Foreign & Colonial
INVESTMENT TRUST

Foreign & Colonial Investment Trust PLC

Report and Accounts

2006

About your Company

Objective

To secure long-term growth in capital and income through a policy of investing primarily in a diversified international portfolio of equities with use of gearing.

Heritage

Founded in 1868 as the first ever investment trust.

Pioneered the concept of collective investment, by giving the small investor the same advantage as the large institution by reducing risk through a spread of investments.

Today

One of the largest global growth trusts, with total assets of £2.4 billion investing in over 700 companies in 35 countries.

Some 110,000 shareholders, with over 80,000 investors through the F&C savings plans.

Reputation

Well-known and respected brand, with a reputation for delivering its long-term objectives in a responsible, prudent and effective way.

Management

Independent Board of Directors responsible for overall strategy and monitoring performance.

Management of the investments is carried out by F&C Management Limited ("**F&C**") under contract.

Manager incentivised to produce superior performance.

External third party sub-managers are used to enhance investment performance where appropriate.

No cross-directorships, no cross-holdings and no conflicts of interest between the Company and its Manager.

Performance

Net asset value and share price total returns of 12.2% and 12.1% respectively over one year.

Net asset value and share price total returns of 55.4% and 60.5% over three years.

The net asset value total return has beaten the benchmark over one, three, five and ten years.

Net asset value and share price total returns of 118.8% and 124.3%, or 8.1% and 8.4% per annum compound, respectively over ten years.

Dividend up 132.5%, or 8.8% per annum compound, over ten years.

Increase in dividend every year for the past 36 years.

Advantages of an investment trust

The ability as a closed-end fund to take a long-term view and ride out difficult conditions – we have ridden through two world wars and many market crashes.

The flexibility to invest in a wide range of assets – we have been increasing our exposure to private equity.

The freedom to borrow money to improve returns to shareholders in rising markets – we have borrowed prudently in foreign currencies at low rates for many years.

The ability to buy back shares to enhance net asset value – we have introduced a buy-back policy to keep the discount below 10% in normal market conditions, enhancing net asset value per share for continuing shareholders and reducing discount volatility.

Low charges to investors, typically well below those for comparable unit trusts – our total expense ratio for 2006 was 0.53%, including performance fee accrual, or 0.46%, excluding the accrual. The cumulative benefits of such low costs over many years are very significant for long-term investors.

Visit our Website at **www.foreignandcolonial.com**

Potential investors are reminded that the value of investments and the income from them may go down as well as up and investors may not receive back the full amount invested. Tax benefits may vary as a result of statutory changes and their value will depend on individual circumstances.

Financial Highlights

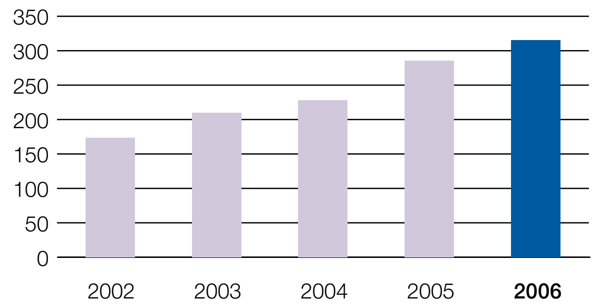
Summary of Results

Net asset value per share up 10.5% to 315.6p (debt at market value)

Annual dividends per share up 11.6% to 5.3p

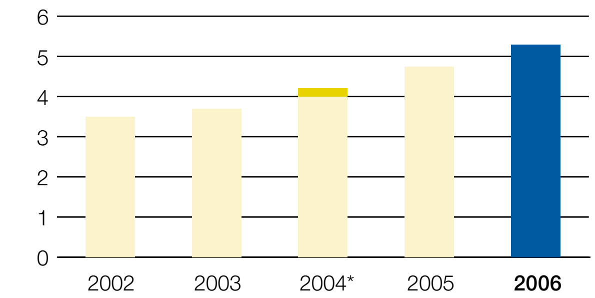
Share price up 10.1% to 284.5p

Net asset value per share with debt at market value at 31 December – pence



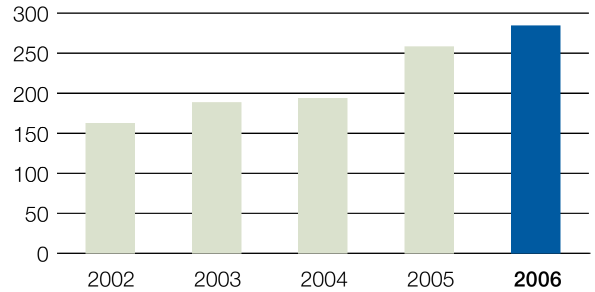
Source: F&C Management Limited

Dividends per share – pence



*includes a special dividend of 0.2p Source: F&C Management Limited

Mid-market price per share at 31 December – pence



Source: F&C Management Limited

Contents

Financial Calendar

AGM	**4 May 2007**
Final dividend payable	**9 May 2007**
Interim results for 2007 announced	**August 2007**
Interim dividend payable	**11 September 2007**
Final Results for 2007 announced	**March 2008**

Registered in England with Company Registration No. 12901

Chairman's Statement

Mark Loveday Chairman

Dear Shareholder

I am pleased to report that 2006 has been another good year for your Company. After the strategic changes initiated in the previous year and reported to you extensively in our last review, our overall efforts have been successful, producing a net asset value total return of 12.2%, a dividend increase of 11.6% and a share price rise of 10.1%.

We have also made significant progress in our strategy for future growth. The first tangible sign of this is our forecast of a 10.4% increase in the dividend for 2007 and a further increase in 2008. Our strategy for growth makes us confident of further dividend increases in the years ahead.

Financial highlights

Net asset value total return per share*	+12.2%
Net asset value per share*	+10.5% to 315.6p
Share Price	+10.1% to 284.5p
2006 Recommended Dividend	+11.6% to 5.30p
2007 Forecast Dividend	+10.4% to 5.85p

* with debt at market value.

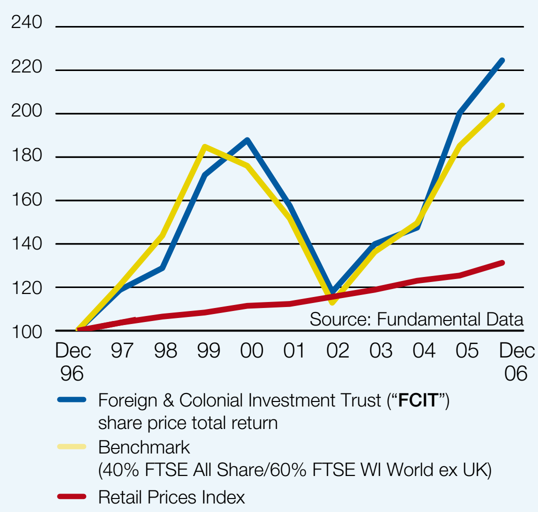
Performance

While benchmarks do not drive our investment approach, we are very aware of both index and competitor results. The main contributors to our positive 2006 performance against our benchmark were the decisions to be underweight in North America and overweight in Emerging Markets and all other markets except Japan. Our borrowings were helpful in rising markets – effective gearing at the year-end was 7.0% – and our Manager was adept at concentrating short term borrowings in currencies that fell against sterling. Stock selection results were good in all areas except North America and Europe, and our Private Equity investments made significant progress. Our Fund Manager, Jeremy Tigue, explains all aspects of our performance in his report and measurement against the Company's key performance indicators is covered in the Business Review.

The Board is pleased that good investment results have allowed F&C to earn a performance fee of £3.7m for outperforming its benchmark since the new fee arrangements came into effect in July 2005. This alignment of interests has clearly worked to the benefit of shareholders in 2006.

Our net asset value and share price performance were virtually in line with the average of our close and wider peer groups though, as usual, there was a diversity of individual results. Since our aim is also to beat the average of our close peer group, we are adding this criterion to the performance fee

FCIT's share price total return vs benchmark and Retail Prices Index over 10 years



arrangement with F&C from the start of 2007. Details of this and other changes are set out on page 19.

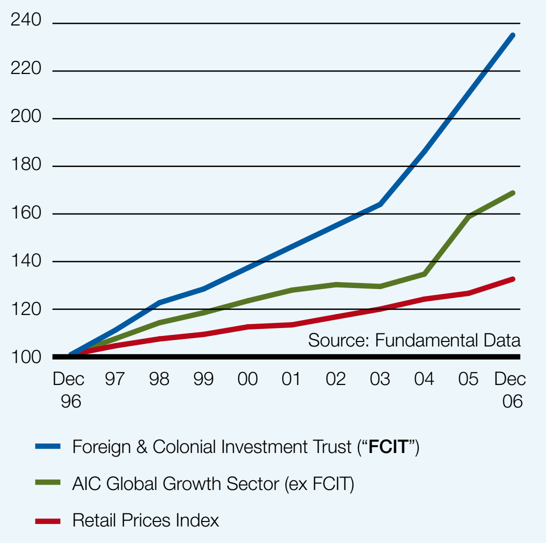
Foreign & Colonial is a long-term savings vehicle and over the last ten years anyone who reinvested their dividends would have more than doubled their money, outperforming the benchmark, the weighted average of our close peer group and the average of the Global Growth OEIC sector.

Ten-year share price total return performance	
Foreign & Colonial Investment Trust	+124.3%
Close peer group weighted average	+118.4%
Benchmark	+103.7%
Global Growth OEIC sector average	+86.0%

Dividends

Since 1970 the dividend has risen every year producing a total increase of 2,850% compared with 1,039% in the Retail Prices Index. Over the last ten years alone, it has risen at a compound annual rate of 8.8% compared to 4.8% for the average of our close peer group.

FCIT's annual dividend per share vs AIC Global Growth sector dividend per share weighted average and Retail Prices Index over 10 years



A year ago we forecast that the total dividend for 2006 would increase by not less than 10% and I am delighted that the actual increase is 11.6%. The interim dividend paid last September was 2.45 pence per share and the recommended final dividend is 2.85 pence making a total for the year of 5.30 pence per share.

We are now forecasting a total dividend for 2007 of 5.85 pence per share, an increase of 10.4% over 2006. We expect another increase in dividend in 2008. Our ability to make such confident forecasts is based on the resilience of dividend growth from our portfolio and the strength of our revenue reserves. This time next year I expect to make a firm forecast for the 2008 dividend and give an indication of prospects for 2009.

Shareholder Value and Strategy

Our shareholders are our customers and making your money grow is our business. You expect a strategy that not only includes capital growth and rising dividends, but also one that seeks shareholder value creation in other ways. Thus, in recent years we have used share buy-backs to enhance net asset value per share and limit share price volatility, and this will continue. In 2006 we bought back 9.3% of the Company's share capital, increasing the net asset value per share by 3.1 pence and stabilising the discount within a narrow range. The year-end discount was 9.8%.

The most significant contributor to making the value of your capital grow is still the appreciation of the investments we make. Overall, F&C has done well in choosing which markets to invest in and in deciding on gearing, but less well in selecting individual companies. Improving this remains our top priority. But we can also do better by investing in new areas, as Foreign & Colonial has done so successfully over its long history. In 2002 we targeted a 5% exposure to private equity as a way of improving returns. As we accelerated towards this figure in 2006, we decided to raise the target to 10%, confident in the success of our strategy. Consequently, we committed a further £84m, at 31 December 2006 exchange rates, to several new private equity funds during the year.

We must continue to be alert to other opportunities in markets, sectors and investment techniques that will keep us ahead and make your money grow further in the future. While not every move may work, the Board and the Fund Manager are determined that we

Chairman's Statement (continued)

should be striving constantly to build on our strengths and evolve with changing market conditions.

We also need to do more to attract new shareholders. In this regard the early success of the F&C Child Trust Fund is encouraging and we expect to build on this in the future.

Management

After its annual comprehensive review, the Board has decided that F&C should continue as Manager and believes that their re-appointment on the terms agreed is in the interests of shareholders as a whole.

The Board has also decided that our Fund Manager, Jeremy Tigue, will now have even greater responsibility for managing the Company, being responsible and accountable for all investment areas, including private equity, and for marketing as well. His interests will be even more aligned with those of shareholders, as any bonus paid to him by F&C will depend on Foreign & Colonial's performance, with part of it consisting of Foreign & Colonial shares.

Directors

It is vital that the Board has the right blend of experience, expertise and independence to determine the overall strategy of your Company and to assess the performance of our investments and our Manager. Two directors who have fulfilled this role admirably are Kenneth Clarke and Sir Andrew Wood who will both be retiring from the Board after the Annual General Meeting, and I thank them for their important and valuable contribution. Ewen Macpherson and John Rennocks, who both joined the Board in 1997, are standing for re-election at this AGM and will retire after the 2008 AGM. Sir Michael Bunbury and I are also standing for re-election to the Board this year. Following the annual performance appraisal process, the Board recommends the re-election of these four Directors. We are progressing the recruitment of new directors who will bring relevant skills and fresh thinking to our deliberations.

Electronic Communication and Voting

We are proposing resolutions at the Annual General Meeting, which include the future use of communications with shareholders both in electronic form and via the website. We expect these new communication arrangements to begin next year. Notwithstanding these developments, shareholders wishing to receive communications, and to vote, in the usual way will still be able to do so.

The future

2007 is already showing signs of being a more volatile and challenging year than 2006. We will look to take advantage of any resulting opportunities when they occur, as we have done so successfully throughout our history. For the long term, we remain confident that a global equity portfolio is the most flexible and effective vehicle for making your capital and income grow.

Annual General Meeting

I do hope you will be able to attend the Annual General Meeting at Merchant Taylors' Hall, 30 Threadneedle Street in the City of London, at 12 noon on Friday, 4 May 2007.

Mark Loveday

Mark Loveday
Chairman
8 March 2007

Fund Manager's Review

Jeremy Tigue Fund Manager

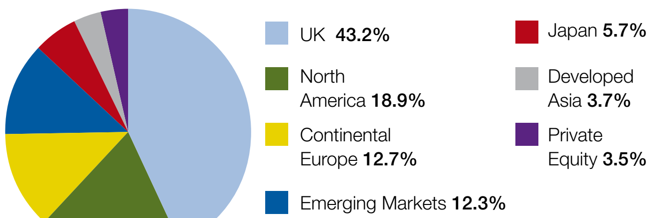
2006 was a good year. Foreign & Colonial was invested in the right countries, it had borrowings in rising markets, the private equity strategy developed significantly and dividend growth was very strong.

Where we invested and why

Some of the best decisions of the year were deciding to take no action. We carefully and frequently considered adding to the US and Japanese portfolios at various times during 2006. On each occasion we concluded the opportunities were not attractive enough to justify switching. The US and Japan were the worst performing markets for a sterling investor and, although this was largely due to currency movements, there were far more rewarding areas to invest in elsewhere. Pre-eminent among these were our current favourites, Emerging Markets. They started the year racing ahead, but fell even more sharply than other markets in May and June. There was then a long haul back until the end of the year, but our continuing optimism about these markets was rewarded again. The UK market put in another strong performance in 2006, though many of the companies with the strongest share prices operated mainly outside the UK.

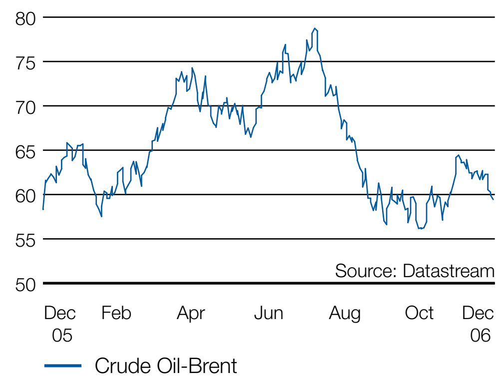
The most substantial asset allocation change we made was to reduce the European portfolio. In the 1990s we expected European companies would perform well as the benefits of the single market and the single currency allowed them to increase profit margins. We also believed the advent of the single currency would have profound effects on European capital markets, leading to more merger and acquisition activity and greater focus on shareholder returns. For these reasons we increased our European exposure to a peak of 26.7% at the end of 2000. Since then Europe has indeed outperformed most other markets and this has helped Foreign & Colonial's performance. However, European shares no longer look as attractive relative to the rest of the world and we can find more opportunities elsewhere. Therefore we have been reducing our European weighting, most recently in November 2006, and at 12.7% it is now at the lowest year end level since 1992.

Geographical distribution of our portfolio



Source: F&C Management Limited

Oil price in 2006 (US$)



Source: Datastream

The most striking economic development in 2006 was the rise and fall of the oil price. After rising strongly in the first part of the year, the absence of severe hurricanes in the US contributed to prices falling rapidly towards the end of the year. One of the

Fund Manager's Review (continued)

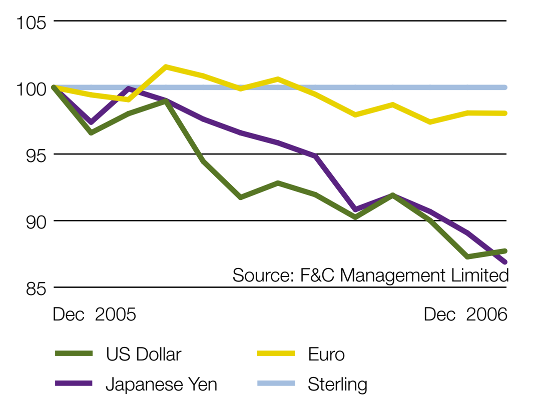
likely reasons for the fall in global share prices in May was a concern about the impact of higher oil prices on inflation and economic growth generally. When investors became more confident that inflation would remain subdued share prices went up again.

There were several other trends that influenced all stockmarkets and played an important part in the rise in share prices across the world. Company profit and dividend growth was stronger than expected and takeover activity reached its highest level since the peak of the technology boom in 2000. At the same time the volatility of share prices, that is the size and speed of price fluctuations, remained very low by past standards. Low volatility makes investors more confident and keener to buy risky assets, so it was not surprising that these investments – in emerging markets, corporate bonds and smaller companies – were among the best performers globally.

Borrowings and Gearing

We increased our short term loans at the beginning of the year and again in May and June. By the year end effective gearing had increased from 4.4% to 7.0%. We managed our short term borrowing actively in two ways. First we moved loans between US Dollars, Yen and Euros to seek the lowest possible interest rate and the currency that would be weakest against sterling. We also made more use of loans secured against stocks in the portfolio which shaved a small amount off the rates we paid. At the start of 2007 we consolidated all our short term loans in Yen. This active management of currency exposures has been a consistent feature of our investment strategy for nearly thirty years. Foreign & Colonial also has a £110m debenture or long term loan that was issued in 1989 and will be repaid in 2014. The fixed interest rate is 11.25% which is very high in current market conditions. However, the proceeds of the debenture were invested in 1989 and 1990 in stocks whose dividends and share prices have increased significantly since then.

Currency movements in 2006



Performance Attribution

We break down the different contributors to overall performance to see where value is being added or taken away. The largest positive contributor was asset allocation or the geographical distribution of the portfolio. Every decision we made in 2006 turned out well, but the two most significant were being underweight in North America and overweight in Emerging Markets.

Investment changes during the year ended 31 December 2006 (£m)

£m	Valuation at 31 December 2005	Purchases	Sales	Gains/ (losses)	Valuation at 31 December 2006
UK	1,049	191	(262)	137	**1,115**
North America	518	747	(740)	(37)	**488**
Continental Europe	374	159	(251)	45	**327**
Japan	157	111	(111)	(10)	**147**
Emerging Markets/Developed Asia	381	328	(355)	59	**413**
Private Equity	41	55	(13)	6	**89**
Totals	2,520	1,591	(1,732)	200	**2,579**

Source: F&C Management Limited

Contributors to total returns in 2006	
	%
Benchmark return	10.2
Asset allocation	2.0
Stock Selection	(1.3)
Effect of management and performance fees/other costs	(0.6)
Effect of buy-backs	1.2
Effect of gearing*	0.7
Net Asset Value total return*	12.2
Effect of increase in discount	(0.1)
Share price total return	12.1

*Debt at market value.

Source: F&C Management Limited

Having borrowings in a rising market was another positive influence. The net asset value per share enhancement of buying back shares at a discount was the final positive influence.

The largest negative contributor was stock selection. Here the picture was mixed with good results in most markets offset by poor numbers in North America and Europe.

