F&C Global Smaller Companies PLC

Report and Accounts

2011

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 and Latin America.
- 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 and issuing 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 2011	30 April 2010	% Change
Share price	**583.50p**	461.00p	+26.6
Net asset value per share (debenture at nominal value)	**602.49p**	518.10p	+16.3
Net asset value per share (debenture at market value)	**595.82p**	510.14p	+16.8

	Year ended 30 April 2011	Year ended 30 April 2010	% Change
Revenue return per share	**5.08p**	4.88p	+4.1
Dividends per share	**5.10p**	5.00p	+2.0
Total expense ratio (based on average net assets)	**0.76%**	0.78%	

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Financial calendar

Annual general meeting	**28 July 2011**
Final dividend payable*	**8 August 2011**
Half-yearly results for 2012 announced	**December 2011**
Interim dividend payable	**January 2012**
Final results for 2012 announced	**June 2012**

* to shareholders on the register at the close of business on 1 July 2011

Chairman's Statement

Anthony Townsend Chairman

After a strong performance in 2009/10, the year under review started on a downbeat note for equity markets as investors became cautious about the potential for further gains. Sentiment improved however towards the end of 2010 and in the early part of 2011, leading to further advances in share prices, particularly at the smaller company level.

Performance

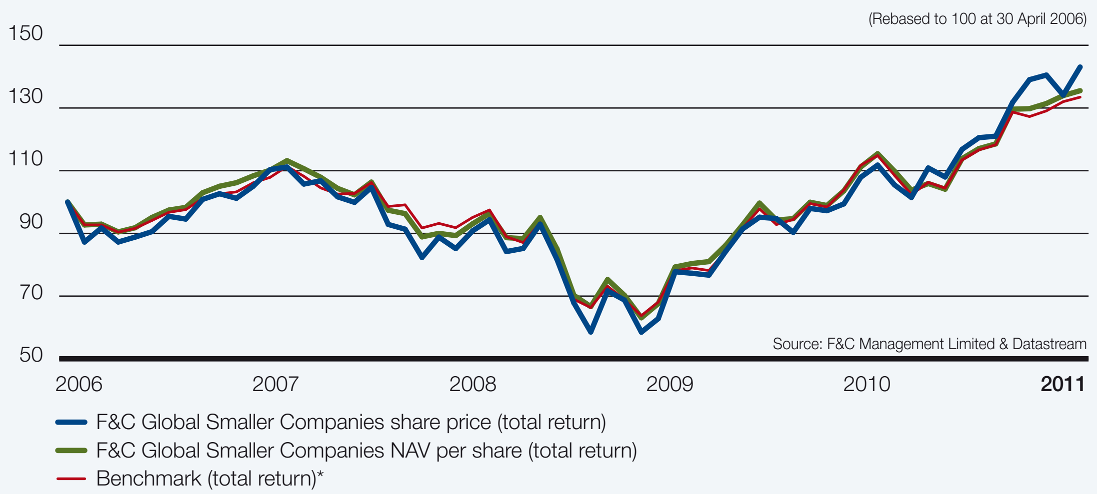
Both the Company's net asset value ("NAV") per share and share price reached new highs during the second half of the year after being little changed at the halfway stage. This was a positive performance given that many of the world's leading stock market indices are still some way below their peak levels.

The NAV per share total return was 17.4% over the year. The Company's Benchmark is a blended index of the returns from the MSCI All Country World ex UK Small Cap Index (70%) and Hoare Govett UK Smaller Companies (excluding investment companies) Index (30%) which produced a 16.2% total return in the year.

With smaller companies continuing to be in favour in the markets relative to large ones, performance against other investment companies has remained strong. The Company was ranked 4th of 30 trusts in the AIC's global growth sector in terms of NAV per share growth for this year while, over the three years since the Company joined this sector, it is the top performer.

The share price rose to 583.5p, up 26.6% on the year, as the discount at which the shares trade to the NAV fell, benefiting from strong demand for the Company's shares from F&C's savings plans. A further positive consequence of the increased value of your Company's portfolio is a lower total expense

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



* From 1 May 2010 the Company's Benchmark is a blended index of the returns from the MSCI All Country World ex UK Small Cap Index (70%) and the Hoare Govett UK Smaller Companies (excluding investment companies) Index (30%). Prior to this date the Company's Benchmark was a blended index of the returns from the MSCI All Country World ex UK Small Cap Index (60%) and the Hoare Govett UK Smaller Companies (including investment companies) Index (40%).

ratio ("TER") of 0.76% versus 0.78% in the prior year. While the calculation of our TER does not include the management fees incurred within the third party funds held for exposure to Japan and the emerging markets, the overall cost to investors remains at the low end of the spectrum in the investment trust sector and well below most open-ended funds.

Dividends

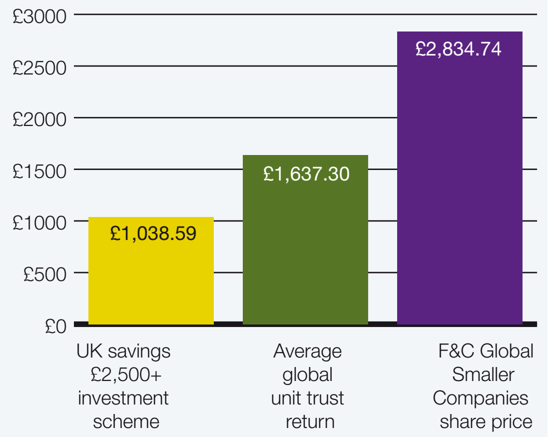
Income received from the investment portfolio was relatively stable over the year and the Board has decided to continue with a progressive dividend policy and is therefore recommending a final dividend of 3.5p per share, a 2.9% rise on last year's final. This will be paid on 8 August 2011 to shareholders on the register on 1 July 2011. This means that the total dividend for the year is 5.1p per share, an increase of 2.0% on 2009/10. The Company's dividend will have increased for 41 years in a row following this payment, making it one of just seven UK investment companies that have increased their annual payments for more than 40 years.

Market background

The underlying economic background which sets the tone for stock markets has been mixed by territory, reflecting divergent fiscal and monetary policy implementation. Continuing the pattern of recent years, emerging markets, particularly in Asia and Latin America, have led the way, with China becoming the world's second largest economy during the year. The US has grown at a steady rate as the Federal Reserve continued to favour a loose monetary policy and government spending was lifted in an attempt to boost the sluggish housing and labour markets.

A number of the key European economies, notably those – like Germany – which have a strong exporting base, enjoyed a strong year. However, fiscally stretched countries – such as Greece, Ireland and Portugal – have been forced to take action to cut government spending and raise taxes in order to get their public finances onto an even keel and to secure support for financial assistance from the other members of the EU and IMF. For much of the period the markets have been fretting about the potential downside were one or more of these countries to default on its debt.

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



Source: Lipper

Fiscal deficits and the need to embrace austerity are by no means confined to the so called "peripheral Euro-zone countries". The UK government has also moved to rein in its spending and increase taxes. This, perhaps unsurprisingly, has contributed to a marked GDP growth slowdown in recent months. Even the US now has to face up to the need to take some corrective action at some stage.

Stock markets have also had to factor in the effects of rising commodity prices, with metals, oil and soft commodities such as grain and other food products all seeing their prices surge higher. While in normal times the inflationary consequences of this would generally have led to a tightening of monetary policy, in much of the developed world the financial authorities are reluctant to increase interest rates for fear of creating a new recession. In the US and the UK, the Federal Reserve and Bank of England have continued to use quantitative easing ("QE"), in short a controlled expansion of the money supply, employed in buying government or other debt securities in the financial markets, with the intended result being that interest rates stay at lower levels than they otherwise would. QE ultimately is having a distorting effect on the prices of the securities purchased and also on other asset classes as the extra liquidity percolates through the financial system.

Chairman's Statement (continued)

In contrast to the developed markets, we have seen sharp interest rate rises in many Asian and Latin American countries as they have sought to keep inflationary forces under control. Elsewhere in emerging markets, political unrest in extensive parts of the Middle East and North Africa ("MENA") has served to stoke the oil price in early 2011. While the portfolio has a modest direct exposure to the MENA area, many companies and consumers as a whole are impacted by higher oil prices so the current turmoil there is not something that can be ignored.

While there are clearly some major political and economic issues, corporate results over the last year have been better than might have been expected a year ago and the recognition that this performance was coming through led to a better performance in stock markets in the second half of the financial year. Given the extent of the challenges still facing parts of the world it is not surprising that sudden shocks, such as the tragic and devastating earthquake in Japan in March, can reverberate around the markets. After the initial sell-off in relation to this event, equity markets actually posted a strong performance in the last few weeks of the year, though Japan itself will take some time to recover.

Portfolio performance

The bar chart below shows how the various parts of the portfolio have performed compared to the relevant local small cap index. In the small cap arena, stock selection remains the prime driver of performance versus the Benchmark and we enjoyed a strong year on this front in the UK and Europe, while the portfolio of funds we use to gain exposure to the rest of the world (which includes the developing markets in Asia and Latin America) also did well. The strong return from the UK portfolio compared to elsewhere highlights the point that the performance of an individual part of the portfolio cannot be assessed purely on the basis of local macro-economic factors. Many stocks in our UK portfolio are either entirely or predominantly overseas focused.

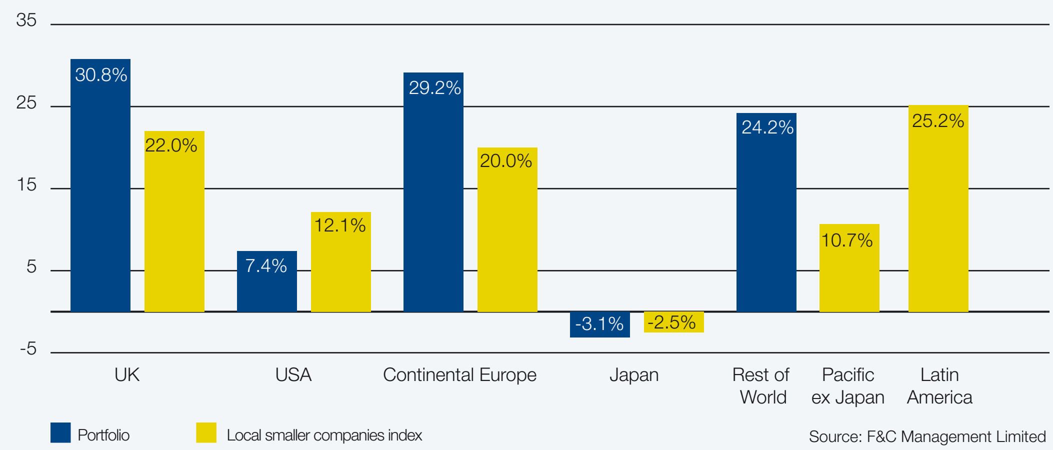
We did not quite manage to keep up with the index in the US following a number of strong years. Relative performance in Japan had been good prior to the earthquake, but our portfolio had a tough time during March, leaving us a little behind for the year.

A full assessment of the main issues influencing performance in the investment portfolio, picking up on the winners and losers at the individual stock level, is included in the Manager's Review and regional reports on pages 7 to 16.

Asset allocation

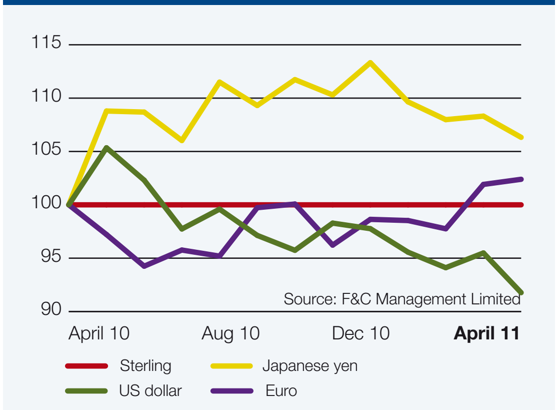
The chart on page 7 shows how the portfolio is spread in terms of location of the listing of the stocks held at the end of April compared to a year earlier, although shareholders will appreciate that the country in which a company lists its shares is not necessarily the one in which it is incorporated or where it does most of its business.

Geographical performance (total return sterling adjusted) for the year ended 30 April 2011



Source: F&C Management Limited

Currency movements relative to sterling in the year ended 30 April 2011



In the year under review, being overweight versus the Benchmark in the UK and having an underweight exposure to the rest of the world was the correct stance, with rising interest rates in countries such as China, Brazil and India having some impact on local share prices. It was also right to be cautious towards Japan even before the earthquake struck. Less helpfully, while returns in local currency terms in the US were respectable, the US dollar weakened against sterling reducing the returns delivered from the market and our portfolio in sterling terms. In overall terms however, asset allocation decisions had a positive effect on the return versus the Benchmark.

Shareholders will note the concentration of US stocks within the top 30 holdings shown on pages 17 and 18. This reflects the importance of the US in a global context and the relatively short list of holdings we have in this market.

Gearing

At the start of the financial year, the Manager was cautious of gearing on a short-term basis given concern over the impact on sentiment of the potential for rising interest rates and the possibility of contagion from the Euro-zone sovereign debt market crisis. As time passed it became apparent that growth was continuing to drive corporate profits, while interest rates were likely to remain low in the developed world for longer than previously expected. As a result gearing was reinstated in the second quarter of the financial year and ended the year at 2.7% taking the Company's debenture at nominal value.

