

4 (8) International Energy Group (Guernsey) 3.8%
Sole distributor of gas in Guernsey and Jersey.

5 (4) Infrastructure & Utilities NZ (New Zealand) 3.6%
Closed end fund investing in securities issued by entities in the New Zealand infrastructure and utilities sectors.

6 (5) Aguas de Barcelona (Spain) 3.6%
The largest private sector water utility in Spain.

7 (12) BELCO Holdings (Bermuda) 3.1%
The Bermudian electricity utility.

8 (7) Bristol Water Holdings (UK) 2.9%
Water only company supplying an area of Gloucestershire and Somerset, centred on Bristol.

9 (6) Cambridge Water (UK) 2.9%
Water only company supplying an area centred on the City of Cambridge.

10 (–) Infratil Australia (Australia) 2.5%
Closed end fund investing in securities issued by entities in the Australian infrastructure and utilities sectors.

11 (19) Jersey Electricity (Jersey) 2.1%
The Jersey electricity utility.

12 (15) Caribbean Utilities (Cayman Islands) 2.0%
The electricity utility of Grand Cayman.

13 (13) Brockhampton Holdings (UK) 1.8%
Water only company supplying an area of Hampshire and West Sussex.

14 (–) Ocean Wilson Holdings (Brazil) 1.7%
A leading supplier of maritime services and a port operator in Brazil.

15 (–) Prism Rail (UK) 1.5%
Train operating company with four franchises.

16 (20) BT (UK) 1.5%
The leading British telecommunications utility.

17 (–) Lang Corporation (Australia) 1.4%
Owns one of the two major stevedoring companies in Australia.

18 (–) OTE (Greece) 1.3%
The Greek telecommunications utility.

19 (–) Jarvis (UK) 1.1%
One of the leading railway infrastructure maintenance and renewal companies.

20 (–) American Water Works (US) 1.0%
The leading investor-owned US water utility.

The figures in brackets denote the position at the previous year end. Percentages shown are the percentages of net assets attributable to income and capital shareholders. The value of the twenty largest holdings represents 78.5% (1996: 85.4%) of the Split Capital pool's portfolio.

East Surrey Holdings £17.8m

Dee Valley Water £14.8m

Bermuda Telephone £3.8m

International
Energy Group
£3.3m

Infratil NZ £3.2m

Aguas de Barcelona
£3.2m

BELCO Holdings
£2.7m

Bristol Water Holdings
£2.6m

Cambridge Water £2.5m

Infratil Australia
£2.2m

Jersey Electricity £1.8m

Caribbean Utilities
£1.7m

Brockhampton Holdings
£1.6m

Ocean Wilson Holdings
£1.5m

Prism Rail £1.4m

BT £1.3m

Lang Corporation £1.2m

OTE £1.2m

Jarvis Group £0.9m

American Water Works £0.9m

Statement of Total Return (Split Capital Pool)
(incorporating the Revenue Account)

for the year ended 30 September

	Revenue	Capital	1997 Total	Revenue	Capital	1996 Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Gains on investments	–	12,465	12,465	-	8,442	8,442
Gains on futures contracts	–	114	114	-	(733)	(733)
Exchange gains and losses	(4)	673	669	(2)	(99)	(101)
Income	4,175	–	4,175	3,785	-	3,785
Management and advisory fees	(410)	(273)	(683)	(405)	(270)	(675)
Other expenses	(186)	(124)	(310)	(133)	(89)	(222)
Net return before finance costs and tax	3,575	12,855	16,430	3,245	7,251	10,496
Interest payable and similar charges	(73)	–	(73)	(159)	-	(159)
Return on ordinary activities before taxation	3,502	12,855	16,357	3,086	7,251	10,337
Tax	(815)	133	(682)	(722)	93	(629)
Return attributable to shareholders	2,687	12,988	15,675	2,364	7,344	9,708
Dividends	(2,590)	–	(2,590)	(2,350)	-	(2,350)
Amount transferred to reserves	97	12,988	13,085	14	7,344	7,358
Return per income share	5.37p	–	5.37p	4.73p	-	4.73p
Return per capital share	–	25.98p	25.98p	-	14.69p	14.69p
Return per package unit	5.37p	25.98p	31.35p	4.73p	14.69p	19.42p

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

Balance Sheet (Split Capital Pool)

at 30 September

	1997 £'000s	£'000s	1996 £'000s	£'000s
Fixed assets				
Investments				
Listed in Great Britain	51,614		51,717	
Listed outside Great Britain	32,060		20,671	
	83,674		72,388	
Unlisted at directors' valuation	3,958		3,594	
		87,632		75,982
Current assets				
Debtors	1,905		4,147	
Taxation recoverable	207		533	
Cash at bank and short-term deposits	3,195		117	
	5,307		4,797	
Current liabilities				
Creditors: amounts falling due within one year	5,002		5,950	
Net current assets/(liabilities)		305		(1,153)
Total assets less current liabilities		87,937		74,829
Provision for liabilities and charges		(23)		-
Net assets		87,914		74,829
Capital and reserves				
Called up share capital		1,000		1,000
Share premium	47,500		47,500	
Capital reserves	39,229		26,241	
Revenue reserve	185		88	
		86,914		73,829
Shareholders' funds – non-equity		87,914		74,829

Approved by the board on 18 November 1997

Alan Wheatley Alan Wheatley

A. E. WHEATLEY Director

Twenty Largest Equity Holdings ('S' Pool)

1 (3) American Water Works (US) 5.4%
The leading investor-owned US water utility.

2 (12) Bermuda Telephone (Bermuda) 4.4%
The Bermudian domestic telecommunications utility.

3 (1) Infrastructure & Utilities NZ (New Zealand) 4.3%
Closed end fund investing in securities issued by entities in the New Zealand infrastructure and utilities sectors.

4 (–) BT (UK) 4.2%
The leading British telecommunications utility.

5 (–) Prism Rail (UK) 4.1%
Train operating company with four franchises.

6 (–) Infratil Australia (Australia) 4.0%
Closed end fund investing in securities issued by entities in the Australian infrastructure and utilities sectors.

7 (8) Jersey Electricity (Jersey) 3.6%
The Jersey electricity utility.

8 (9) Telecom Italia Mobile (Italy) 3.6%
Italy's leading mobile telecommunications Company.

9 (10) BELCO Holdings (Bermuda) 3.5%
The Bermudian electricity utility.

10 (6) Caribbean Utilities (Cayman Islands) 3.3%
The electricity utility of Grand Cayman.

11 (13) Aguas de Barcelona (Spain) 3.3%
The largest private sector water utility in Spain.

12 (–) Cambridge Water (UK) 2.9%
Water only company supplying an area centred on the City of Cambridge.

13 (–) Telecom Italia SPA (Italy) 2.9%
Italy's telecommunications utility.

14 (–) American Port Services (US) 2.6%
Operator of ports and airports in the US.

15 (–) Railtrack (UK) 2.6%
Railway infrastructure utility.

16 (14) Tele Danmark (Denmark) 2.3%
The Danish telecommunications utility.

17 (19) AUMAR (Spain) 2.0%
Spanish toll road utility.

18 (–) Environment Investment Co. (Jersey) 1.9%
Closed end fund investing in companies which should benefit from increased spending on environmental products and sevices.