Private Equity

We made great strides in our private equity strategy in 2006. The Board decided to increase the target exposure to private equity to 10% from the 5% figure agreed in 2002. As a result there will be a substantial increase in the rate of commitment to new funds. We are now targeting annual commitments of £75m and, depending on market conditions, could reach our 10% target in 2009. In 2006 we committed £84m (at 31 December 2006 exchange rates) to funds investing principally in venture capital, secondary investments and Asia. The pace of activity in our earlier commitments picked up substantially in 2006. £55m was drawn down for investment and £13m returned from realisations from existing investments.

We expect our relationships with HarbourVest and Pantheon and our commitments to their funds to remain at the heart of our private equity strategy. We also have a longer standing holding in the listed Standard Life European Private Equity Trust which has performed well and some smaller, more mature venture capital investments. Of course we can also make ad hoc investments into individual private companies. The most recent example of this was the investment in the closed life fund business, Resolution, in 2004.

The whole private equity market is attracting a huge amount of media and investor attention. Many funds raised record amounts of money from investors in 2006 and there were some very large purchases of public companies by private equity funds. This has caused some commentators to call the top of the market and predict that some deals will leave investors with large losses. We understand these concerns but we believe they are only relevant to a small, but high profile, part of the market. We are confident our own private equity exposure has three very strong defensive features. The first is its breadth and depth

Weighting and stock selection in each market vs Index in 2006

	Our portfolio weighting	Benchmark weighting	Our portfolio performance in sterling	Local index performance in sterling
Market	%	%	%	%
UK	43.2	39.7	17.3	16.8
North America	18.9	34.9	(5.9)	1.6
Europe ex UK	12.7	13.3	15.6	20.1
Japan	5.7	7.0	(5.4)	(7.4)
Emerging Markets	12.3	3.5	17.2	16.3
Developed Asia	3.7	1.7	22.5	19.2

Source: F&C Management Limited

Fund Manager's Review (continued)

Private equity portfolio

Fund	Fund currency	Year of original commitment	Original commitment	Cash drawn	Cash returned	Value of holding 31 December 2006 Fund currency	Value of holding 31 December 2006 £'000s
Pantheon Europe Fund III	€'000s	2003	115,000	63,940	14,913	64,623	43,541
HarbourVest Partners VII							
Buyout Fund	US$'000s	2003	78,000	36,660	5,820	37,252	19,034
Venture Fund	US$'000s	2003	30,000	12,900	445	12,668	6,473
Mezzanine Fund	US$'000s	2003	12,000	4,380	728	3,712	1,897
Dover Street VI	US$'000s	2005	69,050	23,477	–	23,865	12,194
HarbourVest Partners VIII							
Venture Fund	US$'000s	2006	40,000	400	–	350	179
HarbourVest Asia Pacific and Rest of World	US$'000s	2006	25,000	2,625	–	2,298	1,174
Pantheon Asia Fund IV	US$'000s	2006	50,000	4,250	–	3,762	1,922
Pantheon Global Secondary Fund III	US$'000s	2006	50,000	5,000	–	5,000	2,555
							88,969

	£'000s
Cash Drawn 2006	55,243
Cash Returned 2006	12,717

Source: F&C Management Limited

across different geographies, sectors, managers and, ultimately, individual investments. The second is the additional diversification that comes from investing in funds that themselves invest over several years. Finally, we believe HarbourVest and Pantheon have the experience and expertise to invest in the best underlying managers and will therefore achieve top quartile returns for us.

UK Portfolio

Our UK portfolio rose 17.3%, outperforming the FTSE All Share which increased 16.8%. Strong profit and dividend growth, a very stable economic and market background and a rising level of takeover activity were the main drivers of market performance. Our own portfolio benefited from all these trends, particularly with the takeovers of AB Ports, BAA and BOC. The most striking feature of the market in 2006 was the continuing underperformance of the very largest companies (the "mega caps") relative to medium sized companies, although Vodafone was an exception to this trend. We suffered from having large positions in the oil and gas sector which underperformed the market. Our largest holding after BP and Royal Dutch Shell is Resolution, where we increased our investment substantially during the year when the company bought Abbey's closed life fund business.

	Largest UK Holdings	£'000s
1	**BP**	79,947
2	**Royal Dutch Shell**	76,023
3	**Resolution**	57,709
4	**GlaxoSmithKline**	57,478
5	**Vodafone**	56,367
6	**HSBC**	48,060
7	**Scottish & Southern Energy**	38,850
8	**RBS**	37,867
9	**Rio Tinto**	32,297
10	**Utilico Investment Trust**	28,515

North America Portfolio

2006 was a very difficult year for active investors in the US stockmarket. The FTSE North America index was up 1.6% but our overall performance was down 5.9%. In July 2005 we reorganised our US portfolio allocating the US large company investments to sub-managers based in the US and recommended by the specialist fund management selection firm, IMS. After a positive start, performance deteriorated sharply in the general sell off in May and June and struggled for the rest of the year. There were several reasons for this. The portfolio was structured to favour stocks that would perform well when economic growth slowed, but almost all the stockmarket attention remained focused on stocks with low valuations and takeover potential. The individual sub-managers all struggled in this environment. This experience was shared by most other managers as fewer than one in five beat the index in 2006. In 2007 we expect economic growth and company profits growth to slow down so we are maintaining the emphasis on companies that can prosper in this environment. We have made a change to the line up of sub-managers since the year end, removing Gartmore and reallocating assets to Barrow Hanley and T Rowe Price. Together with Loomis Sayles, we now have three large company managers. We will continue to monitor progress very carefully in 2007.

Our US small company portfolio continued to be managed by F&C who have a very strong long-term record, concentrating on good companies that are cheaply valued. In 2006 this portfolio fell by 0.9% compared to an increase of 3.8% in its benchmark.

Largest North America Holdings		£'000s
1	**Wellpoint**	10,182
2	**American International**	10,110
3	**Google**	9,199
4	**Cisco Systems**	8,930
5	**F&C US Smaller Companies**	8,607
6	**United Health Care**	8,041
7	**Goldman Sachs**	7,417
8	**Microsoft**	7,185
9	**Baxter International**	6,471
10	**Apple**	6,444

Emerging Markets Portfolio

Emerging markets had another good year. The MSCI Emerging Markets Free index was up 16.3% and our portfolio rose 17.2%. These markets had a strong start and a strong finish to the year, but were hurt badly in the global sell off in May and June. Although emerging markets did fall faster than developed markets, the falls were much less severe than we have seen in the past, validating our belief that these markets are slowly but surely converging with developed markets. China was the best performer, showing a total return of 74% while Russia was up 42% and Brazil 29.3%. Israel, Thailand and Turkey were the only markets where we invested which fell in the year. A common theme we applied across most markets was concentrating on companies benefiting from domestic growth rather than exports, with the most successful examples being China Life and Ping An in China, Sberbank and Vimpelcom in Russia and Reliance Communications in India. We think there are

North American Large and Mid Cap Performance

	Value (US$m)	Approx % of Portfolio	12 month Performance %
T Rowe Price US Equity	138.5	16	n/a
Gartmore US Opportunities	86.3	10	7.4
Loomis Sayles US Large Cap Growth	326.2	37	(3.1)
Barrow Hanley US Large Cap Value Equity	328.9	37	16.5
Total Large and Mid Cap portfolio	879.9	100	**6.7**
S&P 500 TR			**15.8**

The mandate aims to outperform the S&P 500 benchmark index by 2% per annum, annualised on a rolling three year basis.
Source: IMS.

Fund Manager's Review (continued)

still excellent long term growth opportunities in these markets, but recognise that they are no longer such great value as they were when we began scaling up our exposure in 2003/04.

	Largest Emerging Markets Holdings	£'000s
1	Utilico Emerging Markets	24,969
2	Merrill Lynch Latin American	18,760
3	Petroleo Brasileiro	11,997
4	Samsung Electronics	11,241
5	Gazprom	11,064
6	Taiwan Semiconductor Manufacture	7,647
7	America Movil	7,600
8	UBS Sberbank	7,453
9	China Life Insurance	6,795
10	Petrochina	6,357

European Portfolio

The FTSE Europe ex UK index had a very good year rising 20.1%. Our portfolio did not do this well, rising by 15.6%. We were taking too optimistic a view on prospects when markets fell sharply in May and many of our holdings fell further than the market. They recovered later in the year but not by enough to make up the difference. Our main focus during the year was on companies showing strong organic growth such as Segelor in France, benefiting from restructuring like Daimler Chrysler in Germany or acquisition targets such as Germanos in Greece. Our current focus is on businesses with organic growth potential and restructuring opportunities.

	Largest European Holdings	£'000s
1	Total	11,521
2	Roche	11,468
3	Siemens	8,802
4	Unicredito Italiano	7,078
5	Ericsson	7,017
6	UBS	6,929
7	BBVA	6,912
8	Banco Santander	6,894
9	Suez Lyon	6,706
10	Allianz	6,523

Japan Portfolio

At the start of 2006 the consensus view among investors and commentators was that Japan would perform very strongly after a big rise in 2005. This view was wrong. The FTSE Japan index fell 7.4% in the year and our own portfolio, which is managed by Goldman Sachs Asset Management, was down 5.4%. Japan continues to struggle to generate economic growth and avoid continuing price deflation, but more and more individual companies are restructuring, increasing profits and dividends and being more shareholder friendly. Low Japanese interest rates have helped to keep the Yen very weak. We do not believe this will continue indefinitely and we think that a recovery in the Yen could accompany a revival in the stockmarket.

	Largest Japanese Holdings	£'000s
1	Mitsubishi UFJ Financial	7,659
2	Canon	7,524
3	Nippon Steel	6,642
4	Honda Motor	5,792
5	NTT	5,621
6	Matsushita Electric	5,489
7	Sompo Japan Insurance	4,804
8	Toyota Motor	4,458
9	Tokyo Electric Power	4,121
10	JFE	3,965

Developed Asia Portfolio

At the start of the year we separated out our Developed Asia portfolio in Australia, Hong Kong, New Zealand and Singapore from the larger Emerging Markets portfolio. The relevant index rose 19.2% in the year and our portfolio outperformed, rising 22.5%. There were several themes underpinning our investment approach and contributing to this result. They were the rapid growth of Chinese industrialisation, robust domestic demand benefiting consumer and property sectors, spending on infrastructure and more efficient corporate capital management leading to better returns for shareholders. Examples of our exposure to these themes include the major Australian mining stocks, BHP Billiton and Rio Tinto, but also lesser-known names such as Orica, an explosives manufacturer, and Energy Resources of Australia, a uranium miner. Our property investments include New World Developments in Hong Kong and CapitaLand in Singapore. Keppel, an oil-rig builder, is a company we are investing in to get exposure to infrastructure.

	Largest Developed Asia Holdings	£'000s
1	BHP Billiton	5,247
2	National Australia Bank	4,230
3	Sun Hung Kai Properties	4,111
4	Rio Tinto	3,882
5	Keppel	3,657
6	China Mobile	3,584
7	Australia & New Zealand Bank	3,577
8	Brambles	2,840
9	Cheung Kong	2,765
10	Sembcorp Industries	2,500

Shareholders and Marketing

At the year end we had 109,567 shareholders. Private shareholders increased their percentage ownership in the Company from 80% to 81% in 2006. This percentage has been rising steadily for more than twenty years since Foreign & Colonial introduced the first savings scheme in 1984. Institutions have been steady sellers of shares and about half of our current institutional shareholders are now index or enhanced index funds. Holdings managed or advised by private wealth managers, stockbrokers and other investment professionals are now larger than institutional holdings.

The F&C Child Trust Fund has attracted far more interest than we expected. We now have over 11,000 accounts and almost three-quarters of investors are topping up the vouchers paid by the Government. If this can be built up year by year we will create a very significant new source of investor demand.

Other F&C savings plans maintained their share of the investment trust market. Purchases and sales both increased during the year, but the net outflow was almost unchanged. The F&C savings plans now own 34.7% of the Company and holdings in similar plans take the proportion to about 40% or over £800m in value. We believe this is the highest figure of any investment trust. Plan investors receive twice yearly statements with investment updates in addition to the annual and interim reports and we are continuously working on new ways to improve communications with plan investors.

Analysis of ordinary shareholders at 31 December 2006

Category	Holding
F&C Savings Plans	34.7%
Discretionary/Advisory	22.6%
Institutions	18.9%
Direct Individuals	15.4%
Skandia IFA Products*	4.9%
New Zealand Individuals	2.7%
Other	0.8%
	100.0%

Source: F&C Management Limited
*Independent Financial Adviser products

Attracting new investors is very important but we must do this in a cost effective way. Marketing expenditure fell in 2006, as a result of savings from sharing costs with more trusts managed by F&C and by carefully targeting expenditure to where it would have the most impact. When the time is right we will expand our marketing efforts using advertising, the internet, direct mail and any other successful channel.

Future policy

Over the last five years overall performance has been ahead of the markets in which we are invested, but has lagged some of our close peer group and several high profile rivals. The reasons for this are clear. While the "big" decisions on where to invest and the level of gearing have been good, the selection of individual stocks has been disappointing. As a result there has been an intense focus on improving stock selection and an active policy of looking at new ways of choosing individual investments in different markets.

This will develop further in 2007. There is a blurring of the distinctions between different types of fund management which presents some exciting opportunities. The investment trust structure, and the flexibility that goes with it, mean that Foreign & Colonial is uniquely placed by virtue of its size and

Fund Manager's Review (continued)

focus on investment to exploit these opportunities. For example, we have bought funds run by external managers with specialist skills or market niches. Two such funds, Utilico and Utilico Emerging Markets, are in our top twenty holdings. More recently we made an investment in a listed hedge fund, MW Tops, and we expect to make more investments in hedge funds which list, as we can get all the benefit of exposure to fund manager skill with good liquidity without the disadvantages of being locked in.

This is just the start of what we expect to be an important trend in 2007 and beyond. There will be many more funds launched and new structures will develop. Rather than observing these developments, our intention is that Foreign & Colonial should be fully involved. We may invest in new funds run by other managers or we may create funds of our own which are tailored to our particular needs. The only criterion for selection will be what will add to shareholder value.

Outlook

The long term positive trends of globalisation, more open markets and the benefits of technological change are all intact and should have many more years to run.

Previous interest rate rises will cause economic growth to slow down in 2007. As this happens, inflation should start to fall back from its recent relatively high level and when this occurs there should be scope for interest rates to fall again. This will probably not happen in the US until later in 2007, and possibly not until 2008, while in the UK, Europe and Japan there may be small rises in interest rates to come this year. These forecasts assume no significant change in oil prices, and if oil prices return to or surpass the $80 per barrel level they reached in 2006, there will be negative effects on growth and inflation. The other major uncertainty is the level of house prices in the US. So far there has been a slowdown in growth similar to the UK experience in 2004. We expect prices to stabilise around current levels, but there remains a distinct risk that they keep on falling for some time.

After very strong increases over the last four years, companies will experience slower growth in profits and dividends in 2007 and into 2008. Dividends will probably rise more than profits, as most businesses are in a strong financial position and are keen to keep shareholders friendly by returning increasing amounts of cash. This is because takeover activity is running at very high levels and almost all companies feel vulnerable to an approach from another business or a private equity investor.

There remain significant political risks, particularly in the Middle East, and significant risks of a financial crisis caused by excessive debt or unexpected market movements. The most likely cause is a rapid rise in the Japanese Yen or a problem in an individual hedge fund.

The sudden fall in share prices globally at the end of February 2007 is a reminder of the volatility inherent in equity investing. I do not think this is a start of a new bear market and believe any further fall in share prices will be a buying opportunity.

Indeed the strongest message from Foreign & Colonial's one hundred and thirty nine year history is that short term crises are excellent long term buying opportunities.

Jeremy Tigue
Fund Manager
8 March 2007

As the full list of the Company's investments now exceeds 700, it is considered more meaningful to publish this quarterly on the website at

www.foreignandcolonial.com

Copies are also available on request from the Secretary

Twenty Largest Holdings

This Year	*Last Year*	**Company** Country Description	% of total investments	Value £'000s
1	*(2)*	**BP** UK Very large oil company benefiting from the strong oil price.	3.1	79,947
2	*(3)*	**Royal Dutch Shell** UK/Netherlands Leading global oil company which is restructuring after a major problem with its reserves.	2.9	76,023
3	*(7)*	**Resolution** UK Life assurance company concentrating on closed life funds.	2.2	57,709
4	*(4)*	**GlaxoSmithKline** UK One of the world's leading pharmaceutical companies.	2.2	57,478
5	*(5)*	**Vodafone** UK World's leading mobile telephone provider with a strong international network which has doubled its dividend.	2.2	56,367
6	*(8)*	**HSBC** UK Broadly diversified international bank operating in over 80 countries worldwide.	1.9	48,060
7	*(14)*	**Pantheon Europe Fund III** USA Private equity fund of funds investing principally in the European market, with the largest exposure being to the UK.	1.7	43,541
8	*(12)*	**Scottish & Southern Energy** UK Multi-utility group with an attractive and growing dividend.	1.5	38,850
9	*(9)*	**Royal Bank of Scotland** UK Leading bank which has expanded organically and by acquisition.	1.5	37,867
10	*(6)*	**Rio Tinto** UK/Australia Leading international mining company benefiting from strong commodity prices.	1.4	36,179
11	*(–)*	**Utilico Investment Trust** UK Specialist fund concentrating on infrastructure and utility investments in developed markets.	1.1	28,515
12	*(10)*	**AstraZeneca** UK International pharmaceutical company with prospects underpinned by its new product pipeline.	1.1	28,514
13	*(13)*	**British American Tobacco** UK Leading international manufacturer and distributor of cigarettes.	1.1	27,151
14	*(–)*	**Utilico Emerging Markets** UK Specialist fund concentrating on utility and infrastructure investments in emerging markets.	1.0	24,969
15	*(–)*	**Anglo American** UK Leading mining company benefiting from increased demand, especially from China.	1.0	24,900
16	*(–)*	**Tesco** UK The leading food retailer in the UK, continuing to expand through its non-food offerings and international growth.	0.9	22,652
17	*(17)*	**Lloyds TSB** UK High street bank with a very attractive dividend yield.	0.9	22,149
18	*(–)*	**Barclays** UK Retail and commercial bank that is well placed to benefit from further efficiencies.	0.8	21,900
19	*(–)*	**Centrica** UK Leading supplier of energy and related services to residential and business customers in the UK and overseas.	0.8	20,738
20	*(–)*	**Harbourvest Partners VII Buyout Fund Partnership LP** USA Fund of funds investing in buyouts of US businesses.	0.7	19,034

The value of the twenty largest holdings represents 30.0% (2005: 31.5%) of the Company's total investments.
The figures in brackets denote the position at the previous year end. The country shown is the country of incorporation.
The value of convertible securities in the total portfolio at 31 December 2006 was £10,019,000 or 0.4% of total assets less current liabilities (2005: £7,066,000 or 0.3% of total assets less current liabilities).

Report of the Directors

BUSINESS REVIEW

This review provides shareholders with information primarily about the Company's business and results in 2006, including its objective and strategy, Board responsibilities and strategy implementation, principal risks, management arrangements and fees, performance measurement, manager re-appointment and priorities and prospects for 2007.

Our objective and strategy

Foreign & Colonial Investment Trust PLC (the "**Company**" or "**FCIT**") is an equity savings vehicle which is seen as a core holding for investors, particularly for private investors who now account for approximately 81% of the share capital. Its objective is to secure long-term growth in capital and income through a policy of investing primarily in a diversified international portfolio of equities, with use of gearing. It is a "long-only" equity vehicle, which means that it will tend to remain fully invested in equities at all times. No material change will be made to either the investment objective or policy without prior shareholder approval.

The Company's strategy in aiming to meet its objective is to seek superior investment performance, within carefully set risk parameters, by optimising the allocation of the Company's assets in international equity markets and the application of high-quality stock selection, together with a growing exposure to private equity. During the year the Board decided to increase the target exposure to private equity from 5% to 10%. Exposure to these markets is leveraged through the effective use of borrowings within a range of 0 – 20% based on valuing the Company's debenture at market value. Any change to this range will always be notified publicly.

