F&C Global Smaller Companies PLC

Report and Accounts

2008

About Your Company

Objective

F&C Global Smaller Companies PLC ("the Company") invests in smaller companies worldwide in order to secure a high total return.

What we do

We invest around the globe in markets, sectors and companies that we believe will achieve the Company's objective.

We help to reduce the risk of stock market 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 choose to invest in the Company?

We believe that investing in global smaller companies offers 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:

- Spread: We invest in over 200 companies covering markets around the world.
- 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, the Company offers a number of advantages over other kinds of savings. For example it has:

- 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 OEICs or 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.

Visit the website at **www.fandcglobalsmallers.com**

Registered in England with company registration number 28264.

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 2008	30 April 2007	% Change
Share price	**385.00p**	473.25p	-18.6
Net asset value per share (debenture at nominal value)	**428.23p**	512.21p	-16.4
Net asset value per share (debenture at market value)	**421.05p**	505.14p	-16.6

	Year ended 30 April 2008	Year ended 30 April 2007	% Change
Revenue return per share	**5.54p**	4.75p	+16.6
Dividends per share	**4.83p**	4.69p	+3.0
Total expense ratio (based on average net assets)	**0.77%**	0.99%	

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Financial calendar

Annual general meeting	**31 July 2008**
Final dividend payable*	**6 August 2008**
Half-yearly results for 2009 announced	**December 2008**
Interim dividend payable	**January 2009**
Final results for 2009 announced	**June 2009**

* to shareholders on the register at the close of business on 4 July 2008.

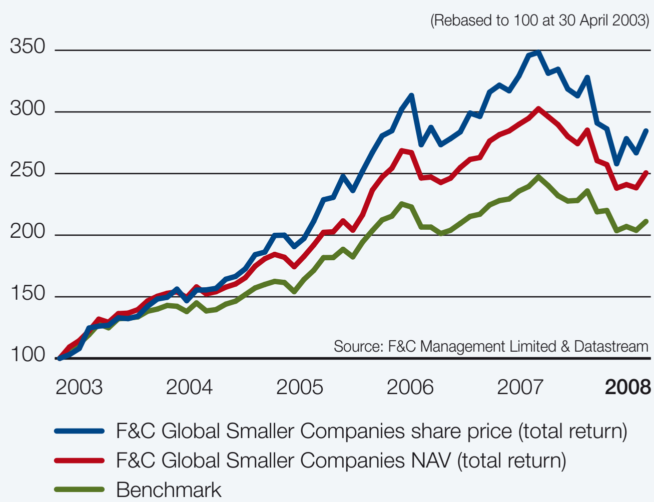
Chairman's Statement

Anthony Townsend Chairman

After a number of good years, this has been a more testing one for investors. It was dominated by the most significant financial crisis of recent times, which started with losses emerging from securities linked to the US mortgage market, and spread across other credit instruments then into equity markets. Share prices were also impacted by increasing evidence of an economic slowdown in the US. These issues served to reduce the appetite of investors to take investment risks and, against this background, it is perhaps unsurprising that smaller company shares were under particular pressure.

I am disappointed in my first year as Chairman to have to tell shareholders that, after four consecutive years of increases in your Company's share price and net asset value per share ("NAV"), we gave back some of these gains during this year. At the half-year stage the NAV on a total return basis fell 3.4%. Unfortunately there was a further drop in the value of the investment portfolio in the second half of the year.

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



Performance

The Company's benchmark is a blended index of the returns from the Hoare Govett UK Smaller Companies Index (40%) and the MSCI World ex UK Small Cap Index (60%) ("the Benchmark"), with the proportions approximately reflecting the balance of the portfolio between the UK and the rest of the world.

Over the past year, performance has been disappointing on both an absolute and relative basis. While both the first and final quarters produced above Benchmark returns, the portfolio suffered in the middle part of the year. For the twelve months the NAV on a total return basis, fell by 15.0%, while the share price dropped by 18.6%, compared to a fall in the Benchmark of 11.8%.

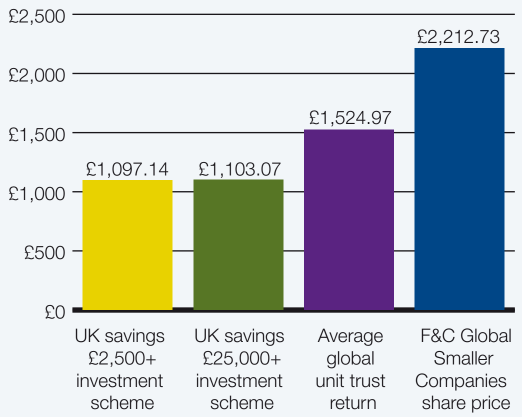
Underperformance means that the Company will not be paying a performance fee in respect of the year under review, and the Manager will have to recoup the shortfall of the past year, and move ahead of this, prior to being eligible for any further performance fees. The total expense ratio ("TER"), which measures the operating costs of the Company in relation to the net assets, fell to 0.77% as a consequence of the absence of a performance fee.

While 2007/8 was not a good year when considering performance, it is sensible to take a medium to long-term perspective. This is the first year in five that we have failed to beat the Benchmark and, over the last five years, the NAV total return of 150.6% far exceeds the Benchmark return of 111.1%. The share price has done even better, increasing by 184.6% including reinvested dividends, in this period.

Dividends

Whilst the capital performance of the portfolio was disappointing, it is pleasing that the investment portfolio once again generated a good level of income. The policy of focusing on companies which have the ability to pay progressive dividends means that the Board is in a position to recommend a final dividend of 3.25p per share. This is a 2.8% increase on last year's final dividend and, including the 1.58p interim dividend, results in a 3.0% rise on the year as a whole to 4.83p, the 38th consecutive year of underlying dividend growth for your Company. The dividend will be paid on 6 August 2008 to investors on the register on 4 July 2008.

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



Source: Lipper

Markets and regional performance

As already stated, this was a very turbulent year in the financial world. Problems in the US housing market, with rising numbers of home-owners unable to keep up with their mortgage payments, led to losses being recorded on securities backed by the cash-flows from these mortgages. The globalisation of markets meant that these losses spread widely around the world. This in turn led to concern about the financial position of a number of banks, a much lower willingness to lend within the banking sector and the so-called "credit crunch".

Not surprisingly, financial stocks have been under pressure. While banking is not an area to which the Company has much direct exposure, a tightening in the lending environment has impacted across a wide corporate spectrum.

In terms of the world economy, progressive weakening in the US has been the main feature of the year. Sharp drops in house prices, combined with rising energy and consumer prices, impacted confidence despite a series of interest rate cuts. There have been signs that growth is slowing elsewhere in the world, but it has not been all doom and gloom with the Far East regional economy remaining buoyant. Asia was the only part of the world where stock markets escaped falls.

The Manager's Review includes details of the background to the geographic portfolio returns. In summary, while performance was just ahead of the local smaller companies index in Europe and close to the benchmark used to measure performance in the UK, in the rest of the world we underperformed by a wider margin.

Change to investment approach for Japan

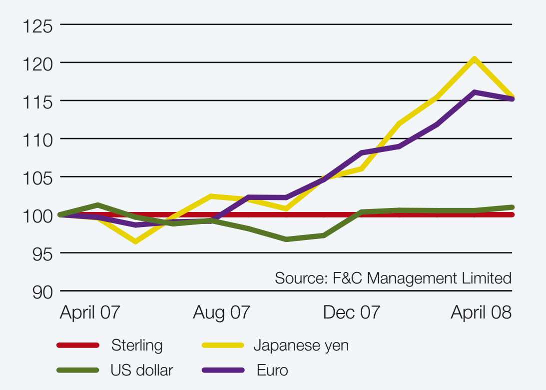
The Board has for some time been concerned about the relative returns achieved in Japan, where our portfolio has lagged the local benchmark in four of the last five years. Several changes of portfolio manager with responsibility for Japan within F&C in recent years have failed to improve matters. It was therefore decided that a small number of third party managed collective Japanese smaller company funds would be selected by the Manager to maintain exposure to Japan in common with the approach used by the Company for the rest of Asia, and the individual Japanese company shares would be sold. The Company will pay F&C a reduced fee of 0.25% on the value of the collective funds purchased. The Board believes that shareholders will benefit from the greater levels of dedicated Japanese smaller company expertise available in other fund management houses specialising in the region. The Manager has already commenced this reorganisation.

Currencies, asset allocation and gearing

Currency movements are important to a global trust as they affect the value of the portfolio which is measured in sterling terms to derive the NAV. The Board regularly

Chairman's Statement (continued)

Currency movements relative to sterling in the year ended 30 April 2008



reviews the foreign exchange outlook in the context of the strategy for asset allocation and borrowing.

In last year's report and accounts we highlighted how strong sterling had been in relation to other major currencies. This year, however, we have seen a dramatic reversal in the attitude towards sterling. In part this reflects the view that the UK is more vulnerable to the problems in the financial markets than other countries given the City's importance to the economy. There are signs that the UK housing market is under significant pressure and that consumer confidence is faltering. The chart above shows that sterling weakened over the year, particularly against the euro and yen, and this increased the sterling value of our international holdings.

While we were overweight in the UK in the first half of the year, the Manager's view that sterling was likely to be under pressure prompted a material reduction in our exposure in the second half. Other asset allocation changes of note were an increase in exposure to the US and a reduction in the Japanese market. The Manager's Review provides more detail on the rationale for these changes. Over the course of the year, asset allocation decisions failed to add value. One reason for this was a strong initial rise in Asian markets, where the Company was underweight early in the year.

The ability to use gearing to enhance returns is one of the fundamental attractions of the investment trust structure. However, gearing is only worthwhile when markets are rising and we therefore kept gearing low during the year. At the end of April 2008 effective gearing stood at 3.3% of net assets.

Change of sector

The Association of Investment Companies ("AIC") has historically included your Company in its global smaller companies sector. Following a number of other trusts changing their mandates, your Company became the only trust in this category.

The Board has been concerned about the limited coverage of the Company by investment trust analysts. Attention tends to be directed to areas where there are a number of investment trusts to compare and, whilst analysts are able to compare your Company with other UK smaller company trusts, we believe that the AIC global growth sector is a more suitable peer group as it includes a number of trusts exposed to mid and smaller company stocks around the globe. This sector is more widely followed as it includes some of the largest investment trusts in the market.

The Board therefore requested that your Company move sectors, and I am pleased that this request was approved and the Company was transferred into the AIC global growth sector on 30 April 2008. I would like to make it clear that this change of sector in no way alters the Company's objective. We will remain focused on investing in smaller companies aiming for long-term growth on a total return basis.

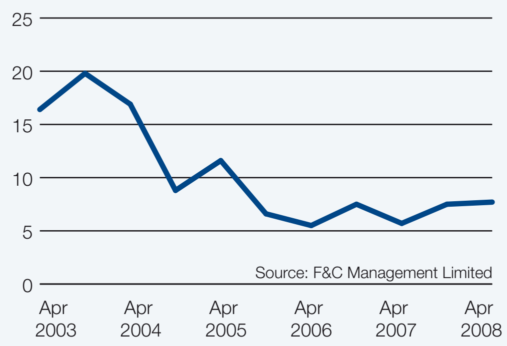
Discount and buybacks

Since the Tender Offer in December 2005, the Board has pursued an active policy of share buybacks with the aim being to keep the discount to NAV (including the debenture at market value but excluding current period income) close to 5% in normal market conditions.

Volatile market conditions in large parts of the year under review made it harder to manage the buyback strategy as the NAV itself became more volatile. Nevertheless, in line with the commitment to protect shareholders interests, the Company bought in 6.1% of its shares, adding 2.9p to the NAV in the process. At the end of the year, the discount on the targeted basis was 7.7%, somewhat higher than at the end of the prior year.

The Board believes that having a low discount target, combined with regular buyback activity, has

Discount (debenture at market value but excluding current period income) for the five years ended 30 April 2008



kept the discount tighter than would otherwise have been the case, and significantly lower than most other smaller company investment trusts. While the discount has been wider than the 5% target, there is a delicate balance to be struck between maintaining a "hard" maximum level of discount to protect shareholders wishing to sell and efficient management of the portfolio in the interests of longer term investors.

The Company's change of categorisation to the AIC's global growth sector mentioned earlier, should lead investors to look at the discount in the context of this new peer group, which would be advantageous since trusts in this sector have tended to be on lower discounts than smaller company trusts.

At the annual general meeting ("AGM"), we will again seek shareholder approval to buyback up to 14.99% of the issued share capital, with the option of holding shares bought back in treasury. As previously, it is likely that shares bought in will be immediately cancelled, which will enhance NAV. Any shares held in treasury would only be re-issued at a premium to NAV.

Marketing

Shareholder numbers rose by over 3,000 during the year, highlighting the success of the wide-ranging marketing effort undertaken during the year. F&C used direct mailings and online advertising in order to promote investment, as well as including details of the Company in its more general marketing activities. We intend to remain on the front foot in terms of marketing over the coming year and advertising and mailing campaigns, which some of you may have seen, have already been undertaken by the Manager since the year end.

VAT

As reported at the half-year stage, progress in legal proceedings has been made in relation to the issue of VAT on investment management fees previously paid by your Company. At this stage, while uncertainties remain over the precise amount and the timing of recovery of previously paid VAT, the Board believes that it is appropriate to recognise £1m as recoverable in the accounts. It is possible that a further less material amount could be recovered in due course, but prudence dictates that we wait for further developments. Note 6 on the accounts provides additional detail on this issue.

Electronic communications

Arrangements have been made to allow shareholders to access the annual report via the website and, for those holding their shares directly on the Company's main share register, to lodge their proxy vote online. We intend that similar arrangements for investors through the various F&C savings plans will be implemented as soon as those plans permit.

F&C savings plan proportional voting

F&C has modified its arrangements under which investors in its savings plans vote at shareholder meetings, including the upcoming AGM to which I look forward to welcoming as many of you as can make it. It is intended that the nominee company, which holds 42% of the Company's share capital on behalf of such investors, will vote the shares held on behalf of plan holders who have not returned their voting directions in the same proportions as those who have. Plan holders do have the option of excluding their shares from the proportional voting arrangements if they wish.

Outlook

The impact of the tightening in the availability of credit is starting to impact across a wider spectrum, and it is not yet clear whether the series of interest rate cuts in the US will succeed in turning round the world's

Chairman's Statement (continued)

largest economy. Continuing increases in oil and other commodity prices are a major factor at present and, unless reversed, these will constrain growth around the world. Another concern is that inflation is on the rise. In the UK context this threatens the Bank of England's ability to reduce interest rates to support growth; indeed some analysts are now anticipating rate rises here and elsewhere.

Smaller company shares do best when confidence is rising, and the extent to which they can bounce back in the financial new year will be driven by some of these macro issues. However, the fact remains that individual smaller companies can continue to do well even when times are tough, and it is the Manager's job to identify attractively placed and valued stocks no matter what the macroeconomic background.

Anthony Townsend
Chairman
19 June 2008

Manager's Review

Peter Ewins Lead Manager

This has been a difficult year as conditions in equity markets changed dramatically from day to day, with investors struggling to assess the likely economic consequences of the turmoil stimulated by the fall-out in the US sub prime mortgage market. However, it is the Manager's job to produce outperformance irrespective of the market background, something that unfortunately we were unable to deliver this year. The net asset value per share total return of -15.0% was worse than the 11.8% drop in the Benchmark (40% Hoare Govett UK Smaller Companies Index and 60% the MSCI World ex UK Small Cap Index).