Given the availability of better terms in the market, the Board has recently decided to establish a £10m committed borrowing facility which will be available for the Manager to use in the coming year should opportunities arise.

Discount and share capital

The discount, taking the debenture at market value and excluding current period income, ended the year at 1.5%, well down on the 9% level at the end of 2009/10. As already mentioned, this improving picture is mainly due to strong underlying demand for shares from the F&C savings plans at least partly as a consequence of strong historic investment performance. As a result of this there has been no need for the Company to buy back shares to moderate the discount since last July and in the 2010/11 year only 120,000 shares (0.3% of the starting share capital) were bought in, all of which were cancelled at the time of purchase.

The Board believes that the process of steady buybacks over the last few years has had two main benefits. Firstly the NAV per share has been enhanced by buying in shares at a lower price than the prevailing NAV per share. Secondly, the discount has tightened as the demand versus supply equation for the shares has become more balanced.

Given the low level of the discount recently, the Board believes that it would be appropriate to hold any shares bought back in treasury in the future. These shares would then be available to be re-issued at a later date to satisfy subsequent market demand. This would only be done at a lower prevailing discount level to that at which they were bought in, ensuring that taken as a whole the buyback and re-issuance transactions would enhance NAV per share. The necessary resolutions seeking shareholder approval for this policy will be put to the AGM.

In the early weeks of the new financial year the Company's shares moved to a premium and the Company issued 70,000 new shares to meet demand from the market. Issuing new shares will only ever be done at a premium to the prevailing NAV per share calculated to include current period income and with the debenture taken at fair value. The Board intends to use share issuance powers in the same way that

Chairman's Statement (continued)

buyback powers are used to enhance shareholder value and improve the liquidity of our shares.

Outlook

In the early weeks of the new financial year equities have given back some of last year's gains. Many uncertainties remain in relation to the Euro-zone sovereign debt markets, the impact on markets when QE in the US ends and the potential for further geo-political difficulties. At this stage however, forecasts suggest that the world economy should grow at around 3% in 2011, a respectable enough level, and interest rates are likely to remain at historically low levels in the US, UK and in Europe, also helpful for the equity investment case.

Smaller company equities have done well now for a protracted period on a global basis. The Manager's view is that this has been justified by superior corporate earnings performance in recent years and by a growing recognition that many of the mega-caps are struggling to find new avenues of growth. At some point in time however, if sectors in which large stocks dominate, such as banking, come back into favour, then we could see smaller stocks lag. However, over the long term, the superior growth attributes and the wide range of opportunities from an ever expanding universe of smaller companies around the world should mean that your Company's mandate can continue to provide attractive returns to shareholders.

Anthony Townsend
Chairman
20 June 2011

Manager's Review

Peter Ewins Lead Manager

The past year has been another challenging period for stock market investors with a large number of question marks overhanging the macro-economic outlook at the start of the period and many twists and turns in subsequent months. Nevertheless, the end result was that most of the main stock market indices posted gains, having fallen early in the period. Pleasingly for our shareholders, once again returns from smaller company shares exceeded those from the large caps in the majority of global markets.

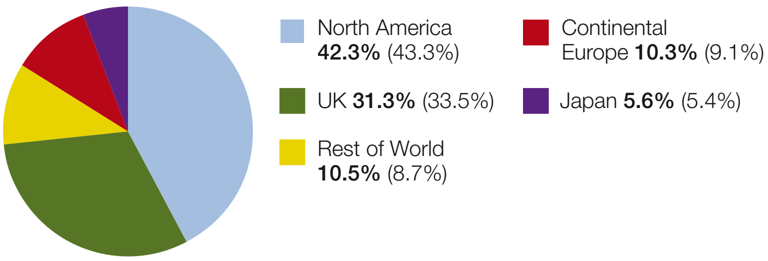
The portfolio delivered a 17.4% net asset value ("NAV") per share total return, well ahead of the average global growth investment trust's NAV per share total return over the year of 12.5%. The NAV per share also did better than the Benchmark, which delivered a 16.2% return.

So what was behind this strong year for the smaller company asset class? One could have argued a year ago that, after stellar performance for small caps in 2009/10, the uncertainties pertaining to the Euro-zone government debt crisis and to the overall growth outlook around the world were likely to favour lower risk asset classes and larger companies.

It is fair to say that in the recent past we have seen a major shift in the perception of risk in the markets. Sovereign debt markets have been at the centre of this as investors have come to doubt the ability of a number of countries to be able to meet their future obligations. At the corporate level, the credit crunch, subsequent global economic recession and sharp recovery thereafter exposed companies' business models to the most extreme of tests. A number of large cap dominated sectors, notably within financials, are still struggling to emerge from this dark period. Separately BP, one of the largest UK listed companies by market capitalisation, has been buffeted following the disastrous Macondo incident in the Gulf of Mexico, and a huge amount of shareholder value has been lost. In some cases therefore what were perceived to be low risk blue chip investments proved to be anything but.

This is not to say that many small companies did not face difficulties in the last couple of years and inevitably a number of our holdings have had their own problems. In today's fast moving global marketplace, there are no grounds for complacency and companies need to have the ability to react rapidly to changing market conditions. With the right management

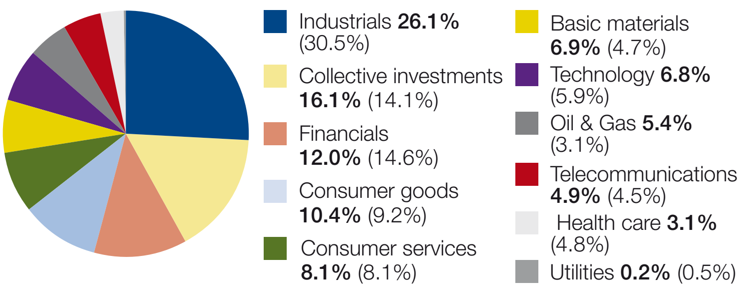
Geographical distribution of the investment portfolio as at 30 April 2011



The percentages in brackets are as at 30 April 2010

Source: F&C Management Limited

Industrial classification of the investment portfolio as at 30 April 2011



The percentages in brackets are as at 30 April 2010

Source: F&C Management Limited

Manager's Review (continued)

teams in place, it is sometimes easier for smaller companies to make swift changes in strategy than for a bureaucratic larger entity.

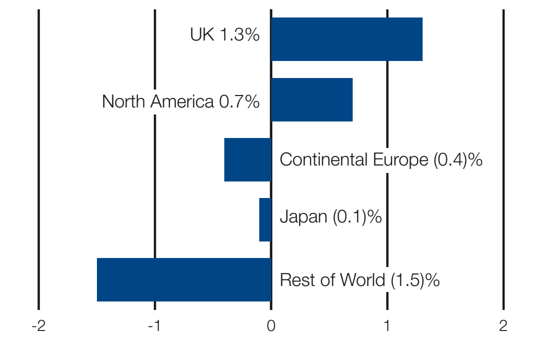
Looking at the portfolio, many companies beat expectations as demand patterns continued to improve. The return from the UK portfolio of 30.8% was comfortably ahead of the local small cap index. It was also encouraging that, following a change of responsibility of management for the European portfolio early in the period, returns from this part of the fund were strong.

We had expected the US economy to perform more dynamically than it did and, while short term currency moves are notoriously difficult to forecast, we did not anticipate the pronounced weakness in the US Dollar late in the year.

As far as Japan is concerned, while we were once again a little behind the local Japanese small cap index for the year and the market as a whole did poorly relative to others, we added to our exposure to the market following the March earthquake. In the near term company results from Japan will bear the scars of this terrible event but taking a longer term view this will hopefully be seen to have represented a good buying opportunity.

A year ago I said that while we were likely to increase our exposure to the Rest of the World, it might be prudent to wait before acting on this. In the first half of the financial year, emerging markets were very much in favour and our lower than Benchmark exposure hurt performance but, in the second half, several rounds of increases in interest rates in key markets such as China, India and Brazil, combined with political unrest in other parts of the developing world, served to undermine the bull run relative to developed markets. Despite the short-term head-wind of higher interest rates, and in the case of Brazil exchange controls imposed in an attempt to keep the local currency down, it may now be a better time to increase exposure to some of these markets in a relative valuation sense.

Geographical weightings against Benchmark as at 30 April 2011



Source: F&C Management Limited and MSCI

As far as gearing is concerned, with the benefit of hindsight we could have been more aggressive in using the potential to borrow in the last year. However, gearing is never without risk or cost and choosing the right time to employ it is not easy. By re-establishing committed facilities early in the new financial year, we have given ourselves the option to increase gearing on the portfolio when appropriate.

The reviews that follow in the usual form pick up on the main issues pertaining to each geographic part of the portfolio. It is always interesting to look back at the stock attributions on an annual basis and once again it is pleasing to see how many stocks have risen dramatically in value over just twelve months.

UK Review

This was a good year for the UK stock market and particularly for small cap stocks. While the FTSE All-Share Index rose by 13.7%, the Hoare Govett UK Smaller Companies Index was up by 22%. Our UK portfolio beat both, up by 30.8%. (All figures on a total return basis.)

News on the domestic economy generally deteriorated as the year progressed, with better than expected GDP growth and consumer demand through the spring and summer of 2010 dropping away as we moved into the winter and in the early part of 2011. The government's austerity drive to reduce spending and impose higher taxes began to have an impact, while severe weather in late 2010 temporarily held up construction activity.

The Bank of England had to confront bad news on the inflation front with the Retail Prices Index rising to over 5%. It appears to have taken the decision that UK monetary policy should remain loose on the basis that lifting interest rates now would have serious consequences for the overall economic outlook given persistent high levels of personal indebtedness and an already depressed consumer spending outlook. On a more positive note, export orientated businesses, many of which feature in our portfolio, are benefiting from higher demand as the global economy grew more rapidly.

On a sector basis, as in the prior year, cyclical industrial sectors were strong. By contrast, companies highly exposed to a weakening government spending outlook suffered in common with domestic consumer sectors, notably general retailers and leisure related stocks.

While domestic economic conditions have been relatively tough, more than 20 stocks held in the UK portfolio during the year saw their share prices rise by more than 50%. The chemicals sector had a good year and the most significant contribution from a single stock in the portfolio came from **Elementis** which sells speciality chemicals into the global coatings (paint) market. The company's share price rose by 157.4% which was noteworthy after a big jump in the previous year. Micro cap stock **Plastics Capital**, which supplies a range of niche plastic products, more than trebled as trading improved and its financial position stabilised.

A year ago I flagged that we had high hopes for several oil exploration stocks, and three of the four stocks highlighted did well in 2010/11. Pick of the bunch was Cameroon-focused **Bowleven**, which made a major discovery late in 2010, but **Cove Energy** (offshore Mozambique) and **Indus Gas** (onshore India) also made progress. We also did well from investments following news of successful drilling in the North Sea by **Encore Oil** and **Rockhopper Exploration** (Falklands Islands). However, this is a sector where over-exuberance can sometimes take hold and where risks are high, so taking profits if share prices run too far, too fast, is important.

In financials, emerging markets fund manager **City of London Investment Group** did well as stock markets rose and we also benefited from a near doubling of the share price of **Jupiter Fund Management**, which generated strong net inflows in its maiden year as a listed company. Another winner in the wealth management area was **Brooks Macdonald** which continued to build its assets under management as it takes on funds previously managed by IFA practitioners who no longer want to take this responsibility as regulatory changes loom.

The best contributing sector for the year was media, where stock selection was vital. We gained from a good run-up in Russian exhibitions business **ITE** and from a takeover of TV production business **Shed Media**. Other stocks which found themselves the subject of takeover activity were utility services business **Spice** and power supplies business **Chloride**.

Other positive contributors included plant hire business **Ashtead**, which is seeing some signs of improvement in pricing and fleet utilisation in its US business. **Lupus Capital**, the windows and door product supplier, did well to push profits ahead despite continuing weak market demand, illustrating the strength of its market position and management team, and the company has resumed dividend payments sooner than expected. We also benefited from a more than doubling in the share price of measurement and motion control equipment business **Renishaw**, which is gaining from a cyclical upturn and seeing the fruits from its heavy research and development spend on new applications. **RPC**, the plastic containers business, was re-rated as its results implied that it is winning market share from distressed rivals.

This year's negative contributors were a relatively disparate selection of companies. There were two IT software businesses which struggled with **Micro Focus International** suffering from a degree of management turmoil and a slowdown in the top line, while **Alterian** also reported significantly worse than expected results in early 2011. Other disappointments included the specialist care home operator **Caretech Holdings**, which is feeling pain from pressure on its fee rates, and veterinary services group **CVS**, which has proved less resilient in a downturn than we had hoped. Logistics company **Wincanton's** shares fell as its European profitability disappointed, its financial strength came under scrutiny and management changes were implemented. Our investment in support services company **Connaught** proved costly as the company suffered a series of reverses culminating in it being forced into administration. Fortunately we had sold our position though not before incurring heavy losses. Stock selection

Manager's Review (continued)

Princess Cruises' Sun Princess is fitted with Hamworthy's market leading advanced wastewater treatment plant enabling the vessel to operate in environmentally sensitive waters.

within the mining sector was disappointing in the year as we missed some winners and South African platinum miner **Eastern Platinum** fell after it missed expectations on production and cost pressures intensified.