Summary of results for 2006	
Net asset value per share*	+10.5% to 315.6p
Net asset value total return per share*	+12.2%
Share price	+10.1% to 284.5p
Share price total return	+12.1%
Annual dividend per share	+11.6% to 5.30p
Total expense ratio#	0.53%
Share capital repurchased **	9.34%
Discount	From 9.5% to 9.8%

* With debt at market value
# includes performance fee accrual
** adding 3.1p to net asset value per share

The Board and strategy implementation

The Company's Board of Directors is wholly non-executive and is responsible for corporate strategy, corporate governance, risk and control assessment, the overall investment policy of the Company, setting limits on gearing and asset allocation, monitoring investment performance and for approving marketing policy and budgets. Further information in relation to the Board can be found on pages 30 and 31. Information in relation to the individual Directors, all of whom are resident in the United Kingdom and held office throughout the year under review, can be found on pages 23 and 26.

The Board believes that the optimum basis for implementing its strategy and achieving its stated objective is a strong working relationship with its investment manager, F&C Management Limited ("**F&C**" or the "**Manager**"), the more detailed arrangements for which are explained later in this review. F&C has overall responsibility for the management of the Company's assets, and for asset allocation, gearing, stock selection and risk. Furthermore, F&C's interests are closely aligned with those of shareholders under a performance fee arrangement that encourages the highest quality stock selection, either from F&C directly or by outsourcing to external third party sub-manager firms. The objectives set for the Manager and measurement against the Company's key performance indicators can be found in the Performance Measurement section on pages 20 and 21.

Our regulatory and competitive environment

The Company is subject primarily to the United Kingdom Listing Rules (the "**Listing Rules**"), UK Company Law, Financial Reporting Standards, Taxation Law and its own Articles of Association. The Company falls within the definition of an investment company under the Companies Act 1985, Section 266. As such, it analyses its profits between income profits available for distribution by way of dividends, and capital profits, which it is prohibited from distributing other than by way of buy-backs. The Financial Statements, starting on page 37, comply with current UK Financial Reporting Standards, supplemented by the Revised Statement of Recommended Practice for Investment Trust Companies ("**SORP**"). The principal accounting policies of the Company are set out in note 2 on the accounts, whilst the unqualified auditors' opinion on the Financial Statements appears on page 35. 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. Shareholders will be asked to approve the adoption of the Annual Report and Accounts at the Annual General Meeting (Resolution 1).

The Company is liable to corporation tax on its net revenue profits but is exempt from corporation tax on capital gains, subject to compliance at all times with Section 842 of the Income and Corporation Taxes Act 1988 ("**ICTA**"). Such compliance, which includes investing no more than 15% of the total portfolio in any one investment, deriving its income wholly or mainly from shares and securities and retaining no more than 15% of such income, qualifies the Company as an investment trust and is granted annually in retrospect by HM Revenue and Customs, subject to there being no subsequent enquiry under Corporation Tax Self Assessment. The Company has qualified in respect of all relevant years up to and including the year ended 31 December 2005, and continues to conduct its affairs in compliance with ICTA. Whilst these tax rules are similar to regulations covering competing Open-ended Investment Companies and Units Trusts, the Company's closed-end structure provides the flexibility to borrow money to invest and take a longer-term view of markets, and running costs are also much lower.

Under the Company's Articles of Association, with limited exceptions which are no less onerous than those required under ICTA, no investment can be made by the Company which exceeds 10% of the value of its total portfolio at the time of investment. Furthermore, the Company's stated policy is to invest no more than 15% of its gross assets in other UK listed investment companies (including investment trusts). However, the Company is restricted, under the Listing Rules, to investing no more than 10% in such companies that have not themselves stated that policy. As at 31 December 2006 the Company's investments in companies that have not made such policy statements represented 1.1% of its gross assets.

Our share capital structure and buy-back policy

The Company's share capital comprises ordinary shares with a nominal value of 25 pence each. Subject to annual shareholder approval, the Company may buy back its own shares for cancellation at a discount to net asset value per share. This forms part of its wider strategy, under which the Board has the objective of maintaining a less volatile discount with a ceiling, in normal market conditions, of 10% (with debt at market value), as well as enhancing net asset value per share for continuing shareholders. As at 31 December 2006 the discount stood at 9.8% (with debt at market value).

At the Annual General Meeting held on 19 May 2006, shareholders renewed the Board's authority to buy back the Company's ordinary shares for cancellation. During the year, the Company bought back and cancelled a total of 77,277,535 shares representing 9.3% of the number of shares in issue at 31 December 2005, enhancing the net asset value per share by 3.1 pence. The purchases were made at prices ranging between 238 pence and 287 pence and the aggregate consideration paid for the shares, excluding stamp duty and commissions, was £205 million.

Between the year end and 8 March 2007, a further 9,983,703 shares have been purchased (which represents approximately 1.3% of the issued share capital) at prices ranging between 275 pence and 292 pence, enhancing net asset value per share by 0.5 pence.

As at 8 March 2007, the number of ordinary shares in issue stood at 739,992,912. A resolution to renew the buy-back authority will be put to shareholders at the Annual General Meeting (Resolution 11). A resolution to authorise the Directors to allot up to 36,884,000 shares will also be proposed (Resolution 10). Details relating to the capital structure can be found in note 18 on the accounts.

Report of the Directors (continued)

Our borrowings

The Company has a £110 million 11.25% debenture stock, which matures in December 2014, and a £575,000 4.25% perpetual debenture stock. Information in relation to the debentures can be found in note 17 on the accounts. The Company also has short-term borrowings, the management of which is referred to on page 6 and in relation to which further reference is made in note 14 on the accounts.

Our principal risks and their control

The Board of Directors takes a vigilant approach to safeguarding the assets of the Company and looking after shareholders' interests, with risk control and corporate governance matters the subject of regular review.

The Company's assets consist mainly of listed equities and its principal risks are therefore market-related. The large number of listed investments held in the Company's portfolio, together with the geographical and sector diversity of the portfolio, enables the Company to spread its risks with regard to liquidity, market volatility, currency movements and revenue streams.

The specific key risks faced by the Company, together with our mitigation approach, are as follows:

i) Objective and strategy – inappropriate objective and strategy in relation to investor demands in a rapidly changing financial services and savings market.
   - The Board regularly reviews the Company's position as a leading savings vehicle. Certain strategic issues, including its role as a global growth investment trust, acquisition opportunities and the rationale for not introducing a continuation vote, are considered at various meetings of the Board.

ii) Investment policy, gearing and currency – inappropriate asset allocation, and sector and stock selection, leading to under-performance relative to the Company's benchmark index and peer group. Furthermore, borrowing money to invest in markets has a negative impact on asset value if those markets subsequently fall. Foreign currency exposures will impact on performance when those currencies weaken against sterling.
   - In the management and mitigation of these risks, the Board continues to maintain a diversified spread of international equities and exposure to their underlying currencies, and at each Board meeting reviews investment policy and investment performance with the Fund Manager. The ability of the Company to gear up via long-term and short-term borrowings, in currencies matching those to which the portfolio is exposed, enables it to take a long-term view of the countries, markets and currencies in which it is invested, without having to be concerned about short-term volatility. Thus far, the Company has not hedged its foreign currency exposures through derivatives.
   - The Fund Manager works within asset allocation and gearing ranges, and other investment limits that have been set, and are monitored by the Board.
   - The investment management process includes the use of risk measurements aimed, not only as a means of control, but also at adding value with an acceptable level of risk.

iii) Private equity – the majority of the underlying private equity investments are in unlisted companies, some of which will be in the early stages of their development, may be loss making, highly geared and with no certainty of survival. Unlisted investments may prove difficult or impossible to realise. The concept of "fair value" of unlisted companies is an imprecise science and the ultimate realisation of such investments may be at a valuation significantly different from the valuation used in the accounts. In addition, the timing of any such realisation is uncertain.
   - Private equity risks are mitigated by investing in a spread of venture capital, buy-out and mezzanine fund of funds and by the wide spread of underlying private equity firms, which in turn have diversified investment portfolios and vintage years.

iv) Discount volatility – investment trust shares tend to trade at discounts to their underlying net asset values, which can fluctuate considerably.
   - The Company has a discount control mechanism with the objective of maintaining a less volatile discount with a ceiling, in normal market conditions, of 10% (with debt at market value).

v) Operational and regulatory – breach of Section 842 of ICTA could lead to the Company being subject to capital gains tax on the sale of its investments, whilst a serious breach of other regulatory rules may lead to its shares being suspended from the Stock Exchange or to a qualified audit report. Other control failures, either by the Manager or any of the service providers, may result in operational problems, incorrect disclosures or loss of assets through fraud, as well as breaches of regulations.

- All investment movements and forecasts of income and expenditure are reported to the Board as part of the process of monitoring compliance within the Section 842 criteria.
- The Manager is a regulated entity subject to regulatory duties and obligations with a full audit, risk and compliance department, and company secretarial and fund accounting infrastructure.
- Full contractual obligations and indemnification provisions have been put in place with each of the third party service providers.

vi) Reputational damage – Any significant failing could damage seriously the reputation of the Company, leading to further adverse consequences.

- The actions and controls relating to each of the principal risks highlighted above serve to mitigate against the risk of reputational damage.

A full corporate governance statement is set out on pages 30 to 34 and includes a summary of the risk management arrangements. By means of the procedures set out in the summary, and in accordance with the Internal Control: Guidance for Directors on the Combined Code (the "Turnbull Guidance"), the Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, and has regularly reviewed the effectiveness of the internal control systems for the period. This process has been in place throughout the year under review, and to the date hereof, and will continue to be regularly reviewed by the Board on an ongoing basis.

Net assets

The net assets of the Company as at 31 December 2006 were £2.4 billion (2005: £2.4 billion) or 321.10 pence per share when deducting debt at its par value (2005: 291.81 pence). When deducting debt at its market value, the net asset value per share was 315.57 pence (2005: 285.69 pence).

Key features in 2006 were the combined performance benefits from maintaining the overweight position in Emerging Markets and being underweight in the US. The UK, Emerging Markets and Developed Asia portfolios performed well, and although the European portfolio had a good increase, its performance relative to the local index was disappointing. The North America sub-managers performed disappointingly alongside other US managers, whereas the Japan sub-manager performed well relative to the local index in a difficult market. A decision was taken, and an investment programme initiated, to increase the private equity target exposure to 10%, with the possibility of reaching that level in 2009. Effective gearing increased from 4.4% to 7.0%. The Fund Manager's Review on pages 5 to 12 describes more fully how the Company's assets were invested during the year and how they performed. The Company's full list of its investments can be viewed on the website. The twenty largest holdings can be found on page 13, and the ten largest investments in each of the regional sub-portfolios are disclosed in the Fund Manager's Review.

Revenue and dividends

Our income was marginally higher with the Company benefiting from another year of very strong dividend growth. Management fees rose as a result of the full year effect of the structural changes made in 2005, but other costs declined largely as a result of non-recurring professional fees and lower marketing expenditure. The total expense ratio, including the performance fee accrual, was maintained at 0.53% (0.46% excluding the accrual). Net revenue decreased slightly by 1.88%,

Attributable to equity shareholders

	£'000s
Revenue return attributable to equity shareholders	48,197
Dividends paid on ordinary shares:	
Final of 2.55p paid on 24 May 2006*	(20,383)
Interim of 2.45p paid on 11 September 2006**	(18,800)
Amount transferred to revenue reserve	9,014

*In respect of prior year profits
**In respect of current year profits
Source: F&C Management Limited

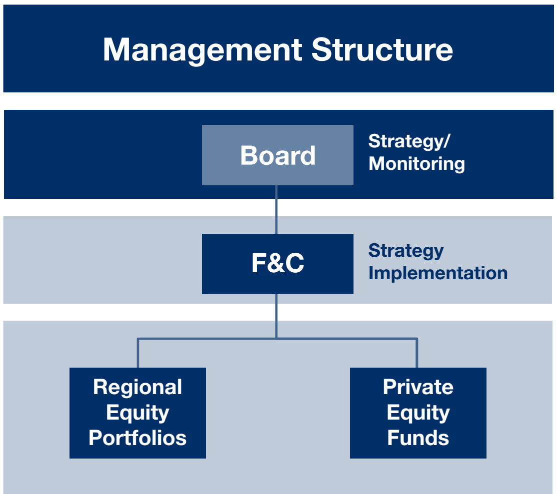
Report of the Directors (continued)

while revenue earnings per share increased by 10.59%, enhanced by the reduction in the number of shares in issue as a result of buy-backs.

The interim dividend of 2.45 pence per share, together with the final dividend now recommended for payment on 9 May 2007 of 2.85 pence per share, will bring the total dividend for the year to 5.30 pence per share. This represents an increase of 11.6% over the 4.75 pence per share paid in the previous year. (Resolution 3 at the forthcoming Annual General Meeting relates to the approval of the final dividend).

Arrangements for the management of our assets

Most investment trusts, including your Company, have no employees and instead appoint fund management companies to manage their investment portfolios and deliver investment performance, as well as to carry out the ancillary functions of administration, secretarial, accounting and marketing services. The Company has appointed F&C as manager, a company with which it has a long association, having originally established and developed it for the purpose of managing its assets as far back as 1953. It is now owned by F&C Asset Management plc, a leading European investment house with over £100 billion under management, which in turn is 51% owned by Friends Provident plc. The Company's relationship with F&C is fully arms-length with no cross-directorships or common share interests. Part of the legacy is that the names "Foreign & Colonial" and "F&C" are often used synonymously in the public arena, although the companies each own their respective names and are two distinct and completely independent entities.



Notes:

1. Regional portfolios all managed by F&C, except North America large and mid cap and Japan. F&C is advised by Investment Management Selection Limited on the appointment of North America sub-managers, currently Loomis Sayles, T Rowe Price and Barrow Hanley. Japan is managed by Goldman Sachs Asset Management.
2. Private Equity Funds – principally HarbourVest and Pantheon

Jeremy Tigue acts as Fund Manager (the "**Fund Manager**"), on behalf of F&C, and is now responsible and accountable for the entire portfolio including private equity, and other key areas such as marketing and investor relations. The Fund Manager's portfolio review is set out on pages 5 to 12. His responsibilities extend to asset allocation, gearing and risk management (within limits set and regularly monitored by the Board) and, in place of the Board with effect from 1 January 2007, the private equity fund of funds investments managed by Pantheon Ventures Limited ("**Pantheon**") and HarbourVest Partners LLC ("**HarbourVest**"). Recommendations for further private equity and unlisted investments remain subject to ultimate approval by the Board. In the case of the regional equity portfolios, the Fund Manager has the flexibility to recommend to the Board their delegation to external third party investment managers when this seems likely to result in better investment performance. There are currently three such managers for the North America large and mid-cap equity portfolios and one manager for the Japan portfolio. An independent specialist multi-manager, Investment Management Selection Limited ("**IMS**"), advises the Manager in relation to the appointment of third party investment managers for the North America portfolios.

Responsible ownership

The Manager's stated belief is that good governance creates value and therefore it takes a particular interest in corporate governance and sustainable business practices. This includes the integration of environmental, social and governance issues into its investment decisions. It votes all of its shares across all global markets whenever possible, and engages with companies on corporate governance matters to encourage good practice. This includes engagement on significant social and environmental issues, where these may impact shareholder value.

The Manager's current policy, which is available on its website, has been reviewed and endorsed by the Board, which encourages and supports the Manager on its voting policy and its stance towards environmental, social and governance issues.

All contested takeovers affecting the Company's investments are referred to the Board.

How our managers are paid

The Manager, which is the Company's "principal supplier", was paid a fixed fee of £5,650,000 for investment management, secretarial, accounting and marketing-related services in 2006, less amounts equal to the fees already received in respect of holdings in the portfolio that it also manages. The fee is subject to annual review and for 2007 increases to £6,390,000. The Manager is also entitled to an annual performance-related fee, the first fee being payable in respect of the period from the commencement of revised fee arrangements on 1 August 2005 to 31 December 2006. This is 10% of the out-performance of the net asset value total return over the benchmark of 40% FTSE-All Share and 60% FTSE WI World ex UK indices (the "**composite benchmark**") plus a 0.5% hurdle, and is based on the adjusted net assets (with the debentures at market value) excluding private equity investments and the effect of share buy-backs. This performance-related fee amounted to £3.7m, for the period from 1 August 2005 to 31 December 2006.

The basis of the performance fee arrangement has been modified, with effect from 1 January 2007, to accommodate the Manager's parallel objective of achieving net asset value returns for the Company ahead of the weighted average net asset value returns of its close peers within the Global Growth Investment Trust sector. Therefore, for 2007 and future years, the Manager will be eligible for two separate performance-related fees:

- 5% of any net asset value total return per share out-performance of the composite benchmark plus 0.5%; and
- 5% of any net asset value total return per share out-performance of the weighted average of the close peer group.

The performance-related fees will continue to be calculated on a cumulative basis, carrying forward any under-performance, or any over-performance beyond a 3% cap, in any period. The performance-related fees will be based on adjusted net assets (with the debentures at market value). The condition under which payment is deferred, if the share price has fallen over the period, will apply to the composite benchmark element of the arrangement only, as will deduction for the effect of share buy-backs and the 0.5% hurdle. There will be no deduction for private equity in either calculation.

Under further changes introduced with effect from 1 January 2007, the Fund Manager's own remuneration from the Manager will be aligned more closely with the interests of shareholders. The discretionary annual bonus payment to the Fund Manager will be dependent on the Company's performance, with a proportion of this bonus being represented by shares in the Company held on trust by F&C Asset Management plc for three years, with vesting only at the end of such period.

The Manager incurs fees in respect of advice from IMS in relation to its delegation of the management of the North America portfolio, and also incurs investment management fees from the sub-managers that it has appointed to manage both that portfolio and the Japan portfolio. The Company reimburses the Manager for these fees, which in 2006 amounted to £2.5 million (2005: £1.0 million for a five month period).

The fees incurred by the Company in respect of the private equity funds of funds managed by Pantheon and HarbourVest amounted to £1.7 million for 2006 (2005: £1.1 million). Some of the funds have arrangements whereby Pantheon and HarbourVest share in the profits once certain "hurdle" rates of return to investors have been achieved. These arrangements are varied and complex, but are on normal commercial terms within the private equity funds of funds industry. Fees payable by the underlying funds are negotiated by Pantheon and HarbourVest. These arrangements also vary from fund to fund, but management fees of 2% per annum and a 20% carried interest, once an agreed hurdle rate of return for investors has been achieved, would be quite normal.

Note 4 on the accounts provides detailed information in relation to the respective management fees incurred by the Company.

Other suppliers to the Company are paid in accordance with individually agreed payment terms. The Company's outstanding trade creditors were equivalent to two days' payments to suppliers as at 31 December 2006 (2005: 29 days).

Report of the Directors (continued)

Performance measurement

The Board recognises that it is share price performance that is most important to the Company's shareholders, coupled with a steadily rising dividend. Underlying share price performance is net asset value performance, for which the Board looks to its Manager. The Manager's primary objective over 2006 has been the achievement of annual net asset value performance of at least 0.5% above the composite benchmark of 40% FTSE All-Share and 60% FTSE WI World ex UK indices, excluding private equity and the effect of share buy-backs. The performance of the Manager is also monitored in terms of the Company's net asset value returns relative to those of its five closest peers within the Global Growth Investment Trust sector – Alliance Trust, The Bankers Investment Trust, Scottish Investment Trust, Scottish Mortgage Investment Trust and Witan Investment Trust.

Key performance indicators

The Board assesses its performance in meeting the Company's objective against the following key performance indicators:

- Net asset value total return
- Share price total return
- Performance attribution
- Annual dividend growth
- Discount to net asset value
- Total expense ratio
- Savings plans investment flows

The Board also reviews statistical measurements of volatility and risk. Absolute and relative assessments are made to understand the risk/return characteristics of the portfolio.

Net asset value and share price total return performance

	1 Year %	3 Years %	5 Years %	10 Years %
FCIT* net asset value† (with debt at market value)	12.2	55.4	40.1	118.8
Benchmark†	10.1	49.6	34.9	103.7
Close Peer Group weighted average net asset value†**	11.7	58.2	45.0	111.3
AIC Global Growth Sector weighted average net asset value†	12.5	65.0	55.6	126.8
FTSE All-Share†	16.8	60.8	50.2	114.0
FTSE WI World ex UK†	5.6	42.2	24.7	96.9
FCIT* share price†	12.1	60.5	42.5	124.5
Close Peer Group weighted average share price†**	12.0	62.8	46.7	118.4
Retail Prices Index	4.4	10.5	16.9	31.3

Source: Fundamental Data

* Foreign & Colonial Investment Trust

** Alliance Trust, The Bankers Investment Trust, Scottish Investment Trust, Scottish Mortgage Investment Trust and Witan Investment Trust

† Total return.

