F&C Global Smaller Companies PLC

Report and Accounts

2010

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 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 directly in around 200 individual companies covering markets around the world. We also invest in collective funds giving us exposure to Asia.
- 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:

- No capital gains tax is suffered on transactions within the portfolio.
- Charges to investors are typically well below those for comparable OEICs or unit trusts.
- Management of the portfolio is not complicated by regular redemptions and subscriptions.
- The ability to enhance net asset value per share by buying back our own shares.
- The freedom to borrow money to invest for our shareholders.

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

Registered in England and Wales 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 2010	30 April 2009	% Change
Share price	**461.00p**	325.00p	+41.8
Net asset value per share (debenture at nominal value)	**518.10p**	360.23p	+43.8
Net asset value per share (debenture at market value)	**510.14p**	351.06p	+45.3

	Year ended 30 April 2010	Year ended 30 April 2009	% Change
Revenue return per share	**4.88p**	5.66p	-13.8
Dividends per share	**5.00p**	4.89p	+2.2
Total expense ratio (based on average net assets)	**0.78%**	0.93%	

Contents

Financial calendar

Annual general meeting	**21 July 2010**
Final dividend payable*	**6 August 2010**
Half-yearly results for 2011 announced	**December 2010**
Interim dividend payable	**January 2011**
Final results for 2011 announced	**June 2011**

* to shareholders on the register at the close of business on 25 June 2010

Chairman's Statement

Anthony Townsend Chairman

While at the start of the period under review many countries were still in deep recession, the underlying economic environment brightened as the year progressed. This, in combination with ultra-low interest rates on a global basis, was supportive to the case for equities over other asset classes. Encouragingly, smaller company shares did better than the overall markets in most parts of the world as investors became more positive on the outlook for corporate earnings and looked to gain greater exposure to the recovery.

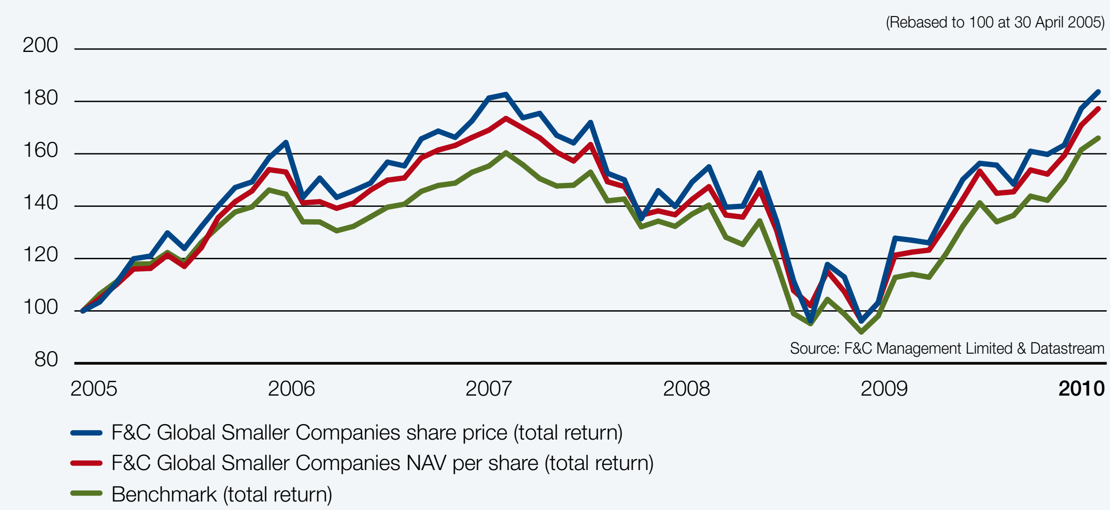
Performance and the Benchmark

The positive background was duly reflected in the Company's net asset value ("NAV") per share and share price, both of which rose substantially and closed the year near to their all-time highs. Measured on a total return basis, the NAV per share return was 45.6%, while the share price was up 43.8%. The increase in the value of the Company's assets combined with tight control of costs meant that the total expense ratio fell from 0.93% to 0.78%.

In March the Board announced that, following a review, it had concluded that the Company's Benchmark should be changed with effect from the start of the 2010/11 financial year. For the year under review, the Benchmark was 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%).

Over the period since the last change in the Benchmark in 2005, the world's equity markets have evolved and a notable trend, mirroring economic developments, has been the growth in importance of emerging markets. Many countries in Asia, most

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



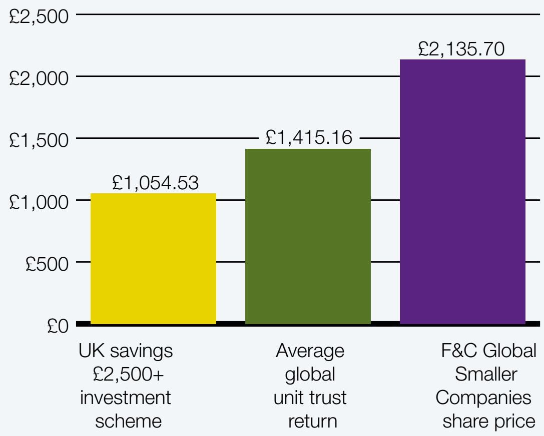
notably China, but also Latin America with Brazil at the forefront, have been growing at a rapid pace and their equity markets are also now significantly bigger, offering a better spread of companies of all sizes. The Board believes that this should be reflected in the construction of the Benchmark, not least because these markets more likely offer better growth potential than developed markets over the long term as a result of their superior underlying growth dynamics. Hence, for the international component of the Benchmark, the MSCI All Country World ex UK Small Cap Index will now be used as this incorporates around 20 additional countries compared to the previously used index and has a much higher emerging market exposure.

The Board also decided to reduce the UK's weighting in the Benchmark as, while there is an established, vibrant and broadly spread domestic small cap equity market, the faster pace of economic growth elsewhere is likely to diminish the UK's relative importance. In addition, as the UK portfolio no longer holds any investment companies, these will be stripped out from the Benchmark calculation. The Benchmark for the new financial year will be 30% Hoare Govett UK Smaller Companies (excluding investment companies) Index and 70% MSCI All Country World ex UK Small Cap Index.

The Company has a policy to allocate management fees and interest expenses between its Capital Reserve and Revenue Reserve, broadly in proportion to the Board's long-term expected split of returns from the portfolio. The proportion allocated to Capital Reserve has historically been 70%. In recognition of the likely switch in geographic emphasis of the portfolio over the medium term, the Board amended the proportion of such expenses allocated to Capital Reserve to 75% with effect from 1 May 2010.

The Benchmark used for the 2009/10 year produced a total return of 47.0%, a little ahead of the return from the Company's NAV per share and therefore no performance fee was earned. Underperformance is carried forward into future performance fee calculations, which will use the new Benchmark. However, over the last five years, it is pleasing to report that the NAV per share has shown a total return of 76.7% compared to the Benchmark

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



Source: Lipper

return of 65.9%, while the share price including reinvested dividends has returned 83.7%.

While it is always pertinent to consider performance against a relevant benchmark, the Board also monitors how the Company is doing in relation to other global growth orientated investment companies. In the year to the end of April 2010 the Company's NAV per share growth ranked 8th out of 31 investment trusts in the Association of Investment Companies Global Growth sector, following on from a strong 2008/9 in this context.

Dividends

A year ago, I highlighted that we expected dividend income from the investment portfolio to be under pressure due to the global downturn. Although UK dividend receipts actually grew, overseas companies held in the portfolio were less generous in their payments and this, combined with lower income from our cash deposits, meant that the revenue return per share fell by 13.8% this year.

While this has been a difficult time for dividend income, improving trends in corporate earnings in the last few months around the world provide some encouragement for the new year and, on this basis, the Board is recommending a dividend payment of 3.40p per share, a 3.3% rise on last year's final, making a total dividend for the year of 5.00p per share, an increase of 2.2%. This will be paid on

Chairman's Statement (continued)

6 August 2010 to shareholders on the register on 25 June 2010. The decision to pay an increased final dividend means that the Company has now delivered 40 consecutive years of dividend increases. Looking forward, however, the likely reduction in exposure to the UK compared to historic levels as a consequence of the revised Benchmark could put pressure on our income, so shareholders should not necessarily expect that our own dividend payment can necessarily carry on rising forever.

Economic and market background

The world economy was still contracting in early 2009, but concerted efforts to stimulate activity by governments and central banks proved successful in turning things around, and to a greater extent than many had forecast. The US, which led the world into the downturn, started to pick up around the middle of 2009 and now appears to be growing at an annual rate of about 3%, while economies in mainland Europe, such as Germany and France, were also early beneficiaries of the widespread initiatives to encourage the sale of new cars. Asia as a whole also picked up pace and the UK moved out of recession in the last quarter of 2009, albeit at a pedestrian rate.

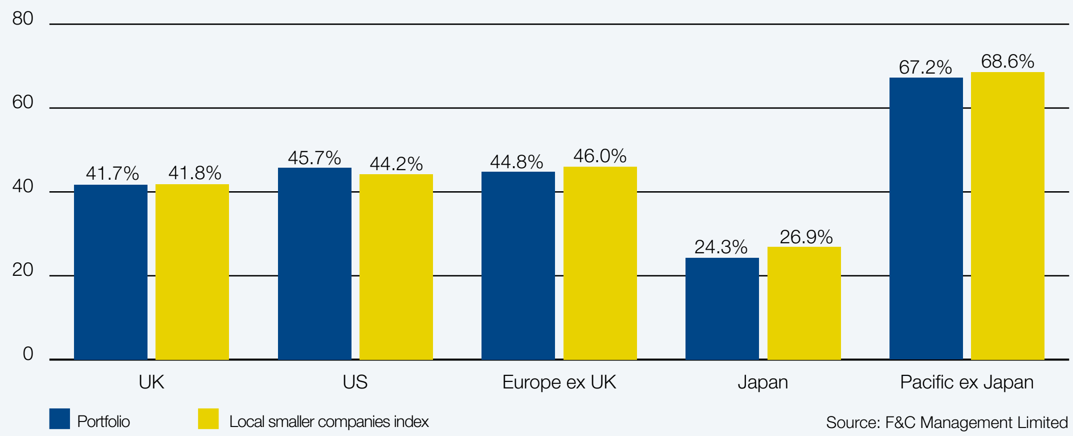
The economic recovery was good news for corporate earnings and stock markets were boosted by a steady stream of analyst upgrades, although in many cases forecasts were rising from a low base. Cyclical recovery stocks performed strongly, particularly in the early part of the year, but gains broadened out later on. The best performing markets over the year were to be found in Asia; the region had been weak in 2008/9 but bounced back strongly as the impact of the massive Chinese stimulus packages and improving demand elsewhere in the world boosted demand for exports. Japan, however, failed to keep pace with the rest of Asia, with the strength of the yen hurting its exporters and political change failing to excite investors.

In early 2010, attention in the financial markets swung more towards the endemic risks of high sovereign debt levels. Falling tax revenues as a result of the global recession combined with fiscal stimulus packages designed to get economies moving again have led many countries to become dangerously indebted. Yields on some government bonds rose dramatically, most notably in the smaller southern euro-zone states, leading to the need for an EU/IMF bail-out for Greece. Equity markets, having initially been relaxed about the wider implications of pressure in bond markets, became more concerned about the potential contagion effect as the year drew to a close.

Portfolio performance

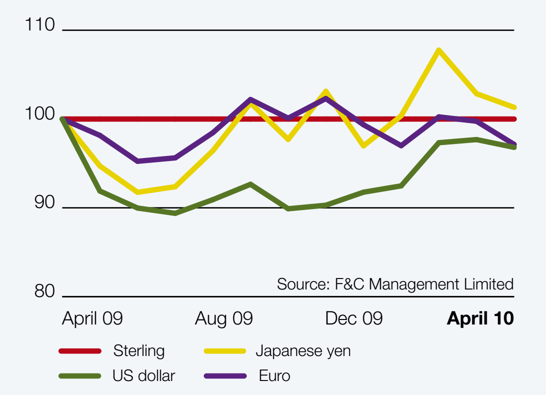
All markets delivered a positive return in the year under review and the returns from the regional portfolios against their local small cap indices are shown below. This illustrates that, in an absolute sense, the performance of our portfolio was strongest in Asia and weakest in Japan.

Geographical performance (total return sterling adjusted) for the year ended 30 April 2010



Source: F&C Management Limited

Currency movements relative to sterling in the year ended 30 April 2010



In a relative sense, however, the portfolio did best in the US, where the outperformance followed a particularly strong year in 2008/9. Elsewhere, we almost matched the local small cap indices in the UK and were a little further behind in Asia, Japan and Europe. Details on the background to our performance, highlighting the main individual company and sector influences, are included in the Manager's Review on pages 7 to 17.

Currencies and asset allocation

Having the portfolio appropriately spread in a geographic sense is always important and once again the range of returns from the different markets illustrates this point. This year, however, currency movements had less of an effect than in the most recent past, as sterling ended the year not much changed against the other main currencies.

In overall terms, asset allocation decisions worked well. Going into the year our largest positions were to be overweight in the Rest of the World and the US and to be underweight in the UK. The Rest of the World exposure, in practice, was predominantly Asian exposure, although the Manager has been investigating opportunities to increase the presence in Latin America. The better economic performance of Asia and the potential for a re-rating of smaller stocks in these markets at the start of the year underpinned this stance and we were rewarded by strong gains. In the US early in the year we took some money out of the market, but later in the period we again lifted the weighting as the Manager became more cautious on developments in Europe. For the year as a whole, however, we were wrong to be underweight in European markets as they performed well until late on.

The Manager has been cautious about the UK's prospects in a relative sense for some time, given the country's weak fiscal position, balance of payments deficit and the over-indebted consumer. We did, however, increase the UK weighting early in the year which worked out well in terms of timing, but exposure was reduced again later on following a recovery in sterling versus the dollar.

Gearing policy

The Company was geared for nearly all of the first three quarters of the year and, given the run-up in markets, this was helpful to NAV performance. A more cautious view on market valuations and the potential for an eventual fall-out stemming from bond market weakness prompted the Manager to de-gear early in 2010. At the end of April there was a 3.3% net cash position taking account of the debenture liability at nominal value.

Discount and buybacks

At the end of the year the discount at which the share price trades to NAV per share, calculated to exclude current period income and taking the debenture at market value, was 9.0%. This was higher than the 6.3% at the end of the prior year and the 5.5% at the end of October 2009. During the year the Board continued to act to protect the degree of volatility in, and level of, the discount by using its buyback powers. The aim remains to keep the discount as close as is possible to 5% over time. Late in the year profit taking by some shareholders meant that buyback activity was stepped up and a total of 1,694,928 shares (4% of the starting share capital) were bought in and cancelled over the year. This process enhanced the NAV per share by approximately 0.6%. It is encouraging to note that nearly 3,000 new shareholders joined the register in the year, illustrating continuing strong retail investor demand for the mandate.

At the annual general meeting we will again seek shareholder approval to buy back up to 14.99% of the issued share capital, with the option of holding

Chairman's Statement (continued)

shares bought back in treasury. As previously, it is likely that shares bought in will be immediately cancelled. Any shares held in treasury would only be re-issued at a premium to NAV per share.

Outlook

Continuing strong growth in China, combined with solid expansion in the US, underpin an improved outlook for the world economy in 2010. However, in China and some other places including the UK, it is possible that interest rates may have to rise to curtail inflationary pressures, and we have already seen some rate increases in commodity orientated economies such as Australia. The outlook for growth in the euro-zone and in the UK looks less encouraging as stimulus packages are being replaced by fiscal austerity plans.

Equity markets have rallied a long way and this has been reflected in a year end NAV per share nearly double the level reached when sentiment was at its worst in March 2009. The Manager has therefore taken a more cautious stance in recent months as a consequence of the higher valuations and concern about possible contagion from the crisis of confidence in the sovereign bond markets of Europe. This move has been vindicated at the start of the new financial year by a correction in share prices.

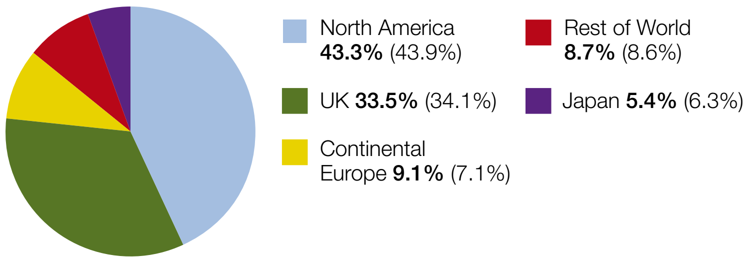
The resilient overall profit performance of much of the portfolio during the recession and the strong bounce back in earnings into the recovery are encouraging indications of the longer term potential for a global smaller companies mandate to deliver good returns to shareholders.

