Foreign & Colonial
INVESTMENT TRUST

Foreign & Colonial Investment Trust PLC

Report and Accounts

2007

About your Company

Objective

To secure long-term growth in capital and income through a policy of investing primarily in an internationally diversified portfolio of publicly listed equities, as well as unlisted securities and private equity, with the 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 £2.6 billion investing in over 680 companies in 35 countries.

Some 100,000 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 15.4% and 14.1% respectively over one year.

Net asset value and share price total returns of 63.1% and 73.9% over three years.

Net asset value and share price total returns of 105.4% and 116.0%, or 7.5% and 8.0% per annum compound, respectively over ten years.

The net asset value total return has beaten the benchmark over one, three, five and ten years, and the weighted average of the close peer group over one, five and ten years.

Dividend up 133.1%, or 8.8% per annum compound, over ten years.

Increase in dividend every year for the past 37 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 and reduce discount volatility – we have introduced a buy-back policy to keep the discount below 10% in normal market conditions.

Low charges to investors, typically well below those for comparable unit trusts – our total expense ratio for 2007 was 0.71%, including performance fee 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

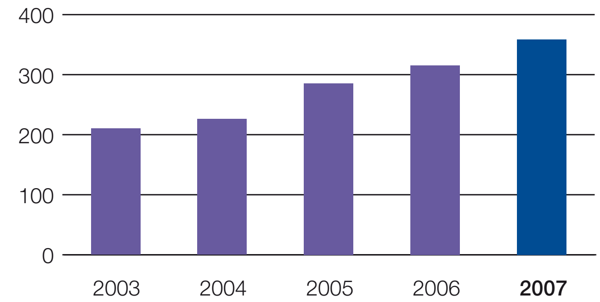
Summary of Results

Net asset value per share up 13.6% to 358.63p (debt at market value)

Annual dividends per share up 10.4% to 5.85p

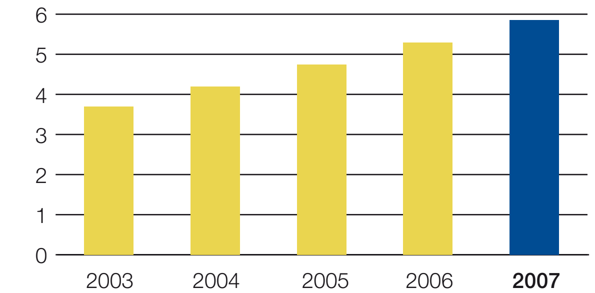
Share price up 12.0% to 318.75p

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



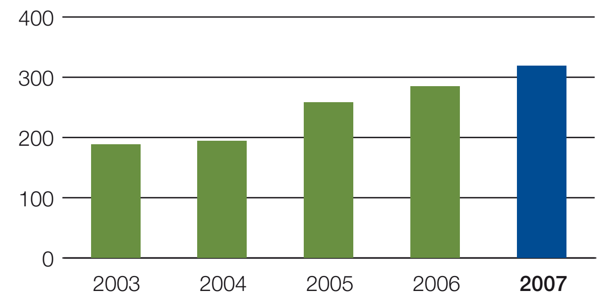
Source: F&C Management Limited

Dividends per share – pence



Source: F&C Management Limited

Mid-market price per share at 31 December – pence



Source: F&C Management Limited

Contents

Financial Calendar

AGM	**1 May 2008**
Final dividend payable	**8 May 2008**
Interim results for 2008 announced	**end July 2008**
Interim dividend payable	**9 September 2008**
Final Results for 2008 announced	**March 2009**

Registered in England with Company Registration No. 12901

Chairman's Statement

Mark Loveday Chairman

Dear Shareholder

Your company has had an excellent year, achieving our four key objectives for 2007.

- **To exceed our benchmark.** Our net asset value total return was 15.4%, well ahead of the total return of 7.9% for the 40% FTSE All-Share and 60% FTSE WI World ex UK benchmark.
- **To beat our close peer group.** The size weighted average net asset value total return of our close peer group was 13.4% against our total return of 15.4%.
- **To develop our private equity strategy.** We had excellent performance from our private equity portfolio, which grew to 7.4% of the portfolio.
- **To increase the dividend faster than the rate of inflation.** The total dividend for 2007 will be 10.4% higher than the previous year. We are forecasting a further increase of 10.3% for 2008.

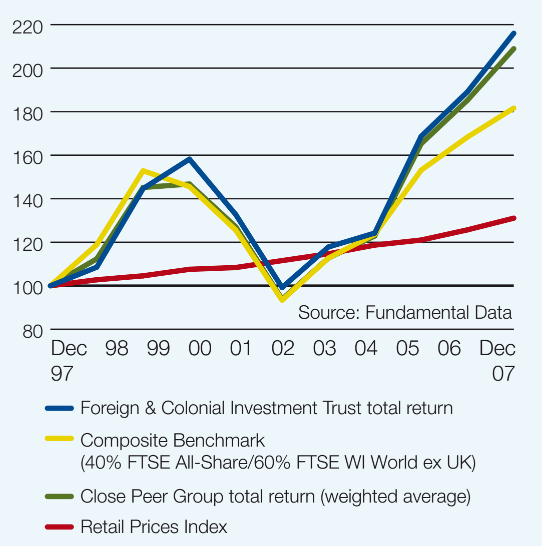
The share price at 31st December 2007 was 318.75 pence, up 12.0% over the year. Since the year end, stock markets around the world have been very volatile and share values have fallen, with the result that the Company's share price is currently standing at 280.25 pence.

Performance

We expected 2007 to be a volatile year, but the problems in the US sub-prime mortgage market and the resulting credit crunch were worse than we had anticipated. After a strong performance from most markets in the first half of the year, conditions were far more difficult from July onwards.

We outperformed our benchmark in both halves of the year and all aspects of management contributed to our returns. We had more of our assets invested in strong markets, principally in Asia and Emerging Markets, and less in North America and Japan which were poor performers. We also had a very good year in private equity. Our borrowings were again helpful in rising markets, especially as all our short-term borrowings were in Yen when it was a particularly weak currency. Stock selection across the portfolio showed the sharpest improvement in its contribution to our results, most notably in North America. Over the year we reduced our holdings in the UK, Europe and Emerging Markets, primarily to fund private equity investments which now account for 7.4% of the portfolio, significantly closer to our 10% target. We believe that our diversification in our Private Equity

FCIT's share price total return vs Benchmark, Close Peers and Retail Prices Index over 10 years



investments should help us in what is likely to be a more difficult year ahead for the private equity sector.

Our buyback policy is one of the most robust in the investment trust sector. We bought back 8.6% of our shares, adding 3.2 pence to net asset value per share.

I explained last year that the Board were adding performance against our closest peers to the benchmark performance criteria already included in the performance fee arrangements with F&C. We are pleased that F&C have earned a fee of £6.2m for performance against these two measures. If the Company's net assets at the beginning of the year had simply been invested in the benchmark, the return earned on your behalf would have been approximately £177m less than was actually achieved. Similarly, had the growth in your opening assets only matched the weighted average return of our close peer group, the Company would have earned £47m less than was achieved in the year. In consideration for this out-performance, the Manager's performance fee is relatively modest and well-earned. Excluding the effect of outflows from share buy-backs and dividends, your Company's performance equates to growth in your opening assets of approximately £364m.

We are also pleased that our total expense ratio, including this performance fee, is still only 0.71% of average total assets and 0.48% excluding this fee. This is far lower than most other investment trusts, let alone open-ended funds.

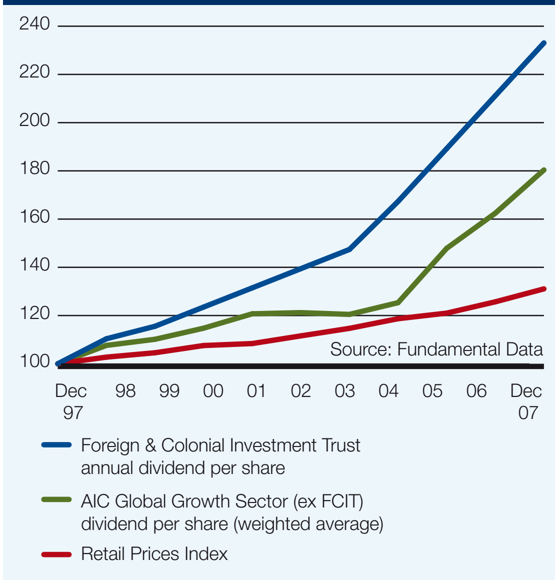
Following two recent rulings on VAT, which are described more fully in the notes on the accounts, we are no longer paying VAT on management fees, which cost us £446,000 in the last full year it applied. We have recognised £5m as recoverable in our 2007 accounts to reflect the majority of past VAT payments. Your Board expects that in time there could be modest further recoveries, including some interest.

Dividends

This time last year we forecast a total dividend for 2007 of 5.85 pence per share, an increase of 10.4% over 2006. The interim dividend of 2.70 pence per share was paid in September 2007, and the Board is recommending a final dividend of 3.15 pence per share to be paid in May 2008.

We are now forecasting a total dividend for 2008 of 6.45 pence per share, representing an increase of 10.3%. This continues our record of increases well ahead of the rate of inflation. At the same time we have substantially strengthened our revenue reserve. This means we can pursue our investment objective with complete flexibility and have no need to make investments just for income reasons. The dividend has increased every year since 1970 and we believe the cumulative effect of a rising dividend is a very important part of shareholder returns, particularly for the increasing proportion of shareholders who reinvest their dividends. This time next year I expect to be able to make a firm forecast for the 2009 dividend.

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



Directors

As I explained last year, Ewen Macpherson and John Rennocks will be retiring from the Board after the Annual General Meeting. They both became Directors in 1997 and have made a huge contribution to the Board and its committees since then, for which I am very grateful.

I also indicated that we were looking to recruit new talent to our Board, and I am pleased to report that we have found three new excellent directors who will bring a wide range of experience and skills to our Board. Stephen Burley, who became a Director on 1 January 2008, has a wealth of investment knowledge from a successful career managing the Rio Tinto Pension Fund for 25 years. Sir Roger Bone KCMG, who became a Director on 6th March 2008, had a distinguished 38-year career in the diplomatic service serving as British Ambassador to Sweden from 1995 to 1999 and to Brazil from 1999 to 2004, and is now President of Boeing UK. Stephen Burley and Roger Bone will be standing for election at the Annual General Meeting. Sir David Clementi, who will become a Director on 23 May 2008, is Chairman of Prudential PLC and a non-executive Director of Rio Tinto PLC. He was Deputy Governor of The Bank of England from 1997 to 2002 and prior to that had a successful career in investment banking at Kleinwort Benson Group from 1975 to 1997, latterly as Chief Executive.

Following the annual performance appraisal process, the Board is also recommending the re-election of Sir Michael Bunbury who has served on the Board for ten years and therefore now stands for re-election each year.

Following the Annual General Meeting, it is planned that Max Ward will become the Senior Independent Director. Sir Michael Bunbury will become Chairman of the Audit Committee, and Ronald Gould will join this Committee.

It is proposed that the Private Equity Committee and the Service Providers and Marketing Committee will be dissolved on 1 May 2008, as both these committees have achieved their main objectives. The Private Equity Committee has successfully carried out the transition towards holding a significant interest in private equity and the Service Providers and Marketing Committee has extensively reviewed and encouraged F&C's promotion and marketing of the Company. Their ongoing responsibilities will be reallocated to the Fund Manager or the Audit Committee as appropriate or, in certain cases, to the Board.

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. Over the last two and a half years we have changed the structure and fee arrangements with F&C and the role of Jeremy Tigue, our Fund Manager, has been enlarged. We believe these changes have been good for shareholders.

Friends Provident has recently announced that it is intending to sell its 52% shareholding in F&C Asset Management PLC, which owns our Manager, F&C, and at the same time the F&C Asset Management Board announced that it would be closely involved with the sale process. Your Board is carefully monitoring these developments at F&C and is looking for a satisfactory outcome to ensure the continued successful management of your investments. In the event of a change of control of F&C, we have the right to terminate our management agreement with F&C on three months' notice.

Strategy for shareholder value

Making your money grow is our business. We believe we have significant strengths to enable us to do this successfully over the long term.

£1,000 invested 20 years ago (total return basis)

	£
Foreign & Colonial Investment Trust share price	9,924
Close peer group share price (weighted average)	9,163
FTSE All-share	7,855
Building society deposit account*	2,600

Source: Fundamental Data and the AIC

The first strength is our focus on equities which we believe will produce the best combination of long-term income and capital growth. We are on target to reach a 10% weighting in private equity in 2010. We expect private equity will continue to outperform listed markets, so enhancing our own returns.

The second is our global reach and ability to move assets around the world. In the last five years our positions in emerging markets have added significantly to our overall returns.

Within markets we can do whatever is best to achieve returns – using F&C, using other managers or funds or any combination of these. We have more flexibility than ever before to find the best solutions in each market.

Sensible use of gearing has been a feature of Foreign and Colonial for decades and the ability to borrow in any currency to add to returns is a big advantage.

Buying back shares at a discount to net asset value enhances net asset value per share and reduces discount volatility. Our size means we can manage this easily without jeopardising our low total expense ratio.

Not all of these attributes will work each year, but we are confident that they, together with our low expense ratio, will contribute to the long-term absolute and relative performance of your Company.

Marketing

We have more shareholders than any other investment trust and a significant long-term growth opportunity with Child Trust Funds. We need to work hard to promote Foreign & Colonial to new investors, and as part of our marketing initiatives in 2008 we are sponsoring a garden at the Chelsea Flower Show, as we believe there is a good match between keen gardeners and potential investors in our shares.

The future

2008 has got off to a difficult and volatile start and there is a significant risk that the credit crunch may cause a global recession. The impact of high oil, commodity and food prices on inflation is another major concern. However, the US is moving quickly to try to revive its economy with interest rate cuts and a fiscal stimulus. If it succeeds, there could be some very attractive buying opportunities at some point during the year.

Electronic communications

Arrangements have been put in place for shareholders to access the Annual Report and Accounts 2007 via the Company's website and, for those holding their shares directly on the Company's main share register, to lodge their proxy vote online. We intend to implement similar arrangements for investors in the F&C savings plans later in the year.

F&C Savings Plans proportional voting

F&C has modified its arrangements under which investors in its savings plans vote at shareholder meetings. Under the new arrangements, it is intended that the nominee company, which holds 36.5% of the Company's share capital on behalf of these investors, will vote the shares held on behalf of plan holders who have not returned their voting directions in proportion to those who have. Plan holders have the right to exclude their shares from the proportional voting arrangement if they wish. It is intended that F&C will implement this arrangement for the Annual General Meeting, subject to a threshold of 5% of the shares held in the savings plans being voted.

Annual General Meeting

I do hope you will be able to attend the Annual General Meeting at Merchant Taylors' Hall in the City of London at 12 noon on Thursday 1 May 2008. Our Fund Manager will make a presentation and you will be able to meet and question the Directors at the meeting and afterwards over refreshments.

Mark Loveday
Chairman
7 March 2008

Fund Manager's Review

Jeremy Tigue Fund Manager

Almost everything went right in 2007. We had the right strategy and we implemented it successfully with asset allocation, gearing and stock selection decisions all contributing to returns.