Net asset value total return performance ranking of FCIT vs Close Peer Group

2006	5/6	Over 3 years	4/6
2005	4/6	Over 5 years	4/6
2004	5/6	Over 10 years	3/6
2003	2/6		
2002	4/6		
2001	3/6		

Source: Fundamental Data

Asset allocation, stock selection net gearing attribution

	1 year %	3 years %	5 years %
Asset allocation	1.97	4.35	10.11
Stock selection	(1.25)	(3.05)	(4.54)
Gearing	0.29	0.68	(2.08)

Based on debt at par value
Source: F&C Management Limited

Regional portfolio attribution in sterling

	1 year		3 years		5 years	
	FCIT %	Index %	FCIT %	Index %	FCIT %	Index %
UK	17.27	16.75	61.42	60.78	56.59	50.26
North America	(5.86)	1.63	12.66	27.08	(14.37)	4.41
Europe ex UK	15.63	20.12	58.41	69.65	52.61	61.54
Japan	(5.37)	(7.37)	35.52	39.65	27.75	44.27
Emerging Markets/Developed Asia	n/a	n/a	100.45	99.70	n/a	n/a
Emerging Markets	17.19	16.29	n/a	n/a	n/a	n/a
Developed Asia	22.49	19.18	n/a	n/a	n/a	n/a

Source: F&C Management and Fundamental Data.
The Emerging Markets and Developed Asia portfolios were managed as one combined portfolio for several years until 31 December 2005 since when they have been managed separately.

Discount
(with debt at market value)

31 December	%
2006	9.8
2005	9.5
2004	14.8
2003	10.3
2002	5.9

Source: F&C Management Limited

Compound annual dividend growth

	5 years %	10 years %
FCIT	9.9	8.8
Close Peer Group ex FCIT	4.8	4.8
FTSE All-share	10.3	5.1
Inflation (RPI)	3.2	2.8

Source: F&C Management Limited; Fundamental Data

Total expense ratio

	%
2006*	0.53
2005*	0.53
2004	0.50
2003	0.58
2002	0.56

* Includes performance fee
Source: F&C Management Limited

Further, detailed performance statistics can be found in the Ten Year Record on pages 59 and 60.

F&C Savings Plans investment flows in FCIT

	2006 £m	2005 £m	2004 £m	2003 £m	2002 £m
Purchases	48.1	36.7	54.6	55.6	71.6
Withdrawals	73.5	61.9	47.8	20.0	23.4
Net flow	(25.4)	(25.2)	6.8	35.6	48.2

The above figures cover all of the F&C Savings Plans in FCIT, including the Personal Pension Plan and Child Trust Fund.
Source: F&C Management Limited

Report of the Directors (continued)

Manager evaluation and re-appointment

The process

The review of the Manager's performance is an on-going duty and responsibility of the Board, which is carried out at every Board meeting during the year, with a formal annual evaluation being undertaken in January each year. In order to carry this out, the Board receives monthly detailed reports and views from the Fund Manager on investment policy, asset allocation, gearing and risk, together with quarterly presentations from F&C in respect of the UK, Europe ex UK, Emerging Markets, Developed Asia and US Small Cap portfolios. These are mirrored in quarterly presentations from IMS in respect of the portfolios managed by the US sub-managers and from Goldman Sachs Asset Management in respect of the Japan portfolio. At each meeting the Board also receives comprehensive performance measurement schedules, provided by Fundamental Data Limited and F&C. These enable it to assess the success or failure of the management of the total portfolio against the performance objective set by the Board, to assess the sources of positive and negative contribution to the portfolio in terms of gearing, asset allocation and stock selection and to assess the performance of each region against its local index and the risk/return characteristics of the portfolio.

The annual review and evaluation of the Manager's performance over the past year was carried out at the Board meeting held in January 2007. The process involved a formal presentation to the Board by F&C's Head of Equities, the Fund Manager and the Head of Investment Trusts, which covered recent developments at F&C, ongoing investment process measures to achieve top quartile performance, the Company's investment performance in 2006, as well as the provision of resources and services during the year. This was followed by a closed session of the Board to assess the Manager's overall performance and consider its re-appointment for the ensuing year.

Matters considered

(i) Overall investment performance – The Board considered that the relative net asset value total return performance of the Company in 2006 was satisfactory against the objective set for the Manager. The Manager beat the composite benchmark by 2.1 percentage points (excluding the 0.5% hurdle), thus exceeding its target. The Company's net asset value per share rose 10.5% to 315.6 pence (with debt at market value), and 10.0% to 321.1 pence (with debt at par). The Company was fifth out of six in its close peer group, but performed in line with the weighted average of the close peer group's net asset value total returns, whilst under-performing slightly against that of the AIC Global Growth sector. There was a marginal out-performance against the weighted average share price total returns of both the close peer group and the AIC Global Growth sector. The Company had comfortably outperformed the weighted averages of the close peer group over 10 years, but still needed to improve over three and five years.

(ii) Performance attribution, including asset allocation, stock selection and gearing management – Asset allocation was again positive with the under-weighting in the US and over-weighting in the Emerging Markets, while gearing management also added value. In respect of the regional portfolios managed directly by F&C, with the exception of Europe (ex UK) and the US Smaller Companies portfolio, all performed well in terms of stock selection and beat their respective benchmarks. The on-going good performance of the Emerging Markets portfolio was reassuring following individual portfolio manager changes during the year. The Board will continue to monitor the performance of the Europe (ex UK) portfolio which, following a promising year in 2005, disappointed in stock selection terms. The sub-managed North America portfolio under-performed significantly throughout 2006 and continues to be closely monitored by F&C during a period in which fewer than one in five such managers succeeded in beating their benchmarks. The Fund Manager had been of the view that nothing had changed in the approach taken by IMS that had enabled them to perform well over time and that the necessary disciplines and safeguards remained in place to question and change under-performing managers. The outsourced Japan portfolio performed well relative to the local index.

(iii) Resources, services and advice provided by F&C – The Manager had significant resources, a wide product range and substantial assets under management. It had experienced a combination of structural change and investment under-performance in some areas that had led to a number of client losses during 2006, and the Board would continue to monitor how these issues would be addressed, as well as its ongoing commitment to investment trust management.

In addition to its investment management capabilities, F&C had the necessary resources and experienced people to provide the full range of investment trust services required by the Company, including provision of secretarial, fund accounting, administration, stock lending, performance and risk measurement, internal audit and risk control functions, as well as advice on buy-backs, discount control mechanisms, corporate structuring and industry issues.

The marketing of F&C's savings schemes had been very successful over time. For 2006, purchases were up 31%, but with sales up 19% the net outflow was much the same as in 2005. An ongoing review of marketing had confirmed that F&C continued to increase investment trust savings plan market share albeit in a diminishing market, with its Child Trust Fund showing considerable long-term promise. Investor relations and press communication had also been well conducted. A summary of marketing activities is set out in the Fund Manager's Review on page 11.

Decision to re-appoint

Following this review and evaluation, it was the opinion of the Board that the continuing appointment of F&C as Manager on the terms agreed was in the interests of shareholders as a whole. It was clear that F&C's investment performance had again improved in 2006. The Board acknowledged the ongoing commitment that F&C had shown not only to the Company during a year of significant change, but also to its investment trust business in general, and also the resources, people and experience available and the quality of advice offered on a wide range of subjects. Furthermore, all the services provided to the Company, including secretarial, accounting, marketing and shareholder interface, had been professionally and efficiently delivered.

The success of F&C's reinvestment programme and its ability to achieve its stated ambition of reaching top quartile in all areas of its business will be very important. The Board will monitor progress, and F&C's ability to attract and retain talented managers and to achieve improved stock selection and overall investment performance from internal and external management. The challenge for F&C will be to ensure that it brings about a sustainable improvement in long-term investment performance.

Directors

Kenneth Clarke and Sir Andrew Wood retire by rotation at the Annual General Meeting but will not be seeking re-election. The Directors standing for re-election are Mark Loveday, Ewen Macpherson, John Rennocks and Sir Michael Bunbury (Resolutions numbered 4 to 7). The Nomination Committee considered the re-election of these Directors at a meeting held in January 2007. Following an appraisal of their performance, a review of their status as independent non-executive Directors, and a recommendation of the Nomination Committee, the Board (with each Director absenting himself from that part of the meeting that dealt with his own re-election) has concurred that they each make a valuable and effective contribution. The Board believes that Mr Loveday, who will have served almost six years by the time of the Meeting, and the three other Directors standing for re-election who have each served nine years, are committed to their roles and that their re-elections will be in the interests of the Company. Mr Macpherson and Mr Rennocks have stated their intention to retire at the annual general meeting in 2008. Information relating to the Directors can be found on pages 26, 30 and 31.

The Directors' Remuneration Report, which can be found on pages 28 and 29, together with note 6 on the accounts, provides detailed information on the remuneration arrangements for Directors of the Company. Shareholders will be asked to approve the Directors' Remuneration Report at the Meeting (Resolution 2).

Each Director has signed a terms of appointment letter with the Company, in each case including one month's notice of termination by either party.

These are available for inspection at the Company's registered office during normal business hours and are also available at annual general meetings. On 26 July 2006, the Company entered into a deed poll providing the Directors with indemnities against liability to third parties arising in connection with any negligence, default, breach of duty or breach of trust by the Directors (such indemnities being qualifying third party indemnities, as permitted under the Companies Act 1985). This deed poll is also available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting. The Company has in place insurance which indemnifies the Directors against certain liabilities arising in carrying out their duties.

Details of Directors' shareholdings in the Company are contained in note 6c on the accounts.

The Board's priorities for 2007

The Board considers its priorities and sets its objectives for the year ahead as part of its annual appraisal process. The overriding priority remains consistent achievement of relative out-performance, adding value for shareholders through a virtuous circle of net asset value and share price total return, discount management, dividend growth, a low and competitive total expense ratio and effective marketing. Investment performance will continue to be monitored closely, particularly with regard to the performance of IMS and the US sub-managers and stock selection generally. The Board will continue to test the Manager's marketing strategy to ensure that the Company is receiving value for money and is continuing to be promoted effectively in order to retain existing shareholders and generate demand by attracting new investors, as well as appealing to private client managers and brokers, advisers and opinion formers. The Board is also looking to make one or more new Director appointments.

Prospects

2007 is showing signs of being a more volatile and challenging year than 2006. Advantage will be taken of any resulting opportunities when they occur. The Board has every confidence that over the long term a global portfolio is the most flexible and effective vehicle for making shareholders' capital and income grow.

GENERAL INFORMATION

Substantial share and voting rights

At 8 March 2007 the Company had received notification of the following share interests in its ordinary share capital:

Substantial share interests	%
F&C Management Limited*	36.3
Skandia Life Assurance Company Limited	5.5
Legal & General Group plc	3.8

The above percentages are calculated by applying the shareholdings as notified to the Company to the issued ordinary share capital as at 8 March 2007.

* This holding is made up of 1.2% held on behalf of discretionary clients of the Manager and 35.1% held on behalf of non-discretionary clients through its savings schemes. The Manager is a subsidiary of F&C Asset Management plc, which in turn is a subsidiary of Friends Provident plc, by virtue of which the latter is deemed to have a share interest.

On 20 January 2007 sections 198 to 208 of the Companies Act 1985 (in relation to substantial share interests) were replaced by Chapter 5 of the Disclosure and Transparency Rules (in relation to voting rights). Legal & General Group plc have subsequently notified the Company that they hold voting rights of 3.6%.

Charitable donations

It is the Board's policy not to make charitable donations, as the role of an investment trust is somewhat different from most other types of companies and as taxation incentives towards charitable donations are balanced in favour of direct contributions by individuals rather than companies. Therefore, no such contributions were made during the year.

However, a sponsorship contribution of £60,000 (2005: same) was made to *Ifs*ProShare's Student Investor Challenge competition which is run for the purpose of helping school children develop financial capability. *Ifs*ProShare has charitable status.

Independent auditors

PricewaterhouseCoopers LLP (the "**Auditors**") have indicated their willingness to continue in office and resolutions will be proposed at the Meeting to re-appoint them and determine their remuneration (Resolutions 8 and 9). So far as each of the Directors is aware, there is no relevant audit information of which the Auditors are unaware. The Directors believe that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of the information.

Electronic communication

The Companies Act 2006 introduced new provisions (which came into effect on 20 January 2007) covering company communications to shareholders and other provisions which facilitate communications in electronic form and by means of a website. Implementation of these provisions by the Company would enable shareholders to receive notices, documents and other information (including the Annual Report and Accounts) immediately they are published. As a result, shareholders wishing to use these facilities would be able to access information much sooner than before and the costs to the Company in printing and posting these documents would be much reduced. A resolution will be put to shareholders at the Annual General Meeting to enable the Company to implement this proposal (Resolution 12). If passed, we expect these new arrangements to commence in respect of the Company's results for the year ending 31 December 2007.

It is also proposed to amend the Articles of Association to accommodate other changes introduced by the new Companies Act 2006, including those relating to: the revised regime for company investigations in relation to interests in the Company's shares; the repeal of the current provisions relating to the retirement age of directors; and changes to allow the Company to offer electronic proxy voting as an option for shareholders (Resolution 13). Other new provisions in the Companies Act 2006 are expected to come into force later in the year, and it is anticipated that the Company will propose a resolution to adopt wholly new articles of association at the annual general meeting in 2008.

Annual general meeting

Shareholders will have received a separate enclosure containing explanatory information and the Notice of the Annual General Meeting (the "**Meeting**") to be held at Merchant Taylors' Hall, 30 Threadneedle Street, London EC2 on 4 May 2007 at 12 noon. In addition to the ordinary business of the Meeting, resolutions numbered 10 to 13 will be proposed as special business.

By order of the Board,
H.N. Potter,
for and on behalf of F&C Management Limited,
Secretary
8 March 2007

Directors

Mark Loveday – Chairman† Elected to the Board in May 2001, appointed Chairman in May 2002 and is Chairman of the Nomination Committee. He was senior partner of the corporate advisory, stockbroking and investment management company, Cazenove & Co, for seven years, retiring in April 2001 after 36 years in the firm. He is a trustee of The Grosvenor Estate and a director of two of its related private companies, Deva Group Limited and Deva Holdings Limited. He has no other directorships. Age 63.

Sir Michael Bunbury Bt KCVO*# Appointed to the Board in March 1998, is Chairman of the Private Equity Committee and represents the Company's interests on the advisory committees of its private equity managers. He joined the stockbroking firm, Buckmaster & Moore, in 1968 and moved to Smith & Williamson in 1974, where he was subsequently chairman and to which he is now a consultant. He was also chairman of Smith & Williamson Investment Management Ltd for seven years. He has been advising private clients and families on quoted and unquoted investments and property portfolios for 36 years. He is chairman of JPMorgan Fleming Claverhouse Investment Trust plc. Age 60.

The Rt Hon Kenneth Clarke QC, MP† Appointed to the Board in August 1997. He has been the Member of Parliament for Rushcliffe since 1970 and served as a minister throughout the Conservative governments of 1979 to 1997. He was Chancellor of the Exchequer between 1993 and 1997. He is deputy chairman of British American Tobacco plc and a non-executive director of Independent News and Media (UK) Limited. Age 66.

Ronald Gould§ Appointed to the Board in May 2005. Formerly managing director of BZW Investment Management, vice chairman of BZW/Barclays Asset Management and president of BZW Investment Management (Japan) and managing director of Barclays Trust and Banking (Japan). He was more recently senior executive vice president and managing director of AXA Investment Managers and, subsequently, chief executive officer of, and now a consultant to, ABG Sundal Collier ASA. He is an adviser to the Financial Services Authority and a non-executive director of JPMorgan Asian Investment Trust plc. Age 59.

Christopher Keljik OBE*§ Appointed to the Board in September 2005. He retired as a director of Standard Chartered plc in May 2005 after 29 years, during which time he held a number of senior positions working in London, Hong Kong, New York and Singapore in corporate finance, treasury and general management. Prior to his retirement, his responsibilities at Standard Chartered included its businesses in Africa, the Middle East, South Asia, the UK and the Americas. He is also a non-executive director of Millennium & Copthorne Hotels plc and Jardine Lloyd Thompson Group plc. Age 58.

Ewen Macpherson – Senior Independent Director†# Joined the Board in February 1997. He is chairman of Merrill Lynch New Energy Technology plc and a director of William Grant & Sons Limited. He retired in July 1997 as chief executive of 3i Group plc, which is Europe's leading venture capital company, and was a non-executive director of Scottish Power plc until July 2003. He was the chairman of the trustees of the GlaxoSmithKline Pension Fund until May 2005. Age 65.

John Rennocks*# Appointed a Director in August 1997 and is Chairman of the Audit Committee. He is a chartered accountant and was finance director at Smith and Nephew, Powergen and British Steel/Corus throughout the years 1981 to 2001. He is chairman of Nestor Healthcare Group plc, Diploma plc, and Intelligent Energy Holdings plc, Deputy Chairman of Inmarsat plc, and a non-executive director of Babcock International Group plc, Gyrus Group plc, JP Morgan Overseas Investment Trust plc and Wagon plc. Age 61.

Maxwell Ward†# Elected a Director in May 2000. He was a partner in Baillie Gifford & Co, the Edinburgh firm of fund managers, for 25 years and was manager of Scottish Mortgage & Trust plc for 11 years. He is chairman of Scottish Equitable Policyholders' Trust, managing director of The Independent Investment Trust plc and a non-executive director of the life assurance company, Aegon UK plc. Age 57.

Sir Andrew Wood GCMG§ Appointed a Director in December 2000. Having served as ambassador in Moscow and Belgrade, he has acted for Ernst & Young, Unilever, GlaxoSmithKline, Diageo, BP and other companies interested in the Russian market. He is a member of the advisory councils of the leading investment bank in Russia, Renaissance Capital, and the BCCB, which represents the interests of British consultants and construction firms. He is a director of the Russo-British Chamber of Commerce and the PBN Company, a strategic communications firm with offices in the former Soviet Union, London and Washington DC. Age 67.

* Members of the Audit Committee
† Members of the Nomination Committee
\# Members of the Private Equity Committee
§ Members of the Service Providers and Marketing Committee

Management and Advisers

The Management Company

Foreign & Colonial Investment Trust PLC ("**Foreign & Colonial**") is managed by F&C Management Limited ("**F&C**" or the "**Manager**"), a wholly owned subsidiary of F&C Asset Management plc. The Manager is authorised and regulated by the Financial Services Authority. It is appointed under a management agreement with the Company setting out its responsibilities for investment management, administration and marketing.

Foreign & Colonial and F&C are two separate, independent and distinct companies.

Jeremy Tigue Fund Manager. Appointed Fund Manager in July 1997. He is responsible for overall portfolio management including private equity, for investment performance and other key areas such as marketing and investor relations of Foreign & Colonial. He joined F&C in 1981 and is also a deputy chairman of the Association of Investment Companies.

Julian Cane Deputy Fund Manager. He joined F&C in 1993 and is responsible for Foreign & Colonial's UK portfolio.

Hugh Potter Represents the Manager as Company Secretary and is responsible for Foreign & Colonial's statutory compliance. He joined F&C in 1982.

Michael Woodward Head of Investment Trusts at F&C and responsible for its relationship with Foreign & Colonial since January 2007.

Advisers and Sub-Managers

Advisers to F&C (North America large and medium cap portfolio) Investment Management Selection Limited ("**IMS**") – appointed July 2005

Sub-Managers to F&C (North America large and medium cap portfolio)
Barrow Hanley – appointed July 2005
Loomis Sayles – appointed July 2005
T. Rowe Price – appointed February 2006

Sub-Managers to F&C (Japan Portfolio)
Goldman Sachs Asset Management – appointed July 2005

Secretary and Registered Office

F&C Management Limited, Exchange House, Primrose Street, London EC2A 2NY
Telephone: 020 7628 8000
Facsimile: 020 7628 8188
Website: www.fandc.com
Email: info@fandc.com
Authorised and regulated in the UK by the Financial Services Authority

Auditors

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

Bankers and Custodian

JPMorgan Chase

Registrars

Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH
Telephone: 0870 707 1529
Facsimile: 0870 703 6143
Authorised and regulated in the UK by the Financial Services Authority

Solicitors

Norton Rose

Stockbrokers

JPMorgan Cazenove Limited

Directors' Remuneration Report

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £500,000 per annum. Within that limit, it is the responsibility of the Board as a whole to determine and approve the Directors' fees, following a recommendation from the Chairman and, in his case, from the Senior Independent Director; the Board of Directors is composed solely of non-executive Directors, none of whom has a service contract with the Company, and therefore no Remuneration Committee has been appointed. The amounts paid, which were for services to the Company solely in the capacity of non-executive Directors and have no performance-related element, are set out in the table below.