19 (–) Lang Corporation (Australia) 1.8%
Owns one of the two major stevedoring companies in Australia.

20 (–) Eletricidade de Portugal (Portugal) 1.8%
The Portuguese electricity utility.

The figures in brackets denote the position at the previous year end. Percentages shown are the percentages of net assets attributable to 'S' shareholders. The value of the twenty largest holdings represents 60.7% (1996: 73.6%) of the 'S' pool's portfolio.

American Water Works £1.5m

Bermuda Telephone £1.2m

Infratil NZ £1.2m

BT £1.2m

Prism Rail £1.2m

Infratil Australia
£1.1m

Jersey Electricity
£1.0m

Telecom Italia Mobile
£1.0m

Belco Holdings
£1.0m

Caribbean Utilities
£0.9m

Aguas de Barcelona
£0.9m

Cambridge Water £0.8m

Telecom Italia SPA
£0.8m

American Port Services
£0.7m

Railtrack £0.7m

Tele Danmark
£0.6m

AUMAR £0.6m

Environment Investment Co.
£0.5m

Lang Corporation £0.5m

Eletricidade de Portugal £0.5m

Statement of Total Return ('S' Pool)
(incorporating the Revenue Account)
for the year ended 30 September

	Revenue £'000s	Capital £'000s	1997 Total £'000s	Revenue £'000s	Capital £'000s	1996 Total £'000s
Gains on investments	-	3,322	3,322	-	4,145	4,145
Gains on futures contracts	-	30	30	-	(165)	(165)
Exchange gains and losses	(12)	636	624	(2)	94	92
Income	1,230	-	1,230	1,102	-	1,102
Management and advisory fees	(142)	(95)	(237)	(131)	(87)	(218)
Other expenses	(70)	(47)	(117)	(55)	(38)	(93)
Net return before finance costs and tax	1,006	3,846	4,852	914	3,949	4,863
Interest payable and similar charges	(173)	-	(173)	(70)	-	(70)
Return on ordinary activities before taxation	833	3,846	4,679	844	3,949	4,793
Tax	(178)	44	(134)	(244)	39	(205)
Return attributable to shareholders	655	3,890	4,545	600	3,988	4,588
Dividends	(621)	-	(621)	(580)	-	(580)
Amount transferred to reserves	34	3,890	3,924	20	3,988	4,008
Return per 'S' share	3.27p	19.43p	22.70p	3.00p	19.94p	22.94p
Return per 'S' share – fully diluted	†	16.21p	20.26p	†	16.62p	20.51p

† Fully diluted return is not applicable.

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

Balance Sheet ('S' Pool)

at 30 September

	1997 £'000s	£'000s	1996 £'000s	£'000s
Fixed assets				
Investments				
Listed in Great Britain	6,360		5,759	
Listed outside Great Britain	21,518		20,414	
	27,878		26,173	
Unlisted at directors' valuation	1,936		620	
		29,814		26,793
Current assets				
Debtors	3,603		3,696	
Taxation recoverable	167		226	
Cash at bank and short-term deposits	392		114	
	4,162		4,036	
Current liabilities				
Creditors: amounts falling due within one year				
Loans	1,800		2,150	
Other	4,083		4,486	
	5,883		6,636	
Net current assets/(liabilities)		(1,721)		(2,600)
Total assets less current liabilities		28,093		24,193
Provision for liabilities and charges		(10)		(52)
Net assets		28,083		24,141
Capital and reserves				
Called up share capital		200		200
Share premium	17,459		17,435	
Warrant reserve	1,468		1,474	
Capital reserves	8,877		4,987	
Revenue reserve	79		45	
		27,883		23,941
Shareholders' funds – non-equity		28,083		24,141

Approved by the board on 18 November 1997

Alan Wheatley Alan Wheatley

A. E. WHEATLEY Director

Auditors' Report on the Memorandum Pool Accounts

To the directors of Foreign & Colonial Special Utilities Investment Trust PLC

As requested we have reviewed the 'Memorandum Pool Accounts' on pages 24, 25, 28 and 29 of the 1997 Report and Accounts of Foreign & Colonial Special Utilities Investment Trust PLC ('the Company').

On the basis of our review we report that in our opinion the 'Memorandum Pool Accounts' have been properly prepared from the Company's books and records on a basis consistent with the accounting policies set out in note 2 to the Financial Statements on pages 43 and 44.

Price Waterhouse

Price Waterhouse
Chartered Accountants
18 November 1997

Southwark Towers
32 London Bridge Street
London SE1 9SY

Directors

Alan Wheatley † § FCA, *Chairman*, is a non-executive director of Babcock International Group PLC, Legal & General Group Plc, N.M. Rothschild and Sons Limited and Deputy Chairman of Ashtead Group PLC.

John Kay † § is Director, School of Management Studies, Oxford University and a director of London Economics Limited. He has written and consulted on the privatisation and regulation of utilities.

Duncan Saville, FCA, B. Com (Hons), B.Sc (Hons), investment adviser to SUIT, is a non-executive director of two licensed water only companies, East Surrey Holdings PLC and Dee Valley Water PLC. He has been an adviser on privatisation and corporatisation.

† These directors constitute the Audit Committee.

§ Member of the Remuneration Committee.

Peter Spiller † §, is a partner with Cazenove & Company and a director of Capital Gearing Trust PLC.

Jeremy Tigue, joined Foreign & Colonial Management Limited in 1981. He is also a director of Foreign & Colonial Smaller Companies PLC.

Roger Urwin † §, Ph.D., MIEE, is Managing Director, Transmission, at The National Grid Company plc. He has had many years experience in the UK electricity industry, and played a major role in its restructuring and privatisation.

Management

Tony Edwards through his company, Utilities Investment Research Limited, carries out analysis and research and provides investment advice to the Company on a day-to-day basis. He is an alternate director of SUIT.

Paul Cameron assists Tony Edwards in the day-to-day analysis and research and the provision of investment advice to the Company.

Robert Dowdall is Director of Finance for Foreign & Colonial Management Limited. He joined the Group in 1990.

David Harding carries out the company secretarial duties on behalf of Foreign & Colonial Management Limited. He joined the Group in 1973.

Nick Pitt-Lewis is Director of Compliance for Foreign & Colonial Management Limited. He joined the Group in 1992.

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

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, and therefore up to £6,000 may be invested in the Company's shares via a Personal Equity Plan in any one fiscal year.

The accounting policies adopted are stated in note 2 to the accounts.

Results and Dividends

Split Capital Pool	£'000s	£'000s
Net revenue available for distribution on income shares		2,687
Dividends paid or payable		
Interim of 1.57 p per share paid 15 July 1997	785	
Proposed final of 3.61p per share payable 2 January 1998	1,805	2,590
Amount set aside to reserve		97

The final dividend now recommended of 3.61p per income share makes a total dividend of 5.18p per income share for the year ended 30 September 1997.

'S' Pool	£'000s	£'000s
Net revenue available for distribution on 'S' ordinary shares		655
Interim of 0.90 p per share paid 15 July 1997	180	
Proposed final of 2.20p per share payable 2 January 1998	441	621
Amount set aside to reserve		34

The final dividend now recommended of 2.2p per 'S' ordinary share makes a total dividend of 3.10p per 'S' ordinary share for the year ended 30 September 1997.