Looking ahead we are generally happy with the portfolio but it is becoming harder to find new cheaply valued stocks. We have been trying to identify later cycle situations where trading news is only now showing early signs of improvement. A recent addition in this context is **Hamworthy**, which has some interesting new technology in emissions control and water treatment, and is also well placed to win orders from Brazil on its offshore equipment products as capital spending to exploit the country's large oil discoveries is stepped up.

North American Review

The year began badly for US equities as global growth and credit worries sparked a sell-off and the Gulf of Mexico was hit by the Macondo rig disaster. The market retreated for two months and bounced around over the summer before pulling itself together and charging ahead once more. The Russell 2000 Index returned 22.2% in dollar terms for the 12 month period. A weakening in the dollar translated this into a more modest 12.1% sterling total return but this was better than the return from large caps with the S&P 500 up just 7.3%. Our portfolio returned 7.4% over the year.

The US economic recovery has so far been led by manufacturing, exports and capital spending but the first signs are now appearing of an improved consumer outlook as employment is rising at last. Higher employment holds out the hope of a better housing market, the Holy Grail for the US banking system.

There was much debate during the year about the need for further quantitative easing. The Federal Reserve's mandate includes both inflation and growth because Americans fear economic depression as much or more than inflation following the 1930's depression, so it should be expected to do whatever it takes to ensure recovery. In any case, letting the dollar slide is a natural corrective to global recession as it allows exports to restart US growth which then pulls along the rest of the developed world.

We can expect interest policy to remain very easy for a long time as the vast majority of the 10,000 plus US banks simply do not have enough capital to recognise the losses on their books. To raise rates before the housing market is in better shape would be to risk breaking the financial system again.

As with much of Europe, the US has a high fiscal deficit but, simply put, the rest of the world would be shooting itself in the foot if the largest economy were hobbled by much higher borrowing costs. The good thing about the US political system is that, although its workings may be obscure and strange to outsiders, it broadly works very well most of the time. America has time in the next 2–3 years to work out sensible compromises to rein in the costs of healthcare and defence and perhaps raise taxes.

In terms of the portfolio, the overriding reason for under-performance was that value stocks had a bad year. Although value usually does well in a recovery, the persistent worries about potential defaults in the Euro-zone weighed heavily on value stocks – especially financials. Conversely, technology had an outstanding year and from a style perspective we have a low exposure to this risky sector. Performance at the sector level was helped by the overweight in energy and underweights in financial services and consumer discretionary.

While stock selection in the overall portfolio was disappointing this year there were a number of success stories. **American Railcar Industries**, a railcar manufacturer rose 73.3%; **ACI Worldwide**, a provider of electronic funds software for banks, was up 75.8%; while **Bottomline Technologies**, a provider of payment automation software, rose by 59.7%. Long-standing holding **Genesee and Wyoming**, which operates railroads, was also strongly up, boosted by the acquisition of Freightlink, a north-south link in Australia that is relatively under-developed and has enormous potential to serve newly opening mines along its route.

Of the fallers, **Horizon Lines**, the shipping business, was hit by sluggish trading and fears over financial default while **United Community Banks**, an Atlanta-based bank, began to run out of capital in the face of continued losses. Home nursing provider **Amedisys** suffered from a slowdown in re-certifications by physicians as well as announcements of Medicare reimbursement cuts, while **Atlantic Tele-Network**, a telecom holding company serving niche markets, was hit by higher than expected expenses to retain customers at an acquisition. **Conn's**, the Texas-based retailer, also fell as it was hit by lower credit-financed sales while it sought a refinancing. We sold **United Community Banks** but added to **Amedisys**, **Atlantic Tele-Network** and **Conn's**.

During the year, we increased exposure to energy, exploiting the sell-off in May 2010, focusing on coal, sub-sea services, solar power, utility services and, more recently, shale gas exploration. We bought a new stock, **Arch Coal**, located in the low-cost Powder River Basin, with potential to serve the Pacific market. We sold our other coal stock, **Alpha Natural Resources**, after its large and expensive bid for Massey Energy. We think Alpha is over-stretching itself but are happy having made more than 200% on our original purchase of Foundation Coal two years ago which Alpha bought. As the year progressed we reduced energy positions as they recovered and sold GT Solar quite quickly after its share price spiked upwards.

Another significant area of investment was education where shares were hammered by pressure from regulators following suggestions of fraud. We cut back our holding in **Career Education** before the storm broke, but afterwards bought it back and added **DeVry** to the portfolio, one of the best run companies in the sector with limited exposure to areas of concern. Following the mid-term election defeat for the Democrats, regulatory pressure has begun to ease.

Towards the end of the year we bought two distributors, **Airgas** and **Pool**, both old favourites; one distributes bottled gases and the other swimming pool supplies, and both have dominant industry positions. We think each can grow profits at 20% annually based on geographic expansion, market share gains and margin gains. We sold **Airgas** last year following a bid from Air Products; the failure of that bid this year gave us our re-entry point.

Last year end, **Brush Engineered Materials**, the producer of exotic materials, was our largest holding. I am pleased to say that it performed well and we have taken profits. Similarly, **The Andersons**, a corn-based

Manager's Review (continued)

agri-business, also performed well and was cut back. On the other hand, chicken producer, **Sanderson Farms**, fell as feed prices rose and we built up the position so that it is now one of the largest.

We remain optimistic based on the prospects for the US economy and historically low rates though confidence would be higher were the financial system in better health.

American Railcar's specialised covered hoppercars are used to transport grains and other free-flowing products.

Continental European Review

European equities posted strong gains in the reporting period with our small cap benchmark, the HSBC Smaller Europe Ex UK Index, delivering a 20% total return in sterling terms. The Company's portfolio did better than this, rising 29.2%. As with other regional portfolios, the smaller end of the market outperformed, with the FTSE All World Developed Europe ex UK Index returning 16.9%. This is perhaps not surprising given smaller companies' higher exposure to more cyclical areas of the stock markets, which have clearly benefited from a continuation of the global recovery.

Over the year, good corporate news flow outweighed macro concerns, which nevertheless returned regularly to influence the markets. Economic conditions across the Continent have diverged dramatically in the last couple of years as the fiscally stretched countries such as Greece, Ireland and Portugal have been forced to retrench, while stronger economies with high export content, such as Germany and Sweden, have forged ahead. It is hard to see these trends changing much in the near term.

During the recession we were impressed with the resilience of companies and the speed with which they reacted to a lower demand environment. Part of this was due to aggressive cost cutting and the ensuing recovery in revenues has meant that earnings and cash flow have been particularly strong during this cycle. This has been in the face of a sovereign debt crisis which is still very much with us. In addition to this, at the beginning of 2011 the markets have had to digest the uprisings in the Middle East and North Africa, rising raw material costs, and the disaster in Japan.

Early in the year under review management responsibility for the Continental European portfolio changed and there was a resulting restructuring. This led to materially higher turnover than we would normally expect. Despite this, performance for the year was encouraging. While individual stocks are the most important determinant of performance, there are some sector trends worth noting. The best performing sector was food producers, a sector where we are materially overweight. The main contributors within this were **Glanbia**, the dairy and nutritional company, and **Origin Enterprises**, the agricultural input supplier. These are both Irish based businesses which have consequently been relatively out of favour in the markets despite having relatively little direct exposure to the weak Irish domestic economy. We also hold other Irish listed businesses including **C&C**, **Paddy Power**, **DCC**, **Irish Continental** and **Aer Lingus**, all of which we believe to be attractively valued.

Norkom, the Irish based provider of anti-money laundering software, saw its share price rise after being taken over by BAE Systems. The company was one of the biggest contributors to performance; however it had a volatile year. At the beginning of the period it lost almost half of its value when it issued a profit warning. We maintained our position and were rewarded with our patience when management agreed to a bid at 180% above the post warning low. The other sector that particularly contributed to performance was banks, as this had a poor year and we had very low exposure. Conversely, the best performing sector in the benchmark was automobiles and parts where we were underweight reflecting our view that there is an absence of quality long term business franchises.

The biggest individual contributor to performance was **Tod's**, the luxury goods company and the shares rose by 65.7%. The company's heritage is in high end footwear and they are leveraging this brand value to grow through luxury leather goods in the handbags and accessories markets. **Ingenico**, the payment terminal producer, saw its share price double during the year. The company raised their profit guidance as they took advantage of a better end market and an improved market structure as a weak competitor was acquired, bringing more price discipline to the industry. Other stocks doing well included German based food equipment company **Rational**, and oil storage company **Rubis**.

In terms of negative contributors to performance, the healthcare companies **Acino** and **TiGenix** had poor years. Following a review by our healthcare analyst both companies were sold from the portfolio. While we are generally not keen to sell shares following a period of underperformance, the decision was vindicated as the shares fell further in a rising market. Another poor performer was **Oriflame** the cosmetics company. The company had a number of profit warnings due to slowing end markets and a dissatisfied sales force.

The weight of fiscal and monetary consolidation will make returns in the coming period more difficult to achieve. We have had a recovery where liquidity was plentiful and there was little distinction between strong and weak players. We are expecting this to change; earnings growth will slow in the face of rising costs and a more anaemic growth environment. In addition, the market has polarised between the 'hotter' areas – resources and industrials exposed to emerging markets where shares are generally highly rated by historic standards, and the more prosaic. At present we prefer the more durable franchises that are relatively good value and should offer good returns in a tougher environment.

Precisely how the European fiscal crisis proceeds from here is still hard to call. As a whole though, we would expect European small cap valuations to be supported by corporate activity. Balance sheets are strong and valuations are reasonable. In a more difficult demanding environment, businesses put a premium on scale and efficiency. While our investments are based on the inherent fundamental appeal of the individual business franchise, we would not be surprised to see further takeovers in the portfolio.

Best known for its Irish-based dairy business Glanbia is now increasingly exposed to the faster growing nutritional products market.

Japan Review

Japanese equities delivered a disappointing showing in the year under review. After a weak first half, the market was performing better in relation to global markets as a whole until the earthquake and consequent tsunami of 11 March struck. The country

Manager's Review (continued)

has also had to face up to the shock of a major nuclear leak at the Fukushima nuclear facility. Fears over the consequent impact on the local economy and cost of re-building led to pronounced weakness in the market and the MSCI Japan Small Cap Index produced a -2.5% total return in sterling terms for the year while our portfolio fared slightly worse at -3.1%. The only crumb of comfort was that smaller companies did better than large; the Nikkei 225 Index was down by 5.7% in the year.

Before the earthquake, the relative weakness of the market had partly been due to the strength of the yen, which historically has undermined sentiment as investors fear the impact of a squeeze on export business. As the earthquake struck, the yen rose to new highs on the expectation of a repatriation of capital into the country, though concerted efforts from the Japanese Central Bank and others to suppress the rally succeeded in reversing this.

The domestic Japanese economy had in fact bounced back well in 2010 with real growth of nearly 4% though the pace of expansion slowed late in the calendar year as the impact of emergency support measures dropped away. Expectations for 2011 before 11 March were for steady, if unspectacular, growth. At the corporate level, more share buybacks and a number of merger transactions held out the hope of a more proactive stance towards the creation of shareholder value.

Economic data released in the period since the tsunami have illustrated how large a hit the country has taken, with retail sales in March plunging a record 7.8% month on month, and industrial production falling 15.3%. Investors have been concerned about the risk of protracted weakness as a result of electricity and power shortages but fears that rolling power cuts could be imposed have subsided as previously moth-balled capacity has been brought back on stream and the population has adapted by reducing non-essential electricity usage. The country remains an important link in the global manufacturing chain as its companies still dominate a wide range of materials, processes and technologies that its north-eastern Asian and global peers have not been able to master.

The other issue that magnifies the current crisis is the state of public finances. Japan has for a long time been one of the most indebted nations in terms of central government debt, and the fact that much of the damage caused by the disaster is un-insured places a great burden on the public finances. For now we believe that the country will be able to cope by issuing more debt, and the fact that domestic investors are the predominant owners of government debt is helpful. The Bank of Japan is likely to retain an ultra-loose monetary policy for now and has been injecting significant liquidity into the financial markets in recent months.

We have used funds to get our exposure to Japan for a number of years now, to benefit from the greater resource that parties external to F&C can bring to bear on the task of selecting a portfolio of Japanese small caps. To date this has not delivered a major improvement in our fortunes, but in the extreme circumstances of the recent period, looking at short-term numbers is a little unfair.

With small cap managers in Japan generally having a poor record in terms of adding value at the stock selection level, we have continued to hold more than half of our exposure in the form of the **iShares MSCI Japanese Small Cap ETF**, which provides a passive or index tracking exposure to our local benchmark. This is combined with positions in two active funds following the purchase, post the earthquake, of a holding in the **M&G Japan Smaller Companies Fund**. We have been impressed with the performance record of this fund which uses a value driven, low turnover approach to investment in the market in contrast to many less successful growth and higher turnover orientated funds. The **AXA Framlington** managed fund that we owned throughout the year had a poor first half but did much better later on as its stocks came back into favour. The market background in the year favoured companies and sectors selling internationally, such as machinery, but after the earthquake there was a rotation into more defensive investments. Construction stocks have also done well for obvious reasons.