Remuneration for qualifying services

Director	Fees for services to the Company 2006 £'000s	2005 £'000s
Mark Loveday (Chairman)	**59**	57
Sir Michael Bunbury (highest paid Director)[1]	**59**	38
The Rt Hon. Kenneth Clarke	**30**	29
Ewen Macpherson[2]	**45**	42
John Rennocks	**39**	36
Maxwell Ward[2]	**35**	30
Sir Andrew Wood	**31**	28
Ronald Gould	**33**	18
Christopher Keljik	**34**	9
Haruko Fukuda	**–**	9
Robert Adams (deceased)	**–**	2
Total	**365**	298

1 This includes £13,500, agreed by the Board in April 2006, paid for additional duties carried out in 2005 in respect of private equity investments.

2 This includes £1,500, agreed by the Board in April 2006, paid for additional duties carried out in 2005 in respect of private equity investments.

In addition the Company paid for gifts to two former Directors in recognition of services to the Company: Haruko Fukuda £2,200 and John Sclater £7,500.

Reference to the information in the table, which has been audited, can be found in the Independent Auditors' Report on page 35.

During the year the fee rates were increased following a review, which took account of the following factors:

- the absolute and relative performance of the Company over the two years to 31 May 2006 and whether the Directors had added value;
- price and earnings inflation from 1 July 2004, when the last increase became effective;
- a comparison with other peer group investment trusts and similar sized financial companies;
- available reports on remuneration of the boards and non-executive directors of UK investment trusts and other companies; and
- specific matters in respect of the increasing responsibilities, and time committed to the Company's business, of the Chairman, Senior Independent Director, Directors, and chairmen and members of the various committees of the Board.

In the light of these factors the Board approved the Chairman's recommendation that the basic fee should be £29,000 with effect from 1 July 2006, representing an increase of 5.4% and equivalent to an annualised increase of 2.7% over the previous two years. The Board also agreed the additional fee changes for specific responsibilities as set out in the table below, particularly in respect of the role of the Private Equity Committee chairman in attending investor and advisory committee meetings of Pantheon and HarbourVest.

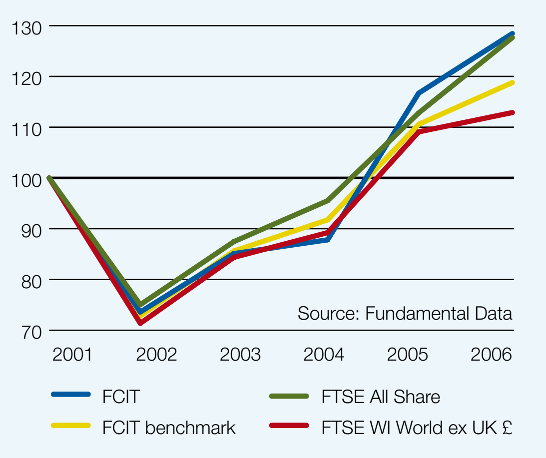
Annual fees for Board responsibilities

Board	2006 £'000s	2005 £'000s
Chairman	**60.0**	55.0
Senior Independent Director	**35.3**	34.0
Director	**29.0**	27.5
Audit Committee		
Chairman	**8.0**	8.0
Members	**5.0**	4.4
Nomination Committee		
Chairman	**2.0**	1.5
Members	**2.0**	1.5
Private Equity Committee		
Chairman	**13.0**	6.5
Members	**5.0**	2.5
Service Providers and Marketing Committee		
Chairman	**8.0**	–
Members	**5.0**	–

Changes with effect from 1 July 2006, except Private Equity Committee and Service Providers and Marketing Committee which were effective from 1 January 2006 and 1 June 2006 respectively.

In considering and agreeing these changes, the individual Directors concerned absented themselves from the Board meeting.

Total shareholder return



It is a company law requirement to compare the performance of the Company's share price to a single broad equity market index. As the Managers' performance is measured against a composite benchmark of 40% FTSE All-Share and 60% FTSE WI World ex UK indices a comparison against this composite benchmark has been shown. The FTSE All-Share Index total return and the FTSE WI World ex UK Index total return are also shown.

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

Shareholders will be asked to approve this remuneration report at the Annual General Meeting (Resolution 2).

By order of the Board,
H.N. Potter,
for and on behalf of F&C Management Limited,
Secretary
8 March 2007

Corporate Governance

Introduction

The Board has considered the principles set out in the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 (the "**Combined Code**") and the AIC Code of Corporate Governance (the "**AIC Code**") revised in February 2006.* The Board believes that during the period under review the Company has complied with the provisions of the Combined Code, in so far as they relate to the Company's business. The Board is also adhering to the principles and recommendations of the AIC Code, save that the Company now publishes quarterly the full list of its investments on its website instead of in the Annual Report and Accounts and copies are also available on request from the Secretary. The portfolio comprised over 700 investments as at 31 December 2006, and it is not considered meaningful to continue to publish this lengthy and continually changing information within the Annual Report and Accounts. The twenty largest investments are disclosed on page 13 and the ten largest investments in each of the regional sub-portfolios are disclosed in the Fund Manager's review.

The Board

The Board is responsible for the effective stewardship of the Company's affairs and has reviewed the schedule of matters reserved for its decision, which are categorised under various headings, including strategy, policy, finance, risk, investment restrictions, performance, appointments, the Board and public documents. It has responsibility for all corporate strategic issues, dividend policy, share buy-back policy and corporate governance matters. In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information. At each meeting the Board reviews the Company's investment performance and considers financial analysis and other reports of an operational nature. The Board monitors compliance with the Company's objectives and is responsible for setting asset allocation, investment and gearing limits within which the Fund Manager has discretion to act, and thus supervises the management of the investment portfolio which is contractually delegated to the Manager. The Board has the right of veto over the appointment of sub-managers recommended by the Fund Manager. The Board has responsibility for the approval of private equity and unlisted investments and all investments in in-house funds managed or advised by the Manager. Strategic issues, as highlighted on page 16, are reviewed regularly.

The overall attendance rate of Directors at Board meetings in 2006 was over 97%, and all the Directors attended the Annual General Meeting. The following table sets out the number of Directors' meetings (including committee meetings) held and attended during the year under review. The Board held an Away-Day meeting in November 2006 to consider strategic issues and also met in closed session on three occasions during the year, without any representation from the Manager.

Directors' attendance

	Board	Audit Committee	Nomination Committee	Private Equity Committee	Service Providers and Marketing Committee
No. of meetings	10	4	2	6	4
M A Loveday	10	n/a	2	n/a	n/a
M W Bunbury	10	3	n/a	6	n/a
K H Clarke	10	n/a	2	n/a	n/a
R J Gould	10	n/a	n/a	n/a	4
C A Keljik[1]	9	2	n/a	n/a	4
E C S Macpherson[2]	10	2	2	6	n/a
J L Rennocks[3]	9	4	n/a	2	n/a
M C B Ward[4]	9	n/a	n/a	5	n/a
A M Wood	10	n/a	n/a	n/a	4

1 Joined Audit Committee on 19 May 2006
2 Retired from Audit Committee on 19 May 2006
3 Joined Private Equity Committee on 19 May 2006
4 Joined Nomination Committee on 1 January 2007

The Board believes that it has a reasonable balance of skills, experience, ages and length of service, but is looking to bring in new Directors over the next two years as Directors retire. The Board is of the view that length of service will not necessarily compromise the independence or contribution of directors of an investment trust company, where continuity and

* Investors in New Zealand should note that the corporate governance rules and principles applicable to the Company in the UK may differ materially from those of the New Zealand Stock Exchange's Corporate Governance Best Practice Code.

experience can add significantly to the strength of a board. Nevertheless, a nine year limit is imposed on the appointment of new Directors, which may be exceeded for phasing and continuity purposes or in exceptional circumstances. In order to review the effectiveness of the Board, the Committees and the individual Directors, the Chairman carried out a thorough appraisal process in December 2006 in respect of the year under review. This encompassed both quantitative and qualitative measures of performance in respect of the Board and the Committees implemented by way of an evaluation survey, a questionnaire and interviews with the Chairman. The Fund Manager and the Company Secretary also participated in this part of the process to provide all-round feedback to the Board. With regard to individual Directors, the performance appraisal was qualitative, implemented by way of a questionnaire and an appraisal meeting with the Chairman. The appraisal of the Chairman follows the same process and is carried out by the Board as a whole under the leadership of the Senior Independent Director, in the absence of the Chairman. The appraisal process is considered by the Board to be constructive in terms of identifying areas for improving the functioning and performance of the Board and the Committees and the contribution of individual Directors, building on and developing individual and collective strengths, as well as setting priorities for the following year. The Board has considered the option of using external appraisal consultants and, whilst it believes that this is unlikely to provide any meaningful advantage over the internal process that has been adopted, it could nevertheless provide an independent perspective if used on an occasional basis. This will be given further consideration in 2007.

The Board has established a procedure whereby Directors, wishing to do so in the furtherance of their duties, may take independent professional advice at the Company's expense. The Board has direct access to company secretarial advice and services of the Manager which, through its nominated representative, is responsible for ensuring that Board and Committee procedures are followed, and that applicable regulations are complied with. The proceedings at all Board and other meetings are fully recorded through a process that allows any concerns of Directors to be recorded in the minutes. The Board has the power to appoint or remove the Company Secretary in accordance with the terms of the Management Agreement.

Independence of Directors

The Board, which is composed solely of independent non-executive Directors, regularly reviews the independence of its members. All the Directors, with particular focus on those who have served for over nine years and are standing for annual re-election, have been assessed by the Nomination Committee as remaining independent of the Manager and of the Company itself; none has a past or current connection with the Manager and each remains independent in character and judgement with no relationships or circumstances relating to the Company that are likely to affect that judgement. The Nomination Committee's assessments of Director independence have been endorsed by the Board, which is prepared to have a minority of non-independent Directors should this be considered appropriate at any stage.

There is no chief executive position within the Company, as day-to-day management of the Company's affairs has been delegated to the Manager.

Board Committees

The Board has appointed a number of committees as set out below. Copies of the terms of reference of each committee are available on request and can also be found on the Company's website at www.foreignandcolonial.com. Membership is listed on page 26 and attendance at meetings on page 30.

Nomination Committee

The primary role of the Nomination Committee is to review and make recommendations with regard to Board structure, size and composition, the balance of knowledge, experience, skill range and age profile and consider succession planning and tenure policy. It also considers the criteria for future Board appointments and the methods of recruitment, selection, appointment and induction. The Committee considers and makes recommendations to the Board with regard to the appointment of new Directors, committee membership, the re-appointment of those Directors standing for re-election at annual general meetings, variations in terms of appointment and the

Corporate Governance (continued)

question of each Director's independence prior to publication of the Annual Report and Accounts. The Committee also reviews the attendance and time commitment of the Directors in fulfilling their duties, including their other directorships.

The composition of the Board remained unchanged during the year, but active consideration is being given to the appointment of new Directors in conjunction with the planned retirements of Kenneth Clarke and Sir Andrew Wood immediately following the forthcoming AGM, and the intention that Ewen Macpherson and John Rennocks will also retire in 2008. The Committee met in January 2007 to consider the appointment of a search agency for the purpose of seeking one or more replacement non-executive Directors, the recruitment and selection process for which is ongoing. The final decision with regard to appointments always rests with the Board and all such appointments are subject to confirmation by shareholders.

An induction process has been prepared for new appointees to the Board, which involves a full briefing by the Chairman, the Fund Manager, Company Secretary and by other appropriate persons within F&C. This covers the role of the Board, the Company's objective, policy and strategy, management arrangements, its workings and processes, investment process and philosophy, measurement of performance and risk, marketing objectives and an overview of the Manager's investment resources and services. New appointees are also issued with a Company manual and other key documentation.

Remuneration Committee

As the Board has no executive Directors and no employees, and is composed solely of non-executives, it does not have a Remuneration Committee. Detailed information on the remuneration arrangements for the Directors of the Company can be found in the Directors' Remuneration Report on pages 28 and 29 and in note 6 on the accounts.

Private Equity Committee

The function of the Private Equity Committee is to monitor and assess the performance of the Company's private equity investments managed by HarbourVest Partners LLC ("**HarbourVest**") and Pantheon Ventures Limited ("**Pantheon**") and to make recommendations to the Board regarding further investments. These responsibilities have been carried out in respect of the period under review. With effect from 1 January 2007, the Fund Manager has day to day responsibility for private equity, including the making of recommendations for further investments and reports to the Committee. Sir Michael Bunbury represents the Company's interests on the advisory committees of HarbourVest and Pantheon. No remuneration is paid by these managers to Sir Michael Bunbury.

Service Providers and Marketing Committee

The Service Providers and Marketing Committee was formed in March 2006, taking on certain responsibilities previously carried out by the, then named, Audit and Management Engagement Committee and additional responsibilities arising from the outsourcing of certain regional portfolios in 2005. The function of the Committee is to review and monitor the Company's service providers, and the fees charged in respect of those services. This includes the Manager and, in conjunction with the Manager, the Committee reviews and monitors the services of their outsourcing adviser for the North America portfolio, Investment Management Selection Limited, and the regional sub-managers. Coverage extends to the Company's marketing, stock lending and custodian arrangements, the management of the savings schemes, as well as the review of share registration, trade marks and intellectual property rights. All of the Committee's responsibilities have been carried out during the course of 2006 and in January 2007.

Audit Committee

The primary responsibilities of the Audit Committee are to monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance; to review the Company's internal financial controls and the internal control and risk management systems applicable to the Company; to review annually the need for the Company to have its own internal audit function; to make recommendations to the Board in relation to the re-appointment of the Auditors and to approve their remuneration and terms of engagement; to review and monitor the Auditor's independence and objectivity and the effectiveness of the audit process; and to develop and implement policy on the engagement of the Auditors to supply non-audit services. It also reviews Directors' and Officers' liability insurance.

The Audit Committee has direct access to the Auditors, PricewaterhouseCoopers LLP, and to the internal audit, risk and compliance director of the Manager, and to the Manager's group audit committee, and reports its findings to the Board. The Board retains ultimate responsibility for all aspects relating to the annual and interim accounts and other significant published financial information.

All of the Audit Committee's responsibilities have been carried out at its meetings held over the course of 2006 and in February 2007. A meeting has been held with the Auditors to review the work carried out for the audit of the annual financial statements. The Auditors also attend each Audit Committee meeting and, on the basis of these meetings, the Audit Committee has been able to assess the effectiveness of the external audit. In completing this review, the Audit Committee has taken into account the standing, experience and tenure of the audit partner and his team, the nature and level of services provided, and confirmation that they have complied with the relevant UK independence standards. The Manager and the Company use different audit firms. The Audit Committee has also reviewed the provision of non-audit services and considers them to be cost effective and not to compromise the independence of the Auditors. The non-audit services include taxation matters and the review of the interim results. The Chairman of the Audit Committee is advised of non-audit work required and a decision to authorise is taken on a case by case basis. The cost, which for 2006 was £29,000 and is found in note 5 on the accounts, is not of a material nature.

Following a recommendation from the Audit Committee, the Board has concluded that there is no current need for the Company to have an internal audit function; all of the Company's management functions, including day to day responsibility for private equity investments from 1 January 2007, are delegated to the Manager, which has its own Internal Audit, Risk and Compliance department, and whose controls are monitored by the Board. The Audit Committee has received and reviewed the Report referred to under "Internal Controls and management of risk" below and an annual compliance report from the Manager's head of Audit, Risk and Compliance.

The Audit Committee has reviewed, and is satisfied with, the "whistleblowing" policy that has been put in place by the Manager under which its staff may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. The necessary arrangements are in place for proportionate and independent investigation of such matters and for appropriate follow-up action.

Internal controls and management of risk

The Board has overall responsibility for the Company's systems of internal controls and for reviewing their effectiveness. These aim to ensure that assets of the Company are safeguarded, proper accounting records are maintained, and the financial information used within the business and for publication is reliable. Control of the risks identified, covering financial, operational, reputational, compliance and risk management, is embedded in the controls of the Company by a series of monthly investment performance and attribution statements, financial and risk analysis and Manager's reports, and a quarterly control report. The Company's principal risks are set out on pages 16 and 17. The control report incorporates a key risk table that identifies the risks to which the Company is exposed and the controls in place to mitigate them, and includes those risks that are not directly the responsibility of the Manager and details of any known internal control concerns. The systems of internal controls are designed to manage rather than eliminate risk of failure to achieve business objectives, and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board has carried out a risk and control assessment, including a review of the Manager's risk management infrastructure and the Report on policies and procedures in operation and tests for the period 1 January to 31 December 2006 (the "**Report**") that has been prepared by the Manager for its investment trust clients to the standards of the Institute of Chartered Accountants in England and Wales Technical Release AAF (01/06). Containing a report from independent external accountants, the Report sets out the Manager's control policies and procedures with respect to the management of its clients' investments. The effectiveness of these controls is monitored by the Manager's group audit committee which receives regular reports from the Manager's Audit, Risk and Compliance Department and ensures that action would be taken to remedy any significant failings or weakness identified from this monitoring. The Company's Audit Committee will continue to work with the Manager's Audit, Risk and Compliance Department to enhance controls as they affect the Company. As reported above under "Audit Committee", the Board has concluded that there is no current need for the Company to have its own internal audit function, but will keep this matter under review.

Investment Management

The Board has contractually delegated the management of the investment portfolio to the Manager giving the Manager responsibility for gearing, asset allocation and sector and stock selection, together with the overall risk management of the Company's assets, within the limits set and regularly reviewed and monitored by the Board.

The Board has reviewed and endorsed the Manager's approach to environmental, social and governance issues and voting policy which is explained under "Responsible ownership" on page 18, and receives periodic reports on its implementation.

Relations with shareholders

Shareholder communication is given a high priority. In addition to the annual and interim report and accounts that are distributed to shareholders, monthly fact sheets and general information are available on the Company's website at www.foreignandcolonial.com.

A regular dialogue is maintained with the Company's institutional shareholders and private client asset managers. As in previous years, the Chairman wrote to the top institutional shareholders and to the private client asset managers, as a result of which meetings were held with nine of these shareholders. In total, shareholders representing 40% of the share capital were invited to meet or talk with the Chairman and the Fund Manager and those owning 7% of the share capital took the opportunity to do so. These annual meetings have proved constructive in providing a two-way forum for the canvassing of shareholder views, gauging opinion, and for enabling the Board to become aware of any issues or concerns. The programme will be continued in 2007, led by the Fund Manager.

At annual general meetings, all investors have the opportunity to question the Chairman, the Board and the Fund Manager.

All beneficial shareholders in the F&C savings plans have the opportunity to vote using a form of direction and, in accordance with the Articles of Association, have the right to attend, speak and vote at all meetings.

Shareholders wishing to communicate with the Chairman, the Senior Independent Director or any other member of the Board may do so by writing to the Company, for the attention of the Secretary at the address set out on page 27 or by emailing to FCITCoSec@fandc.com.

The Board monitors investor complaint levels and will keep under review the Manager's arrangements for "Treating Customers Fairly".