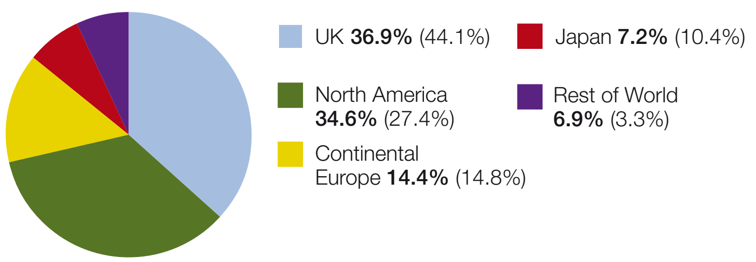
Equity markets took a turn for the worse in the second half of the financial year when the extent of losses in the banking system became clear. These losses resulted in reluctance by banks to lend to other financial institutions to conserve liquidity, a situation made worse by the problems emerging at, among others, Northern Rock in the UK, IKB in Germany and Bear Stearns in the US.

This was not solely a problem for banks. Other companies have been impacted by the margin that they pay over and above the central bank's core rates, which has risen substantially in many countries. When companies are unable to access funds to develop their businesses at reasonable rates it is bound to eventually have an impact on the overall economy. An increasing number of companies have run into financial trouble, particularly in the US and UK. Banks also became more reticent to lend to individuals, which is illustrated by the recent decline in the availability of mortgage finance within the UK.

Fortunately, the global economy entered the last financial year with a fair degree of momentum, and almost all parts of the world have continued to grow. Commodity price rises have created a boom in resources in parts of the world, for example in the Middle East. Oil is now selling for over $130 a barrel, which has fed positively through to some of our investments in the energy sector.

The flip-side of the growth in demand for commodities is that inflation in almost all parts of the world has risen appreciably. Companies are again facing a battle to pass on rising raw material, labour and energy costs and their pricing power is

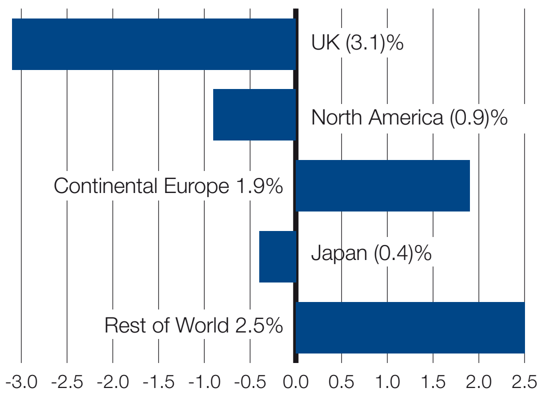
Geographical distribution of the investment portfolio as at 30 April 2008



The percentages in brackets are as at 30 April 2007

Source: F&C Management Limited

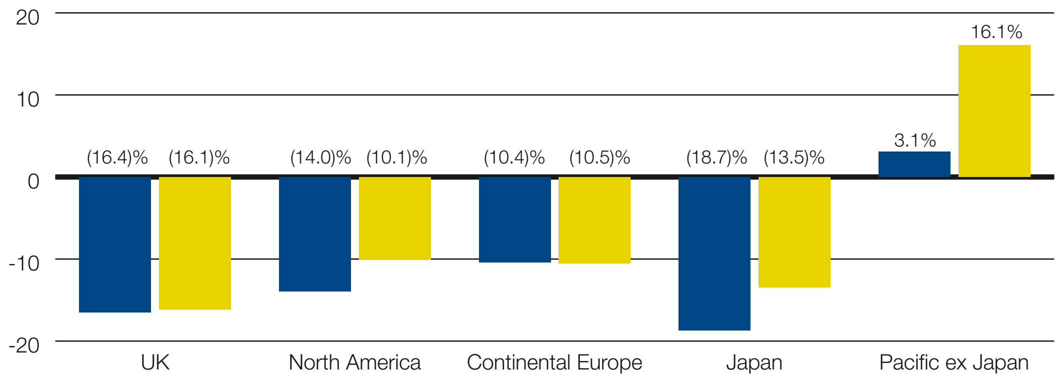
Geographical weightings against Benchmark as at 30 April 2008



Source: F&C Management Limited and MSCI

Manager's Review (continued)

Geographical performance (total return sterling adjusted) for the year ended 30 April 2008



Source: F&C Management Limited

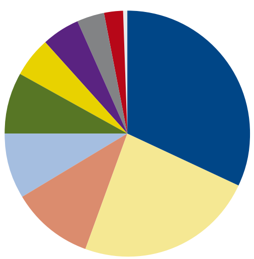
becoming increasingly important, something we are considering closely in our stock selection.

Smaller companies underperformed large companies globally as investors sought the perceived lower risk and greater liquidity of bigger market capitalisation stocks. This is a common reaction at times of economic uncertainty. The table above shows how our regional portfolios did in relation to the relevant local smaller company indices. Disappointingly, only in Europe were we ahead of the local index. There was no one single consistent factor behind the underperformance elsewhere. In short, stock selection was not good enough.

The structure of the portfolio relative to the Benchmark on an asset allocation basis is shown on page 7. The rationale for reducing exposure to the UK has already been discussed in the Chairman's Statement. Another important move was to increase the weighting in the US to close to the Benchmark level. While a slowdown in the US has led to some pressure on corporate earnings, we believe that the scale of recent monetary easing by the Federal Reserve, with the Fed funds rate down to 2%, will eventually lead to a pick-up in activity. We ended the year overweight in Asia as the growth outlook here continues to look good, and in Europe, where the major economies also appear to be performing robustly. We took money out of Japan as we became less positive on the potential for a revival in interest in small caps given anæmic domestic growth and pressure on exporters from the rising yen.

We aim to select the best stocks within each sector but with a suitably diverse portfolio. While we made limited use of the facility to borrow over the year, we stepped up gearing slightly in the last few months as valuations looked more attractive. Profits have grown for the majority of companies, yet many have seen their share prices fall. We have to be mindful that future profits may be harder to come by for many companies as economies slow.

Industrial classification of the investment portfolio as at 30 April 2008



- Industrials **32.0%** (30.6%)
- Financials **23.8%** (24.3%)
- Consumer goods **10.6%** (10.3%)
- Technology **8.7%** (8.5%)
- Consumer services **8.0%** (11.1%)
- Oil & gas **5.4%** (4.4%)
- Basic materials **5.1%** (4.2%)
- Health care **3.4%** (5.1%)
- Telecommunications **2.6%** (1.1%)
- Utilities **0.4%** (0.4%)

The percentages in brackets are as at 30 April 2007

Source: F&C Management Limited

UK portfolio

Our benchmark for UK performance, the Hoare Govett Smaller Companies Index ("HGSC"), fell by 16.1% in the year, considerably more than the 4.3% fall in the wider market as represented by the FTSE All-Share Index. This was the first year in five that

Chloride provides technology to protect data centre power supplies, ensuring that company systems continue to run smoothly.

smaller companies have underperformed large in the UK and also the first in five that our portfolio, which fell 16.4%, has failed to beat the HGSC.

The weaker relative performance of the small cap sector was partly due to the comparatively low exposure to resources stocks. As sentiment towards the UK economy deteriorated, the greater domestic bias of smaller companies also worked against them. The economy has for some years been too dependent on consumer driven growth and rising house prices have fuelled this. As already mentioned, the UK housing market is now suffering from an absence of funding and both transaction numbers and prices are falling. The government's financial position has deteriorated as a consequence of higher spending, and falling North Sea oil production, something that is a long-term issue for tax revenues.

The largest issue undermining our performance versus the HGSC was the low exposure to investment trusts. We focus the UK portfolio on investments in individual companies, and only use specialist trusts to target specific areas we can't easily invest in on a direct basis. Trusts form a large part of the HGSC and they have outperformed partly due to the weakness in sterling. The total return of the HGSC excluding investment trusts was -19.3%, showing our performance in a more favourable light.

Oil and gas stock selection was disappointing this year as, while there were no calamities, we missed out on a number of strong stocks. An overweight stance towards construction related stocks also worked against us. The sector was de-rated during the year as both commercial and residential property values fell. Among the larger casualties were housing developer **Telford Homes**, **Norcros**, which supplies a range of housing related items such as shower equipment, and **Lupus**, which has a large exposure to the US housing market with its window and door

Manager's Review (continued)

seals and fittings. However, not all construction related companies suffered and **Connaught**, which provides a range of building services into the social housing market place, benefited from continuing high activity levels. This company is also gaining from its established position in providing advice to other companies on their legal requirement to comply with legislation in areas such as health and safety and energy efficiency.

Consumer related stocks were out of favour and we correctly remained underweight to this area during the year. One of the stocks held, **Restaurant Group**, fell more than 50% as growth in its dining outlets slowed. We remain positive towards the management team and the strength of the brands, and have stuck with the shares.

In financials, emerging markets specialist fund manager **City of London Investment Group's** results benefited from fund inflows and strong investment performance. Unfortunately, gains here were more or less cancelled out following the emergence of serious control failures at hedge fund group **Absolute Capital**, which led to the over-statement of its fund valuations and an eventual rush from investors to exit once this became clear.

There were, however, some other excellent individual stock performances. **Aveva Group**, your Company's largest investment, rose 43.3%. Demand for its design software remains high in marine, energy and power markets. **Chloride**, which provides uninterruptible power supply systems, rose 34.9% on strong results, and **Genus**, a serious force in animal genetics, was up 25.0%. **Senior**, which is increasingly focused on the aerospace sector, also rose as build rates at key customers Boeing and Airbus increased.

Corporate activity was less of a factor in the year, though contested bids for manganese and nickel miner **Consolidated Minerals** and garden centre retailer **Dobbies** helped performance. **Civica**, the local authority software business, was taken over by a private equity firm, while oil services technology company **Sondex** was acquired by GE Energy. New issues were thinner on the ground reflecting market conditions. Of the deals we participated in, the best returns came from veterinary practice consolidator **CVS** and palm oil plantation company **New Britain Palm Oil**. The latter's share price more than doubled as palm oil prices surged. Not all new companies perform to expectations however, and **EAG**, a materials testing business, slumped following news which suggested that the company's previous financial management was inadequate. We have held on to this stock as we rate the new management team highly and hope that shareholder value will be rebuilt.

The new year looks set to be more difficult for the UK economy. Some parts of the stock market have taken a battering in advance of this and we are looking for stocks offering value in these areas. Companies with strong overseas businesses will benefit from the recent fall in sterling in earnings terms. Overall, however, we remain slightly cautious on the outlook for the UK market.

North American portfolio

It was a weak year for US equities and the small cap Russell 2000 Index ("Russell Index") fell 10.1% in sterling total return terms, underperforming the S&P 500 Index which was only 3.8% down. Trading conditions were volatile with sharp sell-offs in August and January, followed by a gradual recovery as lower interest rates and the bail-out of Bear Stearns were perceived by investors as being sufficient to avoid an all-out financial crisis.

The portfolio did not perform as well as the Russell Index, falling by 14.0%. The main reason for this was that the value style of investing, which is the style used in the US, fell out of favour during the year. Value investing focuses on companies lowly rated by the market as opposed to stocks priced higher for their perceived superior growth potential. This investment style has proved particularly successful in the US stock market over the long term, which is why it is employed here, but when investors are concerned about the economy it can temporarily go out of favour.

As you might expect, given where weakness has been evident in the market, the biggest negative performance contribution came in the consumer discretionary sector. One of the worst performers was **Dollar Thrifty Automotive Group**, a car rental company whose profits have been squeezed by rising vehicle costs and excess industry capacity.

A dragline manufactured by Bucyrus International in action.

The earnings of **Lithia Motors**, a car dealership chain, were hurt by the unfortunate timing of a new sales and store format strategy in the middle of an industry slowdown. In the materials area, **Caraustar Industries**, a manufacturer of uncoated recycled board, suffered as the hope that industry overcapacity would be reduced proved premature.

In the energy sector we invested in a number of coal related stocks early in the year, but as time progressed we took profits as prices spiked up. We increased exposure to agricultural commodity stocks during the year as it became clear that the outlook was improving. In the infrastructure field, we added to mining, water and electrical equipment positions. New investments were made that should benefit from growth in litigation, wireless data, outsourced defence IT spending and healthcare. In addition we looked to take advantage of depressed valuations in housing-related stocks, education, telecommunications equipment and interest rate sensitive sectors. Selling was concentrated in two areas: on steady growth stocks that had become expensive during the recent period of uncertainty; and shares of companies where recovery had occurred.

Although the portfolio underperformed the Russell Index in the year, there were some notable good performances. The best came from **Walter Industries**, a producer of metallurgical coal, **Denbury Resources**, an oil producer that specialises in tertiary recovery (using liquid carbon dioxide to recover oil from old fields) and **Bucyrus International**. We particularly favour Bucyrus International, a manufacturer of mining equipment, because the industry is effectively a duopoly and mining investment is set to stay strong.

There were some significant new purchases in the year. **The Andersons** is a diversified agri-business with a strong position in the eastern corn belt that will benefit from increasing agricultural commodity prices. **Amedisys** is the leading US provider of home nursing, which industry is very fragmented and growth should be favoured because of the huge potential savings in healthcare costs through reducing hospital admissions for the elderly with effective home nursing. **Career Education** provides tertiary private education and is a recovery situation where a new management team is applying a “new broom” with plans to streamline the business and improve marketing.

Manager's Review (continued)

Although there was less takeover activity than in previous years, we did receive three bids for holdings during the year. These were for **Florida East Coast**, the rail road development company, insurance business **Midland Company** and **Radiation Therapy Systems**, a cancer treatment centre operator.

Conditions in the US equity market have changed recently. There is greater confidence that a financial crisis will be averted following the sharp cut in interest rates and bail-out of Bear Stearns facilitated by the Fed. This has resulted in a stronger dollar and better performance by value stocks. The improved sentiment should lead to better performance for smaller companies compared to large.

Continental European portfolio

Continental European smaller company share prices got off to a confident start to the year, but as elsewhere suffered from the credit crunch and ended the year down. By June and July markets were jittery, with investors looking to bank a long run of decent gains from the region's smaller companies and shift to larger stocks perceived to be less risky and more liquid in an uncertain investment climate.

Economic activity in Europe was healthy in 2007 and the recently-released growth data for the first quarter of 2008 has been surprisingly positive. For the narrower Eurozone area, annual GDP growth is running at a reasonable rate of 2.2%, while the broader 27-nation EU countries show even stronger year-on-year growth of 2.4%. The main impetus to growth has so far come from export demand, which is surprising in view of the strength of the Euro. On a negative note, headline inflation in the Eurozone rose to above 3%. With the European Central Bank targeting a level of close to, but below, 2%, it is no surprise that the EU's key lending rate remains at 4%, the level to which it was raised in the first six months of 2007.

The HSBC Smaller Europe ex UK Index slipped by 10.5% in sterling total return terms; compared to a 10.4% loss for our European portfolio. In sector terms, the portfolio benefited from its bias towards industrials. Basic materials stocks also made a positive contribution, although exposure was reduced during the course of the year. Predictably, in light of the moves in interest rates and concerns about the economy, the consumer discretionary area was weak. Surprisingly, our financial holdings made a positive contribution over the period, but this was entirely due to Bank of Cyprus which continued to deliver a strong share price performance long after the credit crisis first broke. We took advantage of this strength and exited the holding during the autumn months. A similar decision was taken with respect to sectors and stocks which we considered most at risk from a serious downturn in the economic cycle.

Measured in terms of individual stock selection, the strongest positive contribution came from our position in Italian company, **Trevi Finanziaria**. This company provides engineering services and equipment to the construction and energy industries and has established a significant presence in the Middle East. Another extremely strong contribution came from a relative newcomer to the portfolio, **Odim**, a small Norwegian company which enjoys a near monopoly of the market for cable handling and recovery systems. Bringing

Q-Cells is the world's largest producer of silicone cells needed to construct solar energy panels up the rear in terms of stock contribution during the reporting period was Irish building materials company, **Kingspan**, hit by the perception that profits are highly dependent on the weakening Irish housing market when in fact the bulk of the business is dependent on tightening standards for energy conservation. Another big faller was Italian broadcasting tower rental company, **Digital Multimedia Technologies**, whose share price proved vulnerable to a high valuation once markets started to weaken. Nevertheless, the company's franchise of renting out broadcasting capacity on its network of communication towers remains robust and is a genuine cash-cow.