Looking forward, we expect sentiment towards Japan to improve if the global macro situation does not deteriorate significantly. In the near term we will see some weak company results reported as the impact of the earthquake plays out. Positively however, valuations stripping out the one-off effects look more attractive versus global markets than they have been for a long time. Japanese equities offer above-average gearing to continued global growth combined with the lowest relative valuations in more than 30 years when one looks at ratios such as price to book value.

Rest of the World Review

In annual reports in the past we have reported on an Asian portfolio basis but, reflecting the growing financial market relevance of other parts of the world, particularly Latin America, we now consider it appropriate to write about the portfolio's exposure to the "Rest of the World" which takes in both these regional blocs and the Middle East and African markets. Our Rest of the World portfolio delivered a total return in sterling of 24.2%. For the year under review, the MSCI All Countries Asia ex Japan Small Cap Index was up 10.7% and the MSCI EM Latin American Small Cap Index delivered 25.2%.

The macro-economic background for most of the Rest of the World, so defined, has been for stronger growth than seen in the main developed markets. In Asia, the Chinese economy in particular continued its advance with GDP growth in 2010 of 10.3%. Growth is becoming less export dependent with the local consumer environment ever more relevant. Other major Asian economies, such as India, also grew at a rapid rate though the Japanese earthquake obviously has had some impact on the region in the short term.

The downside of too rapid a pace of growth is that it tends to feed inflationary pressures particularly when, as has been the case, there are short-term poor global food harvests and high oil prices. Whereas the West, labouring under high levels of personal and government debt, maintained a loose monetary policy, many Asian countries were eventually forced to increase interest rates in an attempt to moderate pricing pressures. In China rates were lifted on a regular basis over the year, while in India pricing pressures are even more intense and it could be argued that the Central Bank here and in some other places has been tardy in its response, even though Indian rates have been increased ten times since March 2010.

A similar pattern has emerged in Latin America. Brazil's economy, which has been lifted over recent years by strong growth in commodity exports, especially to China, has been battling rampant inflation. Interest rates have reached 12.25%, which has fed into a surge in value of its currency, the real, despite efforts to restrain its rise. Some of the other Latin countries, such as Mexico, are more dependent on the US economy, but here and elsewhere interest rates have also been on the rise.

Higher interest rates are not generally welcomed by equity investors, and this, combined with a feeling that the bull run in emerging market equities was due a pause, led to a weakening in a number of markets in the latter part of the period. Among the better performing markets over the year were Thailand and Korea in Asia, while Argentina and Colombia were strong within Latin America. Laggards interestingly included the larger markets such as Brazil, India and China, all at least in part due to the extent of monetary tightening referred to above.

As with Japan we use third party managed funds to get our exposure to these markets and during the year we retained the same portfolio of funds on the basis that we have been generally satisfied by their performance. We did, however, vary the sizes of holdings depending on which fund was doing relatively well or badly at different points in the year. The best return in the year came from the **Australian New Horizons Fund** which was up 30%. This fund invests in a concentrated list of Australian small caps and benefited from a number of healthcare and technology related investments performing strongly together with underlying strength in the Australian economy. Of the other funds the **Scottish Oriental Smaller Companies Trust** was the next best, benefiting from strong stock selection and a limited exposure to weaker markets such as China.

A number of additional fund opportunities are being reviewed with the aim ideally being to increase further our non-Asian exposure. As with prior investments it is important that we have confidence in the investment team that we are backing to add value on a consistent basis, as we are looking to make long term commitments to funds.

For the future, it is hard not to feel attracted to the superior likely pace of expansion in the Rest of

Manager's Review (continued)

the World and, critically, equity valuations do not look high in comparison to the developed world. Against this, we are a little concerned that excessive capital flows into some countries have increased the potential risks of asset bubbles, notably in property. Geo-political risk is also back higher up the agenda following recent events in the Middle East and North Africa, with high food prices potentially causing further issues in the coming period.

Looking forward

The previous commentary illustrates the geographic and industrial breadth of the Company's portfolio. Nonetheless, macroeconomic trends in the different parts of the world are important to monitor when we look at asset allocation by region. For now, we still believe that having a high exposure to the US remains justified on the basis that the economy there is likely to continue to head in the right direction and due to the large range of small cap investment opportunities in this market. At present, we are giving careful consideration to adding to our Japanese exposure as a result of the attractiveness of current valuations in this market notwithstanding the short term impact of the earthquake.

In the last few years the validity of the Company's investment mandate has shown through in the returns delivered. We still feel that there is a better chance of identifying conspicuously undervalued stocks within the small cap spectrum than amongst their larger peers, and therefore believe we will be able to deliver further value to shareholders in the future.

Peter Ewins
20 June 2011

Thirty Largest Holdings

30 April 2011	30 April 2010		% of total investments	Value £'000s
1	*1*	**iShares MSCI Japanese Small Cap Exchange Traded Fund ("ETF")** Japan An ETF providing exposure to Japanese smaller companies.	3.3	8,273
2	*8*	**Utilico Emerging Markets** Rest of World Investment company focusing on utility and infrastructure companies in emerging markets.	2.2	5,383
3	*2*	**Aberdeen Global-Asian Smaller Companies Fund** Rest of World Fund providing exposure to Asian smaller companies.	2.1	5,294
4	*4*	**Allianz GIS RCM Little Dragons Fund** Rest of World Fund providing exposure to Asian smaller companies.	2.1	5,214
5	*3*	**The Scottish Oriental Smaller Companies Trust** Rest of World Investment company providing exposure to Asian smaller companies.	2.0	5,000
6	*5*	**Australian New Horizons Fund** Australia Fund providing exposure to Australian smaller companies.	1.5	3,682
7	*6*	**Axa Framlington Japan Smaller Companies Fund** Japan Fund providing exposure to Japanese smaller companies.	1.4	3,580
8	*81*	**Sanderson Farms** United States Chicken producer.	1.0	2,560
9	*56*	**Flowers Foods** United States Baked goods producer.	0.9	2,314
10	*9*	**Mohawk Industries** United States Floor coverings manufacturer.	0.9	2,298
11	–	**Pool** United States Swimming pool supplies distributor.	0.9	2,231
12	–	**Airgas** United States The leading distributor of packaged gases in the US.	0.9	2,231
13	*141*	**American Railcar Industries** United States Manufacturer of railcars.	0.9	2,225
14	*98*	**Bottomline Technologies** United States Software business supplying payments and invoice automation systems and services.	0.9	2,215
15	*38*	**CRA International** United States Management consultant specialising in litigation.	0.9	2,205

Thirty Largest Holdings (continued)

30 April 2011	30 April 2010		% of total investments	Value £'000s
16	*34*	**FLIR Systems** United States Infra-red equipment producer.	0.9	2,186
17	–	**M&G Japan Smaller Companies Fund** Japan Fund providing exposure to Japanese smaller companies.	0.9	2,145
18	*28*	**Senior** United Kingdom Supplier of components and systems mainly for the aerospace, automotive, truck and energy markets.	0.9	2,114
19	*44*	**HCC Insurance Holdings** United States Specialist insurance underwriter.	0.8	2,097
20	*46*	**ICF International** United States An IT consultant to the US federal government, specialising in areas such as health, human resources, the environment and energy.	0.8	2,085
21	*33*	**GATX** United States Specialist railcar leasing business.	0.8	2,083
22	*11*	**CLS Holdings** United Kingdom Property investment company mainly operating in the UK, France, Germany and Sweden.	0.8	2,081
23	–	**Rex Energy** United States Oil and gas exploration and production company.	0.8	2,079
24	*13*	**Conn's** United States Retailer of home appliance and consumer electronics in Texas.	0.8	2,074
25	*49*	**Genesee & Wyoming "A"** United States Operator of short line railways.	0.8	2,039
26	*10*	**Premiere Global Services** United States Outsourced communication services.	0.8	2,028
27	*25*	**Alleghany** United States Specialist commercial insurer.	0.8	2,024
28	*27*	**SDL** United Kingdom World leader in localisation technology and services, including manual and technology driven translation of internal and external literature.	0.8	2,023
29	*20*	**Amedisys** United States Provider of home nursing services.	0.8	2,023
30	*48*	**ACI Worldwide** United States A leading provider of software for electronic funds transfer used by banks, retailers and credit card companies.	0.8	2,017

The value of the thirty largest equity holdings represents 34.2% (30 April 2010: 33.5%) of the Company's total investments.

List of Investments

Quoted investments	Holding	30 April 2011 Value £'000s
CONTINENTAL EUROPE		
AUSTRIA		
Andritz	9,444	586
BELGIUM		
Dieteren	14,258	620
DENMARK		
Ringkjoebing Landbobank	7,612	631
Topdanmark	8,073	891
Total Denmark		**1,522**
FINLAND		
Amer Sports	68,400	670
FRANCE		
Ingenico	16,002	475
Neopost	10,690	613
Rubis	5,223	386
Total France		**1,474**
GERMANY		
CTS Eventim	14,527	654
Gerresheimer	23,110	671
Joyou	30,343	364
Kuka	28,428	464
Lanxess	6,586	363
Rational	4,330	719
SAF Holland	82,380	596
Symrise	22,318	442
Takkt	43,417	449
Wincor Nixdorf	11,578	574
Total Germany		**5,296**
GREECE		
Folli Follie Group	28,529	323
IRELAND		
Aer Lingus	705,774	518
C&C Group	301,085	926
Glanbia	337,531	1,291
Irish Continental	27,571	424
Origin Enterprises	197,388	667
Paddy Power	22,152	650
Total Ireland		**4,476**
ITALY		
Ansaldo STS	84,799	787
Azimut Holdings	105,348	808
Davide Campari	121,701	526
Tod's	7,318	597
Total Italy		**2,718**

* Quoted on the Alternative Investment Market in the UK.

Quoted investments	Holding	30 April 2011 Value £'000s
NETHERLANDS		
ASM International	23,086	599
Exact Holdings	43,842	852
Nutreco	14,282	667
Unit 4	25,557	575
Total Netherlands		**2,693**
NORWAY		
Tomra Systems	105,685	539
SPAIN		
Baron de Ley	12,881	547
Bolsas Y Mercados	27,892	567
Jazztel	124,700	458
Mediaset Espana Communication	71,916	485
Viscofan	30,478	807
Total Spain		**2,864**
SWITZERLAND		
EFG International	82,290	733
Lindt & Spruengli	36	796
Partners Group	2,882	365
Total Switzerland		**1,894**
TOTAL CONTINENTAL EUROPE		**25,675**
REST OF WORLD		
Aberdeen Global-Asian Smaller Companies Fund	236,129	5,294
Allianz GIS RCM Little Dragons Fund	77,396	5,214
The Scottish Oriental Smaller Companies Trust	837,494	5,000
Utilico Investments	944,841	1,474
Utilico Emerging Markets*	3,348,791	5,383
TOTAL REST OF WORLD		**22,365**
JAPAN		
Axa Framlington Japan Smaller Companies Fund	8,327,000	3,580
iShares MSCI Japanese Small Cap ETF	576,498	8,273
M&G Japan Smaller Companies Fund	1,173,000	2,145
TOTAL JAPAN		**13,998**

List of Investments (continued)

Quoted investments	Holding	30 April 2011 Value £'000s
UNITED KINGDOM		
Alterian	275,010	318
Alternative Networks*	196,660	482
Ashtead Group	668,620	1,351
Aveva Group	114,117	1,825
AZ Electronic Materials	181,726	510
Barratt Developments	880,047	984
BBA Aviation	361,707	785
Beazley	868,814	1,137
Bellway	114,411	809
Booker Group	1,435,770	861
Bowleven*	415,550	1,222
Brewin Dolphin	725,633	1,243
Brooks Macdonald*	51,895	612
CareTech Holdings*	210,930	280
Chime Communications	350,102	929
City of London Investment Group	204,966	864
CLS Holdings	315,360	2,081
Cohort*	469,020	291
Computacenter	222,090	1,024
Cove Energy*	844,973	786
Craneware*	147,590	818
Cranswick	105,009	791
Croda International	49,040	922
CVS Group*	414,139	415
Dechra Pharmaceuticals	158,375	755
Digital Barriers*	344,375	696
Domino Printing Sciences	206,040	1,387
Domino's Pizza	95,794	443
Dunelm Group	166,222	759
Eastern Platinum*	501,260	373
Elementis	1,204,002	1,999
Euromoney Institutional Investor	137,845	983
Fuller, Smith & Turner "A"	114,490	719
Galliford Try	218,650	907
Genus	87,530	873
Graphite Enterprise	360,000	1,328
Greene King	165,800	811
Hamworthy*	181,886	1,029
Hansard Global	450,598	748
Hargreaves Services*	116,860	1,157
Harvey Nash Group	670,563	483
Hill & Smith Holdings	342,272	1,152
Howden Joinery Group	928,404	1,027
Indus Gas*	122,362	942
ITE Group	429,175	1,102
James Fisher	211,178	1,161
JD Sports Fashion	77,165	691
Kenmare Resources	1,402,707	657
Kier Group	71,092	944
Laird	626,063	878
Lamprell	201,102	746
London Mining*	120,838	523
Lupus Capital*	1,109,430	1,553
Micro Focus International	212,000	788
Nautical Petroleum*	138,258	543
New Britain Palm Oil	102,907	895
Orchid Developments Group*	919,939	152
Pace	457,040	736
Perform Group	309,770	709
Petra Diamonds*	326,251	595
Plastics Capital*	738,285	650
Provident Financial	75,000	756
Regus	709,510	794
Renishaw	78,840	1,387
Restaurant Group	425,790	1,425
Robert Walters	256,460	790
RPC Group	537,491	1,795
RPS Group	388,995	889
SDL	312,440	2,023
Senior	1,385,032	2,114
Shaftesbury	157,776	805
SIG	597,720	833
Spectris	56,907	844
Spirent Communications	548,690	801
St. James's Place	92,360	328
STM Group*	1,895,775	474
SuperGroup	30,817	488
Synergy Health	134,120	1,134
Tarsus Group	494,340	816
Telecity Group	135,540	709
Ultra Electronics Holdings	41,488	717
Valiant Petroleum*	39,370	210
Vertu Motors*	1,146,861	310
Victrex	45,861	676
Wetherspoon J.D.	183,406	834
Wincanton	358,821	378
Workspace Group	3,003,580	864
WSP Group	280,540	999
Zanaga Iron Ore Company*	194,666	290
TOTAL UNITED KINGDOM		**77,717**

* Quoted on the Alternative Investment Market in the UK.