Strategy

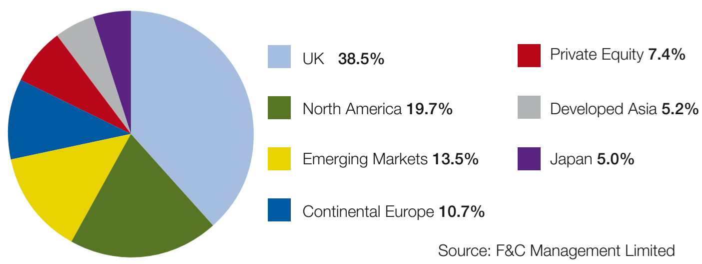
In 2007 we expected global stock markets to rise but market volatility to increase as well. Most of the rise in share prices came in the first half of the year and volatility rose sharply in the second half as the credit crunch unfolded.

We maintained the asset allocation strategy that we first implemented in 2003 of investing more than 15% of the portfolio in Emerging Markets and Developed Asia. This policy has been based on the greater economic and political stability of many of these countries, the strong growth characteristics of most companies operating in these markets and attractive valuations compared with companies in more mature markets. In the past, periods of market volatility have been more intense in these markets than anywhere else, but this changed significantly this year. Indeed, one of the most striking features of 2007 was the very strong performance from most of these markets in the face of some very bad news in financial markets.

We also remained cautious about the US and Japanese markets which were weak performers yet again. The Japanese economy continued to struggle to grow and the central bank was unable to implement the increases in interest rates that it planned. The rapid deterioration in the US housing market and the knock-on problems in credit markets were the most important financial events of the year. The UK market had a pedestrian year, but we were too cautious about Europe which did well.

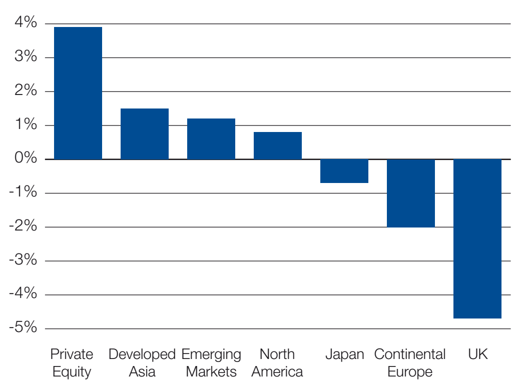
Our strategy had three distinct phases. Until May we were confident about prospects and felt markets were well supported by vigorous takeover activity and buoyant economic growth. From May until August we were much more cautious. It was clear that volatility was rising and that too many investors had stopped worrying about risk. We therefore reduced gearing by selling stocks in the UK, Europe and Emerging Markets. From August to the end of the year share price volatility soared and we found some good buying and selling opportunities.

Geographical distribution of our portfolio



Source: F&C Management Limited

Percentage changes in our portfolio in 2007



Source: Fundamental Data

For 2007 as a whole the most significant changes we made were to reduce the UK portfolio and add to private equity.

Performance Attribution

We break down the different contributors to overall performance to see where value is being added or taken away. 2007 was a good year because asset allocation, gearing and stock selection were all positive contributors. The improvement in stock selection was particularly significant as this was an area where we had struggled to produce consistent returns in the last few years.

Contributors to total returns in 2007

	%
Benchmark return	7.9
Asset allocation	2.5
Stock selection	3.0
Effect of management and performance fees/other costs	(0.5)
Effect of buy-backs	1.0
Effect of gearing*	1.5
Net asset value total return*	15.4
Effect of increase in discount	(1.3)
Share price total return	14.1

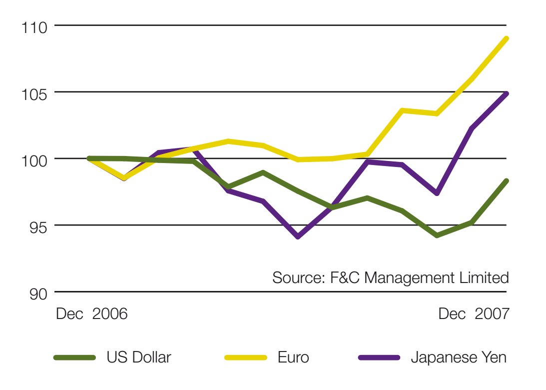
*Debt at market value.

Source: F&C Management Limited

Borrowings and Gearing

Active management of borrowings has been a feature of your Company for nearly thirty years. We were particularly active in 2007. At the start of the year we moved all of our short-term loans into Yen to take advantage of very low interest rates and the weakness of the currency. When we became more cautious in May these loans were repaid. In August when we wanted to increase gearing again to take advantage of more volatile market conditions we borrowed US Dollars. We expected that US interest rates would fall quicker than rates in other countries and that the Dollar was likely to be a weak currency. In November the Dollar reached a 26 year low against sterling before recovering.

Currency movements vs sterling in 2007



Investment changes during the year ended 31 December 2007 (£m)

£m	Valuation at 31 December 2006	Purchases	Sales	Gains/ (losses)	**Valuation at 31 December 2007**
UK	1,120	256	(401)	52	**1,027**
North America	481	398	(393)	39	**525**
Continental Europe	327	324	(400)	33	**284**
Japan	148	111	(108)	(17)	**134**
Emerging Markets	318	328	(390)	103	**359**
Developed Asia	96	42	(41)	42	**139**
Private Equity	89	95	(23)	36	**197**
Totals	2,579	1,554	(1,756)	288	**2,665**

Source: F&C Management Limited

Fund Manager's Review (continued)

In December there was great concern about financial conditions at the year-end and market interest rates spiked upwards. We decided to pay up for the certainty of having cash available and took on some Yen borrowings. This was a mistake as the year end passed off without incident but the Yen and Dollar both appreciated against sterling.

At the year-end effective gearing, taking all our debt at par values, was 7.0%, or 8.5% when measured with debt at market value.

UK Portfolio

We had a very good year in the UK, despite owning Northern Rock when it had to be rescued by the Bank of England. Our portfolio had a total return of 7.6% outperforming the FTSE All-Share index return of 5.3%. Takeover activity was very helpful with a bid battle for Resolution, our third largest investment at the start of the year, and an approach for Rio Tinto. We made an investment in a quoted hedge fund, Brevan Howard, which performed extremely well, and we looked at many other specialist fund launches. Another large investment we made was in the F&C Enhanced Alpha fund which adopted an innovative 130% long/30% short investment strategy. After a promising start we sold our holding when the original fund managers left F&C. The biggest contributor to our success was taking a cautious view on the UK economy, so we were very underweight in banks and had little exposure to consumer spending.

Largest UK Holdings		£'000s
1	Royal Dutch Shell	72,123
2	BP	70,342
3	Vodafone	60,257
4	Rio Tinto	54,592
5	HSBC	47,578
6	GlaxoSmithKline	47,236
7	Utilico Emerging Markets	37,221
8	Scottish & Southern Energy	35,339
9	British American Tobacco	32,219
10	Tesco	31,406

North America Portfolio

There was a huge turnaround in our US large company performance in 2007; our portfolio rose in sterling by 11.9% while the index was up 5.6%. Everything that went wrong in 2006 went right in 2007. Our portfolio was positioned to benefit if economic growth slowed down, and was concentrated in companies that were expected to do well regardless of the economic conditions. This was absolutely the right strategy for 2007. In addition, the individual managers we use in North America all had an excellent year when measured against their specific benchmarks. Since the year-end we have made a minor change to the fund manager line up in the expectation of slower US economic growth, reducing the Loomis Sayles percentage to 30% and increasing T. Rowe Price to 30% and Barrow Hanley to 40%.

Weighting and stock selection in each market vs Index at 31 December 2007

	Our portfolio weighting	Benchmark weighting	Our portfolio performance in sterling	Local index performance in sterling
Market	%	%	%	%
UK	38.5	40.0	7.6	5.3
North America	19.7	32.6	10.2	5.6
Europe ex UK	10.7	14.7	13.1	15.7
Japan	5.0	6.2	(10.0)	(6.4)
Emerging Markets	13.5	4.3	38.3	37.4
Developed Asia	5.2	2.2	50.1	34.6
Private Equity	7.4	–	24.2	–

Source: F&C Management Limited

North American Large and Mid Cap Performance (US Dollars)	Value (US$m)	Approx % of US Portfolio	12 month Performance %
Loomis Sayles US Large Cap Growth	400.9	40	22.9
Barrow Hanley US Large Cap Value Equity	369.2	37	4.2
T Rowe Price US Equity	228.6	23	13.5
Total Large and Medium Cap portfolio	998.7	100	13.5
S&P 500 Total Return index			5.5
Russell 1000 value index			(0.2)
Russell 1000 growth index			11.8

Source: IMS.

Our US small company portfolio had a more difficult year as smaller companies underperformed larger ones as the economy slowed. We maintained our focus on companies that we believe are undervalued by the market as this strategy has generated strong long term returns. In 2007, though, the portfolio fell by 9.0% while the small company index was down 3.2%.

	Largest North America Holdings	£'000s
1	Google	12,903
2	Apple	12,734
3	Microsoft	11,550
4	Monsanto	9,084
5	Occidental Petroleum	8,940
6	Amazon	8,563
7	Wellpoint	8,416
8	Merck	7,528
9	Conoco Phillips	7,231
10	United Health	6,940

Emerging Markets Portfolio

Emerging Markets were the best performers in 2007 and our portfolio did even better, rising 38.3% compared with an index rise of 37.4%. We chose the right countries to invest in and the right sectors and stocks to buy. One dominant theme during the year was to limit exposure to those countries or sectors which are dependent on US economic growth, such as Taiwan and technology. The second and complementary theme was to concentrate on markets and sectors benefiting from strong domestic demand, such as Brazil. We took some profits before the credit crunch but that was a mistake as Emerging Markets performed very strongly in the second half of the year, as they were seen as being little affected by US credit problems.

	Largest Emerging Markets Holdings	£'000s
1	Petroleo Brasileiro	18,241
2	Gazprom	13,018
3	America Movil	12,626
4	Vale do Rio Doce	9,791
5	Reliance Industries	8,457
6	Sberbank	7,392
7	Mobile Telesyst	6,481
8	MTN	6,256
9	China Life Insurance	5,904
10	Shui On Land	5,808

European Portfolio

European Markets had a good year with the index rising 15.7%; our own portfolio returned 13.1%. Our portfolio did well while markets were rising, but suffered when share prices came under pressure in the second half of the year, with holdings in smaller companies suffering particularly. At the end of the year we reorganised the portfolio under a new manager within F&C to reduce the number of holdings and improve the prospects for growth.

Fund Manager's Review (continued)

After two difficult years we are looking for a much better year in Europe in 2008.

	Largest European Holdings	£'000s
1	Total	11,675
2	ING	10,079
3	ENI	9,776
4	Reed Elsevier	9,251
5	Axa	8,724
6	Wolters Kluwer	7,980
7	Roche Holding	7,937
8	Siemens	7,888
9	Svenska Handel	7,703
10	Banco Bilbao	7,428

Japan Portfolio

Japan was disappointing and our portfolio underperformed. The index fell 6.4% and we were down 10.0%. Almost all fund managers struggled in Japan in 2008 with sharp swings in the Yen and continuing disappointment about the pace of economic growth. Our portfolio which is managed on an active quant basis by Goldman Sachs Asset Management was not able to escape these problems.

	Largest Japanese Holdings	£'000s
1	Honda Motor	6,067
2	Toyota Motor	5,871
3	NTT	5,460
4	Sumitomo Mitsui Finance	5,188
5	Sony	4,345
6	Ricoh	4,185
7	Asahi Kasei	3,834
8	Nippon Oil	3,345
9	Nintendo	3,175
10	Amada	3,142

Developed Asia Portfolio

We had a terrific year in this area. The benchmark index rose 34.6% and our portfolio was up 50.1%. As in emerging markets, sectors and companies exposed to domestic growth performed well. We also benefited from being overweight in mining companies which had an excellent year and underweight in banks which suffered from the global credit crunch.

	Largest Developed Asia Holdings	£'000s
1	China Mobile	20,375
2	CNOOC	11,073
3	BHP Billiton	9,426
4	Rio Tinto	6,226
5	Commonwealth Bank Australia	6,030
6	Nine Drag Paper	5,668
7	Sun Hung Kai Properties	5,463
8	QBE Insurance	4,668
9	Woolworths	4,441
10	Westfield	4,395

Private Equity

We had a busy year in private equity. We made commitments to five new funds totalling $185m and €175m, invested £95m and received distributions of £23m. Most importantly, we had very strong performance from the first wave of investments that we made five years ago. These were the largest contributors to the gain of 24.2% from the private equity portfolio.

Our two largest original commitments were to the HarbourVest Partners VII Buyout Fund and Pantheon Europe Fund III. These funds are currently showing internal rates of return (the industry standard for measuring performance) of 24.7% and 25.1% respectively as a result of the very strong buyout markets in the US and Europe. In 2007 we committed to follow up funds from both managers.

In 2005 we made our first commitment to a secondary fund, specialising in buying holdings in existing funds. Dover Street VI, which is managed by HarbourVest, has made a very pleasing start and in 2007 we committed $75m to Dover Street VII. We also have an investment in the Pantheon Global Secondary Fund III as we think this sector is very interesting. There is a regular stream of sellers wanting or needing to reorganise their own private equity holdings. Specialist fund of fund managers, such as HarbourVest and Pantheon, are very well placed to value and buy these holdings, as they have a deep knowledge of the underlying funds and their managers.

We made our first commitments to Asia and emerging markets private equity in 2006 and added

Private equity portfolio

Fund	Fund currency	Year of original commit-ment	Original commit-ment currency	Cumu-lative cash drawn currency	Cumu-lative cash returned currency	Value of holding 31 December 2007 currency	Value of holding 31 December 2007 £'000s
Pantheon Europe Fund III	€'000s	2003	115,000	82,800	42,494	80,387	59,043
HarbourVest Partners VII							
Buyout Fund	US$'000s	2003	78,000	49,920	7,777	58,283	29,279
Venture Fund	US$'000s	2003	30,000	17,700	445	19,254	9,672
Mezzanine Fund	US$'000s	2003	12,000	6,660	728	6,526	3,278
Dover Street VI	US$'000s	2005	69,050	46,954	–	57,993	29,133
HarbourVest Partners VIII							
Venture Fund	US$'000s	2006	40,000	4,000	–	3,704	1,861
HarbourVest Asia Pacific and Rest of World	US$'000s	2006	25,000	7,500	–	7,728	3,882
Pantheon Asia Fund IV	US$'000s	2006	50,000	12,000	–	14,126	7,096
Pantheon Global Secondary Fund III	US$'000s	2006	50,000	14,750	–	16,417	8,247
HarbourVest VIII							
Buyout Fund	US$'000s	2007	60,000	11,400	–	12,010	6,034
Pantheon Europe Fund V	€'000s	2007	100,000	18,000	–	16,570	12,170
HarbourVest V Direct Fund	€'000s	2007	75,000	40,500	4,071	36,928	27,123
Dover Street VII	US$'000s	2007	75,000	–	–	–	–
Pantheon Asia Fund V	US$'000s	2007	50,000	–	–	–	–
							196,818

	2007 £'000s	2006 £'000s
Cash Drawn	**94,861**	55,243
Cash Returned	**22,503**	12,717

Source: F&C Management Limited

Fund Manager's Review (continued)

Pantheon Asia Fund V to our holdings in 2007. The dynamics of private equity investing in these markets are very different from Europe and North America and the industry is much less mature. The risks are greater but so are the opportunities.

Our fifth new commitment in 2007 was to HarbourVest V Direct Fund. This fund takes direct holdings in private equity investments alongside funds.

