F&C Global Smaller Companies PLC

Report and Accounts

2007

Objective

The objective of F&C Global Smaller Companies PLC is to secure a high total return by investing in smaller companies worldwide.

About your Company

At F&C Global Smaller Companies, we invest around the globe in markets, sectors and companies that we believe will generate long-term growth in capital and income.

We help to reduce the risk of stockmarket investment by spreading your investment over a wide range of stocks.

The low-cost savings plans available through F&C Management Limited allow us to offer investment opportunities to as many people as possible.

Why Global Smaller Companies?

We believe that global smaller companies offer the opportunity to benefit from the superior potential of fast-growing businesses – the chance to participate in economic growth from the ground floor.

We offer particular strengths that flow from:

- Size: Net assets of £240 million enable us to take rapid advantage of investment opportunities.
- Spread: We invest in over 220 companies in 18 countries.
- Global reach: Investing in smaller companies worldwide, we have the scope to take advantage of opportunities wherever they are.
- Expertise: F&C's investment team possesses extensive experience in researching smaller company investments.

Why an investment trust?

As an investment trust, F&C Global Smaller Companies offers a number of advantages over other kinds of savings. For example:

- The flexibility to invest in a wide range of companies.
- The ability to take a long-term view and ride out difficult conditions.
- The freedom to borrow money to invest for our shareholders.
- The ability to enhance net asset value per share by buying back our own shares.
- Low charges to investors, typically well below those for comparable unit trusts.
- No capital gains tax is charged on transactions within the portfolio.
- Management of the portfolio is not complicated by regular redemptions and subscriptions.

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.

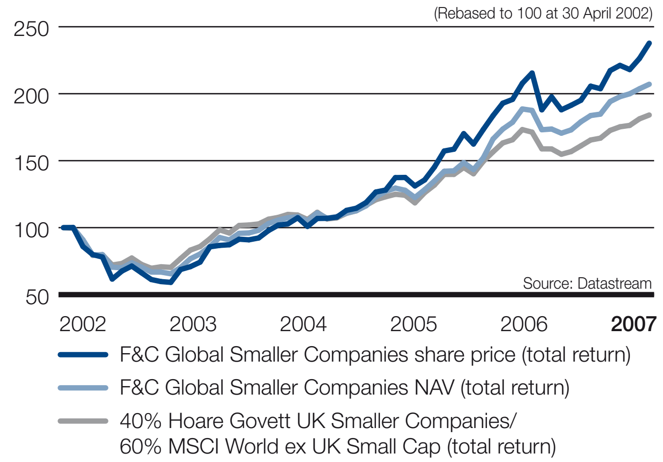
Financial Highlights

Summary of Results

Attributable to equity shareholders	**30 April 2007**	30 April 2006	% Change
Share price	**473.25p**	435.00p	+8.8
Net asset value per share (debenture at nominal value)	**512.21p**	470.83p	+8.8
Net asset value per share (debenture at market value)	**505.14p**	463.47p	+9.0

	Year ended 30 April 2007	Year ended 30 April 2006	% Change
Revenue return per share	**4.75p**	4.54p	+4.6
Ordinary dividends per share	**4.69p**	4.53p	+3.5
Special dividend per share	**–**	1.00p	
Total expense ratio (based on average net assets)	**0.99%**	0.69%	

Net asset value and share price performance vs Benchmark over five years



Contents

Financial Calendar

AGM	**30 July 2007**
Final dividend payable	**6 August 2007**
Interim results for 2008 announced	**December 2007**
Interim dividend payable	**January 2008**
Final results for 2008 announced	**June 2008**

Registered in England with Company Registration No. 28264

Chairman's Statement

Gerry Grimstone Chairman

I am pleased to report that your Company has made further progress in the year under review. Both the share price and the net asset value ("**NAV**") per share ended the year at record levels, having recovered the slight falls reported at the half year. Shareholders have again seen the value of their investment rise by a faster rate than the Benchmark.

Over the year, the share price rose 8.8%, while the NAV per share total return was 10.4%. The Benchmark total return was 7.5%. The chart on the previous page shows how we have performed over the last five years in terms of both the share price and NAV.

The good performance record has been recognised by the Money Observer magazine naming F&C Global Smaller Companies as the "Best Global Trust" in its 2007 awards. This is based on performance for the 2004 to 2006 period, and was won against competition from all other global investment trusts, which marks a real achievement. My congratulations go to our Manager, Peter Ewins, and all the team involved at F&C Management Limited ("**F&C**").

Dividends

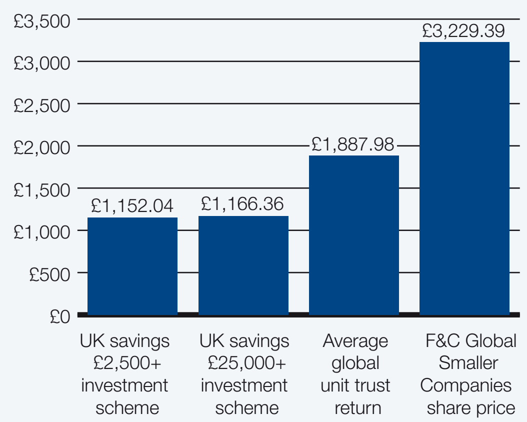
Once more, good dividends earned from our investment portfolio provided a sound base for the Company's own dividend payment, and the Board is recommending a final dividend of 3.16p. This is a 3.9% rise on the final dividend of last year, making a total dividend of 4.69p for the year. Stripping out the effect of last year's 1.00p special dividend, this means that the payment for the year is up 3.5%, making this the 37th year of underlying dividend increases.

Performance and the Benchmark

The Company's stated benchmark (the "**Benchmark**") is a blended index of the returns from the Hoare Govett UK Smaller Companies Index ("**HGSC**") (40%) and the MSCI World ex UK Small Cap Index (60%), with the proportions approximately reflecting the balance of the portfolio between the UK and the rest of the world. The Benchmark is not perfect but our performance against it does provide a good yardstick as to how we are doing in relative terms. In addition, we measure the performance of the regional sub-portfolios against appropriate smaller company indices to ensure that all parts of the portfolio are closely monitored.

Shareholders will remember that last year we introduced a performance fee if F&C outperformed the Benchmark and, at the same time, we reduced the base fee to 0.4% of net assets.[1] The good performance

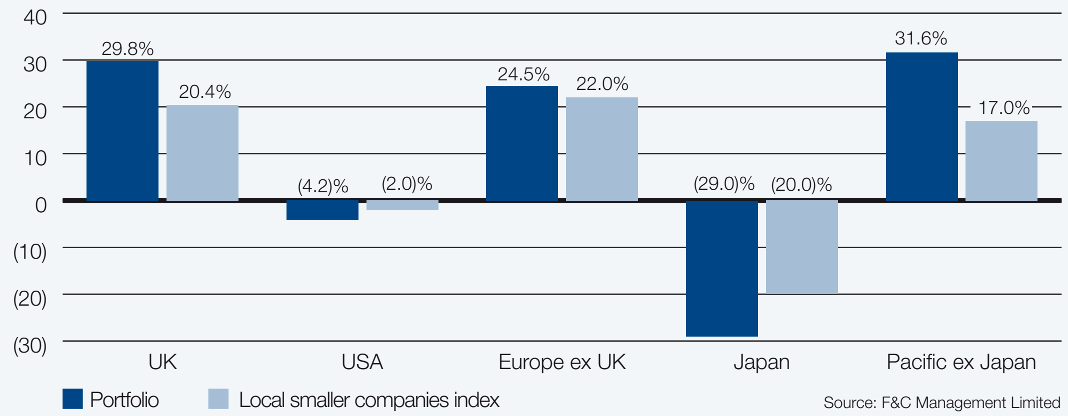
Value of £1,000 with net income reinvested over 10 years



Source: Datastream/Standard and Poor's

1 Investments in third party collective investment schemes on strategic grounds are subject to a fee of 0.25%.

Geographical performance (total return) for the year ended 30 April 2007



Source: F&C Management Limited

this year means that we will be paying out £566,000 in performance fees which more than offsets the £287,000 reduction in the base management fee. Our total expense ratio for the year was 0.99%, including the performance fee, which I am pleased to say continues to remain low compared to other investment vehicles.

One of the Board's responsibilities is to monitor the Benchmark to ensure that it remains the most appropriate way to measure the Manager's performance. One development that we are keeping under review is the growing role of the Alternative Investment Market ("**AIM**") in the context of the UK market and our UK portfolio. It may therefore at some point be appropriate to change the UK part of the benchmark to incorporate AIM stocks, as these are not included in the HGSC. As it happens, in the past year, the Manager's performance would have looked better still had the Benchmark included AIM stocks. No change will, of course, be made unless we feel that it is in the interests of shareholders.

As a smaller company trust, stock selection is the prime determinant of our success or failure. In the year we benefited from good stock-picking in the UK and Europe. The Manager has consistently delivered strong performance in the UK market in recent years, which is important as this remains the largest part of the portfolio. The Asian portfolio also enjoyed a good first year under the new approach focusing on collective investment vehicles.

Importantly we also derived a positive contribution from asset allocation decisions. We benefited from the strength of the UK market in comparison to the other world markets as we were overweight for almost the entire period. We were also overweight throughout the year in Continental Europe and underweight for the full year in the US, which again proved to be the correct calls given the widely different returns from these markets

Gearing on the portfolio produced a marginal benefit over the year. Share buybacks, which I discuss further on page 4, also helped the reported NAV growth.

Markets

After weakness in the spring and early summer of 2006, equity markets regained their momentum as the year progressed, though we did not see the consistent outperformance from smaller market capitalisation stocks that we have had in recent years. Interest rates rose across most of the world over the year, which held back enthusiasm. Inflation has moved up meaningfully in the UK and US in particular, with most commodity prices remaining very high by historic standards.

Once again, China and other Asian countries have led the field in terms of economic growth, but a pick-up has also been noticeable in mainland Europe. The UK's growth remained robust. We expected the US economy to slow during the year in the face of rising interest rates, and this did occur with housing market-related businesses being

Chairman's Statement (continued)

particularly affected. This was not likely to be helpful for US based smaller companies, and, as already mentioned, we therefore favoured other regions in our asset allocation. Japan's economy was stronger in 2006 with signs of a pick-up on the consumer side of the economy, and property prices rose, although, against our expectations, this did not feed through to the stock market.

With corporate confidence, liquidity, and stock-markets high, we have seen a jump in mergers and acquisitions ("**M&A**") activity affecting both large and small companies. This has sometimes involved private equity firms which can spot value that has been ignored by the public market-place. In the present benign environment, they have been able to take advantage of high levels of leverage. This has propelled valuations higher across a range of sectors and we have benefited from this.

Returns from different parts of the world diverged sharply. Japan proved a particular disappointment to us in the year, with sentiment towards small caps weak, and stocks were de-rated in contrast to elsewhere in the world. We have however added to our exposure, although this has yet to pay off given the underlying weakness of the market, relative underperformance of our portfolio, and the impact of a weak yen.

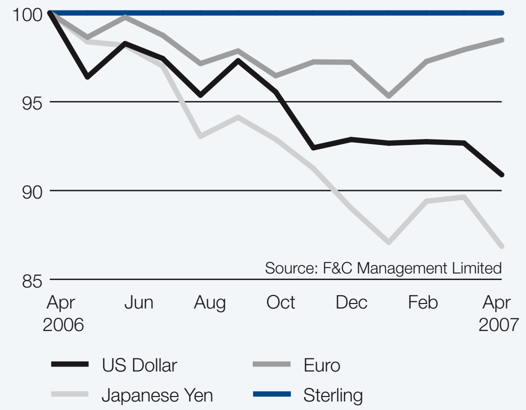
Currencies

The differences in regional performance partly reflect the dramatic shifts that we have seen in the currency markets during the year as shown in the chart on the right.

With all parts of the portfolio valued in sterling in the NAV calculation, currency movements have a direct impact on the reported value of our overseas portfolios. When sterling is strong, our international portfolios are worth less when translated to sterling values. In the year under review sterling was stronger against all the major currencies, most notably versus the yen. All of the regional managers involved in the management of the portfolio constantly consider how currency movements will affect the underlying business of investee companies.

The Board reviews the foreign exchange outlook periodically and this affects both our asset allocations and our borrowing strategy. As a matter of policy, we do not attempt to hedge the portfolio against currency movements although we take the occasional tactical decision to borrow or deposit in foreign currencies where the Manager and Board consider it appropriate. Shareholders should therefore be aware that the portfolio can be affected by currency movements and that in the last year this did hold back NAV growth.

Currency movements in the year ended 30 April 2007



The discount, share buybacks and treasury shares

At the end of April 2007, the discount stood at 6.3% with the debenture at market value, compared to 6.1% at the end of the prior year and 8.0% at the half way stage.

Shareholders may recall that at the time of the Tender Offer in 2005, the Board committed to keeping the discount (with the NAV excluding current period income and the debenture at market value) close to 5% in normal market conditions. This is still our objective. The market mechanism by which the Board does this is through share buybacks and we have no hesitation in buying shares back and cancelling them when there is no ready buyer in the market place. Indeed, during the year we bought back shares on 29 separate occasions equating to 3.3% of the Company's share capital at the beginning of the year.

At the annual general meeting ("**AGM**") we will again seek shareholder approval to buy back up to 14.99% of the issued share capital and additionally the power to hold shares bought back in Treasury. Any shares that are held in Treasury will only be re-issued at a premium to NAV, thereby ensuring that re-issue will lead to NAV accretion.

A chart showing how the discount has moved over the last five years is shown below, highlighting that the trend has been towards a narrowing of the discount. Encouragingly, the discount is considerably narrower than both the five year average and the discount on the average UK smaller company investment trust.

Discount (debenture at market value) for the five years ended 30 April 2007

It is important that there is an ongoing demand for shares in the market-place. To this end, the Board and F&C have proactively committed funds to two direct marketing campaigns involving targeted mailings to potential new investors through the F&C plans. We were also keen to capitalise on the good publicity from winning the Money Observer award mentioned above, and have recently been advertising the merits of investing in the Company's shares on a number of well known financial market websites.

F&C's range of investment trust savings schemes have had a successful year in generating new demand, with the Child Trust Fund being particularly notable in this regard. Your Company has received a net £1.5m from the schemes over the year, with the number of shareholders rising by more than 5,000. Approximately three-quarters of the Company's shares are now held by private individuals directly or indirectly via private client brokers.

Business review

Pages 22 to 27 set out a detailed business review which will allow you to see how your Company has been managed during the last year. The Board keeps the Manager's performance in each regional area under review and, although we do not interfere in stock-picking, we question and challenge their judgements. This ensures that the Manager is under pressure to produce good returns on a global basis.

Shareholders will recall that last year, in order to improve risk diversification, we switched from direct investment in individual Asian smaller companies to investing in carefully chosen collective schemes. This process has proceeded to plan, and the new funds are shown within the overall portfolio on page 18. Early results of the change in approach are encouraging. The Board remains open-minded about the use of collective vehicles and will not hesitate to use them to generate better performance in a particular region whenever it feels this is justified.

The Board

This will be my last Statement to you as Chairman of your Company as, due to the pressure of other commitments, I will be stepping down from the Chair and the Board immediately after the AGM to be succeeded as Chairman by Anthony Townsend, who has been on the Board since 2004. Anthony is a former chairman of the Association of Investment Companies and brings a wealth of expertise to the role. I am sure that the Company will continue to prosper under his Chairmanship. I took over as your Chairman in 2004 and the last three years have not been without excitement. It has been very pleasing to see how well the Company has done under the management of Peter Ewins and I believe that we are in good shape going forward.

Dr Bruce Farmer has also decided to retire from the Board after the AGM having reached the age of 70. Bruce has been on the Board since 1999 and is our Senior Independent Director and Chairman of the Audit Committee. No-one could have been more conscientious than Bruce in fulfilling his duties and he has always been a source of great wisdom to the Board and myself. Dr Franz Leibenfrost will take over as Senior Independent Director and Les Cullen will take over as Chairman of the Audit Committee on Bruce's retirement.

I am pleased to announce that two new Directors will be joining the Board from the conclusion of the AGM

Chairman's Statement (continued)

on 30 July 2007. They are Andrew Adcock, who is vice chairman of Citigroup Corporate Broking with more than 30 years of City experience, and Mark White, a very experienced fund manager who was joint head of JPMorgan Asset Management in Europe. Both are very strong and capable individuals and I commend them to you. All boards need to evolve over a period of time and I believe that your Board will continue to be one of the strongest in the investment trust sector.

Electronic Communication

We are proposing resolutions at the AGM which will, if passed, allow for the use of communications with shareholders in electronic form and via the F&C website. We expect these new communication arrangements to begin next year. We will write to all shareholders in due course to allow you to elect to continue to receive hard copies of documents in future.