Independent Auditors' Report

Independent Auditors' Report to the shareholders (members) of Foreign & Colonial Investment Trust PLC

We have audited the financial statements of Foreign & Colonial Investment Trust PLC for the year ended 31 December 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Directors' Statement of Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures. We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Report of the Directors incorporating the Business Review, the unaudited part of the Directors' Remuneration Report and the Corporate Governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary, in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its net return and cash flows for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

PricewaterhouseCoopers LLP
Southwark Towers
32 London Bridge
London SE1 9SY
8 March 2007

Directors' Statement of Responsibilities

As required by company law, the Directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the Company as at 31 December 2006 and of the results for the year then ended. In preparing the financial statements, suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made. The financial statements are prepared in accordance with applicable accounting standards and on a going concern basis. The Directors are also responsible for ensuring that adequate accounting records are maintained and have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

Income Statement

Revenue Notes	Capital Notes	for the year ended 31 December	Revenue £'000s (2006)	Capital £'000s (2006)	Total £'000s (2006)	Revenue £'000s (2005)	Capital £'000s (2005)	Total £'000s (2005)
	11	Gains on investments	–	199,553	199,553	–	481,090	481,090
	20	Exchange gains/(losses)	13	4,177	4,190	(31)	(2,112)	(2,143)
3		Income	67,223	–	67,223	66,582	–	66,582
4		Management and administration fees	(4,059)	(4,589)	(8,648)	(3,522)	(3,910)	(7,432)
	4	Performance fee	–	(1,756)	(1,756)	–	(2,106)	(2,106)
5	20	Other expenses	(3,247)	(121)	(3,368)	(3,513)	(103)	(3,616)
		Net return before finance costs and taxation	59,930	197,264	257,194	59,516	472,859	532,375
7	20	Interest payable and similar charges	(7,487)	(7,487)	(14,974)	(6,801)	(6,801)	(13,602)
		Net return on ordinary activities before taxation	52,443	189,777	242,220	52,715	466,058	518,773
8	20	Taxation on ordinary activities	(4,246)	1,227	(3,019)	(3,593)	(13)	(3,606)
9	9	**Net return attributable to equity shareholders**	48,197	191,004	239,201	49,122	466,045	515,167
9	9	**Return per share – basic (pence)**	6.16	24.43	30.59	5.57	52.87	58.44

The total 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. A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

Reconciliation of Movements in Shareholders' Funds

Notes	For the year ended 31 December 2006	Called up Share Capital £'000s	Capital Redemption Reserve £'000s	Capital Reserves £'000s	Revenue Reserve £'000s	Total Shareholders' Funds £'000s
	Balance brought forward 31 December 2005	206,814	55,948	2,045,443	105,796	2,414,001
10	Dividends paid	–	–	–	(39,183)	(39,183)
	Shares repurchased by the Company	(19,320)	19,320	(205,879)	–	(205,879)
	Return attributable to equity shareholders	–	–	191,004	48,197	239,201
	Balance carried forward 31 December 2006	187,494	75,268	2,030,568	114,810	2,408,140

Notes	For the year ended 31 December 2005	Called up Share Capital £'000s	Capital Redemption Reserve £'000s	Capital Reserves £'000s	Revenue Reserve £'000s	Total Shareholders' Funds £'000s
	Balance brought forward 31 December 2004	228,253	34,509	1,771,652	96,883	2,131,297
10	Dividends paid	–	–	–	(40,209)	(40,209)
	Shares repurchased by the Company	(21,439)	21,439	(192,254)	–	(192,254)
	Return attributable to equity shareholders	–	–	466,045	49,122	515,167
	Balance carried forward 31 December 2005	206,814	55,948	2,045,443	105,796	2,414,001

Balance Sheet

Note	At 31 December	£'000s	2006 £'000s	£'000s	2005 £'000s
	Fixed assets				
11	Investments		**2,578,696**		2,520,364
	Current assets				
13	Debtors	**9,201**		8,446	
	Cash at bank	**28,153**		7,390	
		37,354		15,836	
	Creditors: amounts falling due within one year				
14	Foreign currency loans	**(68,000)**		–	
15	Other	**(29,335)**		(9,518)	
		(97,335)		(9,518)	
	Net current (liabilities)/assets		**(59,981)**		6,318
16	Total assets less current liabilities		**2,518,715**		2,526,682
	Creditors: amounts falling due after more than one year				
17	Debentures		**(110,575)**		(110,575)
4	Performance fee		**–**		(2,106)
	Net assets		**2,408,140**		2,414,001
	Capital and reserves				
18	Called up share capital		**187,494**		206,814
19	Capital redemption reserve		**75,268**		55,948
20	Capital reserves		**2,030,568**		2,045,443
20	Revenue reserve		**114,810**		105,796
	Total shareholders' funds – equity		**2,408,140**		2,414,001
21	Net asset value per share – prior charges at nominal value (pence)		**321.10**		291.81

Approved by the Board on 8 March 2007 and signed on its behalf by:

Mark Loveday

John Rennocks

Cash Flow Statement

Notes	For the year ended 31 December	£'000s	2006 £'000s	£'000s	2005 £'000s
	Operating activities				
	Investment income	**65,099**		64,276	
	Interest received	**991**		1,465	
	Stock lending fees received	**283**		341	
	Other revenue	**80**		15	
	Management and administration fees paid	**(8,234)**		(6,131)	
	Fees paid to directors	**(365)**		(298)	
	Other cash payments	**(4,268)**		(2,618)	
22	Net cash inflow from operating activities		**53,586**		57,050
	Servicing of finance				
	Interest paid	**(14,868)**		(13,882)	
	Cash outflow from servicing of finance		**(14,868)**		(13,882)
	Taxation				
	Overseas tax paid	**(3,203)**		(3,528)	
	Total tax paid		**(3,203)**		(3,528)
	Financial investment				
	Purchases of equities and other investments	**(1,593,369)**		(1,414,703)	
	Sales of equities and other investments	**1,731,519**		1,681,164	
	Other capital charges and credits	**(130)**		(97)	
	Net cash inflow from financial investment		**138,020**		266,364
	Equity dividends paid		**(39,183)**		(40,209)
	Net cash inflow before use of liquid resources and financing		**134,352**		265,795
	Management of liquid resources				
	Decrease in short-term deposits		**–**		35,000
	Financing				
	Net loans raised/(repaid)	**75,520**		(107,976)	
	Costs of shares repurchased	**(185,766)**		(191,382)	
	Net cash outflow from financing		**(110,246)**		(299,358)
23	Increase in cash		**24,106**		1,437

Notes on the Accounts

1 General information

Foreign & Colonial Investment Trust PLC is an Investment Company, incorporated in the United Kingdom with a primary listing on the London Stock Exchange. The Company Registration number is 12901, and the Registered office is Exchange House, Primrose Street, London, EC2A 2NY, England. The Company conducts its affairs so as to qualify as an Investment Trust under the provisions of Section 842 of the Income and Corporation Taxes Act, 1988. Approval of the Company under S842 has been received (subject to there being no subsequent enquiry) in respect of the year ended 31 December 2005 and all previous applicable financial years. Such approval exempts the Company from UK Corporation Tax on gains realised in the relevant year on its portfolio of fixed asset investments.

2 Significant accounting policies

(a) Basis of accounting

The accounts of the Company have been prepared under the historical cost convention, modified to include fixed asset investments at fair value, and in accordance with the Companies Act 1985, Accounting Standards applicable in the United Kingdom and with the Revised Statement of Recommended Practice "Financial Statements of Investment Trust Companies" (SORP) issued in December 2005.

The functional and reporting currency of the Company is pounds sterling because that is the currency of the primary economic environment in which the Company operates.

The Company had no operating subsidiaries at any time during the year ended 31 December 2006. Consequently, consolidated accounts have not been prepared.

There have been no significant changes to the accounting policies during the year ended 31 December 2006.

In accordance with the SORP, the Income Statement has been analysed between a Revenue Account (dealing with items of a revenue nature) and a Capital Account (relating to items of a capital nature). Revenue returns include, but are not limited to, dividend income and operating expenses and tax (insofar as the expenses and tax are not allocated to capital, as described in note 2b below). Net revenue returns are allocated via the revenue account to the Revenue Reserve, out of which interim and final dividend payments are made. Capital returns include, but are not limited to, realised and unrealised profits and losses on fixed asset investments and currency profits and losses on cash and borrowings. Net capital returns may not be distributed by way of dividend and are allocated via the capital account to the Capital Reserves. Dividends payable to equity shareholders are shown in the Reconciliation of Movement in Shareholders' Funds.

(b) Principal accounting policies

The policies set out below have been applied consistently throughout the year.

(i) Fixed assets investments

As an investment trust, the Company measures its fixed asset investments at "fair value through profit or loss" and treats all transactions on the realisation and revaluation of investments held as fixed assets, as transactions on the Capital Account. Investment purchases are recognised on the relevant trade date, inclusive of expenses which are incidental to the acquisition of the investments. Investment sales are also recognised on the trade date, after deducting expenses incidental to the sales. Listed investments are valued at bid value at the close of business on the relevant date on the exchange on which the investment is listed. Investments which are not listed or which are not frequently traded are stated at Directors' best estimate of fair value. In arriving at their estimate, the Directors make use of recognised valuation techniques and may take account of recent arm's length transactions in the same or similar investment instruments. Where no reliable fair value can be estimated, investments may be carried at cost less any provision for impairment. With respect specifically to investments in private equity, whether through funds or partnerships, the Directors rely on unaudited valuations of the underlying unlisted investments as supplied by the managers of those funds or partnerships. The Directors regularly review the principles applied by the managers to those valuations to ensure they are in compliance with the above policies.

(ii) Borrowings

Interest-bearing debenture stock, loans and overdrafts are recorded at the proceeds received, net of issue costs, irrespective of the duration of the instrument. The fair market value of the long-term debenture stock is stated in note 17 on the accounts. Finance charges, including interest, are accrued using the effective interest rate

2. Significant accounting policies (continued)

method and are added to the carrying amount of the instrument to the extent that they are not settled in the period. See (v) below for allocation of finance charges within the Income Statement.

(iii) Foreign currency

Foreign currency assets and liabilities are expressed in sterling at rates of exchange ruling at the balance sheet date. Purchases and sales of investment securities, dividend income, interest income and expenses are translated at the rates of exchange prevailing at the respective dates of such transactions. Exchange profits and losses on fixed assets investments are included within the changes in fair value in the capital account. Exchange profits and losses on other currency balances are separately credited or charged to the capital account except where they relate to revenue items.

(iv) Income

Income from equity shares is brought into the revenue account (except where, in the opinion of the Directors, its nature indicates it should be recognised as within the capital account) on the ex-dividend date or, where no ex-dividend date is quoted, when the Company's right to receive payment is established. Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis so as to reflect the effective yield on the investment. Dividends are accounted for in accordance with Financial Reporting Standard 16 "Current Taxation" (FRS16) on the basis of income actually receivable, without adjustment for the tax credit attaching to the dividends. Dividends from overseas companies continue to be shown gross of withholding tax. Where the Company has elected to receive its dividends in the form of additional shares rather than in cash (scrip dividends), 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.

(v) Expenses, including finance charges

Expenses are charged to the Revenue Account of the Income Statement, except as noted below:

- expenses incidental to the acquisition or disposal of fixed assets investments are included within the cost of the investments or deducted from the disposal proceeds of investments and are thus charged to capital reserve realised via the capital account;
- 100% of management fees, including any related irrecoverable VAT, invoiced to the Company in respect of certain Private Equity investments are allocated to capital reserve realised, via the capital account, in accordance with the Board's long-term expected split of returns from those investments;
- 50% of other management fees, including related irrecoverable VAT, and 50% of finance costs (both net of applicable tax relief) which are allocated to capital reserve realised via the capital account, in accordance with the Board's long-term expected split of returns from the investment portfolio (excluding private equity investments) of the Company; and
- so much of the performance-related management fees, including related irrecoverable VAT, as is directly attributable to the realised and unrealised returns from investments recognised in the capital account in the period. Details of the performance-related fee calculation are set out in note 4 on the accounts. All expenses are accounted for on an accruals basis.

(vi) Taxation

Deferred tax is provided in accordance with FRS19 on all timing differences that have originated but not reversed by the Balance Sheet date. Deferred tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of timing differences can be deducted. In line with the recommendations of the SORP, the allocation method used to calculate the tax relief on expenses charged to capital is the "marginal" basis. Under this basis, if taxable income is capable of being offset entirely by expenses charged through the revenue account, then no tax relief is transferred to the capital account.

(vii) Capital Redemption Reserve

The nominal value of Ordinary share capital repurchased for cancellation is transferred out of Share Capital and into the Capital Redemption Reserve.

Notes on the Accounts (continued)

2. Significant accounting policies (continued)

(viii) Capital Reserves

Capital reserve – realised

The following are accounted for in this reserve:

– gains and losses on the realisation of fixed asset investments;

– realised exchange differences of a capital nature;

– costs of professional advice, including related irrecoverable VAT, relating to the capital structure of the Company;

– other capital charges and credits charged or credited to this account in accordance with the above policies; and costs of repurchasing ordinary share capital.

Capital reserve – unrealised

The following are accounted for in this reserve:

– increases and decreases in the valuation of fixed asset investments held at the year end; and

– unrealised exchange differences of a capital nature.

3 Income

	2006 £'000s	2005 £'000s
Income from investments		
UK dividends	36,150	33,518
UK fixed interest	182	311
Overseas dividends	29,173	30,341
Scrip dividends	316	615
	65,821	64,785
Other Income		
Interest on cash and short-term deposits	1,052	1,465
Stock lending fees	270	317
Underwriting commission	50	15
Sundry income	30	–
	1,402	1,797
Total income	67,223	66,582

Total income comprises:		
Dividends	65,639	64,474
Interest from investments	182	311
Other income	1,402	1,797
	67,223	66,582

Income from investments comprises:		
Listed UK	36,110	33,533
Listed Overseas	29,464	30,957
Unlisted	247	295
	65,821	64,785

4 Management, administration and performance fees

		2006		2005	
		£'000s	£'000s	£'000s	£'000s
Payable directly to F&C Management Limited (F&C):					
– in respect of management services provided by F&C	(i)	5,215		5,668	
– in respect of Private Equity administration services provided by F&C	(ii)	–		6	
– re-imbursement in respect of services provided by Advisers and Sub-Managers	(i)	2,528		1,000	
		7,743		6,674	
– in respect of performance fees	(iii)	1,686		1,998	
			9,429		8,672
Payable directly to Private Equity Managers	(iii)		529		395
Incurred indirectly within Funds:					
– managed by Sub-Managers	(iv)	83		170	
– managed by Private Equity Managers	(iv)	1,215		701	
			1,298		871
Irrecoverable VAT suffered on:					
– management and administration fees		376		363	
– performance fees		70		108	
			446		471
Total direct and indirect management, administration and performance fees			11,702		10,409

(i) 50% of these fees are allocated to capital reserve realised
(ii) 100% of these fees are allocated to revenue account
(iii) 100% of these fees are allocated to capital reserve realised
(iv) Indirectly incurred fees are included within the value of the respective funds

Directly incurred fees are analysed as follows:

Management and Administration fees

	2006	2005
	£'000s	£'000s
– payable directly to F&C	7,743	6,674
– payable directly to Private Equity Managers	529	395
	8,272	7,069
– irrecoverable VAT thereon*	376	363
	8,648	7,432
Less: allocated to capital reserve realised	(4,589)	(3,910)
Allocated to revenue account	4,059	3,522

Performance fees payable to F&C*	1,686	1,998
Irrecoverable VAT thereon*	70	108
Allocated to capital reserve realised**	1,756	2,106

* The proportion of VAT that is irrecoverable is determined broadly by the ratio of outputs (mainly proceeds of sales of investments) within European Union member countries to outputs worldwide.

**Total fee payable in respect of the initial performance fee period from 1 August 2005 to 31 December 2006 is £3,684,000. There is no carry-forward of performance to subsequent periods.

Notes on the Accounts (continued)

4 Management, administration and performance fees (continued)

(a) Management and administration fees payable to F&C Management Limited

F&C Management Limited (the Manager) provides investment management, company secretarial, financial, marketing and general administrative services to the Company under the terms of an agreement which may be terminated upon six month's notice given by either party. The bases of calculation of fees and fee rates for these services, in 2006 and 2005, are set out below.

The Company has revised the management fee payable to the Manager, as well as the performance fee arrangements, with effect from 1 January 2007. The bases and rates applying from that date are also set out below.

	Prior to 1 Aug 2005	1 Aug 2005 to 31 Dec 2006	1 Jan 2007 onwards
Management Fee Basis	Three year rolling average of funds under management (excluding funds managed by the Manager or its subsidiaries, and excluding Private Equity investments).	Fixed Fee: adjusted for fees earned by the Manager in respect of investment holdings managed or advised by the Manager or its fellow subsidiaries. Variable fees: equal to the cost of fees paid by the Manager to third party advisers and sub-managers in respect of the Company's Japanese and US large and medium cap portfolios.	Fixed fee: as prior year. Variable fees: as prior year.
Management Fee Rate	0.075% per quarter on first £2,500m, reducing thereafter by 0.00625% per £500m to a minimum of 0.0375% on assets over £5,000m. Payable in advance.	Fixed Fee of £5.65m per annum, payable monthly in arrears. Variable fees payable monthly in arrears.	Fixed Fee of £6.39m per annum, payable monthly in arrears. Variable fees payable monthly in arrears.
Administration Fee Rate	£10,000 per annum in respect of Private Equity investments.	Not applicable.	Not applicable.
Performance Fee Basis	Not applicable.	Benchmark performance: Payable on out-performance of the adjusted net assets (in the 17-month period to 31 December 2006) over the composite benchmark (defined on page 19), plus a hurdle of 0.5%, but with performance in excess of 3.5% over the benchmark, or under-performance of the benchmark, carried forward for inclusion in the calculation for the subsequent period. If the Company's share price at the end of the period is lower than at the start, the fee payable will be deferred until the share price increases over any subsequent performance fee period.	Benchmark performance: As prior year, for annual periods ending 31 December.

4 Management, administration and performance fees (continued)

	Prior to 1 Aug 2005	1 Aug 2005 to 31 Dec 2006	1 Jan 2007 onwards
Performance Fee Basis (continued)	Not applicable.	Peer group performance: Not applicable.	Peer group performance: payable on out-performance of the adjusted net assets (in the 12 month period) over the close peer group (as referred to on page 20). Out-performance in excess of 3% is carried forward for inclusion in the calculation for the subsequent period.
Performance Fee Rate	Not applicable.	Benchmark performance: 10% of out-performance. Net assets are adjusted for the cost of share buy-backs, dividends paid, investments in private equity and the excess of the market value of the debentures over their cost. Peer group performance: Not applicable.	Benchmark performance: 5% of out-performance. Net assets are adjusted for the cost of share buy-backs, dividends paid and the excess of the market value of the debentures over their cost. Peer group performance: 5% of out-performance. Net assets are adjusted for dividends paid and the excess of the market value of the debentures over their cost.

(b) Management fees payable to Private Equity Managers

At 31 December 2006 the Company had investments in three Private Equity Funds managed by Pantheon Ventures Limited (2005: one) and six Private Equity Funds managed by HarbourVest Partners LLC (2005: four). Fees in respect of the Pantheon Europe III Fund are paid quarterly, directly to Pantheon Ventures Limited, at a rate of 0.65% per annum (2005: 0.65%) based on capital commitments. These fees are allocated fully to capital reserve realised. Fees in respect of all other Private Equity Funds are based on capital commitments and are charged quarterly against the underlying investments in those funds. The fees are not directly incurred by the Company. The fee rates applying during 2006 varied from 0.5% per annum to 1.25% per annum (2005: 0.5% to 1.0%).

Notes on the Accounts (continued)

5 Other expenses

	2006 £'000s	2005 £'000s
Auditors' remuneration:		
for audit services	58	57
for other services*	17	36
Custody fees	310	298
Directors' emoluments (see Directors' Remuneration Report on pages 28 and 29):		
fees for services to the Company	365	298
benefits paid to former Directors	10	–
AIC subscriptions	88	105
Directors and Officers liability insurance	99	140
Marketing expenses	555	988
Private Investor Plan expenses	1,009	708
Loan commitment fees	81	85
Registrars fees	129	160
Professional charges	33	149
Printing and postage	339	300
Sundry expenses	154	189
	3,247	3,513

* Total Auditors' remuneration, exclusive of VAT, for other services, amounts to £29,000 (2005: £43,000) of which £13,000 (2005: £11,000) was charged to capital reserve realised.

All expenses are stated gross of irrecoverable VAT, where applicable.

6 Directors' remuneration and contracts

(a) Remuneration from the Company

The Company had no employees during the year. The amounts paid by the Company to the Directors of the Company, which were for services as non-executive Directors and which did not include any payments or rights to pensions, are detailed in the Directors' Remuneration Report on pages 28 and 29.

(b) Remuneration from related parties

No Director received remuneration during the year for services to related parties.