These new commitments broadened and deepened our portfolio. We now have a truly global spread of private equity funds, well diversified by sector, country and maturity. There is no doubt that the credit crunch will make life more difficult for private equity managers and investors in 2008, but our own diversification should help us considerably. We are excited that a difficult period could create very attractive investment opportunities. We think there could be a big increase in business for secondary funds as there will undoubtedly be some forced sellers.

Share buy-backs

We have been buying back shares to enhance net asset value for continuing shareholders since 1999. In November 2005 we expanded our policy to prevent the discount to NAV (with debt at market value) from rising above 10% under normal market conditions. During the year we bought back 64,658,023 shares, representing 8.6% of the share capital, adding 3.2 pence to the net asset value per share and the discount at the end of the year was 11.1%. In periods of market turbulence the buy-back rate has risen, giving us a useful way of increasing gearing and adding further to shareholder value.

Shareholders and Marketing

At the year end we had 107,201 shareholders of whom 81,214 were investing through the F&C savings plans. We have more plan holders in a wider range of products than any other investment trust and increased our share of the investment trust savings scheme market. Purchases were at a similar level to 2006 and sales increased slightly. The Child Trust Fund continues to expand with new accounts and top up investments made to existing accounts. With over 14,000 accounts, we are very optimistic about the long-term potential of this product, particularly as F&C is the only investment trust provider.

Analysis of ordinary shareholders at 31 December 2007

Category	Holding
F&C Savings Plans	36.6%
Discretionary/Advisory	24.1%
Institutions	18.5%
Direct Individuals	13.2%
Skandia IFA Products*	5.0%
New Zealand Individuals	2.6%
	100.0%

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

After savings plan investors, professional investors managing portfolios for private clients are the largest group of shareholders. In the autumn we organised a programme of twelve meetings around the country with leading members of this group to update them on Foreign & Colonial. These meetings went well and we are planning a repeat exercise later in 2008.

The Company is sponsoring a garden at the Chelsea Flower Show in May 2008 as there is a very good match between keen gardeners and potential buyers of Foreign & Colonial shares.

Outlook

This time last year we thought there were risks of a financial crisis caused by a collapse of a hedge fund. We did not foresee that the problems in the US sub-prime mortgage markets would spread so quickly and dangerously to the rest of the credit markets. Central banks have also struggled to understand what is happening and the general feeling that nobody has the answers to the problems has itself added to investors' concerns.

It is clear that economic growth is slowing sharply in the US and that this will affect growth in the rest of the world. What is not clear is how widespread these effects will be and how much has already been discounted in the share price falls that have taken place since July 2007.

We expect market conditions to remain very volatile for at least the first half of 2008. Problems will continue to be revealed in financial institutions, economic growth will be anaemic and inflation may be boosted by the effects of the high oil price. We think these developments will make for more difficult times for credit markets and for commercial and residential property. Some private equity funds and the companies they back will also struggle during the year.

On the other hand, the vast majority of the companies in which we invest are not dependent on the credit markets or the banks for financing, have strong balance sheets and are well diversified. Interest rates have already come down in the US and we expect there to be further falls. This will encourage other central banks to cut rates as well even if they are still worried about inflation. Short of a significant further deterioration in the economic fundamentals, we believe that equity markets are looking more attractive than at any time in the last five years.

We plan to increase gearing this year to take advantage of the recovery in share prices which we expect to occur before the end of 2008.

Jeremy Tigue
Fund Manager
7 March 2008

As the full list of the Company's investments now exceeds 680, 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** Description	% of total investments	Value £'000s
1	*(2)*	**Royal Dutch Shell** Large global oil company which has restructured after a problem with its reserves.	2.7%	72,123
2	*(1)*	**BP** Large global oil company benefiting from the strong oil price.	2.6%	70,342
3	*(10)*	**Rio Tinto** Leading international mining company benefiting from strong commodity prices.	2.3%	60,818
4	*(5)*	**Vodafone** World's leading mobile telephone provider with a strong international network.	2.3%	60,257
5	*(7)*	**Pantheon Europe Fund III** Private equity fund of funds investing principally in the European market, with the largest exposure being to the UK.	2.2%	59,043
6	*(6)*	**HSBC** Broadly diversified international bank operating in over 80 countries worldwide.	1.8%	47,578
7	*(4)*	**GlaxoSmithKline** One of the world's leading pharmaceutical companies.	1.8%	47,236
8	*(14)*	**Utilico Emerging Markets** Specialist fund concentrating on utility and infrastructure investments in emerging markets.	1.4%	37,221
9	*(8)*	**Scottish & Southern Energy** Multi-utility group with an attractive and growing dividend.	1.3%	35,339
10	*(13)*	**British American Tobacco** Leading international manufacturer and distributor of cigarettes.	1.2%	32,219
11	*(16)*	**Tesco** The leading food retailer in the UK, continuing to expand through its non-food offerings and international growth.	1.2%	31,406
12	*(11)*	**Utilico** Specialist fund concentrating on infrastructure and utility investments in developed markets.	1.1%	29,469
13	*(20)*	**HarbourVest Partners VII Buyout Fund Partnership LP** Fund of funds investing in buyouts of US businesses.	1.1%	29,279
14	*(–)*	**Dover Street VI** Fund of funds specialising in buying holdings in existing private equity funds	1.1%	29,133
15	*(9)*	**Royal Bank of Scotland** Leading bank which has expanded organically and by acquisition.	1.0%	27,424
16	*(–)*	**HarbourVest V Direct Fund** Specialist private equity fund that makes direct investments alongside other fund managers.	1.0%	27,123
17	*(–)*	**Merrill Lynch Latin America Investment Trust** Specialist investment trust concentrating on the fast growing markets of Latin America.	1.0%	26,195
18	*(15)*	**Anglo American** Leading mining company benefiting from increased demand, especially from China.	0.9%	24,180
19	*(18)*	**Barclays** Retail and commercial bank that is well placed to benefit from further efficiencies.	0.8%	22,602
20	*(–)*	**National Grid** Electricity and gas company operating in Great Britain and the North Eastern United States.	0.8%	21,735

The value of the twenty largest holdings represents 29.6% (2006: 30.0%) of the Company's total investments.
The figures in brackets denote the position at the previous year end.
The value of convertible securities in the total portfolio at 31 December 2007 was £14,734,000 or 0.57% of total assets less current liabilities (2006: £10,019,000 or 0.4% of total assets less current liabilities).

Directors' Report and Business Review

The Directors submit their Report, Business Review and Accounts of Foreign & Colonial Investment Trust PLC (the "**Company**" or "**FCIT**") for the year ended 31 December 2007. The Accounts are set out on pages 38 to 61.

Results and dividends

The net assets of the Company as at 31 December 2007 were £2.5 billion (2006: £2.4 billion) or 363.47 pence per share when deducting debt at its par value (2006: 321.10 pence). When deducting debt at its market value, the net asset value per share was 358.63 pence (2006: 315.48 pence).

Summary of results for 2007	
Net asset value per share*	+13.6% to 358.6p
Net asset value total return per share*	15.4%
Share price	+12.0% to 318.75p
Share price total return	14.1%
Annual dividend per share	+10.4% to 5.85p
Total expense ratio including performance fee#	0.71%
Total expense ratio excluding performance fee#	0.48%
Share capital repurchased**	8.6%
Discount*	From 9.8% to 11.1%

* With debt at market value
\# Excludes recoverable VAT on management fees
** Adding 3.2p to net asset value per share

The Fund Manager's Review on pages 6 to 13, which forms part of this Business Review, describes more fully how the Company's assets were invested during the year, how they performed and the outlook for 2008. The Company's full list of its investments can be viewed on the website. The twenty largest holdings can be found on page 14, and the ten largest investments in each of the regional sub-portfolios are disclosed in the Fund Manager's Review.

Whilst dividend growth remained strong, income was slightly lower in 2007, reflecting a reduction in the listed portfolio towards financing the targeted additional investment in private equity and buy-backs. Following the rulings in the JPMorgan Claverhouse and Condé Nast cases, an accrual in respect of past VAT has been recognised in the Income Statement on page 38. Performance fees increased significantly following the achievement of F&C Management Limited ("**F&C**" or the "**Manager**") in exceeding its performance objectives. Nevertheless, the total expense ratio, including the performance fee accrual but excluding recoverable VAT, was only 0.71% (2006: 0.53%) (0.48% excluding the performance fee accrual). Net revenue decreased by 4.7%, while revenue earnings per share increased by 3.9%, enhanced by the reduction in the number of shares in issue as a result of buy-backs.

Attributable to equity shareholders	£'000s
Revenue return attributable to equity shareholders	45,909
Dividends paid on ordinary shares:	
Final of 2.85p paid on 9 May 2007*	(21,081)
Interim of 2.70p paid on 11 September 2007**	(19,141)
Amount transferred to revenue reserve	5,687

*In respect of prior year profits
**In respect of current year profits

The interim dividend of 2.70 pence per share, together with the final dividend now recommended for payment on 8 May 2008 of 3.15 pence per share, will bring the total dividend for the year to 5.85 pence per share. This represents an increase of 10.4% over the comparative 5.30 pence per share paid in the previous year. (Resolution 3 at the forthcoming Annual General Meeting relates to the approval of the final dividend).

Principal activity and status

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 share buy-backs. The Company is subject primarily to the United Kingdom Listing Rules, UK Company Law, Financial Reporting Standards, Taxation Law and its own Articles of Association.

Investment trust taxation status

The Company is liable to corporation tax on its net revenue profits but is exempt from corporation tax on

Directors' Report and Business Review (continued)

capital gains, subject to compliance at all times with Section 842 of the Income and Corporation Taxes Act 1988 ("**section 842**"). 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. This status 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 2006, and continues to conduct its affairs in compliance with section 842.

Accounting and going concern

The Financial Statements, starting on page 38, 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 36. 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).

Objective and policy

The Company's investment objective is to secure long-term growth in capital and income through a policy of investing primarily in an internationally diversified portfolio of publicly listed equities, as well as unlisted securities and private equity, with the use of gearing.

Risk diversification is achieved through geographic asset allocation and industry sector and stock selection across a wide range of markets. Within the general policy of maintaining a diversified portfolio, there are no specific geographic or industry sector exposure limits for the publicly listed equities. The Board has placed a limit of 5% of the value of the total portfolio on unlisted securities, at the time of acquisition, and any such investment requires specific Board approval. In addition, a target exposure of 10% has been set for the private equity portfolio which is subject to periodic review; shareholder approval would be sought in the event that the Board considers that the Company's exposure should ever exceed a figure of 20%.

Under the Company's Articles of Association, with limited exceptions, no single investment may be made by the Company which exceeds 10% of the value of the total portfolio at the time of acquisition. Under the Listing Rules, no more than 10% of the total assets may be invested in other listed closed-ended investment companies, unless such investment companies have themselves published investment policies to invest no more than 15% of their total assets in other closed-ended investment companies, in which case the limit is 15%. The Board has placed a limit of 5% of the value of the total portfolio on investment funds managed by the Manager at the time of acquisition, and any such investment requires specific Board approval.

Borrowings, which can be taken out either in sterling or foreign currency, would normally be expected to fall within a range of 0 – 20% of shareholders' funds based on valuing the Company's debenture at market value. No change to this range will be made without prior announcement.

The Company will typically remain fully invested in equities, but is not prohibited from investing in other types of securities or assets. Derivatives may be used to control risk and enhance returns for the overall portfolio including, if appropriate, protection against currency risks.

An explanation of how the Company has invested its assets in accordance with its investment policy is contained in the Fund Manager's Review. An analysis of the portfolio is contained on page 53 and a list of all the Company's investments is published quarterly on its website.

Strategy

The Board believes that the optimum basis for achieving its stated objective and implementing the investment policy is a strong working relationship with its Manager, F&C, 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-managers. The performance objectives set for the Manager and measurement against the Company's Key Performance Indicators can be found on pages 20 to 22.

Capital structure and buy-back policy

As at 31 December 2007 there were 685,318,592 ordinary shares of 25 pence each in issue. 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 achieving 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 2007 the discount stood at 11.1% (with debt at market value).

At the Annual General Meeting held on 4 May 2007, 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 64,658,023 shares, representing 8.6% of the number of shares in issue at 31 December 2006 and enhancing the net asset value per share by 3.15 pence. The purchases were made at prices ranging between 275 pence and 325 pence and the aggregate consideration paid for the shares, excluding stamp duty and commissions, was £196,422,000.

Between the year-end and 7 March 2008, a further 1,767,649 shares have been purchased (which represents approximately 0.25% of the share capital) at prices ranging between 283 pence and 317 pence, enhancing net asset value per share by 0.1 pence.

As at 7 March 2008, the number of ordinary shares in issue stood at 683,550,943. A resolution to renew the authority to buy back up to 102,464,000 shares will be put to shareholders at the Annual General Meeting (Resolution 10). A resolution to authorise the Directors to allot up to 34,176,000 shares will also be proposed (Resolution 9). Details relating to the capital structure can be found in note 18 on the accounts. Upon a winding-up, after meeting the liabilities of the Company, the surplus assets would be paid to the holders of ordinary shares and distributed among such holders rateably.

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 7 and in relation to which further reference is made in note 14 on the accounts.

Principal risks and their control

The Company's assets consist mainly of listed equities and its principal risks are therefore market related. A full Corporate Governance statement, which includes a summary of the risk management arrangements, is set out on pages 31 to 35. By means of the procedures set out in the summary, and in accordance with the Internal Control: Guidance for Directors on the Combined Code published by the Working Party for the Institute for Chartered Accountants in England and Wales, the Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, and has regularly reviewed the effectiveness of the internal control systems for the period. This process has been in place throughout the year under review, and to the date hereof, and will continue to be regularly reviewed by the Board on an ongoing basis. 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.

Directors' Report and Business Review (continued)

(ii) Investment policy, liquidity, 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 publicly listed 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 direct, secondary, 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 introduced 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 could lead to the Company being subject to capital gains tax on the sale of its investments, whilst 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's control policies and procedures are reviewed annually.

(vi) Reputational damage – any significant failing could damage 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.

The Board's responsibilities

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 budgets. Further information in relation to the Board can be found on page 31.

Directors

Information in relation to the individual Directors, all of whom are resident in the United Kingdom, can be found on page 27.

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. There were no contracts of significance to which the Company was a party and in which a Director is, or was, materially interested during the year.

Directors' remuneration and shareholdings

The Directors' Remuneration Report, which can be found on pages 29 and 30, 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 Annual General Meeting (Resolution 2).

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

Directors' re-election and election

Other than Stephen Burley and Sir Roger Bone, who joined the Board on 1 January 2008 and 6 March 2008 respectively and stand for election at the Annual General Meeting (Resolutions 5 and 6), all the Directors held office throughout the year under review. Mr Macpherson and Mr Rennocks retire by rotation at the Meeting but will not be seeking re-election. Sir Michael Bunbury stands for re-election having served over nine years (Resolution 4). The Company has announced the appointment of Sir David Clementi with effect from 23 May 2008; he will stand for election in 2009.

The Nomination Committee considered the re-election of Sir Michael Bunbury at a meeting held in January 2008, appraising his performance and reviewing his status and commitment as an independent and long serving non-executive Director. The Board has concurred with the Nomination Committee's assessment that he continues to make a valuable and effective contribution and remains committed to his role. Sir Michael Bunbury absented himself from that part of the meeting that dealt with his re-election.

Director indemnification and insurance

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 insurance in place which indemnifies the Directors against certain liabilities arising in carrying out their duties.