Anthony Townsend
Chairman
15 June 2010

Manager's Review

Peter Ewins Lead Manager

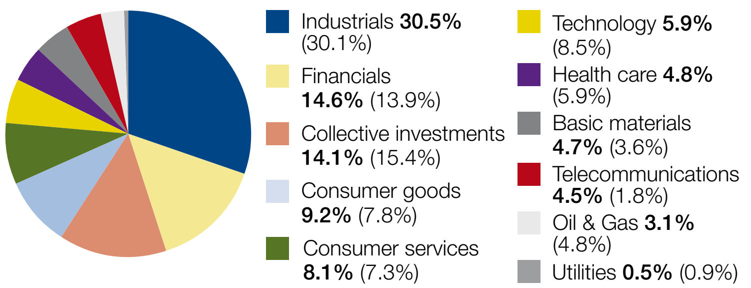
Geographical distribution of the investment portfolio as at 30 April 2010



The percentages in brackets are as at 30 April 2009

Source: F&C Management Limited

Industrial classification of the investment portfolio as at 30 April 2010



The percentages in brackets are as at 30 April 2009

Source: F&C Management Limited

The past year has illustrated how important it is to remember that stock markets and individual shares do not always track the broad economic picture. Calendar 2009 was the weakest for world economic growth in many years, yet equity markets around the world surged. The fact is that equity investors tend to look forwards rather than backwards and they were becoming more confident about the outlook.

After slashing company profit forecasts early in 2009, analysts began to reverse tack in the middle of the year as it became apparent that the global recession was not turning into a full scale depression. The embattled banking sector therefore recovered somewhat during the year, as fears about bad loan write-offs eased, which was a positive in that this increased their willingness and ability to provide new loans. All in all, this was a year to have a good exposure to companies that were likely to show early evidence of profit improvement in their results and the environment favoured many smaller companies over larger, less nimble stocks.

The portfolio delivered a 45.6% rise in net asset value ("NAV") per share on a total return basis, which was respectable compared to the average investment trust's NAV per share increase over the year of 41.3%. The NAV per share also comfortably beat the FTSE 100 Index of UK large caps and, in the US, the Dow Jones Industrial Average Index rises of 35.9% and 34.3% in sterling total return terms respectively. However, performance did not quite keep up with the Benchmark* which produced a total return of by 47.0%, as stock selection proved disappointing in the second half of the year. Despite this, the regional portfolios were quite close to the local small cap indices in all parts of the world this year.

The Chairman's Statement covers the background to why the Board decided to change the Benchmark to a blended return of 30% Hoare Govett UK Smaller Companies (excluding investment companies) Index and 70% MSCI All Country World ex UK Small Cap Index. As Lead Manager, I fully supported the rationale for this move and we will look to deliver strong performance, both in absolute terms and relative to the new Benchmark, in the coming years.

* The Benchmark used during the year was the Hoare Govett UK Small Companies Index (40%) and the MSCI World ex UK Small Cap Index (60%)

Manager's Review (continued)

Geographical weightings against Benchmark as at 30 April 2010	Percentage of Investment Portfolio	Old Benchmark Percentage	New Benchmark Percentage
UK	33.5	40.0	30.0
North America	43.3	40.1	40.7
Continental Europe	9.1	9.5	10.3
Japan	5.4	6.8	6.9
Rest of World	8.7	3.6	12.1

Source: F&C Management Limited and MSCI

In the table above, the weightings of the old and new Benchmarks as at 30 April 2010 are shown alongside the Company's year end equity exposure. While we do not manage the portfolio to rigidly track the Benchmark, it is likely that the portfolio's exposure to the Rest of the World will rise over time. Of course this is dependent on the relative attractiveness of the valuations of small cap stocks in Asia or Latin America compared to elsewhere in the world and, after the strong run in these markets over the last year, it may be prudent to wait before lifting the exposure.

I am often asked why, in a global fund, we have such a high exposure to the UK, which is now a comparatively small economy in the world context. When considering the UK weighting, it is important to remember that many of our UK holdings are more exposed overseas than domestically and so the portfolio's effective UK exposure is considerably lower than the headline number suggests. With generally better corporate governance in UK listed smaller companies than in some other parts of the world, we still find the UK can be a fertile hunting ground for smaller company investments.

The UK stock market actually performed more or less in line with other markets in the year under review, despite the fact that the economy emerged later than others from recession. We were underweight through the year partly on the basis that the fiscal position was becoming increasingly concerning; we had taken note of the increasingly apparent desire of the Bank of England to encourage a measured devaluation of sterling to boost the export sector. Uncertainty surrounding the general election did not really impact the small cap part of the market to any great degree, though stocks perceived to be exposed to the impending fiscal squeeze have, not surprisingly, underperformed. Following the change in the Benchmark, we became de facto overweight in the UK and this stance is under review as part of the overall asset allocation approach.

In the past year we benefited from another strong showing from the US portfolio against the Russell 2000 Index of US small caps, following on from the excellent prior year. Corporate earnings in the US have been particularly encouraging in the last year, helped by the more flexible labour market, which made addressing the cost base to sudden swings in demand easier for many companies. The dollar also looked increasingly more attractive than the euro or sterling, given the growing evidence of a building crisis of confidence in European sovereign debt markets, and we moved overweight to the US in the second half of the year. We were underweight on average in the past year in both Japan and Europe. In the former, the strength of the yen affected export orientated businesses and held back the stock market. European markets performed well for most of the period so our stance here proved counter-productive.

Looked at from a sector perspective, the pie chart on the previous page shows once again that we have a broadly spread portfolio. While the mining sector was strong in the year on the back of buoyant commodity prices driven by demand from China, the Company's exposure here is relatively low as we are generally cautious about the quality of many smaller mining companies, which tend to have lower class assets than the majors. Having said this, on the US portfolio, we have been astute in our timing with coal related investments in particular.

Towards the end of the year we felt increasingly cautious on the near-term outlook for the markets as a whole. Initially this was not because we had particularly foreseen the impending crisis in the European bond markets, but more due to the fact that after the strong rally we were finding it harder to identify conspicuously undervalued shares. A lot of companies' share prices have reached or even surpassed pre-recession levels and this implied that many may be due a consolidation phase. We therefore moved to de-gear the portfolio in the early part of 2010 and the Company ended the financial year in a net cash position after taking account of the debenture liability. I would hope that this cash can be re-invested into the markets once valuations have pulled back, and we are already seeing some stocks look more interesting following the correction since the start of the new financial year.

The market reviews that follow pick up on the individual companies and funds behind the overall portfolio result and highlight some of the stocks which helped us, and a number of those which undermined performance, in the last year. As is often the case, some of this year's best contributors were among the worst last year, illustrating that it is sensible to hold or even to add to positions in stocks that are temporarily out of favour, providing these are well placed in their markets for the longer term. Equally, as always, we have looked to sell out of holdings where we feel the market may now be taking too favourable a view on their future prospects.

UK portfolio

The UK equity market recorded a strong advance in the year under review and smaller stocks did better than large in the rebound. The Hoare Govett UK Smaller Companies Index ("HGSC") was up by 41.8% in total return terms, beating the 36.6% rise in the FTSE All-Share Index. Our portfolio's return of 41.7% just failed to keep up with the HGSC for the year.

The UK economy, as has already been reported, emerged later than others from the downturn. The concern of the Bank of England about the state of the economy led it to employ the radical step of quantitative easing which, through the market purchase of gilts, was meant to stimulate the overall market for credit and boost the availability of lending facilities for companies. It remains too early to judge the real effect of this policy and there are grounds for suggesting that inflation is being stoked up, but it certainly helped to prevent a more damaging downturn from taking effect in the near term.

Despite the sluggish UK growth data, shares in cyclical parts of the market, notably industrials and mining companies, where international markets were more important than the domestic one, were particularly strong in the year, while more defensive sectors such as healthcare, food producers and insurance, were underperformers.

Our portfolio's best performers came from a variety of sectors, with industrial recovery plays featuring prominently. The largest individual contribution came from **Senior**, an aerospace and automotive parts supplier, which had fallen sharply in the previous year. Its shares more than trebled as the company came through 2009 resiliently with Boeing's and Airbus's plane build-rates proving stable and automotive production sharply improved versus a year ago. Our holding in speciality chemicals business **Elementis** jumped dramatically as the outlook for its industrial coatings markets improved; we had added to the holding early in the year. **Lupus Capital**, whose main business is to supply building components into residential housing markets in the US and Europe, rose the most, more than quadrupling, albeit from a depressed starting point. While market conditions remain tough, a new management team has been installed and the company's balance sheet benefited from positive cash flow.

Another sector where we did well, not for the first time, was technology, where long-standing engineering design software business **Aveva** again performed strongly, as did newer holdings in marketing and healthcare software companies **Alterian** and **Craneware**.

We also benefited from stock selection decisions in the retail sector. Household goods retailer **Dunelm**

Manager’s Review (continued)

Dunelm Mill’s increasing number of UK stores offer a wide range of competitively priced homeware products.

has been winning market share as its store base continues to grow and mature. We also benefited from a good run in online fashion retailer **ASOS**. Not holding weaker performers such as Debenhams was also helpful to relative performance, illustrating the point that it is quite often as important to not own underperformers as it is to own the best stocks.

The worst relative contribution came from the support services sector which encompasses a range of different types of business. Notable under-performers were social housing and compliance services provider **Connaught** and utility outsourcing service business **Spice**. Both suffered from downgrades, accounting related fears and management instability, but we retained our holdings as we felt the market had over-reacted to their issues. Insolvency practitioner **Begbies Traynor** also dropped, as the expected surge in business collapses failed to materialise and its tax advisory business suffered from reduced corporate transaction driven work.

There were a number of other companies where trading news deteriorated, perhaps not surprisingly given the extent of the global downturn. **STM**, a provider of offshore trust related services to individuals and companies, suffered from weaker demand and a slow start for several new business initiatives. Shares in defence consultancy business **Cohort** fell sharply after twice warning on profits, which was particularly disappointing as the problems appeared to be mainly related to internal management and system issues rather than a downturn in its market. German property business **Sirius Real Estate** had a poor year as it lost a number of significant tenants; profits fell and it breached bank covenants and we decided to sell the shares.

A number of new stocks were added which we hope will deliver good growth in the years ahead. These include private client broking businesses **Brooks Macdonald** and **Brewin Dolphin**, both of which are benefiting from a desire from individuals to take a greater interest in their own pension and savings affairs. In financials, we also bought into mezzanine capital lender and fund manager **Intermediate Capital**, which offers recovery potential in its lending book, growth potential in asset management activities and, in the near term, pays a good dividend. Elsewhere we are hopeful that a number of recently acquired exploration stocks, notably **Bowleven** (in Cameroon), **Indus Gas** (India), **Cove Energy** (Mozambique) and **Valiant Petroleum** (North Sea) have the potential to add significant value through current or imminent drilling activity. None of these is without risk, but the risk to reward equation looks favourable in each case.

For the next year, we remain somewhat cautious about the outlook for UK centric businesses given the requirement for a post election fiscal squeeze. We are therefore likely to maintain more of a focus on internationally orientated businesses, though there is now value apparent in some of the purer domestic stocks. Shares with defensive characteristics may be more in favour so we will be looking for more companies where the quality and resilience of the earnings are being under-rated by the market. A recent example of this in action was the purchase of **Cranswick**, a food processor which we have held before and which continues to impress us with its innovative approach and ability to sell to all the main supermarkets.

North American portfolio

The US market began to rally at the end of the last financial year but it surged back this year, with the Russell 2000 Index of small caps rising 47% in dollar terms, well ahead of the 38.8% return from blue chips as reflected by the S&P 500. Although the dollar did weaken by 3.2% in the 12 month period, this slight headwind was dwarfed by the stock market's move. Performance of the US portfolio was strong, rising 45.7% compared to the sterling-adjusted Russell 2000 Index total return of 44.2%.

Initially optimism on the stock market centred around the freeing up of credit markets but over the summer it focused more on signs that manufacturing activity was improving as inventory liquidation came to an end. Towards the end of the year real signs of improvements in sales and orders began to appear, together with the first signs of re-hiring of workers. The US economy was helped by the very low level of interest rates, the support given to the housing market and a cheap dollar, coupled with continued growth in Asia.

The market was led by the sectors which suffered most in the recession, including the consumer discretionary, materials and energy sectors. As might be expected, more defensive sectors such as utilities and consumer staples lagged. The financial services sector generally also did poorly, as insurance companies are regarded as defensive and the recovery in banks in the US has been patchy.

The regional team focused the portfolio towards manufacturing companies and used the rebound in some consumer stocks to reduce exposure here. This reflects the belief that future capital spending will focus on global commodity production and Asian infrastructure, two areas that will benefit many US manufacturers directly or indirectly. On the other hand, growth in consumer spending will be held back by a weak housing market and the need for consumers to re-build their own financial situation.

One new area of investment for us was aerospace and defence related stocks, which had lagged on concerns about future government spending levels. We therefore invested in three niche growth companies: **Orbital Sciences** (small rockets and satellites), **FLIR Systems** (infra red vision equipment) and **Teledyne Technologies** (satellite communication equipment).

We added to existing themes such as agriculture, infrastructure, insurance and communications. We bought **Intrepid Potash**, a low cost regional US fertiliser producer to add to agricultural holdings acquired earlier, namely **Andersons** (a corn-based agribusiness) and **Sanderson Farms** (a chicken supplier). All should benefit over the long term from the increase in world-wide demand for food as the population grows.

Having bought electrical contractor **Quanta Services** last year we sold out after a period of outperformance but then bought back after it underperformed by a third. Irrational competition during the recession has slowed growth but we believe this will dissipate as the economy recovers. Its long-term prospects are good given the need to upgrade the US electricity grid. Insurance underwriting remains a favoured area for us as buying a disciplined underwriter at close to book value should be a good way of achieving steady long-term returns. This year we bought **WR Berkley**, a specialist property and casualty underwriter.

Growth in wireless data communications has been another area of focus in the period. We invested in

Manager's Review (continued)

Developed by Orbital Sciences Corporation, the Cygnus spacecraft will provide cargo delivery services to the International Space Station. Picture courtesy of Orbital Sciences Corporation.

NTELOS Holdings, the Virginia wireless services provider, which also has a wholesale wireless business, and **Viasat**, the broadband satellite provider. NTELOS will benefit from the growth of highly profitable wireless data services whereas Viasat is about to steal a march on its competition with the launch of a next generation high capacity, low cost broadband satellite service. Another holding, **Atlantic Tele-Network**, is also worthy of mention as its price soared after it secured the rural wireless assets of Verizon for a very good price following Verizon's acquisition of Alltel.

As economically sensitive stocks recovered strongly we began to add more defensive investments that had lagged, such as baked good producer **Flowers Foods**, Medicaid health insurer **AMERIGROUP** and waste services company **Waste Connections**. We saw bids for three stocks: **Airgas**, **Avocent** and **Foundation Coal**. We sold the first two and took stock for the last. It was sad to say goodbye to Airgas, a long term holding, originally bought in 2003, which tripled since we bought it.

Not every stock was hit by the recession at the same time. For some the impact was delayed, such as Texas retailer **Conn's**, where the local economy had been held up by energy prices, and conference calling provider **Premiere Global Services**, where business is driven by employment, a lagging indicator. In the case of **United Community Banks**, the stock suffered a double dip as loan losses proved more persistent than expected. In all these cases we added to our holdings given our belief in the business franchises. It is sometimes necessary to acknowledge that an investment case is no longer intact or that our original valuation aspirations were too high. We therefore decided to sell office supplies business **ACCO Brands**, **Mueller Water Products** (hydrants and valves), billboard company **Lamar Advertising** and rural hospital operator **Community Health Systems**. Thankfully, however, all these had benefited from strong recoveries from their lows. We also cut back a number of financial stocks which had recovered after concerns eased about either liquidity (**CapitalSource**) or balance sheet quality (**American Equity Life Investment Holdings**). Other selling was focused on energy and metals related stocks as they recovered. Examples of the former were oil service stocks **Helmerich & Payne**, **FMC Technologies** and **Pride International**, and coal producer **Walter Energy**.

The recovery seems to be gathering momentum in the US. It looks like interest rates will remain unchanged until well after the US Mid-Term elections in November and in any case not until banks are seeing light at the end of the tunnel for the losses in their housing and commercial real estate portfolios (which may not be until the first half of 2011) and employment growth is firmly re-established.

Continental European portfolio

The general rebound in share prices seen in the reporting period was particularly marked for the smaller company asset class in Continental Europe. The HSBC Smaller Europe ex UK Index delivered a gain of 46% in sterling total return terms over the Company's financial year. The Company's portfolio of companies in this region all but matched this rebound, with a rise of 44.8%. As elsewhere, this comfortably beat the larger cap index, in this case the FTSE All World Developed Europe ex UK Index, which was up by only 27.5%.

The European Union statistics office has calculated that the recent recession was the deepest, longest and most broad-based in the EU's admittedly short history; the cumulative loss of output of almost 5% was almost three times greater than the average loss in the previous three recessions. The magnitude of the downturn serves as a context for the unprecedented policy response which it triggered from the EU fiscal and monetary authorities. Governments pumped enormous amounts of liquidity into the financial system – in the 16-member euro-zone alone the equivalent of 18% of GDP – while the European Central Bank kept the benchmark interest rate at an all-time low of 1% right through the reporting period. These striking measures to prevent Europe's economies sinking into a self-feeding depression had the desired effect of improving the confidence of businesses and investors.

As early as January 2009, forward-looking indicators were pointing to a slowing of the economic downturn; hard data soon confirmed this trend with GDP returning to growth in the autumn months albeit at a sluggish pace. Indeed, the rate of growth was so weak that it could not be sustained in all countries through the winter. Only very recently have Europe's core economies been able to resume their faltering recovery, which is now once again under threat, this time from the sovereign debt crisis at Europe's periphery.

