Foreign & Colonial Investment Trust PLC

Report and Accounts

2009

About your Company

Objective

To secure long-term growth in capital and income through a policy of investing primarily in an internationally diversified portfolio of publicly listed equities, as well as unlisted securities and private equity, with the use of gearing.

Heritage

Founded in 1868 as the first ever investment trust. Pioneered the concept of collective investment, by giving the small investor the same advantage as the large institution by reducing risk through a spread of investments.

Today

One of the largest global growth trusts, with total assets of over £2 billion investing in over 650 listed companies in 36 countries.

Some 109,000 shareholders, with over 87,000 investors through the F&C savings plans.

Reputation

Well-known and respected brand, with a reputation for delivering its long-term objectives in a responsible, prudent and effective way.

Management

Independent Board of Directors responsible for overall strategy and monitoring performance.

Management of the investments is carried out by F&C Management Limited ("**the Manager**" or "**F&C**") under contract.

The Manager is incentivised to produce superior performance.

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

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

Performance

Share price total return of 22.5% over one year.

Share price total return of 56.1% and 34.0% over five and ten years respectively.

Dividend up 129%, or 8.7% compound, over ten years.

Increase in dividend every year for the past 39 years.

Advantages of an investment trust

The ability as a closed-end fund to take a long-term view and ride out difficult conditions – we have ridden through two world wars and many market crashes.

The flexibility to invest in a wide range of assets – we have increased our exposure to private equity.

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

The ability to buy back shares to enhance net asset value and reduce discount volatility – we have a buy back policy to keep the discount below 10% in normal market conditions.

Low charges to investors, typically well below those for comparable unit trusts – our total expense ratio for 2009 was 0.58%. The cumulative benefits of such low costs over many years are very significant for long-term investors.

Visit our website at **www.foreignandcolonial.com**

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

Financial Highlights

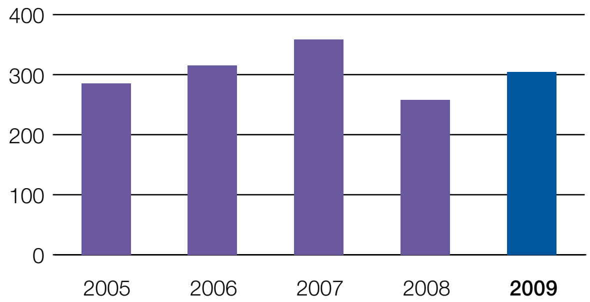
Summary of Results

Net asset value per share up 18.8% to 304.7p (debt at market value)

Annual dividend per share up 3.1% to 6.65p

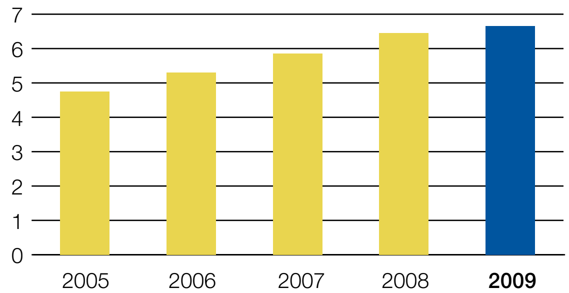
Share price up 19.1% to 272.1p

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



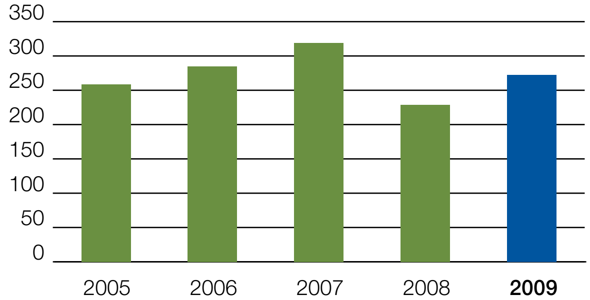
Source: F&C Management Limited

Dividends per share – pence



Source: F&C Management Limited

Mid-market price per share at 31 December – pence



Source: F&C Management Limited

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Financial Calendar

Second interim dividend payable (in lieu of final)	**31 March 2010**
Annual General Meeting	**6 May 2010**
Interim results for 2010 announced	**end July 2010**
Interim dividend payable	**September 2010**
Final Results for 2010 announced	**March 2011**

Registered in England with Company Registration No. 12901

Chairman's Statement

Mark Loveday
Chairman

Dear Shareholder

2009 was a much better year than we expected twelve months ago. Your Company's share price rose by 19.1% to 272.1 pence over the year, and 46.5% from the low of 185.75 pence on 3 March 2009. The total dividend for the year will be 6.65 pence per share, an increase of 3.1%. Our net asset value total return per share was 21.3%, which was below the returns of our benchmark and our close peer group of 23.4% and 27.9% respectively.

Our listed portfolio did well, but our private equity portfolio fell in value as I forewarned last year, and this was the main reason for our disappointing relative performance. In 2010 we expect private equity to do better, whereas listed markets may find the going harder.

Over the last ten years to 31 December 2009, shareholders have had a share price total return of 34.0%, compared with the total return of our benchmark of 13.8% and the weighted average of our close peer group of 31.7%.

Performance, Attribution and Activity

Since 2003 some 15% of the portfolio has been invested in Emerging Markets and Developed Asia to capture the rapid economic growth and exciting investment opportunities in these regions. After a difficult 2008 these areas performed strongly in 2009, and our investment there was the biggest positive contributor to our results for the year. Asset allocation in listed markets added 3.1% to performance, but overall asset allocation was 2.3% negative owing to the drag of private equity.

Our private equity portfolio had a significant effect on our performance against the benchmark and the close peer group, as the indices do not include private equity and only one of our close peers has any exposure to this asset class. In 2008 private equity valuations fell by less than listed markets, but this was largely a timing issue and we expected valuations to fall in 2009. This was all too accurate a forecast and our private equity portfolio fell by 13.1%. This was partly due to the strength of sterling as explained in the Fund Manager's review. The recovery in listed markets has already begun to feed through to private equity valuations.

Stock selection made a positive contribution to our results in 2009. We underperformed slightly in the UK and Developed Asia, though the longer-term records in these markets remain good. We had a strong year in North America and Europe, but a disappointing year in Japan. Since the year-end the management of our Japanese portfolio has been moved back to F&C, where performance over the last four years has been better as explained in the Fund Manager's review.

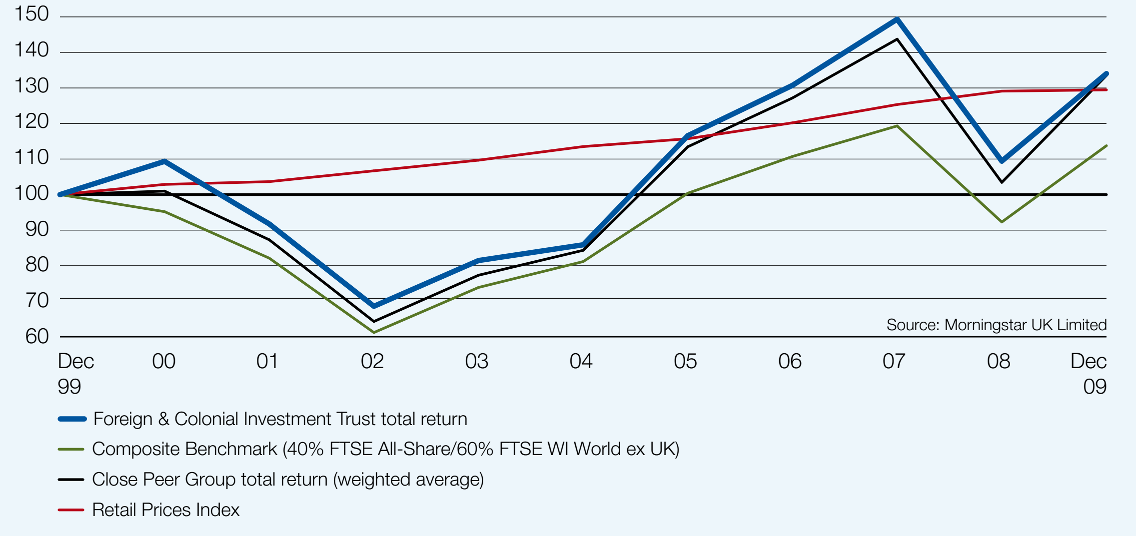
Reducing gearing at the start of the year and funding buyback activity were the main reasons for portfolio changes in our listed portfolio. We sold £288m of shares in our listed portfolio, invested a net £37m in private equity, spent £121m on share buybacks and repaid £110m of short-term borrowings. At the year-end effective gearing was 6.0% compared with 12.2% at the end of 2008. Being geared into rising markets contributed 0.4% to our performance and buying back shares added another 1%.