Shares in European smaller companies started 2008 with a double-digit price fall in January. We believed then that there would be a recovery, at least in the short-term and in the following months the markets have staged a tentative comeback, although it is yet to be seen whether this recovery is sustainable. The Continental European portion of the portfolio remains focused on stocks which have stood the test of time, demonstrating their ability to generate decent returns to shareholders over many years.

Japanese portfolio

After a very poor prior year, the Japanese equity market failed to bounce back in the year under review. Having been stable throughout the early summer, the market suffered in line with the sell-off in global equities in August as the first wave of the credit crisis took hold. It mounted a rally before easing again as investors began to question the strength of the domestic economy in the face of a global slowdown. As elsewhere, smaller company shares did worse than large stocks, and the sterling total return for the FTSE Japan Smaller Companies Index was -13.5%. The portfolio fell by 18.7% as poor stock selection was compounded by weak sector allocation.

Data throughout the year pointed towards Japan's emergence from deflation, supported by a stable business environment and growing consumer confidence, but it has been increasingly evident that small and medium sized enterprises are exposed to a more challenging environment with rapidly rising raw material costs and tighter credit conditions.

In terms of sector performance, the market was let down by financial and property stocks, whilst absolute gains were seen in the upstream energy plays such as oil companies, miners and general trading houses. Traditional, defensive sectors such as beverages, food and utilities also outperformed as investors sought respite from the worst of the sell-off, but now they too are faced with considerable input cost increases that threaten their safe haven status.

An overweight position in the financial sector was the dominant detractor from our performance. Positions in three real estate related companies, **Suruga**, **Zecs** and **Sankei Building**, were negative contributors as the sector was caught in the crossfire of the government precipitated collapse in housing starts and the tightening credit cycle. Poor stock selection in the technology sector offset the positive effect of being underweight to the sector. The holding in **Shinko Electric Industries**, a chip package supplier to Intel, proved especially detrimental as profits were undermined by yen strength against the US dollar. Stock selection did, however, prove positive in the pharmaceuticals and general retail sectors, with substantial holdings in **Tsumura & Co**, **Sawai Pharmaceutical** and **Kobayashi Pharmaceutical** doing well.

The slowdown in the US economy appears to be having a less pronounced effect on Japanese companies' sales than in previous economic cycles. However, US consumption still leads global demand and Japan is unable to avoid exposure to the weakness stemming from problems in the US economy. Companies are cutting earnings' forecasts and the worsening performance among exporters is trickling down to companies more dependent on domestic sales. Demand from Asia and Europe is continuing to provide some support, although a strong yen undermines Japanese exporters' competitiveness. As elsewhere, high energy and raw materials costs are placing pressure on corporate profits.

As discussed in the Chairman's Statement, following a number of disappointing years in Japan, we are replacing the individual company investments with a limited number of small cap funds in line with the approach adopted for Asia two years ago, and by the end of the financial year we had purchased one

Manager's Review (continued)

fund managed by Axa Rosenberg. The funds chosen will hopefully deliver better returns in the future.

Asian portfolio

Asian smaller company share prices rose over the 12 months with our benchmark for the region, the FTSE Asia ex Japan Small Cap Index, delivering a sterling total return of 16.1% in contrast to falls elsewhere. Our portfolio delivered a much more modest 3.1% gain which was disappointing but followed a strong previous year relative to this index.

The region as a whole delivered dynamic economic growth again this year. A few years ago the US slowdown would have presented more difficulties, but the region now has more of an internal dynamic. China managed to show double digit GDP growth again, and its stock market delivered strong gains. Other strong markets included Thailand, India, Indonesia, Taiwan and Hong Kong. Companies focused on resources and infrastructure performed strongly, while exporters dependent on the US or West at large suffered in the early part of the period but have subsequently done better as the dollar has recovered somewhat.

In terms of the portfolio, we added a new holding in **The Scottish Oriental Smaller Companies Trust**, an investment trust run by First State. We have moved **Utilico Emerging Markets** from the UK into this part of the portfolio. With around 50% of its assets invested in the region, it is more appropriate to include it here.

Over the year the best performing fund was the **Axa Rosenberg** fund. This uses a quantitatively driven approach to pick stocks, and a similar method is used for the Japanese fund which, as already stated, we have just recently bought. The fund managed by **Allianz** also performed well during the year, benefiting from a relatively high exposure to some of the more buoyant markets such as China, Hong Kong and Taiwan. The weakest returns came from the **Australian New Horizons Fund**. While Australia is benefiting from the resources boom, this fund is not resources focused, but we remain confident that it will do well over the long-term.

The region continues to look well placed for the future given a rising general level of wealth and strong trade balances, which are likely to lead to appreciation of local currencies versus sterling over time. In the near term there is, as elsewhere, concern about the impact of rising costs on profitability and on weakness in demand from the US.

Conclusion

A number of equity markets have come off their lows more recently despite some grim economic data, as investors have become more positive about the potential for a US recovery. While this is in line with our thinking, there are clear risks to this positive scenario. Banks will take time to regain their appetite for lending and the recent surge in oil and other commodity prices has yet to fully feed through the system. Any increases in interest rates would be unhelpful for investor sentiment in equity markets.

We believe it remains important at this stage to focus on companies with strong balance sheets and positive cash-flow dynamics. Over the coming year, we will endeavour to deliver stronger stock selection and asset allocation performance for shareholders.

Peter Ewins
19 June 2008

Thirty Largest Holdings

30 April 2008	*30 April 2007*		% of total investments	Value £m
1	*1*	**Aveva Group** United Kingdom Computer software and services for engineering solutions in the ship building and process plant markets.	1.6	3.2
2	*11*	**Allianz GIS RCM Little Dragons Fund** Asia Pacific (excluding Japan) Fund providing exposure to Asian smaller companies.	1.4	2.7
3	*17*	**Axa Rosenberg Pacific ex Japan Small Cap Alpha Fund** Asia Pacific (excluding Japan) Fund providing exposure to Asian smaller companies.	1.4	2.7
4	*16*	**Aberdeen Global-Asian Smaller Companies Fund** Asia Pacific (excluding Japan) Fund providing exposure to Asian smaller companies.	1.1	2.2
5	*20*	**Utilico Emerging Markets** Asia Pacific (excluding Japan) Investment company focusing on utility and infrastructure companies in emerging markets.	1.1	2.2
6	*–*	**The Scottish Oriental Smaller Companies Trust** Asia Pacific (excluding Japan) Fund providing exposure to Asian smaller companies.	1.1	2.1
7	*–*	**Axa Rosenberg Japan Small Cap Alpha Fund** Japan Fund providing exposure to Japanese smaller companies.	1.0	2.0
8	*10*	**SDL** United Kingdom World leader in localisation technology and services, including manual and technology driven translation of internal and external literature.	1.0	1.9
9	*37*	**City of London Investment Group** United Kingdom Fund management business mainly investing in closed end emerging market funds.	0.9	1.8
10	*2*	**Omega International** United Kingdom Kitchen manufacturer supplying the independent retail trade.	0.9	1.8
11	*45*	**Connaught** United Kingdom Provides property related services including maintenance for the social housing market, and a range of compliance services for the private sector.	0.9	1.8
12	*4*	**Trevi Finanziaria** Italy Specialist construction services provider focusing on foundations work.	0.9	1.7
13	*29*	**Senior Group** United Kingdom Engineering group supplying components to manufacturers principally in the aerospace, diesel engine and energy markets.	0.9	1.7
14	*7*	**Australian New Horizons Fund** Australia Fund providing exposure to Australian smaller companies.	0.8	1.6
15	*28*	**Chloride Group** United Kingdom Provides power protection services and solutions.	0.8	1.6

Thirty Largest Holdings (continued)

30 April 2008	*30 April 2007*		% of total investments	Value £m
16	*5*	**Hill & Smith Holdings** United Kingdom Supplier and manufacturer of a wide range of infrastructure and construction related products.	0.8	1.6
17	*8*	**Detica Group** United Kingdom IT consultancy specialising in the national security, government and financial services sectors.	0.8	1.6
18	*26*	**Cousins Properties** United States Property development real estate investment trust based in Atlanta.	0.8	1.5
19	*18*	**Spice Holdings** United Kingdom Provider of outsourced support services to the UK electricity, telecom and water sectors.	0.7	1.4
20	*19*	**Premiere Global Services** United States Provides outsourced communications services including conference calling to businesses.	0.7	1.4
21	*80*	**Cohort** United Kingdom Provides advisory and technical services to defence, security and associated sectors.	0.7	1.4
22	*73*	**Genus** United Kingdom A world leader in animal genetics aiming to enhance agricultural productivity.	0.7	1.4
23	*208*	**Odim** Norway Provides automated handling solutions including cable handling systems and winches for offshore and naval vessels.	0.7	1.3
24	*–*	**Career Education** United States Provides post-secondary education courses.	0.7	1.3
25	*–*	**ACI Worldwide** United States A leading provider of software for electronic funds transfer used by banks, retailers and credit card companies.	0.7	1.3
26	*–*	**SRA International** United States Supplies outsourced IT services to US government agencies.	0.7	1.3
27	*–*	**Amedisys** United States Provides home nursing services mainly in the southern US.	0.7	1.3
28	*35*	**Orchid Developments** United Kingdom Property development company focused on Bulgaria.	0.7	1.3
29	*22*	**Community Health Systems** United States Operator of hospitals based in rural parts of the US.	0.7	1.3
30	*92*	**HCC Insurance Holdings** United States Specialist property casualty underwriter.	0.7	1.3

The value of the thirty largest equity holdings represents 26.6% (30 April 2007: 25.5%) of the Company's total investments.

List of Investments

Quoted investments	Holding	30 April 2008 Value £'000s
CONTINENTAL EUROPE		
AUSTRIA		
Andritz	35,918	**1,079**
BELGIUM		
Metris	71,965	452
Tigenix	136,195	616
Total Belgium		**1,068**
DENMARK		
Ringkjoebing Landbobank	10,000	738
Topdanmark	10,000	889
Total Denmark		**1,627**
FINLAND		
Cramo	35,000	412
Konecranes	42,800	942
Total Finland		**1,354**
FRANCE		
Manitou	4,398	**68**
GERMANY		
Elringklinger	11,509	688
Hanse Yachts	34,187	322
Q Cells	21,000	1,232
Total Germany		**2,242**
GREECE		
Frigoglass	60,000	**1,055**
HUNGARY		
Magyar Telekom	415,000	**1,100**
IRELAND		
Anglo Irish Bank	111,000	785
CPL Resources	215,000	423
Grafton Group	207,000	836
Kingspan Group	85,000	498
Norkom	600,000	745
Total Ireland		**3,287**
ITALY		
Digital Multimedia	37,500	693
Hera	400,000	763
Landi Renzo	350,000	845
Piaggio	500,000	569
Trevi Finanziaria	143,096	1,674
Total Italy		**4,544**

Quoted investments	Holding	30 April 2008 Value £'000s
NETHERLANDS		
Arcadis	30,000	**915**
NORWAY		
BW Gas	165,000	712
Odim	152,000	1,348
Protector Forsikring	275,000	215
Total Norway		**2,275**
SPAIN		
Baron de Ley	3,805	142
Indra Sistemas	85,000	1,171
Zardoya Otis	32,000	452
Total Spain		**1,765**
SWITZERLAND		
Calida Holdings	5,000	1,230
Cytos Biotechnology	11,773	371
Dufry Group	14,660	802
Goldbach Media	24,552	527
Logitech International	69,606	1,069
Partners Group	12,342	851
Schweizerhall	10,307	850
Total Switzerland		**5,700**
TOTAL CONTINENTAL EUROPE		**28,079**
ASIA PACIFIC (EXCLUDING JAPAN)		
Aberdeen Global-Asian Smaller Companies Fund	175,868	2,174
Allianz GIS RCM Little Dragons Fund	50,240	2,729
Axa Rosenberg Pacific ex Japan Small Cap Alpha Fund	93,348	2,665
The Scottish Oriental Smaller Companies Trust	740,000	2,109
Utilico Emerging Markets*	1,373,791	2,171
TOTAL ASIA PACIFIC (EXCLUDING JAPAN)		**11,848**

* Quoted on the Alternative Investment Market in the UK.

List of Investments (continued)

Quoted investments	Holding	30 April 2008 Value £'000s
JAPAN		
Aeon Fantasy	5,400	37
Akindo Sushiro	6,400	74
Axa Rosenberg Japan		
Small Cap Alpha Fund	254,777	1,987
Bals	530	256
Cocokara Fine Holdings	75,350	834
Daimei Telecom Engineering	138,000	568
Daiwa Seiko	201,000	173
Don Quijote	43,300	395
Gentosha	441	394
Kandenko	107,000	310
Kansai Urban Banking	252,000	336
Kobayashi Pharmaceutical	34,500	602
Konami Corp	44,800	805
K's Holdings	51,600	540
Maxvalu Tokai	9,800	73
Milbon	16,500	159
Nippon Seiki	44,000	325
Nippon System Development	60,600	404
Nittan Valve	79,700	200
Nohmi Bosai	94,000	284
NS Solutions	12,900	147
Okinawa Cellular	340	296
Only	614	216
Ozeki	6,300	83
Renaissance	13,000	29
San-A	23,100	385
Sankei Building	118,400	407
Sawai Pharmaceutical	21,100	448
Shinko Electric Industries	47,500	328
Sojitz	216,200	416
Soken Chemical & Engineering	42,800	500
Tokyo Derica	57,500	113
Tokyo Tatemono	82,000	358
Tokyo Tomin Bank	46,500	495
Tsumura & Co	56,000	678
Xebio	27,700	418
TOTAL JAPAN		**14,073**

Quoted investments	Holding	30 April 2008 Value £'000s
UNITED KINGDOM		
Abbey Protection*	1,690,909	1,099
Aveva Group	258,900	3,159
Begbies Traynor*	790,000	916
Big Yellow	158,880	626
Brown (N) Group	317,300	782
Cape*	431,526	1,007
Carillion	104,800	380
Cattles	288,000	690
Chaucer Holdings	909,072	814
Chloride Group	781,500	1,643
City of London		
Investment Group*	547,218	1,817
CLS Holdings	239,708	825
Cohort*	740,946	1,371
Concateno*	737,358	1,124
Connaught*	440,263	1,793
Craneware*	415,639	732
CVS Group*	450,790	1,163
Cyril Sweett*	703,260	675
Dawnay, Day Sirius	1,255,962	691
Detica Group	525,000	1,578
E2V Technologies	293,000	823
EAG	231,275	139
Ennstone	2,356,677	707
Genus*	170,330	1,358
Gulfsands Petroleum*	455,000	750
Halfords Group	231,350	650
Hamworthy*	183,050	896
Hansard Global	332,750	532
Hill & Smith Holdings	451,547	1,587
Hunting	129,500	1,153
Ideal Shopping Direct*	397,955	764
ITE Group	489,209	708
James Fisher	176,055	1,139
Kenmare Resources	1,350,000	685
Kier Group	47,500	561
Laird Group	103,798	518
Leyshon Resources*	3,042,820	637
Lupus Capital*	1,102,000	650
Mecom Group*	2,128,796	703

* Quoted on the Alternative Investment Market in the UK.