Given the severity of the share price falls seen in 2008, it is scarcely surprising that the areas of the market which staged the strongest recovery were precisely those which had endured the largest relative falls. Stocks in the bank, insurance, real estate and construction sectors led the way in the early part of the reporting period although their momentum began to fade as the year progressed. Basic resources stocks performed consistently well over the entire period, buoyed by the relentless rise in most commodity prices. Measured in terms of investment style, low risk stocks with steady earnings profiles and robust balance sheets were weaker than high risk companies with weak balance sheets and little earnings consistency but which appeared to trade at too low valuations.

That the performance of the European portion of the portfolio should have nearly kept up with the index is quite surprising since our investment bias is towards companies with broadly contrasting characteristics to the ones which delivered the best performance. Our preference is to invest a core portion of the European portfolio in companies with a consistent history of generating earnings and cash flow and having a balance sheet structure appropriate to their capital needs.

We remained generally underweight in more cyclical industrial sectors such as basic industries, discretionary services and financials as we found it hard to identify good value opportunities in these areas, although on the industrial front, we did benefit from large rises in German steel supplier **Kloeckner** and automotive/defence business **Rheinmetall**, both of which responded favourably to the recovery in industrial output. The top contributor to performance in the period was a new purchase during the year, French company **SEB**, owner of the well-known Rowenta, Tefal, Krups and Moulinex household goods brands. An innovative approach to product design and low cost manufacturing has made this a successful company for some time and it has been re-rated in the past year.

Randstad, the Dutch based recruiter, saw its share price more than double in the year as

Manager's Review (continued)

investors looked to buy ahead of formal evidence that employment markets were on the turn. Another strong performer, and not for the first time, was a favourite of longer standing, **Norkom**. This Irish-based, but globally focused, provider of anti-money laundering software has consistently increased sales and profits throughout the lean recessionary years, despite banks' reticence to commit to capital spending in other areas.

As always not everything went to plan and an unexpected setback for **TiGenix**'s innovative treatment for damaged knee cartilage led to a major fall in the share price. Another disappointment was **Indra Sistemas**, a Spanish IT services company, which had featured as a winner in last year's review. Although Indra generates an ever-growing amount of sales outside its home market, it is still viewed in many quarters as being a domestic Spanish stock. As such, its share price was particularly affected by the sovereign debt crisis in which Spain became embroiled. Generic drug supplier **Acino** also underperformed, perhaps unsurprisingly, as it is viewed as a defensive company and a number of its products faced regulatory issues.

A high quality Krups coffee maker. Grounds to hold parent company SEB.

The strains brought about by a "one size fits all" monetary framework in the euro-zone and an "all sizes" taxation, labour and bureaucratic regime are plain for all to see. The life-line of guarantees thrown out by the member country governments, the ECB and the IMF may paper over the cracks but it does not address the underlying imbalances. There is good reason to believe that over time the euro-zone countries will move towards greater fiscal and social integration and achieve the necessary rebalancing of debtor and creditor states which would be a major positive catalyst. The more immediate consequences however are likely to be a weakening euro and economic dislocation in the countries with the heaviest debt burdens and a history of profligate spending. The portfolio currently contains no Greek or Portuguese stocks and the Spanish stock selection has been refocused on companies with a significant proportion of business conducted internationally.

A stuttering euro-zone economy need not in itself preclude outperformance from the region. Indeed, as things currently stand, a weaker euro is a clear advantage to European companies with international operations. However, the Manager believes that broker analysts' profit forecasts and current valuations, particularly for many cyclical stocks with weak balance sheets and vulnerable business franchises, already discount a much more vigorous rebound in companies' fortunes than is likely to occur. The current portfolio mix is weighted towards sectors with a more defensive profile – healthcare, non-discretionary consumer goods and services and information technology. We favour companies with a clearly defined business franchise which enables them to sustain pricing power and demand and grow turnover rather than rely on cost-cutting to improve profitability. Having underperformed for much of last year, we believe such companies now possess an above-average chance of revaluing relative to the rest of the asset class.

Japanese portfolio

Japanese small caps made gains in the year under review, though not to the same extent as elsewhere.

In sterling total return terms, the FTSE Japan Small Cap Index rose by 26.9% which was ahead of the broader market. Our portfolio underperformed against this Index, with a return of 24.3%.

The relatively weak performance compared to elsewhere was not entirely surprising as the market had held up well in 2008/9 as others fell. In addition, the underlying Japanese economy suffered a bigger reverse than virtually any other major market, with GDP down by 5.2% over the course of 2009. Japan's exporters were not helped by the stronger yen, but the main impact came from much lower underlying demand from overseas as the world moved into a de-stocking phase.

Political change in Japan, with a new government installed in July 2009, was also a factor that the markets had to take account of as it was the first time in 16 years that there had been a change in the governing party (and the previous time this had lasted for less than a year). The new administration has been aiming to better focus government spending and has introduced a number of consumer friendly measures in an attempt to stimulate domestic demand, including a new car buying rebate and, more recently, childcare allowances.

In practice, the change in the government did not really move the stock market that much, but the economy, like others, did show an improvement as the year progressed and was growing at a decent 5.0% annualised rate in the first quarter of 2010. Positively, unemployment remains low by world standards, at around 5%, and while the fiscal deficit is still large, the markets appear to be relaxed that Japan is not facing the sort of crisis that other parts of the world are in this sense. Japan has a much healthier balance of payments position and is less dependent on foreign capital flows to finance its debt obligations.

The areas that did best within the Japanese stock market mirrored trends elsewhere, with cyclical companies to the fore early in the year and then more domestic and consumer facing sectors starting to rally later. While financial stocks in other parts of the world generally recovered strongly, in Japan fears over the need for additional capital raising kept the banking sector, in particular, under pressure.

We use third party managed funds to gain our Japanese smaller company exposure, on the basis that this should deliver superior returns over the long term compared to what could be achieved by managing a portfolio of individual stocks internally. F&C does not have a dedicated Japanese smaller companies team in contrast to a number of other fund management companies. Having said this, few fund managers have an outstanding long-term record in the Japanese small cap market, so for the majority of our exposure we have made use of the **iShares MSCI Japan Small Cap Exchange Traded Fund**. This essentially provides an index tracking exposure to the market with the aim of adding value against the local benchmark by also holding a small number of actively managed funds alongside this.

Performance was a little disappointing in the year, with the **AXA Rosenberg Japan Small Cap Alpha Fund**, in which we had a large holding going into the year, doing badly. This fund is run on a quantitative basis, meaning that a computer system selects an optimal portfolio on the basis of data inputted. In April of this year, AXA Rosenberg announced that there had been a coding error which would have impacted the way the model ran over a prolonged period. As a consequence we decided to sell this fund.

During the year we bought a holding in **AXA Framlington's Japan Smaller Companies Fund**. This is a traditional stock picking fund run by a manager with a good long-term track record in Japanese small cap. We remain keen to broaden our exposure by adding additional funds, but will only do so where we are confident in the process and track record of the fund manager concerned. The sale of the AXA Rosenberg fund left us a little underweight to Japan at the year end and, given the relative de-rating of Japan versus other world markets over the last year, we are presently inclined to increase our exposure from this level. Given our underlying caution on the overall outlook for equity markets we will not rush this.

In future periods, performance for the regional sub portfolio will be compared against the MSCI Japan Small Cap Index as this ties in more with the overall Benchmark, and MSCI's indices are also more commonly used by Japanese managers than the FTSE series.

Manager's Review (continued)

Asian portfolio

Asia as a region performed very strongly in the global rally, outperforming all the developed markets. Over the course of the year, the FTSE Asia ex Japan Small Cap Index returned 68.6% in sterling total return terms, again well ahead of the broader market return as represented by the FTSE World Asia Pacific ex Japan Index which rose by 51.2%. Our portfolio almost matched the former, being up by 67.2%.

With economies across the region rebounding, all markets in the area posted strong gains, with Indonesia, India, Thailand (despite political unrest) and Australia doing particularly well. The latter was lifted by the strong demand for iron ore, coal and other commodities sold mainly into the Chinese market.

The inexorable rise of the Chinese economy continued with growth in 2009 GDP of 8.7%; this has now overtaken Japan to become the second largest economy in the world. This is important as, together with the key role that Chinese demand plays in commodity markets, it means that economic news coming from China is increasingly relevant in driving sentiment in financial markets as a whole. The sometimes abrupt policy change announcements emanating from the Chinese authorities therefore have the potential to cause gyrations in world financial markets in the future.

Signs of increasing inflationary pressures particularly within China, where food prices have been on the rise and property prices have surged, and India are a little concerning. Interest rates may need to increase in the coming year to counter this. However, if there were to be renewed weakness in growth elsewhere in the world, or a sharp drop in commodity prices, the pressure for action on this front could ease. Export markets in the developed world remain important to the region, though less so than in the past, and investment in the development of infrastructure assets remains supportive for growth in the region. Over time, we are likely to see further appreciation of regional currencies versus the other main currencies, though the Chinese in particular remain reluctant to allow this to happen too quickly for fear of dampening their export business.

In terms of our portfolio of funds, the best performer during the year was the **Australian New Horizons** fund. While this fund does not target the strong mining sector, stock selection was excellent, with a number of its healthcare and biotechnology investments doing very well. The more broadly spread **Scottish Oriental Smaller Companies Trust** also added value during the year as its stock selection and country allocation worked well. The value of our holding in **Utilico Emerging Markets** moved up, but by much less than the other funds, as its main focus is on lower risk infrastructure shares, which were generally not in favour in a recovery orientated market. We have added to this holding as it now trades on a decent discount to asset value and its portfolio could do well in a relative sense whether the market pulls back or not from here. On the selling front, we exited from **AXA Rosenberg's Pacific ex Japan** fund following a period of poor performance. This fund appears to have been impacted by the same issues mentioned above in connection with the Japanese fund we held managed by the same house.

Both the Manager and the Board are keen to extend the geographic spread of our investments in the emerging market sphere to take more of an interest in other parts of the world, such as Latin America and emerging Europe/Middle East, particularly given that the new overall fund Benchmark includes a lot of new countries from these parts of the world. While we already have a little exposure to these markets through some of the funds, notably Utilico Emerging Markets, we will look to buy additional funds if we can identify any where we are confident in the ability of the fund manager to add value and they give genuine small cap exposure.

Outlook

The recent past has given us a good guide to the quality of companies' earnings streams and the ability of their management teams as the scale and speed with which the world moved into recession and the subsequent rebound created massive challenges. In general we have been pleased with how most of our holdings have come through the difficult period and the evidence suggests that smaller company management teams have been every bit as good as their larger rivals at handling the situation.

As always there are clouds on the horizon and the potential for a sovereign debt crisis is the largest and most visible risk. Ultimately it is hardly healthy that government backed debt in so many places is coming under such negative scrutiny. Further ructions within the EU can certainly not be ruled out given the stresses already being felt in some countries as a result of the austerity measures. In the US, the housing market is still fragile and high federal and state debt and the cost of the liberal policy agenda of the administration may lead to higher taxes at some point.

It is not all doom and gloom however. Manufacturing activity has improved considerably over the course of the last year in most countries, while the growth in wealth within emerging markets looks increasingly well set as a trend with its own dynamic. It is to be hoped that this, combined with steady growth in the US in the year ahead, can lead the world forward and underpin corporate earnings as a whole.

On balance, while the nature of small cap investing precludes sudden portfolio shifts, we are moving slightly more defensive in the regional portfolios. For the long term our task remains the same, namely to identify the growth companies of the next generation to deliver good returns to shareholders and to make asset allocation switches between the regions on a timely basis to take advantage of our global mandate.

Peter Ewins
15 June 2010

Thirty Largest Holdings

30 April 2010	30 April 2009		% of total investments	Value £m
1	*1*	**iShares MSCI Japanese Small Cap Exchange Traded Fund (“ETF”)** Japan An exchange traded fund (ETF) providing exposure to Japanese smaller companies.	4.3	8.7
2	*4*	**Aberdeen Global-Asian Smaller Companies Fund** Asia Pacific (excluding Japan) Fund providing exposure to Asian smaller companies.	2.2	4.5
3	*3*	**The Scottish Oriental Smaller Companies Trust** Asia Pacific (excluding Japan) Investment company providing exposure to Asian smaller companies.	2.0	4.1
4	*5*	**Allianz GIS RCM Little Dragons Fund** Asia Pacific (excluding Japan) Fund providing exposure to Asian smaller companies.	1.5	3.0
5	*16*	**Australian New Horizons Fund** Australia Fund providing exposure to Australian smaller companies.	1.3	2.6
6	–	**Axa Framlington Japan Smaller Companies Fund** Japan Fund providing exposure to Japanese smaller companies.	1.1	2.3
7	*26*	**Brush Engineered Materials** United States Produces a variety of advanced materials forthe defence and communication markets.	1.1	2.3
8	*6*	**Utilico Emerging Markets** Asia Pacific (excluding Japan) Investment company focusing on utility and infrastructure companies in emerging markets.	1.1	2.3
9	*33*	**Mohawk Industries** United States Floor coverings manufacturer.	1.0	2.0
10	*40*	**Premiere Global Services** United States Outsourced communication services.	1.0	1.9
11	*48*	**CLS Holdings** United Kingdom Property investment company mainly operating in the UK, France, Germany and Sweden.	1.0	1.9
12	*49*	**The Andersons** United States Diversified corn-based agri-business.	0.9	1.9
13	*52*	**Conn's** United States Retailer of home appliance and consumer electronics in Texas.	0.9	1.9
14	*13*	**Horizon Lines** United States A US-based shipping business.	0.9	1.8
15	*73*	**Actuant “A”** United States Manufacturer of a broad range of industrial systems.	0.9	1.8

30 April 2010	30 April 2009		% of total investments	Value £m
16	*45*	**Foster Wheeler** United States Provider of engineering and construction services and producer of steam power equipment.	0.9	1.8
17	*11*	**City of London Investment Group** United Kingdom Fund management business mainly investing in closed end emerging market funds.	0.9	1.8
18	*23*	**Kirby** United States Leading operator of inland barges in the US.	0.9	1.7
19	*36*	**Simpson Manufacturing** United States Manufacturer of building reinforcement products.	0.8	1.7
20	*32*	**Amedisys** United States Provider of home nursing services.	0.8	1.7
21	*68*	**Prestige Brands** United States Marketer of niche household and healthcare products.	0.8	1.7
22	*10*	**Hill & Smith Holdings** United Kingdom Supplier and manufacturer of a wide range of infrastructure and construction related products.	0.8	1.7
23	*82*	**Career Education** United States Provider of post secondary education.	0.8	1.7
24	*63*	**Astec Industries** United States Manufacturer of road repair equipment.	0.8	1.6
25	*27*	**Alleghany** United States Specialist commercial insurer.	0.8	1.6
26	*31*	**Craneware** United Kingdom Healthcare software business focused on the US hospitals market.	0.8	1.6
27	*9*	**SDL** United Kingdom World leader in localisation technology and services, including manual and technology driven translation of internal and external literature.	0.8	1.6
28	*111*	**Senior** United Kingdom Supplier of components and systems mainly for the aerospace, automotive, truck and energy markets.	0.8	1.6
29	*71*	**Brown & Brown** United States Regional insurance broker.	0.8	1.6
30	*93*	**AMERIGROUP** United States Medicaid health insurance provider.	0.8	1.6

The value of the thirty largest equity holdings represents 33.5% (30 April 2009: 33.0%) of the Company's total investments.

List of Investments

Quoted investments	Holding	30 April 2010 Value £'000s
CONTINENTAL EUROPE		
AUSTRIA		
Andritz	17,000	686
BELGIUM		
Tigenix	122,193	267
DENMARK		
Ringkjoebing Landbobank	5,500	397
Topdanmark	5,500	444
Total Denmark		**841**
FINLAND		
Konecranes	20,000	423
FRANCE		
Ipsos	25,000	627
Faiveley Transport	12,000	625
Nexity	31,500	752
Rubis	12,500	675
SEB	21,000	1,044
Total France		**3,723**
GERMANY		
CTS Eventim	9,500	327
Lanxess	3,240	100
Rheinmetall	20,000	914
Rhoen-Klinikum	36,300	611
Washtec	59,545	424
Total Germany		**2,376**
IRELAND		
C&C Group	194,802	609
DCC	40,000	699
Grafton Group	175,000	555
Norkom	600,000	834
Total Ireland		**2,697**
ITALY		
Davide Campari	105,000	701
Hera	250,000	344
SIAS	75,000	450
Tod's	15,000	715
Total Italy		**2,210**
NETHERLANDS		
Mediq	37,500	456
Randstad Holding	7,500	250
Total Netherlands		**706**

Quoted investments	Holding	30 April 2010 Value £'000s
SPAIN		
Baron de Ley	3,805	118
Bolsas Y Mercados	17,500	316
Grupo Catalana	27,000	356
Indra Sistemas	35,000	459
Tecnicas Reunidas	7,500	299
Viscofan	27,500	488
Total Spain		**2,036**
SWEDEN		
AF	21,500	447
Meda	105,033	663
Total Sweden		**1,110**
SWITZERLAND		
Acino Holding	5,000	464
Lindt & Spruengli	15	253
Partners Group	7,000	612
Total Switzerland		**1,329**
TOTAL CONTINENTAL EUROPE		**18,404**
ASIA PACIFIC (EXCLUDING JAPAN)		
Aberdeen Global-Asian Smaller Companies Fund	236,129	4,472
Allianz GIS RCM Little Dragons Fund	51,418	3,026
The Scottish Oriental Smaller Companies Trust	865,000	4,053
Utilico	819,841	1,148
Utilico Emerging Markets*	1,673,791	2,251
TOTAL ASIA PACIFIC (EXCLUDING JAPAN)		**14,950**
JAPAN		
Axa Framlington Japan Smaller Companies Fund	5,150,000	2,277
iShares MSCI Japanese Small Cap ETF	576,498	8,695
TOTAL JAPAN		**10,972**

* Quoted on the Alternative Investment Market in the UK.

