Foreign & Colonial
INVESTMENT TRUST

Foreign & Colonial Investment Trust PLC

Report and Accounts

2010

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 over £2.4 billion investing in over 540 listed companies in 31 countries.

Some 112,000 shareholders, with over 91,000 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 (the "**Manager**" or "**F&C**") under contract.

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

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

Performance
Share price total return of 16.5% over one year.

Share price total return of 33.9% and 42.8% over five and ten years respectively.

Dividend up 118%, or 8.1% compound, over ten years.

Increase in dividend every year for the past 40 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 – in recent years we have increased our exposure to private equity.

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

The ability to buy back shares to enhance net asset value and reduce discount volatility – we have 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 2010 was 0.54%. 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

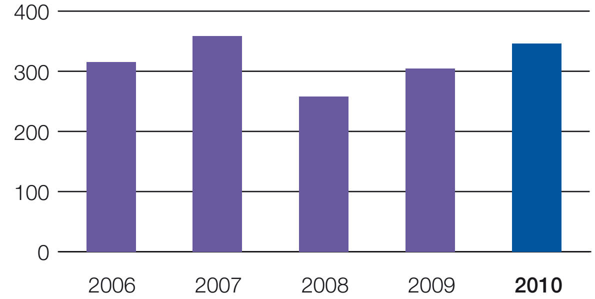
Summary of Results

Net asset value per share up 13.6% to 346.1p (debt at market value)

Annual dividend per share up 1.5% to 6.75p

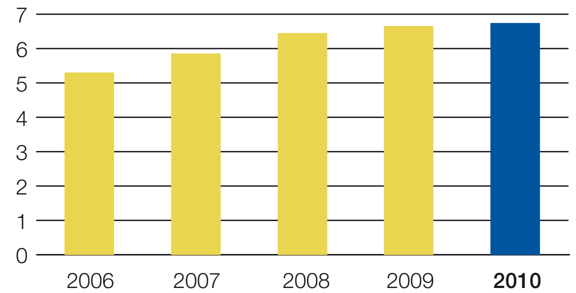
Share price up 13.8% to 309.6p

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



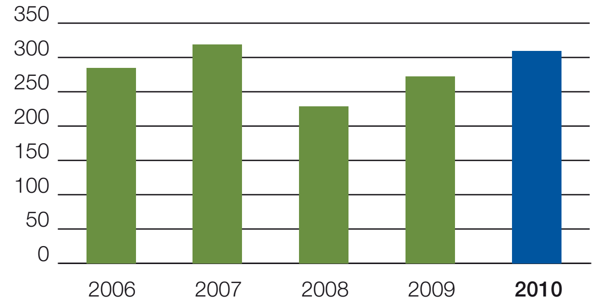
Source: F&C Management Limited

Dividends per share – pence



Source: F&C Management Limited

Mid-market price per share at 31 December – pence



Source: F&C Management Limited

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Financial Calendar

Annual General Meeting	**5 May 2011**
Final dividend payable	**9 May 2011**
Interim results for 2011 announced	**end July 2011**
Interim dividend payable	**9 September 2011**
Final Results for 2011 announced	**March 2012**

Registered in England and Wales with Company Registration No. 12901

Chairman's Statement

Simon Fraser
Chairman

Dear Shareholder

After an uncertain first half, 2010 was a good year for stock market investors and for your Company. The net asset value per share rose 13.6% to 346.1 pence and the share price by 13.8% to 309.6 pence. Your total dividend is increasing for the fortieth consecutive year to 6.75 pence.

Performance

In my first report to you in July 2010 I concluded that the opportunities in markets were greater than the threats. Share prices rose across the board in the second half of the year and we were well positioned to benefit from these moves after increasing our gearing. The problems in Greece and Ireland were the most significant market events of the year, but in the rest of the world growth was better than expected and there were no major financial crises. Emerging markets continued to outperform, but not by the same margin as in 2009.

Our net asset value total return was 15.8% compared with the benchmark index return of 15.8% and the weighted average performance of our close peer group of 19.1%.

For the year as a whole the main positive influences on performance versus our index benchmark were the Emerging Markets, Developed Asia and Private Equity portfolios. At the year end these accounted for 31% of our total assets compared with 6% in 2002, before we began our strategic shift to these areas. In contrast the main negatives were stock selection in the UK and Emerging Markets portfolios. The increase in gearing over the year from 6.0% to 13.2% was a positive, as was the buyback of 21,970,048 shares.

Income and Dividends

BP's suspension of dividends following the Gulf of Mexico oil spill reduced our income by about £2.3m or just under 5%. This overshadowed encouraging dividend growth from the rest of the portfolio, which we expect to continue in 2011. Expenses fell and the total expense ratio, which measures the cost of running the Company, was 0.54% compared with 0.58% in 2009. The net effect of all these changes was an increase in earnings per share of 5.6% to 5.61 pence.

An interim dividend of 3.00 pence per share was paid in September 2010 and the Board is recommending a final dividend of 3.75 pence to be paid on 9 May 2011. The total dividend for the year will therefore be 6.75 pence, an increase of 1.5% on 2009.

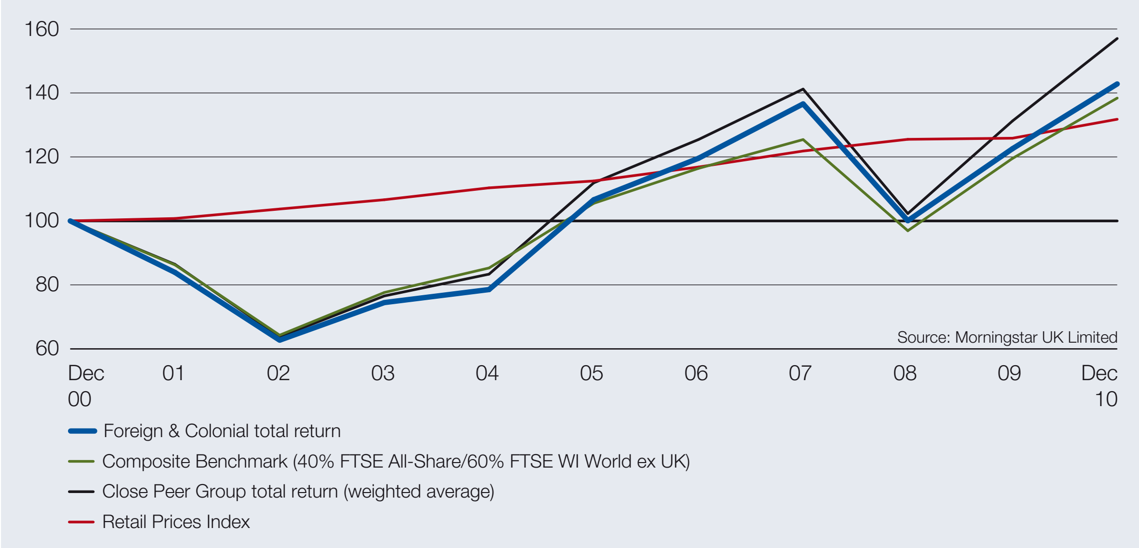
This is the fortieth consecutive annual dividend increase. Since 1970 the dividend per share has increased over sixty times, far ahead of the increase in retail prices. After the payment of the final dividend the revenue reserve will total £88m or more than twice the cost of the annual dividend.

We expect to pay at least the same dividend for 2011.

Board

There have been several changes to the Board in the last year. I would like to put on record our sincere thanks to Mark Loveday, whom I succeeded as Chairman last May. Mark was extraordinarily conscientious throughout his tenure and the model of a capable and effective Chairman. Jeff Hewitt became a director in September and Sarah Arkle and Nicholas Moakes were appointed to the Board on 2 March 2011. Our three new Directors bring extensive investment and business experience, which will be of great value to the Board. Max Ward is retiring at the Annual General Meeting after eleven years and Michael Bunbury will retire next year. All the Directors, apart from Max, are standing for election or re-election at the Annual General Meeting.

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



We have enlisted the support of an independent consultant for my first annual appraisal of Board effectiveness. This has been a worthwhile exercise for me as your new Chairman and for your Board as a whole, and has produced some clear priorities for 2011.

Management reappointment and fees

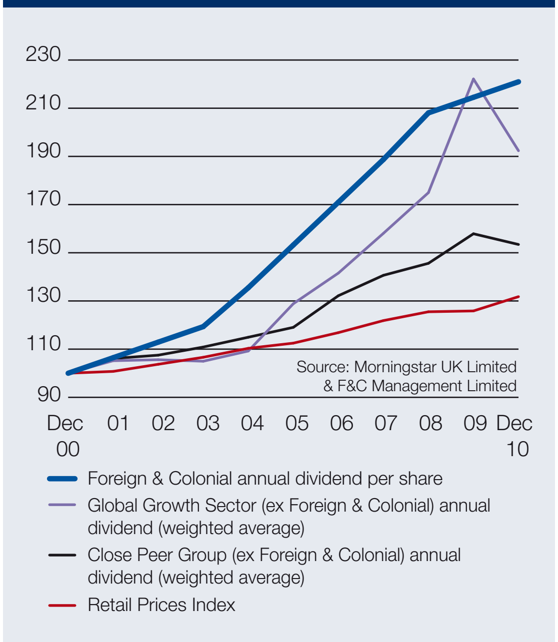
Each year the Board formally reviews F&C's performance as Manager and whether their reappointment is in the interests of shareholders. This year we also had a fundamental review of the fee payable to F&C for the first time since 2005. We have agreed a new fee basis with F&C, which from the start of 2011 will be an amount equal to 0.365% per annum of market capitalisation of the Company, calculated and paid monthly; there will be no performance fee. This new fee arrangement is much simpler and yet still aligns the interests between Manager and shareholder as it is based on the share price. If this had been in place in 2010 we would have paid £6.05m instead of the actual fee of £6.52m. We expect to review fee arrangements again at the end of 2014.

F&C has experienced some well publicised changes to its Board but the service we receive has been unaffected by these developments. The Board decided to reappoint F&C as the Manager and will continue to monitor developments very carefully.

The future

The three long-term trends we set out a year ago remain the most important factors in shaping the global economic and market outlook. The rise of emerging markets continues; government debt is yet to be brought under control in any country; and many individuals also need to reduce their debts significantly. A further important trend that

Foreign & Colonial's annual dividend per share vs both the Global Growth sector and Close Peers vs Retail Prices Index over 10 years



Chairman's Statement (continued)

has become clearer this year is the long drawn out regulatory response to the financial crisis.

So far in 2011 the political turmoil in North Africa and parts of the Middle East has led to a substantial rise in the oil price. Rising food and commodity prices are having an impact in all countries and have contributed to falls in many emerging market share prices. In the UK inflation is much higher than the Bank of England's target and interest rates are now expected to rise sooner rather than later.

We need to remain vigilant about the impact of these trends and developments on our investment strategy. However the prospects for individual companies are generally positive. Profits and dividends are growing at a healthy rate across the world and outside the financial sector balance sheets are generally strong. We expect this will translate into increased takeover activity in 2011 which will help investor sentiment. This could be important for the private equity industry, which is under growing pressure to generate cash returns for investors. We expect our own private equity portfolio to perform strongly in the first part of 2011 as valuations catch up with the recent rise in listed markets.

So despite the many uncertainties, we are encouraged by the earnings performance and valuations of the companies we own. We are confident that our well diversified global equity portfolio will achieve our objective of capital and income growth.

Simon Fraser
Chairman
4 March 2011

Forward-looking statements

This document may contain forward-looking statements with respect to the financial condition, results of operations and business of the Company. Such statements involve risk and uncertainty because they relate to future events and circumstances that could cause actual results to differ materially from those expressed or implied by forward-looking statements. The forward-looking statements are based on the Directors' current view and on information known to them at the date of this document. Nothing should be construed as a profit forecast.

Fund Manager's Review

Jeremy Tigue
Fund Manager

Summary of the year

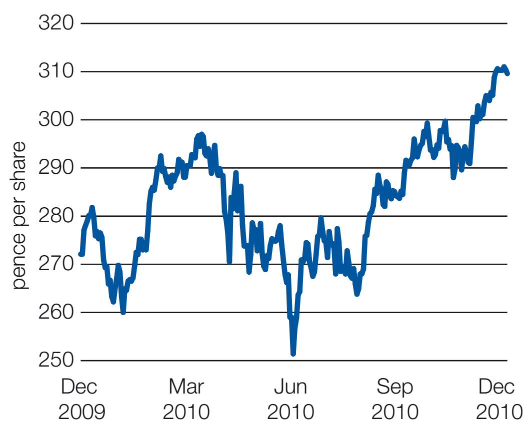
In contrast to recent years, when we needed to be extremely vigilant about market trends on a daily basis, 2010 was a year when we made only two major strategic decisions. The first was at the start of the year when we thought share prices would fall back after the strong rally that had begun in March 2009. In anticipation of this we made some sales from our emerging markets portfolio and repaid all our short-term borrowings in December 2009.

After a strong start to 2010 markets became very nervous in the Spring as the true nature of Greece's budget deficit became clear and concerns rose about slowing economic growth globally. In addition the Gulf of Mexico oil spill led to a sharp fall in BP's share price and a suspension of dividends by the company. Many commentators forecast a "double dip" recession and a return to deflation.

We understood these risks but we knew that most of the companies in our portfolio were experiencing rising profits and strong positive cash flows. We also thought it very unlikely that governments and central banks would sit idly by after their extraordinary interventions in 2008 and 2009. Therefore we took the second major decision of the year and increased effective gearing (taking debt at market value) to 12.4% from 7.6% as short-term debt reached £81m by 30 June. The Chairman summarised our view in July when he said "On balance we think the opportunities are greater than the threats and our increased gearing reflects this view".

All markets rose strongly in the second half of the year. Concerns about a double dip recession were eased by generally good economic growth statistics, and in November the US Federal Reserve announced a further round of quantitative easing to add extra stimulus to the US economy. In China investors stopped worrying about growth and started worrying about inflation and in Europe share prices went up despite the need for another sovereign bail out, this time for Ireland. There was also greater recognition of how well many companies were doing as they reported better than forecast results. As the year end

Foreign & Colonial Investment Trust share price 2010



Source: F&C Management Limited

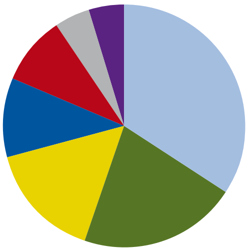
Contributors to total returns in 2010

	%
Benchmark return	15.8
Asset allocation	0.7
Stock selection	(1.1)
Effect of management fees	(0.4)
Other expenses	(0.2)
Interest expense	(0.7)
Effect of buybacks	0.4
Effect of gearing	1.3
Net asset value total return*	15.8
Effect of decrease in discount	0.7
Share price total return	16.5

*Debt at market value.
Source: F&C Management Limited

Fund Manager's Review (continued)

Distribution of our portfolio as at 31 December 2010



Source: F&C Management Limited

approached we became increasingly optimistic and short-term borrowings reached £172m, leading to effective gearing of 13.2% at 31 December 2010. Our strategic decisions about gearing were absolutely right, but choosing which currency to borrow was far more difficult as there were good reasons why all currencies should be weak. We started borrowing Japanese Yen when the currency was close to a ten year high against sterling, but it became even stronger later in the year.

In the first part of the year the selection of stocks in the portfolio was satisfactory, but when markets rallied in the fourth quarter the defensive stocks which dominate our portfolio did not rise as much as shares seen as more geared to economic growth.

UK portfolio

The global companies which form the core of our UK portfolio were sluggish performers. Many large businesses with rising profits and dividends were left behind by smaller companies or those with more exposure to demand for commodities. BP was obviously the worst performing large company; its share price fell by 22.4% over the year. Our valuation of our holding in Caithness Petroleum was unchanged over the year. This unlisted oil and gas exploration company with significant interests in Morocco continues to work towards a listing in London. The most encouraging feature of the year was the resumption of dividend growth and this trend has continued in 2011. Of course BP suspended its dividend for several quarters but has now resumed payments, albeit at a much lower level. Our portfolio remains focused on companies with strong balance sheets and attractive dividend growth prospects, which we believe will show better returns than the overall market in 2011.