Outlook

Market valuations continue to look high by historic standards. On an aggregated basis, smaller companies in a number of markets are rated more highly than larger stocks and it is therefore easy to view the future with a degree of caution.

However, the surge in M&A activity implies that confidence among the corporate community remains high. Interestingly, we are seeing an increasing number of companies from emerging markets, such as China, Russia and India, actively looking to acquire companies in developed markets. Private equity funds still have vast amounts of capital to invest in buyout deals. Corporate profits are still tending to surprise on the upside.

While smaller stocks as a whole may be looking relatively more expensive than in recent years, the attraction of the mandate is the range of investment opportunities open to the Manager. Our current performance gives me confidence that we can continue to generate above average returns for our growing list of shareholders.

Gerry Grimstone
Chairman
June 2007

Manager's Review

When we look back on the last few years, it is apparent that we have had nearly ideal conditions for stock markets. Economic growth has been strong almost everywhere, company profits have responded to this, and yet inflation has remained low in most places. This was, however, a more testing year in the markets with interest rates rising across much of the world, and smaller companies were unable to repeat their marked outperformance of 2005/6. High commodity prices were again a feature, creating volatility at times and reducing the appetite for smaller stocks. Nevertheless the end result is that the net asset value ("**NAV**") total return of 10.4% surpassed the Benchmark's rise of 7.5%.

The year under review highlights how important it is to get asset allocation right. Fortunately we were overweight in the UK for much of the year, and stock selection was good in this market. Being underweight in the US was the other most significant asset allocation decision, and this also helped. Not all went to plan however; for example, our decision to put more into Japan where negative sentiment towards small caps undermined returns. We remain hopeful that this will pay off in the next year.

The UK market strength was somewhat surprising but the UK small cap universe includes a large number of established and attractive companies, which have been well placed to gain from the strength of the wider world economy. It also is true to say that mergers and acquisitions ("**M&A**") activity was more widespread in the UK, which also drove valuations higher. We decided to go overweight early in the year mainly because we were finding some interesting new investments in the UK.

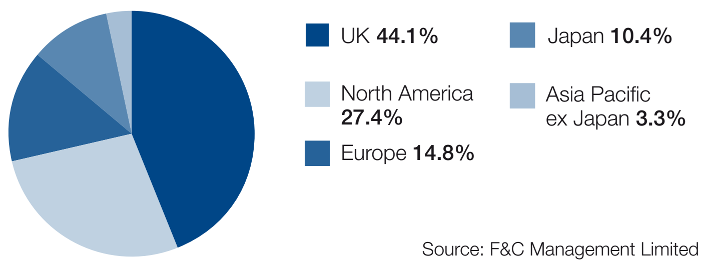
An important development in 2006 was the recovery in Germany, Europe's largest economy. We were overweight in Europe, and benefited, but we have become more cautious on valuations here recently and therefore scaled back exposure. While growth did slow in the US, this did not appear to impact economies elsewhere to a meaningful degree, implying that the world economy is now less US dependent, which is a healthy development. Earnings growth in the US was more patchy than elsewhere reflecting the slowdown.

With each year that passes, so the impact of China on an increasing number of companies around the world continues to grow. Our main exposure to China comes indirectly through companies elsewhere in the world. For example, UK based Aveva Group, the Company's largest investment, is a play on Chinese and wider Far Eastern growth, as the software and services it provides are increasingly being used by companies operating there in the ship-building, power and oil and gas industries.

A year ago we announced that our approach to obtaining direct exposure to the Far East region was to change, away from individual company holdings, to investing in collective funds. This process has proceeded to plan and the returns from the region were encouraging.

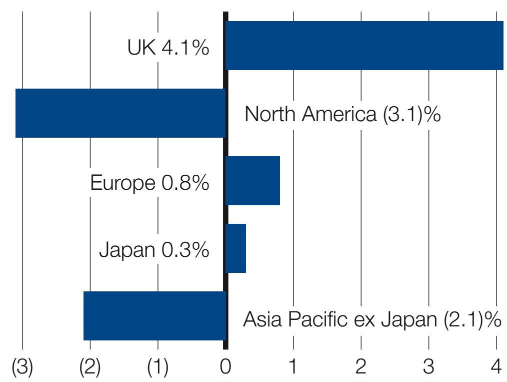
Gearing was not used aggressively during the year, ending the year at 2.7% and at present we do not envisage this changing given the amount by which markets have risen in recent years. Nevertheless, it is a valuable tool at our disposal should there be an unjustified market set-back.

Geographical distribution of the investment portfolio as at 30 April 2007



Source: F&C Management Limited

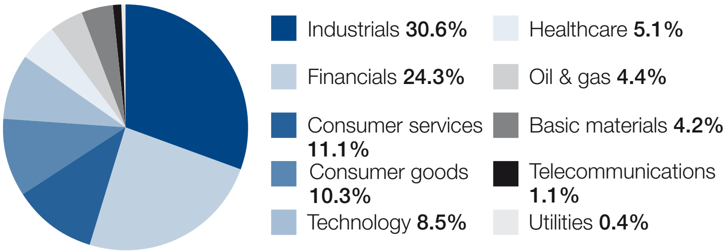
Geographical weightings against Benchmark as at 30 April 2007



Source: F&C Management Limited and MSCI

Manager's Review (continued)

Industrial classification of the investment portfolio as at 30 April 2007



Source: F&C Management Limited

Regional reviews on the following pages outline where we got it right and wrong at the individual stock level. I will not dwell on the issue of currencies, already covered by the Chairman, but sterling has been far stronger than we expected a year ago, and we must be ready for a change in this situation at some point. Finally it is worth pointing out that, as usual, the portfolio remains well spread from a sector point of view.

UK

UK smaller companies, as represented by the Hoare Govett UK Smaller Companies Index, outperformed the FTSE All-Share Index for the fifth consecutive year, with the total returns from these indices being 20.4% and 12.7% respectively. Our UK portfolio beat both, returning 29.8%.

Aveva is benefiting from strength in the ship-building market.

The UK economic background was one of relatively stable growth. Consumer spending and the housing market were stronger than might have been expected given the higher interest rates.

The undoubted star performer of the year was Aveva Group, up 117.9% as its profits trounced expectations. Several other stocks more than doubled including Antrim Energy, which struck oil in the North Sea, Spice Group, which continues to win new utility company service contracts, and UK Coal, which is moving ahead with extensive property development plans.

Industrial companies performed well, and our overweight stance in this area paid off. The share price of Hill and Smith rose by 38.7%. This relatively unknown company supplies infrastructure products such as traffic signs and road barriers, and is one of the UK's largest galvanisers. Since our initial investment in 2003, the shares of countermeasures and defence business Chemring have risen more than six-fold benefiting from successful product innovation, acquisitions and high demand for its products. Hamworthy, whose main business is fluid transfer systems for ships, is now up more than 400% on its IPO price from 2004. Another new winner was Senior Group which is benefiting from strong demand for its aerospace products. The common theme is good management teams, which have established strong positions in attractive market niches.

In the financial sector Shore Capital rose as strong stock markets and innovative new product launches enabled its profits to surge by nearly 60% in 2006. City of London Investment Group, a specialist fund manager focusing on emerging markets funds, is growing its funds under management impressively and the shares rose by 40.3%.

Takeover bids were received for seven holdings over the year. Most notable were the bids for property fund manager Teesland, biotech company NeuTec Pharma, housebuilder Crest Nicholson and restaurant company La Tasca. While we bought these companies for fundamental reasons, and were confident in their long-term potential, the takeovers allowed us to exit at attractive valuations.

Not all went to plan as ever, with the media sector proving problematic. Our investment in what we felt was a recovery play, Sanctuary, the music and entertainment business, proved hugely disappointing. Mobile content provider Monstermob, online advertising business Burst Media and Harry Potter publisher Bloomsbury also missed targets by a long way. Outside of the media sector, one of the most disappointing performers of the year was Inter Link Foods, the cake company, which issued a series of profit warnings. While we do not always sell out on bad news, in all the above cases we have not been confident enough in management's ability to turn things round, and we have therefore felt it best to cut our losses.

One other part of the portfolio worthy of comment is the property sector. This has been strong for some time as values have risen on the back of low interest rates and high institutional demand for real estate assets. Property yields have fallen substantially and there is a risk that some property values could now be vulnerable. Within the portfolio we have switched the focus more towards companies offering exposure to European properties where the upside appears better, for example Plaza Centres, a shopping centre developer targeting Central and Eastern Europe.

We have had a good run in the UK, and looking forward we need to continue to refresh the portfolio given the relatively high ratings on some of our long standing winners.

Europe

After a lacklustre start to the year, Continental European smaller companies rallied strongly towards the end of the period. The benchmark in this area, the HSBC Smaller Europe ex UK Index, recorded a gain of 22.0% in sterling total return terms which, as with the UK, was ahead of large cap stocks. Our European portfolio outperformed, up by 24.5%

Stock markets benefited from the improving dynamics of European growth in 2006 as rising levels of capital investment and consumer confidence added to growing export business. The Eurozone's GDP growth of 2.7% easily surpassed 2005's rate of 1.5% and represented the fastest expansion in six years. The European Central Bank remained concerned that stronger economic growth would be accompanied by higher levels of inflation, and the benchmark Euro interest rate was raised repeatedly taking it to 3.75% in March 2007. Inflation in the Eurozone peaked at 2.5% but fell back later in the year as oil prices weakened and pay awards remained moderate.

Andritz delivered this pulp plant which is one of the largest in the world.

Manager's Review (continued)

M&A activity gave a further boost to European smaller company share prices. Takeover activity was not as prevalent on our European portfolio as in the UK or the US, but we did benefit from a bidding war for Spanish motorway toll concession operator Europistas. This company was eventually bought by a Spanish construction company seeking to build critical mass in this area at a large premium over the initial bid level.

As in the UK, the portfolio benefited from its exposure to industrial sectors which responded well to the pick-up in capital expenditure. A long-standing favourite and one of the larger holdings, Austrian plant engineering concern Andritz, rose 36.9%. Andritz ranks as a leader in the supply of complete turnkey mills for the pulp and paper and steel industries. With production facilities worldwide, the company is uniquely positioned to provide this high-technology equipment wherever it is needed.

Other notable gainers during the year included Trevi, a little-known Italian specialist in foundation work for infrastructure and oil and gas drilling projects, and Germany's MTU Aero Engines which is benefiting from increased maintenance and renovation work on aircraft engines. Stock selection was also good in financials. Bank of Cyprus rose 55.7% in the year as its expansion in mainland Greece continued, and Danish insurer Topdanmark was also strong, up by 37.4%. One of last year's biggest winners, Neochimiki, the Greek based detergents manufacturer and distributor, continued to help our performance early in the period, though we decided to sell out following a very strong run.

From a country perspective, we did well with our investments in Ireland. The economy here has maintained its strong growth, and positions in Kingspan and Anglo Irish Bank continued to prosper. The former, as a leading supplier of insulation materials, plays to the global warming theme.

Fortunately there were no complete disasters during the year, though a number of stocks failed to meet our hopes. F-Secure, a Finnish provider of anti-virus software, struggled, as did Bergesen Worldwide Gas, the gas carrier company, while Latécoère, the French aerospace company, was impacted by the problems at Airbus and also underperformed.

We believe that the current vibrancy of corporate profitability and M&A activity is already generally reflected in today's valuations. For many companies, earnings growth and returns on equity have been propelled by cyclical factors which in all likelihood will not persist, making it hard to justify current ratings. We are therefore focusing on companies with a proven business model and a resilient track record in earnings and shareholder value creation throughout the economic cycle. One such example is consumer electronics company Logitech which has just announced its 34th consecutive quarter of double-digit revenue growth accompanied by a consistent return on equity way in excess of the cost of that equity.

US

The substantial gains of 2005/6 in the US smaller company market were not repeated in the year under review. The Russell 2000 Index rose 6.5% in dollar terms but the dollar fell against sterling meaning that the index was down 2.0% in sterling total return terms.

The start of the financial year coincided with the end of a strong run by smaller companies relative to large. Since then, large companies have made a little progress in relative terms and, over the year, the S&P 500 Index rose 4.7% in sterling terms thereby beating the Russell 2000 Index. Larger companies are perceived to be less sensitive to the slowdown currently taking place in the US.

The portfolio fell by 4.2% in sterling terms, slightly more than the Russell 2000 Index. The reasons were threefold: higher risk stocks did well and this did not suit our conservative style; poor stock selection in the consumer sector; and our contrarian approach led us to sell commodity related stocks whereas the market continued to chase this sector for a fourth successive year.

In general terms, the focus of portfolio activity this year has been to reduce exposure to economically sensitive areas and concentrate instead on niche and stable growth areas that would continue to grow during a slowdown. We are not directly exposed to mortgage lending, an area of business currently suffering from rising consumer defaults.

Despite the overall underperformance, there were some good individual contributions. The best came from Premiere Global Services, a provider of

Baldor produces a wide range of custom electric motors.

conference call services which was successfully turned round by management, Hub International, a regional insurance broker which was taken over, and American Capital Strategies, a provider of buyout finance serving a buoyant market.

The worst losses came from three consumer-related stocks. Lenox Group, a manufacturer of giftware and tableware, did badly as a merger went wrong. TRX, the provider of transaction processing services for the travel industry, was hit by a slowdown in the industry. America's Car-Mart, which sells and finances used cars suffered a rise in credit losses but the company has taken the right steps to improve the situation and we have added to the holding which is now recovering.

We saw several agreed bids for companies in the portfolio. In addition to the offer for Hub, six other companies were targeted: Checkers Drive-In Restaurants, Educate, Genesis Healthcare, Mercantile Bancshares, Reynolds and Reynolds, and Sourcecorp. Whilst it might be gratifying to have our confidence in a company confirmed by others, in reality we also lose some excellent long-term investments.

Significant new purchases during the year included ACCO Brands and Radiation Therapy Services. ACCO is a manufacturer of office supplies, an attractive business because of its insensitivity to the state of the economy and a fair degree of insulation from imports. Radiation Therapy Services operates cancer treatment centres and is benefiting from demographic shifts, and the trend towards more advanced treatments commanding higher fees.

Baldor Electric is now one of the portfolio's largest holdings. This manufacturer of custom electric motors has been extremely successful by investing heavily in its manufacturing process. The stock's prospects were transformed this year by the acquisition of Rockwell Automation's business. We added and recent results have so far confirmed our analysis.

Selling focused on stocks that were bid for and those that had recovered. Examples of the latter were Mentor Graphics (CAD/CAM software), CNA Surety (surety insurance) and Martin Marietta Materials (aggregates producer). All had seen a recovery in profitability together with a re-rating. We also reduced exposure in the automotive/transportation sector, for example cutting railroad operator Genesee and Wyoming and river barge company Kirby.

The US stock market, like most others, is trading close to all-time highs, which naturally suggests investors should be cautious. However, the dollar exchange rate is close to 25-year lows. If the US economy reaccelerates, perhaps in 2008, an improvement in the exchange rate could be forthcoming, and reflecting this we have recently moderated the underweight stance of the fund.

Japan

Smaller companies had a tough year in Japan. The FTSE Japan Smaller Companies Index declined by 20% in sterling terms, with the fall exaggerated by the weak yen. Meanwhile, the wider market as represented by the Topix Index only fell by 12.9%. Our portfolio had a disappointing year and declined by 29.0%.

The weakness of the stock market was not due to poor economic news-flow. GDP grew by 2.2% in the Japanese fiscal year to March 2007, ahead of what was expected a year ago. Growth was driven

Manager's Review (continued)

Sawai is a leading generic pharmaceutical manufacturer in Japan.

predominantly by capital investment and strong exports. Consumer spending slowed noticeably in the summer of 2006, dragged down by higher taxes and pensions changes, however, it rebounded in late 2006 and into early 2007 suggesting that sustained economic growth is at last feeding through into a more lasting consumer expansion.

Despite the encouraging economy, the accounting scandal unearthed at well-known company Livedoor in January 2006 continued to undermine confidence in the small cap market throughout the year. The sharp initial decline triggered forced selling driven by hedge funds and individual private investors. Forced sales of some small cap names undoubtedly hurt the performance of our portfolio. Liquidity declined sharply further aggravating the magnitude of declines in share prices.

At the portfolio level, most of the under-performance came from stock selection in the industrial, consumer goods and basic materials sectors. The poor performance of industrial stocks ran counter to trends elsewhere in the world and our overweight stance did not help. The sector was sold down in the early part of the period due to concern about a potential global economic slowdown, and it has not really recovered. Mesco, a plant builder, was a casualty as, in contrast to Andritz in Europe, it was unable to pass cost increases on. A-One Seimitsu also fell on the back of a weaker machine tool market. In consumer goods sectors, our performance was affected by Sansei Food, Asti and Jin, while Soken Chemical in basic materials was hurt by poor sentiment towards companies exposed to the liquid crystal display (LCD) sector.