Investment management

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 ("**FCAM**"), a leading European investment group with over £100 billion under management. Friends Provident plc, which owns 52% of FCAM, announced on 31 January 2008 that, as wealth management no longer forms part of its revised strategy, it would work with FCAM's board and management team to review its shareholding.

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.

Jeremy Tigue acts as Fund Manager to the Company (the "**Fund Manager**"), on behalf of F&C, and is responsible and accountable for the entire portfolio including private equity, and other key areas such as marketing and investor relations. His responsibilities

Directors' Report and Business Review (continued)

extend to asset allocation, gearing and risk management (within limits set and regularly monitored by the Board) including 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 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, namely Loomis Sayles, Barrow Hanley and T Rowe Price, and one manager for the Japan portfolio, Goldman Sachs Asset Management. 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.

The Manager's fees

The Manager was paid a fixed fee of £6.4 million (2006: £5.7 million) for investment management, secretarial, accounting and marketing-related services in 2007, less amounts equal to the fees already received in respect of holdings in the portfolio that it also manages. The fixed fee is subject to annual review and for 2008 increases to £6.7 million.

The Manager is also entitled to two separate performance-related fees:

- 5% of any net asset value total return per share out-performance of the benchmark of 40% FTSE All-Share and 60% FTSE WI World ex UK indices (the "**composite benchmark**") plus 0.5%; and
- 5% of any net asset value total return per share out-performance of the weighted average of those of the Company's 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 (the "**close peer group**").

The performance-related fees are 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 are based on adjusted net assets (with debentures at market value). The condition under which payment is deferred, if the share price has fallen over the year, applies to the composite benchmark element of the arrangement only, as does deduction for the effect of share buy-backs and the 0.5% hurdle. For 2007, the Manager was paid a £6.2 million performance-related fee; £3.8 million relating to the composite benchmark and £2.4 million relating to the close peer group. Outperformance of 2.8% in respect of the composite benchmark has been carried forward. Note 4 on the accounts provides detailed information in relation to the respective management fees incurred by the Company.

With effect from 1 January 2007, the Fund Manager's own remuneration from the Manager was aligned more closely with the interests of shareholders. A proportion of the Fund Manager's annual bonus payment is represented by shares in the Company held on trust by FCAM for three years, with vesting only at the end of such period.

Sub-managers' fees

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 and the Japan portfolio. The Company reimburses the Manager for these fees, which in 2007 amounted to £2.5 million (2006: £2.5 million).

Private equity managers' fees

The fees incurred by the Company in respect of the private equity funds of funds managed by Pantheon and HarbourVest amounted to £4.8 million for 2007 (2006: £1.7 million), having increased mainly as a result of large commitments and investment calls during the year. 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.

Creditor payment policy

The Company's "principal supplier" is the Manager, the payment terms for which are set out above. Other suppliers to the Company are paid in accordance with individually agreed payment terms. The Company's outstanding trade creditors were equivalent to seven days' payments to suppliers as at 31 December 2007 (2006: two days').

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, which has been set the performance-related fee targets set out above.

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 total return and share price total return performance

	1 Year %	3 Years %	5 Years %	10 Years %
FCIT* net asset value (with debt at market value)	15.4	63.1	120.2	105.4
Benchmark	7.9	46.9	94.8	81.6
Close Peer Group** weighted average net asset value	13.4	63.6	119.6	99.4
AIC Global Growth Sector weighted average net asset value	12.0	63.3	125.1	112.4
FTSE All-Share	5.3	50.1	104.6	82.4
FTSE WI World ex UK	9.7	44.8	88.3	81.1
FCIT* share price	14.1	73.9	117.8	116.0
Close Peer Group** weighted average share price	12.7	71.0	124.7	107.9
AIC Global Growth sector weighted average share price	8.6	64.2	132.5	112.0
Retail Prices Index	4.3	10.7	17.3	31.2

Source: Fundamental Data

* Foreign & Colonial Investment Trust

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

Directors' Report and Business Review (continued)

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

2007	2/6	Over 3 years	3/6
2006	4/6	Over 5 years	3/6
2005	4/6	Over 10 years	3/6
2004	5/6		
2003	2/6		

Source: Fundamental Data

Asset allocation, stock selection and gearing attribution

%	1 year	3 years	5 years
Asset allocation	2.54	5.53	8.26
Stock selection	3.02	1.53	(0.13)
Gearing	1.52	2.27	3.90

Based on debt at market value
The table shows the contributions to total return versus the Company's benchmark from asset allocation, stock selection and gearing decisions over one, three and five years
Source: F&C Management Limited

Regional portfolio attribution in sterling

	1 year		3 years		5 years	
%	FCIT	Index	FCIT	Index	FCIT	Index
UK	7.59	5.32	47.97	43.55	102.33	95.79
North America	10.24	5.59	(2.30)	9.05	13.47	32.09
Europe ex UK	13.12	15.73	51.26	66.99	110.59	146.60
Japan	(10.04)	(6.36)	(19.44)	(19.65)	(0.84)	8.66
Emerging Markets/Developed Asia	41.03	36.51	97.74	87.58	222.27	190.21
Emerging Markets	38.32	37.44	89.94	85.86	n/a	n/a
Developed Asia	50.09	34.64	125.18	91.24	n/a	n/a

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

Discount
(with debt at market value)

31 December	%
2007	11.1
2006	9.8
2005	9.5
2004	14.8
2003	10.3

Source: F&C Management Limited

Compound annual dividend growth

%	5 years	10 years
FCIT	10.8	8.8
Close Peer Group ex FCIT	5.3	4.6
FTSE All-Share	8.1	1.6
Inflation (RPI)	3.2	2.8

Source: F&C Management Limited; Fundamental Data

Total expense ratio

%	A	B
2007	0.48	0.71
2006	0.46	0.53
2005	0.46	0.53
2004	0.50	0.50
2003	0.58	0.58

A = excluding performance fee
B = including performance fee
Excludes an accrual for recoverable VAT on management fees
Source: F&C Management Limited

Further detailed performance statistics can be found in the Ten Year Record on pages 62 and 63.

F&C Savings Plans investment flows in FCIT

£m	2007	2006	2005	2004	2003
Purchases	49.5	48.1	36.7	54.6	55.6
Withdrawals	78.5	73.5	61.9	47.8	20.0
Net flow	(29.0)	(25.4)	(25.2)	6.8	35.6

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

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. The Board also receives comprehensive performance measurement schedules, provided by Fundamental Data Limited and F&C, at each meeting. These enable it to assess the success or failure of the management of the total portfolio against the performance objectives 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 2008. The process involved a formal presentation to the Board by F&C's Chief Executive Officer, the Fund Manager and Deputy 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 2007, 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 Company's net asset value per share rose 13.6% to 358.6 pence (with debt at market value), and to 363.5 pence (with debt at par). The Board considered that the relative net asset value total return performance of the Company in 2007 was highly satisfactory against the objectives set for the Manager. The Manager beat the composite benchmark by 7.5 percentage points and the weighted average of the net asset value total returns of the close peer group by 2.0 percentage points, thus exceeding both targets. It also outperformed the weighted average of the net asset value total returns of the AIC Global Growth sector. There was further 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, and had improved to come into line over three and five years.

(ii) Performance attribution – Asset allocation, stock selection and gearing all added value. In terms of asset allocation, the under-weighting in the US and Japan and over-weighting in the Developed Asia and Emerging Markets were significant contributors. The UK, Developed Asia and Emerging Markets regional portfolios managed directly by F&C all performed well in terms of stock selection beating their respective benchmarks, but Europe (ex UK) continued to disappoint and the US Smaller Companies portfolio underperformed. F&C has appointed a new regional fund manager with responsibility for the Europe (ex UK) portfolio and the Board will continue to monitor this regional portfolio. The sub-managed North America portfolio underwent a turnaround out-performing significantly in 2007, whereas the outsourced Japan portfolio underperformed in a torrid year for active managers in that market.

(iii) Resources, services and advice provided – The Manager had significant resources, a wide and developing product range and substantial assets under management. A three year plan had been put in place in January 2007, as part of which a strategy of accelerated investment in people and infrastructure was introduced to support the delivery of enhanced investment performance and a number of new product initiatives. In addition to its investment

Directors' Report and Business Review (continued)

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, accounting, administration, marketing, 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 continued to be successful with another increase in market share over 2007, albeit in a declining market and with further net outflows.

The Child Trust Fund continued to show considerable long-term promise, and planned initiatives following a marketing review confirmed that F&C possessed the capability to attract new investors to the Company in an increasingly competitive marketplace. Investor relations and press communication had once again been well conducted, with the Fund Manager carrying out an extensive programme of regional presentations to private client investment managers, which had been very well received.

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. F&C's achievement in comfortably beating both of its performance-related targets demonstrated the significant improvements made. The Board recognised F&C's ongoing commitment to the Company and 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. All the services provided to the Company, including secretarial, accounting and marketing, had been professionally and efficiently delivered.

The future of F&C and its ability to deliver the benefits envisaged under its reinvestment programme announced in January 2007 and achieve its stated ambition of reaching top quartile in all areas of its business will be very important. Following the announcement by Friends Provident plc regarding its 52% shareholding in FCAM, the Board will carefully monitor developments and progress at F&C, and its ability to attract and retain talented managers and to continue with the improvements made in stock selection and overall investment performance from internal and external management. The overall challenge for F&C remains that of achieving a sustainable improvement in long-term investment performance.

The Board's priorities for 2008

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 relative under-performance in Europe and Japan. 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 generate demand by attracting new investors whilst retaining existing shareholders.

Future prospects

The outlook for the Company is reported in the Chairman's Statement on page 5 and in the Fund Manager's Review on page 12. Continuing the Company's record of increases in dividend well ahead of inflation, the Board is forecasting a total dividend of 6.45 pence per share, (representing an increase of 10.3%) for the year 2008.

GENERAL INFORMATION

Voting rights

At 6 March 2008 the Company had 683,550,943 ordinary shares in issue with a total of 683,550,943 voting rights. As at that date the Company received notification of the following holdings of voting rights (under the FSA's Disclosure and Transparency Rules):

Legal & General Group plc	4.1%

The above percentage is calculated by applying the shareholdings as notified to the Company to the issued ordinary share capital as at 6 March 2008.

The Manager holds 36.5% of the Company's share capital on behalf of non-discretionary clients through its savings plans. It is intended that the nominee company holding these shares will vote the shares held on behalf of plan holders who have not returned their voting directions in proportion to the directions of those who have. Plan holders have the right to exclude their shares from the proportional voting arrangement. Implementation of this arrangement is subject to a 5% threshold of the shares held in the savings plans being voted.

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 (2006: £60,000) was made to *Ifs*Proshare's Student Investor Challenge competition which is run for the purpose of helping schoolchildren develop financial capability. *Ifs*Proshare has charitable status.

Independent auditors

So far as each of the Directors is aware, there is no relevant audit information of which PricewaterhouseCoopers LLP (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.

The Auditors have indicated their willingness to continue in office and resolutions will be proposed at the Annual General Meeting to re-appoint them and determine their remuneration (Resolutions 7 and 8).

Electronic communication

Resolutions were passed by shareholders at the annual general meeting in May 2007 enabling the Company to facilitate communications with shareholders in electronic form and by means of a website, and to offer electronic proxy voting. In January 2008 the Company sent a letter to shareholders who hold their shares on the main register with Computershare Investor Services PLC, giving shareholders the option of registering for electronic communication with the Company or continuing to communicate with the Company in paper form. In accordance with the Companies Act 2006, shareholders who did not respond to the letter have been deemed to have consented to access Company documents electronically via the Company's website and will no longer receive the Annual Report and Accounts in paper form, unless a specific request to the contrary is made to the Company.

Articles of Association

It is proposed to amend the articles of association of the Company in order to reflect certain changes made or to be made to the law by the Companies Act 2006 ("**CA 2006**"). As the CA 2006 is being implemented in phases and various related regulations are yet to be finalised and/or brought into force, shareholder approval will be required in due course for further changes to the articles of association. It is anticipated that the remaining provisions of the CA 2006 will come into force on 1 October 2009. Accordingly, the Company will thereafter be undertaking a detailed review of its articles of association, in order to reflect the entirety of the CA 2006 and associated legislation.

Resolution 11 will be put to the shareholders at the Annual General Meeting to enable the Company to implement the following changes to its articles of association:

(a) the insertion of amendments to reflect the change in the law under the CA 2006 that a company is now required, if it refuses to register a transfer of shares, to give the transferee reasons for the refusal;
(b) various changes are to be made to reflect the fact that the CA 2006 does not use the term "extraordinary general meeting". Instead, meetings are either annual general meetings or general meetings; and
(c) various amendments are to be made to reflect the change in the law relating to directors' conflicts of interests and declarations of such conflicts of interests.

Directors' Report and Business Review (continued)

The changes to the directors' conflicts of interest regime under the CA 2006 will come into force on 1 October 2008. It is therefore proposed that the amendments to be made to the articles of association to reflect these changes will only have effect from 1 October 2008, the date when the new provisions come into force.

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 1 May 2008 at 12 noon. In addition to the ordinary business of the Meeting, resolutions 9 to 11 will be proposed as special business.

By order of the Board,
H.N. Potter,
for and on behalf of F&C Management Limited,
Secretary
7 March 2008

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 64.

Sir Roger Bone KCMG Appointed to the Board on 6 March 2008. He has been President of Boeing UK since 2005. Prior to that he served as British Ambassador to Brazil from 1999 to 2004 and to Sweden from 1995 to 1999. He was an assistant under-secretary of state in the Foreign and Commonwealth Office between 1991 and 1995, head of the economic relations department there from 1989 to 1991 and political counsellor at the British Embassy in Washington DC from 1985 to 1989. He was a visiting fellow at Harvard University in 1984/85 and served as a private secretary to the Foreign Secretary between 1982 and 1984. From 1978 to 1982 he was secretary at the UK Representation to the European Community in Brussels, specialising in energy issues. 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 many years. He is chairman of JPMorgan Claverhouse Investment Trust plc and HarbourVest Global Private Equity Limited, and a director of Invesco Perpetual Select Trust plc. Age 61.

Stephen Burley Joined the Board on 1 January 2008. He was Head of Pension Investments at Rio Tinto from 1982 until his retirement in March 2007. He is currently an adviser to the BAE Systems Pension Fund. He was an adviser to, and then a trustee of, the Central Board of Finance of the Church of England from 2002 to 2007. Age 60.

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, Kaupthing Singer & Friedlander plc and Miller Insurance Services Limited. Age 60.

Christopher Keljik OBE*§ Appointed to the Board in September 2005. He is a chartered accountant and 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, Jardine Lloyd Thompson Group plc and Henderson TR Pacific Investment Trust plc. Age 59.

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 66.

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 plc, Diploma plc and Intelligent Energy Holdings plc, Deputy Chairman of Inmarsat plc, and a non-executive director of Babcock International Group plc, JP Morgan Overseas Investment Trust plc and Wagon plc. Age 62.

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 Investment 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 58.

* 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

Private Equity Managers
HarbourVest Partners LLC – appointed 2003
Pantheon Ventures Limited – appointed 2003

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, Hay's Galleria,
1 Hay's Lane, London SE1 2RD

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 2007 £'000s	2006 £'000s
Mark Loveday (Chairman and highest paid Director)	**63**	59
Sir Michael Bunbury[1]	**55**	59
Ewen Macpherson[2]	**43**	45
John Rennocks	**42**	39
Maxwell Ward[2]	**36**	35
Ronald Gould	**37**	33
Christopher Keljik	**40**	34
The Rt Hon. Kenneth Clarke[3]	**10**	30
Sir Andrew Wood[3]	**12**	31
Total	**338**	365

1 In 2007, this includes £7,000, agreed by the Board in June 2007, paid for additional duties carried out in 2006 in respect of private equity investments. In 2006, 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 In 2006, 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.