Quoted investments	Holding	30 April 2011 Value £'000s
UNITED STATES		
ACI Worldwide	101,893	2,017
Actuant "A"	111,543	1,856
Airgas	53,573	2,231
Alleghany	10,282	2,024
Allegheny Technologies	39,746	1,716
Amedisys	101,328	2,023
American Railcar Industries	131,325	2,225
America's Car-Mart	115,287	1,690
The Andersons	35,437	1,055
Arch Coal	90,104	1,852
Astec Industries	82,831	1,921
Atlantic Tele-Network	88,214	1,939
Bottomline Technologies	133,011	2,215
Brown & Brown	113,971	1,766
Cal Dive International	400,500	1,885
CapitalSource	434,802	1,741
Cardinal Financial	231,174	1,555
Career Education	150,736	1,969
Conn's	528,852	2,074
CRA International	129,453	2,205
Crawford & Company "B"	578,742	1,613
DeVry	63,099	2,001
FLIR Systems	103,545	2,186
Flowers Foods	126,320	2,314
FTI Consulting	80,373	1,923
GATX	82,219	2,083
Genesee & Wyoming "A"	54,881	2,039
Global Industries	262,055	1,551
Harsco	90,772	1,937
Harvard Bioscience	561,153	1,931
HCC Insurance Holdings	107,537	2,097
Helix Energy Solutions Group	151,956	1,725
Horizon Lines	757,598	804
ICF International	142,910	2,085
Intrepid Potash	87,319	1,794
Kirby	54,207	1,845
Markel	6,749	1,688
Materion	44,170	1,106
Mohawk Industries	63,834	2,298
NTELOS Holdings	133,655	1,580
Orbital Sciences	178,203	2,011
Pool	123,022	2,231
Premiere Global Services	428,116	2,028
Prestige Brands	204,369	1,413
Quanta Services	145,163	1,887
Rex Energy	270,239	2,079
Roper Industries	37,406	1,940
Sanderson Farms	89,751	2,560

Quoted investments	Holding	30 April 2011 Value £'000s
SBA Communications	83,566	1,935
Simpson Manufacturing	99,419	1,664
Teledyne Technologies	64,800	1,962
Universal Truckload Services	124,357	1,180
Viasat	77,500	1,854
Waste Connections	106,421	1,963
Willbros Group	254,443	1,638
W.R. Berkley	101,120	1,976
TOTAL UNITED STATES		**104,880**
TOTAL QUOTED INVESTMENTS		**244,635**

Unquoted investments	Holding	30 April 2011 Value £'000s
AUSTRALIA		
Australian New Horizons Fund	1,985,430	3,682
UNITED STATES		
US Ventures	n/a	17
TOTAL UNQUOTED INVESTMENTS		**3,699**

TOTAL INVESTMENTS		**248,334**

The number of investments in the portfolio is 197 (2010: 195).

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.

Paras Anand: Responsible for the Continental European portfolio. He joined F&C in 2007.

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.

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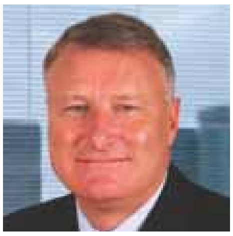
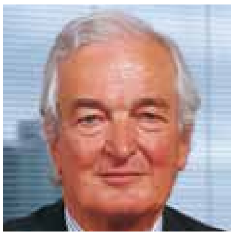
Directors

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 Miton Worldwide Growth Investment Trust plc and a non-executive director of Worldwide Heatlhcare Trust plc. Age 63

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, chairman of Majedie Investments PLC and a non-executive director of Kleinwort Benson Group Ltd. Age 57.



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 59.



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 73.

Jane Tozer was appointed to the Board on 13 June 2005. She is a non-executive director of JPMorgan Income & Growth Investment Trust plc, Elexon plc, Asthma UK and Citizens Advice in Three Rivers Ltd. She previously worked at IBM and then as CEO of a software development company. Age 63.

Mark White was appointed to the Board on 31 July 2007. He is general manager of LGT Capital Partners (U.K.) Limited and Castle Alternative Invest AG. He is a non-executive director of Impax Asset Management Group Plc and chairs its audit committee. He is also a non-executive director of Ellis Brady Absolute Return Fund Ltd. He was previously joint head of JP Morgan Asset Management in Europe. Age 56.

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 2011. The financial statements are set out on pages 41 to 61.

Results and dividends

The Company's net asset value ("NAV") per share total return was 17.4% in the year ended 30 April 2011, compared to a rise of 16.2% for the blended index of 30% Hoare Govett UK Smaller Companies (excluding investment companies) Index and 70% MSCI All Country World ex UK Small Cap Index ("the Benchmark") used to measure performance.

The Company's total expense ratio fell from 0.78% to 0.76% as a result of an increase in the average value of the Company's assets, partially offset by an increase in costs as mentioned below.

The Manager's Review on pages 7 to 16, 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 and the outlook for the current financial year. The Directors' Remuneration Report and the Corporate Governance Statement are incorporated by reference into this Directors' Report and Business Review.

Income from the investment portfolio was consistent with the previous year despite some dividends received from UK investments slipping into the 2011/12 year. With costs rising, mainly in response to the increased number of shareholders, net revenue return attributable to shareholders increased by only 1.1% although, with a reduced average number of shares in issue, earnings per share increased by 4.1%. Given the strength of the Company's revenue reserve position and a relatively positive outlook for corporate profits in the future, the Board has decided to modestly increase the dividend payment, extending the number of consecutive years of dividend increases to 41. 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 3.50p per share is payable on 8 August 2011 to shareholders on the register of members on 1 July 2011. This dividend, together with the interim dividend of 1.60p per share, makes a total dividend of 5.10p per share. This represents an increase of 2.0% over the 5.00p 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 if it has complied at all times with section 1158 of the Corporation Tax Act 2010 ("CTA"). 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 2010 and continues to conduct its affairs in compliance with the legislation.

Accounting and going concern

The financial statements, starting on page 41, comply with current UK financial reporting standards, supplemented by the statement of recommended practice for investment trust companies ("SORP") issued in January 2009. The significant accounting policies of the Company are set out in note 2 on the accounts. The unqualified auditors' opinion on the financial statements appears on page 40. The

Company's investment 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 readily realisable 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 covering any bank borrowing facilities. Cash is held with banks approved and regularly reviewed by the Manager.

Note 25 on the accounts sets out the financial risk profile of the Company and indicates the effect on the assets and liabilities of fluctuations in the value of securities, 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 and arrangements 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 2011 is shown in the charts on page 7 and a full list of investments appears on pages 19 to 21.

The Company can borrow in either sterling or foreign currencies. Effective gearing is limited to a maximum of 20% of shareholders' funds, valuing the Company's debenture at nominal value. As at 30 April 2011, the effective gearing level was 2.7%.

The Board, with advice from the Manager, considers 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 2011, 1.5% 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 UK listed 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 2011 the Company held 4.8% 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 2011 there were 40,100,990 ordinary shares of 25p each in issue. All ordinary shares rank equally for dividends and distributions and carry one vote each. There are no restrictions concerning the transfer of securities in the Company, no special rights with regard to control attached to securities, no agreements between holders of securities regarding their transfer known to the Company and no agreement which the Company is party to that affects its control following a takeover bid. Details of the capital structure can be found in note 17 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

Directors' Report and Business Review (continued)

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.

The Company has, conditional upon shareholder approval, authority to allot shares for cash without first offering them to existing shareholders in proportion to their holdings. At the annual general meeting ("AGM") held on 21 July 2010, shareholders gave the Board authority to issue up to 2,005,700 ordinary shares until the AGM in 2011. In order to satisfy demand for the Company's shares, mainly from holders through the F&C savings plans ("F&C plans"), the Company allotted 70,000 between the year end and the date of this report.

The Board closely monitors the discount, the historic levels of which are shown in the table on page 30.

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 buy back 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 AGM held on 21 July 2010 shareholders gave the Board authority to buy back up to 6,011,000 shares during the following 15 months. The Company repurchased 120,000 shares during the year, representing 0.3% of the issued share capital at 30 April 2010, at prices between 427p and 450p per share. The total consideration (including expenses) paid for all the shares repurchased was £528,000. No shares have been purchased between the year end and the date of this report.

Although the Board has authority to hold any shares bought back in treasury it has historically cancelled them. Any shares held in treasury would only be re-issued at a price which is at a narrower discount than the weighted average discount at which they had been bought back and in any event at no more than a 5% discount to the prevailing net asset value per share (with the debenture at market value). As at 16 June 2011, no shares were held in treasury.

Borrowings

The Company has a £10m 11.5% debenture stock, which matures in December 2014, further information on which is included in note 15 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. The Company has a multi-currency credit facility of £10 million with Scotia Bank (Ireland) Limited, which was put in place after the year end and is due for review in June 2012. An overdraft facility equal to 10% of the Company's assets is made available to the Company by its custodian, JPMorgan Chase Bank.

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 37. 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 of 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.

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 1158 of the CTA.
- **Operational –** failure of the Manager's core 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, and that of any third party to which it has delegated the performance of any actions, conforms to applicable laws and regulations. Service level agreements are in place between the Manager and its delegates and the Manager has confirmed that reliable back-up systems are in place.
- **Financial –** inadequate financial controls could result in misappropriation of assets, loss of income and debtor receipts and inaccurate reporting of 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 25.
- **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 34 and 35.

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 23.

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. There are no agreements between the Company and its Directors concerning compensation for loss of office.

Directors' remuneration and shareholdings

The Directors' Remuneration Report, which can be found on page 33, 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	2011	2010
Anthony Townsend	**10,000**	10,000
Andrew Adcock	**5,000**	–
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

There have been no changes in any of the Directors' interests in shares detailed above since the Company's year end.

No Director held any interest, beneficial or otherwise, in the issued shares of the Company other than stated above.

Directors' re-election

All Directors held office throughout the year under review and to the date of this report. Having served over nine years, Franz Leibenfrost will stand for re-election at the AGM. In accordance with the

Directors' Report and Business Review (continued)

Company's articles of association, Andrew Adcock and Mark White 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

The Company has granted a deed of indemnity, to the extent permitted by law, to the Directors in respect of liabilities that may attach to them in their capacity as Directors of the Company. The deed of indemnity is available for inspection at the Company's registered office during normal business hours and at the 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 may be terminated 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 the 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 Bank 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 the website www.fcamplc.com, 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.

The Manager's statement of compliance with the UK Stewardship Code is included on the website www.fandc.com/ukstewardshipcode.

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 Rest of World and Japanese parts of the portfolio (as described in the Manager's Review), is paid to the Manager.

A performance fee equal to 10% of any outperformance of the Benchmark is payable annually if the net assets outperform the Benchmark, subject to a maximum absolute cap on the level of fees (including both the management fee and the performance fee) that the Manager can earn in any one year of 1% of average month-end net assets. Performance above this cap is carried forward to the subsequent period for inclusion in the calculation of performance in that period. Any underperformance must also be carried forward, thus creating a high watermark. 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 2011, the Company's outstanding trade creditors were equivalent to 5 days' payment to suppliers (2010: 30 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.

GENERAL INFORMATION

Voting rights

At 16 June 2011 the Company had 40,170,990 ordinary shares in issue with a total of 40,170,990 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	%
Legal and General Group plc	4.00
Prudential plc	3.99

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 16 June 2011.

Approximately 60% of the Company's share capital is held on behalf of non-discretionary clients through the F&C plans. 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 32.

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

Directors' Report and Business Review (continued)

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 62 and 63 and the Manager's Review on pages 7 to 16 show how the Company has performed against these KPIs.

Revenue results and dividends
for the year ended 30 April 2011

	£'000s	£'000s
Revenue return attributable to equity shareholders		2,039
Dividends paid in the year:		
Final dividend of 3.40p per share paid on 6 August 2010 to shareholders on the register at 25 June 2010	(1,364)	
Interim dividend of 1.60p per share paid on 31 January 2011 to shareholders on the register at 31 December 2010	(638)	
		(2,002)
Surplus transferred to the revenue reserve		37

Source: F&C Management Limited

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

At 30 April	%
2011	0.76
2010	0.78
2009	0.93
2008	0.77
2007*	0.99

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

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

At 30 April	%
2011	1.5
2010	9.0
2009	6.3
2008	7.7
2007	5.7

Source: F&C Management Limited.