It was not all doom and gloom as our positions in a number of property stocks delivered good performance. Tokyo Tatemono and Sankei Building in particular managed to secure strong rental growth on their portfolios, and void levels fell. Both companies have active redevelopment plans for some key properties which should enhance returns going forward.

Looking ahead, we remain somewhat cautious of companies heavily exposed to the US, and prefer more domestic plays and sectors. Our main investment themes for domestic Japan focus on the opportunities provided by the ageing demographics, the robust real estate sector and the improvement in consumer spending trends which we expect to continue.

The ageing demographics of Japan provide a number of business opportunities in healthcare related areas, and we have invested in a number of companies which should be able to take advantage of this. Such companies include Zecs (nursing homes), Seijo and Tsuruha (pharmacies) and Sawai (generic pharmaceuticals). We have also established holdings in the fitness club sector which has positive dynamics, including a stake in Central Sports.

Due to the retirement of the "baby boomer" generation the Japanese labour market is improving and companies are hiring more full time staff. Hence, we remain bullish on consumer spending. We have therefore invested in some speciality retailer stocks including Don Quijote, K's Holding and Tokyo Derica.

Last year was one to forget for Japanese small cap investors. However, we think this is now an opportunity for accumulating many good small cap companies with strong growth at near record low valuation levels.

Asia

Smaller companies in Asia enjoyed a fourth strong year of returns and again out-performed their larger cap counterparts. This was despite poor returns in Japan and the US, both of which Asian companies have been strongly correlated to in the past. Our portfolio returned 31.6% over the year, well ahead of the 17% rise in the FTSE Asia ex Japan Small Cap Index.

The broad trends are identical to last year: strong economic growth, particularly in domestic sectors; controlled monetary and fiscal policies; intra-regional trade expansion; and above forecast corporate profits. Yet again it is China that dominates these regional drivers. Share price gains were broadly based across many different sectors, reflecting the overall positive environment.

The only markets posting negative returns were Taiwan, due to moribund economic growth and poor returns in the technology sector, and Thailand, where following the collapse of the government the country is still under military control.

As announced in last year's annual report, the portfolio has gradually been restructured over the year. We made the decision to adopt a collective investment approach to the region as we felt that the greater level of resource that other fund managers have in the region would deliver better results over the medium-term and so the direct holdings have been gradually sold over the year. This has been carefully managed and we did not rush the process as several of the holdings appeared set to rise. Best performer was Olam, an agricultural commodity supply chain manager that has been a beneficiary of both rising soft commodity prices and increasing international trade flows. This nearly doubled prior to disposal after rising 116% in 2005/6.

The Company now has all of its Asian exposure via collective funds. We have selected funds managed by Aberdeen, Axa and Allianz, and retained the unlisted Australian New Horizons fund, which provides a well spread Australian small cap portfolio. In the coming months, we anticipate increasing exposure to Asia as the long-term potential in prudently selected Asian small caps should be excellent.

Conclusion

We have been in a bull market in overall terms for small companies for a while now and it is natural, given the scale of gains, to question whether this will soon reverse. In some markets recently we have seen evidence that investors are switching back to larger companies which they view as more defensive and more cheaply rated. If inflation continues to rise, consequential rises in interest rates would tend to be more negative for small caps.

Notwithstanding the above, the fundamental advantage of superior growth potential from smaller companies remains intact. However, while it is always important to look for new ideas, it is perhaps even more necessary at present for us to look to refresh the portfolio to improve the potential growth for the future. In addition we are hoping that we can add value by timing asset allocation changes correctly, and this is something we are looking at closely at present.

Peter Ewins
June 2007

Thirty Largest Equity Holdings

This year	*Last year**	**Company** Country Description	% of total investments	Value £m
1	*(4)*	**Aveva Group** United Kingdom Computer software and services for engineering solutions in the ship building and process plant markets.	1.4	3.6
2	*(2)*	**Omega International** United Kingdom Kitchen manufacturer supplying the independent retail trade .	1.2	3.1
3	*(16)*	**Bank of Cyprus** Cyprus Cyprus's leading retail and commercial bank with a strongly growing franchise in the Greek market.	1.0	2.4
4	*(–)*	**Trevi Finanziaria** Italy Specialist construction services company focusing on foundations work.	0.9	2.2
5	*(–)*	**Hill & Smith Holdings** United Kingdom Supplier and manufacturer of a wide range of infrastructure and construction related products.	0.9	2.2
6	*(8)*	**Utilico Investment Trust** United Kingdom Specialist investment trust focusing on investment in utility/infrastructure related companies around the world.	0.9	2.1
7	*(15)*	**Australian New Horizons Fund** Australia Specialist investment fund investing in Australian smaller companies.	0.9	2.1
8	*(6)*	**Detica Group** United Kingdom IT consultancy specialising in the national security, government and financial services sectors.	0.9	2.1
9	*(–)*	**Lupus Capital** United Kingdom Designer and manufacturer of window and door hardware and seals in the UK and the US.	0.9	2.1
10	*(–)*	**SDL** United Kingdom World leader in localisation technology and services, including manual and technology driven translation of customers' internal and external literature.	0.8	2.1
11	*(–)*	**Allianz Little Dragons** Asia Pacific (excluding Japan) Fund providing exposure to Asian smaller companies.	0.8	2.1
12	*(23)*	**Topdanmark** Denmark Denmark's most consistently profitable general insurance company.	0.8	2.1
13	*(–)*	**Hamworthy** United Kingdom Designer and manufacturer of marine and offshore fluid handling systems.	0.8	2.1
14	*(–)*	**Restaurant Group** United Kingdom Owner and operator of a range of family orientated dining outlets including Frankie and Benny's and Chiquitos.	0.8	2.0
15	*(27)*	**Andritz** Austria Plant engineering business serving the pulp and steel mill markets.	0.8	2.0

This year	*Last year**	**Company** Country Description	% of total investments	Value £m
16	*(–)*	**Aberdeen GL Asia Small Cap** Asia Pacific (excluding Japan) Fund providing exposure to Asian smaller companies.	0.8	2.0
17	*(–)*	**AXA Rosenberg Equity Alpha** Asia Pacific (excluding Japan) Fund providing exposure to Asian smaller companies.	0.8	2.0
18	*(25)*	**Spice Holdings** United Kingdom Provider of outsourced support services to the UK electricity, telecom and water sectors.	0.8	2.0
19	*(–)*	**Premiere Global Services** United States Provides outsourced communications services including conference calling to businesses.	0.8	2.0
20	*(–)*	**Utilico Emerging Markets** United Kingdom Investment company focusing on utility and infrastructure companies in emerging markets.	0.8	2.0
21	*(22)*	**Dobbies Garden Centres** United Kingdom Garden centre retailer expanding its store base within the UK.	0.8	1.9
22	*(–)*	**Community Health Systems** United States Operator of hospitals based in rural parts of the US	0.8	1.9
23	*(17)*	**Dollar Thrifty Automotive Group** United States Vehicle rental operator focused on the leisure market.	0.8	1.9
24	*(11)*	**CLS Holdings** United Kingdom Property investment and development company with interests in the UK and Continental Europe.	0.8	1.9
25	*(–)*	**Conn's** United States Retailer supplying household appliances, consumer electronics and furniture.	0.8	1.9
26	*(14)*	**Cousins Properties** United States Property development real estate investment trust based in Atlanta.	0.8	1.9
27	*(–)*	**Baldor Electric** United States Manufacturer of custom electric motors.	0.8	1.9
28	*(–)*	**Chloride Group** United Kingdom Provides power protection services and solutions.	0.7	1.8
29	*(–)*	**Senior Group** United Kingdom Engineering group supplying components to manufacturers principally in the aerospace, diesel engine and energy markets.	0.7	1.8
30	*(–)*	**Acco Brands** United States Office products manufacturer and supplier.	0.7	1.8

* The figures in brackets denote the position at 30 April 2006.

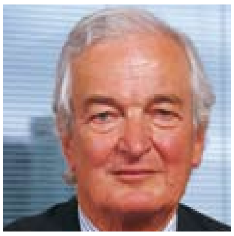
The value of the thirty largest holdings represents 25.5% (2006: 20.9%) of the Company's total investments.

Directors

Gerry Grimstone*+, Chairman, was appointed to the Board on 1 September 2002. He is chairman of Candover Investments plc and Standard Life plc and senior independent director of Dairy Crest Group plc. He is a member of the RAF Air Command board. He spent much of his career with Schroders, prior to which he worked in the UK Civil Service. Age 57.

Les Cullen*+ was appointed to the Board on 1 September 2006. He is a non-executive director and chairs the audit committees of DTZ Holdings plc, Avis Europe plc and BT Pension Scheme Trustee Ltd and is a non-executive director of Interserve plc and Sustrans Ltd. He was previously group finance director of Prudential plc and Inchcape plc and chairman of several private equity owned companies. Age 55.

Dr Bruce Farmer, CBE*+, Senior Independent Director, was appointed to the Board on 15 February 1999. He was chairman of Scottish and Southern Energy plc until 31 December 2004. He was formerly chairman of Bodycote plc, Devro plc and The Morgan Crucible Company plc and Allied Colloids plc. He is chairman of the Audit and Management Engagement Committee. Age 70.



Dr Franz Leibenfrost*+ was appointed to the Board on 15 February 1999. He is a non-executive director of various European companies. Age 69.

Anthony Townsend*+ was appointed to the Board on 24 September 2004. He has spent over 35 years working in the City and was chairman of the Association of Investment Companies from 2001 to 2003. He is chairman of iimia Investment Trust plc and British & American Investment Trust PLC and a non-executive director of Brit Insurance Holdings PLC, Finsbury Growth & Income Trust PLC, Finsbury Emerging Biotechnology Trust PLC, RCM Technology Trust PLC and Finsbury Worldwide Pharmaceutical Trust PLC. Age 59.

Jane Tozer*+ was appointed to the Board on 13 June 2005. She is a non-executive director of the John Lewis Partnership plc, JPMorgan Income & Growth Trust plc, SurfControl plc, Elexon Ltd, Citizens Advice in Three Rivers Ltd and The Pensions Service. She previously worked at IBM, and then as CEO of a software development company. Age 59.

* Member of the Audit and Management Engagement Committee.
+ Member of the Nomination Committee.

Management and Advisers

Peter Ewins Lead fund manager

Peter Ewins Lead fund manager He joined F&C in 1996 and is responsible for the UK equity portfolio and overall asset allocation.

Robert Siddles Responsible for the US portfolio. He joined F&C in 2001.

Crispin Longden Responsible for the Continental European portfolio. He joined F&C in 2000

Calum Graham Responsible for the Asian ex-Japan portfolio. He joined F&C in 2004.

Lay Peng Soh Responsible for the Japanese portfolio. She joined F&C in 2004.

Debbie Fish Company Secretary on behalf of F&C Management Limited and responsible for F&C Global Smaller Company's statutory compliance. She joined F&C in 2004.

Mike Woodward Head of investment trusts at F&C and responsible for F&C's relationship with F&C Global Smaller Companies. He joined F&C in 2006.

Manager, Secretary and Registered Office

F&C Management Limited, Exchange House,
Primrose Street, London EC2A 2NY

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Email: info@fandc.com

Authorised and regulated in the UK by the Financial Services Authority
Registered in England

Independent Auditors

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32 London Bridge Street, London SE1 9SY

Bankers and Custodian

JPMorgan Chase
The Royal Bank of Scotland plc

Registrars

Computershare Investor Services PLC,
PO Box 82, The Pavilions, Bridgwater Road,
Bristol BS99 7NH

Telephone: 0870 889 4088
Facsimile: 0870 703 6142

Authorised and regulated in the UK by the Financial Services Authority

Solicitors

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

Stockbrokers

JPMorgan Cazenove Limited, 20 Moorgate,
London EC2R 6DA

List of Investments

Quoted Investments	Holding	30 April 2007 Value £'000s
CONTINENTAL EUROPE		
Equities		
AUSTRIA		
Andritz	15,000	**2,021**
BELGIUM		
Metris	35,000	374
Tigenix	103,819	477
Total Belgium		**851**
CYPRUS		
Bank of Cyprus	304,142	**2,408**
DENMARK		
Ringkjoebing Landbobank	10,000	1,044
Topdanmark	21,000	2,077
Total Denmark		**3,121**
FINLAND		
F Secure	188,937	279
OKO Bank	55,000	525
Outotech	47,500	1,032
Total Finland		**1,836**
FRANCE		
Latécoère	25,828	469
Manitou	30,000	889
Maurel et Prom	80,000	844
Neopost	16,000	1,166
Nexity	35,000	1,533
Total France		**4,901**
GERMANY		
K&S	13,500	885
MTU Aero Engines	31,882	935
Total Germany		**1,820**
GREECE		
Frigoglass	60,000	**802**
IRELAND		
Anglo Irish Bank	138,456	1,565
C&C Group	92,000	778
CPL Resources	157,002	841
Kingspan Group	100,000	1,403
Norkom Group	600,000	819
Total Ireland		**5,406**

Quoted Investments	Holding	30 April 2007 Value £'000s
ITALY		
Digital Multi Media Tech	21,404	1,065
Hera	377,339	872
Piaggio	500,000	1,230
Trevi Finanziaria	267,965	2,249
Total Italy		**5,416**
NETHERLANDS		
Arcadis	28,000	**975**
NORWAY		
Bergesen Worldwide Gas	165,000	1,141
BW Offshore	200,000	422
Ekornes	50,500	635
Odim	20,000	377
Total Norway		**2,575**
SPAIN		
Indra Sistemas	85,000	1,053
Zardoya Otis	10,949	207
Total Spain		**1,260**
SWITZERLAND		
Calida Holding	5,000	1,210
Logitech International	100,000	1,363
Schweizerhall Holdings	7,857	625
Total Switzerland		**3,198**
TOTAL CONTINENTAL EUROPE		**36,590**
ASIA PACIFIC (EXCLUDING JAPAN)		
Equities		
Aberdeen GL Asia Small Cap	175,868	2,010
Allianz Little Dragons	44,703	2,077
AXA Rosenberg Equity Alpha	80,355	2,002
TOTAL ASIA PACIFIC (EXCLUDING JAPAN)		**6,089**

Quoted Investments	Holding	30 April 2007 Value £'000s
JAPAN		
Equities		
Ahresty	51,800	741
Akindo Sushiro	9,400	160
Bookoff	107,000	907
Central Sports	86,500	878
Comsys Holdings	150,000	842
Daimei Telecom Engineering	138,000	741
Daiwa Seiko	409,000	382
Don Quijote	91,000	828
Fintech Global	1,965	740
Gentosha	566	722
Handsman	76,900	313
Information Development	83,800	246
Jin	228,000	377
Kagawa Bank	258,000	862
Kansai Urban Banking	448,000	909
Kohsoku	219,000	627
K's Holdings	61,600	809
Maxvalu Tokai	55,300	486
Milbon	44,900	695
Nippon Seiki	74,000	794
Nippon Yusoki	209,000	582
Okinawa Cellular Telephone	659	973
Only	1,040	531
Ozeki	19,800	249
Plenus	49,200	460
Renaissance	121,600	624
Ryohin Keikaku	22,700	635
Sankei Building	170,500	785
Sansei Foods	75,200	513
Sawai Pharmaceutical	41,900	875
Seijo	55,100	620
Shinko Electric Industries	74,000	898
Showa Aircraft Industry	47,000	347
Soken Chemical & Engineering	35,700	351
Suruga	57,000	589
Tokyo Derica	99,200	280
Tokyo Tatemono	106,000	747
Tokyo Tomin Bank	46,500	809
Tsuruha Holdings	50,000	933
Zecs	1,048	785
TOTAL JAPAN		**25,645**

Quoted Investments	Holding	30 April 2007 Value £'000s
UNITED KINGDOM		
Equities and convertibles		
Absolute Capital Management*	173,209	815
Antrim Energy*	551,000	1,329
Ardana	121,000	137
Aveva Group	420,000	3,576
Begbies Traynor*	618,000	1,015
Cape	357,293	989
Chaucer Holdings	480,462	475
Chemring Group	65,990	1,366
Chloride Group	1,167,000	1,829
City of London Investment Group*	584,288	1,585
Civica*	298,000	772
Clinphone	321,000	611
CLS Holdings	264,541	1,902
Cohort*	795,500	1,255
Concateno*	737,358	1,314
Connaught*	431,000	1,507
Consolidated Minerals*	839,022	837
Crest Nicholson	200,000	1,235
Detica Group	550,000	2,127
Dobbies Garden Centres*	167,200	1,927
E2V Technologies	293,000	1,346
Ennstone	2,362,800	1,122
Fisher (James)	14,706	89
Galliford Try	1,029,818	1,738
Genus*	205,000	1,311
Gyrus Group	222,000	1,053
Halfords	315,000	1,188
Hamworthy*	395,000	2,057
Hansard Global	317,800	1,033
Helphire Group	192,000	789
Hill & Smith Holdings	613,997	2,217
Ideal Shopping Direct*	264,500	650
Individual Restaurant Group*	600,295	947
International Greetings*	246,468	1,037
Kier Group	71,000	1,752
Laird Group	91,000	524
Leyshon Resources*	5,000,000	1,490
Lupus Capital*	11,131,064	2,115
M&C Saatchi*	617,000	1,035
Majestic Wine*	271,000	1,021
Mecom Group*	1,200,000	1,011

* Quoted on the Alternative Investment Market in the UK.