Quoted investments	Holding	30 April 2010 Value £'000s
UNITED KINGDOM		
Abbey Protection*	713,890	564
Alterian	495,030	847
Ashtead Group	243,500	290
Aveva Group	114,117	1,321
Barratt Developments	511,224	637
Bellway	94,178	710
Booker Group	1,435,770	614
Bowleven*	417,156	529
Brewin Dolphin	744,422	1,070
Brooks Macdonald*	125,277	896
Brown (N) Group	228,949	625
CareTech Holdings*	169,930	654
Centamin Egypt	347,511	458
Chloride Group	376,951	1,138
City of London Investment Group*	635,358	1,754
CLS Holdings	389,796	1,938
Cohort*	469,020	492
Computacenter	161,350	529
Connaught	285,100	859
Cove Energy*	730,000	356
CPP Group	151,291	412
Craneware*	391,644	1,617
Cranswick	105,009	840
CVS Group*	414,139	837
Dechra Pharmaceuticals	116,200	532
Domino Printing Sciences	241,681	1,051
Dominos Pizza	276,187	961
Dunelm Group	222,755	867
Elementis	1,548,235	960
Euromoney Institutional Investor	136,390	704
Fenner	422,632	904
Ferrexpo	305,611	1,075
Fuller Smith & Turner	130,382	691
Galiform	928,404	746
Genus	106,625	782
Gulfsands Petroleum*	269,962	864
Hansard Global	485,980	836
Harvey Nash Group	670,563	315
Healthcare Locums*	335,646	827
Hill & Smith Holdings	471,479	1,682
Homeserve	28,263	566
Indus Gas*	129,419	621
Intermediate Capital Group	378,092	1,066
ITE Group	509,692	768

Quoted investments	Holding	30 April 2010 Value £'000s
James Fisher	211,178	866
JD Sports Fashion	77,165	629
Keller Group	54,290	396
Kier Group	71,092	807
Laird	626,063	826
Lamprell	204,271	484
Lancashire Holdings	184,584	856
Lupus Capital*	1,387,047	1,165
Management Consulting Group	1,339,570	321
McBride	330,228	619
Melrose	377,612	899
Micro Focus International	241,188	1,269
Mitie Group	254,090	596
New Britain Palm Oil	120,431	654
Northern Petroleum*	389,636	479
Orchid Developments Group*	986,579	296
Pace	457,040	844
Plastics Capital*	863,285	242
Punch Taverns	572,997	510
Renishaw	92,869	613
Restaurant Group	425,790	1,041
Robert Walters	204,399	460
RPC Group	311,980	764
SDL	355,320	1,613
Senior	1,385,032	1,605
Shaftesbury	164,604	642
Shed Media*	815,564	636
SIG	266,196	349
Spectris	99,088	892
Spice	1,386,400	575
Spirent Communications	413,690	498
STM Group*	1,690,412	372
Synergy Healthcare	173,889	1,068
Tarsus Group	531,039	627
Telecity Group	162,241	663
Ultra Electronics Holdings	41,488	642
United Business Media	77,301	429
Valiant Petroleum*	144,564	977
Vertu Motors*	1,077,822	377
Victrex	13,488	136
Wetherspoon J.D.	142,660	772
Wincanton	358,821	838
Workspace Group	3,003,580	698
WSP Group	280,540	981
TOTAL UNITED KINGDOM		**67,831**

* Quoted on the Alternative Investment Market in the UK.

List of Investments (continued)

Quoted investments	Holding	30 April 2010 Value £'000s
UNITED STATES		
ACI Worldwide	120,524	1,480
Actuant "A"	118,543	1,776
Alleghany	8,381	1,618
Allegheny Technologies	41,746	1,458
Alpha Natural Resources	38,359	1,179
Amedisys	45,294	1,704
American Equity Investment Life Holding	79,348	544
American Railcar Industries	56,991	608
America's Car-Mart	79,860	1,320
AMERIGROUP	67,309	1,594
The Andersons	81,324	1,920
Astec Industries	74,831	1,618
Atlantic Tele-Network	31,217	1,125
Baldor Electric	45,432	1,140
Big 5 Sporting Goods	47,096	522
Bottomline Technologies	73,852	840
Brown & Brown	121,471	1,595
Brush Engineered Materials	116,741	2,264
CapitalSource	240,512	935
Cardinal Financial	222,357	1,591
Career Education	86,357	1,651
Conn's	300,849	1,873
Continental Resources	15,894	510
Cousins Properties	225,599	1,185
CRA International	102,300	1,553
Crawford & Company "B"	495,570	1,447
Curtiss-Wright	65,300	1,522
FirstCity Financial	79,313	378
Five Star Quality Care	528,922	1,002
FLIR Systems	78,873	1,576
Flowers Foods	83,220	1,431
Foster Wheeler	89,703	1,757
GATX	74,319	1,580
Genesee & Wyoming "A"	57,581	1,471
Global Industries	340,623	1,487
Harsco	72,409	1,465
Harvard Bioscience	498,167	1,360
HCC Insurance	84,437	1,500
Horizon Lines	504,922	1,804
ICF International	98,336	1,487
Intrepid Potash	89,965	1,543
Kirby	62,868	1,728
Mac-Gray	76,391	581
Markel	6,149	1,532
McDermott International	80,456	1,440
Mohawk Industries	48,534	2,020
NTELOS Holdings	113,800	1,459

Quoted investments	Holding	30 April 2010 Value £'000s
Orbital Sciences	113,612	1,364
Premiere Global Services	316,752	1,939
Prestige Brands	266,163	1,687
Quanta Services	118,329	1,554
Roper Industries	37,565	1,496
Sanderson Farms	26,016	963
SBA Communications	67,102	1,549
Service Corporation International	184,500	1,081
Simpson Manufacturing	77,559	1,721
Teledyne Technologies	50,900	1,450
United Community Banks	408,743	1,557
Universal Truckload Services	110,398	1,316
Viasat	68,800	1,592
W.R. Berkley	85,569	1,508
Waste Connections	67,081	1,567
TOTAL UNITED STATES		**87,517**
TOTAL QUOTED INVESTMENTS		**199,674**

Unquoted investments	Holding	30 April 2010 Value £'000s
AUSTRALIA		
Australian New Horizons Fund	1,955,647	2,584
UNITED STATES		
US Ventures	n/a	21
TOTAL UNQUOTED INVESTMENTS		**2,605**
TOTAL INVESTMENTS		**202,279**

The number of investments in the portfolio is 195 (2009: 206). The value of convertible securities in the portfolio at 30 April 2010 is £nil (2009: nil)

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 in the UK 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, Asia and emerging markets and overall asset allocation. He joined F&C in 1996.

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

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

Telephone: 020 7628 8000

Facsimile: 020 7628 8188

Website: www.fandcglobalsmallers.com

Email: info@fandc.com

Registered in England and Wales

Independent auditors

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

Custodian and bankers

JPMorgan Chase & Co

Registrars

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

Telephone: 0870 889 4088

Facsimile: 0870 703 6142

New Zealand Registrars

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

Telephone: +64 9 488 8700

Facsimile: +64 9 488 8787

Stockbrokers

J. P. Morgan Securities Ltd, 20 Moorgate, London EC2R 6DA

Directors

Anthony Townsend, Chairman, was appointed to the Board on 24 September 2004. He has spent over 40 years working in the City of London and was chairman of the Association of Investment Companies from 2001 to 2003. He is chairman of Baronsmead VCT 3 PLC, British & American Investment Trust PLC, Finsbury Growth & Income Trust PLC and iimia Investment Trust plc and a non-executive director of Finsbury Worldwide Pharmaceutical Trust PLC. Age 62.

Andrew Adcock was appointed to the Board on 31 July 2007. He was, until mid 2009, vice chairman of Citigroup Corporate Broking and has more than 30 years' experience in the City of London. He is managing partner of Brompton Asset Management Limited and chairman of Majedie Investments PLC. Age 56.

Les Cullen, chairman of the Audit and Management Engagement Committee, was appointed to the Board on 1 September 2006. He is a non-executive director and chairs the audit committees of Interserve plc and Avis Europe plc and is a director of Sustrans Ltd. He was previously group finance director of Prudential plc and Inchcape plc and chairman of several private equity owned companies. Age 58.

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 72.

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 Investment Trust plc, Elexon plc and Citizens Advice in Three Rivers Ltd. She previously worked at IBM and then as CEO of a software development company. Age 62.

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 currently general manager of LGT Capital Partners (U.K.) Ltd and Castle Alternative Invest AG. He is a non-executive director of Impax Asset Management Group Plc and Ellis Brady Absolute Return Fund Ltd. Age 55.

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 audited financial statements of F&C Global Smaller Companies PLC ("the Company") for the year ended 30 April 2010. The financial statements are set out on pages 42 to 62.

Results and dividends

The Company's net asset value ("NAV") per share total return was 45.6% in the year ended 30 April 2010, compared to a rise of 47.0% 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") used to measure performance over the year under review. As part of a regular review the Board concluded that it was appropriate, in order to better reflect the current and likely future geographic emphasis of the Company's portfolio and the evolution of market indices, to change the Benchmark to a blended index of 30% Hoare Govett UK Smaller Companies (excluding investment companies) Index and 70% MSCI All Country World ex UK Small Cap Index with effect from 1 May 2010. The revised MSCI Index incorporates smaller companies from a wider range of markets to which the Company has become exposed via its portfolio of third party collective vehicles.

The Company's total expense ratio fell from 0.93% to 0.78% as a result of an increase in the average value of the Company's assets and a tight control of costs.

The Manager's Review on pages 7 to 17, which forms part of this Business Review, describes how the Company's assets were invested during the year, including the regional strategy and the effect of stock selection and asset allocation on performance.

Income from the investment portfolio held up relatively well in the year. However, the total revenue received was lower than last year, with net revenue return attributable to shareholders falling by 17.0% and earnings per share by 13.8%, because of a fall in interest received on cash deposits and the absence of a VAT refund. Despite this reduction in revenue, the Board has decided to modestly increase the dividend payment, extending the number of consecutive years of dividend increases to 40. Whilst the intention is to continue with a progressive dividend policy, future payments will depend on the outlook for income.

The recommended final dividend of 3.40p per share is payable on 6 August 2010 to shareholders on the register of members on 25 June 2010. This dividend, together with the interim dividend of 1.60p per share, makes a total dividend of 5.00p per share. This represents an increase of 2.2% over the 4.89p 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 ("the Act"). As such, it analyses its income between revenue, which is available for distribution by way of dividends, and capital, which it is prohibited from distributing other than by way of share buybacks. The Company is registered in England and Wales with company registration number 28264 and is subject to the UK Listing Authority's Listing Rules, UK company law, financial reporting standards, taxation law and its own articles of association, amendments to which must be approved by shareholders via a special resolution. The Company has a secondary listing on the New Zealand Stock Exchange.

Investment trust taxation status

The Company is liable to corporation tax on its net revenue profits but is exempt from corporation tax on capital gains, provided it complies at all times with section 842 of the Income and Corporation Taxes Act 1988 ("section 842"). Such compliance, which includes investing no more than 15% of the total portfolio in any one investment, deriving income wholly or mainly from shares and securities and retaining no more than 15% of such income, qualifies the Company as an investment trust. This status is granted annually in retrospect by HM Revenue and Customs subject to there being no subsequent enquiry under corporation tax self-assessment. The Company has qualified as an investment trust in respect of all relevant years up to and including the year ended 30 April 2009 and continues to conduct its affairs in compliance with section 842.

Accounting and going concern

The financial statements, starting on page 42, comply with current UK financial reporting standards, supplemented by the statement of recommended practice for investment trust companies ("SORP") issued in January 2009. The significant accounting

Directors' Report and Business Review (continued)

policies of the Company are set out in note 2 on the accounts. The unqualified independent auditors' opinion on the financial statements appears on page 41. The Company's objective and policy, which is described below and is subject to a process of regular Board monitoring, is designed to ensure that the Company is invested mainly in liquid, listed securities and that the level of borrowings is restricted. The Company retains title to all assets held by its custodian, has a trust deed governing its debenture and agreements relating to any borrowing facilities. Cash is held with banks approved and regularly reviewed by the Manager.

Note 26 on the accounts sets out the financial risk profile of the Company and indicates the effect on the assets and liabilities of falls (and rises) in the value of securities, the rates of exchange of various currencies against sterling and changes in market rates of interest.

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

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. They may also find it more difficult to access finance, particularly in times of recession. Share prices of smaller companies therefore tend 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 2010 is shown in the charts on page 7 and a full list of investments appears on pages 20 to 22.

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.

The Board, with 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 per share at any one time. At 30 April 2010, 1.3% of the portfolio was invested in unquoted securities. No derivatives were used during the year.

Under the Company's articles of association, no investment, with limited exceptions, may be made by the Company which exceeds 10% of the value of the total portfolio at the time of acquisition. No more than 10% of the total assets of the Company may be invested in other UK listed investment companies (including investment trusts) except in such other investment companies which themselves have stated that they will invest no more than 15% of their total assets in other UK listed investment companies, in which case the limit is 15%. At 30 April 2010 the Company held 3.7% of its portfolio in UK listed investment companies.

The Manager's compliance with the limits set out in the investment policy is monitored by the Board.

Capital structure and buyback policy

As at 30 April 2010 there were 40,220,990 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 distributed to shareholders pro rata to their holdings of ordinary shares.

As explained in the Chairman's Statement, the Board aims to keep the discount (with the NAV per share excluding current period income and the debenture at market value) at close to 5% in normal market conditions. Subject to annual shareholder approval, the Company may purchase its own shares at a discount to NAV per share. Share buybacks take place as necessary with the aim of preventing the discount widening materially in normal market conditions. At the annual general meeting ("AGM") held on 30 July 2009, shareholders gave the Board authority to buy back up to 6,275,700 shares during the following 18 months. The Company repurchased 1,694,928 shares during the year, representing 4% of the issued share capital at 30 April 2009, at prices between 319p and 461p per share. The total consideration (including expenses) paid for all the shares repurchased was £6,591,000. Between the year end and 11 June 2010, a further 105,000 shares have been purchased. Although the Board has authority to hold any shares bought back in treasury, it is the current policy to cancel them. Any shares held in treasury would only be re-issued at a premium to NAV per share.

The Board closely monitors the discount, the historic levels of which are shown in the table on page 31.

Borrowings

The Company has a £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, subject to the limits set out in the investment objective and policy.

Principal risks and their management

The Company's assets consist mainly of listed equities and its principal risks are therefore market related. The Corporate Governance Statement includes a summary of the risk management arrangements on page 38. By means of the procedures set out in that summary, and in accordance with the Internal Control: Guidance for Directors on the Combined Code published by the Working Party for the Institute for Chartered Accountants in England and Wales, the Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and has regularly reviewed the effectiveness of the internal control systems for the period. This process has been in place throughout the year under review, and to the date hereof, and will continue to be regularly reviewed by the Board on an ongoing basis.

The specific key risks faced by the Company 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 per share. 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 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 subject to corporation tax on its capital gains. The Board 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.

Directors' Report and Business Review (continued)

- Financial – inadequate financial controls could result in misappropriation of assets, loss of income and debtor receipts and inaccurate reporting of NAV per share. 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 on pages 58 to 62.
- Safe custody – failure of the custodian to provide a secure service or continue operating could result in the Company's assets being at risk. The Board receives regular information on the service of the custodian from the Manager, which reviews service levels and receives an annual SAS70 report on the custodian by an independent auditor.
- Counterparties – the Company is exposed to potential failures by counterparties to deliver securities for which it has paid or to pay for securities which it has delivered. Further details are included on page 61.

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. Further information on the role and powers of the Board is contained in the Corporate Governance Statement on pages 35 and 36.

Directors

Information on the individual Directors, all of whom are resident in the UK apart from Dr Franz Leibenfrost, who is domiciled in Austria, is set out on page 24.

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

Directors' remuneration and shareholdings

The Directors' Remuneration Report, which can be found on page 34, 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:

Directors' interests

at 30 April	2010	2009
Anthony Townsend	10,000	10,000
Andrew Adcock	–	–
Les Cullen	6,000	6,000
Dr Franz Leibenfrost	14,000	14,000
Jane Tozer	3,722	3,722
Mark White	5,000	5,000

Since the year end Andrew Adcock acquired 5,000 shares. There have been no other 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

All Directors held office throughout the year under review. Having served over nine years, Franz Leibenfrost will stand for re-election at the AGM. In accordance with the Company's articles of association, Les Cullen and Jane Tozer will retire by rotation.

Following a review of their performance, the Board believes that each of these Directors has made a valuable and effective contribution to your Company and therefore recommends that you vote in favour of their 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 and providing for the funding of defence costs, in each case as permitted under the Act). No such indemnity is provided in relation to a liability incurred by a Director to the Company or in respect of proceedings in which he or she is convicted or a liability to pay a fine is imposed in criminal proceedings or by a regulatory authority. Any funding provided to a Director who is not exonerated must be repaid. The 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 and administration

In common with most investment trusts, the Company does not have any employees. The Board has appointed F&C Management Limited ("F&C" or "the Manager") to manage the investment portfolio on a day-to-day basis and carry out administrative, accounting, secretarial and marketing activities on behalf of the Company.