Total return performance

	1 Year %	3 Years %	5 Years %
Company net asset value total return	17.4	45.6	35.5
Benchmark total return	16.2	40.3	33.5
Company share price total return	28.0	57.6	43.1
Retail Prices Index	5.2	9.5	19.3

Source: F&C Management Limited and Datastream

Dividend growth

	1 Year %	3 Years %	5 Years %
Dividends	2.0	5.6	12.6*
Inflation (RPI)	5.2	9.5	19.3

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

Annual general meeting

The AGM will be held on Thursday 28 July 2011 at 12 noon at The Chartered Accountants' Hall, One Moorgate Place, London EC2R 6EA. The Notice of Annual General Meeting appears on pages 66 to 68 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 11 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 2012, the necessary authority to allot securities up to an aggregate nominal amount of £502,137 (2,008,548 ordinary shares). This is equivalent to approximately 5% of the issued share capital of the Company at 16 June 2011. It also empowers the Directors to allot such securities for cash, other 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 anticipate that they will mainly 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 issue shares or sell treasury shares unless the price is at a narrower discount than the weighted average discount at which the shares had been bought back and in any event at no more than a 5% discount to the prevailing net asset value per share (with debenture at market value).

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

Resolution 10 authorises the Company to purchase up to a maximum of 6,021,631 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 will either be cancelled or 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.

Notice period for meetings (Resolution 11)

The Act and the Company's articles of association provide that all general meetings (other than AGMs) can be convened on 14 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. Your Board is of the view that it is in the Company's interests to have a shorter notice period which complies with the 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. The passing of resolution 11 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

Directors' Report and Business Review (continued)

would utilise this authority to provide flexibility when merited and would not use it as a matter of routine. 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 (any part of a day which is a non-working day shall not be included in calculating the 48 hour period).

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 2011 AGM, subject to a minimum threshold of 5% of the shares held in the F&C plans being voted. A maximum limit of 59,898 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 96 hours (any part of a day which is a non-working day shall not be included in calculating the 96 hour period) before the time appointed for holding the AGM 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
20 June 2011

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.

As the fees paid to the Company's Directors had remained unchanged since November 2006 and were no longer felt to be sufficiently competitive to attract and retain good quality directors, an increase in remuneration levels was agreed with effect from 1 January 2011. The Chairman now receives a fee of £33,000 per annum (previously £30,000) and the remaining Directors receive a fee of £20,000 per annum (previously £18,000). 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 £3,000 per annum to reflect the extra responsibility of this role, which rose from £1,500 in January 2011 because of increasing responsibility and accountability brought to this role by changing legislation and guidance for audit committees generally.

The amounts paid to each individual 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

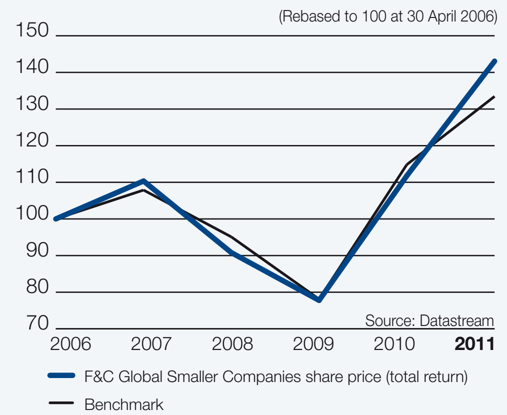
Director	Year ended 2011 £	2010 £
Anthony Townsend (Chairman and highest paid Director)	**33,000**	32,000
Andrew Adcock	**20,667**	20,000
Les Cullen (Chairman of the Audit Committee)	**22,667**	21,500
Dr Franz Leibenfrost (Senior Independent Director)	**20,667**	20,000
Jane Tozer	**20,667**	20,000
Mark White	**20,667**	20,000
	138,335	133,500

The information in the above table has been audited.

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 Directors' Remuneration Report at the annual general meeting.

Total shareholder return over five years



It is a company law requirement to compare the performance of the Company's share price to a single broad equity market index. As the Manager's performance is measured against a composite benchmark this composite benchmark has been shown. Since 1 May 2010 the Company's Benchmark has been a blended index of the returns from the MSCI All Country World ex UK Small Cap Index (70%) and the Hoare Govett UK Smaller Companies (excluding investment companies) Index (30%). Prior to this date the Benchmark was a blended index of the returns from the MSCI All Country World ex UK Small Cap Index (60%) and the Hoare Govett UK Smaller Companies (including investment companies) Index (40%).

By order of the Board
F&C Management Limited
Secretary
20 June 2011

Corporate Governance Statement

Introduction

The Company is committed to high standards of corporate governance. The Board has considered the principles and recommendations of the 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") issued in March 2009. 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 has also considered the principles and recommendations of the updated AIC Code and AIC Guide issued in October 2010 and the UK Corporate Governance Code (the "UK Code") issued in June 2010 to replace the Combined Code, both of which come into effect for financial years beginning on or after 29 June 2010.* It believes that the Company will be in a position to report that it has complied with the recommendations of these codes that are applicable to smaller companies (those below the FTSE 350) for the year ending 30 April 2012.

The Board

The Board is responsible for the effective stewardship of the Company's affairs and has adopted a formal schedule of matters reserved for its decision. 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.

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 2010.

Directors' attendance

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

* 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 for inspection at the Company's registered office during normal business hours 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. 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

* Copies of the AIC Code, the AIC Guide, the Combined Code and the UK 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

re-election. Each Director's appointment is reviewed prior to submission for re-election, which includes consideration of independence.

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 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 potentially could have, a direct or indirect interest that conflicts with the interests of the company (a "situational conflict"). The Board therefore has procedures in place for the authorisation and review of situational conflicts relating to the Company's Directors.

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

The Nomination Committee reviews the authorisation of each individual Director's conflicts or potential conflicts annually. In the year under review, the Nomination Committee concluded that in each case 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

Corporate Governance Statement (continued)

page 33, 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 £3,000 inclusive of irrecoverable VAT. The Audit Committee considers that the provision of these services is cost effective and does not impair the independence of PwC.

The 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 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 26 and 27, with additional information given in note 25 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 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 2010 ("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 significant failings or weaknesses in respect of the Company were identified in the year under review or to the date of this report.

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

Corporate Governance Statement (continued)

Directors and the auditors, the payment of dividends, share issues and buybacks, notice periods for general meetings 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 32.

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 during the year but no shareholder meetings arose from this correspondence. The Senior Independent Director and other Directors are available to attend meetings with shareholders 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 22.

The Board receives regular reports from the Manager on the views and attitudes of shareholders in the Company and the level and nature of any complaints received from investors.

By order of the Board
F&C Management Limited
20 June 2011

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 2011 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
20 June 2011

Auditors' Report

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 2011 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 39, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 April 2011 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 24 and 25, in relation to going concern;
- 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; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Alex Bertolotti (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
20 June 2011

Income Statement

Revenue notes	Capital notes	for the year ended 30 April	2011 Revenue £'000s	2011 Capital £'000s	2011 Total £'000s	2010 Revenue £'000s	2010 Capital £'000s	2010 Total £'000s
	12	Gains on investments	–	35,299	35,299	–	65,261	65,261
	20	Foreign exchange gains/(losses)	4	(107)	(103)	3	5	8
3		Income	3,490	–	3,490	3,460	–	3,460
4	4	Management fee	(200)	(601)	(801)	(189)	(442)	(631)
5	5	Performance fee	–	–	–	–	–	–
7		Other expenses	(850)	(17)	(867)	(783)	(21)	(804)
		Net return before finance costs and taxation	2,444	34,574	37,018	2,491	64,803	67,294
8	8	Finance costs	(288)	(863)	(1,151)	(345)	(806)	(1,151)
		Net return on ordinary activities before taxation	2,156	33,711	35,867	2,146	63,997	66,143
9	9	Taxation on ordinary activities	(117)	–	(117)	(130)	(5)	(135)
		Net return attributable to equity shareholders	2,039	33,711	35,750	2,016	63,992	66,008
10	10	**Return per share – pence**	5.08	84.05	89.13	4.88	154.87	159.75

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 2011	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 2010	**10,055**	**23,132**	**16,128**	**151,423**	**7,646**	**208,384**
	Movements during the year ended 30 April 2011						
11	Dividends paid	**–**	**–**	**–**	**–**	**(2,002)**	**(2,002)**
	Shares purchased and cancelled	**(30)**	**–**	**30**	**(528)**	**–**	**(528)**
	Net return attributable to equity shareholders	**–**	**–**	**–**	**33,711**	**2,039**	**35,750**
	Balance at 30 April 2011	**10,025**	**23,132**	**16,158**	**184,606**	**7,683**	**241,604**

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

Balance Sheet

Notes	at 30 April	£'000s	2011 £'000s	£'000s	2010 £'000s
	Fixed assets				
12	Investments		**248,334**		202,279
	Current assets				
13	Debtors	**969**		6,216	
	Cash at bank and short-term deposits	**3,843**		12,963	
		4,812		19,179	
	Creditors: amounts falling due within one year				
14	Other	**(1,542)**		(3,074)	
		(1,542)		(3,074)	
	Net current assets		**3,270**		16,105
	Total assets less current liabilities		**251,604**		218,384
	Creditors: amounts falling due after more than one year				
15	Debenture		**(10,000)**		(10,000)
	Net assets		**241,604**		208,384
	Capital and reserves				
17	Share capital		**10,025**		10,055
18	Share premium account	**23,132**		23,132	
19	Capital redemption reserve	**16,158**		16,128	
20	Capital reserves	**184,606**		151,423	
20	Revenue reserve	**7,683**		7,646	
			231,579		198,329
21	**Total shareholders' funds**		**241,604**		208,384
21	**Net asset value per share – pence**		**602.49**		518.10

Approved by the Board on 20 June 2011
and signed on its behalf by:
Anthony Townsend, Chairman

Cash Flow Statement

Notes	for the year ended 30 April	£'000s	2011 £'000s	£'000s	2010 £'000s
	Operating activities				
	Investment income received	3,073		2,938	
	Interest received	30		28	
	Underwriting commission received	15		18	
	Management fee paid to the management company	(909)		(568)	
	Directors' fees paid	(137)		(134)	
	Other payments	(690)		(669)	
22	**Net cash inflow from operating activities**		1,382		1,613
	Servicing of finance				
	Interest paid	(1,151)		(1,151)	
	Cash outflow from servicing of finance		(1,151)		(1,151)
	Financial investment				
	Purchases of equities and other investments	(96,209)		(93,824)	
	Sales of equities and other investments	89,729		108,896	
	Other capital charges and credits	(20)		(17)	
	Net cash (outflow)/inflow from financial investment		(6,500)		15,055
	Equity dividends paid		(2,002)		(2,027)
	Net cash (outflow)/inflow before use of liquid resources and financing		(8,271)		13,490
	Management of liquid resources				
	Decrease in short-term deposits		–		–
	Financing				
	Shares purchased and cancelled	(737)		(6,466)	
	Cash outflow from financing		(737)		(6,466)
23	**(Decrease)/increase in cash**		(9,008)		7,024

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 1158 of the Corporation Tax Act 2010 ("section 1158"). Approval of the Company under section 1158 has been received (subject to there being no subsequent enquiry) in respect of the year ended 30 April 2010 and all previous applicable financial years. Such approval exempts the Company from UK corporation tax on gains realised in the relevant year on its portfolio of fixed asset investments.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The accounts of the Company have been prepared on a going concern basis under the historical cost convention, modified to include fixed asset investments 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 2011.

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 of fair value, 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.

Notes on the Accounts (continued)

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 15 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.

Underwriting commission is recognised when the Company's right to receive payment is established. Deposit interest is accounted for on an accruals basis.

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;
- With effect from 1 May 2010, 75% of management fees and 75% 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. In the prior year, the proportion of management fees and finance costs allocated to capital reserve – arising on investments sold was 70%;
- 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:

- 75% 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.

Notes on the Accounts (continued)

3. INCOME

	2011 £'000s	2010 £'000s
Income from investments		
UK dividends	1,881	1,822
UK scrip dividends	90	106
Overseas dividends	1,335	1,307
Overseas scrip dividends	141	179
	3,447	3,414
Other income		
Interest on cash and short-term deposits	28	28
Underwriting commission	15	18
	43	46
Total income	3,490	3,460
Total income comprises:		
Dividends	3,447	3,414
Other income	43	46
	3,490	3,460
Income from investments comprises:		
Quoted UK†	1,971	1,928
Quoted overseas	1,425	1,471
Unquoted	51	15
	3,447	3,414

† Includes investments quoted on AIM in the UK.

4. MANAGEMENT FEE

	Revenue £'000s	Capital £'000s	2011 Total £'000s	Revenue £'000s	Capital £'000s	2010 Total £'000s
Management fee	200	601	801	189	442	631

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 75% to capital reserve in accordance with accounting policies (prior year 70%).

5. PERFORMANCE FEE

	2011 Capital £'000s	2010 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 (with debt at market value, adjusted for share buybacks and dividends) compared to the Benchmark Index, subject to a maximum absolute cap on the level of fees (including both the management fee and the performance fee) that the Manager can earn in any one year of 1% of average month-end net assets. 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, although the Company's net assets outperformed the Benchmark in the year to 30 April 2011, the level of outperformance was not sufficient to fully offset the underperformance brought forward from the preceding period.