List of Investments (continued)

Quoted Investments	Holding	30 April 2007 Value £'000s
Meggitt	500,000	1,536
Melrose Resources	257,900	870
Mitie Group	593,000	1,402
Morgan Crucible	475,000	1,329
Morgan Sindall	104,000	1,372
Mouchel Parkman	335,000	1,517
Northern Petroleum*	977,949	1,435
Northgate	118,000	1,297
office2office	360,000	761
Omega International*	883,512	3,059
Orchid Developments*	986,579	1,650
Pipex Communications*	6,573,882	838
Plaza Centres	430,000	810
Pure Wafer*	325,217	1,116
Rathbone Brothers	119,300	1,572
Raymarine	330,000	1,497
Restaurant Group	568,888	2,041
SDL	560,000	2,092
Senior Group	2,002,900	1,773
Severfield Rowen	70,000	1,468
Shaftesbury	190,000	1,356
Shed Productions*	690,000	697
Shore Capital Group	1,775,369	1,576
Sondex	340,000	1,169
Spectris	168,000	1,636
Speedy Hire	120,000	1,457
Spice Holdings*	360,000	2,000
Synergy Healthcare*	180,000	1,393
Tarsus Group	500,000	1,255
Ted Baker	172,837	1,066
Telford Homes*	289,900	1,227
Trading Emissions*	622,189	994
UK Coal	213,656	1,200
Utilico Emerging Markets*	1,373,791	1,965
Utilico Investment Trust		
Ordinary Shares	382,000	
3.75% convertible unsecured		2,149
loan stock	500,000	
Victrex	220,000	1,678
VT Group	208,000	1,040
White Young Green	300,000	1,430
Workspace Group	330,000	1,502
TOTAL UNITED KINGDOM		**108,353**

* Quoted on the Alternative Investment Market in the UK.

Quoted Investments	Holding	30 April 2007 Value £'000s
UNITED STATES		
Equities		
Aaron Rents	61,800	877
Acco Brands	147,968	1,761
Actuant	49,680	1,317
Airgas	52,080	1,160
Alleghany	5,833	1,044
Allied Capital	77,750	1,123
American Capital Strategies	54,890	1,336
American Equity Investment	122,060	833
America's Car-Mart	164,270	1,053
Andrew	177,640	970
Apollo Investment	125,400	1,378
Avocent	73,170	1,025
Baldor Electric	95,341	1,878
Beacon Roofing Supply	162,522	1,278
Big 5 Sporting Goods	98,580	1,262
Bottomline Technologies	143,820	893
CapitalSource	98,038	1,263
Caraustar Industries	144,100	512
Cherokee International	261,440	722
Community Health Systems	104,460	1,922
Conn's	146,090	1,896
Cousins Properties	112,260	1,884
Cox Radio	111,810	789
Crawford & Co (class A)	13,200	156
Crawford & Co (class B)	35,700	
Denbury Resources	89,302	1,478
Dollar Thrifty Automotive Group	81,895	1,920
FirstCity Financial	127,520	606
Five Star Quality Care	103,600	570
Florida East Coast Industries	24,420	861
Fred's	169,470	1,224
Genesee & Wyoming	60,670	825
Harvard Bioscience	279,560	774
Harvest Natural Resources	159,000	799
HCC Insurance Holdings	75,440	1,157
Hub International	32,240	672
Invitrogen	34,840	1,141
Jack Henry & Associates	92,960	1,104
Jarden	79,705	1,679
Kirby	45,290	856
Lamar Advertising	37,720	1,138
Lithia Motors	90,960	1,226

Quoted Investments	Holding	30 April 2007 Value £'000s
LKQ	63,056	712
Mac-Gray	106,150	809
Midland	42,120	924
Mueller Industries	77,020	1,263
Palm Harbour Homes	120,385	894
Pervasive Software	238,363	491
Pool	69,560	1,396
Premiere Global Services	324,392	1,974
Prestige Brands	151,400	985
Pride International	88,791	1,457
Radiation Therapy Services	93,280	1,372
Republic Services	110,505	1,543
Roper Industries	50,720	1,422
Salix Pharmaceuticals	155,404	1,012
Sturm Ruger & Co	101,970	658
Transaction Systems Architects	88,521	1,404
Universal Truckload Services	82,000	956
Vail Resorts	28,050	800
Werner Enterprises	106,260	1,005
TOTAL UNITED STATES		**67,439**
TOTAL QUOTED INVESTMENTS		**244,116**

Unquoted Investments	Holding	30 April 2007 Value £'000s
UNITED KINGDOM		
Frontiers Capital II L.P.A.	328	**530**
AUSTRALIA		
Australian New Horizons Fund	1,873,583	**2,128**
UNITED STATES		
US Ventures	49,741	**196**
TOTAL UNQUOTED INVESTMENTS		**2,854**
TOTAL INVESTMENTS		**246,970**

The number of investments in the portfolio is 222 (2006: 240). The value of convertible securities in the portfolio is £1,046,000 or 0.42% of total investments (2006: £1,491,000 or 0.62%).

Report of the Directors

The Directors present their report and the financial statements of the Company for the year to 30 April 2007.

BUSINESS REVIEW

Introduction

The Company is an investment trust whose principal objective is to secure a high total return by investing in smaller companies worldwide. There will be no material change to investment policy without prior shareholder approval.

The Business Review is designed to provide shareholders with an insight into the operations of the Company during the year. In particular, it gives information on:

- the regulatory and competitive environment within which the Company operates;
- the internal environment relating to the Company, including the framework of governance implemented by the Board to ensure the Company's objectives are achieved with minimum risk;
- the Manager's role in managing the assets; and
- the Company's performance in the year measured against key performance indicators.

Regulatory and competitive environment

The Company is primarily subject to the United Kingdom Listing Rules (the "**Listing Rules**") UK Company Law, Financial Reporting Standards, Taxation Law and its own Articles of Association. The Board of non-executive Directors, whose appointment is approved by shareholders, is charged with ensuring that the Company complies with its objectives as well as these regulations. In order to achieve this goal, the Board has appointed F&C Management Limited ("**F&C**" or the "**Manager**") to manage the investment portfolio on a day-to-day basis, as well as carry out administrative, accounting, secretarial and marketing activities on behalf of the Company.

Under the Companies Act 1985, Section 266, the Company is defined as an investment company. As such, it analyses its income between profits available for distribution by way of dividends (revenue profits) and other profits available for distribution by way of capital reductions (capital profits). The financial statements, starting on page 36, report on these profits, the balance sheet position and the cash flows in the current and prior financial period. This is in compliance with current UK Financial Reporting Standards, supplemented by the Revised Statement of Recommended Practice for Investment Trust Companies ("**SORP**"). The significant accounting policies of the Company are set out in note 2 on the accounts. The auditors' opinion on the financial statements, which is unqualified, appears on page 35. The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts as the Company has adequate resources to continue in operation for the foreseeable future and its assets consist mainly of securities that are readily realisable.

In addition to the annual and interim results, the Company makes daily net asset value ("**NAV**") announcements via the Stock Exchange's Regulatory News Service ("**RNS**"). Detailed month end NAV statistics are released via the Association of Investment Companies ("**AIC**"), of which the Company is a member. Going forward, the Company will also be submitting interim management statements to the market via RNS in order to update shareholders between the annual and the half-year reports. The Company also reports to shareholders on performance against the investment objective, Directors' activities, corporate governance, investment activities and share buybacks.

At least one shareholders' meeting is held each year to allow shareholders to vote on the appointment of Directors and the auditors, the payment of dividends, share issues and buybacks and any other special business. The business of the next such annual general meeting ("**AGM**"), to be held on 30 July 2007, is described in a separate enclosure.

The Company is subject 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 842 of the Income and Corporation Taxes Act 1988 ("**ICTA**"). Section 842 requires, broadly, that:

- the Company's revenue (including dividend and interest receipts but excluding profits on sale of shares and securities) should be derived wholly or mainly from shares and securities;
- the Company must not retain in respect of any accounting period more than 15% of its income from shares and securities;
- no holding in a company should represent more than 15% by value of the Company's investments in shares and securities;

- realised profits on the sale of shares and securities may not be distributed by way of dividend; and
- the Company must not be a close company.

Compliance with these rules is proved annually in retrospect to HM Revenue and Customs ("**HMRC**"). HMRC approval of the Company as an investment trust is granted "subject to there being no subsequent enquiry under corporation tax self-assessment". Such approval has been received in respect of all relevant years up to and including the year ended 30 April 2006, and the Company continues to comply with these rules.

Whilst these tax rules are similar to regulations covering competing open-ended investment companies and unit trusts, the Company's closed-end structure provides the flexibility to borrow money to invest and take a longer-term view of markets. Running costs are also lower.

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

Governance

The Company's Board of Directors is responsible for overall stewardship of the Company, including corporate strategy, corporate governance, risk and controls assessment, overall investment policy, asset allocation and gearing limits. Details of the Directors, all of whom are non-executive, can be found on page 16.

In common with most investment trusts, the Company does not have any employees. Day-to-day management and administration of the Company has been delegated by the Board to F&C, whose performance is monitored by the Board and whose remuneration and re-appointment is assessed annually (see pages 26 and 27). Investment performance is measured primarily against a benchmark comprising 40% the Hoare Govett UK Smaller Companies Index and 60% the MSCI World ex UK Small Cap Index (the "**Benchmark**"). There is a performance element to the fee, details of which can be found on page 26 which aligns F&C's interests with those of shareholders.

In the process of its governance of the Company, the Board reviews regular reports from the Manager and from other independent sources to assess ongoing investment performance of the Company as well as to assess the impact of economic and political issues. Income forecasts are reviewed to enable costs to be controlled within budget and to ensure that the Company is able to pursue a progressive dividend policy while remaining in compliance with tax rules. Other regularly reviewed reports include those covering the list of investments, the level of gearing, the discount to NAV and the shareholder register. The Board's assessment of the major risks faced by the Company, together with the principal controls in place to mitigate those risks, is set out later in this review.

The Manager has established a policy on corporate governance, voting and socially responsible investment ("**SRI**"). The policy takes as its starting point international codes such as those produced by the Organisation for Economic Co-operation and Development ("**OECD**"), as well as relevant national codes such as the Combined Code of the London Stock Exchange and the New York Stock Exchange corporate governance listing standards. Its approach is also formed by codes relating specifically to corporate responsibility issues such as the OECD Guidelines for Multinational Enterprises and the Association of British Insurers Disclosure Guidelines on Socially Responsible Investment. In some cases, however, the Manager goes beyond these external codes and standards. This is clearly spelt out in its guidelines and communicated annually.

With regard to investment policy, the Manager considers the governance practices of investee companies in their broadest sense, which includes social, environmental and ethical factors, and their implications for the Company's financial performance. Following a regular review of governance practices, the Manager will engage in a dialogue with the investee companies through its voting and shareholder process, to encourage adoption of better practices. Where the engagement process uncovers evidence of positive or negative impact on company financial valuation, the

Report of the Directors (continued)

Manager will consider this information in the course of selecting, holding or disposing of shares. At all times, the driving investment principle remains the maximisation of performance for a given level of risk.

It is the Manager's policy to exercise its voting rights at shareholder meetings of investee companies as far as practicable.

The Manager's current policy, which is available on the F&C website, has been reviewed and endorsed by the Board which encourages and supports the Manager on its voting policy and its stance towards SRI, and shareholder activism.

Capital structure

At 30 April 2007 the Company had an issued share capital of £11,693,195, comprising 46,772,781 ordinary shares of 25p each. Details relating to the capital structure can be found in note 19 on the accounts.

The Board has committed to keep the discount (with the NAV excluding current period income and the debenture at market value) close to 5% in normal market conditions. Share buybacks take place as necessary, within the authority given by shareholders at each AGM, with the aim of preventing the discount widening materially beyond that level in normal market conditions. The Company repurchased 1,578,000 shares during the year at prices between 362.44p and 469.75p per share. The total consideration (including expenses) paid for all the shares repurchased was £6,713,000.

Between the year end and 21 June 2007, a further 514,827 shares have been purchased.

Principal risks

The Company's assets consist mainly of quoted equity securities and its principal risks are therefore market-related. The large number of investments held, together with the geographic and sector diversity of the portfolio, enables the Company to spread its risks with regard to liquidity, market volatility, currency movements and revenue streams. The specific key risks faced by the Company, together with our mitigation approach, include the following:

i) an inappropriate investment strategy could result in poor returns for shareholders and a widening of the discount of the share price to the NAV per share. The Board regularly reviews strategy in relation to a range of issues including: the allocation of assets between geographic regions and industrial sectors; gearing; currency exposure; and the balance between quoted and unquoted stocks;

ii) loss by the Manager of key staff could affect investment returns. The quality of the management team employed by F&C is a crucial factor in delivering good performance. The Manager has training and development programs in place for its employees. It develops its recruitment and remuneration packages in order to retain key staff and undertakes succession planning;

iii) failure to comply with regulations could result in the Company losing its listing and/or being subjected to corporation tax on its capital gains. The Board receives and reviews regular reports from the Manager on its controls in place to prevent non-compliance of the Company with rules and regulations. The Board also receives regular investment listings and income forecasts as part of its monitoring of compliance with Section 842; and

iv) inadequate financial controls could result in misappropriation of assets, loss of income and debtor receipts and mis-reporting of NAVs. The Board regularly reviews the Manager's statements on its internal controls and procedures and subjects the books and records of the Company to an annual audit. The financial risks are set out in more detail in note 26 on the accounts.

The systems in place to manage the Company's internal controls are described further on pages 31 and 32.

Management of assets and shareholder value

The Board has contractually delegated the management of the investment portfolio to the Manager. The Manager is a subsidiary of F&C Asset Management plc, one of the largest UK fund management groups with over £102 billion under management.

The Company invests around the globe in markets, sectors and companies that the Board and Manager believe will generate long-term growth in capital and income for shareholders. Investments are assessed by regional teams, and a large number of potential investments are looked at each year. The Manager meets with a large number of management teams of both potential and existing investee companies in London and overseas. Assessing the quality of management is a key input into the investment process around the world. Extensive analysis is also carried out on potential investments in terms of market positioning/competitive advantage, financial strength and cash flow characteristics. Various valuation benchmarks are then used to provide an indication of the prospects of the investment opportunity in relation to other potential investments in the area/sector.

The Board measures the overall relative success of the Company against the Benchmark. Performance of each of the regional sub-portfolios is also measured against relevant local small cap indices to ensure that the Manager is delivering good performance on all parts of the portfolio.

Investment risks are spread through holding a wide range of securities in different industrial sectors. At the end of April 2007, the portfolio was made up of 222 stocks in 18 countries. While there is no definitive maximum market capitalisation range set for a stock to qualify as a "smaller company", the regional fund managers ensure that stocks qualify as smaller companies by local definition when initially purchased. The Board regularly monitors the market capitalisation spread of the portfolio to ensure that the Manager is keeping within the smaller company remit.

The Board receives monthly updates on the portfolio structure incorporating asset allocation in relation to the Benchmark Index and these are reviewed at each Board meeting. The Board receives regular presentations from the regional portfolio managers who outline recent portfolio activity and market outlooks.

The Board and the Manager, as discussed in the Chairman's Statement, recognise the importance of marketing. Meetings are regularly held with current and potential new shareholders and with stockbroking analysts that cover the investment trust sector. As mentioned in the Chairman's Statement, the Manager has actively promoted investment in the Company's shares through its range of private investor savings schemes and an online advertising campaign was launched to coincide with the receipt of an award from Money Observer magazine. The Manager's savings schemes have been successful in significantly increasing the number of shareholders in recent years. Communication of up-to-date portfolio information is provided through the website www.fandc.com.

The Board is responsible for setting the gearing range within which the Manager may operate and has determined that effective gearing may not exceed 20%, including the £10,000,000 debenture at cost. The Manager has the ability to borrow in foreign currencies as appropriate after discussion with the Board. At the year end gearing was 2.7%. The level of gearing may rise or fall depending on the view of markets. The Board views gearing as a strategic, rather than a structural, issue.