This appointment is governed by a management agreement, which is terminable upon six months' notice given by either party. Further information on the management agreement is set out in notes 4 and 5 on the accounts.

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 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 plans ("F&C plans"). The F&C plans include the F&C Personal Investor Plan, Individual Savings Account, Pension Savings Plan, Child Trust Fund and Children's Investment Plan. The F&C plans have been successful in significantly increasing the number of investors in the Company.

The Manager is a subsidiary of F&C Asset Management plc ("FCAM"), a large European investment group listed on the London Stock Exchange.

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.

Responsible ownership

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

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

The Board receives periodic reports on the implementation of the Manager's policy.

Management fee

A management fee of 0.40% per annum of the net assets managed by F&C (with the debenture stock valued at market value) is payable to the Manager in respect of the management, administration and ancillary services provided to the Company. A reduced annual management fee of 0.25% of the market value of investments in third party collective funds made on strategic grounds after 30 April 2006, such as those utilised within the Asian and Japanese parts of the portfolio (as described in the Manager's Review), is paid to the Manager.

Until 30 April 2010 a performance fee equal to 10% of any outperformance of the Benchmark was

Directors' Report and Business Review (continued)

payable annually if the net assets outperformed the Benchmark, subject to a maximum of 0.6% of average monthly net assets. Performance above the cap and underperformance were carried forward for inclusion in the performance calculation in the subsequent period. The increasing use of third party collectives within the portfolio meant that under that structure the total fee receivable by the Manager (performance and base), even in the event of achieving the maximum level of out-performance, may not have reached the originally intended maximum level of 1% of average monthly net assets. The Board therefore reviewed the structure of the performance fee and concluded that, with effect from 1 May 2010, the performance fee calculation would be adjusted so that the absolute cap on the level of fees that the Manager can earn in any one year should be 1% of average month-end net assets during that year. Any shortfall or excess performance based on the previous formula will be carried forward into this calculation. This change is not expected to have a meaningful impact on any particular year's total fee. No performance fee is payable to the Manager for the year under review.

Creditor payment policy

The Company's principal supplier is the Manager, the payment terms for which are set out above and in note 4 on the accounts. Other suppliers are paid in accordance with individually agreed payment terms. At 30 April 2010, the Company's outstanding trade creditors were equivalent to 30 days' payment to suppliers (2009: 17 days).

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 evaluation taking place in June 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 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 in the Chairman's Statement on page 6 and in the Manager's Review on pages 16 and 17.

GENERAL INFORMATION

Voting rights

At 11 June 2010 the Company had 40,115,990 ordinary shares in issue with a total of 40,115,990 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:

Voting rights	%
Prudential plc	6.97
Legal and General Group plc	4.01

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 11 June 2010.

The Manager holds approximately 53% of the Company's share capital on behalf of non-discretionary clients through the F&C plans. It is intended that the nominee company holding these shares will vote the shares held on behalf of planholders who have not returned their voting directions in proportion to the directions of those who have, as described on page 33.

Independent auditors

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

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

Key performance indicators

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

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

The tables below, the Ten Year Record on pages 63 and 64 and the Manager's Review on pages 7 to 17 show how the Company has performed against these KPIs.

Revenue results and dividends

for the year ended 30 April 2010

	£'000s	£'000s
Revenue return attributable to equity shareholders		2,016
Dividends paid in the year:		
Final dividend of 3.29p per share paid on 6 August 2009 to shareholders on the register at 3 July 2009	(1,376)	
Interim dividend of 1.60p per share paid on 29 January 2010 to shareholders on the register at 29 December 2009	(651)	
		(2,027)
Amount utilised from the revenue reserve		(11)

Source: F&C Management Limited

Total expense ratio

(as a percentage of average net assets)

At 30 April	%
2010	0.78
2009	0.93
2008	0.77
2007*	0.99
2006	0.69

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

Discount

(debenture at market value but excluding current period income)

At 30 April	%
2010	9.0
2009	6.3
2008	7.7
2007	5.7
2006	5.5

Source: F&C Management Limited.

Total return performance

	1 Year %	3 Years %	5 Years %
Company net asset value total return	45.6	4.7	76.7
Benchmark total return (rebalanced yearly)	47.0	6.5	65.9
Company share price total return	43.8	1.3	83.7
Retail Price Index	5.3	8.5	16.3

Source: Datastream

Dividend growth

	1 Year %	3 Years %	5 Years %
Dividends	2.2	6.6	13.6*
Inflation (RPI)	5.3	8.5	16.3

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

Directors' Report and Business Review (continued)

Annual general meeting

The AGM will be held on Wednesday 21 July 2010 at 12 noon at The Chartered Accountants' Hall, One Moorgate Place, London EC2. The Notice of Annual General Meeting appears on pages 67 to 70 and includes a map of the venue. Peter Ewins will give a presentation covering progress in the year to date and his views on the market for the rest of the year. There will be an opportunity to ask questions during the AGM and shareholders will be able to meet the Directors and Mr Ewins more informally over refreshments following the meeting. Resolutions numbered 9 to 12 are explained below.

Authority to allot shares (Resolution 9)

Resolution 9 is similar in content to the authority and power given to the Directors at previous AGMs. By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders. In addition, directors require specific authority from shareholders before allotting new shares (or granting rights over shares) for cash without first offering them to existing shareholders in proportion to their holdings. Resolution 9 gives the Directors, for the period until the conclusion of the AGM in 2011, the necessary authority to allot securities up to an aggregate nominal amount of £501,425 (2,005,700 ordinary shares). This is equivalent to approximately 5% of the issued share capital of the Company at 11 June 2010. It also empowers the Directors to allot such securities for cash, otherwise than to existing shareholders on a pro-rata basis. This resolution also permits the Directors to sell treasury shares without first offering them to existing shareholders in proportion to their holdings. This authority and power provides the Directors with a degree of flexibility to increase the assets of the Company by the issue of new shares or the sale of treasury shares should any favourable opportunities arise to the advantage of shareholders.

The Directors will, if necessary, use this authority to satisfy demand from participants in the F&C plans when they believe it is advantageous to plan participants and the Company's shareholders to do so. In no circumstances would the Directors use the authority and power to dilute the interests of existing shareholders by issuing shares or selling treasury shares at a price which is less than the NAV attributable to the shares at the time of issue.

Authority for the Company to purchase its own shares (Resolution 10)

Resolution 10 authorises the Company to purchase up to a maximum of 6,013,300 ordinary shares (equivalent to approximately 14.99% of the issued share capital) in the market at a minimum price of 25p per share and a maximum price per share (exclusive of expenses) of 5% above the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately before the date of purchase. The Directors intend to continue using this authority with the objective of keeping the discount at close to 5% in normal market conditions, as well as enhancing the NAV per share for continuing shareholders. Any shares that are purchased are usually cancelled, although they could be placed into treasury. The authority will continue until the expiry of 15 months from the date of the passing of the resolution unless it is varied, revoked or renewed prior to that by the Company in general meeting by special resolution. The Board intends to seek a renewal of such authority at subsequent AGMs.

Amendments to the articles of association (Resolution 11)

It is proposed to adopt new articles of association in order to update the Company's current articles to take account of the implementation of the last parts of the Act, the Companies (Shareholders Rights) Regulations 2009 and best practice in respect of, amongst other things, multiple proxy representatives, contents of notices of meetings and adjournments of meetings for lack of quorum. The Companies Act 1985 was, for all practical purposes, repealed on 1 October 2009.

A copy of the new articles will be available for inspection at the Company's registered office and at Royal London House, 22/25 Finsbury Square, London EC2A 1DX during normal business hours on any day (Saturdays, Sundays and public holidays excepted) from the date of the Notice of Annual General Meeting until the conclusion of the AGM and on the date of the

AGM at the meeting from 15 minutes prior to the start until the conclusion of the meeting.

A summary of the material changes proposed to be brought about by the adoption of the new articles is set out in the Appendix to the Notice of Annual General Meeting, which appears on page 70.

Notice period for meetings (Resolution 12)

The Act provides that all general meetings (other than AGMs) can be convened on 14 days' notice where under the Companies Act 1985 21 days' notice was required for a general meeting to consider a special resolution. Your Board is of the view that it is in the Company's interests to have a shorter notice period which complies with these new provisions of the Act and the Company's articles allow all general meetings (other than an AGM) to be called on 14 clear days' notice. However, one of the requirements of the Shareholder Rights Directive is that all general meetings must be held on 21 clear days' notice, unless shareholders agree to a shorter notice period. The passing of Resolution 12 would constitute shareholders' agreement for the purposes of the Shareholder Rights Directive (which agreement is required annually) and would therefore preserve the Company's ability to call general meetings (other than an AGM) on 14 clear days' notice. The Board intends to seek a renewal of such authority at subsequent AGMs.

Form of proxy

Registered shareholders will find enclosed a form of proxy for use at the AGM. You will also have the option of lodging your proxy vote using the internet.* For shares held through CREST, proxy appointments may be submitted via the CREST proxy voting system. Please either complete, sign and return the form of proxy in the envelope provided as soon as possible in accordance with the instructions or lodge your proxy vote via the internet or the CREST proxy voting system whether or not you intend to be present at the AGM. This will not preclude you from attending the AGM and voting in person if you wish to do so.

All proxy appointments should be submitted so as to be received not later than 48 hours before the time appointed for holding the AGM.

* Shareholders on the New Zealand branch register are not able to submit votes using the Internet.

Form of direction and proportional voting

If you are an investor in any of the F&C plans you will find enclosed a form of direction for use at the AGM. Investors in the F&C plans, other than the Pension Savings Plan, also have the option of lodging voting directions using the internet. The Manager operates a proportional voting arrangement for the F&C plans whereby the nominee company will vote the shares held on behalf of planholders who have not returned their voting directions in proportion to those who have. This arrangement will apply at the 2010 AGM, subject to a minimum threshold of 5% of the shares held in the F&C plans being voted. A maximum limit of 53,000 shares that any one individual investor can vote, being approximately 5% of the relevant minimum threshold, will also apply. Any individual voting directions received in excess of the maximum limit will remain valid, but will not form part of the proportional voting basis. Planholders may exclude their shares from the proportional voting arrangements if they wish.

All voting directions should be submitted in accordance with the instructions given on the form of direction so as to be received not later than 12 noon on Thursday 15 July 2010 so that the nominee company can submit a form of proxy before the 48 hour period begins.

Recommendation

Your Board considers that the resolutions to be proposed at the AGM are in the best interests of the Company and are most likely to promote the success of the Company for the benefit of its members as a whole. The Directors recommend that shareholders vote in favour of each resolution, as the Directors intend to do in respect of their own beneficial holdings.

By order of the Board
F&C Management Limited, Secretary
15 June 2010

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 composed solely of non-executive Directors, none of whom has a service contract with the Company, and therefore no remuneration committee has been appointed.

The Chairman receives a fee of £30,000 per annum and the remaining Directors receive a fee of £18,000 per annum. Each member of the Audit and Management Engagement Committee ("Audit Committee") receives an additional £2,000 per annum. The chairman of the Audit Committee is paid an additional £1,500 per annum to reflect the extra responsibility of this role. Directors' fees were last increased in November 2006.

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.

Fees for services to the Company

Director	2010 £	2009 £
Anthony Townsend (Chairman and highest paid Director)	**32,000**	32,000
Andrew Adcock	**20,000**	20,000
Les Cullen(1) (Chairman of the Audit Committee)	**21,500**	20,000
Dr Franz Leibenfrost(2) (Senior Independent Director)	**20,000**	21,500
Jane Tozer	**20,000**	20,000
Mark White	**20,000**	20,000
	133,500	133,500

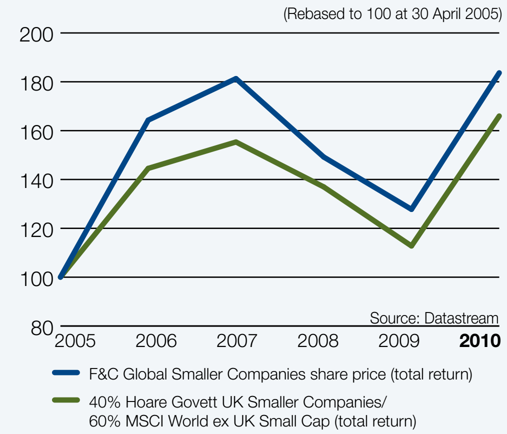
(1) With effect from 30 April 2009 the chairman of the Audit Committee was paid an additional £1,500 per annum.

(2) The additional fee of £1,500 per annum previously paid to the Senior Independent Director ceased on 30 April 2009.

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.

Total shareholder return over five years



By order of the Board
F&C Management Limited
Secretary
15 June 2010

Corporate Governance Statement

Introduction

The Company is committed to high standards of corporate governance. The Board has considered the principles and recommendations of the 2009 Association of Investment Companies ("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, as explained by the AIC Guide, addresses all the principles set out in section 1 of the 2008 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 and up to the date of this report and thereby the provisions of the Combined Code that are relevant to the Company.

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, corporate governance matters, dividend policy, share buyback policy, risk and control assessment, investment performance monitoring and budget approval. It is responsible for the review and approval of annual and half-yearly reports, interim management statements and other public documents. 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 six times a year and at each meeting reviews the Company's management information, which includes reports on investment performance and strategic matters and financial analyses. It monitors compliance with the Company's objectives and is responsible for setting the asset allocation, investment and gearing ranges within which the Manager has 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.

* 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.

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 2009.

Directors' attendance

	Full Board	Audit and Management Engagement Committee	Nomination Committee
Number of meetings	7	3	1
Anthony Townsend	7	3	1
Andrew Adcock	7	3	1
Les Cullen	7	3	1
Dr Franz Leibenfrost	6	3	1
Jane Tozer	6	2	1
Mark White	6	2	–

* Committees of the Board met during the year to undertake business such as the approval of the Company's interim management statement, half-yearly results and dividend.

Each Director has a signed letter of appointment to formalise the terms of his/her engagement as a non-executive Director, 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, diversity 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 annual self appraisal. This is facilitated by the completion of a questionnaire and interviews with the Chairman. The appraisal of the Chairman is carried out by the Board under the leadership of the Senior Independent Director, Dr Franz Leibenfrost. The

Corporate Governance Statement (continued)

Board considers that the appraisal process is a constructive means of evaluating the contribution of individual Directors and identifying ways to improve the functioning and performance of the Board and its committees, including assessing any training needs. The Board does not consider that the use of external consultants to conduct this evaluation is likely to provide any meaningful advantage over the process that has been adopted, but the option of doing so is kept under review.

Directors are encouraged to attend relevant training courses and seminars and are able to seek independent professional advice at the Company's expense in relation to their duties. No such professional advice was taken by the Directors in the year under review. 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 Board has the power to appoint or remove the Secretary in accordance with the terms of the 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 alter this position.

Conflicts of interest

A company director has a statutory obligation to avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company (a "situational conflict"). A company director must therefore avoid any unauthorised situational conflict. This extends to the interests of any closely connected person.

The Board has in place procedures for authorising situational conflicts of interest relating to the Company's Directors. A Director wishing to seek authorisation must submit a formal request to the Board, which is then responsible for deciding whether or not to authorise the situational conflict. The factors to be considered will include whether the situational conflict could prevent the Director from properly performing his/her duties; whether the situational conflict has, or could have, any impact on the Company, in financial or public relations terms for example, and whether the situational conflict could be regarded as de minimis and unlikely to affect the judgement and/or actions of the Director in question.

The terms of authorisation will include the Director absenting himself/herself from meetings where the subject of the conflict is discussed and notifying the Secretary, who keeps a register of conflicts, as soon as the facts of the matter change. A Director interested in a matter must also abstain from voting on it.

No situational conflicts have been identified or authorised other than the Directors' other existing directorships.

The Nomination Committee reviewed the authorisation of each individual Directors' conflicts or potential conflicts in June 2010. In each case the Nomination Committee concluded that these situational conflicts had not affected any individual in his/her role as a Director of the Company.

Aside from situational conflicts, the Directors must also comply with the statutory rules requiring company directors to declare any interest in an actual or proposed transaction or arrangement with the Company. In the year under review there have been no instances of a Director being required to absent himself/herself from a discussion or abstain from voting because of a conflict of interest.

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 34, provides 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 is 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 meet the Lead Manager, the Secretary and other key employees of the Manager and are given a briefing on the workings and processes of the Company, including the receipt of a Directors' handbook and key documentation.

The Nomination Committee also considers Directors' conflicts of interest, 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 is currently composed of 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 each year, 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; and to make recommendations to the Board in relation to the reappointment and remuneration of the auditors. The Board retains 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 have been the Company's auditors for many years. Representatives of PwC attend Audit Committee meetings to report on the audit of the Company and the auditors' review of the annual report. 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. Taking this into account, and given the nature of services provided and confirmation from PwC that they have complied with all relevant independence standards, the Company's auditors are 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 was in relation to taxation advice and the provision of a debenture compliance certificate, was £55,000 exclusive 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 appointment of the auditors is not regularly put to tender, but performance is reviewed by the Audit Committee annually, with advice from the Manager. On the basis of performance in the year under review, PwC's experience in auditing the affairs of the Company, the standing and experience of the audit partner and confirmation of the auditors' independence, the Audit Committee recommended the continuing appointment of the auditors to the

Corporate Governance Statement (continued)

Board, which agreed that PwC should continue as the Company's auditors and that no tender was necessary.