(c) Directors' interests in shares

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

	31 December 2006		31 December 2005	
	Beneficial	Other	Beneficial	Other
Sir Michael Bunbury	97,000	17,500	97,000	17,500
The Rt. Hon. Kenneth Clarke	42,813	–	42,345	–
Ronald Gould	2,082	–	–	–
Christopher Keljik	42,864	–	42,063	–
Mark Loveday	100,000	35,000	100,000	35,000
Ewen Macpherson	14,500	–	14,500	–
John Rennocks	65,465	–	64,986	–
Maxwell Ward	30,000	–	30,000	–
Sir Andrew Wood	34,829	–	34,163	–

The Company's register of Directors' interests contains full details of Directors' shareholdings.

* Since the year end, Ronald Gould has acquired 314 ordinary shares and has made arrangements to purchase shares on a monthly basis through the F&C Private Investor Plan. There have been no changes in any of the other Directors' shareholdings detailed above. No Director held any interests in the issued stocks or shares of the Company other than as stated above.

6 Directors' remuneration and contracts (continued)

(d) Directors' interests in contracts

No contract of significance, to which the Company or any of its subsidiary undertakings is or was materially interested, subsisted during the year.

(e) Details of aggregate remuneration

During the year the aggregate amount of emoluments, paid to or receivable by the Directors for their services as Directors of the Company and their services, while a Director of the Company, as Director of any of its subsidiary undertakings or otherwise in connection with the management of the affairs of the Company or any of its subsidiary undertakings was £365,000 (2005: £298,000). Emoluments attributable to the highest paid Director amounted to £59,000 (2005: £57,000).

7 Interest payable and similar charges

	2006 £'000s	2005 £'000s
Debenture stocks	12,399	12,399
Foreign currency loans	2,397	1,169
Overdrafts	178	34
	14,974	13,602
Less: allocated to capital reserve realised (see note 20)	(7,487)	(6,801)
	7,487	6,801
The interest on debenture stocks, foreign currency loans and overdrafts is further analysed as follows:		
Loans and overdrafts repayable within one year, not by instalments	2,575	1,203
Loans and overdrafts repayable between two and five years, not by instalments	–	–
Debentures repayable in more than five years, not by instalments	12,399	12,399
	14,974	13,602

8 Taxation on ordinary activities

(a) Analysis of tax charge for the year

	2006			2005		
	Revenue £'000s	Capital £'000s	Total £'000s	Revenue £'000s	Capital £'000s	Total £'000s
Corporation tax at 30% (2005:30%)	3,530	(711)	2,819	3,230	–	3,230
Relief for overseas taxation	(2,819)	–	(2,819)	(3,230)	–	(3,230)
	711	(711)	–	–	–	–
Overseas taxation	2,976	45	3,021	3,639	13	3652
Precompte – recovery of tax credits	(2)	–	(2)	(46)	–	(46)
Total current taxation (note 8b)	3,685	(666)	3,019	3,593	13	3,606
Deferred tax	561	(561)	–	–	–	–
	4,246	(1,227)	3,019	3,593	13	3,606

Deferred tax in the revenue account is in respect of corporation tax on accrued income that will be taxed in future years. There is no effect on the total tax charge, or the assets or liabilities of the Company, due to utilisation of tax deductible expenses transferred from the capital account.

Notes on the Accounts (continued)

8 Taxation on ordinary activities (continued)

(b) Factors affecting tax charge for the year

	2006			2005		
	Revenue £'000s	**Capital £'000s**	**Total £'000s**	Revenue £'000s	Capital £'000s	Total £'000s
Return on ordinary activities before taxation	**52,443**	**189,777**	**242,220**	52,715	466,058	518,773
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 30% (2005: 30%)	**15,733**	**56,933**	**72,666**	15,815	139,817	155,632
Effects of:						
UK franked dividends*	**(10,845)**	**–**	**(10,845)**	(10,055)	–	(10,055)
Overseas tax in excess of double tax relief	**128**	**–**	**128**	264	–	264
Overseas income not subject to corporation tax	**(168)**	**–**	**(168)**	(172)	–	(172)
Capital returns*	**–**	**(61,119)**	**(61,119)**	–	(143,693)	(143,693)
Precompte – recovery of tax credits	**(1)**	**–**	**(1)**	(32)	–	(32)
Expenses not deductible for tax purposes	**229**	**36**	**265**	233	31	264
Expenses utilised from prior years	**(1,391)**	**–**	**(1,391)**	(2,460)	–	(2,460)
Expenses not utilised in the year	**–**	**3,439**	**3,439**	–	3,845	3,845
Indian tax on capital gains	**–**	**45**	**45**	–	13	13
Total current taxation (note 8a)	**3,685**	**(666)**	**3,019**	3,593	13	3,606

* These items are not subject to corporation tax within an investment trust company.

The deferred tax asset of £15.4 million (2005: £14.0 million) in respect of unutilised expenses at 31 December 2006 has not been recognised as it is likely that the unrecognised asset will increase in amount in future. Of this amount £nil (2005: £1.4 million) relates to revenue expenses and £15.4 million (2005: £12.6 million) to capital expenses.

9 Return per share

	2006 £'000s	2005 £'000s
Total return	**239,201**	515,167
Revenue return	**48,197**	49,122
Capital return	**191,004**	466,045
Weighted average ordinary shares in issue	**781,991,005**	881,509,778

10 Dividends

Dividends on ordinary shares	Register date	Payment date	**2006 £'000s**	2005 £'000s
2004 Special dividend of 0.20p	4 March 2005	9 May 2005	**–**	1,810
2004 Final of 2.10p	4 March 2005	9 May 2005	**–**	19,008
2005 Interim of 2.20p	5 August 2005	12 September 2005	**–**	19,391
2005 Final of 2.55p	7 April 2006	24 May 2006	**20,383**	–
2006 Interim of 2.45p	4 August 2006	11 September 2006	**18,800**	–
			39,183	40,209

The Directors propose to pay a final dividend in respect of the year ended 31 December 2006 of 2.85p payable on 9 May 2007 to all shareholders on the register at close of business on 16 March 2007. The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. Previously dividends were recognised in respect of the period to which they related. The total dividends payable in respect of the financial year which form the basis of Section 842 of the Income and Corporation Tax Act 1988 are set out on page 49.

10 Dividends (continued)

	2006 £'000s
Revenue available for distribution by way of dividends for the year	**48,197**
Interim dividend for the year ended 31 December 2006 – 2.45p per share	**(18,800)**
Proposed final dividend for the year ended 31 December 2006 2.85 per share (estimated cost based on 739,992,912 shares in issue at 8 March 2007)	**(21,090)**
Estimated undistributed revenue for Section 842 purposes*	**8,307**

* Undistributed revenue comprises 12.6% of income from investments of £65,821,000 (see note 3).

11 Investments

	Listed* £'000s	Unlisted £'000s	Total £'000s
Cost at 1 January 2006	1,736,967	69,827	1,806,794
Unrealised appreciation/(depreciation) at 1 January 2006	720,550	(6,980)	713,570
Valuation at 1 January 2006	2,457,517	62,847	2,520,364
Movements in the year			
Purchases at cost	1,542,794	47,766	1,590,560
Sales – proceeds	(1,717,954)	(13,827)	(1,731,781)
– realised (losses)/gains	(14,370)	5,158	(9,212)
Movement in unrealised appreciation/(depreciation)	208,130	635	208,765
Valuation at 31 December 2006	2,476,117	102,579	2,578,696
Cost at 31 December 2006	1,775,497	106,568	1,882,065
Unrealised appreciation/(depreciation)	700,620	(3,989)	696,631
Valuation at 31 December 2006	**2,476,117**	**102,579**	**2,578,696**

*Includes investments listed on the Alternative Investment Market

Gains/(losses) on investments held at fair value	**2006 £'000s**	2005 £'000s
Realised gains based on historical cost	**216,493**	234,021
Less: amounts recognised as unrealised in previous years	**(225,705)**	(149,317)
Realised (losses)/gains based on carrying value at previous balance sheet date	**(9,212)**	84,704
Net movement in unrealised appreciation	**208,765**	396,386
Gains on investments	**199,553**	481,090

Stock lending	**2006 £'000s**	2005 £'000s
Aggregate value of securities on loan at 31 December	**72,328**	94,215
Maximum aggregate value of securities on loan during the year	**92,871**	266,052
Income from stock lending during the year	**270**	317

In respect of securities on loan at the year end, the Company held £76,393,000 (2005: £99,530,000) as collateral, the value of which exceeds the value of the loan securities by 6% (2005: 6%). In respect of the maximum aggregate value of securities on loan during the year, the Company held £100,456,000 (2005: £279,776,000) as collateral, the value of which exceeded the value of the securities on loan by 8.1% (2005: 5%). F&C received remuneration of £83,000 (2005: £105,000) for managing part of the Company's stock lending activities.

Investments managed or advised by the F&C Group

Investments include £28.0 million (2005: £71.4 million) of funds and investments managed or advised by the Company's Manager (F&C) or its subsidiaries. These investments represent 1.1% (2005: 2.8%) of total assets less current liabilities

Notes on the Accounts (continued)

11 Investments (continued)

(excluding loans) of the Company. Under the terms of the Company's Management Agreement with F&C set out in note 4, the management fee calculation excludes the value of all such holdings. During the year the Company purchased £0.3 million (2005: £0.4 million) of investments, and received £21.8 million from the liquidation of a fund. Further investments totalling £28.4 million and formerly managed by F&C were transferred during the year to another manager.

Unlisted investments

Unlisted investments include £89.0 million of investments described as Private Equity, together with £13.6 million of other investments in Funds or Partnerships, the underlying portfolios of which comprise principally of unlisted investments. These are valued in accordance with the policies set out in note 2 on the accounts.

It is in the nature of private equity and similar unlisted investments that they may be loss making, with no certainty of survival, and that they may prove difficult to realise. The concept of "fair value" as applied to such investments is not precise and their ultimate realisation may be at a value significantly different from that used in the accounts.

12 Subsidiaries and substantial interests

Subsidiary undertakings

The consolidation of the subsidiary undertakings is not material for the purpose of giving a true and fair view and hence in accordance with Section 229 of the Companies Act 1985, the Company has not prepared consolidated accounts.

			At 31 December 2006	
Company and business	Country of registration, incorporation and operation	Number and class of shares held	Holding %	Capital and reserves £'000s
F&C Securities Limited (dormant – Investment dealing)	England	100 ordinary shares of £1	100	(538)

Substantial interests

At 31 December 2006 the Company held more than 5% of one class of the capital of the following undertakings held as investments, none of which, in the opinion of the Directors, represent a participating interest.

Investment funds	Country of registration and incorporation	Number and class of Shares held	Holding %
Esprit Capital Fund 1 L.P.	England	–	6.40
Dover Street VI L.P.	USA	–	11.12
F&C Portfolios Fund SICAV			
European High Yield Bond Fund*†	Luxembourg	1,387,000 shares	37.39
F&C US Smaller Companies PLC*	England	3,063,085 ordinary shares of 25p	13.61
Frontiers Capital II L.P. England		–	7.90
Latin American Extra Yield Fund*	Eire	965,000 shares	47.16
Merrill Lynch Latin American Investment Trust	UK	4,860,012 shares	10.17
Pantheon Europe Fund III LP	USA	–	44.41
Pantheon Asia Fund IV LP	Channel Islands	–	8.40
Utilico Emerging Markets Utilities Limited	Bermuda	18,951,661 ordinary shares of 10p	11.51
		3,790,332 warrants	11.52
Utilico Investment Trust plc	England	6,481,367 ordinary consolidated shares of 1.5625p	10.02
		3,299,498 3.75% loan stock 31/12/09	16.53
		2,337,927 warrants	12.08
		3,824,705 zero dividend preference 177.52p shares	8.42
U.S. Ventures Series II Cayman Islands		266,650 shares	41.11

* Investment funds managed by companies within the F&C Group.

† The holding represents 2.05% of the voting rights in the F&C Portfolios Fund SICAV.

13 Debtors

	2006 £'000s	2005 £'000s
Investment debtors	**3,990**	3,728
Prepayments and accrued income	**4,927**	4,634
Overseas taxation recoverable	**281**	81
Other debtors	**3**	3
	9,201	8,446

14 Creditors: amounts falling due within one year

Foreign currency loans **Non-instalment debt payable on demand or within one year**	2006 £'000s	2005 £'000s
¥6,000m repayable January 2007	**25,729**	–
¥3,900m repayable January 2007	**16,724**	–
US$50m repayable January 2007	**25,547**	–
	68,000	–

The exchange rate at which short-term debt was converted to sterling is US$1.95715 and ¥233.20425. At 31 December 2006 the Company had committed loan facilities of £40 million and £30 million expiring in September and October 2007 respectively, upon which commitment commission is charged on undrawn amounts at commercial rates. The terms of these loan facilities, including those relating to accelerated repayment and costs of repayment, are typical of those normally found in a facility of this nature.

At 8 March 2007 short-term borrowings totalled £83,908,000.

15 Creditors: amounts falling due within one year

Other	2006 £'000s	2005 £'000s
Cost of ordinary shares repurchased	**20,985**	872
Investment creditors	**2,337**	5,710
Performance fee	**3,684**	–
Other accrued expenses	**2,329**	2,936
	29,335	9,518

Notes on the Accounts (continued)

16 Geographical and industrial classification

a)	UK %	North America %	Europe ex UK %	Japan %	Developed Asia %	Emerging Markets %	2006 Total %	2005 Total %
Equities and convertibles								
Oil and gas	7.0	1.1	1.5	0.1	0.2	1.8	**11.7**	11.7
Basic materials	2.5	0.4	0.4	0.6	0.7	0.7	**5.3**	4.9
Industrials	2.4	2.3	1.3	0.8	0.4	1.3	**8.5**	7.5
Consumer goods	2.0	1.8	1.2	1.2	0.4	0.7	**7.3**	6.9
Health care	3.4	2.9	0.8	0.2	0.1	–	**7.4**	8.8
Consumer services	4.4	2.3	0.3	0.5	0.4	0.3	**8.2**	10.3
Telecommunications	2.6	0.3	0.5	0.2	–	1.1	**4.7**	4.7
Utilities	3.4	0.5	0.7	0.2	–	0.4	**5.2**	3.3
Financials	14.6	4.1	4.6	1.2	1.8	3.5	**29.8**	31.9
Private equity	–	1.8	1.7	–	–	–	**3.5**	1.6
Technology	0.8	3.0	0.7	0.8	–	2.1	**7.4**	7.6
Total equities and convertibles	43.1	20.5	13.7	5.8	4.0	11.9	**99.0**	99.2
Fixed interest stocks	–	–	0.7	–	–	–	**0.7**	0.6
Total Investments	43.1	20.5	14.4	5.8	4.0	11.9	**99.7**	99.8
Net current assets (excluding loans)	(0.3)	0.3	0.1	0.1	–	0.1	**0.3**	0.2
Total assets less current liabilities (excluding loans)	**42.8**	**20.8**	**14.5**	**5.9**	**4.0**	**12.0**	**100.0**	
Total 2005	41.1	21.7	15.7	6.2	3.5	11.8		100.0

b)	UK %	North America %	Europe ex UK %	Japan %	Developed Asia %	Emerging Markets %	2006 Total %	2005 Total %
Net assets 2006	**41.4**	**21.4**	**15.4**	**4.5**	**4.3**	**13.0**	**100.0**	
Net assets 2005	38.7	22.6	16.4	6.5	3.5	12.3		100.0

Note: Geographical classification of the investment held as fixed assets is determined by location of the major part of the investee company's business.

17 Creditors: amounts falling due after more than one year

Debentures

	2006 £'000s	2005 £'000s
11.25% debenture stock 2014 – secured	**110,000**	110,000
4.25% perpetual debenture stock – secured	**575**	575
	110,575	110,575

The debenture stocks are listed on the London Stock Exchange and are secured by floating charges over the assets of the Company and are stated at nominal value. The 11.25% debenture stock 2014 is redeemable at par on 31 December 2014. The market value of the debenture stocks at 31 December 2006 was £152,037,000 (31 December 2005: £161,224,000). The terms of the debenture stocks which have been issued, including those relating to accelerated repayment and the cost of repayment, are typical of those normally found in financial instruments of this nature. Covenants contained within the 11.25% debenture stock agreement preclude the Company from having, at any time, borrowings, inclusive of the debentures at cost, in excess of the value of Share Capital and Reserves of the Company (as defined in the agreement).

18 Share capital

	Authorised		Issued and fully paid	
		Nominal		Nominal
	Number	£'000s	Number	£'000s
Equity share capital ordinary shares of 25p each				
Shares repurchased by the Company	–	–	(77,277,535)	(19,320)
Balance brought forward	1,103,600,000	275,900	827,254,150	206,814
Balance carried forward	1,103,600,000	275,900	749,976,615	187,494

77,277,535 ordinary shares were repurchased and cancelled during the year at a total cost of £205,879,000. Since the year end 9,983,703 ordinary shares have been repurchased at a total cost of £28,821,000.

19 Capital redemption reserve

	2006	2005
	£'000s	£'000s
Transfer from share capital on repurchase of ordinary shares	**19,320**	21,439
Balance brought forward	**55,948**	34,509
Balance carried forward	**75,268**	55,948

20 Other reserves

	Capital reserve – realised £'000s	Capital reserve – unrealised £'000s	Capital reserves – total £'000s	Revenue reserve £'000s
Balance brought forward	1,331,676	713,767	2,045,443	105,796
Gains and losses transferred in current year				
Realised losses on investments	(9,212)	–	(9,212)	–
Transfer on disposal of investments	225,705	(225,705)	–	–
Increase in unrealised appreciation on investments	–	208,765	208,765	–
Exchange gains and losses on currency balances	4,444	(267)	4,177	–
Management fees and related VAT (see note 4)	(4,589)	–	(4,589)	–
Performance fee and related VAT (see note 4)	(1,756)	–	(1,756)	–
Interest expense (see note 7)	(7,487)	–	(7,487)	–
Taxation of a capital nature (see note 8)	1,227	–	1,227	–
Other capital charges and credits	(121)	–	(121)	–
Revenue return attributable to equity shareholders	–	–	–	48,197
Total gains and losses transferred in current year	208,211	(17,207)	191,004	48,197
Cost of ordinary shares repurchased in year	(205,879)	–	(205,879)	–
Dividends paid in year	–	–	–	(39,183)
Balance carried forward	1,334,008	696,560	2,030,568	114,810

Included within the capital reserve movement for the year is £1,329,000 (2005: £2,027,000) of dividend receipts recognised as capital in nature. £2,772,000 of transaction costs on purchases of investments are included within the capital reserve movements disclosed above (2005: £2,161,000). £2,714,000 of transaction costs on sales of investments are similarly included (2005: £2,113,000).

Notes on the Accounts (continued)

21 Net asset value per ordinary share

	2006	2005
Net asset value per share (with debenture stocks at nominal value)	**321.10p**	291.81p
Net asset attributable at end of period £'000s	**2,408,140**	2,414,001
Ordinary shares of 25p in issue at end of year	**749,976,615**	827,254,150

Net asset value per share cum dividend (with debenture stocks at market value) was 315.57p (31 December 2005: 285.69p).

The market value of debenture stocks at 31 December 2006 was £152,037,000 (31 December 2005: £161,224,000).

22 Reconciliation of total return before finance costs and taxation to net cash inflow from operating activities

	2006 **£'000s**	2005 £'000s
Total return before finance costs and taxation	**257,194**	532,375
Adjust for returns from non-operating activities		
– Gains on investments held at fair value	**(199,553)**	(481,090)
– Exchange losses/gains of a capital nature	**(4,177)**	2,112
– Non-operating expenses of a capital nature	**121**	103
Return from operating activities	**53,585**	53,500
Adjust for non cash-flow items		
– Exchange gains and losses of a revenue nature	**(13)**	31
– Increase/(decrease) in accrued income	**(318)**	206
– Decrease in prepayments	**13**	46
– Increase in creditors	**770**	3,959
– Scrip dividends	**(316)**	(616)
– Effective yield adjustment	**(135)**	(76)
Net cash inflow from operating activities	**53,586**	57,050

23 Reconciliation of net cash movement to movement in net debt

	2006 **£'000s**	2005 £'000s
Net cash movement	**24,106**	1,437
(Decrease)/increase in short-term deposits	**–**	(35,000)
Decrease/(increase) in loans	**(75,520)**	107,976
Change in net debt resulting from cash flows	**(51,414)**	74,413
Exchange movement	**4,177**	(2,112)
Movement in net debt in the year	**(47,237)**	72,301
Net debt brought forward	**(103,185)**	(175,486)
Net debt carried forward	**(150,422)**	(103,185)

	Balance at 1 January 2006 £'000s	Cash flow £'000s	Exchange Movement £'000s	Balance at 31 December 2006 £'000s
Represented by:				
Cash at bank	7,390	24,106	(3,343)	28,153
Foreign currency loans	–	(75,520)	7,520	(68,000)
Debentures	(110,575)	–	–	(110,575)
	(103,185)	(51,414)	4,177	(150,422)

24 Contingencies and capital commitments

(a) Contingencies

At the year end the Company had guaranteed rental commitments by F&C Management Limited (F&C) in respect of a property leased and fully sub-let by F&C. Eureko BV has provided a full indemnity to the Company in respect of this guarantee. There has been no change in the guarantee or the indemnity since the year end.