6. RECOVERABLE VAT

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.

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 remains uncertain.

7. OTHER EXPENSES

	2011 £'000s	2010 £'000s
Auditors' remuneration:		
audit services*	28	28
other services*	3	57
Directors' fees for services to the Company†	138	134
Marketing and private investor plan expenses	470	355
Printing and postage	58	52
Custody fees	18	18
Sundry expenses	135	139
	850	783

* Auditors' remuneration for audit services, exclusive of VAT, amounts to £27,000 (2010: £27,000). Total auditors' remuneration for non-audit services, exclusive of VAT, amounts to £3,000 (2010: £55,000) comprising £2,000 for taxation services (2010: £54,000) and £1,000 relating to the provision of a debenture compliance certificate (2010: £1,000). No part of these amounts was charged to capital reserves (2010: £nil).

Taxation advice is further analysed as: £2,000 for advice on UK taxation (2010: £2,000) and £nil (2010: £52,000) 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 in the prior year.

† See the Directors' Remuneration Report on page 33.

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

Notes on the Accounts (continued)

8. FINANCE COSTS

	Revenue £'000s	Capital £'000s	2011 Total £'000s	Revenue £'000s	Capital £'000s	2010 Total £'000s
Debenture	288	862	1,150	345	805	1,150
Loans and bank overdrafts	–	1	1	–	1	1
	288	863	1,151	345	806	1,151

Finance costs have been allocated 75% to capital reserve in accordance with accounting policies (prior year 70%).

The interest is further analysed as follows:

	Revenue £'000s	Capital £'000s	2011 Total £'000s	Revenue £'000s	Capital £'000s	2010 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	288	862	1,150	345	805	1,150
	288	863	1,151	345	806	1,151

9. TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of tax charge for the year

	Revenue £'000s	Capital £'000s	2011 Total £'000s	Revenue £'000s	Capital £'000s	2010 Total £'000s
Corporation tax payable at 27.8% (2010: 28%)	–	–	–	–	–	–
Overseas taxation	117	–	117	135	–	135
Current tax charge for the year (note 9(b))	117	–	117	135	–	135
Deferred taxation on accrued income	–	–	–	(5)	5	–
Taxation on ordinary activities	117	–	117	130	5	135

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

	Revenue £'000s	Capital £'000s	2011 Total £'000s	Revenue £'000s	Capital £'000s	2010 Total £'000s
Return on ordinary activities before tax	2,156	33,711	35,867	2,146	63,997	66,143
Return on ordinary activities multiplied by the standard rate of corporation tax of 27.8% (2010: 28%)	599	9,372	9,971	601	17,919	18,520
Effects of:						
UK dividends*	(548)	–	(548)	(540)	–	(540)
Overseas dividends*	(410)	–	(410)	(305)	–	(305)
Movement in taxable income accruals	–	–	–	(27)	–	(27)
Expenses not deductible for tax purposes	65	–	65	50	–	50
Overseas tax in excess of double taxation relief	117	–	117	135	–	135
Expenses not utilised in the year	294	411	705	221	103	324
Capital returns*	–	(9,783)	(9,783)	–	(18,022)	(18,022)
Total current taxation (note 9(a))	117	–	117	135	–	135

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

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 £2.9m (2010: £2.4m). 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 £0.5m (2010: £0.2m) relates to revenue expenses and £2.4m (2010: £2.2m) to capital expenses.

10. RETURN PER ORDINARY SHARE

	Revenue	Capital	2011 Total	Revenue	Capital	2010 Total
Revenue return per share – pence	**5.08**	**84.05**	**89.13**	4.88	154.87	159.75
Net return attributable to equity shareholders – £'000s	**2,039**	**33,711**	**35,750**	2,016	63,992	66,008

Both the revenue and capital returns per share are based on a weighted average of 40,110,879 ordinary shares in issue during the year (2010: 41,319,218).

11. DIVIDENDS

Dividends on ordinary shares	Register date	Payment date	2011 £'000s	2010 £'000s
Interim for the year ended 30 April 2011 of 1.60p	31 December 2010	31 January 2011	**638**	–
Final for the year ended 30 April 2010 of 3.40p	25 June 2010	6 August 2010	**1,364**	–
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
			2,002	2,027

The Directors recommend a final dividend in respect of the year ended 30 April 2011 of 3.50p per share, payable on 8 August 2011 to all shareholders on the register at close of business on 1 July 2011. 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 2011, which form the basis of the section 1158 retention test, and the attributable revenue are set out below:

	2011 £'000s
Revenue attributable to equity shareholders	**2,039**
Interim for the year ended 30 April 2011 of 1.60p	**(638)**
Proposed final for the year ended 30 April 2011 of 3.50p*	**(1,406)**
Amount transferred from revenue reserve for section 1158 purposes**	**(5)**

* Based on 40,170,990 shares in issue at 16 June 2011.

**Undistributed revenue for the year equated to 0% of income from investments of £3,447,000 (see note 3).

Notes on the Accounts (continued)

12. INVESTMENTS

	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
Movements in the year:				
Purchases at cost	95,150	–	51	95,201
Sales proceeds	(84,445)	–	–	(84,445)
Gains on investments sold in year	19,278	–	–	19,278
Gains on investments held at year end	14,978	–	1,043	16,021
Valuation of investments held at 30 April 2011	**244,635**	**–**	**3,699**	**248,334**

	Level 1* £'000s	Level 2* £'000s	Level 3* £'000s	Total £'000s
Cost at 30 April 2011	187,545	–	1,539	189,084
Gains at 30 April 2011	57,090	–	2,160	59,250
Valuation at 30 April 2011	**244,635**	**–**	**3,699**	**248,334**

* 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.
Level 3 includes any unquoted investments.

A list of investments is set out on pages 19 to 21.

Gains on investments

	2011 £'000s	2010 £'000s
Gains on investments sold during the year	**19,278**	11,901
Gains on investments held at year end	**16,021**	53,360
Total gains on investments	**35,299**	65,261

Substantial interests

At 30 April 2011 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	1,985,430	31.3
US Ventures	Cayman Islands	n/a	10.2

13. DEBTORS

	2011 £'000s	2010 £'000s
Investment debtors	606	5,884
Prepayments and accrued income	334	298
Overseas taxation recoverable	29	34
	969	6,216

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Other	2011 £'000s	2010 £'000s
Investment creditors	867	2,105
Shares purchased and cancelled	–	209
Interest accrued	379	379
Management fee accrued	75	183
Other accrued expenses	221	198
	1,542	3,074

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

Debenture	2011 £'000s	2010 £'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 £12,675,000 (2010: £13,200,000).

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 2011 the value of the ATCR was £206m 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 in the year under review.

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.

Notes on the Accounts (continued)

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

	North America %	UK %	Rest of World %	Continental Europe %	Japan %	**2011 Total %**	2010 Total %
Industrials	14.2	10.5	–	1.0	–	**25.7**	28.3
Collective investments	–	–	10.3	–	5.6	**15.9**	13.0
Financials	5.7	4.5	–	1.6	–	**11.8**	13.5
Consumer goods	5.4	1.6	–	3.3	–	**10.3**	8.5
Consumer services	1.6	4.7	–	1.7	–	**8.0**	7.5
Basic materials	3.5	2.9	–	0.4	–	**6.8**	4.3
Technology	1.7	3.5	–	1.5	–	**6.7**	5.5
Oil & gas	3.5	1.8	–	–	–	**5.3**	2.9
Telecommunications	4.5	0.2	–	0.2	–	**4.9**	4.2
Health care	1.6	1.2	–	0.3	–	**3.1**	4.4
Utilities	–	–	–	0.2	–	**0.2**	0.5
Total investments	41.7	30.9	10.3	10.2	5.6	**98.7**	92.6
Net current assets	1.2	0.1	–	–	–	**1.3**	7.4
Total assets less current liabilities (excluding borrowings)	**42.9**	**31.0**	**10.3**	**10.2**	**5.6**	**100.0**	
2010 totals	41.8	36.8	8.0	8.4	5.0		100.0

17. SHARE CAPITAL

Equity share capital	Issued and fully paid Number	£'000s
Ordinary shares of 25p each		
Balance brought forward	40,220,990	10,055
Transfer to capital redemption reserve	(120,000)	(30)
Balance carried forward	**40,100,990**	**10,025**

During the year 120,000 ordinary shares were purchased and cancelled at a cost of £528,000. Since the year end 70,000 ordinary shares have been issued, raising proceeds of £421,000.

18. SHARE PREMIUM ACCOUNT

	2011 £'000s	2010 £'000s
Balance brought forward and carried forward	**23,132**	23,132

19. CAPITAL REDEMPTION RESERVE

	2011 £'000s	2010 £'000s
Balance brought forward	**16,128**	15,704
Transfer from equity share capital	**30**	424
Balance carried forward	**16,158**	16,128

20. 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	19,278	–	19,278	–
Gains on investments held at year end	–	16,021	16,021	–
Foreign exchange losses	(107)	–	(107)	–
Management fee (see note 4)	(601)	–	(601)	–
Other expenses	(17)	–	(17)	–
Finance costs (see note 8)	(863)	–	(863)	–
Revenue return	–	–	–	2,039
Net return attributable to ordinary shareholders	17,690	16,021	33,711	2,039
Cost of shares purchased and cancelled	(528)	–	(528)	–
Dividends paid in the year	–	–	–	(2,002)
	17,162	16,021	33,183	37
Balance brought forward	107,850	43,573	151,423	7,646
Balance carried forward	**125,012**	**59,594**	**184,606**	**7,683**

Included within the capital reserve movement for the year are £297,000 (2010: £328,000) of transaction costs on purchases of investments, £171,000 (2010: £203,000) of transaction costs on sales of investments and £nil (2010: £24,000) of distributions recognised as capital.

21. NET ASSET VALUE PER ORDINARY SHARE

	2011	2010
Net asset value per share (with debenture at nominal value) – pence	602.49	518.10
Net assets attributable at the year end – £'000s	241,604	208,384
Ordinary shares in issue at the year end	40,100,990	40,220,990

Net asset value per share with debenture at market value was 595.82p (2010: 510.14p).

Notes on the Accounts (continued)

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

	2011 £'000s	2010 £'000s
Total return before finance costs and taxation	37,018	67,294
Adjust for returns from non-operating activities		
Gains on investments	(35,299)	(65,261)
Foreign exchange losses/(gains) charged to capital	107	(5)
Management fee charged to capital	601	442
Other expenses charged to capital	17	21
Return from operating activities	2,444	2,491
Adjust for non cash flow items		
Transfer of management fee to capital reserve	(601)	(442)
Exchange gains of a revenue nature	(4)	(3)
Increase in accrued income	(29)	(52)
Increase in prepayments	(3)	(5)
(Decrease)/increase in creditors	(82)	48
Scrip dividends	(231)	(285)
Overseas taxation	(112)	(139)
Net cash inflow from operating activities	1,382	1,613

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

	2011 £'000s	2010 £'000s
(Decrease)/increase in cash	(9,008)	7,024
Decrease in short-term deposits	–	–
Movement in net debt resulting from cash flows	(9,008)	7,024
Foreign exchange movement	(112)	14
Movement in net debt in the year	(9,120)	7,038
Net cash/(debt) brought forward	2,963	(4,075)
Net (debt)/cash carried forward	(6,157)	2,963

Represented by:	Balance at 30 April 2010 £'000s	Cash flow £'000s	Exchange movement £'000s	Balance at 30 April 2011 £'000s
Cash at bank	12,963	(9,008)	(112)	3,843
Short-term deposits	–	–	–	–
	12,963	(9,008)	(112)	3,843
Debenture	(10,000)	–	–	(10,000)
	2,963	(9,008)	(112)	(6,157)

24. 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 33 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 14, where accrued management fees are disclosed.

25. FINANCIAL RISK MANAGEMENT

The Company is an investment company, listed on the London Stock Exchange, and conducts its affairs so as to qualify in the United Kingdom (UK) as an investment trust under the provisions of section 1158. 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 15 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 2011	2011 Average for the year	At 30 April 2010	2010 Average for the year
US dollar	**1.6680**	**1.5677**	1.5307	1.5927
Euro	**1.1243**	**1.1720**	1.1512	1.1313
Japanese yen	**135.34**	**132.61**	143.90	147.53

At 30 April 2011, 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.

25. 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%	2011 US$	2011 €	2010 US$	2010 €
Net revenue return attributable to equity shareholders – £'000s	**64**	**41**	53	24
Net capital return attributable to equity shareholders – £'000s	**11,307**	**2,178**	10,293	1,514
Net total return attributable to equity shareholders – £'000s	**11,371**	**2,219**	10,346	1,538
Net asset value per share – pence	**28.36**	**5.53**	25.72	3.82

Strengthening of sterling by 10%	2011 US$	2011 €	2010 US$	2010 €
Net revenue return attributable to equity shareholders – £'000s	**(64)**	**(41)**	(53)	(24)
Net capital return attributable to equity shareholders – £'000s	**(11,307)**	**(2,178)**	(10,293)	(1,514)
Net total return attributable to equity shareholders – £'000s	**(11,371)**	**(2,219)**	(10,346)	(1,538)
Net asset value per share – pence	**(28.36)**	**(5.53)**	(25.72)	(3.82)

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. This level of change is considered to be a reasonable illustration based on observation of current market conditions.