No performance fee was earned by F&C this year. Our total expense ratio was 0.58% of average total assets, unchanged from 2008.

Income, Expenses and Earnings

2009 was the worst year for UK and US dividends since the 1930s. The most severe reductions came in the banking sector, but many companies raising fresh funds accompanied these moves with significant dividend cuts. Many of our largest holdings did increase their dividends, but this was not enough to offset the damage. Exchange rate movements and portfolio sales also had a negative impact on our total gross income, which fell by 22.4% to £52.7 million.

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



Management and performance fees fell, but other operating expenses increased by a similar amount, largely due to the significant costs of obtaining bank loan facilities. As a result, overall operating expenses were marginally higher than in 2008. We had no VAT repayment credits which, together with associated interest, totalled £8.9m over the previous two years. On the other hand, finance costs fell by £4m as a result of the repayment of short-term borrowings early in the year. Buying back and cancelling shares had a positive impact on revenue earnings per share, which were 5.31 pence compared with 6.90 pence in 2008.

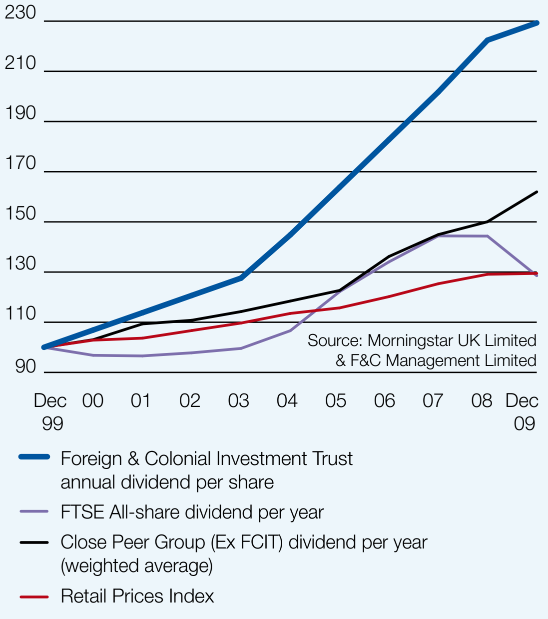
Dividends

A year ago we forecast that the dividend for 2009 would be at least maintained. An unchanged interim dividend of 3.00 pence per share was paid in September 2009. We are now proposing to pay a second interim dividend of 3.65 pence per share on 31 March 2010, in lieu of a final dividend, which last year was 3.45 pence per share. The total dividend for the year will therefore be 6.65 pence per share, an increase of 3.1% on the previous year. This is the 39th consecutive increase in the annual dividend, and is above the 2.4% increase in the Retail Prices Index for 2009.

We believe the worst of the cuts in dividends is over, but our total revenue will fall again in 2010. Nevertheless we expect to pay at least the same dividend for 2010.

We are able to increase our dividend this year and make a forecast for 2010, because of the strength of

FCIT's annual dividend per share vs weighted average Close Peer Group, FTSE All-share and Retail Prices Index over 10 years



Chairman's Statement (continued)

our revenue reserve. The ability to retain income in good times and build up a revenue reserve is a major advantage for investment trusts. In anticipation of difficult times, we decided more than ten years ago to increase our reserve when income was strong, with a view to using part of it when needed. Indeed the transfer from reserves in 2009 is less than the VAT repayment credits we received in 2007 and 2008. After paying the second interim dividend, the reserve will be about £94.6m compared with the annual dividend cost of £43.2m.

Buybacks

After a lull of over a year, our share buyback activity picked up sharply from September 2009. For the year as a whole we bought back 46,930,650 shares, or 6.9% of the shares in issue at the start of 2009. It is very striking that when markets were at their most volatile and depressed levels, the discount reduced and we bought back hardly any shares. When conditions improved and investors became less risk averse, the discount widened and buybacks increased. At the year end the discount was 10.7% compared with 10.9% at the end of 2008.

Shareholders

The number of shareholders rose marginally this year to 109,000, but the more significant change was in the composition of the share register. Investors in the various F&C savings plans made net purchases of £21.7m, 80% more than in 2008. These savings plan investors own 41% of the Company, while institutions account for only 16%. Direct investors here and in New Zealand, shares owned in other savings plans and wrappers, and holdings managed for individuals by professional managers account for the balance of 43%.

In March 2009 we entered the FTSE100 Index for the third time in the last fifteen years, and in September 2009 we left the index for the third time. On each occasion we have entered the index, in 1995, 2003 and 2009, it has been close to 3500 and thereafter there has then been a strong market rally, which has led to us falling out again. In the long term our performance has been much better than the FTSE 100 Index - since we first entered the index in December 1995 our share price has risen by 70%, while over the same period the index itself is up only 45%.

The Board

Ronald Gould retired from the Board on 27 January 2010 owing to increasing commitments overseas. He was appointed Chief Executive of Chi-X Asia Pacific in September 2009 and has now moved to Hong Kong. Ron joined us in 2005 and has been an excellent and effective Director, providing an incisive and insightful contribution to the Board. I would like to thank him for all he has done for the Company over the last five years.

I will be retiring immediately following the Annual General Meeting on 6 May 2010, having served as a Director on the Board of your Company for nine years, and the last eight years as your Chairman. I am delighted to say that, after a comprehensive search and interview process, we announced in September 2009 the appointment of my successor, Simon Fraser, as a Director and Chairman Designate. Simon has a wealth of investment experience and knowledge, having worked at Fidelity International for over 28 years, where he was Chief Investment Officer from 1999 to 2005. He became a non-executive director of Barclays PLC in 2009, and he has had experience of investment companies through his non-executive directorships at Merchants Trust PLC, Fidelity European Values PLC and Fidelity Japanese Values PLC.

Simon Fraser
Chairman Designate

Simon Fraser joined your Company's Audit and Management Engagement Committee on his appointment. He also joined the Nomination Committee on 1 January 2010 and was appointed as its Chairman on 27 January 2010. He will take over from me as Chairman of the Board immediately following my retirement at the end of the Annual General Meeting.

Simon Fraser is standing for election at the Annual General Meeting. Michael Bunbury and Max Ward are standing for annual re-election as they have both served on the Board for more than nine years. Following the annual performance appraisal process, the Board is recommending that shareholders vote in favour of all of these Directors. We do think that an element of continuity and experience is very important for a long-term investment company.

It has been a great privilege for me to serve as a Director and as Chairman of your Company. I would like to thank my colleagues on the Board for their support throughout, and also the investment, secretarial and finance teams at F&C, and in particular Jeremy Tigue and Hugh Potter. Foreign & Colonial Investment Trust is a very special company with a long history, surviving through many difficult times, and managing over the long-term to grow shareholders' money in a prudent and effective way. Your Company is in good hands and in good shape, and I wish all of you every success in the future.

Management

After its annual comprehensive review of the Manager's overall performance and service during the year, your Board has decided that F&C should continue as Manager, and believes that their re-appointment on the terms agreed is in the interests of shareholders as a whole.

In mid 2009 F&C Asset Management plc ("**FCAM**"), the Manager's parent company, became totally independent following Friends Provident PLC's distribution of its 52% shareholding to its shareholders. Any lingering uncertainty over FCAM's future was therefore removed, leaving it better positioned to develop and grow its business.

The Future

A year ago I expected 2009 to be the worst year for global economic growth since 1945, and I also pointed out that equities were cheaper than they had been for many years. The economic news was as bad as I had feared, but share prices have had one of their best ever years. While there remains great uncertainty about the future, there are some issues that are much clearer than a year ago.

The first is the acceleration of the transfer of economic power from West to East. We believe this process has many years to run, although it will be accompanied by periodic crises and setbacks. Our exposure to faster growing markets, both directly and through holdings in companies which derive an increasing proportion of their revenues from these economies, will continue to play a very important part in our investment strategy.

The second is the huge level of government debt in many countries, but particularly the UK and the USA. Unless governments come up with credible plans to reduce their deficits there is a real danger of renewed market turmoil and currency volatility.