Quoted investments	Holding	30 April 2008 Value £'000s
Mitie Group	419,900	967
Morgan Crucible	267,500	596
Morgan Sindall	94,000	948
Mouchel	234,200	1,077
Nautical Petroleum*	6,755,555	608
New Britain Palm Oil	103,335	579
Norcros	1,400,000	399
Northern Petroleum*	750,698	953
Northgate	114,500	680
Oakley Capital Investment*	443,064	432
Omega International*	753,512	1,793
Orchid Developments*	986,579	1,283
Pace Micro Technology	726,327	592
Plastics Capital*	863,285	734
Premier Oil	61,370	943
Purecircle*	122,097	217
Pv Crystalox Solar	520,447	809
Raymarine	330,000	1,068
Restaurant Group	543,888	771
SDL	563,177	1,899
Senior Group	1,517,900	1,662
Severfield-Rowen	266,000	840
Shed Media*	690,000	449
Spectris	112,400	858
Speedy Hire	114,000	817
Spice Holdings*	260,000	1,438
SSP Holdings*	575,546	679
STM Group	949,840	617
Synergy Healthcare*	171,000	1,094
Tarsus Group	390,000	683
Taylor Nelson Sofres	250,495	507
Telford Homes*	275,900	359
Trading Emissions*	592,189	761
Utilico	522,000	1,230
Victrex	150,100	1,068
VT Group	140,000	949
White Young Green	285,000	764
Wincanton	296,000	1,023
Workspace Group	264,650	603
TOTAL UNITED KINGDOM		**71,594**

Quoted investments	Holding	30 April 2008 Value £'000s
UNITED STATES		
Aaron Rents	90,984	1,141
Acco Brands	161,288	1,134
ACI Worldwide	118,177	1,319
Actuant	70,536	1,206
Airgas	43,638	1,060
Alleghany	6,989	1,216
Amedisys	49,100	1,284
American Capital	52,190	837
American Equity Investment	231,626	1,126
Americas Car-Mart	163,570	1,188
Andersons	47,344	1,086
Apollo Investment	147,500	1,205
ATP Oil and Gas	63,900	926
Avocent	107,892	1,062
Baldor Electric	73,881	1,209
Beacon Roofing	234,450	1,261
Big 5 Sporting Goods	215,758	1,001
Bottomline Technology	114,720	617
Brown & Brown	117,157	1,134
Bucyrus International	10,903	691
CapitalSource	164,291	1,161
Caraustar Industries	419,560	294
Cardinal Financial	183,612	711
Career Education	130,000	1,322
Centennial Communications	315,900	967
Cherokee International	261,440	249
Community Health Systems	67,735	1,281
Conn's	138,389	1,230
Cousins Properties	119,400	1,529
Cox Radio	98,210	576
CRA International	58,000	1,010
Crawford & Company	451,059	1,168
Denbury Resources	33,426	514
Dollar Thrifty Automotive Group	131,142	873
Firstcity Financial	160,320	389
Five Star Quality	387,665	1,174
Foundation Coal	16,500	499
Fred's	222,670	1,246
Genesee & Wyoming	49,970	898
Harvard Bioscience	318,060	789

* Quoted on the Alternative Investment Market in the UK.

List of Investments (continued)

Quoted investments	Holding	30 April 2008 Value £'000s
Harvest Natural Resources	164,250	786
HCC Insurance Holdings	102,860	1,280
Horizon Lines	159,800	850
Intervoice	262,764	832
Jack Henry & Associates	73,836	980
Jarden	100,634	1,083
Lamar Advertising	61,203	1,222
Lithia Motors	143,222	649
Longs Drug Stores	47,000	950
Mac-Gray	106,150	527
Marinemax	122,300	702
Mohawk Industries	9,290	357
Mueller Industries	62,720	1,024
Mueller Water Products	217,873	872
Palm Harbor Homes	140,385	608
Premiere Global Services	190,023	1,393
Prestige Brands	236,389	1,072
Pride International	51,016	1,090
Roper Industries	33,608	1,054
Sanderson Farms	46,800	983
SBA Communications	65,800	1,073
Simpson Manufacturing	73,101	972
SRA International	97,610	1,292
Sycamore Networks	408,300	662
Thomas & Betts	51,198	968
Toll Brothers	65,400	747
United Community Bank	107,672	746
Universal Truckload Services	107,796	1,140
Walter Industries	15,700	547
Werner Enterprises	98,860	971
TOTAL UNITED STATES		**67,015**
TOTAL QUOTED INVESTMENTS		**192,609**

Unquoted investments	Holding	30 April 2008 Value £'000s
AUSTRALIA		
Australian New Horizons Fund	1,983,437	**1,646**
UNITED KINGDOM		
Frontiers Capital II	N/A	**80**
UNITED STATES		
US Ventures	N/A	**118**
TOTAL UNQUOTED INVESTMENTS		**1,844**
TOTAL INVESTMENTS		**194,453**

The number of investments in the portfolio is 229 (2007: 222). The value of convertible securities in the portfolio at 30 April 2008 is £nil (2007: £1,046,000 or 0.42% of total investments).

Management and Advisers

The management company

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

Peter Ewins Lead Manager: Responsible for the UK equity portfolio, selection of collective funds for Japan and the Pacific region and overall asset allocation. He joined F&C in 1996.

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.

Jamie Jenkins: Responsible for direct investment in Japan. He joined F&C in 2000.

Mike Woodward

Head of investment trusts at F&C and responsible for F&C's relationship with the Company. He joined F&C in 2006.

Debbie Fish

Carries out the company secretarial duties of the Company on behalf of the Manager. She joined F&C in 2004.

Secretary and registered office

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

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Facsimile: 020 7628 8188

Website: www.fandcglobalsmallers.com

Email: info@fandc.com

Authorised and regulated in the UK by the Financial Services Authority

Registered in England

Independent auditors

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

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 LLP, 3 More London, Riverside, London SE1 2AQ

Stockbrokers

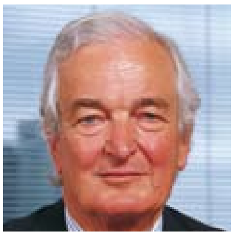
JPMorgan Cazenove Limited, 20 Moorgate, London EC2R 6DA

Directors

Anthony Townsend, Chairman, 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 Finsbury Growth & Income Trust PLC and Finsbury Worldwide Pharmaceutical Trust PLC. Age 60.

Andrew Adcock was appointed to the Board on 31 July 2007. He is vice chairman of Citigroup Corporate Broking with more than 30 years experience in the City. He is a non-executive director of Majedie Investments PLC. Age 54.

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, Interserve plc, Avis Europe plc and BT Pension Scheme Trustee Ltd and is a non-executive director of Sustrans Ltd. He was previously group finance director of Prudential plc and Inchcape plc and chairman of several private equity owned companies. He is chairman of the Audit and Management Engagement Committee. Age 56.



Dr Franz Leibenfrost, Senior Independent Director, was appointed to the Board on 15 February 1999. He is a non-executive director of various European companies. Age 70.

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, Elexon Ltd, The Pension Disability & Carers Service and Citizens Advice in Three Rivers Ltd. She previously worked at IBM, and then as CEO of a software development company. Age 60.

Mark White was appointed to the Board on 31 July 2007. He is a very experienced fund manager who was joint head of JPMorgan Asset Management in Europe. He is a non-executive director of Impax Group Plc. Age 53.

All Directors are members of the Audit and Management Engagement Committee and the Nomination Committee.

Directors' Report and Business Review

The Directors present their Report, Business Review and the financial statements of the Company for the year ended 30 April 2008. The financial statements are set out on pages 39 to 58.

Results and dividends

The Company's net asset value per share ("NAV") on a total return basis fell by 15.0% in the year ended 30 April 2008, compared to a fall of 11.8% for the blended index of the Hoare Govett UK Smaller Companies Index (40%) and the MSCI World ex UK Small Cap Index (60%) ("the Benchmark"). The Manager's Review on pages 7 to 14, which forms part of this Business Review, describes how the Company's assets were invested during the year, including the regional strategy, the effect of stock selection and asset allocation on performance and the outlook for the current financial year.

The Company's portfolio continued to generate a good level of income, particularly in the UK. Following the rulings in the JPMorgan Claverhouse and Condé Nast cases, an accrual of £1m in respect of the recovery of VAT has been recognised in the Income Statement on page 39. The Company continues to have a low total expense ratio ("TER") in relation to that of investment trusts specialising in smaller companies, which has fallen this year as no performance fee is due to the Manager. Net revenue return attributable to shareholders increased by 10.6%, while revenue earnings per share increased by 16.6%.

The Company has a 38 year record of increasing its dividend (excluding special dividends) and the Board remains committed to a progressive dividend policy. The recommended final dividend of 3.25p per share is payable on 6 August 2008 to shareholders on the register of members on 4 July 2008. This dividend, together with the interim dividend of 1.53p per share, makes a total dividend of 4.83p per share. This represents an increase of 3.0% over the 4.69p per share for the previous year.

Principal activity and status

The Company is an investment company as defined by Section 833 of the Companies Act 2006. As such, it analyses its profits between income, which is available for distribution by way of dividends, and capital, which it is prohibited from distributing other than by way of share buybacks. The Company is subject to the UK Listing Authority's Listing Rules, UK company law, financial reporting standards, taxation law and its own articles of association. The Company is also listed on the New Zealand Stock Exchange.

Investment trust taxation status

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 ("Section 842"). Section 842 broadly requires that:

- the Company's revenue (including dividend and interest receipts but excluding profits on the sale of shares and securities) should be derived wholly or mainly from shares and securities;
- the Company must not retain more than 15% of its income from shares and securities in respect of any accounting period;
- no holding in a company should represent more than 15% of the 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 qualifies the Company as an investment trust, and this status is granted annually in retrospect by HM Revenue and Customs subject to there being no subsequent enquiry under corporation tax self-assessment. The Company has qualified as an investment trust in respect of all relevant years up to and including the year ended 30 April 2007, and continues to conduct its affairs in compliance with Section 842.

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

Accounting and going concern

The financial statements, starting on page 39, comply with current UK financial reporting standards, supplemented by the revised statement

Directors' Report and Business Review (continued)

of recommended practice for investment trust companies ("SORP"). The principal accounting policies of the Company are set out in note 2 on the accounts. The auditors' opinion on the financial statements appears on page 38. 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.

Investment objective and policy*

The Company invests in smaller companies worldwide in order to secure a high total return.

While smaller companies offer excellent potential, there are risks compared with investing in large capitalisation stocks. Smaller companies tend to be less mature, are not as diversified and can be more dependent on a limited number of key personnel. Share prices of smaller companies tend therefore to be more volatile. This investment risk is mitigated by investing in a large number of stocks in various industry sectors and geographic areas. There are no specific sector or geographic exposure limits. *The geographic and industrial diversification of the portfolio at 30 April 2008 is shown in the charts on pages 7 and 8 and a full list of investments appears on pages 17 to 20.*

The Company can borrow in either sterling or foreign currencies. Effective gearing is normally 0-20% of shareholders' funds, valuing the Company's debenture at nominal value. Prior notification of any change to this range will be made publicly. *As at 30 April 2008, the effective gearing level was 3.3%*

The Board, on advice from the Manager, monitors the foreign exchange outlook, as this can affect both the asset allocation and borrowing strategy, and can hedge the portfolio against currency movements. *No such hedging has been undertaken in the period under review*.

The Company is mainly invested in quoted equities, including those quoted on the Alternative Investment Market. It is able to invest in other types of securities or assets, including collective funds. Investments in unquoted securities can be made with the prior approval of the Board. Derivative instruments, such as futures, options and warrants, can be used for efficient portfolio management, up to a maximum of 10% of the NAV at any one time. *At 30 April 2008, 0.9% of the portfolio was invested in unquoted securities. No derivatives were held at that date.*

Under the Company's articles of association, no investment may be made by the Company which exceeds 10% of the value of the total portfolio at the time of investment. It is the Company's policy not to invest more than 15% of its gross assets in other UK listed investment companies. Under the Listing Rules, no more than 10% of the total assets may be invested in other listed closed-ended investment companies unless such investment companies have published investment policies to invest no more than 15% of their total assets in other closed-ended investment companies, in which case the limit is 15%. *At 30 April 2008 the Company held 2.8% of its portfolio in UK listed investment companies*.

Compliance with the investment policy is monitored by the Board. It will not be changed materially without prior shareholder approval.

*The details in italics are included for information, and do not form part of the Company's stated investment objective and policy.

Capital structure and buyback policy

As at 30 April 2008 there were 43,924,781 ordinary shares of 25p each in issue. All ordinary shares rank equally for dividends and distributions and carry one vote each. Details of the capital structure can be found in note 18 on the accounts. The revenue profits of the Company (including accumulated revenue reserves) are available for distribution by way of dividends to the holders of the ordinary shares. Upon a winding-up, after meeting the liabilities of the Company, the surplus assets would be paid to the holders of ordinary shares and distributed among such holders rateably.

As explained in the Chairman's Statement, the Board has committed to keep the discount (with the NAV excluding current period income and the debenture at market value) as close to 5% in normal market conditions. Subject to annual shareholder approval, the Company may purchase its own shares at a discount to NAV. Share buybacks take place as necessary with the aim of preventing the discount widening materially in normal market conditions. The Company repurchased 2,848,000 shares during the year at prices between 338.63p and 476.81p per share. The total consideration (including expenses) paid for all the shares repurchased was £11,932,000.

Between the year end and 18 June 2008, a further 150,000 shares have been purchased. Although the Board has authority to hold any shares bought back in treasury, it is the current strategy to cancel them. Any shares held in treasury would only be re-issued at a premium to NAV.

The Board closely monitors the discount, the historic levels of which are shown in the table on page 28.

Borrowings

The Company has £10m 11.5% debenture stock, which matures in December 2014, further information on which is included in note 16 on the accounts. The Company also has the ability to utilise short-term borrowings by way of loans and overdrafts.

Principal risks

The Company's assets consist mainly of listed equities and its principal risks are therefore market related. The Corporate Governance Statement, on pages 34 and 35, includes a summary of the risk management arrangements in place and the process for identifying, evaluating and managing significant risks.

The specific key risks faced by the Company, together with our mitigation approach, include the following:

- **Investment strategy –** an inappropriate investment strategy could result in poor returns for shareholders and a widening of the discount of the share price to the NAV. The Board regularly reviews strategy and considers the allocation of assets between geographic regions and industrial sectors, gearing, currency exposure and the balance between quoted and unquoted stocks.
- **Investment management resources –** the quality of the management team employed by F&C is a crucial factor in delivering good performance, and loss of the Manager's key staff could affect investment returns. The Manager develops its recruitment and remuneration packages in order to retain key staff, has training and development programmes in place and undertakes succession planning.
- **Regulatory –** failure to comply with applicable legal and regulatory requirements 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 the controls in place to ensure the Company's compliance with these requirements, together with regular investment listings and income forecasts as part of its monitoring of compliance with Section 842.
- **Operational –** failure of the Manager's core accounting systems, or a disastrous disruption to its business, could lead to an inability to provide accurate reporting and monitoring. The Manager is contractually obliged to ensure that its conduct of business conforms to applicable laws and regulations. The Manager has confirmed that reliable back-up systems are in place.
- **Financial –** inadequate financial controls could result in misappropriation of assets, loss of income and debtor receipts and inaccurate 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 Board

The Board of non-executive Directors, whose appointment is approved by shareholders, is charged with ensuring that the Company complies with its objectives and the various rules and regulations. It is responsible for strategy, corporate governance, risk and control assessment, the overall investment policy, gearing and asset allocation limits, monitoring investment performance and approving marketing budgets. Further information on the role of the Board is contained in the Corporate Governance Statement on pages 32 and 33.

Directors

Information on the individual Directors of the Company, all of whom are resident in the UK apart from Dr Franz Leibenfrost, who is domiciled in Austria, is set out on page 22.

Each Director has a signed letter of appointment setting out the terms of their engagement, copies of which are available for inspection at the Company's registered office during normal business hours and at the annual general meeting ("AGM").

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

Directors' Report and Business Review (continued)

Directors' remuneration and shareholdings

The Directors' Remuneration Report, which can be found on page 31, provides 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.

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

at 30 April	2008	2007
Anthony Townsend	**10,000**	10,000
Andrew Adcock*	**–**	n/a
Les Cullen	**6,000**	6,000
Dr Franz Leibenfrost	**14,000**	14,000
Jane Tozer	**3,722**	1,864
Mark White*	**5,000**	n/a

*Appointed 30 July 2007.
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.