	Largest UK Holdings	£'000s
1	Vodafone	49,740
2	HSBC	49,484
3	Rio Tinto	48,006
4	GlaxoSmithKline	42,656
5	BP	39,106
6	Caithness Petroleum*	34,261
7	British American Tobacco	32,026
8	Utilico Emerging Markets	30,986
9	Royal Dutch Shell	27,918
10	Tesco	26,053

*unlisted company

Emerging Markets portfolio

Over the last ten years emerging markets and those sectors and stocks dependent on them have been exceptional performers. In 2010 they were again the best performing region but the margin of outperformance was much smaller than in 2009; indeed China performed worse than the UK market. Generally small markets and small stocks made most of the running and our largely blue chip portfolio lagged. By the year end we had moved our portfolio emphasis more towards countries and companies geared to global economic growth.

	Largest Emerging Markets Holdings	£'000s
1	Petrobras	10,445
2	Vale	8,713
3	Samsung Electronics	8,262
4	Itau Unibanco	6,686
5	Gazprom	6,272
6	Taiwan Semiconductor	5,923
7	America Movil	5,291
8	China Construction Bank	5,261
9	CNOOC	5,238
10	DB Sberbank	4,843

North America portfolio

Our three North America managers had contrasting fortunes this year. Barrow Hanley, which buys companies that have lower valuations than the market, suffered from poor performance from individual stocks, notably Hewlett Packard and Microsoft in the technology sector. T Rowe Price, which concentrates on growth opportunities benefited again from its holdings in Apple, Google and Amazon. The smaller

Weighting, stock selection and performance in each market vs Index at 31 December 2010

Market	Our portfolio weighting %	Benchmark weighting %	Our portfolio performance %	Local index performance in Sterling %
UK	34.4	40.0	12.7	14.5
North America	20.9	33.3	19.0	19.1
Europe ex UK	9.2	13.1	5.5	5.7
Japan	4.8	6.1	17.4	19.0
Emerging Markets	10.3	6.5	18.8	22.9
Developed Asia	4.6	1.0	21.6	20.7
Private Equity	15.8	–	19.0	–

Source: F&C Management Limited

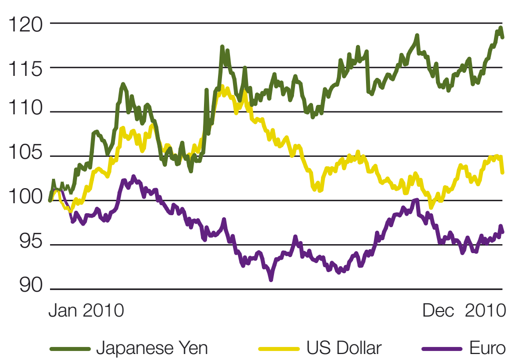
Investment changes during the year ended 31 December 2010 (£m)

£m	Valuation at 31 December 2009	Purchases	Sales	Gains	Valuation at 31 December 2010
UK	748	134	(117)	69	834
North America	414	148	(135)	79	506
Continental Europe	212	44	(36)	2	222
Japan	99	133	(131)	15	116
Emerging Markets	213	271	(270)	35	249
Developed Asia	94	88	(86)	17	113
Private Equity*	294	60	(25)*	53	382
Totals	2,074	878	(800)	270	2,422

* Return of cash

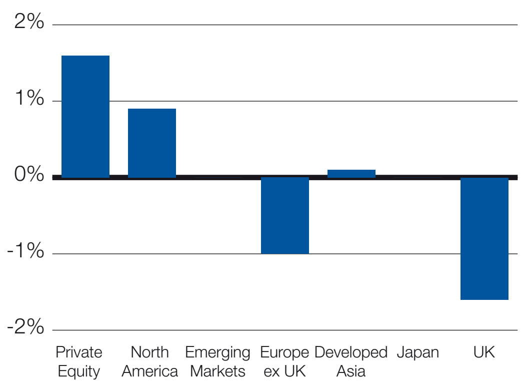
Source: F&C Management Limited

Currency movements vs Sterling in 2010



Source: F&C Management Limited

Percentage changes in the asset mix of our portfolio in 2010



Source: F&C Management Limited

Fund Manager's Review (continued)

North American Performance (US Dollars)	31 December 2010 Value (US$m)	31 December 2010 % of US Portfolio	12 month Performance %
T Rowe Price US Large Cap Core Growth Equity*	326.6	41.3%	17.2
Barrow Hanley US Large Cap Value Equity*	354.9	44.8%	11.0
US Smaller Companies F&C managed portfolio	110.0	13.9%	24.8
Total North America portfolio	791.5	100.0%	15.4
S&P 500 Total Return Index			15.1
Russell 1000 Value Index			15.5
Russell 1000 Growth Index			16.7
Russell 2000			26.9

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

Source: F&C Management Limited

companies portfolio managed by F&C performed very well in absolute terms, but not as well as the smaller companies benchmark.

	Largest North America Holdings	£'000s
1	F&C US Smaller Companies	18,434
2	Apple	15,386
3	Google	11,381
4	Occidental Petroleum	10,039
5	Amazon.com	9,871
6	Carnival	9,456
7	American Express	8,183
8	Walgreen	7,951
9	Emerson Electric	7,518
10	ConocoPhillips	7,390

Developed Asia portfolio

This portfolio has been the greatest beneficiary of the growth in China and other emerging markets over the last five years. 2010 was no exception as stronger global economic growth had a profoundly positive impact on many businesses in Australia, Hong Kong and Singapore and our portfolio had a good year. We do not believe these markets will outperform in the next five years and we do not think investors will look at these countries as a single unit in future. At the start of 2011 we decided to stop investing in these countries as a group and instead consider companies in each market on their individual merits. Therefore the stocks in this portfolio were sold; of the proceeds £33m was reinvested in other emerging market stocks and £75m was used to reduce short-term borrowings.

	Largest Developed Asia Holdings	£'000s
1	BHP Billiton	13,381
2	National Australia Bank	5,516
3	ANZ Bank	5,243
4	Westpac Banking	4,301
5	Rio Tinto	4,096
6	Wesfarmers	4,095
7	Commonwealth Bank Australia	3,472
8	Swire Pacific	3,050
9	Overseas Chinese Bank	3,039
10	Hutchison Whampoa	2,800

Japan portfolio

In January 2010 the Japan portfolio was transferred to F&C's management after five years being managed by Goldman Sachs Asset Management ("**GSAM**") as F&C had produced better results than GSAM over the previous five years. It seemed possible that the twenty year bear market in Japan might be coming to an end but, although the market did perform well in sterling terms, this was all due to the strength of the Yen and in local currency terms the market rose only 0.5%. Our portfolio was too defensively positioned when share prices did rise in the fourth quarter and investor attention switched to more cyclical sectors.

Largest Japan Holdings		£'000s
1	Toyota Motor	6,121
2	Mitsubishi UFJ	5,660
3	Tokyo Electric Power	4,605
4	NTT	4,078
5	Familymart	3,804
6	Ricoh	3,716
7	Shin-Etsu Chemical	3,669
8	Panasonic	3,655
9	Sumitomo Mitsui Financial	3,612
10	Mitsubishi	3,481

Europe portfolio, excluding UK

Europe was the worst performing region. The financial crises in Greece and Ireland and the uncertain political response undermined confidence in the Euro and caused significant market volatility. However, the many European companies that are focused on export markets benefited from the weakness of the Euro.

Largest Europe Holdings		£'000s
1	Svenska Handelsbanken	12,370
2	Novartis	11,136
3	Roche	9,010
4	Booker	8,789
5	Siemens	8,516
6	Unilever	8,084
7	Deutsche Post	7,559
8	ING Groep	7,485
9	SAP	6,770
10	Credit Suisse	6,735

Private equity

As we expected, our private equity portfolio had a good year. The valuations of our funds went up and investment activity accelerated.

Our private equity portfolio is made up of sixteen funds of funds which invest in over 10,000 companies. On the whole these companies have performed relatively well over the last three years, despite some having very high levels of debt. Most of these companies are valued by reference to listed share prices, so the strong recovery in stock markets since March 2009 has been gradually reflected in their valuations. We expect valuations to rise further in the first part of 2011 following the increase in share prices in the final quarter of 2010. All but one of the sixteen funds went up in value during the year; encouragingly the funds we have held the longest made the biggest contributions to overall returns.

Valuations are important but the increase in buying and selling activity in the private equity market is more significant. We invested £59.6m in the year, up from £40.5m in 2009. The increase in cash realisations was even more striking with a rise from just £3.4m in 2009 to £24.9m in 2010. We expect investments and realisations to increase again in 2011. Thereafter the portfolio should start to generate significant amounts of cash as realisations exceed investments. This will move us back towards the Board's target of 10% of the portfolio in private equity.

Buybacks

Buyback activity was at a much lower level than in 2009. We repurchased and cancelled 21,970,048 shares or 3.5% of the total at a cost of £62.2m. This ensured that the share price's discount to net asset value per share remained at or near 10%, limited the volatility of the share price and added £7.2m to total assets or 1.1 pence to net asset value per share.

Shareholders and marketing

The number of shareholders rose by 2% to 111,972. This was entirely due to continuing growth in Child Trust Funds which now account for about 20% of shareholders and 2% of the total share capital. Child Trust Funds may be replaced by Junior ISAs which should give us further opportunities to attract new long-term investors. The other significant development in 2010 was the increase in the annual ISA limit to £10,200 and we saw higher inflows as a result. Outflows from all the different savings products rose in 2010, reflecting the recovery in share prices, but we saw an overall net inflow of £9.5m, the third consecutive positive year. As a result there was a further increase in the percentage of the Company owned by the F&C savings plans and a further fall in institutional ownership, of which the majority is now accounted for by index funds rather than active investors.

Fund Manager's Review (continued)

Private equity portfolio

		Original commitment €'000s	Cumulative commitment drawn down €'000s	Commitment outstanding €'000s	Cumulative cash returned €'000s	Value of holding 31 December 2010 €'000s
Total Euro denominated portfolio	2010	290,000	219,825	70,175	63,848	186,003
	2009	290,000	200,512	89,488	59,823	138,994
		US$'000s	US$'000s	US$'000s	US$'000s	US$'000s
Total US Dollar denominated portfolio	2010	589,050	363,963	225,087	56,196	349,019
	2009	589,050	297,430	291,620	23,060	275,730

		Commitment outstanding 31 December 2010 £'000s	Value of holding 31 December 2010 £'000s
Total private equity portfolio(1)	Brought forward	260,095	294,243
Committed in 2010(2)		-	-
Cash drawn in 2010(2)		(59,597)	59,597
Cash returned in 2010(2)		-	(24,874)
Valuation movements(3)		-	52,659
Exchange movements		3,397	676
Total private equity portfolio(3)	Carried forward	203,895	382,301

(1) At exchange rates ruling at 31 December 2009
(2) At actual exchange rates in 2010
(3) At exchange rates ruling at 31 December 2010

Source: F&C Management Limited

Analysis of ordinary shareholders at 31 December 2010

Category	Holding
F&C savings plans	43.9%
Discretionary/Advisory	24.0%
Institutions	14.1%
Direct individuals	11.3%
Skandia IFA products*	4.7%
New Zealand individuals	2.0%
	100.0%

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

For the third year in a row we won the Association of Investment Companies award for best annual report.

In two years time the Financial Services Authority's Retail Distribution Review should encourage a move from commission payments to fees for many investors, which should stimulate much greater interest in investment trusts that do not pay commission. Whilst it is still early to work out how to maximise the opportunities this may create, we expect to be able to compete more effectively with other savings vehicles.

Current strategy

There are three key elements in our investment strategy – asset allocation, gearing and stock selection.

Asset allocation has always been the biggest driver of returns. In the last ten years we have seen very strong performance from emerging markets, the decade before it was from Europe and the decade before that it was from Japan. We think the best of the performance from emerging markets has been seen now so our positions in these markets will make a smaller positive contribution in the future. There will probably be another major theme that will come to dominate markets over the next decade, but it is not yet clear what it will be.

Gearing – using borrowings to enhance returns – has been a feature of Foreign & Colonial since 1868. Over long periods gearing has added value, but the two severe bear markets in the last ten years have meant gearing has been a net negative for performance. £110m of our borrowings are fixed at an interest rate of 11.25% until 2014 and the cost of early redemption is prohibitive. However, the current very low interest rates around the world mean that in many markets we can buy shares with dividend yields higher than our additional borrowing costs. We have also been active in moving borrowings between currencies to find the lowest interest rate and this will continue.

Finally, stock selection was a negative in 2010 and has made no net contribution over the last five years. Our overall focus on companies with strong balance sheets and growing dividends is essential if our own dividend is to grow, but there can be periods when this strategy produces capital returns below the market.

Our priority in 2011 is better stock selection. The next most important task is deciding on long term gearing policy as we will have far more flexibility after 2014. By the end of the year we should be seeing net cash inflows from our private equity portfolio which will give us greater freedom of manoeuvre.

Jeremy Tigue
Fund Manager
4 March 2011

The Company's full list of investments exceeds 570 and is published 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)*	**Pantheon Europe Fund III*** Private equity fund of funds investing principally in European management buyouts.	2.6%	63,926
2	*(7)*	**Vodafone** Global mobile telephone provider.	2.2%	54,210
3	*(6)*	**Rio Tinto** Leading international mining group with high quality assets, especially in iron ore.	2.2%	52,102
4	*(1)*	**HSBC** Broadly diversified international bank operating in over 80 countries worldwide.	2.0%	49,484
5	*(8)*	**HarbourVest V Direct Fund*** Specialist private equity fund that makes direct investments alongside other fund managers in buyouts and growth companies.	2.0%	48,298
6	*(12)*	**Pantheon Europe Fund V*** Private equity fund of funds investing principally in European management buyouts.	1.9%	47,155
7	*(3)*	**BP** Global oil company, working hard to recover from the Gulf of Mexico disaster.	1.8%	43,250
8	*(5)*	**GlaxoSmithKline** One of the world's leading pharmaceutical companies.	1.8%	42,656
9	*(11)*	**HarbourVest Partners VII Buyout Fund*** Private equity fund of funds investing in buyouts of US businesses.	1.5%	36,296
10	*(9)*	**Caithness Petroleum**** Unlisted oil and gas exploration company with significant interests in Morocco and smaller interests in the North Sea and US. We own 9.5% of the company.	1.4%	34,261

This Year	*Last Year*	**Company** Description	% of total investments	Value £'000s
11	*(13)*	**British American Tobacco** Leading international manufacturer and distributor of cigarettes.	1.3%	32,026
12	*(10)*	**Dover Street VI*** Private equity fund of funds specialising in buying holdings in existing funds.	1.3%	31,567
13	*(15)*	**Utilico Emerging Markets** Specialist fund concentrating on utility and infrastructure investments in emerging markets.	1.3%	30,986
14	*(4)*	**Royal Dutch Shell** Global oil exploration, production and marketing company.	1.2%	27,918
15	*(14)*	**Tesco** The leading food retailer in the UK, expanding in non-food and internationally.	1.1%	26,053
16	*(16)*	**Scottish & Southern Energy** Multi-utility group.	1.1%	25,725
17	*(–)*	**Dover Street VII*** Private equity fund of funds specialising in buying holdings in existing funds.	1.0%	24,257
18	*(20)*	**Pantheon Asia Fund IV*** Private equity fund of funds investing in Asian markets.	1.0%	23,498
19	*(18)*	**Pantheon Global Secondary Fund III*** Private equity fund of funds specialising in buying holdings in existing funds.	0.9%	22,003
20	*(–)*	**HarbourVest Partners VIII Buyout Fund*** Private equity fund of funds investing in buyouts of US businesses.	0.8%	19,589

The value of the twenty largest holdings represents 30.4% (2009: 34.0%) of the Company's total investments.
The figures in brackets denote the position in the top twenty at the previous year end.
The value of convertible securities in the total portfolio at 31 December 2010 was £4,844,000 or 0.2% of total assets less current liabilities (2009: £4,526,000 or 0.2% of total assets less current liabilities).

* Unlisted Private Equity Limited Partnership investment held at estimated fair value, with no fixed capital and no distributable income in the ordinary course of business.

** Unlisted company investment, held at estimated fair value at 31 December 2010. The latest audited financial statements at 31 December 2009 show: revenue amounted to US$170,000; loss before tax was US$7,686,000; and net assets totalled US$143,132,000.