The third is that there will be a long period during which many individuals and companies will need to reduce their debts to put themselves on a more secure financial footing. If this leads to an increase in savings, there may be increased demand for our shares from new investors.

After the sharp rises of the last twelve months we are expecting markets to be volatile in 2010. In the UK the general election will create uncertainty, but the most significant global uncertainty is when and how central banks end the exceptional measures of very low interest rates and quantitative easing they put in place to respond to the financial crisis.

Our strategy is to remain highly diversified, to concentrate on companies with strong financial positions that can pay dividends and to maintain as much financial flexibility as possible. We expect to invest more in private equity in 2010 as part of our existing commitments currently totalling £260m are drawn down into new investments. We remain convinced of the long-term attractions of private equity.

Looking ahead, the Alternative Investment Fund Management EU Directive, which is expected to come into effect in 2012, will result in some changes and extra expense for investment companies. The Association of Investment Companies, your own Board and other investment companies are lobbying hard to ensure that this EU Directive is not unduly restrictive. In terms of opportunities, the Financial Services Authority's Retail Distribution Review in the UK should be positive for investment

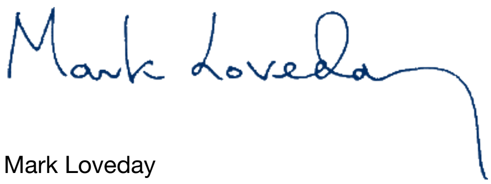
Chairman's Statement (continued)

companies, when implemented in 2013, as it should level the playing field with open-ended investment companies. The payment of advisory fees, rather than commission to financial advisers, should result in more investment companies being included on fund distribution platforms and being recommended by advisers on the basis of their performance and lower expenses.

We will continue to strive for good and consistent relative outperformance over the long-term, and look to add value for shareholders through a virtuous circle of net asset value and share price total return, discount control management, dividend growth, a low and competitive total expense ratio and effective marketing.

Annual General Meeting

I would encourage you to return your voting instructions for the Annual General Meeting, which will be held at Merchant Taylors' Hall at 12 noon on Thursday 6 May 2010. All shareholders and savings plan investors are welcome to attend. Our Fund Manager will make a presentation, and you will be able to meet and question the Directors at the meeting and afterwards over refreshments. I do hope you will be able to join us.



Mark Loveday
Chairman
4 March 2010

Fund Manager's Review

Jeremy Tigue
Fund Manager

The simplest way to describe 2009 is that it was the opposite of 2008. Almost all stocks, sectors, markets and investment strategies that did poorly in 2008 did well in 2009, and all those that held up in 2008 produced relatively poor returns this year. Being too optimistic about the future was my biggest mistake in 2008, and not being optimistic enough the biggest mistake in 2009.

What we did and why

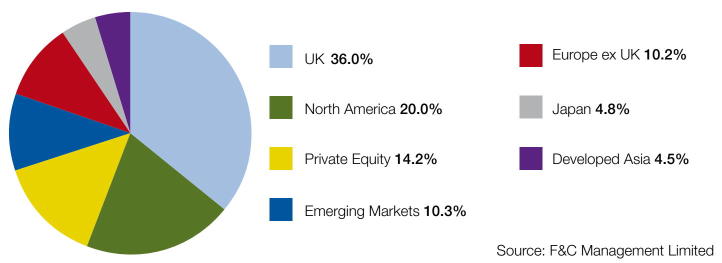
In the first half of the year I had two main worries. The financial crisis was fast moving and had many unexpected consequences, so my top priority was to maintain as much flexibility and freedom of manoeuvre as possible. My other concern was about our private equity portfolio. I knew it would fall in value in 2009, but I also thought there would be some great investment opportunities, particularly from distressed sellers. As a result of these two worries the most important activity in the first few months of the year was to reduce borrowings, so there would be plenty of firepower to take advantage of the distress of others.

These two worries turned out to be unfounded. The global financial and monetary stimulus meant that listed markets started to recover, which relieved the pressure on many investors. As a result, there was much less distress in private equity than we expected and the opportunities we were hoping for did not materialise. As investor confidence recovered further in the second half of the year, there was a pick up in the rate of buybacks, as some shareholders decided to sell our shares to buy assets they considered more exciting. This was the main reason for portfolio sales in the second half of the year. Later I became more cautious about prospects for markets and we reduced borrowings again in December 2009.

In the autumn of 2008, we decided to increase our short-term borrowing facilities to £200m to ensure we would have ready access to cash, if attractive buying opportunities appeared. When it became clear these opportunities were not materialising, we decided to reduce the facilities back to £100m. However, the cost of renewing these reduced facilities increased substantially during the year, as the banks sought to increase their revenues.

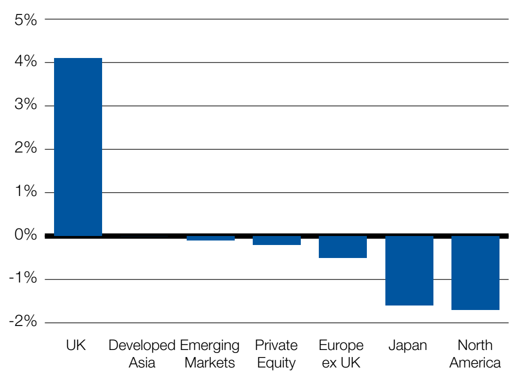
In contrast to previous years we had no short-term borrowings in foreign currencies. Sterling had been very weak at the end of 2008 and recovered during 2009. This had the effect of increasing our UK weighting even though we were not optimistic about the prospects for the UK economy.

Distribution of our portfolio as at 31 December 2009



Source: F&C Management Limited

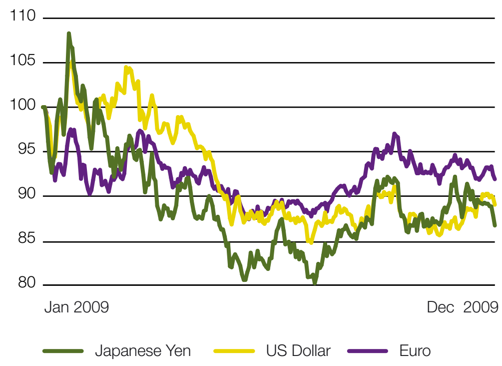
Percentage changes in the asset mix of our portfolio in 2009



Source: F&C Management Limited

Fund Manager's Review (continued)

Currency movements vs Sterling in 2009



Source: F&C Management Limited

Contributors to total returns in 2009

	%
Benchmark total return	23.4
Asset allocation	-2.3
Stock selection	0.2
Effect of management fees	-0.4
Other expenses	-0.2
Interest expense	-0.8
Effect of buybacks	1.0
Effect of gearing	0.4
Net asset value total return*	21.3
Effect of decrease in discount	1.2
Share price total return	22.5

*Debt at market value.

Source: F&C Management Limited

What the results were and why

We had a good year in our listed equity portfolio. Since 2003 we have invested about 15% of the portfolio in Emerging Markets and Developed Asia, to benefit from rapid economic growth in these regions. When the financial crisis was at its worst, I was convinced that one of the long-term effects would be an acceleration of the transfer of economic power from West to East. In 2009 all investors appeared to take this view and these markets performed very strongly. As a result asset allocation in listed markets added 3.1% to performance.

Another positive was an improvement in stock selection results in North America and Europe after a difficult 2008. Other regions did not perform so well, but there were no serious problems in stock selection anywhere in the portfolio, despite the very volatile market conditions. More details about performance in each area are set out below. Having any borrowings in rising markets was a positive, and we also benefited from the net asset value per share enhancement from buybacks.

The biggest negative influence on performance was the private equity portfolio which reduced the overall contribution from asset allocation to a negative 2.3%. Declines in the underlying valuations were accentuated by the strength of sterling. By the year-end there were some encouraging signs that valuations were starting to recover.