Share Capital

On 31 January 1997, 17 holders of warrants to subscribe for 'S' ordinary shares exercised their right to subscribe for a total of 17,500 'S' ordinary shares at the fixed subscription price of 100 p per share.

A notice reminding warrant holders of their subscription rights will be sent out towards the end of December.

Substantial Share Interests

At 18 November 1997 the following notifications of holdings of 3% and over in various classes of the Company's share capital had been received.

	Income shares of 1p each	Capital shares of 1p each	'S' ordinary shares of 1p each
Foreign & Colonial Investment Trust PLC			5,000,000
Foreign & Colonial PEP (interests of the participants held in the name of Glyn Mills Nominees)			2,196,430
General Provincial Life Pension Fund Limited		28,764,000	8,450,500
Ruffer Investment Management Ltd	7,132,000		
Goy Harris Cartwright	2,150,242		

Report of the Directors
continued

Review of Activities
A review of the Company's activities is given in the Chairman's Statement on pages 3 to 6 and in the Investment Manager's Report on pages 7 to 19.

Directors
The directors of the Company are featured on page 31 and all held office throughout the year under review. In accordance with the Company's articles of association, Mr. D.P. Saville and Mr. A.E. Wheatley retire at the annual general meeting and, being eligible, offer themselves for re-election.

Mr. D.P. Saville, the executive director, has a continuing service contract with the Company subject to termination by two year's notice. Mr A. E. Wheatley does not have a service contract with the Company

Details of directors' shareholdings in the Company are contained in note 7 to the accounts.

Management
Details of the Company's various management, investment advisory and service agreements, all of which have termination periods of two years, are contained in note 4 to the accounts.

The Foreign & Colonial Group has arrangements under which stockbrokers pay for various investment services used by the Group in return for stated amounts of commission. Foreign & Colonial Management's policy is that this commission should not exceed 15% of the total commission in any one year paid by clients of the Group which permit soft commission arrangements: in 1996 the figure was 10% of commissions.

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

Decisions on contested take-over bids are always referred to the board of directors.

Duration of the Company
In accordance with the Company's Articles of Association, the period fixed for the duration of the Company will expire on 24 August 2003 and a resolution will be proposed requiring the Company to be wound up voluntarily unless a special resolution releasing the Board from its obligation to do so has been passed not earlier than 24 August 2002. If the Directors are not released from their obligation to propose a winding up resolution in 2003, the holders of the 'S' ordinary shares will be offered the opportunity to approve arrangements to enable them to continue to participate in the pool of assets attributable to the 'S' ordinary shares through a successor fund having a similar investment policy and objective and a planned life until 2008.

Corporate Governance
Throughout the year under review, the Company has complied, where necessary, with the recommendations of 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 have reviewed those matters which the Listing Rules recommended that the auditors should review. Their report on the results of the review is set out on page 38.

It is the responsibility of the board to ensure that there is effective stewardship of the Company's affairs. The board is comprised of six directors, one of whom is an executive director and four of whom, including the Chairman, are wholly independent of the management company. The board meets regularly and determines strategy and all operational matters of a material nature.

The board does not operate a nominations committee. Appointments of directors are made on a formalised basis by reference to selection criteria agreed by the full 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, proper accounting records are maintained and the financial information used within the business and for publication is reliable. The systems of internal financial controls are established to provide reasonable, but not absolute, assurance against material mis-statement or loss.

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.

The board has contractually delegated responsibility for management of the portfolio, custody, accounting and company secretarial services to Foreign & Colonial Management Limited (the Manager). Details of the terms of its agreement with the Manager as set out on page 45 are periodically reviewed by the Company's Audit Committee.

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 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, 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 controls 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's Remuneration Committee is comprised of Mr. A.E. Wheatley (Chairman), Professor J.A. Kay, Mr. R.P.A. Spiller and Dr. R.J. Urwin. The board has agreed that additional remuneration of 0.00975% per quarter of the Company's funds under management should be paid to Mr. A.E. Wheatley in view of special duties performed by him outside his ordinary duties as a director. This agreement is subject to regular review by the Remuneration Committee excluding Mr. Wheatley. The Board considers that the Company otherwise complies with section A of the Best Practice Provisions annexed to the Listing Rules of the London Stock Exchange.

Report of the Directors
continued

Policy on payment of Suppliers
The Company's principal suppliers are Foreign & Colonial Management Limited, Ingot Capital Management PTY Limited and Utilities Investment Research Limited. These companies provide investment management services and are paid in the month following the end of each calendar quarter in accordance with the terms of the respective agreements. Other suppliers are paid in accordance with the individual payment terms agreed with each supplier. At 30 September 1997, the Company's outstanding trade creditors were equivalent to one day's payments to suppliers.

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 59 and 60 the notice of the forthcoming annual general meeting of the Company to be held on 19 December 1997. In addition to the ordinary business of the meeting, two resolutions (numbered 5 and 6) are proposed as special business.

Authority of directors to allot shares
Resolutions 5 and 6 in the notice of annual general meeting are similar to the authorities given to the directors at the last annual general meeting. By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders. In addition, directors require specific authority from shareholders before allotting new shares (or granting rights over shares) for cash without first offering them to existing shareholders in proportion to their holdings. Resolution 5 gives the directors, for the period until the conclusion of the annual general meeting in 1998, the necessary authority to allot securities up to an aggregate nominal amount of £60,000, which is equivalent to 5 per cent., of the issued share capital. Resolution 6 empowers the directors, until the conclusion of the annual general meeting in 1998 or, if earlier, the expiry of fifteen months from the date on which resolution 6 is passed, to allot securities for cash, otherwise than to existing shareholders on a pro-rata basis, up to an aggregate nominal amount of £60,000, which is equivalent to 5 per cent of the issued share capital. 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 Foreign & Colonial Private Investor and Personal Equity Plans when they believe it is advantageous to plan participants and the Company's shareholders to do so. Under no circumstances would the directors use the authority to dilute the interests of existing shareholders by issuing shares at a price which is less than the net asset value attributable to the shares at the time of issue.

By order of the Board
Foreign & Colonial Management Limited,
Secretary
18 November 1997

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

Remuneration Committee Report

Mr D.P. Saville is the only executive director of the Company and has been employed as such since the Company was established in 1993. His remuneration package, which was agreed in 1993 and has not changed since (apart from the payees), is disclosed in note 7 to the accounts.

Mr Saville's service agreement with the Company is subject to two (previously three) years' notice of termination. Should the agreement be terminated by the Company, without notice and in the absence of specific grounds, compensation based on his remuneration may be payable to Mr Saville.

None of the other directors has a service agreement with the Company.

The Remuneration Committee has fully considered section B of the Best Practice Provisions annexed to the Listing Rules of the London Stock Exchange to the extent they are applicable to the Company's circumstances.

A.E. Wheatley
Chairman, Remuneration Committee

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. In all other respects 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 Special Utilities Investment Trust PLC

In addition to our audit of the financial statements we have reviewed your statements on pages 34 and 35 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 page 35 and on going concern on page 35, 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 34 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
18 November 1997

Southwark Towers
32 London Bridge Street
London SE1 9SY

Auditors' Report

To the shareholders of Foreign & Colonial Special Utilities Investment Trust PLC

We have audited the financial statements on pages 40 to 56, 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 43 and 44.