Directors

Simon Fraser – Chairman*† Appointed to the Board in September 2009 and Chairman in May 2010. Most of his career was at Fidelity International, where he started as an analyst and spent a number of years in Japan, latterly as Chief Investment Officer for the Asia/Pacific region. He returned to the UK in 1999 to take up the position of Chief Investment Officer for Fidelity International, a position he held until 2005. Other positions included President of Fidelity International's European and UK Institutional business and latterly President of the Investment Solutions Group. He stepped down from his executive responsibilities at the end of 2008. He is chairman of Merchants Trust PLC and is a non-executive director of Barclays PLC, Fidelity European Values PLC and Fidelity Japanese Values PLC. *Age 51.*

Sarah Arkle Appointed to the Board on 2 March 2011. She remains Vice Chairman of the Threadneedle Group, where she was Chief Investment Officer for ten years until her retirement at the end of December 2010. She was instrumental in establishing Threadneedle's investment process and recruiting a number of the firm's senior fund managers. In 1983 Sarah moved from stockbroker WI Carr to become a Far East Equity Manager and subsequently became a Director at Allied Dunbar Asset Management, which became part of Threadneedle in May 1994. She is an advisor to the South Yorkshire Pension Fund. *Age 54*.

Sir Roger Bone KCMG† Appointed to the Board in 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. *Age 66.*

Sir Michael Bunbury Bt KCVO*† Appointed to the Board in March 1998, is Chairman of the Audit and Management Engagement Committee. 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 64.*

Stephen Burley* Joined the Board in January 2008. He was Head of Pensions Investments at Rio Tinto from 1982 until his retirement in March 2007. He is a former investment adviser to University College London, the Central Board of Finance of the Church of England and, until 2010, the BAE Pension Fund. In September 2010 he was appointed a trustee of the Imperial War Graves Endowment Fund. *Age 63*.

Sir David Clementi† Joined the Board in May 2008 and is chairman of King's Cross Central General Limited Partner, the private company responsible for the major land development in the area around King's Cross Station and St Pancras Station. He is also a non-executive director of Ruffer LLP and is chairman of World First UK Ltd, a foreign exchange broker. He was chairman of Prudential plc from December 2002 until December 2008 and from 1997 to 2002 he was Deputy Governor of the Bank of England and served as a member of the Monetary Policy Committee. From 1975 to 1997 he worked for Kleinwort Benson Group, latterly as Chief Executive. *Age 62.*

Jeffrey Hewitt* Appointed on 15 September 2010, he was the Group Finance Director of Electrocomponents plc from 1996 to 2005 and Deputy Chairman from 2000 to 2005. Prior to that, he was the Finance Director of Unitech plc from 1991 to 1996. Between 1981 and 1991 he held directorships successively with Carrington Viyella, Vantona Viyella and Coats Viyella (where he was Group Strategy Director). He started his career with Arthur Andersen where he qualified as a chartered accountant, following which he spent seven years with the Boston Consulting Group. He is also a non-executive director of Cenkos Securities plc, Cookson Group plc and Cyril Sweett Group plc. He is the External Chairman of the Audit and Risk Committee of the John Lewis Partnership and is Chairman of Electrocomponents Pension Trustees. *Age 63.*

Christopher Keljik OBE* Appointed to the Board in September 2005. He retired as a director of Standard Chartered plc in May 2005 after 29 years, during which time he held a number of senior positions working in London, Hong Kong, New York and Singapore in corporate finance, treasury and general management. Prior to his retirement, his responsibilities at Standard Chartered included its businesses in Africa, the Middle East, South Asia, the UK and the Americas. He is a chartered accountant and is also a non-executive director of Millennium & Copthorne Hotels plc and Henderson TR Pacific Investment Trust plc. *Age 62.*

Nicholas Moakes Appointed to the Board on 2 March 2011, is Head of Public Markets at The Wellcome Trust. He was Head of the Asia Pacific investment team and Co-Head of Emerging Markets at BlackRock Investment Management until 2007. He has over 20 years' experience in Asia and over 18 years' experience in global equity markets. Prior to joining BlackRock in 1997 he lived in Hong Kong for nine years, and is a Chinese speaker. He started his career in the Diplomatic Service, where he specialised in Hong Kong and China. *Age 46.*

Maxwell Ward – Senior Independent Director† 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 managing director of The Independent Investment Trust plc and a non-executive director of a number of UK subsidiaries of Aegon NV. *Age 61.*

* Members of the Audit and Management Engagement Committee
† Members of the Nomination Committee

Management and Advisers

The Management Company

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

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

Jeremy Tigue. Appointed Fund Manager in 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. He is a director of the Association of Investment Companies and a non-executive director of Graphite Enterprise Trust PLC.

Julian Cane Appointed Deputy Fund Manager in 2005. 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 2007.

Sub-Managers to F&C (North America large and medium cap portfolio)

Barrow Hanley – appointed July 2005
T. Rowe Price – appointed February 2006

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

Chartered Accountants and Statutory Auditors

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

Custodian

JPMorgan Chase & Co., 125 London Wall, London EC2Y 5AJ

Bankers

JPMorgan Chase & Co., 125 London Wall, London EC2Y 5AJ

Santander UK, 2 Triton Square, Regents Place, London NW1 3AN

Scotia Bank Europe PLC, 33 Finsbury Square, London EC2A 1BB

Share Registrars

Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 7NH

Telephone: 0800 923 1506
Facsimile: 0870 703 6143

Authorised and regulated in the UK by the Financial Services Authority

New Zealand Share Registrars

Computershare Investor Services Limited, Private Bag 92119, Auckland 1142. Level 2, 159 Hurstmere Road, Takapuna, North Shore City 0622, New Zealand

Telephone: +64 9 488 8700
Facsimile: +64 9 488 8787

Solicitors

Norton Rose, 3 More London Riverside, London SE1 2AQ

Stockbrokers

JPMorgan Cazenove, 125 London Wall, London EC2Y 5AJ

Directors' Report and Business Review

The Directors present their Report, Business Review and the audited financial statements of Foreign & Colonial Investment Trust PLC for the year ended 31 December 2010. The financial statements are set out on pages 36 to 61.

Results and dividends

The net assets of the Company as at 31 December 2010 were £2.1 billion (2009: £2.0 billion) or 351.24 pence per share when deducting debt at its par value (2009: 309.84 pence). When deducting debt at its market value, the net asset value per share was 346.11 pence (2009: 304.72 pence).

The Fund Manager's Review on pages 5 to 11, 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 2011. The Company's full list of its investments can be viewed on the website. The twenty largest holdings can be found on pages 12 and 13, and the ten largest investments in each of the regional portfolios are disclosed in the Fund Manager's Review. The Directors' Remuneration Report and the Corporate Governance Statement are incorporated by reference into this Directors' Report and Business Review.

Summary of results for 2010

Net asset value per share*	+13.6% to 346.11p
Net asset value total return per share*	15.8%
Share price	+13.8% to 309.60p
Share price total return	16.5%
Annual dividend per share	6.75p
Total expense ratio	0.5%
Share capital repurchased**	3.5%
Discount	From 10.7% to 10.6%

* With debt at market value
** adding 1.1p to net asset value per share

Revenue was slightly lower than in 2009 due largely to the suspension of the BP dividend, although overall dividend growth was better than expected. Net revenue return reduced by 2.7%, whereas revenue return per share increased by 5.6% because of the effect of share buybacks and a reduction in expenses; loan facility commitment and non-utilisation fees were lower although interest costs rose as borrowings increased.

No performance fees were payable.

The total expense ratio was 0.54% (2009: 0.58%).

Attributable to equity shareholders

	£'000s
Revenue return attributable to equity shareholders	34,654
Dividends paid on ordinary shares:	
Second interim of 3.65p paid on 31 March 2010*	(22,771)
Interim of 3.00p paid on 9 September 2010**	(18,440)
Amount transferred from revenue reserve	(6,557)

*In lieu of final and in respect of prior year profits.
**In respect of current year profits.
Source: F&C Management Limited.

The interim dividend of 3.00 pence per share, together with the final dividend of 3.75 pence per share, which will be paid on 9 May 2011, will bring the total dividend for the year to 6.75 pence per share. This represents an increase of 1.5% over the comparable 6.65 pence per share paid in the previous year.

Principal activity and status

The Company is an investment company as defined by Section 833 of the Companies Act 2006. As such, it analyses its income between revenue, which is available for distribution by way of dividends, and capital, which it is prohibited from distributing other than by way of share buybacks.

The Company is registered in England and Wales with company registration number 12901 and is subject to the UK Listing Authority's Listing Rules, UK Company Law, Financial Reporting Standards, Taxation Law and its own Articles of Association, amendments to which must be approved by shareholders via a special resolution.

Investment trust taxation status

The Company is liable to corporation tax on its net revenue profits but is exempt from corporation tax on capital gains, provided it complies at all times with section 1158 of the Corporation Tax Act 2010

Directors' Report and Business Review (continued)

("**section 1158**"). 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 as an investment trust in respect of all relevant years up to and including the year ended 31 December 2009, and continues to conduct its affairs in compliance with section 1158.

Accounting and going concern

The Financial Statements, starting on page 36, comply with current UK Financial Reporting Standards, supplemented by the Statement of Recommended Practice for Investment Trust Companies ("**SORP**") issued in January 2009. The significant accounting policies of the Company are set out in note 2 on the accounts. The unqualified auditors' opinion on the Financial Statements appears on page 35. The Company's investment objective and policy places the emphasis on investing in readily realisable listed securities and puts a limit on borrowings. The Company retains title to all assets held by its custodian. Trust deeds govern its debentures and agreements cover its bank borrowing facilities. Cash is held only with banks approved and regularly reviewed by the Manager.

Note 26 on the accounts sets out the financial risk profile of the Company and indicates the effect on the assets and liabilities of fluctuations in the value of securities, and exchange and interest rates.

The Directors believe that, in the light of the controls and monitoring processes that are in place, the Company has adequate resources and arrangements to continue operating within its stated objective and policy for the foreseeable future. Accordingly, the accounts continue to be drawn up on the basis that the Company is a going concern.

Shareholders will be asked to approve the adoption of the Annual Report and Accounts at the Annual General Meeting (Resolution 1).

Independent auditors

So far as each Director is aware, there is no relevant audit information of which PricewaterhouseCoopers LLP (the "**Auditors**") are unaware. The Directors believe that they have each 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 13 and 14).

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 excluding private equity investments, and any unlisted investment requires specific Board approval. Shareholder approval would be sought in the event that the Board considers that the long-tem exposure to private equity investments 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 F&C 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 debentures at market value.

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.

Strategy

The Board believes that the optimum basis for achieving its stated objective and implementing the investment policy is a strong working relationship with the Manager, the more detailed arrangements for which are explained later in this review. F&C has overall responsibility for the management of the Company's assets, and for asset allocation, gearing, stock selection and risk.

Specific strategic moves in recent years have been to establish the private equity portfolio, initially targeted at 10% of the overall portfolio; to be overweight in Emerging Markets relative to the benchmark weighting; and for F&C to use external sub-managers when this seems likely to result in better performance. The Board has agreed to make no new commitments to private equity until the Company's exposure moves back closer to 10%.

The high level of diversification across the entire portfolio has recently resulted in the tendency for the Company's share price to have lower volatility than its index benchmark. Further information on current investment strategy can be found on page 11 and buyback policy on page 20.

Principal risks and their management

Like all businesses, the Company faces risks and uncertainties. The Corporate Governance Statement on page 32 includes a summary of the risk management arrangements. By means of the procedures set out in the summary, and in accordance with the Internal Control: Guidance for Directors on the Combined Code 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 principal risks and uncertainties faced by the Company, and our mitigation approach, are

Objective and strategy

Risk description: *Inappropriate objective and strategy in relation to investor demands in a rapidly changing financial services and savings market.*

Mitigation: The Board regularly reviews the Company's position as a leading savings vehicle. Strategic issues, including its role as a global growth investment trust, are considered annually.

Investment policy, gearing and currency

Risk description: *Inappropriate asset allocation, sector and stock selection, currency exposure and use of gearing leading to investment underperformance.*

Mitigation: Investments are primarily in a diversified spread of international publicly listed equities with exposure to their underlying currencies. Investment policy and performance is reviewed with the Fund Manager at each Board meeting, along with the monitoring of cash and borrowing levels. 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, and ride out short-term volatility. The Board approves all borrowing facility agreements and has set a limit on gearing. Derivatives may be used for the purpose of hedging foreign currencies, although to date none has.

Directors' Report and Business Review (continued)

Private equity

Risk description: *The majority of the underlying private equity investments are in unlisted companies. Such investments may prove difficult or impossible to realise.*

Mitigation: Private equity risks are mitigated by investing in a spread of direct, secondary, venture capital, buyout and mezzanine funds of funds and by the wide spread of underlying private equity firms, which in turn have diversified investment portfolios and vintage years.

Service providers

Risk description: *The Manager is the main service provider and its failure to continue operating effectively could put in jeopardy the business of the Company.*

Mitigation: The Board meets regularly with the senior management of the Manager and its Internal Audit function, and has access to publicly available information indicative of its financial position and performance.

The Board has contingency arrangements to facilitate the ongoing operation of the business in the event of any such failure. The management contract can be moved at short notice.

described below. Note 26 on the accounts sets out the Company's financial risk management policy.

Most of the Company's principal risks, and its opportunities, are market-related and no different to those of other investment trusts investing primarily in listed equities. More specific to Foreign & Colonial are those relating to private equity. The private equity portfolio is expected to perform strongly in the first half of 2011 as valuations catch up with the rise in listed markets.

Arrangements are also in place to mitigate other more general risks including those relating to safe custody of assets and counterparty failure.

Capital structure

As at 31 December 2010 there were 610,119,016 ordinary shares of 25 pence each in issue. As at 3 March 2011, the number stood at 605,338,016. All ordinary shares rank equally for dividends and distributions and carry one vote each. Details of the capital structure can be found in note 18 on the accounts. The revenue profits of the Company (including accumulated revenue reserves) are available for distribution by way of dividends to the holders of the ordinary shares. Upon a winding-up, after meeting the liabilities of the Company, the surplus assets would be distributed to shareholders pro rata to their holdings of ordinary shares.

Buyback policy

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 2010 the discount stood at 10.6% (with debt at market value).

At the Annual General Meeting held on 6 May 2010, shareholders renewed the Board's authority to buy back up to 14.99% of the Company's ordinary shares for cancellation. A total of 21,970,048 shares were bought back and cancelled, representing 3.5% of the shares in issue at 31 December 2009. This enhanced the net asset value per share by 1.11 pence. The purchases were made at prices ranging between 256.38 pence and 310.51 pence and the aggregate consideration paid for the shares, including stamp duty and commissions, was £62,232,000.

Between the year end and 3 March 2011, a further 4,781,000 shares have been purchased (which represents approximately 0.8% of the share capital) at an average price of 315.25 pence.

A resolution to renew the authority to buy back up to 90,740,000 shares will be put to shareholders at the Annual General Meeting (Resolution 16). A resolution to authorise the Directors to allot up to 30,266,900 shares will also be proposed (Resolution 15).

Marketing

The Manager actively promotes investment in the Company's shares through the F&C savings plans. These include the Child Trust Fund ("**CTF**"), Children's Investment Plan ("**CIP**"), Individual Savings Account ("**ISA**"), Pensions Savings Plan ("**PSP**") and Private Investor Plan ("**PIP**").

Voting rights and proportional voting

At 3 March 2011 the Company's 605,338,016 ordinary shares in issue represented a total of 605,338,016 voting rights. As at that date the Company had received notification of the following holding of voting rights (under the FSA's Disclosure and Transparency Rules):

Legal & General Group plc	4.5%

The above percentage is calculated by applying the shareholding as notified to the Company to the issued ordinary share capital as at 3 March 2011.

The Manager holds 43.9% of the Company's share capital on behalf of non-discretionary clients through its savings plans. The nominee company holding these shares votes the shares held on behalf of planholders who have not returned their voting directions in proportion to the directions of those who have ("**proportional voting**"). Implementation of this arrangement is subject to a minimum threshold of 5% of the shares held in the savings plans being voted. A maximum limit of 664,500 shares that any one individual investor can vote, being approximately 5% of the minimum threshold, also applies. Any shares voted by an investor in excess of the maximum limit remain valid, but do not form part of the proportional voting basis. Planholders have the right to exclude their shares from the proportional voting arrangement.

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 the ability to use short-term borrowings by way of loans and overdrafts, subject to the limits set out in the Company's objective and policy section and the debenture deeds. The Company maintains multi-currency credit facilities with Scotia Capital and Santander totalling £100m, which will be subject to review in October 2011 and July 2012 respectively. The Company also has a multi-currency overdraft facility with JPMorganChase. Further reference is made on page 5 and in note 14 on the accounts.