Investment changes during the year ended 31 December 2009 (£m)

£m	Valuation at 31 December 2008	Purchases	Sales	Gains/ (losses)	Valuation at 31 December 2009
UK	633	83	(98)	130	748
North America	432	150	(223)	55	414
Continental Europe	215	66	(109)	40	212
Japan	130	98	(117)	(12)	99
Emerging Markets	209	282	(379)	101	213
Developed Asia	91	69	(101)	35	94
Private Equity	288	40	(3)*	(31)	294
Totals	1,998	788	(1,030)	318	2,074

* Return of cash

Source: F&C Management Limited

Weighting, stock selection and performance in each market vs Index at 31 December 2009				
	Our portfolio weighting	Benchmark weighting	Our portfolio performance	Local index performance in Sterling
Market	%	%	%	%
UK	36.0	40.0	28.2	30.2
North America	20.0	32.9	19.8	14.9
Europe ex UK	10.2	13.9	24.5	20.0
Japan	4.8	6.5	(7.1)	(5.8)
Emerging Markets	10.3	5.6	59.0	59.4
Developed Asia	4.5	1.1	47.3	52.2
Private Equity	14.2	0.0	(13.1)	n/a

Source: F&C Management Limited

UK portfolio

After two years when it was right to take a cautious view about UK equities we suffered some relative underperformance in the strong market recovery. Most of this was a result of being underweight in the mining sector, but the large international companies, which are at the core of our portfolio, struggled to keep up with smaller stocks, many of which were not so financially strong. We increased our holding in Caithness Petroleum, the unlisted oil explorer, when it raised funds from new investors at a significantly higher price than we had paid in 2007; Caithness intends to get a listing in 2010. We will continue to concentrate our portfolio on financially strong companies with limited exposure to the UK domestic economy, which we think will struggle in 2010.

	Largest UK Holdings	£'000s
1	**HSBC**	58,424
2	**Royal Dutch Shell**	53,161
3	**BP**	50,400
4	**GlaxoSmithKline**	45,374
5	**Vodafone**	43,020
6	**Rio Tinto**	39,807
7	**Caithness Petroleum**	34,261
8	**British American Tobacco**	26,208
9	**Tesco**	26,175
10	**Utilico Emerging Markets**	24,997

Emerging Markets portfolio

Emerging markets performed very well in the year and our portfolio rose almost exactly in line with its benchmark. These markets were relatively unscathed by the global financial crisis and many countries experienced rapid growth in the year. China led the way and attracted most attention, but performance was strong across the board. By the end of the year we became more cautious about China as company valuations started to look expensive.

	Largest Emerging Markets Holdings	£'000s
1	**Petroleo Brasileiro**	9,813
2	**Vale**	7,840
3	**Samsung Electronics**	7,382
4	**Itau Unibanco**	5,236
5	**Hon Hai Precision**	4,850
6	**Infosys Technology**	4,400
7	**China Construction Bank**	4,253
8	**Posco**	4,171
9	**Bank of China**	4,155
10	**America Movil**	4,104

North America portfolio

Our portfolio had a very good year. As in the UK, large stocks that had done well in 2008 underperformed in 2009 and that held back one of our managers, Barrow Hanley. Our other large company manager, T Rowe Price, had an excellent year, driven largely by the performance of technology stocks such as Apple, Google and Microsoft. The small company portfolio managed by F&C also had a very good year.

Fund Manager's Review (continued)

North American Performance (US Dollars)	31 December 2009		12 month Performance %
	Value (US$m)	Approx % of US Portfolio	
T Rowe Price US Large Cap Core Growth Equity	277.5	41.5	43.3
Barrow Hanley US Large Cap Value Equity	322.1	48.1	24.3
US Smaller Companies F&C managed portfolio	69.6	10.4	39.0
Total North America portfolio	669.2	100.0	34.5
S&P 500 Total Return Index			26.5
Russell 1000 Value Index			19.7
Russell 1000 Growth Index			37.2
Russell 2000			27.2

The mandate aims to outperform the S&P 500 benchmark index by 2% per annum, annualised on a rolling three year basis.
Source: F&C Management Limited

	Largest North America Holdings	£'000s
1	Google	9,598
2	Microsoft	9,377
3	Occidental Petroleum	7,978
4	Illinois Tool Works	6,997
5	Wells Fargo	6,695
6	Hewlett-Packard	6,652
7	Wellpoint	6,082
8	Stanley Works	6,006
9	Pfizer	5,762
10	Verizon Communications	5,700

European portfolio

We had a good year in Europe in absolute and relative terms. Stock selection was strong across the board, particularly in the financial sector, and the only significant disappointment in the portfolio was Nokia.

	Largest European Holdings	£'000s
1	Svenska Handelsbanken	11,709
2	Novartis	10,001
3	Roche Holding	8,820
4	Total	8,599
5	Deutsche Post	8,362
6	Unilever	8,001
7	Nokia	6,741
8	Booker	6,738
9	G4S	6,665
10	Allianz	6,340

Developed Asia Portfolio

The markets in this region had a very strong year. Our portfolio did not rise quite as much as the market index, as it was defensively positioned. In the last quarter it suffered from owning two Australian banks that were competing to take over AXA Asia Pacific which we did not own.

	Largest Developed Asia Holdings	£'000s
1	BHP Billiton	11,293
2	ANZ Bank	5,284
3	Westpac Banking	5,116
4	Rio Tinto	4,105
5	National Australia Bank	4,038
6	QBE Insurance	4,035
7	DBS	3,941
8	Commonwealth Bank Australia	3,427
9	Sun Hung Kai Property	3,391
10	Westfield	3,345

Japanese portfolio

Japan was a disappointing market and our portfolio underperformed. Since 2005 we have used Goldman Sachs Asset Management to run an actively managed quantitative portfolio for us in Japan. In January 2010 we transferred this portfolio to F&C's management for three reasons. First, F&C has improved its capability and produced better performance in Japan in recent years, in contrast to the position for the several years before 2005. Secondly, the active quant approach is not consistent with how the rest of the portfolio is managed. Thirdly, although Japan has disappointed investors for the last twenty years, we wanted to be closer to what is going on in the market, if and when it starts to perform again.

	Largest Japanese Holdings	£'000s
1	**Honda Motor**	5,164
2	**Toyota Motor**	5,048
3	**Takeda Pharmaceutical**	4,119
4	**NTT**	3,489
5	**Canon**	3,453
6	**Astellas Pharma**	3,206
7	**Mitsubishi UFJ**	2,505
8	**Panasonic**	2,215
9	**Central Japan Rail**	1,965
10	**Ricoh**	1,800

Private Equity

A year ago we expected our private equity portfolio of sixteen funds investing in over 10,000 companies to perform badly in 2009. The main reason for this was timing, as the valuations of private equity funds take several months to reflect what is happening in financial markets and the economy. This affected our portfolio significantly in the first six months of 2009, but by September 2009 had largely been completed.

The Board anticipated this problem in November 2008 and revalued the private equity portfolio downwards to reflect the falls in markets since June 2008. This policy continued until July 2009 when the "mark to market" values moved up to the valuations provided by the managers. Since then we have used the managers' latest valuations in accordance with our longstanding policy.

Private equity portfolio

		Original commitment €'000s	Cumulative commitment drawn down €'000s	Commitment outstanding €'000s	Cumulative cash returned €'000s	Value of holding 31 December 2009 €'000s
Total Euro denominated portfolio	2009	290,000	200,512	89,488	59,823	138,994
	2008	290,000	182,425	107,575	59,846	126,699
		US$'000s	US$'000s	US$'000s	US$'000s	US$'000s
Total US Dollar denominated portfolio	2009	589,050	297,430	291,620	23,060	275,730
	2008	589,050	259,244	329,806	17,421	238,499

		Commitment outstanding 31 December 2009 £'000s	Value of holding 31 December 2009 £'000s
Total private equity portfolio(1)	Brought forward	333,392	288,375
Committed in 2009(2)		–	–
Cash drawn in 2009(2)		(40,468)	40,468
Cash returned in 2009(2)		–	(3,408)
Valuation movements(3)		–	(2,267)
Exchange movements		(32,829)	(28,925)
Total private equity portfolio(3)	Carried forward	260,095	294,243

(1) At exchange rates ruling at 31 December 2008
(2) At actual exchange rates in 2009
(3) At exchange rates ruling at 31 December 2009

Source: F&C Management Limited

Fund Manager's Review (continued)

Another complication has been the effect of currency movements on our portfolio, all of which is denominated in US dollars and Euros. The fall in the pound in 2008 added £86m to the sterling value of our portfolio and the rise in the pound in 2009 reduced the value by £29m.

Our funds investing in venture capital and buyouts in the US and Europe were broadly unchanged in local currencies. The three secondary funds which buy existing portfolios from other investors were down in aggregate, partly reflecting the lack of transactions in 2009. The best performance came from the funds investing in Asia, as these markets coped relatively well with the global economic downturn.