Performance highlights

The Board uses the following key performance indicators to help assess progress against the Company's objectives:

- NAV per share total return*
- Benchmark total return
- Share price total return*
- Share price discount*
- Total expense ratio*
- Annual dividend growth*
- Regional performance against local benchmarks

* See the ten year record on pages 54 and 55

As reported in the Chairman's Statement, the Company's NAV total return was 10.4% for the year ended 30 April 2007, compared to a return of 7.5% in the Benchmark. A full discussion of the background to this successful performance, including an analysis of the various regional portfolios, is found within the Manager's Review.

The Board closely monitors the discount, the historic levels of which are shown in the table overleaf.

The Company continues to have a low total expense ratio ("**TER**") in relation to that of investment trusts specialising in smaller companies, although it has risen this year mainly due to the impact of the performance fee. The Board monitors the Company's TER on an ongoing basis.

The Company's portfolio enjoyed another year of strong dividend growth not only from UK companies, but also as a result of the trend of rising dividends from overseas companies.

The Company has a 37 year record of increasing its dividend, and the Board remains committed to a progressive dividend policy. The Manager does not seek to buy investments solely for yield attractions however, preferring to purchase shares in companies with an ability to grow their dividends.

Report of the Directors (continued)

Total return performance

	1 Year %	3 Years %	5 Years %
Company NAV	10.42	91.33	115.01
Benchmark	7.48	68.29	84.11
Company share price	10.35	121.34	149.09
Retail prices index ("RPI")	4.02	10.07	16.33

Source: F&C Management Limited and Datastream

Total expense ratio
(as a percentage of average net assets)

At 30 April	%
2007*	0.99
2006	0.69
2005	0.66
2004	0.80
2003	1.10

Source: F&C Management Limited.
*0.74% excluding the performance fee.

Discount table
(with debt at market value)

At 30 April	%
2007	6.3
2006	6.1
2005	12.5
2004	17.7
2003	17.4

Source: F&C Management Limited

The recommended final dividend of 3.16p is payable on 6 August 2007 to shareholders on the register of members on 6 July 2007. This dividend, together with the interim dividend of 1.53p, makes a total dividend of 4.69p. This represents an increase of 3.5% over the 4.53p per share for the previous year (excluding the special dividend declared in that year).

Manager's evaluation and re-appointment

The review of the Manager's performance is an ongoing duty and responsibility of the Board which is carried out at every Board meeting. In addition, a formal review is undertaken bi-annually and was last carried out in June 2007. In evaluating the performance of the Manager, the Board considers a range of factors including the investment performance of both the portfolio as a whole and the various regional sub-portfolios; the skills, experience and depth of the team involved in managing the Company's assets; the resources and commitment of the Manager; and the quality of the marketing and administrative services provided to the Company.

Dividend growth

	1 Year %	3 Years %	5 Years %
Dividends*	3.53	10.61	16.67
Inflation (RPI)	4.02	10.07	16.33

Source: F&C Management Limited and Datastream
* excludes the special dividend declared of 1.00p per share.

The Manager is remunerated by the Company for its management and administration services in accordance with the terms of the management agreement. The Manager receives a management fee of 0.40% per annum of the net assets managed by F&C (with debenture stock valued at market value). Investments held in third party collective investment schemes on strategic grounds, such as those utilised within the Asian part of the portfolio as described in the Manager's Review, are subject to an annual management fee, payable to the Manager, of 0.25% of the market value of such funds. A performance fee may be payable annually, equal to 10% of the value of any outperformance in the year by the net assets of the Benchmark. Outperformance is subject to a maximum of 0.6% of average monthly net assets in that year. Performance above this cap will be carried forward to the subsequent period for inclusion in the calculation of performance in that period. Any underperformance of the net assets relative to the Benchmark in any calculation period must be carried forward for inclusion in the subsequent calculation period, thus creating a high watermark. The outperformance in the year was below the cap, and the performance fee payable amounted to £566,000.

The management agreement is terminable upon six months' notice given by either party. Further details of the management agreement are set out in notes 4 and 5 on the accounts.

In light of the overall performance of the Manager, and the investment performance in particular, it is the opinion of the Board that the continuing appointment of the Manager on the terms agreed is in the interests of shareholders as a whole.

Results and dividends
for the year ended 30 April 2007

	£'000s	£'000s
Revenue return attributable to equity shareholders		2,270
Less: Dividends		
Final dividend of 3.04p per share paid on 3 August 2006 to shareholders on the register at 7 July 2006	(1,464)	
Special dividend of 1.00p per share paid on 3 August 2006 to shareholders on the register at 7 July 2006	(482)	
Interim dividend of 1.53p per share paid on 30 January 2007 to shareholders on the register at 29 December 2006	(728)	
		(2,674)
Net amount transferred from the revenue reserve		(404)

Source: F&C Management Limited

Outlook

The Board continues to believe the investment mandate and approach is appropriate for shareholders seeking long-term capital and dividend growth. The governance and control environments in place are designed to protect the Company's assets and to encourage attainment of the objective on behalf of shareholders.

GENERAL INFORMATION

Annual general meeting

Shareholders will have received a separate enclosure this year containing explanatory information and the notice of the AGM to be held at the Chartered Accountants' Hall, One Moorgate Place, London EC2 on 30 July 2007 at 12 noon. In addition to the ordinary business of the meeting, resolutions numbered 9 to 13 (detailed in the separate enclosure) will be proposed as special business.

Electronic communication

The Companies Act 2006 introduced new provisions (which came into effect on 20 January 2007) covering company communications to shareholders and other provisions which facilitate communications in electronic form and by means of a website. Implementation of these provisions by the Company would enable shareholders to receive notices, documents and other information (including the annual report and accounts) immediately they are published. As a result, shareholders wishing to use these facilities would be able to access information much sooner than before and the costs to the Company in printing and posting these documents would be much reduced. A resolution will be put to shareholders at the AGM to enable the Company to implement this proposal (Resolution 12). If passed, we expect these new arrangements to commence in respect of the Company's results for the year ending 30 April 2008.

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

ISA and PEP investment

The Company's shares are eligible for inclusion in an Individual Savings Account and are also eligible as an investment for Personal Equity Plan transfers.

Significant voting rights

At 21 June 2007 the Company had received notification of the following significant voting rights in respect of its ordinary share capital:

	%
Prudential plc	8.66
Legal and General Group plc	4.24

Report of the Directors (continued)

The percentages are calculated by applying the voting rights as notified to the Company to the aggregate voting rights in respect of its ordinary share capital as at 21 June 2007.

Directors

The Directors of the Company are detailed on page 16. All of the Directors held office throughout the year with the exception of Les Cullen who was appointed with effect from 1 September 2006. Being eligible, he will offer himself for election at the forthcoming AGM.

Anthony Townsend and Jane Tozer both retire by rotation at the AGM and, being eligible, stand for re-election. It is considered that these three Directors make a valuable contribution to the Board and the Directors accordingly recommend their respective election and re-election.

As reported in the Chairman's Statement, Gerry Grimstone and Dr Bruce Farmer will retire from the Board after the conclusion of the AGM on 30 July 2007. Messrs Mark White and Andrew Adcock will be appointed as Directors immediately thereafter. Anthony Townsend will be appointed as Chairman of the Company on the retirement of Gerry Grimstone. His other material commitments can be found in his biography on page 16.

Each Director has a signed letter of appointment setting out the terms of their engagement as non-executive Directors. These are available for inspection at the Company's registered office during normal business hours and are also available at the AGM. On 24 July 2006, the Company entered into a deed poll providing the Directors with, inter alia, indemnities against liability to third parties arising in connection with any negligence, default, breach of duty or breach of trust by the Directors (such indemnities being qualifying third party indemnities, as permitted under the Companies Act 1985). This deed poll is also available for inspection at the Company's registered office during normal business hours and at the AGM. The Company has in place insurance which indemnifies the Directors against certain liabilities arising in carrying out their duties.

No Director has a service contract with the Company. Details of the Directors' shareholdings in the Company and their interests in contracts and agreements are contained in note 7 on the accounts.

The Directors' Remuneration Report, which can be found on page 33, and note 7 on the accounts provide detailed information on the remuneration of the Directors. Shareholders will be asked to approve the Directors' Remuneration Report at the AGM. The Directors' remuneration is not conditional upon the resolution being passed.

Policy on payment of suppliers

The Company's principal supplier is the Manager, which is paid in accordance with the terms of the management agreement as summarised in note 4 on the accounts. Other suppliers are paid in accordance with individual payment terms agreed with each supplier. At 30 April 2007, the Company's outstanding trade creditors were equivalent to 4 days' payment to suppliers (2006: 6 days').

Charitable donations

The Company did not make any charitable donations during the year (2006: nil).

Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution to re-appoint them and to authorise the Directors to determine their remuneration will be proposed at the AGM.

In the year under review the Company paid non-audit fees of £9,000. These fees are shown in note 6 on the accounts.

So far as each of the Directors is aware there is no relevant audit information of which the Company's auditors are unaware. The Directors believe that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of this information.

By order of the Board
F&C Management Limited
Secretary
21 June 2007

Corporate Governance

The Company is committed to high standards of corporate governance. The Board has considered the principles and recommendations of the AIC Code of Corporate Governance (the "**AIC Code**") by reference to the AIC Corporate Governance Guide for Investment Companies (the "**AIC Guide**"). The AIC Code addresses all the principles set out in Section 1 of the Combined Code of Corporate Governance (the "**Code**"), as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Code), provides more relevant information to shareholders.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of Section 1 of the Code except for the Code's provision in respect of the need for an internal audit function. For the reasons set out in the AIC Guide, and in the preamble to the Combined Code, the Board considers that this provision is not relevant to the Company as it is an investment company.

The Company has a secondary listing on the New Zealand Stock Exchange. Holders in this jurisdiction should note that corporate governance rules and principles in this area may materially differ from the corporate governance principles applied in the UK.

The Board

The Board currently comprises six non-executive Directors. All of the Directors of the Company are resident in the UK, apart from Dr Franz Leibenfrost who is domiciled in Austria. Their biographical details, which are on page 16, demonstrate the wide range of skills and experience that they bring to the Board. The Directors each have a signed letter of appointment to formalise in writing the terms of their engagement as non-executive Directors; copies of the letters of appointment are available on request and at the Company's annual general meeting ("**AGM**").

The Board is responsible for the effective stewardship of the Company's affairs and a formal schedule of matters reserved for the decision of the Board has been adopted. In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information. The Board meets at least seven times a year and at each meeting reviews the Company's investment performance, as well as other management information including financial reports and other reports of a strategic nature. It monitors compliance with the Company's objectives and is responsible for approving the asset allocation, investment and gearing ranges within which the Manager is given discretion to act. Key representatives of the Manager attend each Board meeting. Board meetings are also held on an ad-hoc basis to consider particular issues as they arise. The Board is also responsible for the review and approval of the annual accounts.

The table below sets out the number of Board and committee meetings held during the year under review and the number of meetings attended by each Director. In addition to these meetings, the Company convened one meeting formed of a committee of the Board to formally ratify the appointment of a Director, at which Gerry Grimstone was present. All Directors attended the AGM in July 2006, apart from Les Cullen who was not appointed until September 2006.

Meeting attendance

	A	B	C
No. of meetings	**8**	**2**	**2**
Gerry Grimstone	8	2	2
Les Cullen*	5	1	1
Dr Bruce Farmer	7	2	2
Dr Franz Leibenfrost	8	2	2
Anthony Townsend	7	2	2
Jane Tozer	8	1	2

* Les Cullen was appointed as a Director and a member of the Audit and Management Engagement Committee and Nomination Committee with effect from 1 September 2006.

A = Full Board meetings.

B = Audit & Management Engagement Committee meetings.

C = Nomination Committee meetings.

The Board regularly reviews the independence of its members, having due regard to the definitions and current guidelines on independence. The Board is of the view that length of service does not necessarily compromise the independence or contribution of directors of an investment trust company, where

Corporate Governance (continued)

continuity and experience can add significantly to the strength of the Board; this is in accordance with the views expressed in the AIC Code. However, the Board has a policy that no more than one member of the Board should generally have served for more than nine years. It is considered that all of the Directors are independent.

The Board believes that it has a reasonable balance of skills, experience, ages and length of service, which balance will continue after the changes to the Board that are taking place after the AGM. The Board recognises the value of progressive refreshing of, and succession planning for, company boards. Accordingly, each Director's appointment is reviewed prior to submission for re-election. All Directors are required to stand for re-election at least every three years and those Directors who have served for nine years or more are subject to annual re-election.

In order to review the effectiveness of the Board, the Committees and the individual Directors, the Board carries out a process of formal self appraisal. This encompasses both quantitative and qualitative measures of performance in respect of the Board and its Committees, implemented by the completion of an evaluation survey and a subsequent review of the findings. The appraisal of the Chairman follows the same process and is carried out by the Board as a whole under the leadership of the Senior Independent Director. The appraisal process is considered by the Board to be constructive in terms of identifying areas for improving the functioning and performance of the Board and the Committees and the contribution of the individual Directors. It is considered that the use of an external appraisal consultant is unlikely to provide any meaningful advantage over the internal process that has been adopted. However, the option of using such consultants is kept under review.

The Company does not have a chief executive as day-to-day management of the Company's affairs has been delegated to the Manager.

The Board has established a procedure whereby Directors, wishing to do so in the furtherance of their duties, may take independent professional advice or training at the Company's expense. The Board has direct access to the advice and services of the Company Secretary, F&C Management Limited, which 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 concerns of the Directors to be recorded in the minutes. The appointment or removal of the Company Secretary is a matter for the Board as a whole in accordance with the terms of the management agreement. During the year, the Board has maintained appropriate insurance cover in respect of legal action against the Directors.

Audit and Management Engagement Committee

The Audit and Management Engagement Committee (the "**Audit Committee**") currently comprises Dr Bruce Farmer (Chairman), Les Cullen, Gerry Grimstone, Dr Franz Leibenfrost, Anthony Townsend and Jane Tozer, all of whom are considered to be independent. Upon the retirement of Dr Bruce Farmer from the Board, Les Cullen will become Chairman of the Audit Committee. It is considered that there is a range of recent and relevant financial experience amongst the members of the Audit Committee.

The Audit Committee operates within written terms of reference clearly setting out its authority and duties.

Copies of the terms of reference are available on request and can also be found on the F&C website at www.fandc.com. The primary responsibilities of the Audit Committee are to review the Company's accounting policies and any significant financial reporting adjustments, the integrity and contents of its financial statements and compliance with regulatory and financial reporting requirements. It also reviews the Company's internal control and risk management systems. The Audit Committee makes recommendations to the Board concerning the re-appointment of the auditors and their remuneration. It also monitors the auditors' independence and objectivity, the effectiveness of the audit process and the engagement of the auditors in the supply of non-audit services, which in the year under review amounted to £9,000 (2006: £57,000, £41,000 of which related to the Tender Offer.)

The Audit Committee carries out a full annual review of the investment management agreement with the Manager, including the level and structure of fees payable and the length of notice period.

It has direct access to the Auditors, PricewaterhouseCoopers LLP ("**PwC**"), who attend Audit Committee meetings to review the annual and interim results and provide a comprehensive review of the audit of the Company. The Audit Committee also has the opportunity to meet with the auditors without the Manager being present. The Manager and the Company use different audit firms.

It reviews, from time to time, the "whistle-blowing" policy that has been put in place by the Manager under which its staff may, in confidence, raise concerns about any possible improprieties in matters of financial reporting or other matters insofar as they may affect the Company. The necessary arrangements are in place for proportionate and independent investigation of such matters.

It has access to the senior representatives of the compliance and internal audit department at F&C and to the Manager's group audit committee, and reports its findings to the Board. The Board retains ultimate responsibility for all aspects of the annual and interim accounts and other significant published financial information.

Nomination Committee

The Nomination Committee currently comprises the full Board and is chaired by Gerry Grimstone. Anthony Townsend will Chair the Committee when Gerry Grimstone stands down from the Board.

The role of the Committee is to review and make recommendations with regard to Board structure, size and composition, the balance of knowledge, experience, skill ranges and age profile. It also considers succession planning and tenure policy. Appointments of new Directors are made on a formalised basis, with the Nomination Committee agreeing the selection criteria and the method of selection, recruitment and appointment. The services of an external search consultant are used when filling vacancies on the Board. The formal appointment of a new Director remains the responsibility of the Board. An induction process has been prepared for new appointees, whereby they are given a briefing on the workings and processes of the Company (including the receipt of key documentation) and meet the lead fund manager, the nominated individual at F&C who undertakes the role of the Company Secretary and other key employees of the Manager. Major shareholders are given the opportunity to meet any newly appointed Director. The Committee also considers and makes recommendations to the Board with regard to the re-appointment of those Directors standing for re-election at the AGM, variations on terms of appointments and the question of each Director's independence prior to the publication of the annual report.

A copy of the Committee's terms of reference are available on request and can also be found on the F&C website at www.fandc.com.