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 29. Information on the individual Directors, all of whom are resident in the UK, can be found on pages 14 and 15.

Directors' remuneration and shareholdings

The Directors' Remuneration Report, which can be found on pages 27 and 28, 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).

Director elections and re-elections

Other than Mr Jeffrey Hewitt, who joined the Board on 15 September 2010, and Ms Sarah Arkle and Mr Nicholas Moakes, who both joined on 2 March 2011, all the Directors held office throughout the year under review. These three new Directors will stand for election at the forthcoming Annual General Meeting in accordance with the Company's articles of association (Resolutions 4, 5 and 6).

With the exception of Mr Maxwell Ward, who will retire immediately following the Annual General Meeting, all the other Directors will stand for re-election in accordance with the requirements of the UK Corporate Governance Code (Resolutions 7 to 12). Mr Ronald Gould resigned and Mr Mark Loveday retired from the Board on 27 January 2010 and 6 May 2010 respectively.

Directors' Report and Business Review (continued)

The Nomination Committee considered the election of Mr Hewitt and re-election of each of the other Directors then serving at a meeting held in January 2011, including a review of their commitment and status as independent and, in the case of Sir Michael Bunbury, as a long serving non-executive Director; Sir Michael has indicated that he will retire Immediately following the annual general meeting In 2012. The Directors absented themselves from those parts of the meetings that dealt with their own re-election. The Board has concurred with the Nomination Committee's assessment that each Director continues to make a valuable and effective contribution and remains committed to their roles.

Directors' interests and indemnification

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.

The Company has granted a deed of indemnity, to the extent permitted by law, to the Directors in respect of liabilities that may attach to them in their capacity as Directors of the Company. The deed of indemnity is available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting. The Company also maintains directors' and officers' liability insurance.

The beneficial interests of the Directors in the ordinary shares of the Company are set out in the table below.

Directors' interests at 31 December	2010	2009
Simon Fraser	36,131	31,482
Sir Roger Bone	18,052	7,699
Sir Michael Bunbury	97,000	97,000
Stephen Burley	25,000	25,000
Sir David Clementi	8,445	5,141
Jeffrey Hewitt	9,215	–
Christopher Keljik	58,224	57,177
Maxwell Ward	30,000	30,000

Since the year end, the following Directors have acquired further ordinary shares: Sir Roger Bone 220, Sir David Clementi 472 and Mr Jeffrey Hewitt 315. 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.

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

The Manager's responsibilities

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. F&C is responsible for gearing, asset allocation and sector and stock selection, together with the overall risk management of the Company's assets, within limits set and regularly monitored by the Board.

The appointment is governed by a management agreement, which is terminable upon six months' notice given by either party. Further information on this agreement is set out in note 4 on the accounts.

Jeremy Tigue acts as Fund Manager (the "**Fund Manager**") to the Company, on behalf of F&C, and is responsible and accountable for the entire portfolio including North America and private equity, and other key areas such as marketing and investor relations. As at 4 March 2011 the Fund Manager held 396,120 shares in the Company (31 December 2010: 394, 848 shares).

"Foreign & Colonial" or "F&C"

Once a subsidiary of Foreign & Colonial, F&C is now owned by F&C Asset Management plc ("**FCAM**"), a large pan-European investment group listed on the London Stock Exchange. Foreign & Colonial has a long association with F&C, having originally established and developed it for the purpose of managing its assets as far back as 1953. 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 and incorrectly by commentators in the public arena. However, the companies each own their respective names and are two distinct and completely independent entities.

North America portfolio

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 sub-managers when this seems likely to result in better investment performance. Throughout the period under review there were two sub-managers for the North America large and mid-cap equity portfolios, namely Barrow Hanley and T Rowe Price.

Private equity portfolio

The private equity funds of funds investments are managed externally by the private equity managers, Pantheon Ventures Limited ("**Pantheon**") and HarbourVest Partners LLC ("**HarbourVest**"). The Fund Manager acts as a representative of the Company on the advisory committees of these managers. Recommendations for further private equity and unlisted investments remain subject to approval by the Board.

Safe custody of assets

The Company's listed investments are held in safe custody by JPMorgan Chase (the "**Custodian**"). Operational matters with the Custodian are carried out on the Company's behalf by the Manager in accordance with the provisions of the management agreement. The Company's relationship with the Custodian is governed by an agreement, which was reviewed during the year to ensure the arrangements continued to meet best market practice.

Responsible ownership

F&C, in the absence of explicit instructions from the Board, is empowered to exercise discretion in the use of the Company's voting rights. All shareholdings are voted at all meetings worldwide where practicable in accordance with the Manager's own corporate governance policy, which is to seek to maximise shareholder value by constructive use of votes at company meetings and by endeavouring to use its influence as an investor with a principled approach to corporate governance. Environmental factors are, where appropriate, taken into consideration with regard to investment decisions taken on behalf of the Company.

F&C's statement of compliance with The UK Stewardship Code, issued by the Financial Reporting Council in July 2010, 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. The statement is available on the Manager's website at www.fandc.com/ukstewardshipcode. The Board periodically receives a report on instances where the Manager has voted against the recommendation of the management on any resolution. It also expects to be informed of any sensitive voting issues involving the Company's investments.

The Manager's fees

Since July 2005, the Manager has received a fixed annual fee, paid monthly in arrears, and has also been entitled to performance-related fees. The Manager was paid a fixed fee of £6.8 million (2009: £6.7 million) for its services in 2010, less amounts equal to the fees already received in respect of holdings in the portfolio that it also manages. There were no performance-related fee entitlements for 2010 as the payment criteria for the two separate arrangements, detailed below, were not met:

- 5% of any net asset value total return per share outperformance of the benchmark of 40% FTSE All-Share and 60% FTSE WI World ex UK indices (the "**Composite Benchmark**"), carrying forward any underperformance, plus a hurdle of 0.5%; and
- 5% of any net asset value total return per share outperformance 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**").

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

Change in the fee structure

The structure has been changed with effect from 1 January 2011 with the replacement of the Manager's fixed fee by an *ad valorem* fee and the removal of the performance-related arrangements. The Manager will now receive an annual fee equal to 0.365% of the market capitalisation of the Company, calculated and paid monthly. As with the fixed fee, there will be a deduction for the amounts earned from investments in other investment vehicles managed by F&C.

Sub-managers' fees

The Manager incurred investment management fees from the sub-managers appointed to manage the North America portfolio. The Company reimburses

Directors' Report and Business Review (continued)

the Manager for these fees, which in 2010 amounted to £1.2 million (2009: £1.5 million) (see note 4 on the accounts).

Private equity managers' fees

The fees paid to Pantheon and HarbourVest in respect of the private equity funds of funds amounted to £5.9 million for 2010 (2009: £5.5 million). Some of the funds have arrangements whereby these private equity managers 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. The 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 normal.

Creditor payment policy

The Company's "principal supplier" is the Manager, the payment terms for which are set out on page 23. Other suppliers are paid in accordance with individually agreed payment terms.

At 31 December 2010 the Company's outstanding trade creditors were equivalent to nine days' payments to suppliers (2009: eight 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. The fee payable to the Manager is now based on the market capitalisation of the Company, thus aligning the Manager's interests with shareholders through share price performance as described 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 %
Foreign & Colonial net asset value† (with debt at market value)	15.8	3.1	33.2	41.3
Benchmark†	15.8	10.7	31.3	38.4
Close Peer Group* weighted average net asset value†	19.1	8.5	37.6	54.4
AIC Global Growth Sector weighted average net asset value†	18.9	9.2	37.0	55.6
FTSE All-Share†	14.5	4.4	28.4	43.2
FTSE WI World ex UK†	16.7	15.0	33.2	35.2
Foreign & Colonial share price†	16.5	4.6	33.9	42.8
Close Peer Group* weighted average share price†	20.7	10.7	39.3	61.2
AIC Global Growth Sector weighted average share price†	20.2	11.8	35.7	74.0
Retail Prices Index	4.6	8.2	16.5	31.3

Source: Morningstar UK Limited
* Alliance Trust, The Bankers Investment Trust, Scottish Investment Trust, Scottish Mortgage Investment Trust and Witan Investment Trust
† Total return.

Net asset value total return performance ranking of Foreign & Colonial vs Close Peer Group

2010	15.8	Over 3 years	6/6
2009	21.4	Over 5 years	5/6
2008	(26.7)	Over 10 years	4/6
2007	15.2		
2006	12.2		

Source: Morningstar UK Limited

Asset allocation, stock selection and gearing attribution

%	1 year	3 years	5 years
Asset allocation	0.7	(0.1)	4.5
Stock selection	(1.1)	(1.7)	0.0
Gearing	1.3	(2.2)	(0.4)

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

Foreign & Colonial's regional portfolio attribution in Sterling

	1 year %		3 years %		5 years %	
Region	Return	Index Return	Return	Index Return	Return	Index Return
UK	12.7	14.5	3.4	4.5	30.5	28.5
North America	19.0	19.1	17.0	18.4	21.5	27.1
Europe ex UK	5.5	5.7	(1.2)	(3.4)	29.3	34.3
Japan	17.4	19.0	5.7	10.9	(10.0)	(3.8)
Emerging Markets	18.8	22.9	22.4	27.0	98.4	103.0
Developed Asia	21.6	20.7	17.5	26.7	116.0	103.4

Source: F&C Management Limited.

Discount (with debt at market value cum income)

31 December	%
2010	10.6
2009	10.7
2008	10.9
2007	11.1
2006	9.8

Source: F&C Management Limited

Compound annual dividend growth

%	5 years	10 years
Foreign & Colonial	7.3	8.1
Close Peer Group ex Foreign & Colonial	5.2	4.4
FTSE All-Share	1.1	2.9
Inflation (RPI)	3.1	2.8

Source: F&C Management Limited; Morningstar UK Limited

Total expense ratio

%	A	B
2010	0.54	0.54
2009	0.58	0.58
2008	0.56	0.58
2007	0.48	0.71
2006	0.46	0.53

Total expense ratio based on average total assets.
A = excluding performance fee
B = including performance fee
Excludes 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 Foreign & Colonial

£m	2010	2009	2008	2007	2006
Purchases	69.4	53.2	52.1	49.5	48.1
Withdrawals	59.9	31.5	40.3	78.5	73.5
Net flow	9.5	21.7	11.8	(29.0)	(25.4)

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

Directors' Report and Business Review (continued)

MANAGER EVALUATION AND RE-APPOINTMENT

The process

The Manager's performance is considered at every Board meeting, with a formal evaluation in January of each year. For the purposes of its ongoing monitoring, the Board receives detailed reports and views from the Fund Manager on investment policy, asset allocation, gearing and risk, together with quarterly presentations on the F&C managed regional portfolios. Quarterly updates are received from the US sub-managers. The Board also receives comprehensive performance measurement schedules, provided by Morningstar UK 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 Board's annual review and evaluation of the Manager's performance over the past year was carried out in January 2011. The process involved a formal presentation by F&C's Chief Executive Officer, the Head of Equities, the Fund Manager and the Head of Investment Trusts, which covered developments at F&C, the Company's investment performance in 2010, 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 Manager had matched its target composite benchmark, but underperformed its other target, the weighted average of the net asset value total return of the Close Peer Group over one, three, five and ten years. The Company was below the Composite Benchmark over three years, but had outperformed over five and ten years.

(ii) Performance attribution – The main positive for the year had been asset allocation, split equally between the listed portfolio and private equity. Stock selection had been negative in all but one of the regional portfolios, with the biggest impact in the UK and Emerging Markets. Most portfolios had underperformed against their respective indices over one, three and five years. Gearing had more of a positive impact than in 2009.

(iii) Resources, services and advice provided – In addition to its investment management resources, F&C had the necessary resources and experienced people to continue to provide the full range of investment trust services required by the Company.

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. The Board had noted the disappointing short-term performance of the regional portfolios managed by F&C and would be looking for significant improvements in stock selection going forward. The challenge for F&C is, as ever, that of maintaining the good long-term investment performance of the Company.

The Board's priorities for the year ahead

The overriding priority has not changed from previous years. That is to strive for the consistent achievement of relative outperformance, adding value for shareholders through net asset value and share price total return, discount management, dividend growth, a low and competitive total expense ratio and effective marketing. The outlook for the Company is reported in the Chairman's Statement on pages 3 and 4 and in the Fund Manager's Review on page 11.

Annual General Meeting

Shareholders will have received a separate enclosure containing the Notice of the Annual General Meeting to be held at Merchant Taylors' Hall, 30 Threadneedle Street, London EC2 on 5 May 2011 at 12 noon. The enclosure explains each resolution and the voting arrangements.

By order of the Board,
for and on behalf of F&C Management Limited,
Secretary
4 March 2011

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 (audited)

	Fees for services to the Company	
Director	**2010 £'000s**	2009 £'000s
Simon Fraser[(1)]	**60**	10
Sir Roger Bone[(2)]	**34**	30
Sir Michael Bunbury[(3)]	**47**	48
Stephen Burley	**36**	36
Sir David Clementi	**35**	33
Jeffrey Hewitt[(4)]	**11**	–
Christopher Keljik	**36**	36
Maxwell Ward	**41**	40
Mark Loveday[(5)]	**22**	65
Ronald Gould[(6)]	**3**	36
Total	**325**	334

(1) Chairman with effect from 6 May 2010 and highest paid Director.
(2) Joined the Nomination Committee on 3 March 2010.
(3) Received £4,000 (2009: £8,000) as the Company's representative on the advisory committees of Pantheon and HarbourVest from which he retired on 30 June 2010.
(4) Joined the Board and Audit and Management Engagement Committee on 15 September 2010.
(5) Retired as Chairman and Director on 6 May 2010.
(6) Resigned as a Director on 27 January 2010.

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

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

- the absolute and relative performance of the Company over the period 1 July 2009 to 31 May 2010 and whether the Directors had added value;
- earnings and price inflation over the period 1 July 2009 to 31 May 2010 respectively;
- a comparison with other investment trusts managed by F&C, 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 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 agreed the Chairman's recommendation that the basic fee should be £32,000 with effect from 1 July 2010, representing an increase of 3.2% over the period. The Board also agreed the Senior Independent Director's recommendation that an increase be made to the Chairman's fee commensurate with the increase in the basic fee; an increase to £64,000. No other changes were recommended or agreed. The fees for specific responsibilities are set out in the table below.

Annual fees for Board responsibilities

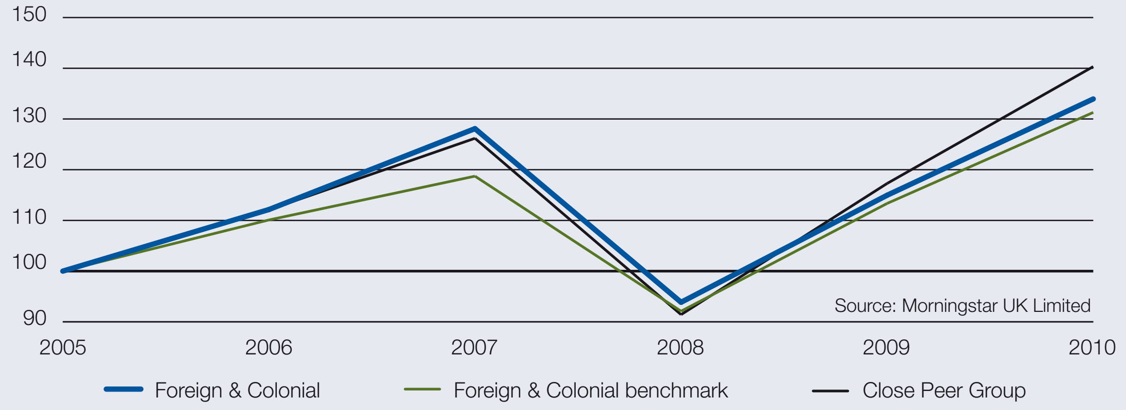
	2010 £'000s	2009 £'000s
Board		
Chairman[(1)]	**64.0**	62.0
Senior Independent Director[(1)]	**38.3**	37.3
Director[(1)]	**32.0**	31.0
Audit and Management Engagement Committee		
Chairman	**10.0**	10.0
Members	**5.0**	5.0
Nomination Committee		
Chairman	**3.0**	3.0
Members	**3.0**	3.0

(1) Change of fees with effect from 1 July 2010

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

Directors' 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 Manager's 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 additionally been shown, as the Manager's performance has also been measured against this criterion.