Respective responsibilities of directors and auditors

As described on page 37, 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
18 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 Revenue £'000s	1996 Capital £'000s	1996 Total £'000s
	11	Gains on investments	–	15,787	15,787	-	12,587	12,587
	19	Gains on futures contracts	–	144	144	-	(898)	(898)
	19	Exchange gains and losses	(16)	1,309	1,293	(4)	(5)	(9)
3		Income	5,405	–	5,405	4,887	-	4,887
4	19	Management and advisory fee	(552)	(368)	(920)	(536)	(357)	(893)
5	19	Other expenses	(256)	(171)	(427)	(188)	(127)	(315)
		Net return before finance costs and tax	4,581	16,701	21,282	4,159	11,200	15,359
6		Interest payable and similar charges	(246)	–	(246)	(229)	-	(229)
		Return on ordinary activities before taxation	4,335	16,701	21,036	3,930	11,200	15,130
8	19	Tax	(993)	177	(816)	(966)	132	(834)
9		Return attributable to shareholders	3,342	16,878	20,220	2,964	11,332	14,296
10		Dividends	(3,211)	–	(3,211)	(2,930)	-	(2,930)
	19	Amount transferred to reserves	131	16,878	17,009	34	11,332	11,366
		Split Capital Pool:						
		Return per income share	5.37p	–	5.37p	4.73p	-	4.73p
		Return per capital share	–	25.98p	25.98p	-	14.69p	14.69p
		Return per package unit	5.37p	25.98p	31.35p	4.73p	14.69p	19.42p
		'S' Pool:						
		Return per 'S' share	3.27p	19.43p	22.70p	3.00p	19.94p	22.94p
		Return per 'S' share - fully diluted	†	16.21p	20.26p	†	16.62p	20.51p

† Fully diluted return is not applicable (see note 9).

* 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 of the Company

at 30 September

Notes		1997 £'000s	1997 £'000s	1996 £'000s	1996 £'000s
	Fixed assets				
11	Investments				
	Listed in Great Britain	57,974		57,476	
	Listed outside Great Britain	53,578		41,085	
		111,552		98,561	
	Unlisted at directors' valuation	5,894		4,214	
			117,446		102,775
	Current assets				
12	Debtors	5,508		7,843	
	Taxation recoverable	374		738	
	Cash at bank and short-term deposits	3,587		231	
		9,469		8,812	
	Current liabilities				
	Creditors: amounts falling due within one year				
13	Loans	1,800		2,150	
14	Other	9,085		10,415	
		10,885		12,565	
	Net current assets/(liabilities)		(1,416)		(3,753)
15	Total assets less current liabilities		116,030		99,022
23	Provision for liabilities and charges		(33)		(52)
	Net assets		115,997		98,970
	Capital and reserves				
16	Called up share capital		1,200		1,200
17	Share premium	64,959		64,935	
18	Warrant reserve	1,465		1,474	
19	Capital reserves	48,106		31,228	
19	Revenue reserve	267		133	
			114,797		97,770
21	Shareholders' funds – non-equity		115,997		98,970

Approved by the board on 18 November 1997

Alan Wheatley Alan Wheatley.

[illegible] WHEATLEY Director

Cash Flow Statement

for the year ended 30 September

Notes			1997		1996
		£'000s	£'000s	£'000s	£'000s
	Operating activities				
	Investment income received	5,111		3,391	
	Other revenue	88		110	
	Management and advisory fees paid	(775)		(762)	
	Cash paid to and on behalf of directors	(97)		(76)	
	Other cash payments	(396)		(296)	
23	**Net cash inflow from operating activities**		3,931		2,367
	Returns on investments and servicing of finance				
	Interest paid		(245)		(230)
	Taxation				
	UK tax paid	(143)		(2)	
	Overseas tax paid	(145)		(173)	
	Total tax paid		(288)		(175)
	Investing activities				
	Purchase of fixed interest securities	(3,813)		(623)	
	Purchase of equities and other investements	(42,169)		(47,050)	
	Sale of fixed interest securities	3,595		3,334	
	Sale of equities and other investments	43,851		41,577	
	Cash received on futures contracts	144		(898)	
	Net cash inflow/(outflow) from investing activities		1,608		(3,660)
	Dividends paid		(3,015)		(2,655)
	Financing				
26	Net loans raised/(repaid)	(350)		550	
	Share capital raised	18		(22)	
	Net cash inflow/(outflow) from financing		(332)		528
25	**Increase/(decrease) in cash**		1,659		(3,825)

Notes on the Accounts

1 POOL ACCOUNTS

The statutory accounts of the Company are shown on pages 40 to 42 and the notes are presented below. A separate Statement of Total Return and Balance Sheet for the Split Capital pool and the 'S' Pool are given on pages 24 to 25 and 28 to 29 respectively.

2 ACCOUNTING POLICIES

(a) Basis of accounting

The accounts have been prepared under the historical cost convention, modified to include fixed asset investments at valuation and prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (SORP). The Company was in existence as a Split Capital Investment Trust prior to 1 January 1996, and, as permitted by the SORP, the Company has not changed any of its accounting policies that would have affected the financial benefits or rights attaching to each class of its share capital.

(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 the 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 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. 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

Dividends receivable are brought into the revenue account (except where, in the opinion of the Directors, their nature indicates they should be recognised as capital) on the ex-dividend date or, where no ex-dividend date is quoted, when the Company's right to receive payment is established. Interest on investments is 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 reserves.

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

Notes on the Accounts
continued

(e) Expenses

All expenses are accounted for on an accruals basis. Where expenses of the Company are not specifically attributable to the Split Capital pool or the 'S' Pool, each pool will generally bear a proportion of such expenses calculated by reference to the respective gross assets of each pool. Management fees and administration charges, together with any associated tax relief, are allocated 60 per cent against the revenue account and 40 per cent against the capital account.

(f) Finance costs

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

(g) Taxation

Deferred tax is provided in full on any material timing differences expected to crystallise in the foreseeable future. The tax effect of different items of expenditure is allocated between capital and revenue on the same basis as the particular item to which it relates, using the company's effective rate of tax for the accounting period.

(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
- expenses allocated in accordance with note 1(e), together with any associated tax relief.

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.

3 INCOME

	1997 £'000s	1996 £'000s
Income from investments		
Franked dividends	3,508	3,249
Overseas dividends	1,531	1,282
UK unfranked interest	4	44
Overseas interest	276	209
	5,319	4,784
Other Income		
Interest on cash and short-term deposits	86	103
Total income	**5,405**	4,887
Total income comprises:		
Dividends	5,039	4,531
Interest	280	253
Other	86	103
	5,405	4,887
Income from investments		
Listed	5,140	4,606
Unlisted	179	178
	5,319	4,784

4 MANAGEMENT AND ADVISORY FEES

	1997 £'000s	1996 £'000s
Payable to:		
Foreign & Colonial Management Limited (FCM)	442	397
Utilities Advisory Management Limited (UAM)	210	389
Utilities Investment Research Limited (UIR)	90	-
Ingot Capital Management Pty Limited (Ingot)	97	-
	839	786
Irrecoverable VAT thereon	81	107
	920	893
Charged to capital reserve	(368)	(357)
	552	536

The manager, FCM, provides investment management and general administrative services to the Company for a quarterly fee payable in arrears equal to 0.1% of the funds under management. The management agreement may be terminated upon two years' notice given by either party.