Directors' re-election and election

Other than Andrew Adcock and Mark White, who both joined the Board on 30 July 2007 and stand for election at the AGM, all Directors held office throughout the year under review. Franz Leibenfrost retires by rotation at the AGM and, having served over nine years, will in future stand for re-election annually.

Each of these Directors has made a valuable and effective contribution to your Company and the Board therefore recommends that you vote in favour of their respective elections and re-election.

Director indemnification and insurance

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

Investment management

In common with most investment trusts, the Company does not have any employees, and 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 to carry out administrative, accounting, secretarial and marketing activities on behalf of the Company.

This appointment is governed by an investment management agreement, which 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.

The Manager is a subsidiary of F&C Asset Management plc ("FCAM"), a leading European investment group with over £100 billion under management. Friends Provident plc, which owns 52% of FCAM, announced on 31 January 2008 that, as wealth management no longer forms part of its strategy, it would work with FCAM's board and management team to review its shareholding. The Board is closely monitoring developments.

The Company invests around the globe and regional teams are in place at F&C to review investments in various geographic areas. These teams meet with the management of a large number of potential and existing investee companies in London and overseas each year. Assessing the quality of management of any potential investment is a key input into the investment process and extensive analysis is carried out in terms of market positioning, competitive advantage, financial strength and cash flow characteristics. Various valuation benchmarks are used to provide an indication of the prospects of an investment opportunity in relation to other potential investments in the same area or sector.

The Board measures the overall relative success of the Company against the Benchmark, with each regional sub-portfolio being measured against relevant local small capitalisation indices. The regional portfolio managers regularly present to the Board, providing a summary of recent activity and market outlooks.

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 and the Manager 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. The Manager actively promotes investment in the Company's shares through its range of savings schemes. These savings schemes include the F&C Personal Investor Plan, Individual Savings Account, Pension Savings Plan, Child Trust Fund and Children's Investment Plan. The Manager's savings schemes have been successful in significantly increasing the number of shareholders.

In November 2003 the Manager outsourced certain of its administrative functions to Mellon Bank N.A. (London Branch) ("Mellon"). On 1 July 2007 the contract between Mellon and the manager was terminated and these functions are now provided by the Manager. The Manager retained full responsibility for these functions throughout the year under review and thereafter.

JPMorgan Chase is appointed to act as custodian of the Company's assets. Operational matters with the custodian are carried out by the Manager in accordance with the provisions of the management agreement.

Management fees

The Manager receives a management fee of 0.40% per annum of the net assets managed by F&C (with the debenture stock valued at market value) in respect of the management, administration and ancillary services provided to the Company. The Manager receives a reduced annual management fee of 0.25% of the market value of investments in third party collective investment schemes made on strategic grounds, such as those utilised within the Asian/Japanese part of the portfolio (as described in the Manager's Review).

A performance fee may be payable annually if the net assets outperform the Benchmark. This fee is equal to 10% of the value of any outperformance in the year, subject to a maximum of 0.6% of average monthly net assets in that year. Performance above this cap is carried forward to the subsequent period for inclusion in the calculation of performance in that period. Any underperformance must be carried forward for inclusion in the subsequent calculation period, thus creating a high watermark. No performance fee was payable for the year under review.

Creditor payment policy

The Company's principal supplier is the Manager, the payment terms for which are set out in note 4 on the accounts. Other suppliers are paid in accordance with individually agreed payment terms. At 30 April 2008, the Company's outstanding trade creditors were equivalent to two days' payment to suppliers (2007: four days).

Key performance indicators

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

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

The tables on page 28, the ten year record on pages 59 and 60 and the Manager's Review on pages 7 to 14 show how the Company has performed against these KPIs.

Directors' Report and Business Review (continued)

Results and dividends
for the year ended 30 April 2008

	£'000s	£'000s
Revenue return attributable to equity shareholders		2,510
Dividends paid in the year:		
Final dividend of 3.16p per share paid on 6 August 2007 to shareholders on the register at 6 July 2007	(1,460)	
Interim dividend of 1.58p per share paid on 30 January 2008 to shareholders on the register at 4 January 2008	(701)	
		(2,161)
Amount transferred to the revenue reserve		349

Source: F&C Management Limited

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

At 30 April	%
2008	0.77
2007*	0.99
2006	0.69
2005	0.66
2004	0.80

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

Discount
(debenture at market value but excluding current period income)

At 30 April	%
2008	7.7
2007	5.7
2006	5.5
2005	11.6
2004	16.9

Source: F&C Management Limited.

Total return performance

	1 Year %	3 Years %	5 Years %
Company NAV	(15.0)	43.7	150.6
Benchmark	(11.8)	37.0	111.1
Company share price	(17.7)	49.2	184.6
Retail prices index ("RPI")	4.2	11.7	18.1

Source: F&C Management Limited and Datastream

Dividend growth

	1 Year %	3 Years %	5 Years %
Dividends	3.0	9.8*	16.4*
Inflation (RPI)	4.2	11.7	18.1

Source: F&C Management Limited and Datastream
* excludes the special dividend of 1.00p per share paid on 3 August 2006.

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, with a formal bi-annual evaluation taking place in June and December each year. In evaluating the performance of the Manager, the Board considers a range of factors including the investment performance of the portfolio as a whole, performance of the various regional sub-portfolios and the skills, experience and depth of the team involved in managing the Company's assets.

It also considers the resources and commitment of the Manager in all areas of its responsibility, including the marketing and administrative services provided to the Company.

In light of the long-term investment performance of the Manager and the quality and efficiency of the overall service provided, 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.

Outlook

The outlook for the Company is reported on in the Chairman's Statement on pages 5 and 6 and in the Manager's Review on page 14.

GENERAL INFORMATION

Voting rights

At 18 June 2008 the Company had 43,774,781 ordinary shares in issue with a total of 43,774,781 voting rights. As at that date the Company had received notification of the following holdings of voting rights in accordance with the FSA's Disclosure and Transparency Rules:

	%
Prudential plc	9.16
Legal and General Group plc	5.04

The percentages are calculated by applying the holdings notified to the Company to the aggregate voting rights in respect of the issued ordinary share capital as at 18 June 2008.

The Manager holds 42% of the Company's share capital on behalf of non-discretionary clients through its savings plans. It is intended that the nominee company holding these shares will vote the shares held on behalf of plan holders who have not returned their voting directions in proportion to the directions of those who have. Plan holders have the option of excluding their shares from the proportional voting arrangement.

Individual savings accounts ("ISAs")

The Company's shares are qualifying investments for ISAs, and the Board intends that the Company will continue to conduct its affairs so as to satisfy the requirements to remain so.

Independent auditors

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

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.

Electronic communication

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

Articles of association

It is proposed to amend the articles of association of the Company in order to reflect certain changes made or to be made to the law by the Companies Act 2006 ("CA 2006"). As the CA 2006

Directors' Report and Business Review (continued)

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

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

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

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

Annual general meeting

Shareholders will have received a separate enclosure containing explanatory information and the notice of the AGM to be held at the Chartered Accountants' Hall, One Moorgate Place, London EC2 on 31 July 2008 at 12 noon. In addition to the ordinary business of the meeting, resolutions numbered 9 to 11 will be proposed as special business.

By order of the Board
F&C Management Limited, Secretary
19 June 2008

Directors' Remuneration Report

The Company's articles of association limit the aggregate fees payable to the Board of Directors to a total of £200,000 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. The Board is comprised solely of non-executive Directors, none of whom has a service contract with the Company, and therefore no remuneration committee has been appointed.

The Chairman receives a fee of £30,000 per annum, whilst the remaining Directors receive a fee of £18,000 per annum. Each member of the Audit and Management Engagement Committee receives an additional £2,000 per annum. The Senior Independent Director receives an additional £1,500 per annum.

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 2008 £s	2007 £s
Anthony Townsend[1] (Chairman and highest paid Director)	**29,118**	19,000
Andrew Adcock[2]	**15,154**	–
Les Cullen[3]	**20,000**	13,000
Dr Franz Leibenfrost[4]	**21,162**	19,000
Jane Tozer	**20,000**	19,000
Mark White[2]	**15,154**	–
Dr Bruce Farmer[5]	**5,237**	20,500
Gerry Grimstone[6]	**7,795**	30,500
	133,620	121,000

1 Appointed as Chairman on 30 July 2007.
2 Appointed a Director on 30 July 2007.
3 Appointed as Chairman of the Audit Committee on 30 July 2007.
4 Appointed as Senior Independent Director on 30 July 2007.
5 Retired as Senior Independent Director, Chairman of the Audit Committee and a Director on 30 July 2007.
6 Retired as Chairman and a Director on 30 July 2007.

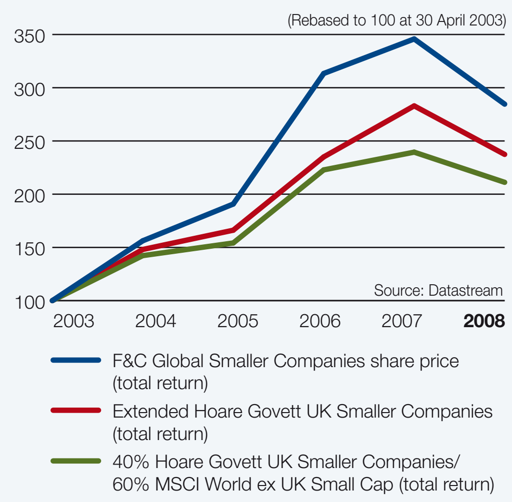
The information in the table has been audited (see the Independent Auditors' Report on page 38).

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

Shareholders will be asked to approve this Remuneration Report at the annual general meeting (resolution 2).

By order of the Board
F&C Management Limited
Secretary
19 June 2008

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.

Corporate Governance Statement

Introduction

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 "Combined Code"), as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.*

The Board believes that the Company has complied with the recommendations of the AIC Code during the year under review.

The Board

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. It has responsibility for all corporate strategic issues, dividend policy, share buyback policy and corporate governance matters. It is responsible for the review and approval of annual and half-yearly reports. The Company does not have a chief executive as day-to-day management of the Company's affairs has been delegated to the Manager.

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 management information, which includes reports on investment performance, financial analyses and strategic matters. 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 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. All Directors attended the Annual General Meeting ("AGM") in July 2007.

*Copies of the AIC Code, the AIC Guide and the Combined Code may be found on the respective organisations' websites: www.theaic.co.uk and www.frc.org.uk. Investors in New Zealand should note that the corporate governance rules and principles applicable to the Company in the UK may differ materially from those of the New Zealand Stock Exchange's Corporate Governance Best Practice Code

Meeting attendance

	A	B	C
No. of meetings	**7**	**2**	**2**
Anthony Townsend	7	2	2
Andrew Adcock*	5	1	–
Les Cullen	7	2	2
Dr Franz Leibenfrost	7	2	2
Jane Tozer	6	1	1
Mark White*	5	1	–

* Andrew Adcock and Mark White were appointed as Directors and members of the Audit and Management Engagement Committee and Nomination Committee with effect from 30 July 2007.

A = Full Board meetings.

B = Audit & Management Engagement Committee meetings.

C = Nomination Committee meetings.

The biographical details of the Directors, which are on page 22, 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 which are available on request and at the Company's AGM.

The Board believes that it has a reasonable balance of skills, experience and length of service. 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 serving more than six years are subject to more rigorous review before being proposed for 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, Dr Franz Leibenfrost. The Board considers that the appraisal process is a constructive means of assessing the contribution of individual Directors and identifying ways to improve the functioning and performance of the Board and the committees, including any training needs. The Board has considered using external appraisal consultants to assist with this process, but believes that it is unlikely that this would provide any meaningful advantage over the internal process that has been adopted. However, the option of using such consultants is kept under review.

Directors are able to seek independent professional advice or training at the Company's expense in the furtherance of their duties. The Board has direct access to the company secretarial advice and services of the Manager which, through its nominated representative, is responsible for ensuring that Board and Committee procedures are followed and applicable regulations are complied with. The proceedings at all Board and other meetings are fully recorded through a process that allows any Director's concerns 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 investment management agreement.

Independence of Directors

The Board regularly reviews the independence of its members in accordance with current guidelines. In line with the AIC Code, the Board feels that length of service does not necessarily compromise the independence or contribution of directors of investment trust companies, where experience and continuity can be a significant strength. However, the Board has a policy that no more than one member of the Board should generally have served for more than nine years, and anyone serving for more than this is subject to annual re-election.

The Board believes that its six non-executive Directors, including Dr Franz Leibenfrost who has served for over nine years, are independent in character and judgement, with no relationships or circumstances relating to the Company or the Manager likely to affect this position.

Board committees

The Board has established a number of committees, as set out below. The terms of reference of each committee are available on the website www.fandcglobalsmallers.com and on request.

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 31, provides detailed information on the remuneration arrangements for the Directors of the Company.

Nomination Committee

The role of the Nomination Committee is to review Board structure, size, composition, experience, diversity and skill ranges and consider succession planning and tenure policy in order to make recommendations to the Board. It considers the criteria for future Board appointments and the methods of selection, appointment and induction. The formal appointment of new Directors remains the responsibility of the Board.

The services of an external search consultant are used when filling vacancies on the Board.

All new appointments are subject to confirmation by shareholders and institutional shareholders are given the opportunity to meet any newly appointed Director if they wish.

An induction process is in place for new appointees, who are given a briefing on the workings and processes of the Company, including the receipt of a Directors' handbook and key documentation, and meet the Lead Manager, the Company Secretary and other key employees of the Manager.

This appointment and induction process was followed in respect of the appointment of Andrew Adcock and Mark White during the year under review.

The Nomination Committee also considers the re-appointment of those Directors standing for re-election at the AGM, variations of terms of appointment and the question of each Director's independence in order to make recommendations to the Board prior to the publication of the annual report.

The Nomination Committee currently comprises the full Board and is chaired by Anthony Townsend.

Audit and Management Engagement Committee

The primary responsibilities of the Audit and Management Engagement Committee ("Audit Committee), which meets at least twice per year,

Corporate Governance Statement (continued)

are to review the integrity and contents of the Company's financial statements and the accounting policies included therein; to consider compliance with regulatory and financial reporting requirements; to review the Company's internal control and risk management systems; to review annually the need for the Company to have its own internal audit function; to consider the independence and objectivity of the auditors and the effectiveness of the audit process; to make recommendations to the Board in relation to the reappointment and remuneration of the auditors; and the engagement of the auditors in the supply of non-audit services. The Board retains the ultimate responsibility for the annual and half-yearly accounts and other significant financial information that is published.

The Audit Committee has direct access to the auditors, PricewaterhouseCoopers LLP ("PwC"), who attend Audit Committee meetings to review the annual and half-yearly 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, and the Company's auditor is deemed to be independent. All non-audit work to be undertaken by PwC is approved by the Audit Committee in advance. During the year under review the fee for all non-audit work, which included advice on taxation matters and the review of the half-yearly results, was £8,000 inclusive of irrecoverable VAT. The Audit Committee considers that the provision of these services is cost effective and does not impair the independence of PwC.

The Audit Committee has reviewed the work carried out by PwC in the year under review, including its audit of the annual financial statements. On the basis of the PwC's experience in auditing the affairs of the Company, the standing, experience and tenure of the audit partner, the nature and level of service provided and confirmation of the auditors' independence, the Audit Committee recommended the continuing appointment of the auditors to the Board.

The Committee has direct access to the senior representatives of the Manager's compliance and internal audit, risk and compliance department and to its group audit committee, and reports its findings to the Board. Following a recommendation from the Audit Committee, the Board concluded that there is currently no need for the Company to have its own internal audit function. All of the Company's management functions are delegated to the Manager, and the Board monitors the controls in place through the Manager's internal audit, risk and compliance department.

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

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

The Audit Committee currently comprises Les Cullen (Chairman), Andrew Adcock, Dr Franz Leibenfrost, Anthony Townsend, Jane Tozer and Mark White, all of whom are considered to be independent. It is considered that there is a range of recent and relevant financial experience amongst the members of the Audit Committee.