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

By order of the Board,
for and on behalf of F&C Management Limited,
Secretary
4 March 2011

Corporate Governance Statement

Introduction

The Board has considered the principles set out in the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2008 (the "**Combined Code**") and the AIC Code of Corporate Governance (the "**AIC Code**").* 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 apart from the Chairman's membership of the Audit and Management Engagement Committee. This committee has responsibilities with regard to the fees payable to the Manager. The Chairman led the fee negotiations summarised on page 3. These negotiations have been concluded and the documentation is in the process of being completed. On completion the Chairman will step down from the Committee. The Board is also adhering to the principles and recommendations of the AIC Code.

The Board

The Board is responsible for the effective stewardship of the Company's affairs and reviews the schedule of matters reserved for its decision, which are categorised under various headings. These include strategy, policy, finance, risk, investment restrictions, performance, marketing, appointments, the Board and public documents. It has responsibility for all corporate strategic issues, dividend policy, share buyback policy and corporate governance matters which are all reviewed regularly.

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.

* Copies of both codes may be found on the respective websites: www.frc.org.uk and www.theaic.co.uk. 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.

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.

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.

The following table sets out the number of Board and committee meetings held and attended during the year under review. The Board held an Away-Day meeting in November 2010 to consider strategic issues and also met in closed session on two occasions during the year, without any representation from the Manager. All the Directors attended the Annual General Meeting.

Directors' attendance

	Board	Audit Committee	Nomination Committee
No. of meetings	10	4	3
S J Fraser	10	4	3
R Bone(1)	10	n/a	2
M W Bunbury	10	4	3
S Burley	10	4	n/a
D Clementi	10	n/a	3
R J Gould(2)	1	n/a	n/a
J Hewitt(3)	4	1	n/a
C A Keljik	9	4	n/a
M A Loveday(4)	3	n/a	1
M C B Ward	10	n/a	3

(1) Joined the Nomination Committee on 3 March 2010
(2) Resigned as a Director on 27 January 2010.
(3) Appointed as a Director on 15 September 2010.
(4) Retired as a Director on 6 May 2010.

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.

The Board aims to maintain a balance of skills, experience, diversity and length of service through succession planning. The Board is of the view that length of service will not necessarily compromise the independence or contribution of directors of an investment trust company, where continuity and

Corporate Governance Statement (continued)

experience can add significantly to the strength of a board. In normal circumstances the Directors are expected to serve for a nine year term, but this may be adjusted for reasons of flexibility and continuity.

Board effectiveness

A thorough appraisal of the Board, the Committees and the individual Directors is carried out by the Chairman each year. Simon Fraser, the new Chairman, recommended external facilitation to support him in the review process for the year. Independent consultants, Manchester Square Partners, were appointed for this purpose in November 2010. The process included confidential, unattributable, one-to-one interviews between the independent consultant and each Director. The Fund Manager, Head of Investment Trusts and the Company Secretary also participated to provide all-round feedback to the Board. The appraisal of the Chairman was covered as part of the process and led separately by the Senior Independent Director. A list of proposed objectives resulting from the findings was submitted to the Board in March 2011. The process will conclude with one-to-one meetings between the Chairman and each Director, and with agreement by the Board on a final list of priorities for the year ahead.

The Directors are encouraged to attend relevant training courses and seminars. Directors are able to seek independent professional advice at the Company's expense in relation to their duties. No such advice was taken during the year under review. The Board has direct access to company secretarial advice and services of the Manager which, through the Company Secretary, is responsible for ensuring that Board and Committee procedures are followed and applicable regulations are complied with. The proceedings at all Board and other meetings are fully recorded through a process that allows any Directors' concerns 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 thirteen years and is standing for annual re-election, have been assessed by the Board 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.

Conflicts of interest

A company director has a statutory obligation to avoid a situation in which he has, or potentially could have, a direct or indirect interest that conflicts with the interests of the company (a "**situational conflict**"). The Board therefore has procedures in place for the authorisation and review of situational conflicts relating to the Directors. Limits can be imposed as appropriate.

Other than the formal authorisation of the Directors' other directorships as situational conflicts, no authorisations have been sought. These authorisations were reviewed in January 2011, and each Director abstained from voting in respect of their own directorships.

The review included Sir Michael Bunbury's non-executive chairmanship of HarbourVest Global Private Equity Limited ("**HVGPE**"). HVGPE is a Guernsey incorporated closed-end investment company listed on the Specialist Fund Market of the London Stock Exchange and 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.

Aside from situational conflicts, the Directors must also comply with the statutory rules requiring company directors to declare any interest in an actual or proposed transaction or arrangement with the Company.

Board committees

The Board has appointed a Nomination Committee and an Audit and Management Engagement Committee ("**Audit Committee**") as set out below.

Their terms of reference are available on request and can also be found on the Company's website at www.foreignandcolonial.com. Committee membership is listed on pages 14 and 15 and attendance at meetings on page 29.

Nomination Committee

The role of the Nomination Committee is to review and make recommendations to the Board with regard to:

(i) Board structure, size and composition, the balance of knowledge, experience, skill range and diversity;

(ii) succession planning and tenure policy;

(iii) the criteria for future Board appointments and the methods of recruitment, selection, appointment and induction;

(iv) the appointment of new Directors and the re-appointment of those Directors standing for re-election at annual general meetings;

(v) changes in committee membership;

(vi) the attendance and time commitment of the Directors in fulfilling their duties, including the extent of their other directorships;

(vii) the question of each Director's independence prior to publication of the Annual Report and Accounts;

(viii) the authorisation of each Director's situational conflicts of interests in accordance with the provisions of the Companies Act 2006 and the policy and procedures established by the Board in relation to these provisions; and

(ix) the Directors' contract for services and terms of office as set out in their Letter of Appointment.

All of the Nomination Committee's responsibilities have been carried out over the course of 2010 and in January 2011. The Board appointed one new non-executive Director during the year and two new non-executive Directors on 2 March 2011 upon the recommendation of the Committee. A professional search consultancy was appointed for the purpose of finding suitable candidates. 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 is in place for all new appointees.

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 27 and 28 and in note 6 on the accounts.

Audit Committee

The primary responsibilities of the Audit Committee are to:

(i) monitor the integrity of the financial statements of the Company, including the statutory audit of the annual accounts, and any formal announcements relating to the Company's financial performance;

(ii) review the Company's internal financial controls and the internal control and risk management systems applicable to the Company;

(iii) review annually the need for the Company to have its own internal audit function;

(iv) make recommendations to the Board in relation to the re-appointment of the Auditors and to approve their remuneration and terms of engagement;

(v) review and monitor the Auditors' independence and objectivity and the effectiveness of the audit process;

(vi) develop and implement policy on the engagement of the Auditors to supply non-audit services;

(vii) review Directors' and Officers' liability insurance;

(viii) review and monitor the Company's service providers, and the fees charged in respect of those services, including those of the Manager and the Custodian;

(ix) review the Manager's dealing efficiency and associated costs; and

(x) review trade marks and intellectual property rights.

(xi) develop and maintain disaster recovery arrangements to seek to ensure continuity of business in the event of failure of service providers.

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

Corporate Governance Statement (continued)

Board retains ultimate responsibility for all aspects relating to the annual and half-yearly 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 2010 and in February 2011. 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 the majority of the scheduled Audit Committee meetings. The appointment of PricewaterhouseCoopers LLP as auditor has not been put out to tender notwithstanding their tenure over many years as the Audit Committee views their performance and overall effectiveness as being good. This is based on the Committee's direct observation and is supported by indirect enquiry of relevant management. The Committee has also taken into account the standing and experience of the audit partner and team. Following professional guidelines, the partner will rotate after five years and this is the second year for the current partner. PricewaterhouseCoopers LLP has confirmed to the Committee that they are independent of the Company and have complied with relevant auditing standards. The Manager and the Company use different audit firms. On the basis of this assessment, the Audit Committee has recommended the continuing appointment of the Auditors to the Board. The Audit Committee has also reviewed the provision of non-audit services, which cost £9,000 in 2010, and considers them to be cost effective and not to compromise the independence of the Auditors. The non-audit services include taxation matters, assistance in analysing and mitigating risk, and the review of the half-yearly 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 5 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. For 2011, a new governance structure will be put in place, such that the department will be separated into an Internal Audit department and Operational Risk and Compliance department.

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, 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, compliance and overall risk management, is exercised by the Board through regular reports provided by the Manager on investment performance, performance attribution, compliance with agreed investment restrictions, financial analyses, revenue estimates, performance of the third party administrators of the F&C savings plans ("**F&C plans**") and on other management issues. The Manager's Audit, Risk and Compliance department prepares a control report that provides details of any internal control failure. A key risk summary is also produced to help identify 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 19 and 20, with additional information given in note 26 on the accounts.

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 as at 2 March 2011, 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 2010 (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 and maintenance of their financial records. 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. Procedures are in place to capture and evaluate failings and weaknesses and ensure that action would be taken to remedy any significant issues identified from this monitoring, which would be reported to the Board. No material failings or weaknesses in respect of the Company were identified in the year under review.

Relations with shareholders

Shareholder communication is given a high priority. In addition to the annual and half-yearly reports that are available 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 with private client asset managers. As in previous years, the Chairman contacted the top institutional shareholders, as a result of which email correspondence took place with five of these shareholders owning a total of 8% of the share capital.

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 plans have the opportunity to vote using a form of direction and 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 planholders, 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 Company Secretary, at the address set out on page 16 or by emailing to FCITCoSec@fandc.com.

By order of the Board
for and on behalf of F&C Management Limited
Secretary
4 March 2011

Statement of Directors' Responsibilities

As required by company law, the Directors are responsible for the preparation of the annual report, Directors' remuneration report and financial statements which give a true and fair view of the state of affairs of the Company as at 31 December 2010 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 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 maintained by the Company's Manager, F&C Management Limited ("**F&C**"). The content 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.

In accordance with Chapter 4 of the Disclosure and Transparency Rules, the Directors confirm that to the best of their knowledge:

- the financial statements, which have been prepared in accordance with applicable UK generally accepted accounting standards on a going concern basis, give a true and fair view of the assets, liabilities, financial position and return of the Company;
- the Directors' Report and Business Review contained in the annual report includes a fair review of the development and performance of the business and the position of the Company and their impact on the financial statements;
- the principal risks section of the Directors' Report and Business Review describes the principal risks and uncertainties for the forthcoming financial year; and
- the financial statements and the Directors' Report and Business Review include details on related party transactions.

On behalf of the Board
Simon Fraser
Chairman
4 March 2011

Independent Auditors' Report

Independent Auditors' Report to the 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 2010 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 34, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its net return and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

- Under the Companies Act 2006 we are required to report to you if, in our opinion:
  - adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
  - the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
  - certain disclosures of directors' remuneration specified by law are not made; or
  - we have not received all the information and explanations we require for our audit; or
  - a corporate governance statement has not been prepared by the Company.
- Under the Listing Rules we are required to review:
  - the directors' statement, set out on page 18, in relation to going concern; and
  - the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
  - certain elements of the report to shareholders by the Board on directors' remuneration.

Alex Bertolotti (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

4 March 2011

Income Statement

Revenue Notes	Capital Notes	for the year ended 31 December	**2010 Revenue £'000s**	**2010 Capital £'000s**	**2010 Total £'000s**	2009 Revenue £'000s	2009 Capital £'000s	2009 Total £'000s
	11	Gains on investments	**–**	**270,308**	**270,308**	–	317,695	317,695
	20	Exchange gains/(losses)	**65**	**(5,148)**	**(5,083)**	(43)	(913)	(956)
3		Income	**51,123**	**–**	**51,123**	52,694	–	52,694
4	4	Management and performance fees	**(3,874)**	**(4,513)**	**(8,387)**	(3,859)	(4,537)	(8,396)
5	20	Other expenses	**(3,474)**	**(59)**	**(3,533)**	(4,440)	(157)	(4,597)
		Net return before finance costs and taxation	**43,840**	**260,588**	**304,428**	44,352	312,088	356,440
7	20	Finance costs	**(7,102)**	**(7,102)**	**(14,204)**	(6,573)	(6,573)	(13,146)
		Net return on ordinary activities before taxation	**36,738**	**253,486**	**290,224**	37,779	305,515	343,294
8	20	Taxation on ordinary activities	**(2,084)**	**(156)**	**(2,240)**	(2,170)	–	(2,170)
9	9	**Net return attributable to shareholders**	**34,654**	**253,330**	**287,984**	35,609	305,515	341,124
9	9	**Return per share – basic (pence)**	**5.61**	**41.01**	**46.62**	5.31	45.54	50.85

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 2010	Share Capital £'000s	Capital Redemption Reserve £'000s	Capital Reserves £'000s	Revenue Reserve £'000s	Total Shareholders' Funds £'000s
	Balance carried forward 31 December 2009	158,022	104,740	1,578,300	117,407	1,958,469
10	Dividends paid	–	–	–	(41,211)	(41,211)
	Shares repurchased by the Company	(5,492)	5,492	(62,232)	–	(62,232)
	Return attributable to shareholders	–	–	253,330	34,654	287,984
	Balance carried forward 31 December 2010	**152,530**	**110,232**	**1,769,398**	**110,850**	**2,143,010**

Notes	For the year ended 31 December 2009	Share Capital £'000s	Capital Redemption Reserve	Capital Reserves	Revenue Reserve	Total Shareholders' Funds
	Balance carried forward 31 December 2008	169,755	93,007	1,394,106	125,581	1,782,449
10	Dividends paid	–	–	–	(43,783)	(43,783)
	Shares repurchased by the Company	(11,733)	11,733	(121,321)	–	(121,321)
	Return attributable to shareholders	–	–	305,515	35,609	341,124
	Balance carried forward 31 December 2009	158,022	104,740	1,578,300	117,407	1,958,469

Balance Sheet

Notes	At 31 December	£'000s	2010 £'000s	£'000s	2009 £'000s
	Fixed assets				
11	Investments		**2,422,285**		2,074,117
	Current assets				
13	Debtors	**6,443**		3,765	
		6,443		3,765	
	Creditors: amounts falling due within one year				
14	Loans	**(102,251)**		–	
15	Other	**(72,892)**		(8,838)	
		(175,143)		(8,838)	
	Net current liabilities		**(168,700)**		(5,073)
16	Total assets less current liabilities		**2,253,585**		2,069,044
	Creditors: amounts falling due after more than one year				
17	Debentures		**(110,575)**		(110,575)
	Net assets		**2,143,010**		1,958,469
	Capital and reserves				
18	Share capital		**152,530**		158,022
19	Capital redemption reserve		**110,232**		104,740
20	Capital reserves		**1,769,398**		1,578,300
20	Revenue reserve		**110,850**		117,407
	Total shareholders' funds		**2,143,010**		1,958,469
21	**Net asset value per share – prior charges at nominal value (pence)**		**351.24**		309.84

The Financial Statements were approved by the Board on 4 March 2011 and signed on its behalf by:

Simon Fraser

Sir Michael Bunbury

Cash Flow Statement

Notes	For the year ended 31 December	£'000s	2010 £'000s	£'000s	2009 £'000s
	Operating activities				
	Investment income	**46,081**		50,553	
	Interest received	**11**		79	
	Stock lending fees received	**97**		–	
	Other revenue	**266**		865	
	Management and performance fees paid	**(8,917)**		(8,958)	
	Fees paid to directors	**(325)**		(334)	
	Other cash payments	**(2,923)**		(3,943)	
22	Net cash inflow from operating activities		**34,290**		38,262
	Servicing of finance				
	Interest paid	**(14,097)**		(14,048)	
	Cash outflow from servicing of finance		**(14,097)**		(14,048)
	Financial investment				
	Purchases of equities and other investments	**(880,434)**		(786,886)	
	Sales of equities and other investments	**800,297**		1,030,655	
	Other capital charges and credits	**(60)**		(161)	
	Net cash (outflow)/inflow from financial investment		**(80,197)**		243,608
	Equity dividends paid		**(41,211)**		(43,783)
	Net cash (outflow)/inflow before use of liquid resources and financing		**(101,215)**		224,039
	Financing				
	Net loans raised/(repaid)	**95,860**		(110,000)	
	Costs of shares repurchased	**(61,358)**		(121,094)	
	Net cash inflow/(outflow) from financing		**34,502**		(231,094)
23	**Decrease in cash**		**(66,713)**		(7,055)

Notes on the Accounts

1 General information

Foreign & Colonial Investment Trust PLC is an investment company, incorporated in the United Kingdom with a premium 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 1158 of the Corporation Tax Act, 2010. Approval of the Company under section 1158 has been received (subject to there being no subsequent enquiry) in respect of the year ended 31 December 2009 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 on a going concern basis under the historical cost convention, modified to include fixed asset investments at fair value, and in accordance with the Companies Act 2006, Accounting Standards applicable in the United Kingdom and with the Revised Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" ("**SORP**") issued in January 2009.