Until 31 March 1997, pursuant to Mr D. P. Saville's service agreement, UAM received a quarterly fee payable in arrears equal to 0.1% of the funds under management, less directors fees paid to Mr Saville. During the year, Mr Saville's service agreement with the Company was amended by a supplemental agreement which took effect from 1 April 1997. At the same time, the Company entered new investment advisory agreements with Ingot and UIR. These agreements may be terminated upon two years' notice given by either party.

Notes on the Accounts
continued

Under the new agreements, the total quarterly amount payable by the Company remains at 0.1% of the value of the funds under management. This is broken down as: a directors' fee to Mr Saville (currently £7,500 per annum); remuneration to Mr Saville payable under his amended service agreement quarterly in arrears equal to 0.01675% of the value of the funds under management; a quarterly advisory fee of £45,000 payable to UIR, a company not related to Mr. Saville; and, an advisory fee representing the balance payable to Ingot.

Fees payable to Ingot and UAM, companies controlled by Mr Saville, have been taken into account in providing the detailed disclosures on directors' remuneration in note 7(a).

UIR is a company controlled by Mr A. H. Edwards, an alternate director of the Company.

5 OTHER EXPENSES

	1997 £'000s	1996 £'000s
Directors' emoluments (see note 7)	119	73
General expenses	249	196
Auditors' remuneration:		
for audit services	21	21
for non-audit services	38	25
	427	315
Charged to capital reserve	(171)	(127)
	256	188

6 INTEREST PAYABLE AND SIMILAR CHARGES

	1997 £'000s	1996 £'000s
On bank loans and overdrafts repayable within 5 years, not by instalments	246	229

7 DIRECTORS' REMUNERATION AND CONTRACTS

(a) Remuneration from the Company

Mr D.P. Saville is an executive director of the Company. The Company had no other employees during the year. The amounts paid by the Company to the directors were as follows:

	A. E. Wheatley (Chairman)* £	D. P. Saville £	J. A. Kay* £	R. J. Urwin* £	R. P. A. Spiller* £	Total £
Fees	7,500	7,500	7,500	7,500	7,500	**37,500**
Remuneration	43,120	38,286	–	–	–	**81,406**
	50,620	45,786	7,500	7,500	7,500	**118,906**
Remuneration payable to companies controlled by Mr Saville	–	306,467	–	–	–	**306,467**
1997 Total	50,620	352,253	7,500	7,500	7,500	**425,373**
1996 Total	46,175	396,665	7,500	7,500	2,964	460,804

* Members of the Audit Committee and Remuneration Committee.

Mr J. J. Tigue did not receive any remuneration from the Company. The amounts paid by the Company to the directors, disclosed above, together with the amounts, excluding pension contributions, paid by Foreign & Colonial Management Limited (FCM) to Mr Tigue, disclosed in note 7(b), total £443,000 (1996: £474,000).

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

Mr J. J. Tigue is an employee of and is remunerated by FCM for his services to FCM. The cost of employment of Mr Tigue was met in full during the year by FCM.

Company law requires the proportions of the emoluments received by Mr Tigue 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 his emoluments from FCM are detailed below.

	1997 £'000s	1996 £'000s
Salary (i)	12	11
Benefits (i)	1	1
Performance-related bonus (ii)	5	1
Total	18	13
Pension contributions (iii)	8	12

(i) Salary and benefits represent the amounts earned by and paid to Mr Tigue during the relevant year. Benefits are all tax-assessable, arising from employment 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 Mr Tigue to a defined contribution pension scheme (£6,000 (1996: £10,000)) and a defined benefit pension scheme (£2,000 (1996: £2,000)). Mr Tigue 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 directors in the ordinary shares of the Company were as follows:

	30 September 1997				30 September 1996			
	Income shares	Capital shares	'S' Shares ordinary	'S' Shares warrants	Income shares	Capital shares	'S' Shares ordinary	'S' Shares warrants
Beneficial								
J.A. Kay	71,000	56,000	20,000	2,000	40,000	10,000	20,000	2,000
D.P. Saville*	50,000	50,000	50,000	10,000	50,000	50,000	50,000	10,000
R.P.A. Spiller	5,000	5,000	5,000	–	5,000	5,000	5,000	–
J.J. Tigue	25,205	25,205	21,638	2,000	22,126	22,126	18,376	2,000
R.J. Urwin	52,000	52,000	12,000	2,400	12,000	12,000	12,000	2,400
A.E. Wheatley	110,000	425,000	20,000	4,000	60,000	375,000	20,000	4,000

*In addition, 28,764,000 capital shares (1996 – 25,900,000), 8,450,500 'S' ordinary shares (1996 – 8,450,500) and 1,690,100 'S' shares warrants (1996 – 1,690,100) are held by General Provincial Life Pension Fund Limited, a company associated with Mr Saville.

No director had any interest in the share capital of the Company, beneficial or otherwise, other than that shown above. Since the year end Mr Tigue has acquired through the Private Investor Plan and the Personal Equity Plan 153 income shares, 153 capital shares and 197 'S' ordinary shares. There have been no other changes in the interests of directors in the shares of the Company between 30 September 1997 and 18 November 1997.

(d) Directors' interests in contracts with the Company

Contracts which subsisted during the year between Mr D. P. Saville and the Company are set out in note 4.

Other than the above disclosures and the management agreement with FCM referred to in note 4 and the Directors' Report, in which Mr J. J. Tigue has an interest by reason of his employment with FCM, no contracts in which any director of the Company was materially interested and which are significant in relation to the Company's business have existed at any time during the year.

Notes on the Accounts
continued

8 TAXATION ON ORDINARY ACTIVITIES

	1997	1996 (restated)
	£'000s	£'000s
Corporation tax at 31%/33% (1996: 33%)	86	-
Relief for overseas tax	(86)	-
	-	-
Overseas tax	133	132
Imputed tax credit on franked income	702	650
Deferred tax	(19)	52
	816	834
Tax relief on expenses charged to capital	177	132
	993	966

RETURN PER ORDINARY SHARE

Basic revenue return

Revenue return per share and earnings per share are synonymous terms. The basic revenue return per income share is based on the revenue return attributable to income shareholders of £2,687,000 (1996: £2,364,000. The basic revenue return per 'S' share is based on the revenue return attributable to 'S' shareholders of £655,000 (1996: £600,000).

[illegible]

The basic capital return per capital share is based on the capital return attributable to capital shareholders of £12,988,000 (1996: £7,344,000).

The basic capital return per 'S' share is based on the capital return attributable to 'S' shareholders of £3,890,000 (1996: £3,988,000).

The capital and revenue returns per share are based on the following weighted number of shares in issue during the year:

50,000,000 income shares (1996: same)
50,000,000 capital shares (1996: same)
20,020,953 'S' shares (1996: 20,006,255)

Diluted returns

The fully diluted returns per 'S' share have been calculated on the assumption that the warrants in issue at the year-end are fully converted into 3,973,150 (1996: 3,990,650) 'S' shares on the first day of the financial year, giving a weighted average of 23,994,103 (1996: 23,996,858) 'S' shares. It is further assumed, on a purely theoretical basis, in accordance with the Statement of Recommended Practice issued by the AITC, that the proceeds from the conversion are invested in 2.5% Consols, from that date. This assumption would have resulted in returns per 'S' share for the current year which would have exceeded the basic returns. There is therefore no dilution and fully diluted returns for the year are not shown. For the same reason, the fully diluted revenue return per 'S' share for the year ended 30 September 1996 is not shown.