The Audit Committee has direct access to the senior representatives of the Manager's audit, risk and compliance department and to its group audit committee and reports its findings to the Board. It receives and reviews the Report referred to below under "Internal controls and management of risk".

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 audit, risk and compliance department.

The Audit Committee carries out an annual review of the performance of the Manager, including a review of the 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 "whistle blowing" policy that has been put in place by the Manager under which its staff may, in confidence, raise concerns about any possible improprieties in matters of financial reporting or other matters, 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 is currently composed of the full Board, each member of which is deemed to be independent, and is chaired by Les Cullen. 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, revenue estimates, performance of the third party administrators of the F&C savings plans ("F&C plans") and other management issues. The Manager's audit, risk and compliance department prepares a control report that provides details of any significant internal control failure. A key risk summary is also produced to help identify the risks to which the Company is exposed and the controls in place to mitigate them, including risks that are not directly the responsibility of the Manager. The Company's principal risks are set out on pages 27 and 28, 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 mis-statement, 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 2009 ("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. Procedures are in place to capture and evaluate failings and weaknesses and ensure that action would be taken to remedy any significant issues identified from this monitoring, which would be reported to the Board. No material failings or weaknesses in respect of the Company were identified in the year under review.

Relations with shareholders

Communication with shareholders is given a high priority. In addition to the annual and half-yearly reports that are available to shareholders, monthly fact sheets and general information are also available on the www.fandcglobalsmallers.com website.

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 buybacks and any special business. All shareholders are encouraged to attend the AGM, at which a presentation is made by the Lead Manager and where there is an opportunity to question him, the Chairman and the Board. Proxy voting figures are announced to shareholders at the AGM and are reported on the website. All beneficial shareholders in the F&C plans have the right to attend, speak and vote at general meetings. The nominee company votes the shares held on behalf of planholders who have not returned their voting directions in proportion to the directions of those who have, as detailed on page 33.

A regular dialogue is maintained with the Company's institutional shareholders and private client asset managers through the Manager, which regularly reports to the Board on any such contact, the views of shareholders and any changes to the composition of the share register. The Chairman is available to meet with major shareholders. The Chairman contacted major shareholders by email on two occasions during the year, which resulted in some correspondence but no shareholder 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 Secretary at the registered office address as detailed on page 23.

The Board receives regular reports from the Manager on the views and attitudes of shareholders in the Company, the level and nature of any complaints received from investors and its arrangements for "Treating Customers Fairly".

By order of the Board
F&C Management Limited
15 June 2010

Statement of Directors' Responsibilities in respect of the financial statements

As required by company law, the Directors are responsible for the preparation of the annual report, Directors' Remuneration Report and financial statements which give a true and fair view of the state of affairs of the Company as at 30 April 2010 and of the results for the year then ended. In preparing the financial statements, suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made. The Directors are also responsible for ensuring that adequate accounting records are maintained and have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The financial statements are published on the **www.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, the Directors confirm that to the best of their knowledge:

- the financial statements have been prepared in accordance with applicable UK generally accepted 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 annual report includes a fair review of the development and performance of the Company and the important events that have occurred during the financial year and their impact on the financial statements;
- 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
15 June 2010

Independent Auditors' Report

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

We have audited the financial statements of F&C Global Smaller Companies PLC for the year ended 30 April 2010 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom accounting standards (United Kingdom generally accepted accounting practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities in Respect of the Financial Statements set out on page 40, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 April 2010 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on pages 25 and 26, in relation to going concern; and
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the 2008 Combined Code specified for our review.

Alex Bertolotti (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 June 2010

Income Statement

Revenue notes	Capital notes	for the year ended 30 April	Revenue £'000s	Capital £'000s	2010 Total £'000s	Revenue £'000s	Capital £'000s	2009 Total £'000s
	12	Gains/(losses) on investments	**–**	**65,261**	**65,261**	–	(32,248)	(32,248)
	21	Foreign exchange gains	**3**	**5**	**8**	2	2,017	2,019
3		Income	**3,460**	**–**	**3,460**	3,948	–	3,948
4	4	Management fee	**(189)**	**(442)**	**(631)**	(173)	(404)	(577)
5	5	Performance fee	**–**	**–**	**–**	–	–	–
6	6	Recoverable VAT	**–**	**–**	**–**	171	58	229
7		Other expenses	**(783)**	**(21)**	**(804)**	(817)	(21)	(838)
		Net return before finance costs and taxation	**2,491**	**64,803**	**67,294**	3,131	(30,598)	(27,467)
8	8	Finance costs	**(345)**	**(806)**	**(1,151)**	(344)	(804)	(1,148)
		Net return on ordinary activities before taxation	**2,146**	**63,997**	**66,143**	2,787	(31,402)	(28,615)
9	9	Taxation on ordinary activities	**(130)**	**(5)**	**(135)**	(357)	171	(186)
		Net return attributable to equity shareholders	**2,016**	**63,992**	**66,008**	2,430	(31,231)	(28,801)
10	10	**Return per share – pence**	**4.88**	**154.87**	**159.75**	5.66	(72.77)	(67.11)

The total column of this statement is the profit and loss account of the Company.

All revenue and capital items in the above statement derive from continuing operations.

A statement of total recognised gains and losses is not required as all gains and losses of the Company have been reflected in the above statement.

Reconciliation of Movements in Shareholders' Funds

Notes	for the year ended 30 April 2010	Share capital £'000s	Share premium account £'000s	Capital redemption reserve £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total shareholders' funds £'000s
	Balance at 30 April 2009	**10,479**	**23,132**	**15,704**	**94,022**	**7,657**	**150,994**
	Movements during the year ended 30 April 2010						
11	Dividends paid	**–**	**–**	**–**	**–**	**(2,027)**	**(2,027)**
	Shares purchased and cancelled	**(424)**	**–**	**424**	**(6,591)**	**–**	**(6,591)**
	Net return attributable to equity shareholders	**–**	**–**	**–**	**63,992**	**2,016**	**66,008**
	Balance at 30 April 2010	**10,055**	**23,132**	**16,128**	**151,423**	**7,646**	**208,384**

Notes	for the year ended 30 April 2009	Share capital £'000s	Share premium account £'000s	Capital redemption reserve £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total shareholders' funds £'000s
	Balance at 30 April 2008	10,981	23,132	15,202	131,463	7,322	188,100
	Movements during the year ended 30 April 2009						
11	Dividends paid	–	–	–	–	(2,095)	(2,095)
	Shares purchased and cancelled	(502)	–	502	(6,210)	–	(6,210)
	Net return attributable to equity shareholders	–	–	–	(31,231)	2,430	(28,801)
	Balance at 30 April 2009	10,479	23,132	15,704	94,022	7,657	150,994

Balance Sheet

Notes	at 30 April	£'000s	2010 £'000s	£'000s	2009 £'000s
	Fixed assets				
12	Investments		**202,279**		157,668
	Current assets				
13	Debtors	**6,182**		1,227	
14	Taxation recoverable	**34**		30	
	Cash at bank and short-term deposits	**12,963**		5,925	
		19,179		7,182	
	Creditors: amounts falling due within one year				
15	Other	**(3,074)**		(3,856)	
		(3,074)		(3,856)	
	Net current assets		**16,105**		3,326
	Total assets less current liabilities		**218,384**		160,994
	Creditors: amounts falling due after more than one year				
16	Debenture		**(10,000)**		(10,000)
	Net assets		**208,384**		150,994
	Capital and reserves				
18	Share capital		**10,055**		10,479
19	Share premium account	**23,132**		23,132	
20	Capital redemption reserve	**16,128**		15,704	
21	Capital reserves	**151,423**		94,022	
21	Revenue reserve	**7,646**		7,657	
			198,329		140,515
22	**Total shareholders' funds**		**208,384**		150,994
22	**Net asset value per share – pence**		**518.10**		360.23

Approved by the Board on 15 June 2010
and signed on its behalf by:
Anthony Townsend, Chairman

Cash Flow Statement

Notes	for the year ended 30 April	£'000s	2010 £'000s	£'000s	2009 £'000s
	Operating activities				
	Investment income received	**2,938**		3,208	
	Interest received	**28**		151	
	Stock lending fees received	**–**		61	
	Underwriting commission received	**18**		11	
	Management fee paid to the management company	**(568)**		(516)	
	Directors' fees paid	**(134)**		(134)	
	VAT recovered (including interest thereon)	**–**		1,651	
	Other payments	**(669)**		(643)	
23	**Net cash inflow from operating activities**		**1,613**		3,789
	Servicing of finance				
	Interest paid	**(1,151)**		(1,152)	
	Cash outflow from servicing of finance		**(1,151)**		(1,152)
	Financial investment				
	Purchases of equities and other investments	**(93,824)**		(100,867)	
	Sales of equities and other investments	**108,896**		105,564	
	Other capital charges and credits	**(17)**		(27)	
	Net cash inflow from financial investment		**15,055**		4,670
	Equity dividends paid		**(2,027)**		(2,095)
	Net cash inflow before use of liquid resources and financing		**13,490**		5,212
	Management of liquid resources				
	Decrease in short-term deposits		**–**		–
	Financing				
	Shares purchased and cancelled	**(6,466)**		(7,131)	
	Cash outflow from financing		**(6,466)**		(7,131)
24	**Increase/(decrease) in cash**		**7,024**		(1,919)

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 2009 and all previous applicable financial years. Such approval exempts the Company from UK corporation tax on gains realised in the relevant year on its portfolio of fixed asset investments.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The accounts of the Company have been prepared under the historical cost convention, modified to include fixed asset investments and derivative financial instruments at fair value, and in accordance with the Companies Act 2006, accounting standards applicable in the United Kingdom and the Revised Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (SORP) issued in January 2009.

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

There have been no significant changes to the accounting policies during the year ended 30 April 2010.

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

(b) Principal accounting policies

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

(i) Financial instruments

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

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

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

Level 3 – External inputs are unobservable. Value is the Directors' best estimate, based on advice from relevant knowledgeable experts, use of recognised valuation techniques and on assumptions as to what inputs other market participants would apply in pricing the same or similar instrument. Included within this category are unquoted investments.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) 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 are carried at cost less any provision for impairment.

Derivative financial instruments are accounted for as financial assets or liabilities at fair value through profit or loss and are classified as held for trading.

(iii) Debt instruments

Interest-bearing debenture stock, loans and overdrafts are recorded initially 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 margin over a comparable UK gilt and is disclosed in note 16 on the accounts. No debt instruments held during the year required hierarchical classification.

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 (vi) below for allocation of finance charges within the Income Statement.

(iv) Foreign currency

Monetary assets, monetary liabilities and equity investments denominated in a foreign currency 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 asset 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.

(v) 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 the capital account.

Notes on the Accounts (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(vi) Expenses, including finance charges

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

– expenses incidental to the acquisition or disposal of fixed asset investments and derivative 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 – arising on investments sold via the capital account;

– 70% of management fees and 70% of finance costs are allocated to capital reserve – arising on investments sold via the capital account, in accordance with the Board's long-term expected split of returns from the investment portfolio of the Company. With effect from 1 May 2010, the proportion of management fees and finance costs allocated to capital reserve – arising on investments sold will be changed to 75%, reflecting the Board's changed expectation of the long-term split of returns from the investment portfolio;

– performance fees insofar as they relate to capital performance are allocated to capital reserve – arising on investments sold; and

– all expenses are accounted for on an accruals basis.

(vii) 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, based on the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of timing differences can be deducted. In line with the recommendations of the SORP, the allocation method used to calculate the tax relief on expenses charged to capital is the "marginal" basis. Under this basis, if taxable income is capable of being offset entirely by expenses charged through the revenue account, then no tax relief is transferred to the capital account.

(viii) 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, which is a non-distributable reserve, on the trade date.

(ix) Capital reserves

Capital reserve – arising on investments sold
The following are accounted for in this reserve:

– 70% of management fees and finance costs as set out in note 2 (vi);

– performance fees as set out in note 2 (vi);

– 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;

– 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 – arising on investments held
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

	2010 £'000s	2009 £'000s
Income from investments		
UK dividends	1,822	1,711
UK scrip dividends	106	–
Overseas dividends	1,307	1,515
Overseas scrip dividends	179	94
	3,414	3,320
Other income		
Interest on cash and short-term deposits	28	153
Underwriting commission	18	11
Interest on VAT recoverable (see note 6)	–	422
Stock lending fees*	–	42
	46	628
Total income	3,460	3,948
Total income comprises:		
Dividends	3,414	3,320
Other income	46	628
	3,460	3,948
Income from investments comprises:		
Quoted UK†	1,928	1,711
Quoted overseas	1,471	1,609
Unquoted	15	–
	3,414	3,320

* The Company ceased stock lending in September 2008.
† Includes investments quoted on AIM in the UK.

4. MANAGEMENT FEE

	2010 Revenue £'000s	2010 Capital £'000s	2010 Total £'000s	2009 Revenue £'000s	2009 Capital £'000s	2009 Total £'000s
Management fee	189	442	631	173	404	577

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 have been allocated 70% to capital reserve in accordance with accounting policies.

Notes on the Accounts (continued)

5. PERFORMANCE FEE

	2010 Capital £'000s	2009 Capital £'000s
Performance fee	–	–

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. 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.

Any performance fee is allocated 100% to capital reserve – arising on investments sold.

No performance fee was payable for the year as the Company underperformed the Benchmark.

6. RECOVERABLE VAT

	Revenue £'000s	Capital £'000s	2010 Total £'000s	Revenue £'000s	Capital £'000s	2009 Total £'000s
Recoverable in respect of management fees	–	–	–	171	58	229
Recoverable in respect of performance fees	–	–	–	–	–	–
	–	–	–	171	58	229

Management and performance fees are no longer subject to VAT. The Company has recovered £1,229,000 from HMRC, via its Manager, in relation to VAT paid on such fees in the periods 1990 to 1996 and 2001 to 2007. Of this amount, £1,000,000 was recognised in the Income Statement for the year ended 30 April 2008 and £229,000 was recognised for the year ended 30 April 2009. Interest of £422,000 received in connection with these recoveries was included within income in 2009 (see note 3).

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

7. OTHER EXPENSES

	2010 £'000s	2009 £'000s
Auditors' remuneration:		
audit services*	28	26
other services*	57	8
Directors' fees for services to the Company†	134	134
Marketing and private investor plan expenses	355	391
Printing and postage	52	87
Custody fees	18	15
Sundry expenses	139	156
	783	817

* Auditors' remuneration for audit services, exclusive of VAT, amounts to £27,000 (2009: £26,000). Total auditors' remuneration for non-audit services, exclusive of VAT, amounts to £55,000 (2009: £8,000) comprising £54,000 for taxation services (2009: £3,000) and £1,000 relating to the provision of a debenture compliance certificate (2009: £1,000). In 2009 the auditors undertook a review of the half-year accounts at a cost of £4,000 which was not incurred in the year under review. No part of these amounts was charged to capital reserves (2009: £nil).

Taxation advice is further analysed as: £2,000 for advice on UK taxation (2009: £3,000) and £52,000 (2009: £nil) for services in connection with a case brought against HMRC (see note 6). The potential level of recoveries of VAT and interest arising out of the case would be a significant multiple of the £52,000 fees paid to PwC.

† See the Directors' Remuneration Report on page 34.

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

8. FINANCE COSTS

	Revenue £'000s	Capital £'000s	2010 Total £'000s	Revenue £'000s	Capital £'000s	2009 Total £'000s
Debenture	345	805	1,150	344	803	1,147
Loans and bank overdrafts	–	1	1	–	1	1
	345	806	1,151	344	804	1,148

The interest is further analysed as follows:

	Revenue £'000s	Capital £'000s	2010 Total £'000s	Revenue £'000s	Capital £'000s	2009 Total £'000s
Loans and bank overdrafts repayable within one year, not by instalments	–	1	1	–	1	1
Debenture repayable in more than one year, not by instalments	345	805	1,150	344	803	1,147
	345	806	1,151	344	804	1,148

9. TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of tax charge for the year

	Revenue £'000s	Capital £'000s	2010 Total £'000s	Revenue £'000s	Capital £'000s	2009 Total £'000s
Corporation tax payable at 28% (2009: 28%)	–	–	–	214	(214)	–
Overseas taxation	135	–	135	186	–	186
Current tax charge for the year (note 9(b))	135	–	135	400	(214)	186
Deferred taxation on accrued income	(5)	5	–	(43)	43	–
Taxation on ordinary activities	130	5	135	357	(171)	186

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

	Revenue £'000s	Capital £'000s	2010 Total £'000s	Revenue £'000s	Capital £'000s	2009 Total £'000s
Return on ordinary activities before tax	2,146	63,997	66,143	2,787	(31,402)	(28,615)
Return on ordinary activities multiplied by the standard rate of corporation tax of 28% (2009: 28%)	601	17,919	18,520	780	(8,793)	(8,013)
Effects of:						
UK dividends*	(540)	–	(540)	(479)	–	(479)
Overseas dividends*	(305)	–	(305)	–	–	–
Movement in taxable income accruals	(27)	–	(27)	53	–	53
Expenses not deductible for tax purposes	50	–	50	55	–	55
Overseas tax in excess of double taxation relief	135	–	135	(9)	–	(9)
Expenses not utilised in the year	221	103	324	–	115	115
Capital returns*	–	(18,022)	(18,022)	–	8,464	8,464
Total current taxation (note 9(a))	135	–	135	400	(214)	186

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

Notes on the Accounts (continued)

9. TAXATION ON ORDINARY ACTIVITIES (CONTINUED)

The Company is not subject to corporation tax on capital gains or on dividend income. As a consequence, it has unutilised expenses which have given rise to a deferred tax asset of £2.4m (2009: £2.6m). This asset has not been recognised as the Directors believe it is unlikely that the Company will have sufficient taxable profits in future to utilise it. Of this amount £0.2m (2009: £nil) relates to revenue expenses and £2.2m (2009: £2.6m) to capital expenses.