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 years ended 31 December 2010 and 31 December 2009. Consequently, consolidated accounts have not been prepared.

There have been no significant changes to the accounting policies during the year ended 31 December 2010.

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 Movements in Shareholders' Funds.

(b) Principal accounting policies

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

(i) Financial instruments

Financial Instruments include fixed asset investments, derivative assets and liabilities, and long-term debt instruments. Accounting Standards recognise a hierarchy of fair value measurements for Financial Instruments which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The classification of Financial Instruments depends on the lowest significant applicable input, as follows:

Level 1 – Unadjusted, fully accessible and current quoted prices in active markets for identical assets or liabilities. Included within this category are investments listed on any recognised stock exchange or quoted on the AIM Market in the UK.

Level 2 – Quoted prices for similar assets or liabilities, or other directly or indirectly observable inputs which exist for the duration of the period of investment. Examples of such Instruments would be those for which the quoted price has been suspended, forward exchange contracts and certain other derivative instruments. The Company held no such securities during the year under review.

Level 3 – External inputs are unobservable. Value is the Directors best estimate of fair value, based on advice from relevant knowledgeable experts, on use of recognised valuation techniques and on assumptions as to what inputs other market participants would apply in pricing the same or similar instrument. Included in Level 3 are investments in private companies or securities, whether invested in directly or through pooled Private Equity vehicles.

Notes on the Accounts

2. Significant accounting policies (continued)

(ii) Fixed asset 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. Quoted 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 quoted 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 are carried at cost or less 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.

(iii) Derivative Instruments

Derivatives including forward exchange contracts, options and swaps are accounted for as a financial asset or liability at fair value through profit or loss and are classified as held for trading. The Company has not taken out any derivative contracts during the year and does not normally do so.

(iv) Debt Instruments

The Company's debt instruments include long-term debenture stock included in the Balance Sheet at proceeds received, net of issue costs, and short-term bank borrowings and overdrafts, initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method. No debt instruments held during the year required hierarchical classification.

The 11.25% debenture stock was issued in 1989 and 4.25% perpetual debenture stock was issued in 1960. The fair market value of these debenture stocks is set out in note 17 on the accounts. Finance charges, including interest, are accrued using the effective interest rate method. See 2(vii) below for allocation of finance charges within the Income Statement.

(v) 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 asset 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.

(vi) 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.

Bank deposit interest is accounted for on an accruals basis.

2. Significant accounting policies (continued)

(vii) 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 arising on investments sold via the Capital Account;
- 100% of management fees invoiced to the Company in respect of certain Private Equity investments are allocated to Capital Reserves, via the Capital Account, in accordance with the Board's long-term expected split of returns from those investments;
- 50% of other management fees and 50% of finance costs (both net of applicable tax relief) are allocated to Capital Reserves 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, as are directly attributable to the returns from investments recognised in the Capital Account in the period, are allocated to Capital Reserves. Details of the performance-related fees calculation are set out in note 4 on the accounts.

All expenses are accounted for on an accruals basis.

(viii) Taxation

Deferred tax is provided in accordance with FRS19 on all timing differences that have originated but not reversed by the Balance Sheet date based on tax rates that are expected to apply in the period when the liability is settled or the asset is realised. 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.

(ix) 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.

(x) Capital Reserves

Capital reserve – arising on investments sold

The following are accounted for in this reserve:

- gains and losses on the disposal 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 – arising on investments held

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.

Notes on the Accounts (continued)

3 Income

	2010 £'000s	2009 £'000s
UK dividends	**25,315**	25,852
Overseas dividends	**25,353**	25,713
Scrip dividends	**58**	187
	50,726	51,752
Other Income		
Interest on cash and short-term deposits	**11**	78
Stock lending fees (see note 11)	**120**	–
Sundry	**–**	83
Underwriting commission	**266**	781
	397	942
Total income	**51,123**	52,694
Total income comprises:		
Dividends	**50,726**	51,752
Other income	**397**	942
	51,123	52,694
Income from investments comprises:		
Listed UK	**25,266**	25,276
Listed Overseas	**25,411**	25,899
Unlisted	**49**	577
	50,726	51,752

4 Management and performance fees

			2010		2009
		£'000s	£'000s	£'000s	£'000s
Payable directly to F&C Management Limited ("F&C"):					
– in respect of management services provided by F&C	(i)	6,520		6,268	
– reimbursement in respect of services provided by sub-managers	(i)	1,229		1,450	
– in respect of performance fees		–		–	
			7,749		7,718
Payable directly to private equity managers	(ii)		638		678
Total directly incurred management fees			8,387		8,396
Incurred indirectly within Funds					
– managed by the private equity managers	(iii)		5,246		4,808
Total direct and indirect management and performance fees			13,633		13,204

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

Directly incurred fees are analysed as follows:

Management and Performance fees

	2010	2009
	£'000s	£'000s
– payable directly to F&C	7,749	7,718
– payable directly to the private equity managers	638	678
	8,387	8,396
Less: allocated to capital reserves	(4,513)	(4,537)
Allocated to revenue account	3,874	3,859

Notes on the Accounts (continued)

4 Management and performance fees (continued)

(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 by either party. In the event of a change of control of the Manager, the Company may give three months' notice of termination.

The bases and rates applying in 2010 and 2009 in respect of fees payable to the Manager are set out below.

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 sub-managers in respect of the Company's Japanese and US large and medium cap portfolios.
Management Fee Rate	Fixed Fee of £6.79m (2009: £6.71m) per annum, payable monthly in arrears, less fees of £0.27m (2009: £0.44m) earned by the Manager in respect of investment holdings managed or advised by the Manager or its fellow subsidiaries.
Performance Fee Basis	*Benchmark performance:* Payable on outperformance of the adjusted net assets for the year to 31 December 2010, over the composite benchmark (defined on page 24), plus a hurdle of 0.5%, but with performance in excess of 3.5% over the benchmark, or underperformance 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, any fee payable will be deferred until the share price increases over any subsequent performance fee period. For the year ending 31 December 2010, the adjusted net asset performance of +13.3% represented underperformance of the composite benchmark by 2.1% (year ending 31 December 2009, 1.8% underperformance). Cumulative underperformance amounts to 7.8% (2009: underperformance of 5.8%). *Close Peer Group performance:* Payable on outperformance of the adjusted net assets for the year to 31 December 2010 over the Close peer group (as referred to on page 24), with outperformance in excess of 3% carried forward for inclusion in the calculation for the subsequent period. For the year ending 31 December 2010, the adjusted net asset performance of +16.0% represented underperformance of the Close Peer Group by 3.2% (2009: 6.4% underperformance). Cumulative underperformance amounts to 9.4% (2009: underperformance of 6.4%).
Performance Fee Rate	*Benchmark performance:* 5% of outperformance. Net assets are adjusted for the cost of share buybacks, dividends paid and the excess of the market value of the debentures over their cost. *Close Peer Group performance:* 5% of outperformance. Net assets are adjusted for dividends paid and the excess of the market value of the debentures over their cost.

With effect from 1 January 2011, the Company has revised the Manager's remuneration bases and rates. The fixed management fee will be replaced with a fee based on 0.365% per annum of the market capitalisation of the Company, calculated at each month end date on a pro-rata basis; the fee will be adjusted for fees earned by the Manager in respect of investment holdings managed or advised by the Manager. Variable fees will remain payable in respect of third party sub-managers. Performance fees will no longer be payable to the Manager.

4 Management and performance fees (continued)

(b) Management fees payable to the private equity managers

At 31 December 2010 the Company had commitments in five private equity funds managed by Pantheon Ventures Limited (2009: five) and eleven funds managed by HarbourVest Partners LLC (2009: eleven). 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 (2009: 0.65%) based on capital commitments. These fees are allocated fully to Capital Reserve on investments sold. 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 2010 varied from 0.65% per annum to 1.95% per annum (2009: 0.39% to 1.95%).

5 Other expenses

	2010 £'000s	2009 £'000s
Auditors' remuneration:		
for audit services *	88	69
for other services**	9	126
Custody fees	255	242
Directors' emoluments (see Directors' Remuneration Report on pages 27 and 28):		
fees for services to the Company	325	334
Subscriptions	37	39
Directors' and Officers' liability insurance	65	64
Marketing expenses	751	779
Private Investor Plan expenses	1,062	996
Loan commitment and arrangement fees	333	1,103
Registrars' fees	93	115
Professional charges	141	200
Printing and postage	153	213
Sundry expenses	162	160
	3,474	4,440

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

* Total Auditors' remuneration for audit services includes costs relating to an independent review report for the period to 30 June 2010.

** Total Auditors' remuneration for other services, exclusive of VAT, amounting to £9,000 (2009: £119,000), comprised: £7,000 for taxation advice (2009: £97,000); £2,000 relating to review of debenture compliance certificate (2009: £2,000); £nil relating to the of half-year accounts (2009: £7,000); and £nil for consultancy (2009: £13,000). No part of these amounts was charged to capital reserves (2009: £nil).

Notes on the Accounts (continued)

6 Directors' remuneration and contracts

(a) Remuneration from the Company

The Company had no employees during the year. The amounts paid by the Company to the Directors of the Company, which were for services as non-executive Directors and which did not include any payments or rights to pensions, are detailed in the Directors' Remuneration Report on pages 27 and 28.

(b) Remuneration from related parties

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

(c) 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.

(d) 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 £325,000 (2009: £334,000). Emoluments attributable to the highest paid Director amounted to £60,000 (2009: £65,000).

7 Finance costs

	2010 £'000s	2009 £'000s
Debenture stocks	**12,399**	12,399
Loans	**1,396**	659
Overdrafts	**409**	88
	14,204	13,146
Less: allocated to capital reserves (see note 20)	**(7,102)**	(6,573)
	7,102	6,573
The interest on debenture stocks, loans and overdrafts is further analysed as follows:		
Loans and overdrafts repayable within one year, not by instalments	**1,805**	747
Debentures, loans and overdrafts repayable between one and five years, not by instalments	**12,399**	12,399
	14,204	13,146

8 Taxation on ordinary activities

(a) Analysis of tax charge for the year

	Revenue £'000s	Capital £'000s	2010 Total £'000s	Revenue £'000s	Capital £'000s	2009 Total £'000s
Corporation tax at 28.0% (2009: 28.0%)	2,091	–	2,091	2,279	–	2,279
Relief for overseas taxation	(2,091)	–	(2,091)	(2,279)	–	(2,279)
	–	–	–	–	–	–
Overseas taxation	2,091	156	2,247	2,279	–	2,279
Total current taxation (note 8b)	2,091	156	2,247	2,279	–	2,279
Deferred tax	(7)	–	(7)	(109)	–	(109)
	2,084	156	2,240	2,170	–	2,170

Deferred tax in the Revenue Account is in respect of corporation tax on accrued income that will be taxed in future years.

(b) Factors affecting tax charge for the year

	Revenue £'000s	Capital £'000s	2010 Total £'000s	Revenue £'000s	Capital £'000s	2009 Total £'000s
Return on ordinary activities before taxation	36,738	253,486	290,224	37,779	305,515	343,294
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 28.0% (2009: 28.0%)	10,287	70,976	81,263	10,578	85,544	96,122
Effects of:						
Dividends*	(14,181)	–	(14,181)	(7,221)	–	(7,221)
Income not subject to corporation tax	(18)	–	(18)	(2,938)	–	(2,938)
Capital returns*	–	(74,245)	(74,245)	–	(88,699)	(88,699)
Expenses not deductible for tax purposes	249	17	266	242	44	286
Expenses not utilised in the year	3,797	3,252	7,049	1,618	3,111	4,729
Unutilised overseas tax in excess of double taxation relief	1,957	–	1,957	–	–	–
Indian tax on capital gains	–	156	156	–	–	–
Total current taxation (note 8a)	2,091	156	2,247	2,279	–	2,279

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

The deferred tax asset of £31.3 million (2009: £21.9 million) in respect of unutilised expenses at 31 December 2010 has not been recognised as it is likely that the unrecognised asset will increase in amount in future. Of this amount £6.0 million (2009: £1.6 million) relates to revenue expenses and £25.3 million (2009: £20.3 million) to capital expenses.

Notes on the Accounts (continued)

9 Return per share

	2010 pence	2010 £'000s	2009 pence	2009 £'000s
Total return	**46.62**	**287,984**	50.85	341,124
Revenue return	**5.61**	**34,654**	5.31	35,609
Capital return	**41.01**	**253,330**	45.54	305,515
Weighted average ordinary shares in issue		**617,732,621**		670,883,424

10 Dividends

Dividends on ordinary shares	Register date	Payment date	2010 £'000s	2009 £'000s
2008 Final of 3.45p	20 March 2009	8 May 2009	**–**	23,423
2009 Interim of 3.00p	7 August 2009	9 September 2009	**–**	20,360
2009 Second interim of 3.65p	19 March 2010	31 March 2010	**22,771**	–
2010 Interim of 3.00p	13 August 2010	9 September 2010	**18,440**	–
			41,211	43,783

The Directors have proposed a final dividend in respect of the year ended 31 December 2010 of 3.75p payable on 9 May 2011 to all shareholders on the register at close of business on 15 April 2011. The total dividends paid and proposed in respect of the financial year for the purposes of the income retention test for Section 1159 of the Corporation Tax Act 2010 are set out below.

	2010 £'000s
Revenue available for distribution by way of dividends for the year	**34,654**
First interim dividend for the year ended 31 December 2010 – 3.00p per share	**(18,440)**
Proposed final dividend for the year ended 31 December 2010 – 3.75p per share (estimated cost based on 605,338,016 shares in issue at 3 March 2011)	**(22,700)**
Estimated Revenue Reserve utilised, for Section 1159 purposes	**(6,486)**

11 Investments

	Level 1* £'000s	Level 2* £'000s	Level 3* £'000s	2010 Total £'000s	Level 1* £'000s	Level 2* £'000s	Level 3* £'000s	2009 Total £'000s
Cost at 1 January	**1,393,359**	**–**	**318,415**	**1,711,774**	1,687,142	–	272,411	1,959,553
Unrealised gains at 1 January	**338,428**	**–**	**23,915**	**362,343**	475	–	38,249	38,724
	1,731,787	**–**	**342,330**	**2,074,117**	1,687,617	–	310,660	1,998,277
Purchases at cost	**818,558**	**–**	**59,852**	**878,410**	738,229	–	49,876	788,105
Sales proceeds	**(769,496)**	**–**	**(31,054)**	**(800,550)**	(1,026,271)	–	(3,689)	(1,029,960)
Gains/(losses) on investments sold	**69,148**	**–**	**11,398**	**80,546**	(5,742)	–	(183)	(5,925)
Gains/(losses) on investments held	**144,379**	**–**	**45,383**	**189,762**	337,954	–	(14,334)	323,620
Value at 31 December	**1,994,376**	**–**	**427,909**	**2,422,285**	1,731,787	–	342,330	2,074,117
Analysed at 31 December:								
Cost	**1,511,569**	**–**	**358,611**	**1,870,180**	1,393,359	–	318,415	1,711,774
Unrealised gains	**482,807**	**–**	**69,298**	**552,105**	338,428	–	23,915	362,343
Value at 31 December	**1,994,376**	**–**	**427,909**	**2,422,285**	1,731,787	–	342,330	2,074,117

Gains/(losses) on investments held at fair value	**2010 £'000s**	2009 £'000s
Gains/(losses) on investments sold	**80,546**	(5,925)
Gains on investments held	**189,762**	323,620
Total gains on investments	**270,308**	317,695

* see note 2(b) (i)

Level 1 includes investments listed on any recognised stock exchange or quoted on the AIM market in the UK.
Level 2 includes investments for which the quoted price has been suspended, forward exchange contracts and other derivative instruments.
Level 3 includes investments in private companies or securities, whether invested in directly or through pooled Private Equity vehicles.