New investment opportunities were much fewer than we expected in 2009 so our funds drew down £40.5m compared with £79.3m in 2008. The level of cash returned from investments fell even more, from £14.4m in 2008 to only £3.4m in 2009. Outstanding commitments to existing funds fell from £333.4m to £260.1m during the year. It may take up to five years for these commitments to be drawn down into new investments by which time cash realisations should have increased significantly. We do not expect to make any new commitments in 2010.

Our private equity exposure is higher than the Board's target of 10% and we expect it to remain above that figure for several years in almost all likely market conditions.

The private equity business model has been severely tested and recovery may take several years. We continue to believe that private equity returns will be higher than those for listed markets and that our exposure to private equity will add value for shareholders. We expect our private equity portfolio to have a better year in 2010.

Buybacks

When market conditions were very depressed we bought back hardly any shares. After share prices rallied it was not long before share buybacks picked up again. We continued with our very clear policy of buying back shares to prevent the discount rising above 10%. In the first half of the year we bought back 100,000 shares and in the second half 46,830,650 shares. These buybacks added 2.3p to net asset value per share for continuing shareholders.

Shareholders and Marketing

There was a small increase in the total number of shareholders to 109,000. We were the first investment trust to launch a low cost simple savings scheme in 1984, and it is remarkable that, twenty-five years later, investors in this and other plans own 41% of the Company, a far higher percentage than other large trusts, and one we expect to continue to grow. 2009 was an excellent year for the plans, with net investment rising more than 80% to £21.7m.

For the third year running we held a series of meetings across the country to keep professional investors up to date with what we are doing, and we also participated in the AIC's five private investor events.

Analysis of ordinary shareholders at 31 December 2009

Category	Holding
F&C savings plans	41.4%
Discretionary/Advisory	23.9%
Institutions	16.0%
Direct individuals	11.6%
Skandia IFA products*	4.8%
New Zealand individuals	2.3%
	100.0%

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

We have also begun a three-year programme, Pounds and Pennies, to help teach young children about money and the value of saving. This is designed to link in with the national curriculum and is initially being promoted in 2000 primary schools.

We again sponsored a garden at the Chelsea Flower Show to raise our profile with current and potential investors. The garden won a silver gilt medal and Foreign & Colonial received a great deal of media coverage. We will sponsor a garden again at the 2010 Chelsea Flower Show.

Current strategy

2009 was a year of positive surprises. There was no global financial collapse, stockmarkets performed very well and many companies produced better than expected profits.

2010 is almost certain to be more difficult. Emerging markets have performed so well there are far fewer bargains to be had; the easy money has been made. It is likely that some of these countries will have to increase interest rates and tighten policy in other ways, which will upset their stockmarkets. The long-term arguments for investing in these economies remain very strong, but I am cautious in the short term.

It is difficult to get enthusiastic about any other equity market after the sharp rises in the last year and the huge challenges many economies face. However, these problems are far more likely to weigh on bond markets than equity markets, and there are many companies that can maintain or increase profits even in difficult conditions.

We reduced gearing at the end of 2009 to give us more flexibility to cope with these more volatile conditions. If markets do better than we expect, we will reduce gearing again. If they fall, we would expect to increase our borrowings to buy shares in companies with good long-term growth potential.

Jeremy Tigue
Fund Manager
4 March 2010

The Company's full list of investments exceeds 650 and is published quarterly on the website at

www.foreignandcolonial.com

Copies are also available on request from the Secretary

Twenty Largest Holdings

This Year	*Last Year*	**Company** Description	% of total investments	Value £'000s
1	*(9)*	**HSBC** Broadly diversified international bank operating in over 80 countries worldwide.	2.8%	58,424
2	*(1)*	**Pantheon Europe Fund III** Private equity fund of funds investing principally in the European market, with the largest exposure being to the UK.	2.8%	57,246
3	*(2)*	**BP** Global oil company.	2.6%	54,886
4	*(3)*	**Royal Dutch Shell** Global oil company.	2.6%	53,161
5	*(4)*	**GlaxoSmithKline** One of the world's leading pharmaceutical companies.	2.2%	45,374
6	*(–)*	**Rio Tinto** Leading international mining group.	2.1%	43,912
7	*(5)*	**Vodafone** Global mobile telephone provider.	2.1%	43,020
8	*(8)*	**HarbourVest V Direct Fund** Specialist private equity fund that makes direct investments alongside other fund managers.	1.7%	35,228
9	*(–)*	**Caithness Petroleum** Unlisted oil exploration company with interests in the US, North Sea and Morocco.	1.7%	34,261
10	*(6)*	**Dover Street VI** Fund of funds specialising in buying holdings in existing private equity funds.	1.6%	32,300
11	*(7)*	**HarbourVest Partners VII Buyout Fund Partnership LP** Fund of funds investing in buyouts of US businesses.	1.5%	31,551
12	*(13)*	**Pantheon Europe Fund V** Private equity fund of funds investing principally in the European market, with the largest exposure being to the UK.	1.5%	31,021
13	*(12)*	**British American Tobacco** Leading international manufacturer and distributor of cigarettes.	1.3%	26,208
14	*(14)*	**Tesco** The leading food retailer in the UK.	1.3%	26,175
15	*(17)*	**Utilico Emerging Markets** Specialist fund concentrating on utility and infrastructure investments in emerging markets.	1.2%	24,997
16	*(10)*	**Scottish & Southern Energy** Multi-utility group.	1.2%	24,276
17	*(11)*	**Astrazeneca** Leading global pharmaceutical company.	1.2%	24,269
18	*(15)*	**Pantheon Global Secondary Fund III** Fund of funds specialising in buying holdings in existing private equity funds.	0.9%	19,202
19	*(–)*	**BH Macro** Listed hedge fund investing in global fixed income and foreign exchange markets.	0.9%	18,404
20	*(–)*	**Pantheon Asia Fund IV** Private equity fund of funds investing in Asian markets.	0.8%	17,404

The value of the twenty largest holdings represents 34.0% (2008: 32.2%) of the Company's total investments.
The figures in brackets denote the position in the twenty largest holdings at the previous year end.
The value of convertible securities in the total portfolio at 31 December 2009 was £4,526,000 or 0.2% of total assets less current liabilities (2008: £1,917,000 or 0.1% of total assets less current liabilities).

Directors' Report and Business Review

The Directors present their Report, Business Review and the audited financial statements of Foreign & Colonial Investment Trust PLC (the "**Company**" or "**FCIT**") for the year ended 31 December 2009. The financial statements are set out on pages 40 to 64.

Results and dividends

The net assets of the Company as at 31 December 2009 were £2.0 billion (2008: £1.8 billion) or 309.84 pence per share when deducting debt at its par value (2008: 262.50 pence). When deducting debt at its market value, the net asset value per share was 304.74 pence (2008: 256.59 pence).

The Fund Manager's Review on pages 7 to 13, which forms part of this Business Review, describes more fully how the Company's assets were invested during the year, how they performed and the outlook for 2010. The Company's full list of its investments can be viewed on the website. The twenty largest holdings can be found on page 14, and the ten largest investments in each of the regional sub-portfolios are disclosed in the Fund Manager's Review.

Revenue was lower than in 2008, with net revenue return reducing by 24.2% and revenue return per share by 23.0%. This was mainly as a result of significant dividend reductions, particularly in the banking sector. Overall operating expenses increased marginally, reflecting a significant increase in the costs of obtaining bank facilities, which were mostly offset by a decrease in management fees. Unlike the previous year, there were no VAT repayment credits or associated interest due to the Company.

Summary of results for 2009

Net asset value per share*	+18.8% to 304.74p
Net asset value total return per share*	21.3%
Share price	+19.1% to 272.10p
Share price total return	22.5%
Annual dividend per share	6.65p
Total expense ratio	0.58%
Share capital repurchased**	6.9%
Discount	From 10.9% to 10.7%

* With debt at market value
** adding 2.3p to net asset value per share

No performance fees were payable.

The total expense ratio was 0.58% (2008: 0.58%).

Attributable to equity shareholders

	£'000s
Revenue return attributable to equity shareholders	35,609
Dividends paid on ordinary shares:	
Final of 3.45p paid on 8 May 2009*	(23,423)
Interim of 3.00p paid on 9 September 2009**	(20,360)
Amount transferred from revenue reserve	(8,174)

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

The interim dividend of 3.00 pence per share, together with the second interim dividend of 3.65 pence per share which will be paid on 31 March 2010 in lieu of a final dividend, will bring the total dividend for the year to 6.65 pence per share. This represents an increase of 3.1% over the comparative 6.45 pence per share paid in the previous year.