Internal controls and management of risk

The Board has overall responsibility for the Company's systems of internal controls, for reviewing their effectiveness and ensuring that risk management and control processes are embedded in the day to day operations of the Company. These controls aim to ensure that the assets of the Company are safeguarded, proper accounting records are maintained and the financial information used within the business and for publication is reliable. Control of the risks identified, covering financial, operational, reputational, compliance and overall risk management, is exercised by the Board through regular reports provided by the Manager on investment performance, performance attribution, compliance with agreed investment restrictions, financial analyses and other management issues. A quarterly control report is prepared by the Manager's audit, risk and compliance department that provides details of any material internal control failure. The control report incorporates a key risk table that identifies the risks to which the Company is exposed and the controls in place to mitigate them, including risks that are not directly the responsibility of the Manager. The Company's principal risks are set out on page 25, with additional information given in note 26 on the accounts.

The systems of internal controls are designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement, loss or fraud.

The Board has carried out a risk and control assessment including a review of the Manager's risk management infrastructure and the report on policies and procedures in operation and tests for the period 1 January to 31 December 2007 (the "Report") 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.

Investment management

The Board has contractually delegated the management of the investment portfolio to the Manager, giving it responsibility for managing gearing, asset allocation and sector and stock selection within guidelines set by the Board. The Manager also provides risk management, company secretarial, accounting, marketing and general administrative services to the Company. 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 its voting policy, which it exercises on behalf of the Company. The Manager's stated belief is that good governance creates value and it takes an interest in corporate governance and sustainable business practices. It votes all of its shares across all global markets whenever possible, and engages with companies on corporate governance matters to encourage good practice. This includes engagement on significant social and environmental issues, where these may impact shareholder value. The Board receives periodic reports on the implementation of the manager's policy.

Relations with shareholders

Communication with shareholders is given a high priority. In addition to the annual and half-yearly reports that are distributed to shareholders, monthly fact sheets and general information are also available on the website www.fandcglobalsmallers.com. The annual report and notice of AGM are sent to shareholders at least 20 working days before the AGM where possible.

At least one shareholder 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 buy-backs and any other special business. All shareholders are encouraged to attend the AGM, at which a presentation is made by the Manager and where there is an opportunity to question the Chairman, the Board and the Manager. Proxy voting figures are announced to shareholders at the AGM and are reported on the website. 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. The Manager has stated that the nominee company will vote the shares held on behalf of plan holders who have not returned their voting directions in proportion to the directions of those who have.

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 and any changes to the composition of the share register. The Chairman is available to meet with major shareholders, but whilst this offer was put

Corporate Governance Statement (continued)

to some key institutional holders during the year under review, no such meetings were held. The Senior Independent Director and other Directors are available to attend these meetings as and when required. The Board welcomes dialogue with shareholders in order to ensure it is aware of any areas of concern.

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 21.

The Board receives regular reports from the Manager on the level and nature of complaints received from investors and its arrangements for "Treating Customers Fairly".

Statement of Directors' Responsibilities in Respect of the Financial Statements

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 2008 and of the results for the year then ended. In preparing the financial statements, suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made. The Directors are also responsible for ensuring that adequate accounting records are maintained and have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

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

- the financial statements have been prepared in accordance with applicable UK Accounting Standards, on a going concern basis, and give a true and fair view of the assets, liabilities, financial position and return of the Company;
- the Manager's Review includes a fair review of the important events that have occurred during the financial year and their impact on the financial statements;
- the principal risks section of the Directors' Report and Business Review describes the principal risks and uncertainties for the forthcoming financial year; and
- the financial statements and the Directors' Report and Business Review include details on related party transactions.

On behalf of the Board
Anthony Townsend
Chairman
19 June 2008

Independent Auditors' Report

Independent Auditors' Report to the shareholders 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 2008 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report 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 Statement of Directors' Responsibilities in Respect of the Financial Statements.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report and Business Review is consistent with the financial statements. The information given in the Directors' Report and Business Review includes that specific information presented in the Chairman's Statement, Manager's Review, Thirty Largest Holdings and List of Investments that is cross referred from the Directors' Report and Business Review.

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

We review whether the Corporate Governance statement reflects the Company's compliance with the nine provisions of the 2006 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 April 2008 and of its net return and cash flows for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report and Business Review is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants & Registered Auditors
Hay's Galleria
1 Hay's Lane
London SE1 2RD
19 June 2008

Income Statement

Revenue notes	Capital notes	for the year ended 30 April	Revenue £'000s	Capital £'000s	2008 Total £'000s	Revenue £'000s	Capital £'000s	2007 Total £'000s
	12	(Losses)/gains on investments	–	(38,996)	(38,996)	–	21,112	21,112
	21	Foreign exchange losses	(4)	(188)	(192)	(3)	(101)	(104)
3		Income	3,848	–	3,848	3,978	–	3,978
4	4	Management fee	(252)	(590)	(842)	(280)	(654)	(934)
5	5	Performance fee	–	–	–	–	(566)	(566)
6	6	Recoverable VAT	500	500	1,000	–	–	–
7		Other expenses	(807)	(35)	(842)	(714)	(54)	(768)
		Net return before finance costs and taxation	3,285	(39,309)	(36,024)	2,981	19,737	22,718
8	8	Finance costs	(347)	(808)	(1,155)	(348)	(812)	(1,160)
		Net return on ordinary activities before taxation	2,938	(40,117)	(37,179)	2,633	18,925	21,558
9	9	Taxation on ordinary activities	(428)	226	(202)	(363)	114	(249)
		Net return attributable to equity shareholders	2,510	(39,891)	(37,381)	2,270	19,039	21,309
10	10	**Return per share – pence**	5.54	(88.09)	(82.55)	4.75	39.79	44.54

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 2008

Notes		Share capital £'000s	Share premium account £'000s	Capital redemption reserve £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total equity shareholders' funds £'000s
	Balance at 30 April 2007	11,693	23,132	14,490	183,286	6,973	239,574
	Movements during the year ended 30 April 2008						
11	Dividends paid	–	–	–	–	(2,161)	(2,161)
	Shares purchased and cancelled	(712)	–	712	(11,932)	–	(11,932)
	Net return attributable to equity shareholders	–	–	–	(39,891)	2,510	(37,381)
	Balance at 30 April 2008	10,981	23,132	15,202	131,463	7,322	188,100

for the year ended 30 April 2007

Notes		Share capital £'000s	Share premium account £'000s	Capital redemption reserve £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total equity shareholders' funds £'000s
	Balance 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 and cancelled	(395)	–	395	(6,713)	–	(6,713)
	Net return attributable to equity shareholders	–	–	–	19,039	2,270	21,309
	Balance at 30 April 2007	11,693	23,132	14,490	183,286	6,973	239,574

Balance Sheet

Notes	at 30 April	£'000s	2008 £'000s	£'000s	2007 £'000s
	Fixed assets				
12	Investments		**194,453**		246,970
	Current assets				
13	Debtors	**2,849**		3,050	
14	Taxation recoverable	**21**		19	
	Cash at bank and short-term deposits	**5,822**		5,548	
		8,692		8,617	
	Creditors: amounts falling due within one year				
15	Other	**(5,045)**		(6,013)	
		(5,045)		(6,013)	
	Net current assets		**3,647**		2,604
	Total assets less current liabilities		**198,100**		249,574
	Creditors: amounts falling due after more than one year				
16	Debenture		**(10,000)**		(10,000)
	Net assets		**188,100**		239,574
	Capital and reserves				
18	Share capital		**10,981**		11,693
19	Share premium account	**23,132**		23,132	
20	Capital redemption reserve	**15,202**		14,490	
21	Capital reserves	**131,463**		183,286	
21	Revenue reserve	**7,322**		6,973	
			177,119		227,881
22	**Total shareholders' funds – equity**		**188,100**		239,574
22	**Net asset value per share – pence**		**428.23**		512.21

Approved by the Board on 19 June 2008
and signed on its behalf by:
Anthony Townsend, Chairman

Cash Flow Statement

Notes	for the year ended 30 April	£'000s	2008 £'000s	£'000s	2007 £'000s
	Operating activities				
	Investment income received	**3,171**		3,215	
	Interest received	**258**		215	
	Stock lending fees received	**37**		86	
	Underwriting commission received	**3**		–	
	Management fee paid to the management company	**(860)**		(899)	
	Performance fee 2007 paid to the management company	**(524)**		–	
	Directors' fees paid	**(134)**		(119)	
	Other payments	**(705)**		(344)	
23	**Net cash inflow from operating activities**		**1,246**		2,154
	Servicing of finance				
	Interest paid	**(1,154)**		(1,168)	
	Cash outflow from servicing of finance		**(1,154)**		(1,168)
	Financial investment				
	Purchases of equities and other investments	**(98,138)**		(99,982)	
	Sales of equities and other investments	**111,749**		114,532	
	Other capital charges and credits	**(35)**		(66)	
	Net cash inflow from financial investment		**13,576**		14,484
	Equity dividends paid		**(2,161)**		(2,674)
	Net cash inflow before use of liquid resources and financing		**11,507**		12,796
	Management of liquid resources				
	Decrease/(increase) in short-term deposits		**2,000**		(1,000)
	Financing				
	Loans repaid	**–**		(3,000)	
	Shares purchased and cancelled	**(11,045)**		(6,595)	
	Cash outflow from financing		**(11,045)**		(9,595)
24	**Increase in cash**		**2,462**		2,201

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 ("Section 842"). Approval of the Company under Section 842 has been received (subject to there being no subsequent enquiry) in respect of the year ended 30 April 2007 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 2006, 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 2008.

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

(b) Principal accounting policies

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

(i) Fixed asset investments and derivative financial instruments

As an investment trust, the Company measures its fixed asset investments and derivative financial instruments at "fair value through profit or loss" and treats all transactions on the realisation and revaluation of investments and derivative financial 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 financial 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 16 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.

Notes on the Accounts (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 financial instruments, dividend income, interest income and expenses are translated at the rates of exchange prevailing at the respective dates of such transactions.

Foreign exchange profits and losses on fixed assets investments and derivative financial instruments are included within the changes in fair value in the capital account. Foreign exchange profits and losses on other currency balances are separately credited or charged to the capital account except where they relate to revenue items when they are credited or charged to the revenue account.

(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 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" on the basis of income actually receivable, without adjustment for the tax credit attaching to the dividends. Dividends from overseas companies are shown gross of withholding tax.

Where the Company has elected to receive its dividends in the form of additional shares rather than in cash (scrip dividends), the amount of the cash dividend foregone is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised in capital reserves.

(v) Expenses, including finance charges

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

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

(vi) Taxation

Deferred tax is provided in accordance with Financial Reporting Standard 19 "Deferred Tax" 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 purchased and cancelled 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:

- 70% of management fees and finance costs as set out in note 2 (v);
- performance fees as set out in note 2(v);
- gains and losses on the realisation of fixed asset investments and derivative financial instruments;
- realised foreign exchange differences of a capital nature;
- costs of professional advice, including related irrecoverable VAT, relating to the capital structure of the Company;

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

– 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 financial instruments held at the year end; and

– unrealised foreign exchange differences of a capital nature.

3. INCOME

	2008 £'000s	2007 £'000s
Income from investments		
UK dividends	1,618	1,325
UK scrip dividends	–	239
UK unfranked interest	–	49
Overseas dividends	1,921	2,066
Overseas scrip dividends	–	15
	3,539	3,694
Other income		
Interest on cash and short-term deposits	254	214
Stock lending fees	52	67
Underwriting commission	3	3
	309	284
Total income	3,848	3,978
Total income comprises		
Dividends	3,539	3,645
Interest from investments	–	49
Other income	309	284
	3,848	3,978
Income from investments		
Quoted UK*	1,618	1,613
Quoted overseas	1,919	2,074
Unquoted	2	7
	3,539	3,694

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

Notes on the Accounts (continued)

4. MANAGEMENT FEE

	Revenue £'000s	Capital £'000s	2008 Total £'000s	Revenue £'000s	Capital £'000s	2007 Total £'000s
Management fee	**244**	**570**	**814**	259	605	864
Irrecoverable VAT thereon *	**8**	**20**	**28**	21	49	70
	252	**590**	**842**	280	654	934

* With effect from 30 September 2007, VAT is no longer suffered on management fees.

The Manager provides investment management, marketing and general administrative services to the Company. 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.

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

5. PERFORMANCE FEE

	2008 Capital £'000s	2007 Capital £'000s
Performance fee	**–**	524
Irrecoverable VAT thereon	**–**	42
	–	566

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 compared to the Benchmark Index (comprising 40% Hoare Govett Smaller Companies Index and 60% MSCI World ex UK Small Cap). 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 level (underperformance) will be carried forward to the subsequent period for inclusion in the calculation of performance in that period.

The fees and related irrecoverable VAT have been allocated 100% to capital reserve realised. No performance fee was payable for the year as a consequence of underperformance by the Company's net assets compared to the Benchmark.

6. RECOVERABLE VAT

	Revenue £'000s	Capital £'000s	2008 Total £'000s	Revenue £'000s	Capital £'000s	2007 Total £'000s
Recoverable in respect of management fees	**500**	**458**	**958**	–	–	–
Recoverable in respect of performance fees	**–**	**42**	**42**	–	–	–
	500	**500**	**1,000**	–	–	–

The Association of Investment Companies and JPMorgan Claverhouse Investment Trust lodged a joint appeal in 2004 for the payment of management and performance fees ("fees") by investment trusts to be treated as exempt from VAT. In June 2007 the European Court of Justice ("ECJ") found in favour of the appellants, declaring that investment trusts should be treated as special investment funds and thus exempted from VAT on fees and HM Revenue & Customs ("HMRC") later announced it would not appeal the decision. As a consequence no VAT has been paid by the Company on management and performance fees since September 2007. A separate decision by the House of Lords on the Condé Nast case in January 2008, ruling that the imposition of a three year capping by HMRC was invalid, was also not contested by HMRC.

6. RECOVERABLE VAT (CONTINUED)

The amounts recoverable by the Manager on behalf of the Company, and the timing of the recoveries, are dependent upon negotiations between the Manager and HMRC, on the one hand, and between the Manager and the Company on the other. Taking into account HMRC's acceptance of the ECJ and Condé Nast decisions, the Directors believe that the negotiations with the Manager have reached a position of clarity such that the Company is virtually certain of recovering at least £1m of VAT via the Manager in respect of the relevant periods. This sum has been recognised as a separate item within the Income Statement in the current year. It has been allocated between revenue and capital returns in accordance with the accounting policies applicable to allocation of fees at the time the VAT was suffered.

The Directors are unable to state with any degree of certainty the extent to which they believe amounts, including any related interest receipts, in excess of the £1m will be recovered via the Manager.

7. OTHER EXPENSES

	2008 £'000s	2007 £'000s
Auditors' remuneration:		
audit services	28	26
taxation services	3	3
other services	5	6
Directors' fees for services to the Company*	134	121
Marketing and private investor plan expenses	350	292
Printing and postage	78	78
Custody fees	20	25
Sundry expenses	189	163
	807	714

* See the Directors' Remuneration Report on page 31.