Stock lending	**2010 £'000s**	2009 £'000s
Aggregate value of securities on loan at 31 December	**17,304**	–
Maximum aggregate value of securities on loan during the year	**128,575**	–
Income from stock lending	**120**	–

In respect of securities on loan at the year end, the Company held £19,163,000 (2009:£nil) as collateral, the value of which exceeds the value of the loan securities by 10.7% (2009:nil). In respect of the maximum aggregate value of securities on loan during the year, the Company held £135,252,000 (2009:nil) as collateral, the value of which exceeded the value of the securities on loan by 5.2% (2009:nil).

Investments managed or advised by the F&C Group

Investments include £34.0 million (2009: £28.8 million) of funds and investments managed or advised by the Company's Manager (F&C) or its fellow subsidiaries. These investments represent 1.4% (2009: 1.4%) 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 is adjusted for fees earned by the Manager on all such holdings. During the year the Company purchased £nil (2009: £nil) of such investments, and received £nil (2009: £0.9 million) from sales.

Unlisted investments

Unlisted investments include £382.3 million of investments described as private equity, together with £45.6 million of other investments in funds or partnerships, the underlying portfolios of which principally comprise 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.

Notes on the Accounts (continued)

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 405(2) of the Companies Act 2006, the Company has not prepared consolidated accounts.

				At 31 December 2010
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 2010 the Company held more than 3% 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 LP	England	–	10.80
Caithness Petroleum	British Virgin Islands	997,609 ordinary shares	9.50
Dover Street VI LP	USA	–	11.12
F&C Portfolios Fund SICAV European High Yield Bond Fund*†	Luxembourg	1,307,696 shares	35.02
F&C US Smaller Companies PLC*	England	4,368,169 ordinary shares of 25p	21.09
HarbourVest Partners VII – Buyout Partnership Fund LP	USA	–	3.86
HIPEP V – Direct Fund LP	USA	–	15.66
HIPEP V – Asia Pacific and Rest of World Partnership Fund LP	USA	–	4.74
HIPEP VI – Emerging Markets Fund LP	USA	–	19.11
HIPEP VI – Asia Pacific Fund LP	USA	–	6.01
MW Tops Developed Europe	Ireland	166,329 E shares	12.80
Pantheon Europe Fund III LP	USA	–	44.41
Pantheon Europe Fund V LP	Scotland	–	9.29
Pantheon Asia Fund IV LP	Channel Islands	–	8.40
Pantheon Asia Fund V LP	Channel Islands	–	6.19
Pantheon Global Secondary Fund III LP	Scotland	–	3.50
Utilico Emerging Markets Limited	Bermuda	18,951,661 ordinary shares of 10p	8.66
Utilico Limited	Bermuda	10,452,260 ordinary shares of 1.5625p	12.10
		409,275 warrants	11.40
U.S. Ventures Series II	Cayman Islands	–	34.72
U.S. Ventures Series V	Cayman Islands	–	29.39

* Investment funds managed by companies within the F&C Group.
† The holding represents 0.57% of the voting rights in the F&C Portfolios Fund SICAV.

13 Debtors

	2010 £'000s	2009 £'000s
Investment debtors	**512**	80
Prepayments and accrued income	**5,632**	3,526
Overseas taxation recoverable	**296**	156
Other debtors	**3**	3
	6,443	3,765

14 Creditors: amounts falling due within one year

Loans Non-instalment debt payable on demand or within one year	2010 £'000s	2009 £'000s
£50m repaid January 2011	**50,000**	-
¥6,635m repaid January 2011	**52,251**	-
	102,251	-

At 31 December 2010 the Company had two unsecured revolving credit facilities expiring in October 2011 and July 2012. The facilities allow the Company access on demand to a maximum of £100m, at the time of drawdown, of bank loans in any major currency. Interest rate margins on the amounts drawn down are variable and are dependent upon commercial terms agreed with each bank. Commitment commission is payable on undrawn amounts at commercial rates.

Both credit facilities limit the amount which the Company may borrow at any one time as a proportion of the value of the relevant portfolio of investments and cash. The most onerous financial covenant limits total borrowings to 33.33% of the Company's adjusted net asset value, which at 31 December 2010 was £1,684m. Actual total borrowings at market value at 31 December 2010 were £313m, comprising overdrafts of £69m (see note 15), loans of £102m and debentures of £142m (at market value see note 17). The Company met all of its banking covenants during the year.

At 3 March 2011, there were £100,358,000 short-term borrowings, comprising £50m and ¥6,753m.

15 Creditors: amounts falling due within one year

Other	2010 £'000s	2009 £'000s
Cost of ordinary shares repurchased	**1,101**	227
Investment creditors	**343**	2,425
Bank overdraft	**69,412**	3,942
Management fees payable to F&C	**815**	1,355
Other accrued expenses	**1,221**	889
	72,892	8,838

Notes on the Accounts (continued)

16 Geographical and industrial classification

a)	UK %	North America %	Europe ex UK %	Japan %	Developed Asia %	Emerging Markets %	**2010 Total %**	2009 Total %
Equities and convertibles								
Oil and gas	6.7	1.8	0.4	–	0.4	1.5	**10.8**	12.2
Basic materials	3.6	0.8	0.5	0.4	1.2	1.7	**8.2**	6.6
Industrials	1.4	2.5	1.0	0.7	0.9	0.5	**7.0**	5.7
Consumer goods	3.8	2.3	1.5	1.1	0.3	1.2	**10.2**	9.8
Healthcare	2.5	2.1	0.9	0.3	–	0.1	**5.9**	7.8
Consumer services	1.2	2.3	0.7	0.3	0.5	0.3	**5.3**	4.8
Telecommunications	3.4	0.8	–	0.3	–	0.5	**5.0**	4.3
Utilities	1.6	0.3	–	0.3	0.1	0.2	**2.5**	3.2
Financials	9.9	4.1	3.2	1.0	1.7	2.2	**22.1**	22.4
Technology	1.9	3.9	0.6	0.6	0.1	1.8	**8.9**	8.4
Private equity	3.6	4.7	4.9	0.3	0.9	1.7	**16.1**	14.2
Total equities and convertibles	39.6	25.6	13.7	5.3	6.1	11.7	**102.0**	99.4
Fixed interest stocks	–	–	0.7	–	–	–	**0.7**	0.8
Total Investments	39.6	25.6	14.4	5.3	6.1	11.7	**102.7**	100.2
Net current liabilities (excluding loans)	(1.7)	(0.8)	(0.2)	–	–	–	**(2.7)**	(0.2)
Total assets less current liabilities (excluding loans)	**37.9**	**24.8**	**14.2**	**5.3**	**6.1**	**11.7**	**100.0**	
Total 2009	37.9	25.2	14.9	4.9	5.4	11.7		100.0

b)	UK %	North America %	Europe ex UK %	Japan %	Developed Asia %	Emerging Markets %	2010 Total %	2009 Total %
Net assets 2010	**34.1**	**27.4**	**15.6**	**3.3**	**6.8**	**12.8**	**100.0**	
Net assets 2009	34.2	26.7	15.7	5.3	5.7	12.4		100.0

Note: Geographical classification of the investments held as fixed assets is determined primarily by the country of quotation.

17 Creditors: amounts falling due after more than one year

Debentures	2010 £'000s	2009 £'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 secured by floating charges over the assets of the Company. The debenture stocks are valued at proceeds received net of issue costs ("**par value**"). The market value of the debenture stocks at 31 December 2010 was £141,874,000 (31 December 2009: £142,943,000).

The 11.25% debenture stock is redeemable at par on 31 December 2014. Under the terms of the Debenture trust deed: the total of all borrowings, valued in accordance with the Company's accounting policies, shall not at any time exceed the Company's "Adjusted Total of Capital and Reserves" ("**ATCR**") – at 31 December 2010 the value of the ATCR was £1,858m and the value of all borrowings was £282m. The trust deed also specifies that the aggregate of the Company's debenture stocks valued at par shall not exceed two thirds of the ATCR.

Each year, the Company issues a certificate of compliance with the provisions of the trust deed to the trustee of the debenture stock, showing that the borrowing limits have not been exceeded at the relevant accounting date. The Company has complied at all times with the terms of the trust deed.

The 11.25% Debenture stock may be redeemed early by the Company giving notice of not less than 30 days in writing to stockholders. In such event, the redemption price must be the higher of par and the price equivalent to the gross redemption yield on the relevant date of 12% Exchequer Stock 2013/17.

The Directors have no present intention to redeem the 11.25% Debenture stock before 31 December 2014.

18 Share capital

	Authorised		Issued and fully paid	
	Number	Nominal £'000s	Number	Nominal £'000s
Ordinary shares of 25p each				
Shares repurchased by the Company	–	–	(21,970,048)	(5,492)
Balance brought forward	1,103,600,000	275,900	632,089,064	158,022
Balance carried forward	**1,103,600,000**	**275,900**	**610,119,016**	**152,530**

21,970,048 ordinary shares were repurchased and cancelled during the year at a total cost of £62,232,000. Since the year end 4,781,000 ordinary shares have been repurchased at a total cost of £15,148,000.

19 Capital redemption reserve

	2010 £'000s	2009 £'000s
Transfer from share capital on repurchase of ordinary shares	**5,492**	11,733
Balance brought forward	**104,740**	93,007
Balance carried forward	**110,232**	104,740

Notes on the Accounts (continued)

20 Other reserves

	Capital reserve arising on investments sold £'000s	Capital reserve arising on investments held £'000s	Capital reserves – total £'000s	Revenue reserve £'000s
Gains and losses transferred in current year:				
Gains on investments sold (see note 11)	80,546	–	80,546	–
Gains on investments held (see note 11)	–	189,762	189,762	–
Exchange movement on currency balances	(3,179)	(1,969)	(5,148)	–
Management fees (see note 4)	(4,513)	–	(4,513)	–
Finance Costs (see note 7)	(7,102)	–	(7,102)	–
Other Capital Charges	(59)	–	(59)	–
Taxation (see Note 8)	(156)	–	(156)	–
Revenue return attributable to shareholders	–	–	–	34,654
Total gains and losses transferred in current year	65,537	187,793	253,330	34,654
Cost of ordinary shares repurchased in year	(62,232)	–	(62,232)	–
Dividends paid in year	–	–	–	(41,211)
Balance brought forward	1,216,027	362,273	1,578,300	117,407
Balance carried forward	**1,219,332**	**550,066**	**1,769,398**	**110,850**

Included within the capital reserve movement for the year is £51,000 (2009: £nil) of dividend receipts recognised as capital in nature. £2,239,000 of transaction costs on purchases of investments are included within the capital reserve movements disclosed above (2009: £1,908,000). £1,808,000 of transaction costs on sales of investments are similarly included (2009: £1,923,000).

21 Net asset value per ordinary share

	2010	2009
Net asset value per share (with debenture stocks at nominal value) – pence	**351.24**	309.84
Net assets attributable at end of period – £'000s	**2,143,010**	1,958,469
Ordinary shares of 25p in issue at end of year – number	**610,119,016**	632,089,064

Net asset value per share cum dividend (with debenture stocks at market value) was 346.11p (31 December 2009: 304.72p). The market value of debenture stocks at 31 December 2010 was £141,874,000 (31 December 2009: £142,943,000).

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

	2010 £'000s	2009 £'000s
Total return before finance costs and taxation	**304,428**	356,440
Adjust for returns from non-operating activities		
– Gains on investments held at fair value	**(270,308)**	(317,695)
– Exchange gains/losses of a capital nature	**5,148**	913
– Non-operating expenses of a capital nature	**59**	157
Return from operating activities	**39,327**	39,815
Adjust for non cash-flow items		
– Exchange gains and losses of a revenue nature	**(65)**	43
– (Increase)/decrease in accrued income	**(2,221)**	1,374
– Decrease/(increase) in prepayments	**11**	(157)
– Decrease in creditors	**(315)**	(242)
– Scrip dividends	**(58)**	(187)
– Overseas taxation	**(2,389)**	(2,384)
Net cash inflow from operating activities	**34,290**	38,262

23 Reconciliation of net cash movement to movement in net debt

	2010 £'000s	2009 £'000s
Net cash movement	**(66,713)**	(7,055)
Increase in loans	**(95,860)**	110,000
Change in net debt resulting from cash flows	**(162,573)**	102,945
Exchange movement	**(5,148)**	(913)
Movement in net debt in the year	**(167,721)**	102,032
Net debt brought forward	**(114,517)**	(216,549)
Net debt carried forward	**(282,238)**	(114,517)

	Balance at 1 January 2010 £'000s	Cash flow £'000s	Exchange Movement £'000s	Balance at 31 December 2010 £'000s
Represented by:				
Cash at bank/(overdraft)	(3,942)	(66,713)	1,243	(69,412)
Foreign currency loans	–	(95,860)	(6,391)	(102,251)
Debentures	(110,575)	–	–	(110,575)
	(114,517)	(162,573)	(5,148)	(282,238)

Notes on the Accounts (continued)

24 Contingencies and capital commitments

(a) Contingencies

At the year end the Company had guaranteed until September 2013 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) VAT legal case

A case has been brought against HMRC to seek recovery of VAT incurred on management fees paid in the period 1997 to 2000, together with interest on a compound basis. No VAT or related interest recovery has been accrued or recognised as a contingent asset as the outcome of the case is expected to remain uncertain for several years.

(c) Capital commitments

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

	2010 Currency	2009 Currency	2010 £'000s	2009 £'000s
HarbourVest Partners VII:				
– Buyout Partnership Fund LP	US$14.8m	US$20.7m	9,466	12,800
– Venture Partnership Fund LP	US$5.0m	US$6.8m	3,162	4,180
– Mezzanine Fund LP	US$1.5m	US$2.3m	958	1,412
Dover Street VI LP	US$9.7m	US$13.1m	6,174	8,124
Dover Street VII LP	US$39.4m	US$59.3m	25,149	36,691
HarbourVest Partners VI – Asia Pacific and Rest of World LP	US$8.4m	US$10.4m	5,349	6,425
HarbourVest Partners VIII:				
– Buyout Partnership Fund LP	US$29.3m	US$37.8m	18,682	23,408
– Venture Partnership Fund LP	US$16.4m	US$21.0m	10,475	13,004
HarbourVest Partners V – Direct Fund LP	€8.3m	€12.6m	7,069	11,162
HIPEP VI – Asia Pacific Fund LP	US$23.8m	US$24.6m	15,169	15,249
HIPEP VI – Emerging Markets Fund LP	US$24.5m	US$24.8m	15,648	15,327
Pantheon Europe Fund III LP	€22.4m	€22.4m	19,215	19,924
Pantheon Europe Fund V LP	€39.5m	€54.5m	33,846	48,423
Pantheon Asia Fund IV LP	US$18.0m	US$22.5m	11,497	13,933
Pantheon Asia Fund V LP	US$26.0m	US$33.0m	16,607	20,435
Pantheon Global Secondary Fund III LP	US$8.5m	US$15.5m	5,429	9,598
Esprit Capital Fund I LP	£0.7m	£0.8m	749	774
			204,644	260,869

25 Related Party Transactions

The following are considered related parties: The Board of Directors and F&C Management Limited ("F&C").

There are no transactions with the Board of Directors other than aggregated remuneration for services as Directors as disclosed in the Directors' Remuneration Report on pages 27 and 28, and as set out in notes 5 and 6 to the accounts. There are no outstanding balances with the Board at year end. Transactions between the Company and F&C are detailed in note 4 on management and performance fees; in note 11 where investments managed and advised by F&C are disclosed; and in note 15 in relation to fees owed to F&C at the Balance Sheet date.

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 Section 1158 of the Corporation Tax Act 2010. 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 public 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. 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's policies for managing these risks within the Company's objective include: risk diversification – no more than 5% of the portfolio may be invested in unlisted securities, excluding private equity investments, and no single investment may be made which exceeds 10% of the value of the portfolio at the time of acquisition; currency exposure borrowings are limited to amounts and currencies commensurate with the portfolio's exposure to those currencies; and gearing – borrowings including the debentures' value at market value – should not normally exceed 20% of shareholders' funds. The Board 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 ongoing 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. Debenture stocks were issued as part of the Company's planned gearing. All contracts and compliance with them, including the Debenture trust deeds, are agreed and monitored by the Board. Gearing may be short-term 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.