10. RETURN PER ORDINARY SHARE

			2010			2009
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
Revenue return per share – pence	**4.88**	**154.87**	**159.75**	5.66	(72.77)	(67.11)
Net return attributable to equity shareholders – £'000s	**2,016**	**63,992**	**66,008**	2,430	(31,231)	(28,801)

Both the revenue and capital returns per share are based on a weighted average of 41,319,218 ordinary shares in issue during the year (2009: 42,916,280).

11. DIVIDENDS

Dividends on ordinary shares	Register date	Payment date	**2010 £'000s**	2009 £'000s
Interim for the year ended 30 April 2010 of 1.60p	29 December 2009	29 January 2010	**651**	–
Final for the year ended 30 April 2009 of 3.29p	3 July 2009	6 August 2009	**1,376**	–
Interim for the year ended 30 April 2009 of 1.60p	30 December 2008	30 January 2009	**–**	678
Final for the year ended 30 April 2008 of 3.25p	4 July 2008	6 August 2008	**–**	1,417
			2,027	2,095

The Directors recommend a final dividend in respect of the year ended 30 April 2010 of 3.40p per share, payable on 6 August 2010 to all shareholders on the register at close of business on 25 June 2010. 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 2010, which form the basis of the section 842 retention test, and the attributable revenue are set out below:

	2010 £'000s
Revenue attributable to equity shareholders	**2,016**
Interim for the year ended 30 April 2010 of 1.60p	**(651)**
Proposed final for the year ended 30 April 2010 of 3.40p*	**(1,364)**
Estimated undistributed reserve for section 842 purposes**	**1**

* Based on 40,115,990 shares in issue at 11 June 2010.

** Undistributed revenue comprises 0.03% of income from investments of £3,414,000 (see note 3).

12. INVESTMENTS

	Level 1* £'000s	Level 2* £'000s	Level 3* £'000s	Total £'000s
Cost at 30 April 2009	166,323	–	1,476	167,799
Losses at 30 April 2009	(10,047)	–	(84)	(10,131)
Valuation at 30 April 2009	156,276	–	1,392	157,668
Movements in the year:				
Purchases at cost	93,132	–	12	93,144
Sales proceeds	(113,770)	–	(24)	(113,794)
Gains on investments sold in year	11,877	–	24	11,901
Gains on investments held at year end	52,159	–	1,201	53,360
Valuation of investments held at 30 April 2010	**199,674**	**–**	**2,605**	**202,279**

	Level 1* £'000s	Level 2* £'000s	Level 3* £'000s	Total £'000s
Cost at 30 April 2010	157,562	–	1,488	159,050
Gains at 30 April 2010	42,112	–	1,117	43,229
Valuation at 30 April 2010	**199,674**	**–**	**2,605**	**202,279**

* Level 1 includes investments listed on any recognised stock exchange or quoted on AIM in the UK.
Level 2 includes investments for which the quoted price has been suspended, forward exchange contracts and other derivative instruments.
Level 3 includes any unquoted investments.

A list of investments is set out on pages 20 to 22.

Gains/(losses) on investments

	2010 £'000s	2009 £'000s
Gains/(losses) on investments sold during the year	**11,901**	(18,110)
Gains/(losses) on investments held at year end	**53,360**	(14,138)
Total gains/(losses) on investments	**65,261**	(32,248)

Substantial interests

At 30 April 2010 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	1,955,647	31.3
US Ventures	Cayman Islands	n/a	10.2

Notes on the Accounts (continued)

13. DEBTORS

	2010 £'000s	2009 £'000s
Investment debtors	**5,884**	989
Prepayments and accrued income	**298**	238
	6,182	1,227

14. TAXATION RECOVERABLE

	2010 £'000s	2009 £'000s
Overseas taxation recoverable	**34**	30

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Other	2010 £'000s	2009 £'000s
Investment creditors	**2,105**	3,064
Shares purchased and cancelled	**209**	84
Interest accrued	**379**	379
Management fee accrued	**183**	120
Other accrued expenses	**198**	209
	3,074	3,856

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

Debenture	2010 £'000s	2009 £'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 amortised cost, which is equivalent to nominal value. The market value of the debenture, which was based on a comparable UK gilt, was £13,200,000 (2009: £13,846,000).

Under the terms of the debenture trust deed the total of all borrowings, valued in accordance with the Company's accounting policies, shall not at any time exceed the Company's "Adjusted Total of Capital and Reserves" ("ATCR") – at 30 April 2010 the value of the ATCR was £187m and the value of all borrowings was £10m. The trust deed also specifies that the aggregate of the Company's debenture stocks valued at par shall not exceed one fifth of the ATCR.

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

The 11.5% debenture stock is redeemable at par on 31 December 2014. It may be redeemed early by the Company giving notice of not less than 30 days in writing to stockholders. In such event, the redemption price must be the higher of par and the price equivalent to the gross redemption yield on the relevant date of 12% Exchequer Stock 2013/17.

The Directors have no present intention to redeem the 11.5% debenture stock before 31 December 2014.

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

	North America %	UK %	Continental Europe %	Rest of World %	Japan %	2010 Total %	2009 Total %
Industrials	15.2	10.5	2.6	–	–	**28.3**	29.5
Financials	7.0	5.0	1.5	–	–	**13.5**	13.7
Collective investments	–	–	–	8.0	5.0	**13.0**	15.1
Consumer goods	5.0	1.6	1.9	–	–	**8.5**	7.7
Consumer services	1.6	5.1	0.8	–	–	**7.5**	7.1
Technology	1.1	4.2	0.2	–	–	**5.5**	8.3
Health care	2.1	1.4	0.9	–	–	**4.4**	5.7
Basic materials	3.0	1.3	–	–	–	**4.3**	3.5
Telecommunications	4.2	–	–	–	–	**4.2**	1.8
Oil & gas	0.9	2.0	–	–	–	**2.9**	4.7
Utilities	–	–	0.5	–	–	**0.5**	0.8
Total investments	40.1	31.1	8.4	8.0	5.0	**92.6**	97.9
Net current assets	1.7	5.7	–	–	–	**7.4**	2.1
Total assets less current liabilities (excluding borrowings)	**41.8**	**36.8**	**8.4**	**8.0**	**5.0**	**100.0**	
2009 totals	45.4	33.2	6.8	8.4	6.2		100.0

18. SHARE CAPITAL

Equity share capital	Issued and fully paid Number	£'000s
Ordinary shares of 25p each		
Balance brought forward	41,915,918	10,479
Transfer to capital redemption reserve	(1,694,928)	(424)
Balance carried forward	**40,220,990**	**10,055**

During the year 1,694,928 ordinary shares were purchased and cancelled at a cost of £6,591,000.

19. SHARE PREMIUM ACCOUNT

	2010 £'000s	2009 £'000s
Balance brought forward and carried forward	**23,132**	23,132

20. CAPITAL REDEMPTION RESERVE

	2010 £'000s	2009 £'000s
Balance brought forward	**15,704**	15,202
Transfer from equity share capital	**424**	502
Balance carried forward	**16,128**	15,704

Notes on the Accounts (continued)

21. OTHER RESERVES

	Capital reserve arising on investments sold £'000s	Capital reserve arising on investments held £'000s	Capital reserves – total £'000s	Revenue reserve £'000s
Movements in the year				
Gains on investments sold in year	11,901	–	11,901	–
Gains on investments held at year end	–	53,360	53,360	–
Foreign exchange gains	5	–	5	–
Management fee (see note 4)	(442)	–	(442)	–
Other expenses	(21)	–	(21)	–
Finance costs (see note 8)	(806)	–	(806)	–
Corporation tax	(5)	–	(5)	–
Revenue return	–	–	–	2,016
Net return attributable to ordinary shareholders	10,632	53,360	63,992	2,016
Cost of shares purchased and cancelled	(6,591)	–	(6,591)	–
Dividends paid in the year	–	–	–	(2,027)
	4,041	53,360	57,401	(11)
Balance brought forward	103,809	(9,787)	94,022	7,657
Balance carried forward	**107,850**	**43,573**	**151,423**	**7,646**

Included within the capital reserve movement for the year are £328,000 (2009: £332,000) of transaction costs on purchases of investments, £203,000 (2009: £204,000) of transaction costs on sales of investments and £24,000 (2009: £353,000) of distributions recognised as capital.

22. NET ASSET VALUE PER ORDINARY SHARE

	2010	2009
Net asset value per share (with debenture at nominal value) – pence	**518.10**	360.23
Net assets attributable at the year end – £'000s	**208,384**	150,994
Ordinary shares in issue at the year end	**40,220,990**	41,915,918

Net asset value per share with debenture at market value was 510.14p (2009: 351.06p).

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

	2010 £'000s	2009 £'000s
Total return before finance costs and taxation	67,294	(27,467)
Adjust for returns from non-operating activities		
(Gains)/losses on investments	(65,261)	32,248
Foreign exchange gains charged to capital	(5)	(2,017)
Management fee charged to capital	442	404
Recoverable VAT credited to capital	–	(58)
Other expenses charged to capital	21	21
Return from operating activities	2,491	3,131
Adjust for non cash flow items		
Transfer of management fee to capital reserve	(442)	(404)
Transfer of recoverable VAT to capital reserve	–	58
Exchange gains of a revenue nature	(3)	(2)
(Increase)/decrease in accrued income	(52)	193
(Increase)/decrease in prepayments	(5)	1,001
Increase in creditors	48	101
Scrip dividends	(285)	(94)
Overseas taxation	(139)	(195)
Net cash inflow from operating activities	1,613	3,789

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

	2010 £'000s	2009 £'000s
Increase/(decrease) in cash	7,024	(1,919)
Decrease in short-term deposits	–	–
Movement in net debt resulting from cash flows	7,024	(1,919)
Foreign exchange movement	14	2,022
Movement in net debt in the year	7,038	103
Net debt brought forward	(4,075)	(4,178)
Net cash/(debt) carried forward	2,963	(4,075)

Represented by:	Balance at 30 April 2009 £'000s	Cash flow £'000s	Exchange movement £'000s	Balance at 30 April 2010 £'000s
Cash at bank	5,925	7,024	14	12,963
Short-term deposits	–	–	–	–
	5,925	7,024	14	12,963
Debenture	(10,000)	–	–	(10,000)
	(4,075)	7,024	14	2,963

Notes on the Accounts (continued)

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 34 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 12, where investments managed by F&C are disclosed, and note 15, where accrued management fees 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 fixed asset 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.

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, and the relevant exchange rates against sterling, are analysed below:

	At 30 April 2010	2010 Average for the year	At 30 April 2009	2009 Average for the year
US dollar	**1.5307**	**1.5927**	1.4818	1.6850
Euro	**1.1512**	**1.1313**	1.1183	1.1960
Japanese yen	**143.90**	**147.53**	145.79	170.73

At 30 April 2010, the Company did not hold any investments directly denominated in Japanese yen. The Company did, however, hold investments in US dollar and sterling denominated collective investment schemes which hold underlying investments denominated in other currencies.

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 the principal currencies by 10% would have the following approximate effect on returns attributable to equity shareholders and on the net asset value ("NAV") per share:

Weakening of sterling by 10%	2010 US$	2010 €	2009 US$	2009 €
Net revenue return attributable to shareholders – £'000s	**53**	**24**	79	26
Net capital return attributable to shareholders – £'000s	**10,293**	**1,514**	7,893	842
Net total return attributable to shareholders – £'000s	**10,346**	**1,538**	7,972	868
NAV per share – pence	**25.72**	**3.82**	19.02	2.07

Strengthening of sterling by 10%	2010 US$	2010 €	2009 US$	2009 €
Net revenue return attributable to shareholders – £'000s	**(53)**	**(24)**	(79)	(26)
Net capital return attributable to shareholders – £'000s	**(10,293)**	**(1,514)**	(7,893)	(842)
Net total return attributable to shareholders – £'000s	**(10,346)**	**(1,538)**	(7,972)	(868)
NAV per share – pence	**(25.72)**	**(3.82)**	(19.02)	(2.07)

These analyses are presented in sterling and 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:

2010	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	82,031	5,249	10,010	(2,837)	(10,000)	84,453
US dollar	99,261	867	3,024	(222)	–	102,930
Euro	15,123	99	(71)	(15)	–	15,136
Other	5,864	1	–	–	–	5,865
Total	**202,279**	**6,216**	**12,963**	**(3,074)**	**(10,000)**	**208,384**

2009	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	69,365	220	1,941	(2,484)	(10,000)	59,042
US dollar	74,905	879	3,953	(804)	–	78,933
Euro	8,818	143	30	(568)	–	8,423
Other	4,580	15	1	–	–	4,596
Total	157,668	1,257	5,925	(3,856)	(10,000)	150,994

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate exposure

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

	Within one year £'000s	More than one year £'000s	2010 Net total £'000s	Within one year £'000s	More than one year £'000s	2009 Net total £'000s
Exposure to floating rates – cash	12,963	–	12,963	5,925	–	5,925
Exposure to fixed rates – debenture	–	(10,000)	(10,000)	–	(10,000)	(10,000)
Net exposure	12,963	(10,000)	2,963	5,925	(10,000)	(4,075)
Minimum net exposure during the year	5,108	(10,000)	(4,892)	3,763	(10,000)	(6,237)
Maximum net exposure during the year	12,963	(10,000)	2,963	11,419	(10,000)	1,419

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	2010 Decrease in rate £'000s	Increase in rate £'000s	2009 Decrease in rate £'000s
Revenue return	259	(259)	119	(119)
Capital return	–	–	–	–
Total return	259	(259)	119	(119)
NAV per share – pence	0.64	(0.64)	0.28	(0.28)

The calculations in the table above are based on the financial assets and liabilities held at each balance sheet date and are not representative of the year as a whole, nor reflective of future market conditions.

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 £202,279,000 at 30 April 2010 (2009: £157,668,000) 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.

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:

	Increase in value £'000s	2010 Decrease in value £'000s	Increase in value £'000s	2009 Decrease in value £'000s
Capital return	40,456	(40,456)	31,534	(31,534)
NAV per share – pence	100.58	(100.58)	75.23	(75.23)

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 (193 at 30 April 2010); the liquid nature of the portfolio of investments; and the industrial and geographical diversity of the portfolio (see note 17). 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 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
2010			
Current liabilities			
Other creditors	3,074	–	3,074
Long-term liabilities			
Debentures	–	10,000	10,000
	3,074	**10,000**	**13,074**
2009			
Current liabilities			
Other creditors	3,856	–	3,856
Long-term liabilities			
Debentures	–	10,000	10,000
	3,856	10,000	13,856

(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. Such transactions must be settled on the basis of delivery against payment (except where local market conditions do not permit).

Responsibility for the approval, limit setting and monitoring of counterparties is delegated to the Manager and a list of approved counterparties is periodically reviewed by the Board. 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. 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 periodically. Details of securities held in custody on behalf of the Company are received and reconciled monthly. The custodian has a lien over the securities in the account, enabling it to sell or otherwise realise the securities in satisfaction of charges due under the agreement.

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.

The Company had no credit-rated bonds or similar securities or derivatives in its portfolio at the year end (2009: none) and does not normally invest in them. None of the Company's financial liabilities are past their due date or impaired.

Notes on the Accounts (continued)

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 £13,200,000 (2009: £13,846,000).

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 arm's 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 the 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.

27. POST BALANCE SHEET MOVEMENT IN NET ASSETS

The net asset value per share (with debenture at nominal value) on 10 June 2010 was 483.24p (30 April 2010: 518.10p).