10 DIVIDENDS

	1997 £'000s	1996 £'000s
Income shares		
Interim paid of 1.57p (1996: 1.40p)	785	700
Proposed final of 3.61p (1996: 3.30p)	1,805	1,650
'S' Shares		
Interim paid of 0.90p (1996: 0.90p)	180	180
Proposed final of 2.20p (1996: 2.0p)	441	400
	3,211	2,930

11 INVESTMENTS

	Listed £'000s	Unlisted £'000s	Total £'000s
Cost at 1 October 1996	76,412	3,779	80,191
Unrealised appreciation at 1 October 1996	22,149	435	22,584
Valuation at 1 October 1996	98,561	4,214	102,775
Movements in the year			
Purchases at cost	44,971	6,215	51,186
Sales – proceeds	(51,140)	(1,162)	(52,302)
– realised net gains on sales	5,164	34	5,198
Transfer from unlisted – cost	2,985	(2,985)	–
Increase in unrealised appreciation/(depreciation)	11,011	(422)	10,589
Valuation at 30 September 1997	111,552	5,894	117,446
Cost at 30 September 1997	82,894	5,881	88,775
Unrealised appreciation at 30 September 1997	28,658	13	28,671
	111,552	5,894	117,446

Gains on investments

	1997 £'000s	1996 £'000s
Realised gains based on historical cost	9,700	7,732
Less: amounts recognised as unrealised in previous year	(4,502)	(1,597)
Realised gains based on carrying value at previous balance sheet date	5,198	6,135
Increase in unrealised appreciation	10,589	6,452
Gains on investments	15,787	12,587

Subsidiary undertaking

Utilities Dealing Limited, a wholly owned subsidiary, was formed in 1996 with an injection of £100 share capital. Since formation, the company has remained dormant and has passed a special resolution providing exemption from the requirement of an annual audit, in accordance with Section 250 of the Companies Act 1985. The company has not prepared group accounts since, in accordance with Section 229 of the Companies Act 1985, the consolidation of the subsidiary undertaking is not material for the purpose of giving a true and fair view.

Notes on the Accounts
continued

Associated undertaking

At 30 September 1997 the Company had the following associated undertaking:

Company	Country of registration, incorporation and operations	Percentage equity holding %	Share of net assets £'000s	Share of profit before tax £'000s	Share of taxation charge £'000s	Share of retained profits £'000s
Dee Valley Water plc	England & Wales	24.7	5,534	1,128	335	224

The information given is based on the latest published accounts of Dee Valley Water plc. for the year ended 31 March 1997.
At 30 September 1997, the Company held 2,512,906 ordinary shares and 876,680 ordinary non-voting shares. The Company's holdings in Dee Valley represent 20.6% of the voting rights and 24.7% of the assets on a winding-up.

The income from the associated undertaking included within the revenue account is as follows:

	Year to 30 Sep 1997 £'000s	Year to 30 Sep 1996 £'000s
Franked income	692	430
Imputed tax credit	(138)	(86)
	554	344

The interest in associated undertaking is included in the balance sheet at its mid-market valuation of £14.1m (1996 - £9.1m).

During the year, Dee Valley Water plc, the Company's second largest holding, successfully bid for Chester Water plc, an associate of the Company. Mr D. P Saville was a non-executive director of both companies at that time and remains a non-executive director of Dee Valley Water plc.

Significant interests

At 30 September 1997 the Company held more than 10% of any class of the share capital of the following undertakings held as investments, none of which represented a participating interest:

Company	Number of shares held	Class of shares held	% of class of shares held
Brockhampton Holdings plc	488,218	ordinary shares	11.4
Cambridge Water	888,964	'A' ordinary shares (non-voting)	11.0
East Surrey Holdings plc	6,105,813	ordinary shares	12.4
	3,661,910	warrants	100.0
Jersey Electricity	120,200	'A' ordinary shares	20.7
South Staffordshire Water Holdings plc	488,027	9% redeemable pref. shares	40.7

All of the above companies are incorporated and registered in England and Wales, with the exception of Jersey Electricity which is incorporated and registered in Jersey. East Surrey Holdings plc, the Company's largest investment, also announced a capital restructuring during the year involving an exchange of non-voting shares for voting shares and a capitalisation issue of preference shares. Mr D. P. Saville is a non-executive director of East Surrey Holdings.

In addition to the above, the Company has a holding of 3% or more of any class of share capital of the following investments, which are material in the context of the financial statements:

Company	Class of shares held	% of class of shares held
BELCO Holdings	ordinary shares	5.6
Bermuda Telephone	ordinary shares	8.9
Bermuda Telephone	7.75% notes 2012	8.3
Infrastructure & Utilities NZ	ordinary shares	5.1
International Energy Group	ordinary shares	6.6
Lang Corporation	ordinary shares	3.3
Ocean Wilson Holdings	ordinary shares	4.4
Prism Rail	ordinary shares	3.4

Mr D. P. Saville is a non-executive director of Infrastructure & Utilities NZ.

12 DEBTORS

	1997 £'000s	1996 £'000s
Investment debtors	4,922	66
Forward currency deals	–	6,683
Prepayments and accrued income	586	1,092
Other debtors	–	2
	5,508	7,843

13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR LOANS

	1997 £'000s	1996 £'000s
£1.8m repaid October 1997	1,800	–
£2.15m repaid October 1996	–	2,150
	1,800	2,150

14 CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR OTHER

	1997 £'000s	1996 £'000s
Bank overdraft	328	109
Investment creditors	5,968	765
Forward currency deals	141	6,565
Proposed dividends	2,246	2,050
Advance corporation tax	–	513
Accruals and deferred income	401	357
Other creditors	1	56
	9,085	10,415

Notes on the Accounts
continued

15 GEOGRAPHICAL AND INDUSTRIAL CLASSIFICATION : Total assets less current liabilities (excluding loans)

	UK %	EC %	Other Europe %	Pan American %	Others %	1997 Total %	1996 Total %
Assets							
Equities, convertibles and options							
Electricity	2.4	1.6	2.4	4.0	3.2	**13.6**	11.6
Financial	(0.2)	–	–	1.5	6.8	**8.1**	4.2
Gas distribution	0.3	1.0	3.2	0.4	0.6	**5.5**	4.3
General Utilities	1.4	0.4	–	–	3.2	**5.0**	8.5
Telecommunications	2.6	5.4	–	3.6	1.7	**13.3**	10.0
Transport	5.1	1.0	–	–	0.6	**6.7**	2.1
Water	35.6	4.3	–	3.3	–	**43.2**	59.4
Total	**47.2**	**13.7**	**5.6**	**12.8**	**16.1**	**95.4**	100.1
Fixed Interest	0.5	–	–	1.3	2.5	**4.3**	1.6
Total investments	**47.7**	**13.7**	**5.6**	**14.1**	**18.6**	**99.7**	101.7
Net current assets/(liabilities)	0.2	(0.3)	–	0.6	(0.2)	**0.3**	(1.7)
Total assets less current liabilities (excl loans)	**47.9**	**13.4**	**5.6**	**14.7**	**18.4**	**100.0**	
1996 totals	54.0	17.2	4.8	13.4	10.6		100.0

Note : Geographical classification for the investments held as fixed assets is determined by the location of the major part of the investee companies' business.