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

2011	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	108,866	836	951	(1,542)	(10,000)	99,111
US dollar	110,111	66	2,891	–	–	113,068
Euro	21,720	61	–	–	–	21,781
Other	7,637	6	1	–	–	7,644
Total	**248,334**	**969**	**3,843**	**(1,542)**	**(10,000)**	**241,604**

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

25. 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	2011 Net total £'000s	Within one year £'000s	More than one year £'000s	2010 Net total £'000s
Exposure to floating rates – cash	3,843	–	3,843	12,963	–	12,963
Exposure to fixed rates – debenture	–	(10,000)	(10,000)	–	(10,000)	(10,000)
Net exposure	3,843	(10,000)	(6,157)	12,963	(10,000)	2,963
Minimum net exposure during the year	2,175	(10,000)	(7,825)	5,108	(10,000)	(4,892)
Maximum net exposure during the year	13,263	(10,000)	3,263	12,963	(10,000)	2,963

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 rate applying on the debenture is set out in note 15 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 and therefore the capital and revenue return arising from this instrument would be unchanged by a movement in market interest rates.

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	2011 Decrease in rate £'000s	Increase in rate £'000s	2010 Decrease in rate £'000s
Revenue return	77	(77)	259	(259)
Capital return	–	–	–	–
Total return	77	(77)	259	(259)
NAV per share – pence	0.19	(0.19)	0.64	(0.64)

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.

Notes on the Accounts (continued)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Other market risk exposures

The Company does not usually enter into derivative transactions in managing its exposure to other market risks. The portfolio of investments, valued at £248,334,000 at 30 April 2011 (2010: £202,279,000) is therefore exposed to market price changes. The Manager assesses these exposures at the time of making each investment decision. The Board reviews overall exposures at each meeting against indices and other relevant information. An analysis of the portfolio by country and major industrial sector is set out in note 16 on the accounts.

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

		2011		2010
	Increase in value £'000s	**Decrease in value £'000s**	Increase in value £'000s	Decrease in value £'000s
Capital return	**49,667**	**(49,667)**	40,456	(40,456)
NAV per share – pence	**123.85**	**(123.85)**	100.58	(100.58)

This level of change is considered to be a reasonable illustration based on observation of current market conditions.

(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 (195 at 30 April 2011); the liquid nature of the portfolio of investments; and the industrial and geographical diversity of the portfolio (see note 16). 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 three months but less than one year £'000s	More than one year £'000s	Total £'000s
2011				
Current liabilities				
Other creditors	1,163	–	–	1,163
Long-term liabilities				
Debentures	–	–	10,000	10,000
Interest payable on debentures	575	575	3,450	4,600
	1,738	**575**	**13,450**	**15,763**
2010				
Current liabilities				
Other creditors	2,695	–	–	2,695
Long-term liabilities				
Debentures	–	–	10,000	10,000
Interest payable on debentures	575	575	4,600	5,750
	3,270	575	14,600	18,445

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Credit risk and counterparty exposure

The Company is exposed to potential failure by counterparties to deliver securities for which the Company has paid, or to pay for securities which the Company has delivered. 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 (2010: none) and does not normally invest in them. None of the Company's financial liabilities are past their due date or impaired.

(d) Fair values of financial assets and liabilities

The assets and liabilities of the Company are, in the opinion of the Directors, reflected in the Balance Sheet at fair value, or at a reasonable approximation thereof, except for the debenture which is carried at par value. The fair value of the debenture, based on a comparable UK gilt, was £12,675,000 (2010: £13,200,000).

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 17 on the accounts. Dividend payments are set out in note 11 on the accounts. Details of the debenture are set out in note 15 on the accounts.

26. POST BALANCE SHEET MOVEMENT IN NET ASSETS

The net asset value per share (with debenture at nominal value) on 15 June 2011 was 583.23p (30 April 2011: 602.49p).

Ten Year Record

Assets

at 30 April

£'000s	2001	2002	2003	2004	2005 *	2006	2007	2008	2009	2010	2011
Total assets	305,488	276,116	193,665	260,475	288,404	240,652	249,574	198,100	160,994	218,384	**251,604**
Debenture and loans	30,558	29,816	25,720	25,085	24,006	13,000	10,000	10,000	10,000	10,000	**10,000**
Net assets	274,930	246,300	167,945	235,390	264,398	227,652	239,574	188,100	150,994	208,384	**241,604**

Net asset value ("NAV")

at 30 April

	2001	2002	2003	2004	2005 *	2006	2007	2008	2009	2010	2011
NAV per share	291.9p	265.5p	183.1p	276.8p	311.3p	470.8p	512.2p	428.2p	360.2p	518.1p	**602.5p**
NAV total return on 100p – 5 years (per AIC)											**136.4p**
NAV total return on 100p – 10 years (per AIC)											**236.1p**

Share price

at 30 April

	2001	2002	2003	2004	2005 *	2006	2007	2008	2009	2010	2011
Middle market price per share	242.5p	219.0p	147.0p	224.0p	268.5p	435.0p	473.3p	385.0p	325.0p	461.0p	**583.5p**
Share price high	293.5p	254.5p	221.0p	227.0p	286.0p	444.5p	473.3p	482.0p	405.0p	461.0p	**587.0p**
Share price low	223.5p	182.5p	124.0p	150.0p	209.5p	268.5p	364.3p	339.8p	221.0p	310.5p	**405.0p**
Share price total return on 100p – 5 years (per AIC)											**143.1p**
Share price total return on 100p – 10 years (per AIC)											**283.3p**

Revenue

for the year ended 30 April

	2001	2002	2003	2004	2005 *	2006	2007	2008	2009	2010	2011
Available for ordinary shares – £'000s	4,021	3,639	3,284	3,465	3,930	3,210	2,270	2,510	2,430	2,016	**2,039**
Return per share	4.22p	3.89p	3.55p	3.95p	4.63p	4.54p	4.75p	5.54p	5.66p	4.88p	**5.08p**
Dividends per share	3.95p	4.02p	4.15p	4.24p	4.40p	5.53p#	4.69p	4.83p	4.89p	5.00p	**5.10p**

Performance

(rebased to 100 at 30 April 2001)

	2001	2002	2003	2004	2005 *	2006	2007	2008	2009	2010	2011
NAV per share	100	91.0	62.7	94.8	106.6	161.3	175.5	146.7	123.4	177.5	**206.4**
Middle market price per share	100	90.3	60.6	92.4	110.7	179.4	195.2	158.8	134.0	190.1	**240.6**
Earnings per share	100	92.2	84.1	93.6	109.7	107.6	112.6	131.3	134.1	115.6	**120.4**
Dividends per share	100	101.8	105.1	107.3	111.4	140.0#	118.7	122.3	123.8	126.6	**129.1**
RPI	100	101.5	104.7	107.3	110.7	113.5	118.7	123.6	122.2	128.7	**135.4**

* restated to reflect investments at bid value (in prior years, at mid market value) and to account for dividends in the year in which the company is liable to pay them (in prior years, accounted for in the period in which the net revenue to which those dividends related was accounted for).

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 per share 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.

Costs of running the Company (total expense ratio)

for the year ended 30 April

	2001	2002	2003	2004	2005 *	2006	2007	2008	2009	2010	2011
Expressed as a percentage of average net assets											
Operating costs											
excluding performance fees	0.67%	0.84%	1.10%	0.80%	0.66%	0.69%	0.74%	0.77%	0.93%	0.78%	**0.76%**
including performance fees	0.67%	0.84%	1.10%	0.80%	0.66%	0.69%	0.99%	0.77%	0.93%	0.78%	**0.76%**
Expressed as a percentage of average total assets											
Operating costs											
excluding performance fees	0.59%	0.75%	0.95%	0.72%	0.61%	0.65%	0.71%	0.74%	0.87%	0.74%	**0.74%**
including performance fees	0.59%	0.75%	0.95%	0.72%	0.61%	0.65%	0.95%	0.74%	0.87%	0.74%	**0.74%**

Gearing

at 30 April

	2001	2002	2003	2004	2005 *	2006	2007	2008	2009	2010	2011
Effective gearing	(8.5)%	0.6%	2.3%	3.9%	7.4%	4.7%	2.7%	3.3%	4.1%	(3.3)%	**2.7%**
Fully invested gearing	11.1%	12.7%	15.3%	10.7%	9.1%	5.7%	4.2%	5.3%	6.6%	4.8%	**4.1%**

* restated to reflect changes in accounting policies.

Definitions

Operating costs	All directly incurred 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.

Analysis of Ordinary Shareholders

Analysis of ordinary shareholders at 30 April 2011

Category	Number of shares	% Holding
F&C savings plans	23,645,643	59.0
Nominee holdings	7,990,826	19.9
Institutions	4,958,987	12.4
Direct individual holdings	3,505,534	8.7

Source: F&C Management Limited.

The total number of shareholders at 30 April 2011 was 37,796, of which 35,626 were investors through the F&C plans.

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 £10,600 in the tax year ending 5 April 2012 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 2011. 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

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The Association of Investment Companies

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Warning to shareholders – Boiler Room Scams

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

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

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

How to Invest

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

You can enjoy the convenience of making regular savings by direct debit, take advantage of our tax-efficient ISA wrapper, receive a simple statement every six months and let us automatically reinvest your dividends for you.

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

F&C Investment Trust ISA
Use your ISA allowance to invest up to £10,680 tax efficiently each year with a lump sum from £500 or regular savings from £50 a month. You can also make additional lump sum top-ups at anytime from £250 and transfer any existing ISAs to us whilst maintaining all the tax benefits.

F&C Child Trust Fund ("CTF")
F&C is a leading provider of CTFs which can be opened for all children born between 1 September 2002 and 31 December 2010, using the government's CTF voucher. The maximum that can be invested annually is £1,200 and depending on the type of CTF opened, investments can start from as little as £25 a month.

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

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

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

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

New customers:
Contact our Investor Services Team
Call: **0800 136 420**
Email: **info@fandc.com**
Investing online: **www.fandc.com**

Existing plan holders:
Contact our Investor Services Team
Call: **0845 600 3030**
Email: **investor.enquiries@fandc.com**
By post: F&C Plan Administration Centre
Block C, Western House
Lynch Wood Business Park
Peterborough, PE2 6BP

Calls may be recorded.

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

The above has been approved by F&C Management Limited which is a member of the F&C Asset Management Group and is 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-second annual general meeting of the Company will be held at The Chartered Accountants' Hall, One Moorgate Place, London EC2R 6EA on Thursday 28 July 2011 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 2011.
2. To approve the Directors' Remuneration Report.
3. To declare a final dividend.
4. To re-elect Andrew Adcock as a Director.
5. To re-elect Mark White 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.

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 £502,137 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 2012 (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 £502,137, 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; and
      (iii) authorised, for the purposes of paragraph 15.4.11 of the Listing Rules of the United Kingdom Listing Authority, to sell or transfer out of treasury equity securities for cash at a price below the net asset value per share of the existing ordinary shares in issue (excluding treasury shares) pursuant to the authority conferred by this resolution, provided that the discount at which such equity securities are sold or transferred out of treasury is: always less than the weighted average discount at which the equity securities held in treasury have been purchased; and no more than 5% of the prevailing net asset value per share (with debenture at market value).
   (b) all authorities and powers previously conferred under section 551 or section 571 of the Act 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 17 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 6,021,631;

(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;

(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.

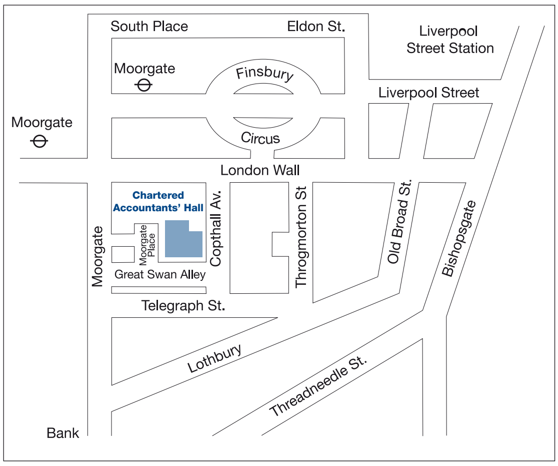
To consider and, if thought fit, pass the following resolution as a special resolution:

11. THAT the 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	Registered office:
Secretary	Exchange House
20 June 2011	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 Companies 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 26 July 2011 (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 (any part of a day which is a non-working day shall not be included in calculating the 48 hour period).

Notice of Annual General Meeting (continued)

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 not less than 96 hours before the time appointed for holding the meeting (any part of a day which is a non-working day shall not be included in calculating the 96 hour period).

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/her 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 16 June 2011, being the latest practicable date prior to publication of this document, and, if applicable, any members' statements, members' 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 16 June 2011, the latest practicable date prior to publication of this document, the Company had 40,170,990 ordinary shares in issue with a total of 40,170,990 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 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 names and addresses and be sent to the Company's registered office.

13. The final dividend in respect of the year ended 30 April 2011, if approved, will be paid on 8 August 2011 to holders of ordinary shares on the register at the close of business on 1 July 2011.

14. The register of Directors' holdings, Directors' terms of appointment letters and a deed 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.

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

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