Principal activity and status

The Company is an investment company as defined by Section 833 of the Companies Act 2006. As such, it analyses its income between revenue, which is available for distribution by way of dividends, and capital, which it is prohibited from distributing other than by way of share buybacks. The Company is registered in England and Wales with company registration number 12901 and subject to the UK Listing Authority's Listing Rules, UK Company Law, Financial Reporting Standards, Taxation Law and its own Articles of Association, amendments to which must be approved by shareholders via a special resolution.

Investment trust taxation status

The Company is liable to corporation tax on its net revenue profits but is exempt from corporation tax on capital gains, provided it complies at all times with section 842 of the Income and Corporation Taxes Act 1988 ("**section 842**"). Such compliance, which includes investing no more than 15% of the total portfolio in any one investment, deriving its income

Directors' Report and Business Review (continued)

wholly or mainly from shares and securities and retaining no more than 15% of such income, qualifies the Company as an investment trust. This status is granted annually in retrospect by HM Revenue and Customs, subject to there being no subsequent enquiry under Corporation Tax Self Assessment. The Company has qualified as an investment trust in respect of all relevant years up to and including the year ended 31 December 2008, and continues to conduct its affairs in compliance with section 842.

Accounting and going concern

The Financial Statements, starting on page 40, 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 39. The Company's objective and policy, which is described below and is subject to regular Board monitoring processes, is designed to ensure that the Company is invested mainly in liquid, listed securities and that the level of borrowings in Sterling and other currencies is normally limited to 20% of the value of shareholders' funds. The Company retains title to all assets held by its custodian, and has trust deeds governing its debentures and agreements relating to its borrowing facilities. Cash is held only with banks approved and regularly reviewed by the Manager.

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

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

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

Objective and policy

The Company's investment objective is to secure long-term growth in capital and income through a policy of investing primarily in an internationally diversified portfolio of publicly listed equities, as well as unlisted securities and private equity, with the use of gearing.

Risk diversification is achieved through geographic asset allocation and industry sector and stock selection across a wide range of markets. Within the general policy of maintaining a diversified portfolio, there are no specific geographic or industry sector exposure limits for the publicly listed equities. The Board has placed a limit of 5% of the value of the total portfolio on unlisted securities, at the time of acquisition and excluding private equity investments, and any unlisted investment requires specific Board approval. The Board's target of 10% for its private equity exposure was passed during 2008 and was 14.2% at the year end. Additional investment in respect of calls on existing commitments, together with a substantial fall in the value of the listed portfolio or a significant weakness in Sterling, may cause exposure to private equity to increase as a proportion of the total portfolio. In these circumstances, the Board intends to accommodate any short-term fluctuations in the value of the private equity portfolio in excess of the Company's stated 20% investment policy limit.

Under the Company's Articles of Association, with limited exceptions, no single investment may be made by the Company which exceeds 10% of the value of the total portfolio at the time of acquisition. Under the Listing Rules, no more than 10% of the total assets may be invested in other listed closed-ended investment companies, unless such investment companies have themselves published investment policies to invest no more than 15% of their total assets in other closed-ended investment companies, in which case the limit is 15%. The Board has placed a limit of 5% of the value of the total portfolio on investment funds managed by the Manager at the time of acquisition, and any such investment requires specific Board approval.

Borrowings, which can be taken out either in Sterling or foreign currency, would normally be expected to fall within a range of 0–20% of shareholders' funds based on valuing the Company's debenture at market value.

The Company will typically remain fully invested in equities, but is not prohibited from investing in other types of securities or assets. Derivatives may be used to control risk and enhance returns for the overall portfolio including, if appropriate, protection against currency risks.

An explanation of how the Company has invested its assets in accordance with its investment policy is contained in the Fund Manager's Review. An analysis of the portfolio is contained on page 55 and a list of all the Company's investments is published quarterly on its website.

Strategy

The Board believes that the optimum basis for achieving its stated objective and implementing the investment policy is a strong working relationship with F&C Management Limited ("**the Manager**" or "**F&C**"), the more detailed arrangements for which are explained later in this review. F&C has overall responsibility for the management of the Company's assets, and for asset allocation, gearing, stock selection and risk. Furthermore, F&C's interests are closely aligned with those of shareholders under a performance fee arrangement that encourages the highest quality stock selection, either from F&C directly or by outsourcing to third party sub-managers. The performance objectives set for the Manager and measurement against the Company's key performance indicators can be found on pages 23 to 24.

Capital structure and buyback policy

As at 31 December 2009 there were 632,089,064 ordinary shares of 25 pence each in issue. All ordinary shares rank equally for dividends and distributions and carry one vote each. Details of the capital structure can be found in note 18 on the accounts. The revenue profits of the Company (including accumulated revenue reserves) are available for distribution by way of dividends to the holders of the ordinary shares. Upon a winding-up, after meeting the liabilities of the Company, the surplus assets would be distributed to shareholders pro rata to their holdings of ordinary shares.

Subject to annual shareholder approval, the Company may buy back its own shares for cancellation at a discount to net asset value per share. This forms part of its wider strategy under which the Board has the objective of achieving a less volatile discount with a ceiling, in normal market conditions, of 10% (with debt at market value), as well as enhancing net asset value per share for continuing shareholders. As at 31 December 2009 the discount stood at 10.7% (with debt at market value).

At the Annual General Meeting held on 1 May 2009, shareholders renewed the Board's authority to buy back the Company's ordinary shares for cancellation.

A total of 46,930,650 shares were bought back and cancelled, representing 6.9% of the number of shares in issue at 31 December 2008 and enhancing the net asset value per share by 2.3 pence. The purchases were made at prices ranging between 217.56 pence and 272.86 pence and the aggregate consideration paid for the shares, excluding stamp duty and commissions, was £120,551,000.

Between the year-end and 3 March 2010, a further 7,338,400 shares have been purchased (which represents approximately 1.2% of the share capital) at an average price of 269.45 pence.

As at 3 March 2010, the number of ordinary shares in issue stood at 624,750,664. A resolution to renew the authority to buy back up to 93,650,000 shares will be put to shareholders at the Annual General Meeting (Resolution 9). A resolution to authorise the Directors to allot up to 31,236,000 shares will also be proposed (Resolution 8).

Borrowings

The Company has a £110 million 11.25% debenture stock, which matures in December 2014, and a £575,000 4.25% perpetual debenture stock. Information in relation to the debentures can be found in note 17 on the accounts. The Company also has the ability to use short-term borrowings by way of loans and overdrafts, subject to the limits set out in the Company's objective and policy section and the debenture deeds. The Company maintains multi-currency credit facilities with Royal Bank of Scotland and ING Bank totalling £100m (2008: £200m), which will be subject to review between July and October

Directors' Report and Business Review (continued)

2010. The Company also has a multi-currency overdraft facility of £50m with JPMorganChase. Further reference is made on page 7 and in note 14 on the accounts.

Principal risks and their management

The Company's assets consist mainly of listed equities and its principal risks are therefore market related. Note 26 on the accounts sets out the Company's financial risk management policy. The Corporate Governance Statement on page 32 includes a summary of the risk management arrangements. By means of the procedures set out in the summary, and in accordance with the Internal Control: Guidance for Directors on the Combined Code published by the Working Party for the Institute for Chartered Accountants in England and Wales, the Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, and has regularly reviewed the effectiveness of the internal control systems for the period. This process has been in place throughout the year under review, and to the date hereof, and will continue to be regularly reviewed by the Board on an ongoing basis.

The specific key risks faced by the Company, together with our mitigation approach, are as follows:

(i) Objective and strategy – inappropriate objective and strategy in relation to investor demands in a rapidly changing financial services and savings market.

- The Board regularly reviews the Company's position as a leading savings vehicle. Certain strategic issues, including its role as a global growth investment trust, acquisition opportunities and the rationale for not introducing a continuation vote, are considered annually by the Board.

(ii) Investment policy, liquidity, gearing and currency – inappropriate asset allocation, sector and stock selection, and use of gearing leading to underperformance relative to the Company's benchmark index and peer group. Borrowing money to invest in markets has a negative impact on asset values, if those markets subsequently fall. The inability to renew borrowing facilities may cause the Company to have to repay borrowings via asset sales at a disadvantageous time and value. Exposure of the investments and cash to foreign currencies will impact performance when those currencies weaken against Sterling.