3 Retired on 4 May 2007.

Reference to the information in the table, which has been audited, can be found in the Independent Auditors' Report on page 36.

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 year to 31 May 2007 and whether the Directors had added value;
- earnings and price inflation over the year to April 2007 and May 2007 respectively, when the last increase became effective;
- a comparison with other F&C managed investment trusts, peer group investment trusts and similar sized financial companies;
- available independent 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 £30,000 with effect from 1 July 2007, representing an increase of 3.5%. Similarly, the Board agreed that the Chairman's fee should increase to £62,000, upon the recommendation of the Senior Independent Director. The fees for specific responsibilities are set out in the table below.

Annual fees for Board responsibilities

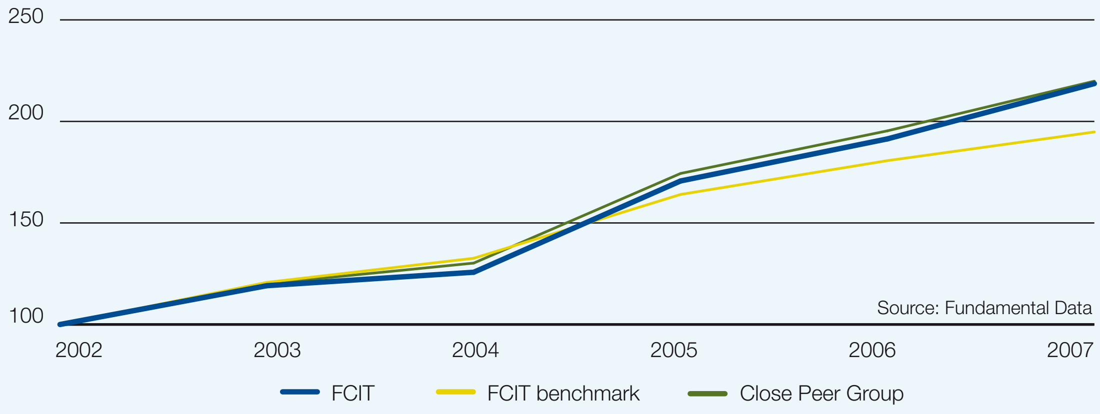
Board	2007 £'000s	2006 £'000s
Chairman	**62.0**	60.0
Senior Independent Director	**36.3**	35.3
Director	**30.0**	29.0
Audit Committee		
Chairman	**8.0**	8.0
Members	**5.0**	5.0
Nomination Committee		
Chairman	**2.0**	2.0
Members	**2.0**	2.0
Private Equity Committee		
Chairman*	**13.0**	13.0
Members	**5.0**	5.0
Service Providers and Marketing Committee		
Chairman	**8.0**	8.0
Members	**5.0**	5.0

* Represents £8,000 as Chairman and £5,000 as the Company's representative on the advisory committees of Pantheon and HarbourVest.

Both the Private Equity Committee and the Service Providers and Marketing Committee will be dissolved with effect from 1 May 2008, having achieved their main objectives. Their ongoing

Directors' Remuneration Report (continued)

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 Close Peer Group Share Price Total Return (weighted average) has also been shown.

responsibilities will be reallocated to the Fund Manager or the Audit Committee as appropriate or, in certain cases, to the Board.

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
7 March 2008

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 June 2006 (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.

The overall attendance rate of Directors at Board meetings in 2007 was over 90%. With the exception of Kenneth Clarke, 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 December 2007 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	12	3	5	5	6
M A Loveday	12	n/a	5	n/a	n/a
M W Bunbury	11	3	n/a	5	n/a
K H Clarke[1]	2	n/a	1	n/a	n/a
R J Gould	10	n/a	n/a	n/a	6
C A Keljik	11	3	n/a	n/a	6
E C S Macpherson	11	n/a	4	4	n/a
J L Rennocks	10	3	n/a	4	n/a
M C B Ward	12	n/a	5	5	n/a
A M Wood[1]	3	n/a	n/a	n/a	1

1 Retired on 4 May 2007

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 analyses 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 are reviewed regularly.

The Board aims to maintain a balance of skills, experience, diversity, age and length of service. A nine year limit is imposed on tenure to be served by new Directors, only to be exceeded for phasing and continuity purposes where experience can add to the strength of the Board, 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 2007 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

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

Corporate Governance (continued)

the Chairman. The appraisal of the Chairman follows the same process and is carried out, in his absence, by the Board as a whole under the leadership of the Senior Independent Director. 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 2008.

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, and in particular Sir Michael Bunbury who has served for over nine years and is 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.

Sir Michael Bunbury was appointed non-executive chairman of HarvourVest Global Private Equity Limited ("**HVGPE**") in October 2007. HVGPE is a Guernsey incorporated closed-end investment company listed on Euronext Amsterdam. HVGPE is advised by HarbourVest Advisers LP, an affiliate of HarbourVest Partners LLC, which also manages part of the Company's private equity portfolio. Sir Michael Bunbury is not a partner of, nor does he receive any fees from, HarbourVest Partners LLC.

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 27 and attendance at meetings on page 31.

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, diversity 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 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 Committee met in May 2007 for the purpose of appointing a search agency to find replacement Directors for those retiring during the year and scheduled to retire in 2008. Following the appointment of a search agency and consideration of the candidates put forward, the Committee interviewed a short list of candidates for the respective positions and skill sets required, and subsequently recommended to the Board the appointment of three new Directors. 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.

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 29 and 30 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. 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.

The Committee will be dissolved on 1 May 2008 and its responsibilities will be undertaken by the Fund Manager and, where appropriate, the Board.

Service Providers and Marketing Committee

The function of the Service Providers and Marketing Committee is to review and monitor the Company's service providers, and the fees charged in respect of those services including those of the Manager. 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 2007 and in January 2008.

The Committee will be dissolved on 1 May 2008 and its responsibilities will be undertaken by a combination of the Fund Manager, the Audit Committee and, where appropriate, the Board.

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 2007 and in February 2008. 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

Corporate Governance (continued)

firms. The Audit Committee has also reviewed the provision of non-audit services, which cost £25,000 in 2007, 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. Further information can be found in note 6 on the accounts.

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 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 and ensuring that risk management and control processes are embedded in the day-to-day operations of the Company. These controls aim to ensure that the 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 overall risk management, is exercised by the Board through monthly reports provided by the Manager on investment performance, performance attribution, compliance with agreed investment restrictions, financial analyses and other management issues. A quarterly control report is prepared by the Manager's Audit, Risk and Compliance Department that provides details of any material internal control failure. The control report incorporates a key risk table that identifies the risks to which the Company is exposed and the controls in place to mitigate them, including risks that are not directly the responsibility of the Manager. The Company's principal risks are set out on pages 17 and 18. 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 or fraud.

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 2007 (the "**Report**"). This 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.

Investment management

The Board has contractually delegated the management of the investment portfolio to the Manager, giving it 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 20, 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, as a result of which telephone discussions and meetings were held with 13 of these shareholders owning a total of 13% of the share capital. The Fund Manager also gave a series of presentations to portfolio managers, private client wealth managers and opinion-formers across the country. In aggregate, 193 managers attended the presentations, representing 19% of the share capital. In total, shareholders representing 39% of the share capital were invited to meet or talk with the Chairman and the Fund Manager and those owning 32% took the opportunity to do so. This communication programme 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 2008.

At annual general meetings, all investors have the opportunity to question and meet 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. The Manager has stated that the nominee company will vote the shares held on behalf of plan holders who have not returned their voting directions in proportion to the directions of those who have.

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 28 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 2007 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 and Business Review is consistent with the financial statements. The information given in the Directors' Report and Business Review includes that specific information presented in the Chairman's Statement, Fund Manager's Review and Twenty Largest Holdings that is cross referred from the Business Review section of the Directors' Report and Business Review.

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 2006 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 Directors' Report and Business Review, the unaudited part of the Directors' Remuneration Report, Financial Highlights, Twenty Largest Holdings, the Corporate Governance statement and Ten Year Records. 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary, in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the 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 2007 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 Directors' Report and Business Review is consistent with the financial statements.

PricewaterhouseCoopers LLP
Hay's Galleria
1 Hay's Lane
London SE1 2RD
7 March 2008

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 2007 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 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. Overseas 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	2007 Revenue £'000s	2007 Capital £'000s	2007 Total £'000s	2006 Revenue £'000s	2006 Capital £'000s	2006 Total £'000s
	11	Gains on investments	**–**	**288,498**	**288,498**	–	199,553	199,553
	20	Exchange gains/(losses)	**22**	**(725)**	**(703)**	13	4,177	4,190
3		Income	**63,253**	**–**	**63,253**	67,223	–	67,223
4	4	Management fees	**(4,477)**	**(4,981)**	**(9,458)**	(4,059)	(4,589)	(8,648)
	4	Performance fee	**–**	**(6,170)**	**(6,170)**	–	(1,756)	(1,756)
5	5	Recoverable VAT	**3,411**	**1,589**	**5,000**	–	–	–
6	20	Other expenses	**(3,128)**	**(103)**	**(3,231)**	(3,247)	(121)	(3,368)
		Net return before finance costs and taxation	**59,081**	**278,108**	**337,189**	59,930	197,264	257,194
7	20	Interest payable and similar charges	**(7,364)**	**(7,364)**	**(14,728)**	(7,487)	(7,487)	(14,974)
		Net return on ordinary activities before taxation	**51,717**	**270,744**	**322,461**	52,443	189,777	242,220
8	20	Taxation on ordinary activities	**(5,808)**	**2,801**	**(3,007)**	(4,246)	1,227	(3,019)
9	9	**Net return attributable to equity shareholders**	**45,909**	**273,545**	**319,454**	48,197	191,004	239,201
9	9	**Return per share – basic (pence)**	**6.40**	**38.10**	**44.50**	6.16	24.43	30.59

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

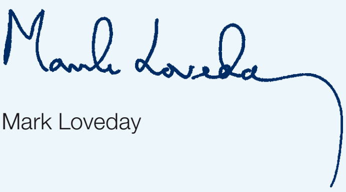
Notes	For the year ended 31 December 2007	Share Capital £'000s	Capital Redemption Reserve £'000s	Capital Reserves £'000s	Revenue Reserve £'000s	Total Shareholders' Funds £'000s
	Balance brought forward 31 December 2006	187,494	75,268	2,030,568	114,810	2,408,140
10	Dividends paid	–	–	–	(40,222)	(40,222)
	Shares repurchased by the Company	(16,164)	16,164	(196,422)	–	(196,422)
	Return attributable to equity shareholders	–	–	273,545	45,909	319,454
	Balance carried forward 31 December 2007	171,330	91,432	2,107,691	120,497	2,490,950

Notes	For the year ended 31 December 2006	Share Capital	Capital Redemption Reserve	Capital Reserves	Revenue Reserve	Total Shareholders' Funds
	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

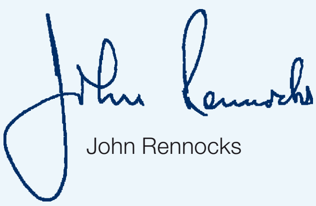
Balance Sheet

Notes	At 31 December	£'000s	2007 £'000s	£'000s	2006 £'000s
	Fixed assets				
11	Investments		**2,664,514**		2,578,696
	Current assets				
13	Debtors	**10,641**		9,201	
	Cash at bank	**32,910**		28,153	
		43,551		37,354	
	Creditors: amounts falling due within one year				
14	Foreign currency loans	**(92,220)**		(68,000)	
15	Other	**(14,320)**		(29,335)	
		(106,540)		(97,335)	
	Net current liabilities		**(62,989)**		(59,981)
16	Total assets less current liabilities		**2,601,525**		2,518,715
	Creditors: amounts falling due after more than one year				
17	Debentures		**(110,575)**		(110,575)
	Net assets		**2,490,950**		2,408,140
	Capital and reserves				
18	Share capital		**171,330**		187,494
19	Capital redemption reserve		**91,432**		75,268
20	Capital reserves		**2,107,691**		2,030,568
20	Revenue reserve		**120,497**		114,810
	Total shareholders' funds – equity		**2,490,950**		2,408,140
21	Net asset value per share – prior charges at nominal value (pence)		**363.47**		321.10

Approved by the Board on 7 March 2008 and signed on its behalf by:



Mark Loveday



John Rennocks

Cash Flow Statement

Notes	For the year ended 31 December	£'000s	2007 £'000s	£'000s	2006 £'000s
	Operating activities				
	Investment income	**59,080**		61,896	
	Interest received	**1,008**		991	
	Stock lending fees received	**278**		283	
	Other revenue	**14**		80	
	Management fees paid	**(12,271)**		(8,234)	
	Fees paid to directors	**(338)**		(365)	
	Other cash payments	**(3,656)**		(4,268)	
22	Net cash inflow from operating activities		**44,115**		50,383
	Servicing of finance				
	Interest paid	**(14,553)**		(14,868)	
	Cash outflow from servicing of finance		**(14,553)**		(14,868)
	Financial investment				
	Purchases of equities and other investments	**(1,555,150)**		(1,593,369)	
	Sales of equities and other investments	**1,759,650**		1,731,519	
	Other capital charges and credits	**(99)**		(130)	
	Net cash inflow from financial investment		**204,401**		138,020
	Equity dividends paid		**(40,222)**		(39,183)
	Net cash inflow before use of liquid resources and financing		**193,741**		134,352
	Financing				
	Net loans raised	**23,537**		75,520	
	Costs of shares repurchased	**(212,479)**		(185,766)	
	Net cash outflow from financing		**(188,942)**		(110,246)
23	Increase in cash		**4,799**		24,106

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 2006 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 2007. Consequently, consolidated accounts have not been prepared.

There have been no significant changes to the accounting policies during the year ended 31 December 2007.

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 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.

Notes on the Accounts

2. Significant accounting policies (continued)

(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, 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) 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

– 100% 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, is allocated to capital reserve realised in the capital account. 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.