16 SHARE CAPITAL (NON-EQUITY)

	Authorised Number	Nominal £'000s	Issued, allotted and paid up Number	Nominal £'000s
Income Shares of 1p each				
Balance brought forward and carried forward	**77,500,000**	**775**	**50,000,000**	**500**
Capital Shares of 1p each				
Balance brought forward and carried forward	**77,500,000**	**775**	**50,000,000**	**500**
'S' shares of 1p each				
Balance brought forward	**77,000,000**	**770**	**20,009,350**	**200**
Issued during the year	–	–	**17,500**	–
Balance carried forward	**77,000,000**	**770**	**20,026,850**	**200**

Under Financial Reporting Standard No.4 (FRS4), each class of the Company's share capital falls under the description "non-equity". The definitions in FRS4 do not have practical implications for shareholders.

The respective rights attaching to different classes of shareholders on a winding-up are set out on page 20.

Voting rights

At the general meeting of the Company on a poll each income share will carry three votes, each capital share will carry two votes and each 'S' share will carry five votes. The Directors will propose separate resolutions to approve the declaration of a dividend payable from the split capital pool to holders of income shares and from the 'S' pool to holders of 'S' shares. Holders of capital shares and 'S' shares will not be entitled to vote on a resolution for the payment of a dividend on the income shares. Holders of capital shares and income shares will not be entitled to vote on a resolution for the payment of a dividend on the 'S' shares.

Separate class meetings of holders of the income shares, capital shares and 'S' shares will be required to approve certain actions, including those concerning the duration of the Company.

17 SHARE PREMIUM (NON-EQUITY)

	30 Sep1997 £'000s	30 Sep1996 £'000s
Balance brought forward	–	66,400
Amount re-classified as warrant reserve	–	(1,478)
Balance brought forward restated	64,935	64,922
Premium received from share issue	18	9
Transfer from warrant reserve on exercise of warrants	6	4
Balance carried forward	64,959	64,935

18 WARRANT RESERVE

	30 Sep1997 £'000s	30 Sep1996 £'000s
Balance brought forward	1,474	-
Amount re-classified as warrant reserve	–	1,478
Transfer to share premium on exercise of warrants	(6)	(4)
Balance carried forward	1,468	1,474

At 30 September 1997 there were 3,973,150 (30 September 1996: 3,990,650) warrants outstanding.

Holders have the right to subscribe for one 'S' share per warrant at £1 in cash on 31 January in any of the years to 2008 (subject to any alterations in accordance with the Deed Poll of the Company dated 24 January 1995 – "the Warrant Instrument").

19 OTHER RESERVES

	Capital reserve – realised £'000s	Capital reserve – unrealised £'000s	Capital reserves – total £'000s	Revenue reserve £'000s
Balance brought forward	8,616	22,612	31,228	133
Gains on investments	5,198	10,589	15,787	–
Gains on futures contracts	144	–	144	–
Transfer on disposal of investments	4,502	(4,502)	–	–
Exchange gains and losses on currency balances	1,478	(169)	1,309	–
Management and advisory fees charged to capital	(368)	–	(368)	–
Other capital charges and credits	(171)	–	(171)	–
Tax effect of capital items	177	–	177	–
Amount transferred to revenue account	–	–	–	131
	10,960	5,918	16,878	131
Balance carried forward	19,576	28,530	48,106	264

Notes on the Accounts
continued

20 NET ASSETS VALUE PER SHARE

	30 September 1997		30 September 1996	
	Pence per share		Pence per share	
	Undiluted	**Fully diluted**	Undiluted	Fully diluted
Split capital pool				
Income shares	60.37	60.37	60.18	60.18
Capital shares	115.46	115.46	89.48	89.48
Package units	175.83	175.83	149.66	149.66
'S' pool				
'S' shares	140.23	133.57	120.65	117.22

Net assets per share are calculated on the basis of rights applying on a return of assets, in accordance with the Articles of Association.

Income shares

Net assets per income share are calculated on the basis of net assets of £30.185m (1996 - £30.088m), and on 50,000,000 (1996 - 50,000,000) income shares in issue at the year end.

Capital shares

Net assets per capital share are calculated on the basis of net assets of £57.729m (1996 - £44.741m), and on 50,000,000 (1996 - 50,000,000) capital shares in issue at the year end.

Package units

Net assets per package unit are calculated as the aggregate of net assets per income share and net assets per capital share.

'S' shares

Net assets per 'S' share are calculated on the basis of net assets of £28.083m (1996 - £24.141m), and on 20,026,850 (1996 - 20,009,350) 'S' shares in issue at the year end. The fully diluted net assets per 'S' share assumes the exercise of 3,973,150 (1996 - 3,990,650) warrants outstanding at the year end at £1 per warrant.

The movements in the year attributable to each class of share were as follows:

	Split capital pool		'S' Pool	
	Capital shares £'000s	**Income shares £'000s**	**'S' shares £'000s**	**Total £'000s**
Total net assets attributable at 1 October 1996	44,741	30,088	24,141	98,970
Total recognised gains and losses for the year	12,988	2,687	4,545	20,220
Dividends	-	(2,625)	(621)	(3,246)
New share capital subscribed, less issue expenses	-	-	18	18
Total net assets attributable at 30 September 1997	**57,729**	**30,150**	**28,083**	**115,962**

21 ANALYSIS OF SHARE CAPITAL AND RESERVES

Attributable to:

	'S' shareholders	Capital shareholders £'000s	Income shareholders £'000s	Total £'000s
Share capital	200	500	500	1,200
Share premium	17,459	18,000	29,500	64,959
Warrant reserve	1,468	–	–	1,468
Capital reserve	8,877	39,229	–	48,106
Revenue reserve	79	–	185	264
	28,083	**57,729**	**30,185**	**115,997**

22 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	1997 £'000s	1996 £'000s
Revenue return available for shareholders	3,342	2,964
Capital return for the year	16,878	11,332
New share capital subscribed, less issue expenses	18	9
Net addition to shareholders' funds	20,238	14,305
Dividend on ordinary shares	(3,211)	(2,930)
Shareholders' funds brought forward	98,970	87,595
Shareholders' funds carried forward	**115,997**	98,970

23 PROVISIONS FOR LIABILITIES AND CHARGES

	1997 £'000s	1996 £'000s
Deferred taxation attributable to short-term timing differences		
Balance brought forward	52	-
Movement in the period	(19)	52
Balance carried forward	**33**	52

24 CONTINGENT LIABILITIES

There were no contingent liabilities at 30 September 1997 (1996: £nil).

Notes on the Accounts
continued

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

	1997	1996
	£'000s	£'000s
Revenue return before finance costs and taxation	4,581	4,159
Investment management and advisory fees charged to capital	(368)	(357)
Other expenses charged to capital	(171)	(126)
Decrease/(increase) in accrued income	496	(737)
Increase in creditors	95	78
Tax on franked investment income included within income from companies	(702)	(650)
Net cash inflow from operating activities	**3,931**	2,367

26 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	1997	1996
	£'000s	£'000s
Increase/(decrease) in cash	1,659	(3,825)
Decrease/(increase) in short-term loans	350	(550)
Exchange movement	1,478	(78)
Movement in net debt	3,487	(4,453)
Net debt at the beginning of the period	(2,028)	2,425
Net debt at the end of the period	**1,459**	(2,028)

Represented by:		
Cash at bank and short term deposits	3,587	231
Bank overdrafts	(328)	(109)
Bank loans	(1,800)	(2,150)
	1,459	(2,028)

Twenty Largest Equity Holdings of the Company

1 (1) East Surrey Holdings £18.9m 16.3%
Water only company supplying East Surrey and parts of Kent, Sussex and the London Borough of Croydon.