- In the management and mitigation of these risks, the Board maintains an asset allocation and gearing policy. Investments are primarily in a diversified spread of international publicly listed equities with exposure to their underlying currencies. At each meeting the Board reviews investment policy and investment performance with the Fund Manager and monitors levels of investment in illiquid securities, as well as the appropriateness of the levels of cash and borrowings. The ability of the Company to gear up via long-term and short-term borrowings, in currencies matching those to which the portfolio is exposed, enables it to take a long-term view of the countries, markets and currencies in which it is invested, without having to be concerned about short-term volatility. It is the Board's policy to have one or more borrowing facilities in place at all times, to ensure the Company has the ability to provide liquidity at short notice and at commercial rates, whether to pay back any loans that are maturing or to take advantage of perceived investment market weaknesses. Gearing levels are currently set in the range of 0% to 20% of net assets and the Board pre-approves all borrowing facility agreements. The investment policy allows the Company to use derivatives for the purpose of hedging foreign currencies, but to date it has not done so.

(iii) Private equity – the majority of the underlying private equity investments are in unlisted companies, some of which will be in the early stages of their development, may be loss-making, highly geared and with no certainty of survival. Unlisted investments may prove difficult or impossible to realise. The concept of "fair value" of unlisted companies is an imprecise science, and the ultimate realisation of such investments may be at a valuation significantly different from the valuation used in the accounts. In addition, the timing of any such realisation is uncertain.

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

(iv) Safe custody of assets – the failure of the Custodian to continue to provide a safe and secure custodian service or to continue operating could put in jeopardy the assets and ultimately the ongoing business of the Company.

- The Board regularly reviews the service provided by the Custodian. The service levels are reviewed by the Manager, which receives annually a SAS70 report on the Custodian, by an independent auditing firm. The Custodian is monitored alongside other counterparties in accordance with the process operated by the Manager and reviewed by the Board. The contractual provisions with the Custodian include the ring-fencing of the Company's assets in its own client accounts.

(v) Service providers – the Manager is the main service provider and a failure to continue operating for any period of time could put in jeopardy the ongoing business of the Company.

- The Board meets regularly with the management of the Manager and its Internal Audit function, and has access to publicly available information indicative of its financial position and performance.
- The Board is putting in place contingency arrangements to facilitate the ongoing operation of the business in the event of any such failure.

(vi) 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.

- The unprecedented market conditions following the collapse of Lehman Brothers in September 2008 placed greater focus on counterparty risk monitoring and oversight throughout the Financial Services industry. The Board has reviewed the process by which the Manager approves counterparties with which it will carry out transactions on behalf of the Company. This includes the level of due diligence and monitoring applied on each new and existing counterparty, the limits set and sufficient diversification by number of counterparties with which the Manager will operate. All transactions must be settled on the basis of delivery against payment, unless local market conditions dictate otherwise.

(vii) Discount volatility – investment trust shares tend to trade at discounts to their underlying net asset values, which can fluctuate considerably.

- The Company has a discount control mechanism with the objective of maintaining a less volatile discount with a ceiling, in normal market conditions, of 10% (with debt at market value).

(viii) Operational and regulatory – breach of section 842 could lead to the Company being subject to capital gains tax on the sale of its investments, whilst serious breach of other regulations may lead to its shares being suspended by the Stock Exchange or to a qualified audit report. Other control failures, either by the Manager or any of the service providers, may result in operational problems, incorrect disclosures or loss of assets through fraud, as well as breaches of regulations.

- All investment movements and forecasts of income and expenditure are reported to the Board as part of the process of monitoring compliance within the section 842 criteria.
- The Manager's and other service providers' control policies and procedures are reviewed annually.

(ix) Reputational damage – any significant failing could damage the reputation of the Company, leading to further adverse consequences.

- The actions and controls relating to each of the principal risks highlighted above serve to mitigate the risk of reputational damage.

The Board's responsibilities

The Company's Board of Directors is wholly non-executive and is responsible for corporate strategy, corporate governance, risk and control assessment, the overall investment policy of the Company, setting limits on gearing and asset allocation, monitoring investment performance and for approving marketing

Directors' Report and Business Review (continued)

policy budgets. Further information in relation to the Board can be found on page 32.

Directors

Information on the individual Directors, all of whom are resident in the UK, can be found on page 28.

Each Director has signed a terms of appointment letter with the Company, in each case including one month's notice of termination by either party. These are available for inspection at the Company's registered office during normal business hours and are also available at annual general meetings. There were no contracts of significance to which the Company was a party and in which a Director is, or was, materially interested during the year.

Directors' remuneration and shareholdings

The Directors' Remuneration Report, which can be found on pages 30 and 31, together with note 6 on the accounts, provides detailed information on the remuneration arrangements for Directors of the Company. Shareholders will be asked to approve the Directors' Remuneration Report at the Annual General Meeting (Resolution 2).

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

Directors' election and re-election

Other than Mr Simon Fraser, who joined the Board on 22 September 2009 as Chairman Designate, all the Directors held office throughout the year under review. Simon Fraser will stand for election at the forthcoming Annual General Meeting (Resolution 3). Mr Ronald Gould resigned from the Board on 27 January 2010. Mr Mark Loveday retires at the Annual General Meeting and will not stand for re-election. Sir Michael Bunbury and Mr Max Ward stand for re-election having served over twelve and nearly ten years respectively (Resolutions 4 and 5).

The Nomination Committee considered the re-election of the Directors at a meeting held in January 2010, appraising their performance and reviewing their status and commitment as independent and, in the case of Sir Michael Bunbury and Mr Max Ward, as long serving non-executive Directors. The Board has concurred

Directors' interests at 31 December	2009	2008
Mark Loveday	100,000	100,000
Sir Roger Bone	7,699	3,146
Sir Michael Bunbury	97,000	97,000
Stephen Burley	25,000	25,000
Sir David Clementi	5,141	1,241
Simon Fraser	31,482	1,482
Ronald Gould	6,965	4,705
Christopher Keljik	57,177	56,017
Maxwell Ward	30,000	30,000

Since the year end, the following Directors have acquired further ordinary shares: Sir Roger Bone 255 and Sir David Clementi 546. Mr Ronald Gould, who resigned on 27 January 2010, acquired 210 shares. There have been no changes in any of the other Directors' shareholdings detailed above. No Director held any interests in the issued stocks or shares of the Company other than as stated above. Mr Loveday and Sir Michael Bunbury also held 35,000 and 10,000 ordinary shares respectively in a non-beneficial capacity (2008: 35,000 and 17,500 ordinary shares respectively).

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

with the Nomination Committee's assessment that they continue to make a valuable and effective contribution and remain committed to their roles. The Directors absented themselves from those parts of the meetings that dealt with their re-election.

Director indemnification and insurance

On 26 July 2006, the Company entered into a deed poll providing the Directors with indemnities against liability to third parties arising in connection with any negligence, default, breach of duty or breach of trust by the Directors (such indemnities being qualifying third party indemnities) and providing for the funding of defence costs, in each case as permitted under the Companies Act 2006. No such indemnity is provided in relation to a liability incurred by the Director to the Company or in respect of proceedings in which he is convicted or a liability to pay a fine is imposed in criminal proceedings or by a regulatory authority. Similarly, any funding provided to a Director who is not exonerated must be repaid. The indemnities were in place throughout the period under review and at 4 March 2010. The deed poll is available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting. The Company has insurance in place which indemnifies the Directors against certain liabilities arising in carrying out their duties.

Investment management and administration

Most investment trusts, including your Company, have no employees and instead appoint fund management companies to manage their investment portfolios and deliver investment performance, as well as to carry out the ancillary functions of administration, secretarial, accounting and marketing services. The Company has appointed F&C as Manager. It has a long association with F&C, having originally established and developed it for the purpose of managing its assets as far back as 1953. F&C is now owned by F&C Asset Management plc ("**FCAM**"), a large pan-European investment group listed on the London Stock Exchange. The appointment is governed by a management agreement, which is terminable upon six months' notice given by either party. Further information on this agreement is set out in note 4 on the accounts.

The Company's relationship with F&C is fully arms-length with no cross-directorships or common share interests. Part of the legacy is that the names "Foreign & Colonial" and "F&C" are often used synonymously in the public arena, although the companies each own their respective names and are two distinct and completely independent entities.