(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

	2007 £'000s	2006 £'000s
Income from investments		
UK dividends	33,007	36,150
UK fixed interest	71	182
Overseas dividends	28,618	29,173
Scrip dividends	214	316
	61,910	65,821
Other Income		
Interest on cash and short-term deposits	1,002	1,052
Stock lending fees	326	270
Underwriting commission	4	50
Sundry income	11	30
	1,343	1,402
Total income	63,253	67,223

	2007 £'000s	2006 £'000s
Total income comprises:		
Dividends	61,839	65,639
Interest from investments	71	182
Other income	1,343	1,402
	63,253	67,223

	2007 £'000s	2006 £'000s
Income from investments comprises:		
Listed UK	32,763	36,110
Listed Overseas	28,832	29,464
Unlisted	315	247
	61,910	65,821

Notes on the Accounts (continued)

4 Management and performance fees

			2007		2006
		£'000s	£'000s	£'000s	£'000s
Payable directly to F&C Management Limited (F&C):					
– in respect of management services provided by F&C	(i)	6,074		5,215	
– reimbursement in respect of services provided by Advisers and Sub-Managers	(i)	2,518		2,528	
		8,592		7,743	
– in respect of performance fees	(ii)	6,170		1,686	
			14,762		9,429
Payable directly to Private Equity Managers	(ii)		505		529
Incurred indirectly within Funds:					
– managed by Sub-Managers	(ii)	–		83	
– managed by Private Equity Managers	(iii)	4,337		1,215	
			4,337		1,298
			19,604		11,256
VAT suffered on:					
– management fees	(iv)	361		376	
– performance fees	(iv)	–		70	
			361		446
Total direct and indirect management, and performance fees			19,965		11,702

(i) 50% of these fees are allocated to capital reserve realised
(ii) 100% of these fees are allocated to capital reserve realised
(iii) Indirectly incurred fees are included within the value of the respective funds
(iv) With effect from September 2007 VAT is no longer suffered on management and performance fees (see note 5)

Directly incurred fees are analysed as follows:

Management fees

	2007 £'000s	2006 £'000s
– payable directly to F&C	8,592	7,743
– payable directly to Private Equity Managers	505	529
	9,097	8,272
VAT suffered	361	376
	9,458	8,648
Less: allocated to capital reserve realised	(4,981)	(4,589)
Allocated to revenue account	4,477	4,059

Performance fees payable to F&C	6,170	1,686
VAT suffered	–	70
Allocated to capital reserve realised	6,170	1,756

(a) Management 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 months' notice given in writing by either party. In the event that there is a change of control of the Manager, the Company is entitled to give the Manager three months' notice in writing. The bases of calculation of fees and fee rates for these services, in 2006 and 2007, are set out below.

4 Management and performance fees (continued)

Management Fee Basis	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.
Management Fee Rate	Fixed Fee of £6.39m (2006: £5.65m) per annum, payable monthly in arrears, less fees of £0.32m (2006: £0.44m) earned by the Manager in respect of investment holdings managed or advised by the Manager or its fellow subsidiaries. With effect from 1 January 2008 the fixed fee was increased to £6.71m per annum. Variable fees payable monthly in arrears.
Performance Fee Basis	Benchmark performance: Payable on out-performance of the adjusted net assets for annual period ending 31 December 2007, (in the 17-month period to 31 December 2006) over the composite benchmark (defined on page 20), 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. For the year ending 31 December 2007, the adjusted net asset performance of 14.7% represented out-performance of the composite benchmark by 6.3% (17 month period ending 31 December 2006, 1.6% out-performance). Out-performance of 2.8% (2006: nil) is carried forward for inclusion in the calculation for the subsequent period. Close peer group performance: Payable on out-performance of the adjusted net assets for annual period ending 31 December 2007 over the Close peer group (as referred to on page 20). Close peer group performance was not applicable for the year ended 31 December 2006. For the year ending 31 December 2007, the adjusted net asset performance of 15.8% represented out-performance of the Close Peer Group by 1.9% (17 month period ending 31 December 2006, not applicable).
Performance Fee Rate	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 (2006: 10% of out-performance). No benchmark or peer group performance fee has been accrued in respect of VAT recoverable (see note 5) relating to periods prior to the introduction of the performance fee structures in August 2005. Close 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 (2006: not applicable).

(b) Management fees payable to Private Equity Managers

At 31 December 2007 the Company had commitments in five Private Equity Funds managed by Pantheon Ventures Limited (2006: three) and nine Private Equity Funds managed by HarbourVest Partners LLC (2006: six). Fees in respect of the Pantheon Europe Fund III are paid quarterly, directly to Pantheon Ventures Limited, at a rate of 0.65% per annum (2006: 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 2007 varied from 0.5% per annum to 1.95% per annum (2006: 0.5% to 1.25%).

Notes on the Accounts (continued)

5 Recoverable VAT

	2007 £'000s	2006 £'000s
Recoverable in respect of Management Fees	4,822	–
Recoverable in respect of Performance Fees	178	–
Total recoverable	5,000	–
Less allocated to capital reserve realised	(1,589)	–
Allocated to revenue account	3,411	–

The Association of Investment Companies and JPMorgan Claverhouse Investment Trust lodged a joint appeal in 2004 for the payment of management and performance fees ("fees") by Investment Trusts to be treated as exempt from VAT. In June 2007 the European Court of Justice (ECJ) found in favour of the appellants, declaring that Investment Trusts should be treated as special investment funds and thus exempted from VAT on fees. A separate decision by the House of Lords on the Conde Nast Case in January 2008 ruled that the imposition of a three year capping by HM Revenue and Customs (HMRC) , relating to claims submitted prior to January 1997, was invalid.

HMRC has announced that it would not appeal against either decision, enabling the Company's Manager (F&C Management Limited) to reclaim a proportion of VAT paid on behalf of the Company to HMRC in respect of periods between April 1990 and December 1996 and further periods since April 2001.

The amounts recoverable by the Manager on behalf of the Company, and the timing of the recoveries, are dependent upon negotiations between the Manager and HMRC, on the one hand, and between the Manager and the Company on the other. Taking into account HMRC's acceptance of the ECJ and Conde Nast decisions, the Directors believe that the negotiations with the Manager have reached a position of clarity such that the Company is confident of recovering at least £5m of VAT via the Manager in respect of the relevant periods. This sum has been recognised as a separate item within the Income Statement in the current year. It has been allocated between revenue and capital returns in accordance with the accounting policies applicable to allocation of fees at the time the VAT was suffered.

The Directors are unable to state with certainty the extent to which they believe amounts in excess of the £5m already accrued will be recovered via the Manager.

6 Other expenses

	2007 £'000s	2006 £'000s
Auditors' remuneration:		
for audit services	63	58
for other services*	26	17
Custody fees	345	310
Directors' Remuneration (see below):		
fees for services to the Company	338	365
benefits paid to former Directors	–	10
Subscriptions	37	88
Directors' and Officers' liability insurance	92	99
Marketing expenses	608	555
Private Investor Plan expenses	912	1,009
Loan commitment fees	31	81
Registrars' fees	85	129
Professional charges	151	33
Printing and postage	271	339
Sundry expenses	169	154
	3,128	3,247

* Total Auditors' remuneration, exclusive of VAT, for other services, amounts to £25,000 (2006: £29,000) of which £nil (2006: £13,000) was charged to capital reserve realised.

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

6 Other expenses (continued)

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 29 and 30.

(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 2007		31 December 2006	
	Beneficial	**Other**	Beneficial	Other
Sir Michael Bunbury	97,000	17,500	97,000	17,500
Ronald Gould	3,316	–	2,082	–
Christopher Keljik	43,633	–	42,864	–
Mark Loveday	100,000	35,000	100,000	35,000
Ewen Macpherson	14,500	–	14,500	–
John Rennocks	70,860	–	65,465	–
Maxwell Ward	30,000	–	30,000	–

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

* Since the year end, Ronald Gould has acquired a further 199 ordinary shares. 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. Stephen Burley and Sir Roger Bone were appointed following the year end and as yet do not hold any ordinary shares.

(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 £338,000 (2006: £365,000). Emoluments attributable to the highest paid Director amounted to £62,500 (2006: £59,000).

7 Interest payable and similar charges

	2007 £'000s	2006 £'000s
Debenture stocks	**12,399**	12,399
Foreign currency loans	**1,718**	2,397
Overdrafts	**611**	178
	14,728	14,974
Less: allocated to capital reserve realised (see note 20)	**(7,364)**	(7,487)
	7,364	7,487
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	**2,329**	2,575
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
	14,728	14,974

Notes on the Accounts (continued)

8 Taxation on ordinary activities

(a) Analysis of tax charge for the year

			2007			2006
	Revenue £'000s	**Capital £'000s**	**Total £'000s**	Revenue £'000s	Capital £'000s	Total £'000s
Corporation tax at 30% (2006:30%)	**5,761**	**(3,071)**	**2,690**	3,530	(711)	2,819
Relief for overseas taxation	**(2,690)**	**–**	**(2,690)**	(2,819)	–	(2,819)
	3,071	**(3,071)**	**–**	711	(711)	–
Overseas taxation	**2,723**	**284**	**3,007**	2,976	45	3,021
Precompte – recovery of tax credits	**–**	**–**	**–**	(2)	–	(2)
Total current taxation (note 8b)	**5,794**	**(2,787)**	**3,007**	3,685	(666)	3,019
Deferred tax	**14**	**(14)**	**-**	561	(561)	–
	5,808	**(2,801)**	**3,007**	4,246	(1,227)	3,019

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.

(b) Factors affecting tax charge for the year

			2007			2006
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
	£'000s	**£'000s**	**£'000s**	£'000s	£'000s	£'000s
Return on ordinary activities before taxation	**51,717**	**270,744**	**322,461**	52,443	189,777	242,220
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 30% (2006: 30%)	**15,515**	**81,223**	**96,738**	15,733	56,933	72,666
Effects of:						
UK franked dividends*	**(9,902)**	**–**	**(9,902)**	(10,845)	–	(10,845)
Overseas tax in excess of double tax relief	**31**	**–**	**31**	128	–	128
Overseas income not subject to corporation tax	**(66)**	**–**	**(66)**	(168)	–	(168)
Capital returns*	**–**	**(86,332)**	**(86,332)**	–	(61,119)	(61,119)
Precompte – recovery of tax credits	**–**	**–**	**–**	(1)	–	(1)
Expenses not deductible for tax purposes	**216**	**31**	**247**	229	36	265
Expenses utilised from prior years	**–**	**–**	**–**	(1,391)	–	(1,391)
Expenses not utilised in the year	**–**	**2,007**	**2,007**	–	3,439	3,439
Indian tax on capital gains	**–**	**284**	**284**	–	45	45
Total current taxation (note 8a)	**5,794**	**(2,787)**	**3,007**	3,685	(666)	3,019

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

The deferred tax asset of £17.4 million (2006: £15.4 million) in respect of unutilised expenses at 31 December 2007 has not been recognised as it is likely that the unrecognised asset will increase in amount in future. Of this amount £nil (2006: £nil) relates to revenue expenses and £17.4 million (2006: £15.4 million) to capital expenses.

9 Return per share

	2007 pence	2007 £'000s	2006 pence	2006 £'000s
Total return	44.50	319,454	30.59	239,201
Revenue return	6.40	45,909	6.16	48,197
Capital return	38.10	273,545	24.43	191,004
Weighted average ordinary shares in issue		717,944,021		781,991,005

10 Dividends

Dividends on ordinary shares	Register date	Payment date	2007 £'000s	2006 £'000s
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
2006 Final of 2.85p	16 March 2007	9 May 2007	21,081	–
2007 Interim of 2.70p	10 August 2007	11 September 2007	19,141	–
			40,222	39,183

The Directors propose to pay a final dividend in respect of the year ended 31 December 2007 of 3.15p payable on 8 May 2008 to all shareholders on the register at close of business on 25 March 2008. 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. 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 below.

	2007 £'000s
Net revenue available for distribution by way of dividends for the year	45,909
Interim dividend for the year ended 31 December 2007 – 2.70p per share	(19,141)
Proposed final dividend for the year ended 31 December 2007 – 3.15 per share (estimated cost based on 683,550,943 shares in issue at 7 March 2008)	(21,532)
Estimated undistributed revenue for Section 842 purposes*	5,236

* Undistributed revenue comprises 8.46% of income from investments of £61,910,000 (see note 3).

Notes on the Accounts (continued)

11 Investments

	Listed* £'000s	Unlisted £'000s	Total £'000s
Cost at 1 January 2007	1,775,497	106,568	1,882,065
Unrealised appreciation/(depreciation) at 1 January 2007	700,620	(3,989)	696,631
Valuation at 1 January 2007	2,476,117	102,579	2,578,696
Movements in the year			
Purchases at cost	1,446,900	106,757	1,553,657
Sales – proceeds	(1,732,088)	(24,249)	(1,756,337)
– realised gains	44,787	13,800	58,587
Movement in unrealised appreciation	207,729	22,182	229,911
Valuation at 31 December 2007	2,443,445	221,069	2,664,514
Cost at 31 December 2007	1,787,646	203,939	1,991,585
Unrealised appreciation	655,799	17,130	672,929
Valuation at 31 December 2007	**2,443,445**	**221,069**	**2,664,514**

*Includes investments listed on the Alternative Investment Market

Gains/(losses) on investments	2007 £'000s	2006 £'000s
Realised gains based on historical cost	**312,199**	216,493
Less: amounts recognised as unrealised in previous years	**(253,612)**	(225,705)
Realised gains/(losses) based on carrying value at previous balance sheet date	**58,587**	(9,212)
Net movement in unrealised appreciation	**229,911**	208,765
Gains on investments	**288,498**	199,553

Stock lending	2007 £'000s	2006 £'000s
Aggregate value of securities on loan at 31 December	**88,615**	72,328
Maximum aggregate value of securities on loan during the year	**159,439**	92,871
Income from stock lending during the year	**326**	270

In respect of securities on loan at the year-end, the Company held £97,644,000 (2006: £76,393,000) as collateral, the value of which exceeds the value of the loan securities by 10.2% (2006: 6%). In respect of the maximum aggregate value of securities on loan during the year, the Company held £167,868,000 (2006: £100,456,000) as collateral, the value of which exceeded the value of the securities on loan by 5.3% (2006: 8.1%). F&C received remuneration of £82,000 (2006: £83,000) for managing part of the Company's stock lending activities.

Investments managed or advised by the F&C Group

Investments include £30.0 million (2006: £28.0 million) of funds and investments managed or advised by the Company's Manager (F&C) or its subsidiaries. These investments represent 1.1% (2006: 1.1%) of total assets less current liabilities (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 £53.7m (2006: £0.3m) of such investments, and received £48.7m from sales.

Unlisted investments

Unlisted investments include £196.8 million of investments described as Private Equity, together with £24.2 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 2007
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 2007 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	Country of registration and incorporation	Number and class of shares held	Holding %
Esprit Capital Fund 1 L.P.	England	–	6.40
Caithness Petroleum	British Virgin Islands	147,224 ordinary shares	7.7
Dover Street VI L.P.	USA	–	11.12
Dover Street VII L.P.	USA	–	12.78
F&C Portfolios Fund SICAV			
European High Yield Bond Fund*†	Luxembourg	1,387,000 shares	39.25
F&C US Smaller Companies PLC*	England	4,368,169 ordinary shares of 25p	20.43
Frontiers Capital II L.P.	England	–	7.90
HarbourVest International - Direct Fund L.P.	USA	–	15.66
Latin American Extra Yield Fund*	Eire	965,000 shares	47.22
Merrill Lynch Latin American Investment Trust	England	4,860,012 shares	10.17
Pantheon Europe Fund III LP	USA	–	44.41
Pantheon Europe Fund V LP	Scotland	–	9.30
Pantheon Asia Fund IV LP	Channel Islands	–	8.40
Pantheon Asia Fund V LP	Scotland	–	8.40
Utilico Emerging Markets Limited	Bermuda	18,951,661 ordinary shares of 10p	11.39
		3,790,332 warrants	11.65
Utilico Limited	Bermuda	8,955,990 ordinary shares of 10p	11.22
		1,496,273 warrants 2008	12.30
		409,275 warrants 2012	11.39
Utilico Finance Limited	Bermuda	3,824,705 zero dividend preference 177.52p shares	8.41
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 1.40% of the voting rights in the F&C Portfolios Fund SICAV.