(b) Capital commitments

The Company had the following capital commitments at the year end.

	2006 Currency	2005 Currency	2006 £'000s	2005 £'000s
HarbourVest Partners VII:				
– Buyout Partnership Fund L.P.	**US$41.3m**	US$59.7m	**21,123**	34,758
– Venture Partnership Fund L.P.	**US$17.1m**	US$23.0m	**8,737**	13,368
– Mezzanine Fund L.P.	**US$7.6m**	US$10.0m	**3,893**	5,823
Dover Street VI L.P.	**US$45.6m**	US$63.1m	**23,285**	36,726
HarbourVest Partners VI – Asia Pacific and Rest of World L.P.	**US$22.4m**	–	**11,432**	–
HarbourVest Partners VIII – Venture Partnership Fund L.P.	**US$39.6m**	–	**20,234**	–
Pantheon Europe Fund III L.P.	**€51.1m**	€84.4m	**34,402**	57,998
Pantheon Asia Fund IV L.P.	**US$45.8m**	–	**23,376**	–
Pantheon Global Secondary Fund III L.P.	**US$45.0m**	–	**22,993**	–
Esprit Capital Fund I L.P.	**£1.4m**	£5.7m	**1,389**	5,691
Frontiers Capital II L.P.	**US$0.02m**	US$0.02m	**8**	9
			170,872	154,373
Uncalled liabilities on nil and partly-paid holdings	**–**	£4.3m	**–**	4,338
			170,872	158,711

Since the year end a further US$60 million has been committed in respect of HarbourVest partners VIII – Buyout Partnership Fund L.P.

25 Related Party Transactions

The following are considered related parties: The Board of Directors (the "**Board**") and F&C Management Limited ("**F&C**"). There are no transactions with the Board other than aggregated remuneration for services as Directors as disclosed in the Directors' Remuneration Report on pages 28 and 29, and as set out in note 6 to the accounts. There are no outstanding balances with The Board at year end. Transactions between the Company and F&C are detailed in Note 4 Management, administration and performance fees and in note 11 where stock lending fees and investments managed and advised by F&C are disclosed and in note 15 the funds owed to F&C at the Balance sheet date in respect of performance fees. The Fund Manager, Jeremy Tigue, who is an employee of F&C Management Limited, had a beneficial interest in 261,435 ordinary shares of the Company at 31 December 2006 and 262,860 at 8 March 2007.

26 Fund risk profile

The Company is an Investment Company and conducts its affairs so as to qualify as an investment trust under the provisions of Section 842 of the Income and Corporation Taxes Act, 1988. In so doing, the Company is exempted from corporation tax on capital gains on its portfolio of investments. The Company's investment objective is to secure long-term growth in capital and income through a diversified international portfolio of equities, with the use of gearing. The large number of listed investments held in the Company's portfolio (over 700 at 31 December 2006), together with the industrial and geographical diversity of the portfolio (shown on pages 5 to 12 and in note 16 on the accounts) enables the Company to spread its risks with regard to liquidity, market volatility, currency movements and revenue streams. In addition, the ability of the Company to gear up via long-term and short-term borrowings, in currencies matching those to which the portfolio is exposed, enables it to take a long-term view of the countries and markets in which it is invested, without having to be concerned about short-term volatility. The Company has not normally invested in derivative products. The Company's principal financial risks, and the Directors' approach to management of those risks, are set out in the table on page 58.

Notes on the Accounts (continued)

26 Fund risk profile (continued)

The accounting policies which govern the reported Balance Sheet carrying values of the underlying financial assets and liabilities, as well as the related income and expenditure, are set out in note 2 on the Accounts. The policies are in compliance with UK Accounting Standards and best practice. Under these policies, all financial assets are carried at fair value. Financial liabilities are also stated at fair value, except as noted in respect of the Debenture Stocks in note 17 on the Accounts. The Company does not make use of hedge accounting rules. Details of the interest rate profiles of the Company's financial assets and liabilities are set out below, together with the currency exposures of the net monetary assets/(liabilities).

Financial Assets

The interest rate profile of the Company's financial assets (excluding short-term debtors) at 31 December 2006 was:

Currency	Floating rate financial assets £'000s	Fixed rate financial assets £'000s	Effective yield %
US dollars (undated)	8,377	–	–
Sterling (undated)	15,354	–	–
Euros (undated)	365	–	–
Japanese Yen (undated)	2,276	–	–
Indian Rupee (undated)	1,365	–	–
Other (undated)	416	–	–

The Company's investments in equity shares and similar instruments have been excluded from the interest rate risk profile, as they do not pay interest nor do they have maturity dates.

The floating rate financial assets comprise sterling bank deposits that earn interest based on the six-month London Inter Bank Offer Rate (LIBOR) and foreign currency bank deposits that earn interest at competitive rates set by JP Morgan Chase.

The interest rate profile of the Company's financial assets (excluding short-term debtors) at 31 December 2005 was:

Currency	Floating rate financial assets £'000s	Fixed rate financial assets £'000s	Effective yield %
US dollars (undated)	8,037	–	–
Sterling (undated)	(1,451)	4,487	6.04
Other (undated)	804	–	–

Financial Liabilities

The interest rate profile of the Company's financial liabilities (including loans and debentures but excluding other short-term creditors) at 31 December 2006 was:

Currency	Floating rate financial liabilities £'000s	Fixed rate financial liabilities £'000s	Effective yield %
Sterling (payable in more than five years)	–	110,575*	11.21
Japanese Yen (payable on demand within one year)	–	42,452	0.70
US dollars (payable on demand within one year)	–	25,368	5.39

* Includes £575,000 perpetual debt

The maturity analysis of loans and debentures is set out in notes 14 and 17.

26 Fund risk profile (continued)

The interest rate profile of the Company's financial liabilities (including loans and debentures but excluding other short-term creditors) at 31 December 2005 was:

Currency	Floating rate financial liabilities £'000s	Fixed rate financial liabilities £'000s	Effective yield %
Sterling (payable in more than five years)	–	110,575*	11.21

* Includes £575,000 perpetual debt

The maturity analysis of loans and debentures is set out in note 17.

Currency Exposure

The profile of the Company's net monetary assets/(liabilities) at 31 December, by currency, was:

	€	¥	US$	Other currencies	Total £'000s
2006: Net monetary assets/(liabilities) expressed in £'000s	1,643	(40,099)	16,959	2,713	(18,784)
2005: Net monetary assets/(liabilities) expressed in £'000s	(949)	557	10,242	1,760	11,610

Fair Value

The Directors are of the opinion that the financial assets and liabilities of the Company are stated at fair value in the balance sheet with the exception of the debenture stocks which are stated at par in accordance with FRS4. The market value of debenture stocks at 31 December 2006 was £152,037,000 (2005: £161,224,000) – see note 17.

Notes on the Accounts (continued)

26 Fund risk profile (continued)

Management of Financial Risks

Risk	Management of Risk
Credit	
Failure by counterparties to deliver securities which the Company has paid for, or to pay for securities which the Company has delivered.	All transactions are settled on the basis of delivery against payment, except where local market conditions do not permit. Payments relating to Private Equity Investments are made only to counterparties with whom a contracted commitment exists. Securities are loaned to third parties only in exchange for collateral which exceeds the value of the securities throughout the duration of the loan. Only approved counterparties are used.
Liquidity	
Difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments and share buy-backs.	The Company's investments are principally listed equities and are for the most part readily realisable. All securities are held in the name of the Company by the Company's appointed custodian. The Company has the power to take out borrowings, both short-term and long-term. In addition, at 31 December 2006, the Company had an overdraft facility of £2 million and committed loan facilities of £70 million. Covenants relating to these borrowings are continuously monitored. Cash and deposits are held with banks rated AA or higher.
Market Price	
The Company's assets consist principally of listed equities, the values of which are determined by market forces.	The Board manages the market price risks inherent in the Company's portfolio by ensuring full and timely access to relevant information from the Manager. The Board meets regularly and at each meeting reviews investment performance and financial results.
Interest Rate	
Assets, liabilities and net revenue may be affected by interest rate movements.	The Company's assets may include fixed interest stocks, the values of which are regularly reviewed by the Board. The Company finances part of its activities through loans and debentures, in currencies and at levels and interest rates approved by the Board. The effect of interest income and costs on net revenue is monitored monthly by the Board.
Currency	
Certain of the Company's assets and liabilities are denominated in currencies other than sterling. As a result, movements in exchange rates may affect the sterling value of the portfolio, cash, investment purchases and sales and income.	Income denominated in foreign currencies is converted to Sterling on receipt. Borrowings are limited to currencies and amounts commensurate with the asset exposure to those currencies. The Company does not normally hedge its foreign currency exposure through derivatives.
Taxation	
Non-compliance with the rules of S842 of the Income and Corporation Taxes Act 1988 could result in the Company being subjected to corporation tax on gains realised on sale of the investment portfolio.	All Investment movements are monitored by the Board to ensure that no purchase results in any one investment being worth more than 15% of the total value of the portfolio. The Board also considers the level of forecast income and expenditure in order to ensure that income is derived mainly from shares and securities and that the proposed dividends payable to shareholders do not result in breach of S842 retention rules.

Ten Year Record

Assets

at 31 December

£m	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003***	**2004***	**2005**	**2006**
Total Assets less current liabilities (excl loans)	1,951	2,251	2,592	3,234	3,137	2,573	1,915	2,259	2,346	2,527	**2,587**
Prior charges (incl loans)	181	113	202	212	208	218	218	201	215	111	**179**
Available for ordinary shares	1,770	2,138	2,390	3,022	2,929	2,355	1,697	2,058	2,131	2,416	**2,408**

Net Asset Value

at 31 December

	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003***	**2004***	**2005**	**2006**
NAV per share	168.4p	203.4p	227.4p	296.2p	296.9p	248.1p	178.9p	216.9p	233.4p	291.8p	**321.1p**
NAV total return on 100p – 5 years (per AIC)											**140.2p**
NAV total return on 100p – 10 years (per AIC)											**218.3p**

Share Price

at 31 December

	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Mid-market price per share	150.3p	175.8p	188.3p	247.5p	267.5p	221.5p	163.0p	188.5p	194.5p	258.5p	**284.5p**
Discount/(premium) to NAV %	10.7	13.6	17.2	16.4	9.9	10.8	8.9	13.1	16.7	11.4	**11.4**
Share price High	169.5p	185.5p	210.0p	247.5p	288.5p	272.5p	235.0p	191.8p	196.0p	259.0p	**287.5p**
Share price Low	147.3p	147.5p	153.3p	188.3p	229.8p	180.5p	150.0p	141.0p	163.0p	188.0p	**240.0p**
Share price total return on 100p – 5 years (per AIC)											**142.4p**
Share price total return on 100p – 10 years (per AIC)											**224.3p**

Revenue

for the year ended 31 December

£'000s	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Available for ordinary shares	29,178	30,060	34,181	39,100	37,542	38,294	38,758	40,893	42,293	49,122	**48,197**
Earnings per share	2.78p	2.86p	3.25p	3.76p	3.76p	4.03p	4.08p	4.31p	4.54p	5.57p	**6.16p**
Dividends per share	2.28p	2.51p	2.77p	2.90p	3.10p	3.30p	3.50p	3.70p	4.20p	4.75p	**5.30p**

Performance

(rebased at 31 December 1996)

	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
NAV per share	100.0	120.8	135.0	175.9	176.3	147.3	106.2	128.8	138.6	173.3	**190.7**
Mid-market price per share	100.0	117.0	125.3	164.7	178.0	147.4	108.4	125.4	129.4	172.0	**189.3**
Earnings per share	100.0	102.9	116.9	135.3	135.3	145.0	146.8	155.0	163.3	200.4	**221.7**
Dividends per share	100.0	110.1	121.5	127.2	136.0	144.7	153.5	162.3	184.2	208.3	**232.5**
RPI	100.0	103.6	106.5	108.4	111.5	112.3	115.6	118.9	123.0	125.7	**131.3**

* Restated for changes in accounting policies

Ten Year Record (continued)

Cost of running the Company

for the year ended 31 December

%	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Expressed as a percentage of average total assets											
Management fees	0.26	0.24	0.24	0.24	0.25	0.32	0.38	0.36	0.30	0.30	**0.32**
Management fees and performance fees	0.26	0.24	0.24	0.24	0.25	0.32	0.38	0.36	0.30	0.37	**0.39**
Total operating costs	0.41	0.37	0.38	0.40	0.43	0.52	0.56	0.58	0.50	0.53	**0.53**
Expressed as a percentage of average net assets											
Management fees	0.28	0.26	0.26	0.25	0.26	0.35	0.42	0.40	0.33	0.31	**0.35**
Management fees and performance fees	0.28	0.26	0.26	0.25	0.26	0.35	0.42	0.40	0.33	0.40	**0.42**
Total operating costs	0.44	0.40	0.40	0.42	0.46	0.57	0.63	0.64	0.55	0.57	**0.58**

Gearing

at 31 December

%	1996	1997	1998	1999	2000	2001	2002	2003*	2004*	2005	2006
Effective gearing	4.7	1.8	0.3	4.1	4.6	5.7	8.1	8.3	7.6	4.4	**7.0**
Fully invested gearing	10.1	5.2	8.3	7.0	7.1	9.3	12.8	9.8	10.1	4.6	**7.4**

* restated for changes in accounting policies

Definitions

Prior charges	All debentures, loans and overdrafts, used for investment purposes.
Management and performance fees	All management fees and performance fees charged to revenue and capital, excluding VAT.
Operating costs	All costs charged to revenue and capital, including management and performance fees but excluding related taxation relief, interest costs, taxation, the costs of purchase of share capital and the costs of buying and selling of investments.
Effective gearing	Prior charges at balance sheet value, less cash and fixed interest stocks, as a percentage of net assets (also termed “Actual gearing”).
Fully invested gearing	Prior charges at balance sheet value as a percentage of net assets (also termed “Potential gearing”).
Total assets	Total assets less current liabilities before deducting prior charges.
NAV	Net asset value (assuming prior charges at balance sheet value).
RPI	All-items Retail Prices Index.
Average net assets	Average of net assets at end of each calendar quarter.
Average total assets	Average of total assets at end of each calendar quarter.
NAV total return	Return on net assets per share assuming that all dividends paid to shareholders were reinvested.
Price total return	Return to the investor on mid-market prices assuming that all dividends received were reinvested.
AIC	Association of Investment Companies.
Discount to NAV/premium	Based on Net Asset Value with prior charges at balance sheet value.

Information for Shareholders

Net Asset Value and Share Price

The Company's net asset value is released daily, on the working day following the calculation date, to the London Stock Exchange. The current share price of Foreign & Colonial Investment Trust is shown in the investment trust section of the stockmarket page in most leading newspapers, usually under "For & Col". Investors in New Zealand and Germany can obtain share prices from leading newspapers in those countries.

Performance Information

Information on the Company's performance is provided in the interim and final reports which are sent to shareholders in August and April respectively. More up-to-date performance information, including the full list of investments in the portfolio as at the most recent quarter end, is available on the Internet at www.foreignandcolonial.com under "Company facts". The F&C website (at www.fandc.com) also provides a monthly update on the Company's geographic spread and largest holdings, along with comments from the Fund Manager.

UK Capital Gains Tax ("CGT")

An approved investment trust does not pay tax on capital gains. UK resident individuals may realise net capital gains of up to £8,800 in the tax year ended 5 April 2007 without incurring any tax liability.

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

For UK investors who acquired Foreign & Colonial Investment Trust stock prior to 31 March 1982, the costs for CGT purposes, based on the price at that date, adjusted for capital changes, are as follows:

	Unit of quotation	Market price
Ordinary shares	25p	14.875p
4.25% perpetual debenture stock	£100	£28.25

Income Tax

The proposed final dividend of 2.85p per share is payable on 9 May 2007. Individual UK resident shareholders who are subject to UK income tax at the lower rate or the basic rate have no further tax liability. Shareholders not resident in the UK, and any shareholders in doubt as to their tax position, should consult their professional advisers.

Association of Investment Companies ("AIC")

Foreign & Colonial Investment Trust is a member of the AIC, which publishes a monthly statistical information service in respect of member companies. The publication also has details of ISA, PEP and other investment plans available. For further details, please contact the AIC on 020 7282 5555, or visit the website: www.theaic.co.uk.

aic
The Association of
Investment Companies

How to Invest

Our Manager, F&C, runs a number of savings products which have been set up to provide cost effective and flexible ways to invest. Details of these products are listed below. You can buy Foreign & Colonial Investment Trust shares using a bank or stockbroker or through a telephone dealing service. The shares can also be bought on-line: the F&C website at www.fandc.com has a link to Selftrade, one of Europe's biggest on-line stockbrokers.

Gains arising from assets held in an Individual Savings Account and Child Trust Fund are exempt from tax. Interest and dividends received on assets in these savings products are free of income tax, and there are income tax savings for higher rate taxpayers.

Private Investor Plan ("PIP")

It only costs 0.2% (plus 0.5% Government Stamp Duty) to invest in Foreign & Colonial Investment Trust via this simple savings scheme and there are no ongoing charges. You can invest from £50 each month via a Direct Debit (£25 on behalf of a child) or from £500 as a lump sum. The minimum for top-up investments is £250. Investments in the PIP can now be made online.

Pension Savings Plan ("PSP")

You can maximise your tax benefits and save for your retirement using this low cost Personal Pension Plan. Contributions can be made via a minimum £1,000 lump sum or by a monthly minimum Direct Debit of £50. The minimum top-up is £500. Now that personal pensions are no longer restricted to those with earnings of their own, almost everyone under the age of 75 is eligible. This means that you can invest on behalf of non-working spouses or partners and children.

Child Trust Fund ("CTF")

F&C has launched a CTF so that parents can invest the Government voucher issued to all children born since 1 September 2002. Parents and grandparents (or other relatives) can add contributions totalling £1,200 a year. You can invest from £25 each month via Direct Debit or from £300 for lump sums once you have invested your voucher.

Individual Savings Account ("ISA")

You can invest up to £7,000 each year in F&C's Maxi ISA, or £4,000 in the Mini ISA – the minimum monthly Direct Debit is £50, minimum lump sum investment is £500 and the minimum top-up is £250. Investments in the ISA can be made online.

ISA investments can also be phased over three or six months. This is especially useful near the end of the tax year when the option for monthly investment is no longer viable.

Personal Equity Plan ("PEP")

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

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

Potential investors are reminded that the value of investments and the income from them may go down as well as up and investors may not receive back the full amount invested. Tax benefits may vary as a result of statutory changes and their value will depend on individual circumstances. For further details on the savings schemes and application forms, please contact Investor Services on

0800 136 420 info@fandc.com

or Broker Support on

08457 992 299 adviser.enquiries@fandc.com

(UK calls charged at the local rate)

Fax **0131 243 1315**

You can also find more information on the website:

www.fandc.com

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

Investor Services Team, F&C Management Limited, 80 George Street, Edinburgh EH2 3BU

If you have trouble reading small print, please let us know. We can provide literature in alternative formats, for example, large print or on audiotape. Please call 0845 600 3030 for more details.

Notes

Notes

Registered Office:

Exchange House, Primrose Street, London EC2A 2NY
Tel: 020 7628 8000 Fax: 020 7628 8188
www.foreignandcolonial.com
info@fandc.com

Registrars:

Computershare Investor Services PLC,
PO Box 82, The Pavilions, Bridgwater Road,
Bristol BS99 7NH
Tel: 0870 707 1529 Fax: 0870 703 6143
www.computershare.com
web.queries@computershare.co.uk