Remuneration committee

The Company has no executive Directors and no employees, and consequently does not have a remuneration committee. The Directors' Remuneration Report, which can be found on page 33, and note 7 on the accounts provide detailed information on the remuneration arrangements for the Directors of the Company.

Internal controls and management of risk

The Board has overall responsibility for the Company's systems of internal controls and for reviewing their effectiveness. These controls aim to ensure that assets of the Company are safeguarded, proper accounting records are maintained and the financial information used within the business and for publication is reliable. Typical areas of risk material to investment trusts in general, and which have been identified and are monitored as part of the control process, include inappropriate long-term investment strategy, loss of management personnel, asset allocation, excessive gearing and potential loss of section 842 status under the provisions of the Income and Corporation Taxes Act 1988. More detail on the Company's principal risks is set out on page 24 and in note 26 on the accounts.

Control of the risks identified, covering financial, operational, compliance and overall risk management, is exercised by the Board through reports provided by the Manager on investment performance, performance attribution and other management issues. The Board has agreed with the Manager the investment policy and restrictions under which the Manager operates and the Manager

Corporate Governance (continued)

reports on compliance with this at every meeting. The Board also receives a quarterly control report from the Manager that provides details of any known internal control failures. This report incorporates a table of key risks to which the Company is exposed and the controls in place to mitigate them, including those risks that are not directly the responsibility of the Manager. 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, loss or fraud.

In common with most investment trusts, the Company does not have an internal audit function. All of the Company's management functions are delegated to the Manager, which has its own audit, risk and compliance department and whose controls are monitored by the Board. It is therefore felt that there is no current need for the Company to have its own internal audit function. However, this is reviewed annually by the Audit Committee.

The Board has carried out a risk and control assessment including a review of the Manager's risk management infrastructure and the report on policies and procedures in operation and tests for the period 1 January to 31 December 2006 (the "**Report**") that has been prepared by the Manager for its investment trust clients to the standards of the Institute of Chartered Accountants in England and Wales Technical Release AAF (01/06). Containing a report from independent external accountants, the Report sets out the Manager's control policies and procedures with respect to the management of its clients' investments. The effectiveness of these controls is monitored by the Manager's group audit committee which receives regular reports from the Manager's audit, risk and compliance department and ensures that action would be taken to remedy any significant failings or weakness identified from this monitoring. The Company's Audit Committee will continue to work with the Manager's audit, risk and compliance department to enhance controls as they affect the Company.

Investment management

The Board has contractually delegated the management of the investment portfolio, and the provision of company secretarial, accounting, marketing and general administrative services, to the Manager. Details of the terms of the agreement with the Manager are set out in note 4 on the accounts. The Board has reviewed and endorsed the Manager's approach to environmental, social and governance issues and voting policy which is explained in the Business Review on page 23 and receives periodic reports on its implementation.

Relations with shareholders

Communication with shareholders is given a high priority. The Company's annual report contains a detailed review of performance and the investment portfolio. Where practicable the annual report is sent to all shareholders at least 20 business days before the AGM. At the half-year stage, interim accounts, containing updated information in a more abbreviated form, are also sent to all shareholders. Updated information is available on the F&C website at www.fandc.com.

All shareholders are encouraged to attend the AGM, at which a presentation is made by the Manager and where they are given an opportunity to question the Chairman, the Board and the Manager. Proxy voting figures are announced to shareholders at the AGM. All beneficial shareholders in the F&C savings schemes have the opportunity to vote using a form of direction and, in accordance with the Articles of Association, have the right to attend, speak and vote at general meetings.

A regular dialogue is maintained with the Company's institutional shareholders and private client asset managers through the Manager, which regularly reports to the Board on any such contact. The Chairman also meets with shareholders periodically. The Senior Independent Director and other Directors are available to attend such meetings as and when required. The dialogue with shareholders provides a two-way forum for canvassing their views and for enabling the Board to become aware of any issues of concern, including those relating to performance and corporate governance.

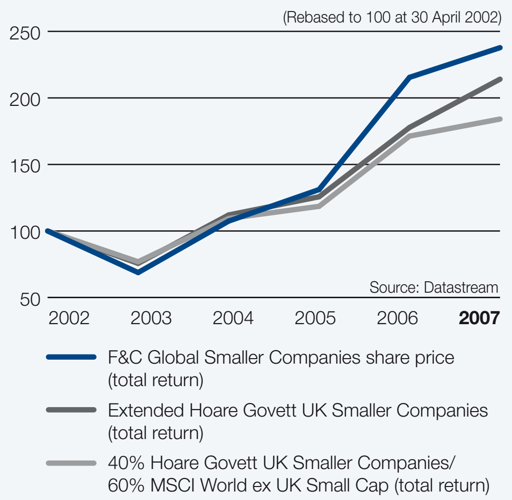
Shareholders wishing to communicate with the Chairman, the Senior Independent Director or other members of the Board may do so by writing to the Company at the registered office address as detailed on page 17.

Directors' Remuneration Report

The Company's Articles of Association limit the aggregate fees payable to the Board to a total of £160,000 per annum. Within that limit, it is the responsibility of the Board as a whole to determine the level of Directors' fees having regard to the level of fees payable to non-executive directors in the industry generally, the role that individual Directors fulfil in respect of Board and Committee responsibilities, and the time committed to the Company's affairs. As the Board comprises solely non-executive Directors, none of whom has a service contract with the Company, it is exempt under the Listing Rules from appointing a remuneration committee.

During the year the Board approved an increase in the fees paid to Directors in order to better reflect the time spent in fulfilling their duties. Prior to this increase, the fees paid to Directors had remained unchanged since 2002. With effect from 1 November 2006 the Chairman receives a fee of £30,000 per annum (2006: £27,500), whilst the remaining Directors receive a fee of £18,000 per annum (2006: £16,500). Each member of the Audit Committee receives £2,000 per annum (2006: £1,500). The Senior Independent Director receives £1,500 per annum (2006: £1,500).

Total shareholder return



Until 30 April 2005 the Company's Benchmark was the Extended Hoare Govett UK Smaller Companies Index ("**HGSC**"). From 1 May 2005 the Company's Benchmark became 40% HGSC and 60% MSCI World ex UK Small Cap Index.

Following the increase in Directors' remuneration, the Directors are seeking authority to amend the Company's Articles of Association to increase the limit of aggregate fees payable to the Directors to £200,000 per annum at the forthcoming annual general meeting. This authority will give the Board greater flexibility in its size and composition.

The amounts paid to each Director, which were for services to the Company solely in the capacity of non-executive Directors and have no performance related element, are set out in the table below.

Remuneration for qualifying services

Director	Fees for services to the Company 2007 £s	2006 £s
Gerry Grimstone (Chairman and highest paid Director)	**30,500**	29,000
Dr Bruce Farmer[1] (Chairman of the Audit Committee and Senior Independent Director)	**20,500**	19,131
Les Cullen[2]	**13,000**	–
Dr Franz Leibenfrost	**19,000**	18,000
Anthony Townsend	**19,000**	18,000
Jane Tozer[3]	**19,000**	15,969
Nicholas Talbot Rice[4]	**–**	4,500
	121,000	104,600

1 Appointed as Senior Independent Director on 29 July 2005.
2 Appointed a Director on 1 September 2006.
3 Appointed a Director on 13 June 2005.
4 Retired as Senior Independent Director and a Director on 29 July 2005.

The information in the above table has been audited (see the Independent Auditors' Report on page 35).

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' and Officers' liability insurance cover is maintained by the Company on behalf of the Directors.

By order of the Board
F&C Management Limited
Secretary
21 June 2007

Directors' Statement of Responsibilities

As required by company law, the Directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the Company as at 30 April 2007 and of the results for the year then ended. In preparing the financial statements, suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made. The financial statements are prepared in accordance with applicable accounting standards and on a going concern basis. The Directors are also responsible for ensuring that adequate accounting records are maintained and have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

Analysis of Ordinary Shareholders

Analysis of ordinary shareholders at 30 April 2007

Category	Number of shares	% Holding
F&C savings plans	18,222,756	38.96
Institutions	12,269,870	26.23
Nominee holdings	10,007,242	21.40
Direct individual holdings	6,272,913	13.41

Source: F&C Management Limited.

The total number of shareholders at 30 April 2007 was 24,160, of which 21,441 were investors through the F&C savings plans.

Independent Auditors' Report

Independent Auditors' Report to the members of F&C Global Smaller Companies PLC

We have audited the financial statements of F&C Global Smaller Companies PLC for the year ended 30 April 2007 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

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

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Manager's Review, the Report of the Directors incorporating the Business Review, the unaudited part of the Directors' Remuneration Report and the Corporate Governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 April 2007 and of its net return and cash flows for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Southwark Towers
32 London Bridge
London SE1 9SY
21 June 2007

Income Statement

Revenue notes	Capital notes	for the year ended 30 April	2007 Revenue £'000s	2007 Capital £'000s	2007 Total* £'000s	2006 Revenue £'000s	2006 Capital £'000s	2006 Total * £'000s
	12	Gains on investments	–	21,112	21,112	–	99,506	99,506
	22	Exchange losses	(3)	(101)	(104)	(3)	(535)	(538)
3		Income	3,978	–	3,978	4,912	–	4,912
4	4	Management fee	(280)	(654)	(934)	(366)	(855)	(1,221)
	5	Performance fee	–	(566)	(566)	–	–	–
6	22	Other expenses	(714)	(54)	(768)	(578)	(605)	(1,183)
		Return before finance costs and taxation	2,981	19,737	22,718	3,965	97,511	101,476
8	8	Finance costs	(348)	(812)	(1,160)	(444)	(1,035)	(1,479)
		Return on ordinary activities before taxation	2,633	18,925	21,558	3,521	96,476	99,997
9	9	Taxation on ordinary activities	(363)	114	(249)	(311)	66	(245)
		Return attributable to equity shareholders	2,270	19,039	21,309	3,210	96,542	99,752
10	10	**Return per share – pence**	4.75	39.79	44.54	4.54	136.62	141.16

* 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

for the year ended 30 April 2007

Notes		Called up share capital £'000s	Share premium account £'000s	Capital redemption reserve £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total equity shareholders' funds £'000s
	Balance brought forward at 30 April 2006	**12,088**	**23,132**	**14,095**	**170,960**	**7,377**	**227,652**
	Movements during the year ended 30 April 2007						
11	Dividends paid	**–**	**–**	**–**	**–**	**(2,674)**	**(2,674)**
	Shares purchased by the Company	**(395)**	**–**	**395**	**(6,713)**	**–**	**(6,713)**
	Return attributable to equity shareholders	**–**	**–**	**–**	**19,039**	**2,270**	**21,309**
	Balance carried forward at 30 April 2007	**11,693**	**23,132**	**14,490**	**183,286**	**6,973**	**239,574**

for the year ended 30 April 2006

Notes		Called up share capital £'000s	Share premium account £'000s	Capital redemption reserve £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total equity shareholders' funds £'000s
	Balance brought forward at 30 April 2005	21,231	23,132	4,952	207,658	7,425	264,398
	Movements during the year ended 30 April 2006						
11	Dividends paid	–	–	–	–	(3,258)	(3,258)
	Shares purchased by the Company	(9,143)	–	9,143	(133,240)	–	(133,240)
	Return attributable to equity shareholders	–	–	–	96,542	3,210	99,752
	Balance carried forward at 30 April 2006	12,088	23,132	14,095	170,960	7,377	227,652

Balance Sheet

Notes	at 30 April	£'000s	2007 £'000s	£'000s	2006 £'000s
	Fixed assets				
12	Investments		**246,970**		238,228
	Current assets				
13	Debtors	**3,050**		1,609	
14	Taxation recoverable	**19**		10	
	Cash at bank and short-term deposits	**5,548**		2,652	
		8,617		4,271	
	Creditors: amounts falling due within one year				
15	Loans	**–**		(3,000)	
16	Other	**(6,013)**		(1,847)	
		(6,013)		(4,847)	
	Net current assets/(liabilities)		**2,604**		(576)
	Total assets less current liabilities		**249,574**		237,652
	Creditors: amounts falling due after more than one year				
17	Debenture		**(10,000)**		(10,000)
	Net assets		**239,574**		227,652
	Capital and reserves				
19	Called up share capital		**11,693**		12,088
20	Share premium account	**23,132**		23,132	
21	Capital redemption reserve	**14,490**		14,095	
22	Capital reserves	**183,286**		170,960	
22	Revenue reserve	**6,973**		7,377	
			227,881		215,564
23	**Total equity shareholders' funds**		**239,574**		227,652
23	**Net asset value per ordinary share – pence**		**512.21**		470.83

Approved by the Board on 21 June 2007

and signed on its behalf by:
Gerry Grimstone, Chairman

Cash Flow Statement

Notes	for the year ended 30 April	£'000s	2007 £'000s	£'000s	2006 £'000s
	Operating activities				
	Investment income	3,473		4,264	
	Interest received	215		689	
	Stock lending fees	86		91	
	Underwriting commission	–		1	
	Fees paid to the Manager	(899)		(1,305)	
	Fees paid to the Directors	(119)		(104)	
	Other cash payments	(344)		(677)	
24	**Net cash inflow from operating activities**		2,412		2,959
	Servicing of finance				
	Interest paid	(1,168)		(1,503)	
	Cash outflow from servicing of finance		(1,168)		(1,503)
	Taxation				
	Overseas tax paid	(271)		(293)	
	Overseas tax recovered	13		51	
	Net tax paid		(258)		(242)
	Financial investment				
	Purchases of equities and other investments	(99,982)		(100,997)	
	Sales of equities and other investments	114,532		244,636	
	Other capital charges and credits	(66)		(595)	
	Net cash inflow from financial investment		14,484		143,044
	Equity dividends paid		(2,674)		(3,258)
	Net cash inflow before use of liquid resources and financing		12,796		141,000
	Management of liquid resources				
	(Increase)/decrease in short-term deposits		(1,000)		3,993
	Financing				
	Net loans repaid	(3,000)		(12,936)	
	Purchase of ordinary shares	(6,595)		(133,240)	
	Cash outflow from financing		(9,595)		(146,176)
25	**Increase/(decrease) in cash**		2,201		(1,183)

Notes on the Accounts

1. GENERAL INFORMATION

F&C Global Smaller Companies PLC is an investment company incorporated in the United Kingdom with a listing on the London Stock Exchange. The Company registration number is 28264 and the registered office is Exchange House, Primrose Street, London, EC2A 2NY, England. The Company conducts its affairs so as to qualify as an Investment Trust under the provisions of Section 842 of the Income and Corporation Taxes Act, 1988. Approval of the Company under S842 has been received (subject to there being no subsequent enquiry) in respect of the year ended 30 April 2006 and all previous applicable financial years. Such approval exempts the Company from UK Corporation Tax on gains realised in the relevant year on its portfolio of fixed asset investments.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The accounts of the Company have been prepared under the historical cost convention, modified to include fixed asset investments at fair value, and in accordance with the Companies Act 1985, Accounting Standards applicable in the United Kingdom and with the Revised Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' ("**SORP**") issued in December 2005. The functional and reporting currency of the Company is pounds sterling because that is the currency of the primary economic environment in which the Company operates.

There have been no significant changes to the accounting policies during the year ended 30 April 2007. In accordance with the SORP, the Income Statement has been analysed between a revenue account (dealing with items of a revenue nature) and a capital account (relating to items of a capital nature). Revenue returns include, but are not limited to, dividend income and operating expenses and tax (insofar as the expenses and tax are not allocated to capital, as described below). Net revenue returns are allocated via the revenue account to the revenue reserve, out of which dividend payments are made. Capital returns include, but are not limited to, realised and unrealised profits and losses on fixed asset investments and derivative instruments 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 paid to equity shareholders are shown in the Reconciliation of Movement in Shareholders' Funds.

(b) Principal accounting policies

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

(i) Fixed assets investments and derivative instruments

As an investment trust, the Company measures its fixed asset investments and derivative instruments at "fair value through profit or loss" and treats all transactions on the realisation and revaluation of investments and derivative instruments, as transactions on the capital account. Purchases are recognised on the relevant trade date, inclusive of expenses which are incidental to their acquisition. 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 quoted. 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 may be carried at cost less any provision for impairment. Derivative instruments are valued at quoted market prices.

(ii) Borrowings

Interest-bearing debenture stock, loans and overdrafts are recorded at the proceeds received, net of issue costs, irrespective of the duration of the instrument. The fair market value of the long-term debenture stock is based on a comparable UK gilt and is disclosed in note 17 on the accounts. Finance charges, including interest, are accrued using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period. See (v) below for allocation of finance charges within the Income Statement.