13 Debtors

	2007 £'000s	2006 £'000s
Investment debtors	**673**	3,990
Prepayments and accrued income	**9,769**	4,927
Overseas taxation recoverable	**196**	281
Other debtors	**3**	3
	10,641	9,201

Notes on the Accounts (continued)

14 Creditors: amounts falling due within one year

Foreign currency loans Non-instalment debt payable on demand or within one year	2007 £'000s	2006 £'000s
¥ 5,985m repaid January 2008	**26,913**	–
US$130m repaid January 2008	**65,307**	–
¥9,900m repaid January 2007	**–**	42,453
US$50m repaid January 2007	**–**	25,547
	92,220	68,000

The exchange rates at which short-term debt was converted to sterling is US$1.9906 and ¥222.3799. At 31 December 2007 the Company had committed loan facilities of £30 million and £40 million expiring in October 2008, 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 7 March 2008 short-term borrowings totalled £92,574,000.

15 Creditors: amounts falling due within one year

Other	2007 £'000s	2006 £'000s
Cost of ordinary shares repurchased	**4,929**	20,985
Investment creditors	**356**	2,337
Performance fee	**6,170**	3,684
Other accrued expenses	**2,865**	2,329
	14,320	29,335

16 Geographical and industrial classification

a)	UK %	North America %	Europe ex UK %	Japan %	Developed Asia %	Emerging Markets %	**2007 Total %**	2006 Total %
Equities and convertibles								
Oil and gas	6.8	1.7	1.0	0.2	0.6	1.6	**11.9**	11.7
Basic materials	3.5	1.5	0.3	0.8	1.4	2.2	**9.7**	5.3
Industrials	1.9	1.8	0.6	0.5	0.6	0.7	**6.1**	8.5
Consumer goods	3.6	1.9	1.7	1.3	0.6	1.0	**10.1**	7.3
Healthcare	2.6	2.7	0.9	0.3	0.2	0.2	**6.9**	7.4
Consumer services	2.0	1.6	1.0	0.3	0.3	0.6	**5.8**	8.2
Telecommunications	2.9	0.5	0.2	0.2	0.8	1.2	**5.8**	4.7
Utilities	2.5	0.6	0.2	0.1	–	0.1	**3.5**	5.2
Financials	13.6	3.6	3.0	0.8	1.6	2.9	**25.5**	29.8
Private equity	–	3.7	3.6	–	–	–	**7.3**	3.5
Technology	0.7	3.4	0.6	0.4	–	0.7	**5.8**	7.4
Total equities and convertibles	40.1	23.0	13.1	4.9	6.1	11.2	**98.4**	99.0
Fixed interest stocks	–	–	0.5	–	–	–	**0.5**	0.7
Total Investments	40.1	23.0	13.6	4.9	6.1	11.2	**98.9**	99.7
Net current assets (excluding loans)	0.3	0.4	0.3	–	–	0.1	**1.1**	0.3
Total assets less current liabilities (excluding loans)	**40.4**	**23.4**	**13.9**	**4.9**	**6.1**	**11.3**	**100.0**	
Total 2006	42.8	20.8	14.5	5.9	4.0	12.0		100.0

b)	UK %	North America %	Europe ex UK %	Japan %	Developed Asia %	Emerging Markets %	2007 Total %	2006 Total %
Net assets 2007	**38.9**	**22.6**	**15.2**	**4.3**	**6.6**	**12.4**	**100.0**	
Net assets 2006	41.4	21.4	15.4	4.5	4.3	13.0		100.0

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

17 Creditors: amounts falling due after more than one year

Debentures

	2007 £'000s	2006 £'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 2007 was £143,772,000 (31 December 2006: £152,037,000). 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).

Notes on the Accounts (continued)

18 Share capital

	Authorised		Issued and fully paid	
	Number	Nominal £'000s	Number	Nominal £'000s
Equity share capital ordinary shares of 25p each				
Shares repurchased by the Company	–	–	(64,658,023)	(16,164)
Balance brought forward	1,103,600,000	275,900	749,976,615	187,494
Balance carried forward	1,103,600,000	275,900	685,318,592	171,330

64,658,023 ordinary shares were repurchased and cancelled during the year at a total cost of £196,422,000. Since the year end 1,767,649 ordinary shares have been repurchased at a total cost of £5,411,000.

19 Capital redemption reserve

	2007 £'000s	2006 £'000s
Transfer from share capital on repurchase of ordinary shares	**16,164**	19,320
Balance brought forward	**75,268**	55,948
Balance carried forward	**91,432**	75,268

20 Other reserves

	Capital reserve – realised £'000s	Capital reserve – unrealised £'000s	Capital reserves – total £'000s	Revenue reserve £'000s
Gains and losses transferred in current year				
Realised gain on investments	58,587	–	58,587	–
Transfer on disposal of investments	253,612	(253,612)	–	–
Increase in unrealised appreciation on investments	–	229,911	229,911	–
Exchange gains and losses on currency balances	989	(1,714)	(725)	–
Management fees and related VAT (see note 4)	(4,981)	–	(4,981)	–
Performance fee and related VAT (see note 4)	(6,170)	–	(6,170)	–
VAT recovery (see note 5)	1,589	–	1,589	–
Interest expense (see note 7)	(7,364)	–	(7,364)	–
Taxation of a capital nature (see note 8)	2,801	–	2,801	–
Other capital charges and credits	(103)	–	(103)	–
Revenue return attributable to equity shareholders	–	–	–	45,909
Total gains and losses transferred in current year	298,960	(25,415)	273,545	45,909
Cost of ordinary shares repurchased in year	(196,422)	–	(196,422)	–
Dividends paid in year	–	–	–	(40,222)
Balance brought forward	1,334,008	696,560	2,030,568	114,810
Balance carried forward	1,436,546	671,145	2,107,691	120,497

Included within the capital reserve movement for the year is £1,322,000 (2006: £1,329,000) of dividend receipts recognised as capital in nature. £3,201,000 of transaction costs on purchases of investments are included within the capital reserve movements disclosed above (2006: £2,772,000). £2,968,000 of transaction costs on sales of investments are similarly included (2006: £2,714,000).

20 Other reserves (continued)

Distributable capital reserves

Under the terms of the Company's Articles of Association, sums standing to the credit of Capital reserves are distributable only by way of redemption or purchase of any of the Company's own shares, for so long as the Company carries on business as an Investment Company. Company Law states that Investment Companies may only distribute accumulated "realised" profits.

The Institute of Chartered Accountants in England and Wales (ICAEW), in its technical guidance TECH 01/08, states that profits arising out of a change in fair value of assets, recognised in accordance with Accounting Standards, may be distributed, provided the change recognised can be readily converted into cash. Securities listed on a recognised stock exchange are generally regarded as being readily convertible into cash and hence unrealised profits in respect of such securities, currently included within the Unrealised Capital Reserve, may be regarded as distributable under Company Law.

This technical interpretation of the meaning of distributable reserves would, as a consequence, give rise at 31 December 2007 to capital reserves available for distribution of approximately £2,091m, and non-distributable capital reserves, excluding the capital redemption reserve, of approximately £16m.

21 Net asset value per ordinary share

	2007	2006
Net asset value per share (with debenture stocks at nominal value) – pence	363.47	321.10p
Net assets attributable at end of period – £'000s	2,490,950	2,408,140
Ordinary shares in issue at end of year – number	685,318,592	749,976,615

Net asset value per share cum dividend (with debenture stocks at market value) was 358.63p (31 December 2006: 315.57p). The market value of debenture stocks at 31 December 2007 was £143,772,000 (31 December 2006: £152,037,000).

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

	2007 £'000s	2006 £'000s
Total return before finance costs and taxation	337,189	257,194
Adjust for returns from non-operating activities		
– Gains on investments held at fair value	(288,499)	(199,553)
– Exchange gains and losses of a capital nature	725	(4,177)
– Non-operating expenses of a capital nature	103	121
Return from operating activities	49,518	53,585
Adjust for non cash-flow items		
– Exchange gains and losses of a revenue nature	(22)	(13)
– Decrease/(increase) in accrued income	287	(318)
– (Increase)/decrease in debtors	(4,963)	13
– Increase in creditors	2,453	770
– Scrip dividends	(214)	(316)
– Overseas taxation	(2,914)	(3,203)
– Effective yield adjustment	(30)	(135)
Net cash inflow from operating activities	44,115	50,383

Notes on the Accounts (continued)

23 Reconciliation of net cash movement to movement in net debt

	2007 £'000s	2006 £'000s
Net cash movement	**4,799**	24,106
Increase in loans	**(23,537)**	(75,520)
Movement in net debt resulting from cash flows	**(18,738)**	(51,414)
Exchange movement	**(725)**	4,177
Movement in net debt in the year	**(19,463)**	(47,237)
Net debt brought forward	**(150,422)**	(103,185)
Net debt carried forward	**(169,885)**	(150,422)

	Balance at 1 January 2007 £'000s	Cash flow £'000s	Exchange Movement £'000s	Balance at 31 December 2007 £'000s
Represented by:				
Cash at bank	28,153	4,799	(42)	32,910
Foreign currency loans	(68,000)	(23,537)	(683)	(92,220)
Debentures	(110,575)	–	–	(110,575)
	(150,422)	(18,738)	(725)	(169,885)

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.

	2007 Currency	2006 Currency	2007 £'000s	2006 £'000s
HarbourVest Partners VII:				
– Buyout Partnership Fund L.P.	**US$28.1m**	US$41.3m	**14,106**	21,123
– Venture Partnership Fund L.P.	**US$12.3m**	US$17.1m	**6,179**	8,737
– Mezzanine Fund L.P.	**US$5.3m**	US$7.6m	**2,683**	3,893
Dover Street VI L.P.	**US$22.1m**	US$45.6m	**11,100**	23,285
Dover Street VII L.P.	**US$75.0m**	–	**37,677**	–
HarbourVest Partners VI – Asia Pacific and Rest of World L.P.	**US$17.5m**	US$22.4m	**8,791**	11,432
HarbourVest Partners VIII:				
– Buyout Partnership Fund L.P.	**US$48.6m**	–	**24,415**	–
– Venture Partnership Fund L.P.	**US$36.0m**	US$39.6m	**18,085**	20,234
HarbourVest Partners V – Direct Fund L.P.	**€34.5m**	–	**25,340**	–
Pantheon Europe Fund III L.P.	**€32.2m**	€51.1m	**23,650**	34,402
Pantheon Europe Fund V L.P.	**€82.0m**	–	**60,228**	–
Pantheon Asia Fund IV L.P.	**US$38.0m**	US$45.8m	**19,090**	23,376
Pantheon Asia Fund V L.P.	**US$50m**	–	**25,118**	–
Pantheon Global Secondary Fund III L.P.	**US$35.3m**	US$45.0m	**17,708**	22,993
Esprit Capital Fund I L.P.	**£2.1m**	£1.4m	**2,071**	1,389
Frontiers Capital II L.P.	**US$0.02m**	US$0.02m	**8**	8
			296,249	170,872

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 29 and 30, and as set out in note 6 on 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 on management and performance fees; in note 11, where stock lending fees and investments managed and advised by F&C are disclosed; and in note 15, in relation to performance fees owed to F&C at the Balance Sheet date. The Fund Manager, Jeremy Tigue, who is an employee of F&C, had a beneficial interest in 279,220 ordinary shares of the Company at 31 December 2007 and 281,204 at 7 March 2008.

26 Financial Risk Management

The Company is an Investment Company, listed on the London Stock Exchange, and conducts its affairs so as to qualify in the United Kingdom (UK) as an Investment Trust under the provisions of S842 of the Income and Corporation Taxes Act, 1988. In so qualifying, the Company is exempted in the UK 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 policy of investing primarily in an internationally diversified portfolio of publicly listed equities, as well as unlisted securities and private equity, with the use of gearing. In pursuing the objective, the Company is exposed to financial risks which could result in a reduction of either or both of the value of the net assets and the profits available for distribution by way of dividend. These financial risks are principally related to the market (currency movements, interest rate changes and security price movements), liquidity and credit. The Board of Directors, together with the Manager, is responsible for the Company's risk management, as set out in detail in the Business Review. The Directors' policies and processes for managing the financial risks are set out in (a), (b) and (c) below.

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, and include the valuation of financial assets and liabilities at fair value, except as noted in (d) below and in note 17 in respect of Debenture Stocks. The Company does not make use of hedge accounting rules.

(a) Market Risks

The fair value of equity and other financial securities held in the Company's portfolio fluctuates with changes in market prices. Prices are themselves affected by movements in currencies and interest rates and by other financial issues, including the market perception of future risks. The Board sets policies for managing these risks within the Company's objective and meets regularly to review full, timely and relevant information on investment performance and financial results. The Manager assesses exposure to market risks when making each investment decision and monitors on-going market risk within the portfolio.

The Company's other assets and liabilities may be denominated in currencies other than sterling and may also be exposed to interest rate risks. The Manager and the Board regularly monitor these risks. The Company does not normally hold significant cash balances. Borrowings are limited to amounts and currencies commensurate with the portfolio's exposure to those currencies, thereby limiting the Company's exposure to future changes in exchange rates. Debenture stocks were issued as part of the Company's planned gearing. All contracts and compliance with them, including the Debenture trust deed, are agreed and monitored by the Board. Gearing may be short or long-term, in Sterling and foreign currencies, and enables the Company 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.

Income earned in foreign currencies is converted to Sterling on receipt. The Board regularly monitors the effects on net revenue of interest earned on deposits and paid on gearing.

Notes on the Accounts (continued)

26 Financial Risk Management (continued)

Currency exposure

The fair value of the Company's assets and liabilities at 31 December, by currency, are shown below.

2007	Investments £'000s	Short-term debtors £'000s	Cash and deposits £'000s	Debentures £'000s	Short-term unsecured loans £'000s	Short-term creditors £'000s	Net exposure £'000s
Sterling	1,063,352	7,790	13,587	(110,575)	–	(13,019)	961,135
US Dollar	786,361	821	9,549	–	(65,307)	(1,301)	730,123
Euro	252,396	1,250	7,333	–	–	–	260,979
Yen	132,888	71	465	–	(26,913)	–	106,511
Other	429,517	709	1,976	–	–	–	432,202
Total	**2,664,514**	**10,641**	**32,910**	**(110,575)**	**(92,220)**	**(14,320)**	**2,490,950**

2006	Investments £'000s	Short-term debtors £'000s	Cash and deposits £'000s	Debentures £'000s	Short-term unsecured loans £'000s	Short-term creditors £'000s	Net exposure £'000s
Sterling	1,131,884	4,255	14,901	(110,575)	–	(26,815)	1,013,650
US Dollar	613,870	2,644	8,922	–	(25,547)	(2,520)	597,369
Euro	273,016	1,192	365	–	–	–	274,573
Yen	147,295	90	2,275	–	(42,453)	–	107,207
Other	412,631	1,020	1,690	–	–	–	415,341
Total	2,578,696	9,201	28,153	(110,575)	(68,000)	(29,335)	2,408,140

The principal currencies to which the Company was exposed were the US Dollar, Euro and Yen. The exchange rates applying against Sterling at 31 December, and the average rates during the year, were as follows:

	2007	Average	2006
US Dollar	**1.9906**	1.9572	2.0023
Euro	**1.3615**	1.4842	1.4587
Yen	**222.38**	233.20	233.50

Based on the financial assets and liabilities held, and exchange rates applying, at each Balance Sheet date, a weakening or strengthening of Sterling against each of these currencies by 10% would have had the following approximate effect on annualised income after tax and on net asset value (NAV) per share:

			2007			2006
Weakening of Sterling	**US$ £'000s**	**€ £'000s**	**¥ £'000s**	US$ £'000s	€ £'000s	¥ £'000s
Income Statement Return after tax						
Revenue Return	**309**	**468**	**142**	442	133	550
Capital Return	**72,806**	**26,041**	**10,608**	51,538	37,160	10,687
Total Return	**73,115**	**26,509**	**10,750**	51,980	37,293	11,237
NAV per share – pence	**10.67**	**3.87**	**1.52**	6.93	4.97	1.50

26 Financial Risk Management (continued)

Strengthening of Sterling	2007 US$ £'000s	2007 € £'000s	2007 ¥ £'000s	2006 US$ £'000s	2006 € £'000s	2006 ¥ £'000s
Income Statement Return after tax						
Revenue Return	**(309)**	**(468)**	**(142)**	(442)	(133)	(550)
Capital Return	**(72,806)**	**(26,041)**	**(10,608)**	(51,538)	(37,160)	(10,687)
Total Return	**(73,115)**	**(26,509)**	**(10,750)**	(51,980)	(37,293)	(11,237)
NAV per share – pence	**(10.67)**	**(3.87)**	**(1.52)**	(6.93)	(4.97)	(1.50)

These analyses are broadly representative of the Company's activities during the current and prior year as a whole, although the level of the Company's exposure to currencies fluctuates in accordance with the investment and risk management processes.