2 (2) Dee Valley £14.8m 12.7%
Water only company supplying an area of North Wales.

3 (10) Bermuda Telephone £5.0m 4.3%
The Bermudian domestic telecommunications utility.

4 (3) Infrastructure & Utilities NZ £4.4m 3.8%
Closed-end fund investing in securities issued by entities in the New Zealand infrastructure and utilities sector.

5 (5) Aguas de Barcelona £4.1m 3.5%
The largest private sector water utility in Spain.

6 (7) International Energy Group £3.7m 3.2%
Sole distributor of gas in Guernsey and Jersey.

7 (11) BELCO Holdings £3.7m 3.2%
The Bermudian electricity utility.

8 (–) Infratil Australia £3.3m 2.9%
Closed end fund investing in securities issued by entities in the Australian infrastructure and utilities sectors.

9 (8) Cambridge Water £3.3m 2.9%
Water only company supplying an area centred on the City of Cambridge.

10 (9) Bristol Water Holdings £2.9m 2.5%
Water only company supplying an area of Gloucestershire and Somerset, centred on Bristol.

11 (19) Jersey Electricity £2.8m 2.4%
The Jersey electricity utility.

12 (12) Caribbean Utilities £2.6m 2.3%
The electricity utility of Grand Cayman.

13 (–) Prism Rail £2.5m 2.2%
Train operating company with four franchises.

14 (–) BT £2.5m 2.1%
The leading British telecommunications utility.

15 (15) American Water Works £2.4m 2.1%
The leading investor-owned US water utility.

16 (16) Brockhampton Holdings £2.0m 1.8%
Water only company supplying an area of Hampshire and West Sussex.

17 (–) Ocean Wilson Holdings £2.0m 1.7%
A leading supplier of maritime services and port operator in Brazil.

18 (–) Lang Corporation £1.7m 1.5%
Owns one of the two major stevedoring companies in Australia.

19 (–) Telecom Italia Mobile £1.6m 1.4%
Italy's leading mobile telecommunications utility.

20 (–) American Ports Services £1.6m 1.4%
Operator of ports and airports in the US.

The value of the twenty largest holdings represents 73.3% (1996: 76.8%) of the Company's portfolio. The figures in brackets denote the position at the previous year end. Percentages shown are the percentages of net assets attributable to shareholders of the Company and the value is the approximate market value. The value of convertible securities represents 1.9% (1996: 0.6%) of the Company's portfolio. The total number of companies included in the portfolio is 122 (1996: 119).

Historical Record

at 30 September

SPLIT POOL

Assets

at 30 September

	1994	1995	1996	**1997**
Net assets	£62.18m	£67.47m	£74.83m	**£87.88m**
Net asset value per income share	60.1p	60.1p	60.2p	**60.3p**
Market price per income share	65.5p	59.5p	62.5p	**67.3p**
Net asset value per capital share	64.3p	74.8p	89.5p	**115.5p**
Market price per capital share	50.5p	63.5p	66.3p	**92.5p**
Net asset value per package unit	124.4p	134.9p	149.7p	**175.8p**
Market price per package unit	117.0p	122.0p	127.0p	**159.0p**

Total Return per Share

for the year ended 30 September

	1994*	1995	1996	**1997**
Return attributable to income shares	3.9p	4.2p	4.7p	**5.4p**
Return attributable to capital shares	27.3p	10.5p	14.7p	**26.0p**
Return attributable to package units	31.2p	14.7p	19.4p	**31.4p**

* for the period 23 August 1993 to 30 September 1994.

POOL

ssets

30 September

	1995	1996	**1997**
Net assets	£20.12m	£24.14m	**£28.08m**
Net asset value per 'S' share	100.6p	120.7p	**140.2p**
Net asset value per 'S' share – fully diluted	100.5p	117.2p	**133.6p**
Market price per 'S' share	92.0p	99.5p	**117.5p**

tal Return per Share

the year ended 30 September

	1995†	1996	**1997**
Revenue return per 'S' share	1.6p	3.0p	**3.3p**
Capital return per 'S' share	5.0p	19.9p	**19.4p**
Total return per 'S' share	6.6p	22.9p	**22.7p**

† for the period 4 April 1995 to 30 September 1995.

Notice of Meeting

Notice is hereby given that the fourth annual general meeting of Foreign & Colonial Special Utilities Investment Trust PLC will be held at the registered office of the Company, Exchange House, Primrose Street, London EC2, on Friday, 19 December 1997 at 2.30 p.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
   (a) on the income shares
   (b) on the 'S' ordinary shares

3 To re-elect the following directors:
   (a) Mr. D.P. Saville
   (b) Mr. A.E. Wheatley

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 £60,000 during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the annual general meeting of the Company in 1998, 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 £60,000 during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the annual general meeting of the Company in 1998 or, if earlier, fifteen months from the date of the passing of this resolution, but so that this power shall enable the Company to make offers or agreements which would or

Notice of Meeting
continued

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.

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

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

Notes

The holders of income shares of 1p each, the holders of capital shares of 1p each and the holders of 'S' ordinary shares of 1p each are, subject as set out hereafter, entitled to attend and vote or to be represented at the meeting provided that they are registered on the Register of Members of the Company at 2.30 pm on 17 December 1997. Changes to entries on the Register of Members after 2.30 pm on 17 December 1997 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

The holders of income shares are not entitled to vote on the declaration of a dividend on the 'S' ordinary shares. The holders of 'S' ordinary shares are not entitled to vote on the declaration of a dividend on the income shares. The holders of capital shares are not entitled to vote on the declaration of a dividend on either the income shares or the 'S' ordinary shares.

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

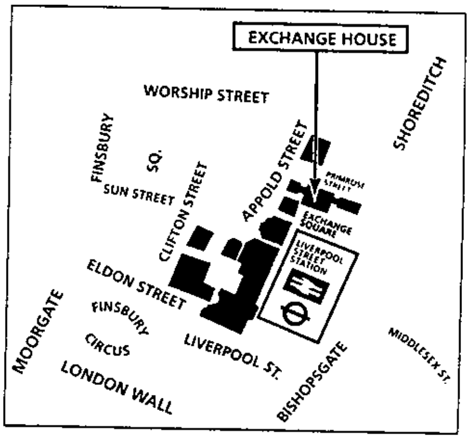
To be valid, an instrument of proxy for use at the meeting and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such authority, must be deposited with the Company's registrars, The Royal Bank of Scotland plc, Registrar's Department, P.O. Box 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 meeting from 15 minutes prior to the commencement of the meeting until the conclusion thereof.

Mr Saville is the only director having a service contract with the Company. The contract 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.

The final dividend in respect of the year ended 30 September 1997 for the income shares and for the 'S' ordinary shares will, if approved, be paid on 2 January 1998 to the relevant holders on the register at the close of business on 28 November 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

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