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

8. FINANCE COSTS

	Revenue £'000s	Capital £'000s	2008 Total £'000s	Revenue £'000s	Capital £'000s	2007 Total £'000s
Debenture	345	805	1,150	345	805	1,150
Loans and bank overdrafts	2	3	5	3	7	10
	347	808	1,155	348	812	1,160

The interest is further analysed as follows:

	Revenue £'000s	Capital £'000s	2008 Total £'000s	Revenue £'000s	Capital £'000s	2007 Total £'000s
Loans and bank overdrafts repayable within five years, not by instalments	2	3	5	3	7	10
Debenture repayable in more than five years, not by instalments	345	805	1,150	345	805	1,150
	347	808	1,155	348	812	1,160

Notes on the Accounts (continued)

9. TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of tax charge for the year

	Revenue £'000s	Capital £'000s	2008 Total £'000s	Revenue £'000s	Capital £'000s	2007 Total £'000s
Corporation tax payable at 29.8% (2007: 30%)	**217**	**(217)**	**–**	135	(135)	–
Overseas taxation	**202**	**–**	**202**	240	9	249
Current tax charge for the year (note 9b)	**419**	**(217)**	**202**	375	(126)	249
Deferred taxation (note 9c)						
On accrued income	**9**	**(9)**	**–**	(12)	12	–
Taxation on ordinary activities	**428**	**(226)**	**202**	363	(114)	249

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

	Revenue £'000s	Capital £'000s	2008 Total £'000s	Revenue £'000s	Capital £'000s	2007 Total £'000s
Return on ordinary activities before tax	**2,938**	**(40,117)**	**(37,179)**	2,633	18,925	21,558
Return on ordinary activities multiplied by the standard rate of corporation tax of 29.8% (2007: 30%)	**877**	**(11,969)**	**(11,092)**	790	5,678	6,468
Effects of:						
UK dividends*	**(483)**	**–**	**(483)**	(469)	–	(469)
Movement in taxable income accruals	**(18)**	**–**	**(18)**	14	–	14
Expenses not deductible for tax purposes	**52**	**–**	**52**	43	–	43
Overseas tax in excess of double taxation relief	**(9)**	**–**	**(9)**	(3)	–	(3)
Expenses not utilised in the year	**–**	**(3)**	**(3)**	–	499	499
Capital returns*	**–**	**11,755**	**11,755**	–	(6,303)	(6,303)
Total current taxation (note 9a)	**419**	**(217)**	**202**	375	(126)	249

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

(c) Provision for deferred taxation

	Revenue £'000s	Capital £'000s	2008 Total £'000s	Revenue £'000s	Capital £'000s	2007 Total £'000s
Balance brought forward	**39**	**(39)**	**–**	51	(51)	–
Charge/(credit) for the year (note 9a)	**9**	**(9)**	**–**	(12)	12	–
Balance carried forward	**48**	**(48)**	**–**	39	(39)	–

The deferred tax asset of £2.4m (2007: £2.5m) in respect of unutilised expenses at 30 April 2008 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 (2007: £nil) relates to revenue expenses and £2.4m (2007: £2.5m) to capital expenses.

10. RETURN PER ORDINARY SHARE

	Revenue	Capital	2008 Total	Revenue	Capital	2007 Total
Revenue return per share – pence	**5.54**	**(88.09)**	**(82.55)**	4.75	39.79	44.54
Net return attributable to equity shareholders – £'000s	**2,510**	**(39,891)**	**(37,381)**	2,270	19,039	21,309

Both the revenue and capital returns per share are based on a weighted average of 45,282,575 ordinary shares in issue during the year (2007: 47,845,186).

11. DIVIDENDS

Dividends on ordinary shares	Register date	Payment date	2008 £'000s	2007 £'000s
Interim for the year ended 30 April 2008 of 1.58p	4 January 2008	30 January 2008	**701**	–
Final for the year ended 30 April 2007 of 3.16p	6 July 2007	6 August 2007	**1,460**	–
Interim for the year ended 30 April 2007 of 1.53p	29 December 2006	30 January 2007	**–**	728
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
			2,161	2,674

The Directors recommend a final dividend in respect of the year ended 30 April 2008 of 3.25p, payable on 6 August 2008 to all shareholders on the register at close of business on 4 July 2008. The recommended final dividend is subject to approval by shareholders at the annual general meeting.

The dividends paid and proposed in respect of the financial year ended 30 April 2008, which form the basis of the Section 842 of the Income and Corporation Taxes Act 1988 retention test and the attributable revenue are set out below:

	2008 £'000s
Revenue attributable to equity shareholders	**2,510**
Interim for the year ended 30 April 2008 of 1.58p	**(701)**
Final for the year ended 30 April 2008 of 3.25p*	**(1,423)**
Estimated undistributed revenue for Section 842 purposes**	**386**

* Based on 43,774,781 shares in issue at 18 June 2008.
**Undistributed revenue comprises 10.9% of income from investments of £3,539,000 (see note 3).

12. INVESTMENTS

	Listed* £'000s	Unlisted £'000s	Total £'000s
Cost at 30 April 2007	179,261	3,735	182,996
Unrealised appreciation/(depreciation) at 30 April 2007	64,855	(881)	63,974
Valuation at 30 April 2007	244,116	2,854	246,970
Movements in the year:			
Purchases at cost	96,991	2	96,993
Sales proceeds	(110,460)	(54)	(110,514)
Sales realised (losses)/gains	(8,061)	54	(8,007)
Decrease in unrealised appreciation	(29,977)	(1,012)	(30,989)
Valuation at 30 April 2008	**192,609**	**1,844**	**194,453**

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

Notes on the Accounts (continued)

12. INVESTMENTS (CONTINUED)

	Listed* £'000s	Unlisted £'000s	Total £'000s
Cost at 30 April 2008	186,709	3,737	190,446
Unrealised appreciation/(depreciation) at 30 April 2008	5,900	(1,893)	4,007
Valuation at 30 April 2008	**192,609**	**1,844**	**194,453**

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

A list of investments is set out on pages 17 to 20.

(Losses)/gains on investments

	2008 £'000s	2007 £'000s
Realised gains based on historical cost	**20,971**	31,070
Amounts recognised as unrealised appreciation in previous years	**(28,978)**	(36,791)
	(8,007)	(5,721)
Movement in unrealised appreciation	**(30,989)**	26,833
(Losses)/gains on investments	**(38,996)**	21,112

Stock lending

	2008 £'000s	2007 £'000s
Aggregate value of securities on loan at the year end	**10,744**	3,445
Maximum aggregate value of securities on loan during the year	**10,874**	10,863
Fee income from stock lending during the year	**52**	67

In respect of securities on loan at the year end, the Company held £11,329,000 as collateral (2007: £3,641,000), the value of which exceeded the value of the securities on loan by 5.4% (2007: 5.7%).

In respect of the maximum aggregate value of securities on loan during the year, the Company held £12,135,000 as collateral (2007: £11,964,000), the value of which exceeded the value of securities on loan by 11.6% (2007: 10.1%). F&C Management Limited received remuneration of £17,000 for managing the Company's stock lending activities (2007: £23,000).

Substantial interests

At 30 April 2008 the Company held more than 5% of the following undertakings held as investments, neither of which represented a participating interest:

Company	Country of registration, incorporation and operation	Number of units held	Percentage of undertaking held
Australian New Horizons Fund	Australia	1,983,437	13.2
US Ventures	Cayman Islands	n/a	10.2

13. DEBTORS

	2008 £'000s	2007 £'000s
Investment debtors	**1,419**	2,655
Recoverable VAT	**1,000**	–
Prepayments and accrued income	**430**	395
	2,849	3,050

14. TAXATION RECOVERABLE

	2008 £'000s	2007 £'000s
Overseas taxation recoverable	**21**	19

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Other	2008 £'000s	2007 £'000s
Investment creditors	**3,422**	4,665
Shares purchased and cancelled	**1,005**	118
Accrued expenses	**618**	1,230
	5,045	6,013

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

Debenture	2008 £'000s	2007 £'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 £13,153,000 (2007: £13,307,000).

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

	UK %	USA %	Continental Europe %	Japan %	Pacific ex Japan %	2008 Total %	2007 Total %
Industrials	15.5	9.8	5.0	0.9	–	**31.2**	30.3
Financials	6.1	6.4	2.2	1.8	6.8	**23.3**	24.1
Technology	4.8	3.5	1.6	0.4	–	**10.3**	8.3
Consumer services	3.6	3.2	1.0	1.4	–	**9.2**	11.0
Consumer goods	0.6	4.4	1.9	0.9	–	**7.8**	10.2
Basic materials	1.8	2.1	0.5	1.3	–	**5.7**	4.2
Health care	2.2	1.3	1.0	–	–	**4.5**	5.0
Oil & gas	1.6	1.5	–	0.3	–	**3.4**	4.4
Telecommunications	–	1.7	0.6	0.1	–	**2.4**	1.1
Utilities	–	–	0.4	–	–	**0.4**	0.3
Total equities	36.2	33.9	14.2	7.1	6.8	**98.2**	98.9
Net current assets/(liabilities)	1.9	(0.1)	(0.1)	0.1	–	**1.8**	1.1
Total assets less current liabilities (excluding debenture)	**38.1**	**33.8**	**14.1**	**7.2**	**6.8**	**100.0**	
2007 totals	45.7	25.8	14.4	10.5	3.6		100.0

Notes on the Accounts (continued)

18. SHARE CAPITAL

	Authorised		Issued and fully paid	
Equity share capital	Number	£'000s	Number	£'000s
Ordinary shares of 25p each				
Balance at 30 April 2007	198,900,000	49,725	46,772,781	11,693
Transfer to capital redemption reserve	–	–	(2,848,000)	(712)
Balance at 30 April 2008	**198,900,000**	**49,725**	**43,924,781**	**10,981**

During the year 2,848,000 ordinary shares were purchased and cancelled at a cost of £11,932,000.

19. SHARE PREMIUM ACCOUNT

	2008	2007
	£'000s	£'000s
Balance brought forward and carried forward	**23,132**	23,132

20. CAPITAL REDEMPTION RESERVE

	2008	2007
	£'000s	£'000s
Balance at 30 April 2007	14,490	14,095
Transfer from equity share capital	712	395
Balance at 30 April 2008	**15,202**	14,490

21. OTHER RESERVES

	Capital reserves – realised £'000s	Capital reserves – unrealised £'000s	Capital reserves – total £'000s	Revenue reserve £'000s
Movements in the year				
Realised losses on investments	(8,007)	–	(8,007)	–
Transfers on disposal of investments	28,978	(28,978)	–	–
Foreign exchange losses	(188)	–	(188)	–
Management fee	(590)	–	(590)	–
Recoverable VAT	500	–	500	–
Other expenses	(35)	–	(35)	–
Finance costs	(808)	–	(808)	–
Corporation tax	226	–	226	–
Movement in unrealised appreciation on investments	–	(30,989)	(30,989)	–
Revenue return	–	–	–	2,510
Net return attributable to ordinary shareholders	20,076	(59,967)	(39,891)	2,510
Cost of shares purchased and cancelled	(11,932)	–	(11,932)	–
Dividends paid in the year	–	–	–	(2,161)
	8,144	(59,967)	(51,823)	349
Balance at 30 April 2007	118,968	64,318	183,286	6,973
Balance at 30 April 2008	**127,112**	**4,351**	**131,463**	**7,322**

Included within the capital reserve movement for the year are £284,000 (2007: £295,000) of transaction costs on purchases of investments, £238,000 (2007: £253,000) of transaction costs on sales of investments and £32,000 of distributions recognised as capital (2007: £63,000).

21. OTHER RESERVES (CONTINUED)

Distributable capital reserves

Under the terms of the Company's articles of association, sums standing to the credit of capital reserves are distributable only by way of redemption or purchase of any of the Company's own shares, for so long as the Company carries on business as an investment company. Company law states that investment companies may only distribute accumulated "realised" profits.

The Institute of Chartered Accountants in England and Wales in its technical guidance TECH 01/08, states that profits arising out of a change in fair value of assets, recognised in accordance with accounting standards, may be distributed, provided the change recognised can be readily converted into cash. Securities listed on a recognised stock exchange are generally regarded as being readily convertible into cash and hence unrealised profits in respect of such securities, currently included within the unrealised capital reserve, may be regarded as distributable under company law.

This technical interpretation of the meaning of distributable reserves would, as a consequence, give rise at 30 April 2008 to capital reserves available for distribution of approximately £131,463,000, and non-distributable capital reserves, excluding the share premium and the capital redemption reserve, of £1,893,000 deficit.

22. NET ASSET VALUE PER ORDINARY SHARE

	2008	2007
Net asset value per share (with debenture at nominal value) – pence	428.23	512.21
Net assets attributable at the year end – £'000s	188,100	239,574
Ordinary shares in issue at the year end	43,924,781	46,772,781

Net asset value per share with debenture at market value was 421.05p (2007: 505.14p).

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

	2008 £'000s	2007 £'000s
Total return before finance costs and taxation	(36,024)	22,718
Adjust for returns from non-operating activities		
Losses/(gains) on investments	38,996	(21,112)
Foreign exchange losses charged to capital	188	101
Management fee charged to capital	590	654
Performance fee charged to capital	–	566
Recoverable VAT credited to capital	(500)	–
Other expenses charged to capital	35	54
Return from operating activities	3,285	2,981
Adjust for non cash-flow items		
Transfer of management fee to capital reserve	(590)	(654)
Transfer of performance fee to capital reserve	–	(566)
Transfer of recoverable VAT to capital reserve	500	–
Exchange losses of a revenue nature	4	3
(Increase)/decrease in accrued income	(78)	50
(Increase)/decrease in prepayments	(961)	172
(Decrease)/increase in creditors	(613)	680
Dividends re-invested	(97)	(254)
Overseas taxation	(204)	(258)
Net cash inflow from operating activities	1,246	2,154

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

	2008 £'000s	2007 £'000s
Increase in cash	**2,462**	2,201
(Decrease)/increase in short-term deposits	**(2,000)**	1,000
Decrease in short-term loans	**–**	3,000
Movement in net debt resulting from cash flows	**462**	6,201
Foreign exchange movement	**(188)**	(97)
Movement in net debt	**274**	6,104
Net debt brought forward	**(4,452)**	(10,556)
Net debt carried forward	**(4,178)**	(4,452)

Represented by:	Balance at 30 April 2007 £'000s	Cash flow £'000s	Exchange movement £'000s	Balance at 30 April 2008 £'000s
Cash at bank	3,548	2,462	(188)	**5,822**
Short-term deposits	2,000	(2,000)	–	**–**
	5,548	462	(188)	**5,822**
Debenture	(10,000)	–	–	**(10,000)**
	(4,452)	462	(188)	**(4,178)**

25. RELATED PARTY TRANSACTIONS

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

There are no transactions with the Board other than aggregated remuneration for services as Directors as disclosed in the Directors' Remuneration Report on page 31, and as set out in note 7 on the accounts. There are no outstanding balances with the Board at the year end. Transactions between the Company and F&C are detailed in note 4 on management fees, note 5 on performance fees, note 6 on recoverable VAT and in note 12, where stock lending fees and investments managed and advised by F&C are disclosed.

26. FINANCIAL RISK MANAGEMENT

The Company is an investment company, listed on the London Stock Exchange, and conducts its affairs so as to qualify in the United Kingdom (UK) as an investment trust under the provisions of Section 842. In so qualifying, the Company is exempted in the UK from corporation tax on capital gains on its portfolio of investments.

The Company invests in smaller companies worldwide in order to secure a high total return. In pursuing the objective, the Company is exposed to financial risks which could result in a reduction of either or both of the value of the net assets and the profits available for distribution by way of dividend. These financial risks are principally related to the market (currency movements, interest rate changes and security price movements), liquidity and credit. The Board, together with the Manager, is responsible for the Company's risk management, as set out in detail in the Directors' Report and Business Review. The Directors' policies and processes for managing the financial risks are set out in (a), (b) and (c) below.

The accounting policies which govern the reported balance sheet carrying values of the underlying financial assets and liabilities, as well as the related income and expenditure, are set out in note 2 on the accounts. The policies are in compliance with UK Accounting Standards and best practice, and include the valuation of financial assets and liabilities at fair value, except as noted in (d) below and in note 16 in respect of the debenture stock. The Company does not make use of hedge accounting rules.