Interest Rate exposure

The exposure of the financial assets and liabilities to interest rate risks at 31 December is shown below:

	2007 Within one year £'000s	2007 More than one year £'000s	2007 Total £'000s	2006 Within one year £'000s	2006 More than one year £'000s	2006 Total £'000s
Exposure to floating rates						
Cash	**32,910**	**–**	**32,910**	28,153	–	28,153
Borrowings	**(92,220)**	**–**	**(92,220)**	(68,000)	–	(68,000)
Overdrafts	**–**	**–**	**–**	–	–	–
Exposure to fixed rates						
Cash	**–**	**–**	**–**	–	–	–
Debentures	**–**	**(110,575)**	**(110,575)**	–	(110,575)	(110,575)
Other borrowings	**–**	**–**	**–**	–	–	–
Net exposures						
At year end	**(59,310)**	**(110,575)**	**(169,885)**	(39,847)	(110,575)	(150,422)
Maximum in year	**(95,313)**	**(110,575)**	**(205,888)**	(106,937)	(110,575)	(217,512)
Minimum in year	**27,426**	**(110,575)**	**(83,149)**	(8,299)	(110,575)	(118,874)

Exposures vary throughout the year as a consequence of changes in the make-up of the net assets of the Company arising out of the investment and risk management processes.

Interest received on cash balances, or paid on overdrafts and borrowings, is at ruling market rates. The interest rates applying on the debenture stocks are set out in note 17 on the accounts. There were no material holdings in fixed interest investment securities during the year or at the year end.

The Company's total returns and net assets are sensitive to changes in interest rates on cash and borrowings, except in respect of the Debentures on which the interest rate is fixed. The Debentures are valued in the accounts at par value.

Based on the financial assets and liabilities held, and the interest rates pertaining, at each Balance Sheet date, a decrease or increase in interest rates by 2% would have had the following approximate effects on the Income Statement revenue and capital returns after tax and on the NAV per share.

	2007 Increase in rate £'000s	2007 Decrease in rate £'000s	2006 Increase in rate £'000s	2006 Decrease in rate £'000s
Revenue return	**(461)**	**461**	(286)	286
Capital return	**(922)**	**922**	(680)	680
Total return	**(1,383)**	**1,383**	(966)	966
NAV per share – pence	**(0.20)**	**0.20**	(0.13)	0.13

Notes on the Accounts (continued)

26 Financial Risk Management (continued)

Other Market Risk exposures

The Company does not usually enter into derivative transactions in managing its exposure to other market risks. The portfolio of investments, valued at £2,664,514,000 at 31 December 2007 (2006: £2,578,696,000) is therefore exposed to market price changes. The Manager assesses these exposures at the time of making each investment decision. The Board reviews overall exposures at each meeting against indices and other relevant information. An analysis of the portfolio by country and major industrial sector is set out in note 16 on the accounts.

Based on the portfolio of investments held at each Balance Sheet date, and assuming other factors remain constant, a decrease or increase in the fair values of the portfolio by 20% would have had the following approximate effects on the Income Statement Capital Return after tax and on the net asset value (NAV) per share:

	2007		2006	
	Increase in value £'000s	**Decrease in value £'000s**	Increase in value £'000s	Decrease in valaue £'000s
Income statement capital return	**534,033**	**(534,033)**	516,544	(516,544)
NAV per share – pence	**77.92**	**(77.92)**	68.87	(68.87)

(b) Liquidity risk exposure

The Company is required to raise funds to meet commitments associated with financial instruments and share buy-backs. These funds may be raised either through the realisation of assets or through increased borrowing. The risk of the Company not having sufficient liquidity at any time is not considered by the Board to be significant, given: the large number of quoted investments held in the Company's portfolio (680 at 31 December 2007); the liquid nature of the portfolio of investments; the industrial and geographical diversity of the portfolio (see note 16); and the existence of an on-going loan facility agreement. Cash balances are held with reputable banks, usually on overnight deposit. The Company does not normally invest in derivative products. The manager reviews liquidity at the time of making each investment decision. The Board reviews liquidity exposure at each meeting.

The Company has loan facilities of £70m as set out in note 14 on the accounts. The 11.25% Debenture Stock is governed by a trust deed and is redeemable in 2014 or at an earlier date or dates at the Company's behest. The Perpetual Debenture Stock is also governed by a trust deed and is redeemable at par only on the security becoming enforceable. The Board does not therefore consider the repayment of these debenture stocks as a likely short-term liquidity issue.

The remaining contractual maturities of the financial liabilities at 31 December, based on the earliest date on which payment can be required, were as follows:

	Three months or less £'000s	More than three months but less than one year £'000s	More than one year £'000s	Total £'000s
2007				
Current liabilities				
Overdrafts	–	–	–	–
Other borrowings	92,220	–	–	92,220
Other creditors	14,320	–	–	14,320
Long-term liabilities				
Debentures	–	–	110,575	110,575
	106,540	**–**	**110,575**	**217,115**
2006				
Current liabilities				
Overdrafts	–	–	–	–
Other borrowings	68,000	–	–	68,000
Other creditors	29,335	–	–	29,335
Long-term liabilities				
Debentures	–	–	110,575	110,575
	97,335	–	110,575	207,910

26 Financial Risk Management (continued)

(c) Credit Risk and counterparty exposure

The Company is exposed to potential failure by counterparties to deliver securities for which the Company has paid, or to pay for securities which the Company has delivered. The Board approves all counterparties used in such transactions, which must be settled on a basis of delivery against payment (except where local market conditions do not permit).

A list of pre-approved counterparties is maintained and regularly reviewed by the Manager and the Board. Broker and Stocklending counterparties are selected based on a combination of criteria, including credit rating, balance sheet strength and membership of a relevant regulatory body. The rate of default in the past has been negligible. Payments in respect of private equity investments are made only to counterparties with whom a contracted commitment exists. Securities can only be loaned to third parties in exchange for collateral which exceeds the value of the securities throughout the duration of the loan. Cash and deposits are held with reputable banks.

The Company has an on-going contract with its Custodian for the provision of custody services. The contract is reviewed regularly. Details of securities held in custody on behalf of the Company are received and reconciled monthly.

To the extent that F&C Management Limited (F&C) carries out management and administrative duties (or causes similar duties to be carried out by third parties) on the Company's behalf, the Company is exposed to counterparty risk. The Board assesses this risk continuously through regular meetings with management of F&C (including the Fund Manager) and with F&C's Internal Audit function, which function carries out annual audits of F&C's appointed sub-managers. In reaching its conclusions, the Board also reviews F&C's parent group annual Audit and Assurance Faculty Report, Group Accounts and other public information indicative of its financial position and performance.

The Company has no credit-rated bonds or similar securities or derivatives in its portfolio at the year end (2006: same) and does not normally invest in such. None of the Company's financial liabilities is past due or impaired.

(d) Fair Values of financial assets and liabilities

The assets and liabilities of the Company are, in the opinion of the Directors, reflected in the Balance Sheet at fair value, or at a reasonable approximation thereof, except for Debenture Stocks which are carried at par value in accordance with FRS4. The fair value of the debenture stocks, derived from their quoted market price at 31 December 2007, was £143,772,000 (2006: £152,037,000). Borrowings under loan facilities are short-term in nature and hence do not have a value materially different from their capital repayment amount. Borrowings in foreign currencies are converted into Sterling at exchanges rates ruling at each valuation date.

Unquoted investments, including private equity investments, are valued based on professional assumptions and advice that is not wholly supported by prices from current market transactions or by observable market data. The Directors make use of recognised valuation techniques and may take account of recent arms' length transactions in the same or similar investments. With respect specifically to investments in private equity funds or partnerships, the Directors rely on valuations of the underlying unlisted investments as supplied by the managers of those private equity funds or partnerships. The Directors regularly review the principles applied by the managers to those valuations to ensure they comply with the Company's accounting policies and with fair value principles.

(e) Capital Risk Management

The Objective of the Company is stated as being to provide shareholders with long-term growth in capital and income. In pursuing this long-term Objective, the Board has a responsibility for ensuring the Company's ability to continue as a going concern. It must therefore maintain an optimal capital structure through varying market conditions. This involves the ability to: issue and buy back share capital within limits set by the shareholders in general meeting; borrow monies in the short and long term; and pay dividends to shareholders out of current year revenue earnings as well as out of brought forward revenue reserves.

Changes to ordinary share capital are set out in note 18 on the accounts. Dividend payments are set out in note 10 on the accounts. Borrowings are set out in notes 14 and 17 on the accounts.

Ten Year Record

Assets

at 31 December

£m	1997	1998	1999	2000	2001	2002	2003*	2004*	2005	2006	2007
Total assets less current liabilities (excl loans)	2,251	2,592	3,234	3,137	2,573	1,915	2,259	2,346	2,527	2,587	**2,694**
Prior charges (incl loans)	113	202	212	208	218	218	201	215	111	179	**203**
Available for ordinary shares	2,138	2,390	3,022	2,929	2,355	1,697	2,058	2,131	2,416	2,408	**2,491**

Net Asset Value

at 31 December

	1997	1998	1999	2000	2001	2002	2003*	2004*	2005	2006	2007
NAV per share	203.4p	227.4p	296.2p	296.9p	248.1p	178.9p	216.9p	233.4p	291.8p	321.1p	**363.5p**
NAV return on 100p – 5 years (per AIC)											**220.1p**
NAV return on 100p – 10 years (per AIC)											**205.0p**

Share Price

at 31 December

	1997	1998	1999	2000	2001	2002	2003*	2004*	2005	2006	2007
Mid-market price per share	175.8p	188.3p	247.5p	267.5p	221.5p	163.0p	188.5p	194.5p	258.5p	284.5p	**318.8p**
Discount to NAV %	13.6	17.2	16.4	9.9	10.8	8.9	13.1	16.7	11.4	11.4	**12.3**
Share price High	185.5p	210.0p	247.5p	288.5p	272.5p	235.0p	191.8p	196.0p	259.0p	287.5p	**326.3p**
Share price Low	147.5p	153.3p	188.3p	229.8p	180.5p	150.0p	141.0p	163.0p	188.0p	240.0p	**273.0p**
Share price total return on 100p – 5 years (per AIC)											**217.6p**
Share price total return on 100p – 10 years (per AIC)											**215.7p**

Revenue

for the year ended 31 December

£'000s	1997	1998	1999	2000	2001	2002	2003*	2004*	2005	2006	2007
Available for ordinary shares	30,060	34,181	39,100	37,542	38,294	38,758	40,893	42,293	49,122	48,197	**45,909**
Earnings per share	2.86p	3.25p	3.76p	3.76p	4.03p	4.08p	4.31p	4.54p	5.57p	6.16p	**6.40p**
Dividends per share	2.51p	2.77p	2.90p	3.10p	3.30p	3.50p	3.70p	4.20p	4.75p	5.30p	**5.85p**

Performance

(rebased at 31 December 1997)

	1997	1998	1999	2000	2001	2002	2003*	2004*	2005	2006	2007
NAV per share	100.0	111.8	145.6	146.0	122.0	88.0	106.6	114.7	143.5	157.9	**178.7**
Mid-market price per share	100.0	107.1	140.8	152.2	126.0	92.7	107.2	110.6	147.0	161.8	**181.3**
Earnings per share	100.0	113.6	131.5	131.5	140.9	142.7	150.7	158.7	194.8	215.4	**223.6**
Dividends per share	100.0	110.4	115.5	123.5	131.5	139.4	147.4	167.3	189.2	211.2	**233.1**
RPI	100.0	103.4	105.0	108.1	110.0	111.9	115.1	118.5	121.9	125.8	**131.2**

* Restated for changes in accounting policies

Cost of running the Company

for the year ended 31 December

%	1997	1998	1999	2000	2001	2002	2003*	2004*	2005	2006	2007†
Expressed as a percentage of average total assets											
Management fees	0.24	0.24	0.24	0.25	0.32	0.38	0.36	0.30	0.30	0.32	**0.36**
Management fees and performance fees	0.24	0.24	0.24	0.25	0.32	0.38	0.36	0.30	0.37	0.39	**0.59**
Total operating costs	0.37	0.38	0.40	0.43	0.52	0.56	0.58	0.50	0.53	0.53	**0.71**
Expressed as a percentage of average net assets											
Management fees	0.26	0.26	0.25	0.26	0.35	0.42	0.40	0.33	0.31	0.35	**0.38**
Management fees and performance fees	0.26	0.26	0.25	0.26	0.35	0.42	0.40	0.33	0.40	0.42	**0.63**
Total operating costs	0.40	0.40	0.42	0.46	0.57	0.63	0.64	0.55	0.57	0.58	**0.76**

† Management fees and total operating costs excluding the accrual in 2007 for recoverable VAT
* restated for changes in accounting policies

Gearing

at 31 December

%	1997	1998	1999	2000	2001	2002	2003*	2004*	2005	2006	2007
Effective gearing	1.8	0.3	4.1	4.6	5.7	8.1	8.3	7.6	4.4	7.0	**7.0**
Fully invested gearing	5.2	8.3	7.0	7.1	9.3	12.8	9.8	10.1	4.6	7.4	**8.1**

* restated for changes in accounting policies

Definitions

Prior charges	All debentures, loans and overdrafts, used for investment purposes at balance sheet value.
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	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 £9,200 in the tax year ended 5 April 2008 without incurring any tax liability.

Taper relief and indexation allowances currently available in calculating chargeable gains on investments will be abolished with effect from 6 April 2008 in favour of a single rate of charge to CGT of 18%.

Shareholders in doubt as to their CGT position should consult their professional advisers.

Income tax

The proposed final dividend of 3.15 pence per share is payable on 8 May 2008. 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 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. There is only an 0.5% management fee and this is capped at £500. 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. There are no initial or annual plan charges, only 0.5% Government Stamp Duty on any purchases. 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")

Prior to 6 April 2008, individuals can invest up to £7,000 each year in F&C's Maxi ISA, or £4,000 in the Mini ISA. From 6 April 2008, there will no longer be any distinction between the maxi and mini ISAs and the investment limit applying will rise to £7,200 per annum. From the same date, all existing Personal Equity Plans will be reclassified as ISAs. 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.

F&C charges £60 + VAT a year to cover any ISAs or PEPs held, no matter how many tax year's ISAs have been taken out with them, or how many ISAs or PEPs have been transferred to them.

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.

Contact details

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.

The information on this page has been issued and approved by F&C Management Limited, authorised and regulated in the UK by the Financial Services Authority (FSA).

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

FCIT/Ann/07