(iii) Foreign currency

Foreign currency assets and liabilities are expressed in sterling at rates of exchange ruling at the balance sheet date. Purchases and sales of investment securities, derivative instruments, 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 and derivative instruments 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iv) Income

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

(v) Expenses, including finance charges

Expenses are charged to the revenue account of the Income Statement, except as noted below:

– expenses incidental to the acquisition or disposal of fixed asset investments and derivative instruments are included within the cost of the investments and derivative instruments or deducted from the disposal proceeds of investments and derivative instruments and are thus charged to capital reserve realised via the capital account;
– performance fees, including related irrecoverable VAT, insofar as they relate to capital performance are allocated to capital reserve realised; and
– 70% of management fees, including related irrecoverable VAT, and 70% of finance costs are allocated to capital reserve realised, in accordance with the Board's long-term expected split of returns from the investment portfolio of the Company. All expenses are accounted for on an accruals basis.

(vi) Taxation

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

(vii) Capital redemption reserve

The nominal value of ordinary share capital repurchased for cancellation is transferred out of called-up share capital and into the capital redemption reserve.

(viii) Capital reserves

Capital reserve realised

The following are accounted for in this reserve:

– performance fees as set out in note 2 (v);
– 70% of management fees and finance costs as set out in note 2 (v);
– gains and losses on the realisation of fixed asset investments and derivative instruments;
– 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 purchasing ordinary share capital.

Capital reserve unrealised

The following are accounted for in this reserve:

– increases and decreases in the valuation of fixed asset investments and derivative instruments held at the year end; and
– unrealised exchange differences of a capital nature.

Notes on the Accounts (continued)

3. INCOME

	2007 £'000s	2006 £'000s
Income from investments		
UK franked dividends	**1,325**	1,533
UK scrip dividends	**239**	129
UK unfranked interest	**49**	65
Overseas dividends	**2,066**	2,298
Overseas scrip dividends	**15**	100
	3,694	4,125
Other income		
Interest on cash and short-term deposits	**214**	690
Stock lending fees	**67**	96
Underwriting commission	**3**	1
	284	787
Total income	**3,978**	4,912
Total income comprises		
Dividends	**3,645**	4,060
Interest from investments	**49**	65
Other income	**284**	787
	3,978	4,912
Income from investments		
Quoted UK*	**1,613**	1,727
Quoted overseas	**2,074**	2,392
Unquoted	**7**	6
	3,694	4,125

* Includes investments quoted on the Alternative Investment Market in the UK.

4. MANAGEMENT FEE

	Revenue £'000s	Capital £'000s	2007 Total £'000s	Revenue £'000s	Capital £'000s	2006 Total £'000s
Management fee	**259**	**605**	**864**	335	781	1,116
Irrecoverable VAT thereon *	**21**	**49**	**70**	31	74	105
	280	**654**	**934**	366	855	1,221

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

The Manager provides investment management, marketing and general administrative services to the Company. With effect from 1 May 2006, the management fee is an amount equal to 0.4% per annum, payable monthly in arrears, of net assets managed by the Manager (with debenture stock valued at market value) at the calculation date. Investments made by the Company in third party collective investment schemes are subject to a management fee, payable monthly in arrears to the Manager, of 0.25% per annum of the month end market value of those investments. The management agreement may be terminated upon six months' notice given by either party. Prior to 1 May 2006 the management fee, payable quarterly in advance, was 0.42% per annum of a three-year historic average of the total assets less current liabilities (excluding loans) of the Company as at the relevant calculation date, a date one year before such calculation date and a date two years before such calculation date.

The fees and related irrecoverable VAT have been allocated 70% to capital reserve realised.

5. PERFORMANCE FEE

	2007 Capital £'000s	2006 Capital £'000s
Performance fee	524	–
Irrecoverable VAT thereon	42	–
	566	–

With effect from 1 May 2006 the Manager is entitled to a performance fee, payable annually, equal to 10% of the value of any outperformance in the year by the net assets per share (debenture at market value) of the relevant Benchmark (comprising 40% Hoare Govett UK Smaller Companies Index and 60% MSCI World ex UK Small Cap Index). The performance fee is subject to a maximum in any one year of 0.6% of average monthly net assets in that year. Performance above this cap (outperformance) or below the benchmark (underperformance) will be carried forward to the subsequent period for inclusion in the calculation of performance in that period. There is no carried forward outperformance in respect of the current year. Prior to 1 May 2006 there was no performance fee arrangement in place.

The fees and related irrecoverable VAT have been allocated 100% to capital reserve realised.

6. OTHER EXPENSES

	2007 £'000s	2006 £'000s
Auditors' remuneration:		
for audit services	26	28
taxation services	3	7
other services*	6	9
Directors' fees		
fees for services to the Company	121	105
Marketing and Private Investor Plan expenses	292	193
Printing and postage	78	56
Custody fees	25	31
Sundry expenses	163	149
	714	578

* Auditors' remuneration for other services amounted to £6,000 (2006: £50,000, inclusive of £41,000 relating to the Tender Offer which was charged to capital reserve realised).

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

7. DIRECTORS' REMUNERATION AND CONTRACTS

(a) Remuneration

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 did not include any payments or rights to pensions, are detailed in the Directors' Remuneration Report on page 33.

(b) Directors' interests in shares

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

	30 April 2007 Ordinary shares	30 April 2006 Ordinary shares
Les Cullen (appointed 1 September 2006)	6,000	n/a
Dr Bruce Farmer	4,000	4,000
Gerry Grimstone	10,000	10,000
Dr Franz Leibenfrost	14,000	14,000
Anthony Townsend	10,000	10,000
Jane Tozer	1,864	–

Notes on the Accounts (continued)

7. DIRECTORS' REMUNERATION AND CONTRACTS (CONTINUED)

There have been no changes in any of the Directors' interests in shares detailed above since the Company's year end. No Director held any interest, beneficial or otherwise, in the issued shares of the Company other than stated above.

(c) Directors' interests in contracts with the Company

No contract of significance to which the Company is a party and in which a Director is or was materially interested existed during the year.

8. FINANCE COSTS

	Revenue £'000s	Capital £'000s	2007 Total £'000s	Revenue £'000s	Capital £'000s	2006 Total £'000s
Debenture stock	345	805	1,150	345	803	1,148
Loans and bank overdrafts	3	7	10	99	232	331
	348	812	1,160	444	1,035	1,479

The interest is further analysed as follows:

	Revenue £'000s	Capital £'000s	2007 Total £'000s	Revenue £'000s	Capital £'000s	2006 Total £'000s
Loans and bank overdrafts repayable within five years, not by instalments	3	7	10	99	232	331
Borrowings repayable in more than five years, not by instalments	345	805	1,150	345	803	1,148
	348	812	1,160	444	1,035	1,479

9. TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of tax charge for the year

	Revenue £'000s	Capital £'000s	2007 Total £'000s	Revenue £'000s	Capital £'000s	2006 Total £'000s
Corporation tax payable at 30% (2006: 30%)	192	(135)	57	299	(15)	284
Relief for overseas taxation	(57)	–	(57)	(284)	–	(284)
	135	(135)	–	15	(15)	–
Overseas taxation	240	9	249	245	–	245
Current tax charge for the year (note 9b)	375	(126)	249	260	(15)	245
Deferred taxation on accrued income (note 9c)	(12)	12	–	51	(51)	–
Taxation on ordinary activities	363	(114)	249	311	(66)	245

9. TAXATION ON ORDINARY ACTIVITIES (CONTINUED)

(b) Factors affecting the current tax charge for the year

	Revenue £'000s	Capital £'000s	2007 Total £'000s	Revenue £'000s	Capital £'000s	2006 Total £'000s
Return on ordinary activities before tax	2,633	18,925	21,558	3,521	96,476	99,997
Return on ordinary activities multiplied by the standard rate of Corporation tax of 30% (2006: 30%)	790	5,678	6,468	1,056	28,943	29,999
Effects of:						
UK franked dividends*	(469)	–	(469)	(498)	–	(498)
Movement in taxable income accruals	14	–	14	74	–	74
Expenses not deductible for tax purposes	43	–	43	29	–	29
Expenses utilised from prior years	–	–	–	(377)	–	(377)
Overseas tax in excess of double taxation relief	(138)	–	(138)	(39)	–	(39)
Capital expenses utilised against revenue	135	(135)	–	15	(15)	–
Capital expenses not utilised in the year	–	–	–	–	189	189
Capital returns*	–	(5,669)	(5,669)	–	(29,132)	(29,132)
Total current taxation (note 9a)	375	(126)	249	260	(15)	245

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

(c) Provision for deferred taxation

	Revenue £'000s	Capital £'000s	2007 Total £'000s	Revenue £'000s	Capital £'000s	2006 Total £'000s
Balance brought forward	51	(51)	–	–	–	–
(Credit)/charge for the year (note 9a)	(12)	12	–	51	(51)	–
Balance carried forward	39	(39)	–	51	(51)	–

The deferred tax asset of £2.5m (2006: £2.0m) in respect of unutilised expenses at 30 April 2007 has not been recognised as the Directors believe it is unlikely that the Company will have sufficient taxable profits in the future to utilise it. Of this amount nil (2006: nil) relates to revenue expenses and £2.5m (2006: £2.0m) to capital expenses.

10. RETURN PER ORDINARY SHARE

Revenue return

The revenue return per share is based on the revenue return attributable to equity shareholders of £2,270,000 profit (2006: £3,210,000 profit).

Capital return

The capital return per share is based on the capital return attributable to equity shareholders of £19,039,000 profit (2006: £96,542,000 profit).

Weighted average ordinary shares in issue

Both the revenue and capital returns per share are based on a weighted average of 47,845,186 ordinary shares in issue during the year (2006: 70,665,432).

Notes on the Accounts (continued)

11. DIVIDENDS

Dividends on ordinary shares	Register date	Payment date	2007 £'000s	2006 £'000s
Final for the year ended 30 April 2005 of 2.96p	1 July 2005	3 August 2005	–	2,499
Interim for the year ended 30 April 2006 of 1.49p	3 August 2005	30 January 2006	–	759
Final for the year ended 30 April 2006 of 3.04p	7 July 2006	3 August 2006	1,464	–
Special for the year ended 30 April 2006 of 1.00p	7 July 2006	3 August 2006	482	–
Interim for the year ended 30 April 2007 of 1.53p	29 December 2006	30 January 2007	728	–
			2,674	3,258

The Directors recommend a final dividend in respect of the year ended 30 April 2007 of 3.16p, payable on 6 August 2007 to all shareholders on the register at close of business on 6 July 2007. The recommended final dividend is subject to approval by shareholders at the annual general meeting.

The dividends paid and payable in respect of the financial year ended 30 April 2007, which form the basis of Section 842 of the Income and Corporation Tax Act 1988 retention test, are set out below:

	2007 £'000s
Revenue attributable to equity shareholders	2,270
Interim for the year ended 30 April 2007 of 1.53p	(728)
Final dividend for the year ended 30 April 2007 of 3.16p[1]	(1,462)
Estimated undistributed revenue for Section 842 purposes	80

[1] Based on 46,257,954 shares in issue at 21 June 2007.

12. INVESTMENTS

	Listed* £'000s	Unlisted £'000s	Total £'000s
Cost at 30 April 2006	160,568	3,728	164,296
Unrealised appreciation at 30 April 2006	75,261	(1,329)	73,932
Valuation at 30 April 2006	235,829	2,399	238,228
Movements in the year:			
Purchases at cost	103,824	7	103,831
Sales proceeds	(116,162)	(39)	(116,201)
Sales realised (losses)/gains	(5,760)	39	(5,721)
Increase in unrealised appreciation	26,385	448	26,833
Valuation at 30 April 2007	244,116	2,854	246,970
Cost at 30 April 2007	179,261	3,735	182,996
Unrealised appreciation at 30 April 2007	64,855	(881)	63,974
Valuation at 30 April 2007	**244,116**	**2,854**	**246,970**

*Includes investments quoted on the Alternative Investment Market in the UK.

The investment portfolio is set out on pages 18 to 21.

12. INVESTMENTS (CONTINUED)

Gains on investments

	2007 £'000s	2006 £'000s
Realised gains based on historical cost	**31,070**	71,583
Amounts recognised as unrealised appreciation in previous years	**(36,791)**	(30,986)
	(5,721)	40,597
Movement in unrealised appreciation	**26,833**	58,909
Gains on investments	**21,112**	99,506

Stock lending

	2007 £'000s	2006 £'000s
Aggregate value of securities on loan at the year end	**3,445**	9,625
Maximum aggregate value of securities on loan during the year end	**10,863**	18,248
Fee income from stock lending during the year	**67**	96

In respect of securities on loan at the year end, the Company held £3,641,000 as collateral (2006: £10,169,000), the value of which exceeded the value of the securities on loan by 6% (2006: 6%).

In respect of the maximum aggregate value of securities on loan during the year, the Company held £11,964,000 as collateral (2006: £21,017,000), the value of which exceeded the value of securities on loan by 10% (2006: 15%).

F&C Management Limited received remuneration of £23,000 for managing the Company's stock lending activities (2006: £33,000).

Substantial interests

At 30 April 2007 the Company held more than 5% of one class of the share capital of the following undertakings held as investments, none of which represented a participating interest:

Company	Country of registration	Number and class of shares held	Percentage of class held
Australian New Horizons Fund	Australia	1,873,583 units	12.8
US Ventures	Cayman Islands	49,741 shares	10.1

13. DEBTORS

	2007 £'000s	2006 £'000s
Investment debtors	**2,655**	989
Prepayments and accrued income	**395**	620
	3,050	1,609

14. TAXATION RECOVERABLE

	2007 £'000s	2006 £'000s
Overseas taxation recoverable	**19**	10

Notes on the Accounts (continued)

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Loans	2007 £'000s	2006 £'000s
£3.0m at 4.91% repaid May 2006	**–**	3,000

At 30 April 2007 the Company had a committed loan facility of £15,000,000 expiring in September 2007 upon which commitment commission is charged on undrawn amounts at commercial rates.

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Other	2007 £'000s	2006 £'000s
Investment creditors	**4,665**	1,069
Purchase of ordinary shares	**118**	–
Bank overdrafts	**–**	208
Accrued expenses	**1,230**	570
	6,013	1,847

17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

Debenture	2007 £'000s	2006 £'000s
11.5% debenture stock 2014 secured	**10,000**	10,000

The debenture stock is secured by floating charges against the assets of the Company and is stated at nominal value. It is redeemable at par on 31 December 2014. The market value of the debenture, which was based on a comparable UK gilt was £13,307,000 (2006: £13,562,000).

18. GEOGRAPHICAL AND INDUSTRIAL CLASSIFICATION (TOTAL ASSETS LESS CURRENT LIABILITIES)

	UK %	North America %	Continental Europe %	Japan %	Pacific ex Japan %	Others %	2007 Total %	2006 Total %
Industrials	18.1	5.6	5.4	1.2	–	–	**30.3**	29.5
Financials	9.2	5.4	3.7	2.5	3.3	–	**24.1**	21.7
Consumer services	5.6	2.5	–	2.9	–	–	**11.0**	12.7
Consumer goods	1.7	4.7	1.7	2.1	–	–	**10.2**	10.5
Technology	3.4	3.1	1.3	0.5	–	–	**8.3**	7.3
Health care	1.3	2.7	0.4	0.6	–	–	**5.0**	4.2
Oil & gas	1.9	1.5	1.0	–	–	–	**4.4**	5.2
Basic materials	2.1	1.2	0.8	0.1	–	–	**4.2**	5.0
Telecommunications	0.3	0.4	–	0.4	–	–	**1.1**	2.1
Utilities	–	–	0.3	–	–	–	**0.3**	0.8
Total equities and convertibles	43.6	27.1	14.6	10.3	3.3	–	**98.9**	99.0
Net current assets/(liabilities)	2.1	(1.3)	(0.2)	0.2	0.3	–	**1.1**	1.0
Total assets less current liabilities (excluding debenture)	**45.7**	**25.8**	**14.4**	**10.5**	**3.6**	**–**	**100.0**	
2006 Totals	40.3	26.0	16.0	11.8	5.3	0.6		100.0

19. CALLED UP SHARE CAPITAL

Equity share capital	Authorised Number	Authorised £'000s	Issued and fully paid Number	Issued and fully paid £'000s
Ordinary shares of 25p each				
Balance brought forward	198,900,000	49,725	48,350,781	12,088
Transfer to capital redemption reserve	–	–	(1,578,000)	(395)
Balance carried forward	**198,900,000**	**49,725**	**46,772,781**	**11,693**

During the year 1,578,000 ordinary shares were purchased for cancellation at a cost of £6,713,000.