(a) Market risks

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

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Company's other assets and liabilities may be denominated in currencies other than sterling and may also be exposed to interest rate risks. The Manager and the Board regularly monitor these risks. The Company does not normally hold significant cash balances. Borrowings are limited to amounts and currencies commensurate with the portfolio's exposure to those currencies, thereby limiting the Company's exposure to future changes in exchange rates. Gearing may be short or long-term, in sterling and foreign currencies, and enables the Company to take a long-term view of the countries and markets in which it is invested without having to be concerned about short-term volatility.

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

Currency exposure

The principal currencies to which the Company was exposed during the year were the US dollar, euro and Japanese yen.

The exchange rates applying against sterling at 30 April and the average rates during the year ended 30 April were as follows:

		2008		2007
	At 30 April	Average for the year	At 30 April	Average for the year
US dollar	**1.9805**	**2.0108**	1.9998	1.9143
Euro	**1.2721**	**1.3996**	1.4654	1.4739
Japanese yen	**206.99**	**227.00**	238.99	223.83

Based on the financial assets and liabilities held and the exchange rates applying at the balance sheet date, a weakening or strengthening of sterling against each of these principal currencies by 10% would have the following approximate effect on returns attributable to equity shareholders and on the net asset value per share ("NAV"):

			2008			2007
Weakening of Sterling by 10%	US$	€	¥	US$	€	¥
Net revenue return attributable to equity shareholders – £'000s	**56**	**28**	**29**	61	39	19
Net capital return attributable to equity shareholders – £'000s	**7,191**	**1,738**	**1,235**	6,902	2,715	2,618
Net total return attributable to equity shareholders – £'000s	**7,247**	**1,766**	**1,264**	6,963	2,754	2,637
Net asset value per share – pence	**16.50**	**4.02**	**2.88**	14.89	5.89	5.64

			2008			2007
Strengthening of Sterling by 10%	US$	€	¥	US$	€	¥
Net revenue return attributable to equity shareholders – £'000s	**(56)**	**(28)**	**(29)**	(61)	(39)	(19)
Net capital return attributable to equity shareholders – £'000s	**(7,191)**	**(1,738)**	**(1,235)**	(6,902)	(2,715)	(2,618)
Net total return attributable to equity shareholders – £'000s	**(7,247)**	**(1,766)**	**(1,264)**	(6,963)	(2,754)	(2,637)
Net asset value per share – pence	**(16.50)**	**(4.02)**	**(2.88)**	(14.89)	(5.89)	(5.64)

These analyses are representative of the Company's activities although the level of the Company's exposure to currencies fluctuates in accordance with the investment and risk management processes.

The fair values of the Company's assets and liabilities at 30 April by currency are shown below:

2008	Investments £'000s	Short-term debtors £'000s	Cash at bank and short-term deposits £'000s	Short-term creditors £'000s	Debenture (at nominal value) £'000s	Net exposure £'000s
Sterling	80,526	2,163	5,803	(4,128)		84,364
US dollar	72,116	3	8	(135)	(10,000)	61,992
Euro	17,377	291	–	–	–	17,668
Japanese yen	12,086	264	–	–	–	12,350
Other	12,348	149	11	(782)	–	11,726
Total	**194,453**	**2,870**	**5,822**	**(5,045)**	**(10,000)**	**188,100**

Notes on the Accounts (continued)

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

2007	Investments £'000s	Short-term debtors £'000s	Cash at bank and short-term deposits £'000s	Short-term creditors £'000s	Debenture (at nominal value) £'000s	Net exposure £'000s
Sterling	110,355	1,651	4,844	(1,348)	(10,000)	105,502
US dollar	72,252	692	7	(3,933)	–	69,018
Euro	27,696	150	21	(719)	–	27,148
Japanese yen	25,645	550	–	(13)	–	26,182
Other	11,022	26	676	–	–	11,724
Total	246,970	3,069	5,548	(6,013)	(10,000)	239,574

Interest rate exposure

The exposure of the financial assets and liabilities to interest rate movements at 30 April were:

	Within one year £'000s	**More than one year £'000s**	**2008 Net total £'000s**	Within one year £'000s	More than one year £'000s	2007 Net total £'000s
Exposure to floating rates – cash	**5,822**	**–**	**5,822**	5,548	–	5,548
Exposure to fixed rates – debenture	**–**	**(10,000)**	**(10,000)**	–	(10,000)	(10,000)
Net exposure	**5,822**	**(10,000)**	**(4,178)**	5,548	(10,000)	(4,452)
Minimum net exposure during the year	**270**	**(10,000)**	**(9,730)**	(790)	(10,000)	(10,790)
Maximum net exposure during the year	**5,822**	**(10,000)**	**(4,178)**	7,081	(10,000)	(2,919)

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

Interest received on cash balances, or paid on bank overdrafts and borrowings, is at ruling market rates. The interest rates applying on the debenture are set out in note 16 on the accounts. There were no material holdings in fixed interest investment securities during the year or at the year end.

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

Based on the financial assets and liabilities held, and the interest rates ruling, at each balance sheet date, a decrease or increase in interest rates of 2% would have the following approximate effects on the income statement revenue and capital returns after tax and on the NAV:

	Increase in rate £'000s	**2008 Decrease in rate £'000s**	Increase in rate £'000s	2007 Decrease in rate £'000s
Revenue return	**29**	**(29)**	23	(23)
Capital return	**69**	**(69)**	55	(55)
Total return	**98**	**(98)**	78	(78)
NAV per share – pence	**0.22**	**(0.22)**	0.17	(0.17)

Other market risk exposures

The Company does not usually enter into derivative transactions in managing its exposure to other market risks. The portfolio of investments, valued at £194,453,000 at 30 April 2008 (2007: £246,970,000) is therefore exposed to market price changes. The Manager assesses these exposures at the time of making each investment decision. The Board reviews overall exposures at each meeting against indices and other relevant information. An analysis of the portfolio by country and major industrial sector is set out in note 17 on the accounts.

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

Based on the portfolio of investments held at each balance sheet date, and assuming other factors remain constant, a decrease or increase in the fair values of the portfolio by 20% would have had the following approximate effects on the net capital return attributable to equity shareholders and on the NAV:

	2008 Increase in value £'000s	2008 Decrease in value £'000s	2007 Increase in value £'000s	2007 Decrease in value £'000s
Capital return	**38,891**	**(38,891)**	49,394	(49,394)
NAV per share – pence	**88.54**	**(88.54)**	105.60	(105.60)

(b) Liquidity risk exposure

The Company is required to raise funds to meet commitments associated with financial instruments and share buybacks. These funds may be raised either through the realisation of assets or through increased borrowing. The risk of the Company not having sufficient liquidity at any time is not considered by the Board to be significant, given: the large number of quoted investments held in the Company's portfolio (226 at 30 April 2008); the liquid nature of the portfolio of investments; the industrial and geographical diversity of the portfolio (see note 17); and the existence of an ongoing loan facility agreement. Cash balances are held with reputable banks, usually on overnight deposit. The Company does not normally invest in derivative products. The manager reviews liquidity at the time of making each investment decision. The Board reviews liquidity exposure at each meeting.

The Company has loan facilities of £15m. The 11.5% Debenture Stock is governed by a trust deed and is redeemable in 2014 or at an earlier date or dates at the Company's behest. The Board does not therefore consider the repayment of the debenture stock as a likely short-term liquidity issue.

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

	Three months or less £'000s	More than one year £'000s	Total £'000s
2008			
Current liabilities			
Other creditors	5,045	–	5,045
Long-term liabilities			
Debentures	–	10,000	10,000
	5,045	**10,000**	**15,045**
2007			
Current liabilities			
Other creditors	6,013	–	6,013
Long-term liabilities			
Debentures	–	10,000	10,000
	6,013	10,000	16,013

Notes on the Accounts (continued)

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Credit risk and counterparty exposure

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

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

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

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

The Company had no credit-rated bonds or similar securities or derivatives in its portfolio at the year end (2007: none) and does not normally invest in them. None of the Company's financial liabilities are past their due date or impaired.

(d) Fair values of financial assets and liabilities

The assets and liabilities of the Company are, in the opinion of the Directors, reflected in the balance sheet at fair value, or at a reasonable approximation thereof, except for the debenture which is carried at par value in accordance with FRS4. The fair value of the debenture, based on a comparable UK gilt was £13,153,000 (2007: £13,307,000). Borrowings under loan facilities are short-term in nature and hence do not have a value materially different from their capital repayment amount. Borrowings in foreign currencies are converted into sterling at exchanges rates ruling at each valuation date.

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

(e) Capital risk management

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

Changes to ordinary share capital are set out in note 18 on the accounts. Dividend payments are set out in note 11 on the accounts. Details of the debenture are set out in note 16 on the accounts.

Ten Year Record

Assets

at 30 April

£'000s	1998	1999	2000	2001	2002	2003	2004	2005 *	2006	2007	2008
Total assets	284,322	294,750	344,390	305,488	276,116	193,665	260,475	288,404	240,652	249,574	**198,100**
Debenture and loans	22,616	29,310	31,262	30,558	29,816	25,720	25,085	24,006	13,000	10,000	**10,000**
Net assets	261,706	265,440	313,128	274,930	246,300	167,945	235,390	264,398	227,652	239,574	**188,100**

Net asset value (NAV)

at 30 April

	1998	1999	2000	2001	2002	2003	2004	2005 *	2006	2007	2008
NAV per share	249.9p	255.3p	325.4p	291.9p	265.5p	183.1p	276.8p	311.3p	470.8p	512.2p	**428.2p**
NAV total return on 100p – 5 years (per AIC)											**246.1p**
NAV total return on 100p – 10 years (per AIC)											**194.6p**

Share price

at 30 April

	1998	1999	2000	2001	2002	2003	2004	2005 *	2006	2007	2008
Middle market price per share	206.3p	203.5p	255.3p	242.5p	219.0p	147.0p	224.0p	268.5p	435.0p	473.3p	**385.0p**
Share price high	206.8p	225.8p	304.5p	293.5p	254.5p	221.0p	227.0p	286.0p	444.5p	473.3p	**482.0p**
Share price low	171.3p	145.3p	199.3p	223.5p	182.5p	124.0p	150.0p	209.5p	268.5p	364.3p	**339.8p**
Share price total return on 100p – 5 years (per AIC)											**284.6p**
Share price total return on 100p – 10 years (per AIC)											**210.7p**

Revenue

for the year ended 30 April

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Available for ordinary shares – £'000s	4,074	5,428	4,213	4,021	3,639	3,284	3,465	3,930	3,210	2,270	**2,510**
Return per share	3.89p	5.19p	4.22p	4.22p	3.89p	3.55p	3.95p	4.63p	4.54p	4.75p	**5.54p**
Dividends per share	3.00p	3.36p	3.75p	3.95p	4.02p	4.15p	4.24p	4.40p	5.53p#	4.69p	**4.83p**

Performance

(rebased to 100 at 30 April 1998)

	1998	1999	2000	2001	2002	2003	2004	2005 *	2006	2007	2008
NAV per share	100.0	102.2	130.2	116.8	106.2	73.3	110.8	124.6	188.4	205.0	**171.4**
Middle market price per share	100.0	98.6	123.7	117.5	106.2	71.3	108.6	130.2	210.9	229.4	**186.6**
Earnings per share	100.0	133.4	108.5	108.5	100.0	91.3	101.5	119.0	116.7	122.1	**142.4**
Dividends per share	100.0	112.0	125.0	131.7	134.0	138.3	141.3	146.7	184.3	156.3	**161.0**
RPI	100.0	101.6	104.6	106.5	108.1	111.4	114.2	117.8	120.8	126.3	**131.6**

* restated to reflect changes in accounting policies.
# includes a special dividend of 1.00p.

Definitions

Total assets	Total assets less current liabilities (excluding debenture and loans).
NAV	Net asset value per share (debenture at nominal value).
NAV total return	Return on NAV with dividends paid to shareholders reinvested.
AIC	Association of Investment Companies.
Share price total return	Return on the middle market share price with dividends paid to shareholders reinvested.
RPI	All-items retail prices index.

Ten Year Record (continued)

Costs of running the Company (total expense ratio)

for the year ended 30 April

	1998	1999	2000	2001	2002	2003	2004	2005*	2006	2007	2008
Expressed as a percentage of average net assets											
Operating costs											
excluding performance fees	0.62%	0.65%	0.68%	0.67%	0.84%	1.10%	0.80%	0.66%	0.69%	0.74%	0.77%
including performance fees	0.62%	0.65%	0.68%	0.67%	0.84%	1.10%	0.80%	0.66%	0.69%	0.99%	0.77%
Expressed as a percentage of average total assets											
Operating costs											
excluding performance fees	0.57%	0.58%	0.62%	0.59%	0.75%	0.95%	0.72%	0.61%	0.65%	0.71%	0.74%
including performance fees	0.57%	0.58%	0.62%	0.59%	0.75%	0.95%	0.72%	0.61%	0.65%	0.95%	0.74%

Gearing

at 30 April

	1998	1999	2000	2001	2002	2003	2004	2005 *	2006	2007	2008
Effective gearing	(4.5)%	(0.2)%	(0.1)%	(8.5)%	0.6%	2.3%	3.9%	7.4%	4.7%	2.7%	**3.3%**
Fully invested gearing	8.6%	11.0%	10.0%	11.1%	12.7%	15.3%	10.7%	9.1%	5.7%	4.2%	**5.3%**

* restated to reflect changes in accounting policies.

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	Debenture (at nominal value) and loans less cash, as a percentage of net assets.
Fully invested gearing	Debenture (at nominal value) and loans as a percentage of net assets.

Information for Shareholders

Net asset value and share price

The Company's net asset value per share ("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 stock market 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 half-yearly and final reports which are sent to shareholders in December and June respectively.

More up-to-date performance information is available on the internet at www.fandcglobalsmallers.com. This website also provides a monthly update on the Company's largest holdings, along with comments from the Lead Manager.

UK capital gains tax ("CGT")

An approved investment trust does not pay tax on capital gains. UK resident individuals may realise net capital gains of up to £9,600 in the tax year ending 5 April 2009 without incurring any tax liability.

Taper relief and indexation allowances were abolished with effect from 6 April 2008 in favour of a single rate of charge to CGT of 18%.

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

Income tax

The recommended final dividend is payable in August 2008. Individual UK resident shareholders who are subject to UK income tax at the basic rate have no further tax liability.

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

Association of Investment Companies ("AIC")

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 investment plans available. For further details, please contact the AIC on 020 7282 5555, or visit the website: www.theaic.co.uk

aic
The Association of
Investment Companies

Analysis of Ordinary Shareholders

Analysis of ordinary shareholders at 30 April 2008

Category	Number of shares	% Holding
F&C savings plans	18,637,425	42.4
Institutions	10,758,809	24.5
Nominee holdings	9,679,588	22.0
Direct individual holdings	4,848,959	11.1

Source: F&C Management Limited.

The total number of shareholders at 30 April 2008 was 27,276, of which 24,756 were investors through the F&C savings plans.

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. There is only a 0.5% management fee and this is capped at £500. Contributions can be made via a minimum £1,000 lump sum or by a monthly minimum Direct Debit of £50. The minimum top-up is £500. Now that personal pensions are no longer restricted to those with earnings of their own, almost everyone under the age of 75 is eligible. This means that you can invest on behalf of non-working spouses or partners and children.

Child Trust Fund ("CTF")

F&C has launched a CTF so that parents can invest the Government voucher issued to all children born since 1 September 2002. There are no initial or annual plan charges and there is only 0.5% government stamp duty on any purchases. Parents and grandparents (or other relatives or friends) can add contributions totalling £1,200 a year. You can invest from £25 each month via Direct Debit or from £300 for lump sums once you have invested your voucher.

Individual Savings Account ("ISA")

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

The minimum monthly Direct Debit is £50, minimum lump sum investment is £500 and the minimum top-up is £250. Investments in the ISA can be made online.

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

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

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

Contact details

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

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

or broker support on

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

(UK calls charged at the local rate)

Fax **0131 243 1315**

You can also find more information on the website:

www.fandc.com

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

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

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

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

Notes

Notes

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