Ten Year Record

Assets

at 30 April

£'000s	2000	2001	2002	2003	2004	2005 *	2006	2007	2008	2009	2010
Total assets	344,390	305,488	276,116	193,665	260,475	288,404	240,652	249,574	198,100	160,994	**218,384**
Debenture and loans	31,262	30,558	29,816	25,720	25,085	24,006	13,000	10,000	10,000	10,000	**10,000**
Net assets	313,128	274,930	246,300	167,945	235,390	264,398	227,652	239,574	188,100	150,994	**208,384**

Net asset value ("NAV")

at 30 April

	2000	2001	2002	2003	2004	2005 *	2006	2007	2008	2009	2010
NAV per share	325.4p	291.9p	265.5p	183.1p	276.8p	311.3p	470.8p	512.2p	428.2p	360.2p	**518.1p**
NAV total return on 100p – 5 years (per AIC)											**177.7p**
NAV total return on 100p – 10 years (per AIC)											**182.3p**

Share price

at 30 April

	2000	2001	2002	2003	2004	2005 *	2006	2007	2008	2009	2010
Middle market price per share	255.3p	242.5p	219.0p	147.0p	224.0p	268.5p	435.0p	473.3p	385.0p	325.0p	**461.0p**
Share price high	304.5p	293.5p	254.5p	221.0p	227.0p	286.0p	444.5p	473.3p	482.0p	405.0p	**461.0p**
Share price low	199.3p	223.5p	182.5p	124.0p	150.0p	209.5p	268.5p	364.3p	339.8p	221.0p	**310.5p**
Share price total return on 100p – 5 years (per AIC)											**183.7p**
Share price total return on 100p – 10 years (per AIC)											**213.3p**

Revenue

for the year ended 30 April

	2000	2001	2002	2003	2004	2005 *	2006	2007	2008	2009	2010
Available for ordinary shares – £'000s	4,213	4,021	3,639	3,284	3,465	3,930	3,210	2,270	2,510	2,430	**2,016**
Return per share	4.22p	4.22p	3.89p	3.55p	3.95p	4.63p	4.54p	4.75p	5.54p	5.66p	**4.88p**
Dividends per share	3.75p	3.95p	4.02p	4.15p	4.24p	4.40p	5.53p#	4.69p	4.83p	4.89p	**5.00p**

Performance

(rebased to 100 at 30 April 2000)

	2000	2001	2002	2003	2004	2005 *	2006	2007	2008	2009	2010
NAV per share	100.0	89.7	81.6	56.3	85.1	95.7	144.7	157.4	131.6	110.7	**159.2**
Middle market price per share	100.0	95.0	85.8	57.6	87.8	105.2	170.4	185.4	150.8	127.3	**180.6**
Earnings per share	100.0	100.0	92.2	84.1	93.6	109.7	107.6	112.6	131.3	134.1	**115.6**
Dividends per share	100.0	105.3	107.2	110.7	113.1	117.3	147.5	125.1	128.8	130.4	**133.3**
RPI	100.0	101.8	103.3	106.5	109.2	112.6	115.5	120.8	125.8	124.3	**131.0**

* 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

	2000	2001	2002	2003	2004	2005 *	2006	2007	2008	2009	2010
Expressed as a percentage of average net assets											
Operating costs											
excluding performance fees	0.68%	0.67%	0.84%	1.10%	0.80%	0.66%	0.69%	0.74%	0.77%	0.93%	**0.78%**
including performance fees	0.68%	0.67%	0.84%	1.10%	0.80%	0.66%	0.69%	0.99%	0.77%	0.93%	**0.78%**
Expressed as a percentage of average total assets											
Operating costs											
excluding performance fees	0.62%	0.59%	0.75%	0.95%	0.72%	0.61%	0.65%	0.71%	0.74%	0.87%	**0.74%**
including performance fees	0.62%	0.59%	0.75%	0.95%	0.72%	0.61%	0.65%	0.95%	0.74%	0.87%	**0.74%**

Gearing

at 30 April

	2000	2001	2002	2003	2004	2005 *	2006	2007	2008	2009	2010
Effective gearing	(0.1)%	(8.5)%	0.6%	2.3%	3.9%	7.4%	4.7%	2.7%	3.3%	4.1%	**(3.3)%**
Fully invested gearing	10.0%	11.1%	12.7%	15.3%	10.7%	9.1%	5.7%	4.2%	5.3%	6.6%	**4.8%**

* 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 (net of investment debtors/creditors), 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 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, 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 £10,100 in the tax year ending 5 April 2011 without incurring any tax liability.

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

Income tax

The recommended final dividend is payable in August 2010. 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 monthly statistical information in respect of member companies. The publication also has details of the 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 2010

Category	Number of shares	% Holding
F&C savings plans	21,436,436	53.3
Nominee holdings	7,813,330	19.4
Institutions	6,312,021	15.7
Direct individual holdings	4,659,203	11.6

Source: F&C Management Limited.

The total number of shareholders at 30 April 2010 was 31,606, of which 29,323 were investors through the F&C 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 PLC shares using a bank or stockbroker or through a telephone dealing service. The shares can also be bought online; the F&C website at www.fandc.com has a link to Selftrade, one of Europe's biggest online 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 PLC via this simple savings plan 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 online.

Pension Savings Plan ("PSP")

You can maximise your tax benefits and save for your retirement using this low cost personal pension plan. There is only 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")

Parents can invest the government voucher issued to all children born since 1 September 2002 in a CTF. 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 £100 for lump sums once you have invested your voucher. Government payments into CTFs will stop on 1 January 2011 and children born after 31 December 2010 will not qualify for a CTF if announced changes are implemented.

Individual Savings Account ("ISA")

Individuals can invest up to £10,200 each year in F&C's Stocks and Shares ISA.

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

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

In addition to the 0.2% dealing charge, F&C charges £60 + VAT a year ISA plan charge to cover any ISAs held, no matter how many tax years' ISAs have been taken out with them, or how many ISAs have been transferred to them.

Contact details

For further details on the savings plans 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.

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.

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.

Notice of Annual General Meeting

Notice is hereby given that the one hundred and twenty-first annual general meeting of the Company will be held at The Chartered Accountants' Hall, One Moorgate Place, London EC2 on Wednesday 21 July 2010 at 12 noon for the following purposes:

Ordinary business

To consider and, if thought fit, pass the following resolutions 1 to 8 as ordinary resolutions:

1. To receive and adopt the Directors' report and accounts for the year ended 30 April 2010.
2. To approve the Directors' Remuneration Report.
3. To declare a final dividend.
4. To re-elect Les Cullen as a Director.
5. To re-elect Jane Tozer as a Director.
6. To re-elect Dr Franz Leibenfrost as a Director.
7. To re-appoint PricewaterhouseCoopers LLP as auditors to the Company.
8. To authorise the Directors to determine the remuneration of the auditors.

Special business

To consider and, if thought fit, pass the following resolution as a special resolution:

9. THAT:
   (a) the Directors be and they are hereby:
      (i) generally and unconditionally authorised, in accordance with section 551 of the Companies Act 2006 (the "Act"), to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company (together being "relevant securities") up to an aggregate nominal amount of £501,425 during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the annual general meeting of the Company in 2011 (the "relevant period"); and
      (ii) empowered, pursuant to section 571 of the Act, to allot equity securities (within the meaning of section 560 of the Act) pursuant to the authority referred to in paragraph (a)(i) of this resolution, and/or to transfer equity securities which are held by the Company in treasury, during the relevant period, up to an aggregate nominal amount of £501,425, in each case as if section 561(1) of the Act did not apply to any such allotment or transfer; but so that this authority and power shall enable the Company to make offers or agreements which would or might require relevant securities or equity securities to be allotted or transferred after the expiry of the relevant period and notwithstanding such expiry the Directors may allot or transfer relevant securities and/or equity securities in pursuance of such offers or agreements;

   (b) all authorities and powers previously conferred under section 80 or section 95 of the Companies Act 1985 be and they are hereby revoked, provided that such revocation shall not have retrospective effect; and

   (c) words and expressions defined in or for the purposes of Part II of the Act shall bear the same meanings in this resolution.

To consider and, if thought fit, pass the following resolution as a special resolution:

10. THAT the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with section 701 of the Companies Act 2006 (the "Act"), to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 25p each in the capital of the Company ("ordinary shares") on such terms and in such manner as the Directors may from time to time determine, provided that:
    (a) the maximum number of ordinary shares hereby authorised to be purchased shall be 6,013,300;
    (b) the minimum price which may be paid for an ordinary share shall be 25p;
    (c) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased;

Notice of Annual General Meeting (continued)

(d) the minimum and maximum prices per ordinary share referred to in sub-paragraphs (b) and (c) of this resolution are in each case exclusive of any expenses payable by the Company;

(e) the authority hereby conferred shall expire on the date which is 15 months after the passing of this resolution, unless such authority is varied, revoked or renewed prior to such time by the Company in general meeting by special resolution; and

(f) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed or executed wholly or partly after the expiration of such authority.

To consider and, if thought fit, pass the following resolution as a special resolution:

11. THAT the new articles of association produced to the meeting and, for the purposes of identification, initialled by the Chairman of the meeting be adopted as the articles of association of the Company in substitution for, and to the entire exclusion of, the existing articles of association of the Company.

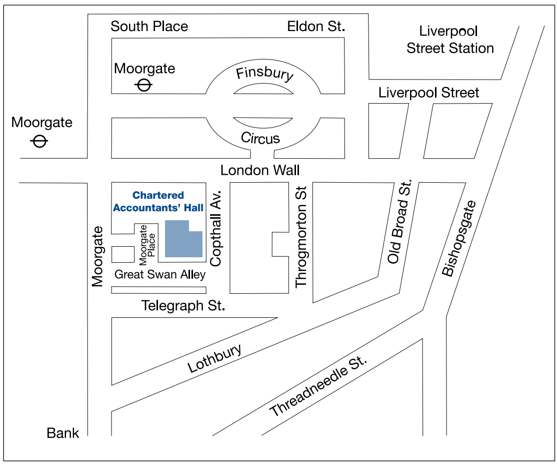
To consider and, if thought fit, pass the following resolution as a special resolution:

12. THAT the Company be and is hereby generally and unconditionally authorised to hold general meetings (other than annual general meetings) on 14 clear days' notice, such authority to expire at the conclusion of the next annual general meeting of the Company.

By order of the Board
F&C Management Limited
Secretary
15 June 2010

Registered office:
Exchange House
Primrose Street
London EC2A 2NY

Location of meeting



Notes

1. Pursuant to regulation 41(1) of the Uncertificated Securities Regulations 2001 (as amended) and for the purposes of section 360B of the Company's Act 2006 ("the Act"), the Company has specified that only those members included on the register of members of the Company at 11 p.m. on 19 July 2010 (the "specified time") shall be entitled to attend and vote or be represented at the meeting in respect of the shares registered in their name at that time. Changes to the register of members after the specified time shall be disregarded in determining the rights of any person to attend and vote at the meeting. If the meeting is adjourned to a time not more than 48 hours after the time applicable to the original meeting, the specified time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at 11 p.m. on the day which is two days (excluding non-working days) before the day of the adjourned meeting or, if the Company gives notice of the adjourned meeting, at any time specified in that notice.

2. A member entitled to attend, speak and vote at the meeting may appoint one or more proxies to exercise his/her rights instead of him/her. A proxy need not be a member of the Company but must attend the meeting for the member's vote to be counted. A form of proxy is provided to members which includes details on how to appoint more than one proxy; you may not appoint more than one proxy to exercise rights attached to any one share.

3. To be valid, the form of proxy and any power of attorney or other authority under which it is signed, or a notarially certified copy of such authority, must be deposited with the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY. Alternatively, the form of proxy may be returned by electronic means using the CREST service as detailed below or proxy votes can be submitted electronically at www.eproxyappointment.com by entering the Control Number, Shareholder Reference Number and PIN printed on the form of proxy. Proxy votes must be received not less than 48 hours before the time appointed for holding the meeting. Shareholders included on the New Zealand branch register cannot lodge their votes electronically and should return their form of proxy to Computershare Investor Services Limited, Private Bag 92119, Auckland 1142, Level 2, 159 Hurstmere Road, Takapuna, North Shore City 0622, New Zealand.

4. To appoint one or more proxies or to give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, CREST messages must be received by the Company's agent (ID number 3RA50) no later than the deadline stated above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp generated by the CREST system) from which the issuer's agent is able to retrieve the message. The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. Instructions on how to vote through CREST can be found on the website www.euroclear.com/CREST.

5. Investors holding shares in the Company through the F&C plans should return forms of direction to Computershare Investor Services PLC or submit their voting directions electronically (for all F&C plans other than the pension savings plan) at www.eproxyappointment.com by entering the Control Number, Shareholder Reference Number and PIN printed on the form of direction. Voting directions must be received by 12 noon on Thursday 15 July 2010.

6. Completion and return of a form of proxy or form of direction or the submission of votes electronically will not preclude members/investors from attending and voting at the meeting should they wish to do so. On a vote on a show of hands every member attending in person (or by proxy or corporate representative) is entitled to one vote and, where a poll is called, every member attending in person or by proxy is entitled to have one vote for every share of which he is the holder.

7. If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes the subject of those proxies are cast and the voting rights in respect of those discretionary proxies, when added to the interests in the Company's securities already held by the Chairman, result in the Chairman holding such number of voting rights that he has a notifiable obligation under the Disclosure and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Services Authority. As a result, any person holding 3% or more of the voting rights in the Company who grants the Chairman a discretionary proxy in respect of some or all of those voting rights and so would otherwise have a notification obligation under the Disclosure and Transparency Rules, need not make a separate notification to the Company and the Financial Services Authority. Any such person holding 3% or more of the voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the Disclosure and Transparency Rules.

8. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with section 146 of the Act ("nominated persons"). Nominated persons may have a right under an agreement with the registered shareholder who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights. Nominated Persons should also remember that their main point of contact in terms of their investment in the Company remains the member who nominated the Nominated Person to enjoy information rights (or, perhaps, the custodian or broker who administers the investment on their behalf). Nominated Persons should continue to contact that member, custodian or broker (and not the Company) regarding any changes or queries relating to the Company (including any administrative matter). The only exception to this is where the Company expressly requests a response from a Nominated Person.

9. This notice, together with information about the total numbers of shares in the Company in respect of which members are entitled to exercise voting rights at the meeting as at 11 June 2010, being the latest practicable date prior to publication of this document, and, if applicable, any members' statements, member' resolutions or members' matters of business received by the Company after the date of this notice, will be available at www.fandcglobalsmallers.com.

10. As at 11 June 2010, the latest practicable date prior to publication of this document, the Company had 40,115,990 ordinary shares in issue with a total of 40,115,990 voting rights. No shares are held in treasury.

11. In accordance with section 319A of the Act, the Company must answer any question that a member may ask relating to the business being dealt with at the meeting unless:

    i. answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;

    ii. the answer has already been given on a website in the form of an answer to a question; or

    iii. it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

12. In accordance with section 527 of the Act, members of the Company meeting the qualification criteria set out below may require the Company to publish, on its website (without payment) a statement, which is also passed to the auditors, setting out any matter relating to the audit of the Company's accounts, including the Independent Auditors' Report and the conduct of the audit. The qualification criteria are that the Company has received such requests from either members representing at least 5% of the total voting rights of all the members who have a relevant right to vote or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state the members' full name and address and be sent to the Company's registered office.

13. The final dividend in respect of the year ended 30 April 2010, if approved, will be paid on 6 August 2010 to holders of ordinary shares on the register at the close of business on 25 June 2010.

14. The revised articles of association, the register of Directors' holdings, Directors' terms of appointment letters and a deed poll in relation to Directors' indemnities are available for inspection at the registered office of the Company during normal business hours on any day (Saturdays, Sundays and public holidays excepted) and will be available at the place of the meeting from 15 minutes prior to the commencement of the meeting until the conclusion thereof. No Director has any contract of service with the Company.

15. You may not use any electronic address provided either in this notice or any related documents (including the form of proxy or form of direction) to communicate with the Company for any purpose other than those expressly stated.

Appendix: Summary of amendments to articles of association

Issue of redeemable shares

The new articles will explicitly confer authority on the Board to determine the terms, conditions and manner of redemption of any issued redeemable shares in accordance with the Companies Act 2006 (the "Act"), although this amendment would only have practical effect if the Company issues redeemable shares in the future.

Change of name

Prior to the final implementation of the Act a company could only change its name by special resolution. Under the Act a company is able to change its name by other means provided for by its articles of association. To take advantage of this provision, the new articles enable the Directors to pass a resolution to change the Company's name.

Chairman's casting vote

Provisions in the current articles giving the Chairman a casting vote at shareholders' meetings became ineffective from 1 October 2007, but companies with a casting vote provision in their articles on that date were, broadly, allowed to keep it. However, the Companies (Shareholders' Rights) Regulations 2009 (the "Regulations") require that all shareholders be treated equally and therefore the Regulations remove this, saving provisions for UK traded companies, such that the casting vote provision in the Company's articles became redundant on 3 August 2009.

Adjournments for lack of quorum

Under the Act, as amended by the Regulations, general meetings adjourned for lack of quorum must be held at least 10 clear days after the original meeting. The new articles reflect this requirement.

Multiple proxy representatives

The Act has been amended to clarify the position concerning the rights of proxies when voting on a show of hands in the event that a proxy has been appointed for the same meeting by more than one member and where a member appoints more than one proxy in respect of different shares within the same holding. The new articles reflect the revised position under the Act.

The time limits for the receipt of the appointment of proxies have also been altered by the Act and a company may now exclude weekends and bank holidays from the period prior to the relevant general meeting by which forms of proxy must be received in order to be valid. The new articles reflect these changes.

Quorum for general meetings

In the new articles the quorum requirement has been reduced from three members to two members present in person or by proxy and, for the avoidance of doubt, corporate representatives.

Ordinary business

The definition of ordinary business has been extended in the new articles to include the renewal of the authorities to allot shares, disapply pre-emption rights and buy back shares as ordinary business when it is transacted at an annual general meeting ("AGM") of the Company.

Periodic retirement of Directors

The 2008 Combined Code on Corporate Governance recommends that a director must submit himself/herself for election by shareholders at the first AGM after his appointment and to re-election thereafter at intervals of not more than three years. The new articles follow this recommendation.

Cumulative preference shares

The provisions and references in the current articles relating to cumulative preference shares have been removed since all such shares are no longer in issue.

Notes

Notes

Registered office:

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

Registrars:

Computershare Investor Services PLC,
PO Box 82, The Pavilions, Bridgwater Road,
Bristol BS99 7NH
Tel: 0870 889 4088 Fax: 0870 703 6142
www.computershare.com
web.queries@computershare.co.uk

SMALLERS/ANN/10