20. SHARE PREMIUM ACCOUNT

	2007 £'000s	2006 £'000s
Balance brought forward and carried forward	**23,132**	23,132

21. CAPITAL REDEMPTION RESERVE

	2007 £'000s	2006 £'000s
Balance brought forward	**14,095**	4,952
Transfer from equity share capital	**395**	9,143
Balance carried forward	**14,490**	14,095

22. OTHER RESERVES

	Capital reserves – realised £'000s	Capital reserves – unrealised £'000s	Capital reserves – total £'000s	Revenue reserve £'000s
Balance brought forward at 30 April 2006	96,684	74,276	170,960	7,377
Movements in the year				
Realised gains on investments	(5,721)	–	(5,721)	–
Transfers on disposal of investments	36,791	(36,791)	–	–
Exchange losses	(101)	–	(101)	–
Management fee	(654)	–	(654)	–
Performance fee	(566)	–	(566)	–
Other expenses	(54)	–	(54)	–
Finance costs	(812)	–	(812)	–
Corporation tax	114	–	114	–
Movement in unrealised appreciation on investments	–	26,833	26,833	–
Revenue return	–	–	–	2,270
Return attributable to ordinary shareholders	28,997	(9,958)	19,039	2,270
Cost of purchase of ordinary shares	(6,713)	–	(6,713)	–
Dividends paid in the year	–	–	–	(2,674)
	22,284	(9,958)	12,326	(404)
Balance carried forward at 30 April 2007	**118,968**	**64,318**	**183,286**	**6,973**

Included within the capital reserve movement for the year are £295,000 (2006: £281,000) of transaction costs on purchases of investments , £253,000 (2006: £501,000) of transaction costs on sales of investments and £63,000 of distributions recognised as capital (2006: £304,000).

Notes on the Accounts (continued)

23. NET ASSET VALUE PER ORDINARY SHARE

	2007	2006
Net asset value per share (with debenture at nominal value) – pence	**512.21**	470.83
Net assets attributable at the year end – £'000s	**239,574**	227,652
Ordinary shares of 25p in issue at the year end	**46,772,781**	48,350,781

Net asset value per share with debenture at market value was 505.14p (2006: 463.47p).

24. RECONCILIATION OF RETURN BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2007 £'000s	2006 £'000s
Total return before finance costs and taxation	**22,718**	101,476
Adjust for returns from non-operating activities		
– Gains on investments	**(21,112)**	(99,506)
– Exchange losses of a capital nature	**101**	535
– Non-operating expenses of a capital nature	**1,274**	1,460
Return from operating activities	**2,981**	3,965
Adjust for non cash-flow items		
Transfer of management fee to capital reserve	**(654)**	(855)
Transfer of performance fee to capital reserve	**(566)**	–
Exchange losses of a revenue nature	**3**	3
Decrease in accrued income	**50**	362
Decrease/(increase) in prepayments	**172**	(179)
Increase/(decrease) in accruals and creditors	**680**	(108)
Scrip dividends	**(254)**	(229)
Net cash inflow from operating activities	**2,412**	2,959

25. RECONCILIATION OF NET CASH FLOW MOVEMENT TO MOVEMENT IN NET DEBT

	2007 £'000s	2006 £'000s
Increase/(decrease) in cash	**2,201**	(1,183)
Increase/(decrease) in short-term deposits	**1,000**	(3,993)
Decrease in short-term loans	**3,000**	12,936
Movement in net debt resulting from cash flows	**6,201**	7,760
Exchange movement	**(97)**	(537)
Movement in net debt	**6,104**	7,223
Net debt brought forward	**(10,556)**	(17,779)
Net debt carried forward	**(4,452)**	(10,556)

25. RECONCILIATION OF NET CASH FLOW MOVEMENT TO MOVEMENT IN NET DEBT (CONTINUED)

Represented by:	Balance at 30 April 2006 £'000s	Cash flow £'000s	Exchange movement £'000s	**Balance at 30 April 2007 £'000s**
Cash at bank	1,652	1,993	(97)	**3,548**
Overdrafts	(208)	208	–	**–**
Short-term deposits	1,000	1,000	–	**2,000**
	2,444	3,201	(97)	**5,548**
Short-term loans	(3,000)	3,000	–	**–**
Debenture	(10,000)	–	–	**(10,000)**
	(10,556)	6,201	(97)	**(4,452)**

26. RISK PROFILE OF FINANCIAL ASSETS AND LIABILITIES

The Company conducts its affairs so as to qualify as an investment trust under the provisions of Section 842 of the Income and Corporation Taxes Act 1988.

The Company's investment objective is to secure a high total return by investing in smaller companies worldwide. The Company seeks to meet its investment objective by investing principally in a diversified portfolio of both quoted and unquoted smaller companies. The Company has the power to take out both short and long-term borrowings.

In pursuing its investment objectives, the Company faces risks to both assets and revenue. These risks, and the Directors' approach to the management of the risks, are set out on page 53. These policies have been consistently applied throughout the year under review and the preceding year.

The Company does not normally invest in derivatives. In the year ended 30 April 2006 the Company made use of derivatives to maintain a full exposure to markets whilst the Company was building up liquidity to fund the Tender Offer.

Financial assets

The interest rate profile of the Company's financial assets (excluding short-term debtors) at 30 April 2007 was:

Currency	**Floating rate financial assets* £'000s**	**Fixed rate financial assets £'000s**	**Effective interest rate %**	**Effective period for which rate is fixed**
Sterling (undated)	2,844	–	–	–
Sterling (fixed period)	–	2,000	5.3	1 day
Taiwanese dollar (undated)	646	–	–	–
Other (undated)	58	–	–	–

The interest rate profile of the Company's financial assets (excluding short-term debtors) at 30 April 2006 was:

Currency	Floating rate financial assets* £'000s	Fixed rate financial assets £'000s	Effective interest rate %	Effective period for which rate is fixed
Sterling (undated)	1,652	–	–	–
Sterling (fixed period)	–	1,000	4.6	3 days

* Floating rate financial assets earn interest at competitive rates set by JPMorgan Chase.

Notes on the Accounts (continued)

26. RISK PROFILE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Financial liabilities

The interest rate profile of the Company's financial liabilities (including short-term loans but excluding other short-term creditors) at 30 April 2007 was:

Currency	Floating rate financial liabilities* £'000s	Fixed rate financial liabilities £'000s	Effective interest rate %	Effective period for which rate is fixed
Sterling	–	10,000	11.5	8 years

The interest rate profile of the Company's financial liabilities (including short-term loans but excluding other short-term creditors) at 30 April 2006 was:

Currency	Floating rate financial liabilities* £'000s	Fixed rate financial liabilities £'000s	Effective interest rate %	Effective period for which rate is fixed
Sterling	–	13,000	10.0	7 years
US dollar	208	–	–	–

*Floating rate financial liabilities suffer interest at competitive rates set by JPMorgan Chase.

Currency exposure

The profile of the Company's net monetary assets at 30 April 2007, by currency, was:

	Sterling £'000s	US dollar £'000s	Euro £'000s	Japanese yen £'000s	Other £'000s	Total £'000s
Net monetary assets	**105,502**	**69,018**	**27,148**	**26,182**	**11,724**	**239,574**

The profile of the Company's net monetary assets at 30 April 2006, by currency, was:

	Sterling £'000s	US dollar £'000s	Euro £'000s	Japanese yen £'000s	Other £'000s	Total £'000s
Net monetary assets	86,045	61,799	30,057	28,223	21,528	227,652

Fair value

The Directors are of the opinion that the financial assets and liabilities of the Company are stated at fair value in the balance sheet, except as disclosed below:

	Book value 2007 £'000s	**Fair value 2007 £'000s**	Book value 2006 £'000s	Fair value 2006 £'000s
11.5% debenture stock 2014 (see note 17)	**10,000**	**13,307**	10,000	13,562

26. RISK PROFILE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Management of financial risks

Risk	Management of risk
Credit	
Failure by counterparties to deliver securities which the Company has paid for, or to pay for securities which the Company has delivered.	All transactions are settled on the basis of delivery against payment, except where local market conditions do not permit. Securities are loaned to third parties only in exchange for collateral which exceeds the value of the securities throughout the duration of the loan. Only approved counterparties are used.
Liquidity	
Difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments and share buybacks.	The Company's investments are principally quoted equities and are for the most part readily realisable. All securities are held in the name of the Company by the Company's appointed custodian. The Company has the power to take out borrowings, both short-term and long-term. In addition, at 30 April 2007, the Company had an overdraft facility of £1 million and committed loan facilities of £15 million. Covenants relating to these borrowings are continuously monitored. Cash and deposits are held with banks rated AA or higher.
Market price	
The Company's assets consist principally of listed equities, the values of which are determined by market forces.	The Board manages the market price risks inherent in the Company's portfolio by ensuring full and timely access to relevant information from the Manager. The Board meets regularly and at each meeting reviews investment performance and financial results.
Interest rate	
Assets, liabilities and net revenue may be affected by interest rate movements.	The Company's assets may include fixed interest stocks, the values of which are regularly reviewed by the Board. The Company finances part of its activities through loans and debentures, in currencies and at levels and interest rates approved by the Board. The effect of interest income and costs on net revenue is monitored monthly by the Board.
Currency	
Certain of the Company's assets and liabilities are denominated in currencies other than sterling. As a result, movements in exchange rates may affect the sterling value of the portfolio, cash, investment purchases and sales and income.	Income denominated in foreign currencies is converted to sterling on receipt. Borrowings are limited to currencies and amounts commensurate with the asset exposure to those currencies. The Company does not normally hedge its foreign currency exposure through derivatives.
Taxation	
Non-compliance with the rules of S842 of the Income and Corporation Taxes Act 1988 could result in the Company being subjected to corporation tax on gains realised on sale of the investment portfolio.	All Investment movements are monitored by the Board to ensure that no purchase results in any one investment being worth more than 15% of the total value of the portfolio. The Board also considers the level of forecast income and expenditure in order to ensure that income is derived mainly from shares and securities and that the proposed dividends payable to shareholders do not result in breach of S842 retention rules.

Ten Year Record

Assets

at 30 April

£'000s	1997	1998	1999	2000	2001	2002	2003	2004	2005*	2006	2007
Total assets	245,363	284,322	294,750	344,390	305,488	276,116	193,665	260,475	288,404	240,652	**249,574**
Debentures and loans	25,975	22,616	29,310	31,262	30,558	29,816	25,720	25,085	24,006	13,000	**10,000**
Net assets	219,388	261,706	265,440	313,128	274,930	246,300	167,945	235,390	264,398	227,652	**239,574**

Net asset value (NAV)

at 30 April

	1997	1998	1999	2000	2001	2002	2003	2004	2005*	2006	2007
NAV per share	209.5p	249.9p	255.3p	325.4p	291.9p	265.5p	183.1p	276.8p	311.3p	470.8p	**512.2p**
NAV total return on 100p – 5 years											**207.5p**
NAV total return on 100p – 10 years											**280.4p**

Share price

at 30 April

	1997	1998	1999	2000	2001	2002	2003	2004	2005*	2006	2007
Middle market price per share	174.5p	206.3p	203.5p	255.3p	242.5p	219.0p	147.0p	224.0p	268.5p	435.0p	**473.3p**
Discount to NAV	16.7%	17.4%	20.3%	21.6%	16.9%	17.5%	19.7%	19.1%	13.7%	7.6%	**7.6%**
Share price High	199.5p	206.8p	225.8p	304.5p	293.5p	254.5p	221.0p	227.0p	286.0p	444.5p	**473.3p**
Share price Low	167.3p	171.3p	145.3p	199.3p	223.5p	182.5p	124.0p	150.0p	209.5p	268.5p	**364.3p**
Share price total return on 100p – 5 years											**237.7p**
Share price total return on 100p – 10 years											**322.9p**

Revenue

for the year ended 30 April

	1997	1998	1999	2000	2001	2002	2003	2004	2005*	2006	2007
Available for ordinary shares – £'000s	3,581	4,074	5,428	4,213	4,021	3,639	3,284	3,465	3,930	3,210	**2,270**
Return per share	3.42p	3.89p	5.19p	4.22p	4.22p	3.89p	3.55p	3.95p	4.63p	4.54p	**4.75p**
Dividends per share	2.60p	3.00p	3.36p	3.75p	3.95p	4.02p	4.15p	4.24p	4.40p	5.53p#	**4.69p**

Performance

(rebased at 100 at 30 April 1997)

	1997	1998	1999	2000	2001	2002	2003	2004	2005*	2006	2007
NAV per share	100.0	119.3	121.9	155.3	139.3	126.7	87.4	132.1	148.6	224.7	**244.5**
Mid Market price per share	100.0	118.2	116.6	146.3	139.0	125.5	84.2	128.4	153.9	249.3	**271.2**
Earnings per share	100.0	113.7	151.8	123.4	123.4	113.7	103.8	115.5	135.4	132.7	**138.9**
Dividends per share	100.0	115.4	129.2	144.2	151.9	154.6	159.6	163.1	169.2	212.7#	**180.4**
RPI	100.0	104.0	105.7	108.8	110.7	112.4	115.9	118.8	122.6	125.7	**131.4**

* restated to reflect changes in accounting policies.

includes a special dividend of 1.00p.

Definitions

Total assets	Total assets less current liabilities (excluding loans).
NAV	Net asset value (debenture at nominal value).
NAV total return	Return on assets per share with dividends paid to shareholders reinvested.
Discount to NAV	Amount that the middle market share price is less than the NAV.
Share price total return	Return on the middle market share price with dividends paid to shareholders reinvested.
RPI	All-items retail prices index.

Costs of running the Company (total expense ratio)

for the year ended 30 April

	1997	1998	1999	2000	2001	2002	2003	2004	2005*	2006	2007#
Operating costs as a percentage of:											
Average net assets	0.66%	0.62%	0.65%	0.68%	0.67%	0.84%	1.10%	0.80%	0.66%	0.69%	**0.99%**
Average total assets	0.59%	0.57%	0.58%	0.62%	0.59%	0.75%	0.95%	0.72%	0.61%	0.65%	**0.95%**

Gearing

at 30 April

	1997	1998	1999	2000	2001	2002	2003	2004	2005*	2006	2007
Effective gearing	3.4%	(4.5)%	(0.2)%	(0.1)%	(8.5)%	0.6%	2.3%	3.9%	7.4%	4.7%	**2.7%**
Fully invested gearing	11.8%	8.6%	11.0%	10.0%	11.1%	12.7%	15.3%	10.7%	9.1%	5.7%	**4.2%**

* restated to reflect changes in accounting policies.
# includes a performance fee (see note 5 on the accounts).

Definitions

Operating costs	All costs charged to revenue and capital, other than interest costs, taxation, the costs of purchase of share capital and the costs of buying and selling investments.
Average net assets	Average of net assets at the end of each quarter.
Average total assets	Average of total assets at the end of each quarter.
Effective gearing	Loans and debentures (at nominal value) less cash, as a percentage of net assets.
Fully invested gearing	Loans and debentures (at nominal value) as a percentage of net assets.

Information for Shareholders

Net asset value and share price

The Company's net asset value ("**NAV**") is released daily, on the working day following the calculation date, to the London Stock Exchange.

The current share price of F&C Global Smaller Companies PLC is shown in the investment trust or investment companies section of the stockmarket page in most leading newspapers, usually under "F&C Global Smaller Cos". 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 interim and final reports which are sent to shareholders in December and June/July respectively.

More up-to-date performance information is available on the Internet at www.fandc.com (select your country, click on "Investor", followed by "Investment Trusts"). This website also provides a monthly update on the Company's largest holdings, along with comments from the fund manager, under "downloads, factsheets".

Association of Investment Companies ("AIC")

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

UK capital gains tax ("CGT")

An approved investment trust does not pay tax on capital gains. UK resident individuals may realise net capital gains of up to £9,200 in the tax year ended 5 April 2008 without incurring any tax liability.

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

Income tax

The recommended final dividend is payable in August 2007. Individual UK resident shareholders who are subject to UK income tax at the lower rate or the basic rate have no further tax liability.

Shareholders not resident in the UK, and any shareholders in doubt as to their tax position, should consult their professional advisers.

aic
The Association of Investment Companies

How to Invest

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

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

Private Investor Plan ("PIP")

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

Pension Savings Plan ("PSP")

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

Child Trust Fund ("CTF")

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

Individual Savings Account ("ISA")

You can invest up to £7,000 each year in F&C's Maxi ISA, or £4,000 in the Mini ISA – the minimum monthly Direct Debit is £50, minimum lump sum investment is £500 and the minimum top-up is £250. Investments in the ISA can be made on-line. ISA investment can also be phased over three or six months. This is especially useful near the end of the tax year, when the option for monthly investment is no longer viable.

Personal Equity Plan ("PEP")

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

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

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

For further details on the savings schemes and application forms, please contact Investor Services on

0800 136 420 **info@fandc.com**

or Broker Support on

08457 992 299 **adviser.enquiries@fandc.com**

(UK calls charged at the local rate)

Fax **0131 243 1315**

You can also find more information on the website:

www.fandc.com

If you wish to write to us, the address is:
Investor Services Team, F&C Management Limited,
80 George Street, Edinburgh EH2 3BU

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

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

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