Currency Exposure

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

2010	Short-term debtors £'000s	Cash and deposits/ (overdrafts) £'000s	Debentures £'000s	Short-term unsecured loans £'000s	Short-term creditors £'000s	**Net monetary assets/ (liabilities) £'000s**	Investments £'000s	Net exposure £'000s
Sterling	3,812	(44,111)	(110,575)	(50,000)	(2,860)	**(203,734)**	869,247	665,513
US Dollar	2,047	(20,214)	–	–	(620)	**(18,787)**	695,811	677,024
Euro	551	(6,000)	–	–	–	**(5,449)**	329,852	324,403
Yen	43	684	–	(52,251)	–	**(51,524)**	115,912	64,388
Other	(10)	229	–	–	–	**219**	411,463	411,682
Total	**6,443**	**(69,412)**	**(110,575)**	**(102,251)**	**(3,480)**	**(279,275)**	**2,422,285**	**2,143,010**

Notes on the Accounts (continued)

26 Financial Risk Management (continued)

2009	Short-term debtors £'000s	Cash and deposits/ (overdrafts) £'000s	Debentures £'000s	Short-term unsecured loans £'000s	Short-term creditors £'000s	Net monetary assets/ (liabilities) £'000s	Investments £'000s	Net exposure £'000s
Sterling	2,830	(12,904)	(110,575)	–	(2,274)	(122,923)	770,684	647,761
US Dollar	625	5,034	–	–	(492)	5,167	645,478	650,645
Euro	144	1,307	–	–	(450)	1,001	263,594	264,595
Yen	74	574	–	–	–	648	98,766	99,414
Other	92	2,047	–	–	(1,680)	459	295,595	296,054
Total	3,765	(3,942)	(110,575)	–	(4,896)	(115,648)	2,074,117	1,958,469

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:

	2010	Average	2009
US Dollar	**1.5657**	1.5490	1.6149
Euro	**1.16705**	1.1655	1.12550
Yen	**126.9821**	136.1401	150.3345

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:

Weakening of Sterling	**US$ £'000s**	**€ £'000s**	**2010 ¥ £'000s**	US$ £'000s	€ £'000s	2009 ¥ £'000s
Income Statement Return after tax						
Revenue Return	**819**	**182**	**26**	708	401	219
Capital Return	**67,575**	**32,986**	**11,660**	65,030	26,445	9,934
Total Return	**68,394**	**33,168**	**11,686**	65,738	26,846	10,153
NAV per share – pence	**11.21**	**5.44**	**1.92**	10.40	4.25	1.61

Strengthening of Sterling	**US$ £'000s**	**€ £'000s**	**2010 ¥ £'000s**	US$ £'000s	€ £'000s	2009 ¥ £'000s
Income Statement Return after tax						
Revenue Return	**(819)**	**(182)**	**(26)**	(708)	(401)	(219)
Capital Return	**(67,575)**	**(32,986)**	**(11,660)**	(65,030)	(26,445)	(9,934)
Total Return	**(68,394)**	**(33,168)**	**(11,686)**	(65,738)	(26,846)	(10,153)
NAV per share – pence	**(11.21)**	**(5.44)**	**(1.92)**	(10.40)	(4.25)	(1.61)

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.

26 Financial Risk Management (continued)

Interest Rate exposure

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

	Within one year £'000s	More than one year £'000s	2010 Total £'000s	Within one year £'000s	More than one year £'000s	2009 Total £'000s
Exposure to floating rates						
Cash	–	–	–	–	–	–
Borrowings	–	–	–	–	–	–
Overdrafts	(69,412)	–	(69,412)	(3,942)	–	(3,942)
Exposure to fixed rates						
Cash	–	–	–	–	–	–
Debentures	–	(110,575)	(110,575)	–	(110,575)	(110,575)
Other borrowings	(102,251)	–	(102,251)	–	–	–
Net exposures						
At year end	(171,663)	(110,575)	(282,238)	(3,942)	(110,575)	(114,517)
Maximum in year	(171,663)	(110,575)	(282,238)	(105,974)	(110,575)	(216,549)
Minimum in year	(26,049)	(110,575)	(136,624)	62,529	(110,575)	(48,046)

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

Interest received on cash balances, or paid on bank 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 the following approximate effects on the Income Statement revenue and capital returns after tax and on the NAV:

	Increase in rate £'000s	2010 Decrease in rate £'000s	Increase in rate £'000s	2009 Decrease in rate £'000s
Revenue return	(1,388)	1,388	(79)	79
Capital return	–	–	–	–
Total return	(1,388)	1,388	(79)	79
NAV per share – pence	(0.23)	0.23	(0.01)	0.01

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 £2,422,285,000 at 31 December 2010 (2009: £2,074,117,000), 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 net capital return attributable to equity shareholders and on the NAV:

Notes on the Accounts (continued)

26 Financial Risk Management (continued)

	Increase in value £'000s	2010 Decrease in value £'000s	Increase in value £'000s	2009 Decrease in value £'000s
Income statement capital return	**484,457**	**(484,457)**	414,823	(414,823)
NAV per share – pence	**79.40**	**(79.40)**	65.63	(65.63)

(b) Liquidity risk exposure

The Company is required to raise funds to meet commitments associated with financial instruments, private equity investments and share buybacks. 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 (over 540 at 31 December 2010); the liquid nature of the portfolio of investments; the industrial and geographical diversity of the portfolio (see note 16); and the existence of ongoing overdraft and loan facility agreements. Cash balances are held with approved 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 £100m 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.

At 31 December 2010 the Company had £205 million outstanding commitments to private equity investments, payable over more than one year (see note 24(c)).

The remaining contractual maturities of the financial liabilities at each balance sheet date, 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
2010				
Current liabilities				
Overdrafts	69,412	–	–	69,412
Other borrowings	102,251	–	–	102,251
Other creditors	3,480	–	–	3,480
Long-term liabilities				
Debentures	–	–	110,575	110,575
	175,143	**–**	**110,575**	**285,718**
2009				
Current liabilities				
Overdrafts	3,942	–	–	3,942
Other borrowings	–	–	–	–
Other creditors	4,896	–	–	4,896
Long-term liabilities				
Debentures	–	–	110,575	110,575
	8,838	–	110,575	119,413

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 the basis of delivery against payment (except where local market conditions do not permit).

A list of pre-approved counterparties is maintained by the Manager and regularly reviewed by the Board. Broker 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. Cash and deposits are held with approved banks.

The Company has an ongoing contract with the Custodian for the provision of custody services. The contract was reviewed and updated in 2010. Details of securities held in custody on behalf of the Company are received and reconciled monthly.

The Company has a separate agreement with the Custodian, covering stock lending arrangements. Details of stocks on loan and collateral held, and the income derived from stock lending activities, are received and reviewed regularly for compliance with rules set out in the agreement (see note 11).

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 the management of F&C (including the Fund Manager) and with F&C's Internal Audit function. In reaching its conclusions, the Board also reviews F&C's parent group's annual Audit and Assurance Faculty Report, Group Accounts and other public information indicative of its financial position and performance.

The Company had no credit-rated bonds in its portfolio at the year end (2009: none) and does not normally invest in them. None of the Company's financial assets are past their due date 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 the debentures which are carried at par value in accordance with Accounting Standards. The fair value of the debentures, derived from their quoted market price at 31 December 2010, was £141,874,000 (2009: £142,943,000). Borrowings under overdraft and 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 exchange rates ruling at each valuation date.

The fair value of investments quoted on active markets is determined directly by reference to published price quotations in these markets.

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 underlying managers provide regular valuations to the Directors, based on the latest information available to the managers and not necessarily co-terminous with the reporting dates of the Company. The Directors review the valuations for consistency 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, 15 and 17 on the accounts

27 Post Balance Sheet Movement in Net Assets

The NAV per share (debt at par) on 3 March 2011 was 354.34p (31 December 2010: 351.24p)

Ten Year Record

All data is based on assets, liabilities, earnings and expenses as reported in accordance with the Company's accounting policies.

Assets

at 31 December

£m	2000	2001	2002	2003*	2004*	2005	2006	2007	2008	2009	2010
Total assets less current liabilities (excl loans)	3,137	2,573	1,915	2,259	2,346	2,527	2,587	2,694	2,003	2,069	**2,425**
Prior changes	208	218	218	201	215	111	179	203	221	111	**282**
Available for ordinary shares	2,929	2,355	1,697	2,058	2,131	2,416	2,408	2,491	1,782	1,958	**2,143**

Net Asset Value

at 31 December

pence	2000	2001	2002	2003*	2004*	2005	2006	2007	2008	2009	2010
NAV per share	296.9	248.1	178.9	216.9	233.4	291.8	321.1	363.5	262.5	309.8	**351.2**
NAV return on 100p – 5 years†											**133.0**
NAV return on 100p – 10 years†											**141.2**

† Source: Morningstar UK Limited.

Share Price

at 31 December

pence	2000	2001	2002	2003*	2004*	2005	2006	2007	2008	2009	2010
Mid-market price per share	267.5	221.5	163.0	188.5	194.5	258.5	284.5	318.8	228.5	272.1	**309.6**
Share price High	288.5	272.5	235.0	191.8	196.0	259.0	287.5	326.3	319.0	275.3	**311.0**
Share price Low	229.8	180.5	150.0	141.0	163.0	188.0	240.0	273.0	209.0	185.8	**251.4**
Share price total return on 100p – 5 years†											**133.9**
Share price total return on 100p – 10 years†											**142.8**

† Source: Morningstar UK Limited.

Revenue

for the year ended 31 December

	2000	2001	2002	2003*	2004*	2005	2006	2007	2008	2009	2010
Available for ordinary shares – £'000s	37,542	38,294	38,758	40,893	42,293	49,122	48,197	45,909	46,989	35,609	**34,654**
Earnings per share – pence	3.76	4.03	4.08	4.31	4.54	5.57	6.16	6.40	6.90	5.31	**5.61**
Dividends per share – pence	3.10	3.30	3.50	3.70	4.20	4.75	5.30	5.85	6.45	6.65	**6.75**

Performance

(rebased at 31 December 2000)

	2000	2001	2002	2003*	2004*	2005	2006	2007	2008	2009	2010
NAV per share	100.0	83.6	60.3	73.1	78.6	98.3	108.2	122.4	88.4	104.3	**118.3**
Mid-market price per share	100.0	82.8	60.9	70.5	72.7	96.6	106.4	119.2	85.4	101.7	**115.7**
Revenue return per share	100.0	107.2	108.5	114.6	120.7	148.1	163.8	170.2	183.5	141.2	**149.2**
Dividends per share	100.0	106.5	112.9	119.4	135.5	153.2	171.0	188.7	208.1	214.5	**217.7**
RPI	100.0	101.8	103.5	106.5	109.6	112.7	116.3	121.3	126.1	125.5	**131.3**

* Restated for changes in accounting policies.

Cost of running the Company

for the year ended 31 December

%	2000	2001	2002	2003*	2004*	2005	2006	2007	2008†	2009†	2010
Expressed as a percentage of average total assets											
Management fees	0.25	0.32	0.38	0.36	0.30	0.30	0.32	0.36	0.42	0.37	**0.38**
Management fees and performance fees	0.25	0.32	0.38	0.36	0.30	0.37	0.39	0.59	0.44	0.37	**0.38**
Total operating costs	0.43	0.52	0.56	0.58	0.50	0.53	0.53	0.71	0.58	0.58	**0.54**
Expressed as a percentage of average net assets											
Management fees	0.26	0.35	0.42	0.40	0.33	0.31	0.35	0.38	0.46	0.41	**0.42**
Management fees and performance fees	0.26	0.35	0.42	0.40	0.33	0.40	0.42	0.63	0.49	0.41	**0.42**
Total operating costs	0.46	0.57	0.63	0.64	0.55	0.57	0.58	0.76	0.64	0.63	**0.59**

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

Gearing

at 31 December

%	2000	2001	2002	2003*	2004*	2005	2006	2007	2008	2009	2010
Effective gearing	4.6	5.7	8.1	8.3	7.6	4.4	7.0	7.0	12.2	6.0	**13.2**
Fully invested gearing	7.1	9.3	12.8	9.8	10.1	4.6	7.4	8.1	14.8	5.9	**13.2**

* restated for changes in accounting policies

Definitions

Prior charges	All debentures (at par value), loans and overdrafts, used for investment purposes.
Management and performance fees	All directly incurred management fees and performance fees charged to revenue and capital.
Operating costs	All directly incurred 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.
Share price total return	Return to the investor on mid-market prices assuming that all dividends received were reinvested.
AIC	Association of Investment Companies.

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 can obtain share prices from leading newspapers in that country.

Performance information

Information on the Company's performance is provided in the half-yearly and final reports which are sent to shareholders in August and March respectively and in the interim management statement announcements. 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 £10,100 in the tax year ended 5 April 2011 without incurring any tax liability.

The rate of CGT of 18% will apply where taxable income and gains do not exceed the income tax higher rate threshold (£37,400 in 2010/11 tax year). The higher rate of 28% will apply to those whose income and gains exceed this figure.

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

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

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

Income tax

The final dividend of 3.75 pence per share is payable on 9 May 2011. 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

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Warning to shareholders – Boiler Room Scams

In recent years, many companies have become aware that their shareholders have been targeted by unauthorised overseas-based brokers selling what turn out to be non-existent or high risk shares, or expressing a wish to buy their shares. If you receive unsolicited investment advice or requests:

- Make sure you get the correct name of the person or organisation
- Check that they are properly authorised by the FSA before getting involved by visiting **www.fsa.gov.uk/pages/register/**
- Report the matter to the FSA by calling **0845 606 1234**
- If the calls persist, hang up.

More detailed information on this can be found on the CFEB website **www.moneymadeclear.fsa.gov.uk**

How to Invest

As well as investing in Foreign & Colonial Investment Trust PLC directly through a stockbroker, there are some additional benefits of investing through one of the savings plans run by F&C Management Limited ("**F&C**").

You can enjoy the convenience of making regular savings by Direct Debit, take advantage of our tax-efficient ISA wrapper, receive a simple statement every six months and let us automatically reinvest your dividends for you. You can also choose to phase in a lump sum investment, meaning that your money is invested in equal amounts over a three or six month period.

F&C Private Investor Plan

A flexible, low cost way to invest with a lump sum from £500 or regular savings from £50 a month. You can also make additional lump sum top-ups at anytime from £250.

F&C Investment Trust ISA

Use your ISA allowance to invest up to £10,200 (increasing to £10,680 for the 2011/12 tax year) tax efficiently each year with a lump sum from £500 or regular savings from £50 a month. You can also make additional lump sum top-ups at anytime from £250 and transfer any existing ISAs to us whilst maintaining all the tax benefits.

F&C Child Trust Fund ("CTF")

F&C is a leading provider of CTFs which can be opened for all children born between 1 September 2002 and 31 December 2010, using the government's CTF voucher. The maximum that can be invested annually is £1,200 and depending on the type of CTF opened, investments can start from as little as £10 a month.

F&C Children's Investment Plan

Aimed at older children ineligible for a CTF, or if you need access to the funds before the child is 18. This flexible plan can easily be written under trust to help reduce inheritance tax liability. Investments can be made from a £250 lump sum or £25 a month. You can also make additional lump sum top-ups at anytime from £100.

Potential investors are reminded that the value of investments and the income from them may go down as well as up and you may not receive back the full amount originally invested. Tax rates and reliefs depend on the circumstances of the individual.

Low Charges

All the plans are low cost and flexible. When you buy or sell shares in these plans the dealing fee is only 0.2 percent. Government stamp duty of 0.5 percent also applies on purchases (where applicable). There are no initial or exit charges. The only annual management fee is on the ISA, which is £60+VAT (no matter how many ISAs you take out annually with F&C, or how many ISAs you transfer). The CTF has no initial charges, dealing charges or annual management fee.

How to Invest

You can invest in all our savings plans online, except for the CTF. It's simple to register and invest using your debit card. Alternatively, please contact us for application forms.

New Customers:

Contact our Investor Services Team

Call: **0800 136 420**

Email: **info@fandc.com**

Investing online: **www.fandc.com**

Existing Plan Holders:

Contact our Investor Services Team

Call: **0845 600 3030**

Email: **investor.enquiries@fandc.com**

By post: F&C Plan Administration Centre
Block C, Western House
Lynch Wood Business Park
Peterborough, PE2 6BP

Calls may be recorded.

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.

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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: 0800 923 1506 Fax: 0870 703 6143

www.computershare.com

web.queries@computershare.co.uk

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