Jeremy Tigue acts as Fund Manager to the Company (the "**Fund Manager**"), on behalf of F&C, and is responsible and accountable for the entire portfolio including private equity, and other key areas such as marketing and investor relations. His responsibilities extend to asset allocation, gearing, risk management (within limits set and regularly monitored by the Board) and the private equity fund of funds investments managed by Pantheon Ventures Limited ("**Pantheon**") and HarbourVest Partners LLC ("**HarbourVest**"). The Fund Manager now acts as a representative of the Company on the advisory committees of these managers. Recommendations for further private equity and unlisted investments remain subject to approval by the Board. In the case of the regional equity portfolios, the Fund Manager has the flexibility to recommend to the Board their delegation to external third party investment managers when this seems likely to result in better investment performance. Throughout most of the period under review there were two such managers for the North America large and mid-cap equity portfolios, namely Barrow Hanley and T Rowe Price, and there was one manager for the Japan portfolio, Goldman Sachs Asset Management ("**GSAM**"). An independent specialist multi-manager, FundQuest, advised the Manager in relation to the appointment of third party investment managers for the North America portfolio. As reported in the Annual Report and Accounts 2008, the Manager ceased the advisory relationship with FundQuest and terminated the sub-management agreement with Loomis Sayles in February 2009. In January 2010, the Manager terminated the sub-management agreement with GSAM and brought the management of the Japan portfolio back to F&C following a presentation by its regional fund manager.

Responsible ownership

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

The Manager's current policy, which is available on its website, has been reviewed and endorsed by the Board, which encourages and supports the Manager on its voting policy and its stance towards environmental, social and governance issues. The Board periodically receives a report on instances where F&C has voted against the recommendation of the management on any resolution. It also expects to be informed of any sensitive voting issues involving the Company's investments.

The Manager's fees

The Manager was paid a fixed fee of £6.7 million (2008: same) for its services in 2009, less amounts equal to the fees already received in respect of

Directors' Report and Business Review (continued)

holdings in the portfolio that it also manages. The fixed fee is subject to annual review and for 2010 it increases to £6.8 million.

The Manager is also entitled to two separate performance-related fees:

- 5% of any net asset value total return per share outperformance of the benchmark of 40% FTSE All-Share and 60% FTSE WI World ex UK indices (the "**composite benchmark**") plus a hurdle of 0.5%; and
- 5% of any net asset value total return per share outperformance of the weighted average of those of the Company's five closest peers within the Global Growth Investment Trust sector – Alliance Trust, The Bankers Investment Trust, Scottish Investment Trust, Scottish Mortgage Investment Trust and Witan Investment Trust (the "**close peer group**").

The performance-related fees are calculated on a cumulative basis, carrying forward any underperformance, or any outperformance beyond a 3% cap, in any period. The performance-related fees are based on adjusted net assets (with debentures at market value). The condition under which payment is deferred, if the share price has fallen over the year, applies to the composite benchmark element of the arrangement only, as does deduction for the effect of share buybacks and the 0.5% hurdle. No performance-related fee was paid for 2009. Note 4 on the accounts provides detailed information in relation to the respective management and performance fees incurred by the Company.

With effect from 1 January 2007, the Fund Manager's own remuneration from the Manager was aligned more closely with the interests of shareholders. A proportion of the Fund Manager's discretionary annual bonus payment is represented by shares in the Company held on trust by FCAM for three years, with vesting only at the end of such period.

Sub-managers' fees

The Manager incurred fees in respect of advice from FundQuest, in relation to its delegation of the management of the North America portfolio, up until the termination of the advisory agreement in February 2009. Investment management fees were also incurred from the sub-managers appointed to manage both that and the Japan portfolio. The Company reimburses the Manager for these fees, which in 2009 amounted to £1.5 million (2008: £2.2 million). The fee for managing the Japan portfolio, following the reappointment of F&C as its manager in January 2010, will be covered under the fixed fee payable to F&C.

Private equity managers' fees

The fees incurred by the Company in respect of the private equity funds of funds managed by Pantheon and HarbourVest amounted to £5.5 million for 2009 (2008: £5.5 million). Some of the funds have arrangements whereby Pantheon and HarbourVest share in the profits once certain "hurdle" rates of return to investors have been achieved. These arrangements are varied and complex, but are on normal commercial terms within the private equity funds of funds industry. Fees payable by the underlying funds are negotiated by Pantheon and HarbourVest. These arrangements also vary from fund to fund, but management fees of 2% per annum and a 20% carried interest, once an agreed hurdle rate of return for investors has been achieved, would be quite normal.

Creditor payment policy

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

At 31 December 2009 the Company's outstanding trade creditors were equivalent to eight days' payments to suppliers (2008: seven days').

Performance measurement

The Board recognises that it is share price performance that is most important to the Company's shareholders, coupled with a steadily rising dividend. Underlying share price performance is net asset value performance, for which the Board looks to its Manager, which has been set the performance-related fee targets set out above.

Key performance indicators

The Board assesses its performance in meeting the Company's objective against the following key performance indicators:

- Net asset value total return
- Share price total return
- Performance attribution
- Annual dividend growth
- Discount to net asset value
- Total expense ratio
- Savings plans investment flows

The Board also reviews statistical measurements of volatility and risk. Absolute and relative assessments are made to understand the risk/return characteristics of the portfolio.

Net asset value total return and share price total return performance

	1 Year %	3 Years %	5 Years %	10 Years %
FCIT net asset value† (with debt at market value)	21.3	2.9	46.6	24.3
Benchmark†	23.4	3.3	39.1	13.8
Close Peer Group* weighted average net asset value†	27.9	3.2	48.4	23.5
AIC Global Growth Sector weighted average net asset value†	27.0	2.3	48.6	25.9
FTSE All-Share†	30.1	(4.0)	36.8	17.7
FTSE WI World ex UK†	18.9	8.1	42.6	11.1
FCIT share price†	22.5	2.5	56.1	34.0
Close Peer Group* weighted average share price†	28.9	2.8	55.1	31.7
AIC Global Growth Sector weighted average share price†	27.0	0.5	52.1	49.1
Retail Prices Index	2.4	7.5	14.8	30.3

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

Net asset value total return performance ranking of FCIT vs Close Peer Group

2009	3/6	Over 3 years	2/6
2008	5/6	Over 5 years	3/6
2007	2/6	Over 10 years	3/6
2006	4/6		
2005	3/6		

Source: Morningstar UK Limited

Asset allocation, stock selection and gearing attribution

%	1 year	3 years	5 years
Asset allocation	(2.3)	2.2	5.4
Stock selection	0.2	2.3	0.8
Gearing	0.4	(2.9)	(2.2)

Based on debt at market value
The table shows the contributions to total return versus the Company's benchmark from asset allocation, stock selection and gearing decisions over one, three and five years.
Source: F&C Management Limited

Directors' Report and Business Review (continued)

Regional portfolio attribution in Sterling

%	1 year FCIT	1 year Index	3 years FCIT	3 years Index	5 years FCIT	5 years Index
UK	28.2	30.2	(1.2)	(3.9)	41.1	36.9
North America	19.8	14.9	8.5	5.0	20.8	28.3
Europe ex UK	24.5	20.0	6.0	5.8	53.9	57.7
Japan	(7.1)	(5.8)	(19.0)	(12.8)	4.0	12.3
Emerging Markets/Developed Asia	55.4	58.2	42.5	41.5	143.4	138.9
Emerging Markets	59.0	59.4	42.5	42.0	n/a	n/a
Developed Asia	47.3	52.2	45.1	41.3	n/a	n/a

Source: F&C Management Limited.
The Emerging Markets and Developed Asia portfolios were managed as one combined portfolio until 31 December 2005, since when they have been managed separately.

Discount (with debt at market value cum income)

31 December	%
2009	10.7
2008	10.9
2007	11.1
2006	9.8
2005	9.5

Source: F&C Management Limited

Compound annual dividend growth

%	5 years	10 years
FCIT	9.6	8.7
Close Peer Group ex FCIT	6.5	4.9
FTSE All-Share	3.7	2.5
Inflation (RPI)	2.8	2.7

Source: F&C Management Limited; Morningstar UK Limited

Total expense ratio

%	A	B
2009	0.58	0.58
2008	0.56	0.58
2007	0.48	0.71
2006	0.46	0.53
2005	0.46	0.53

A = excluding performance fee
B = including performance fee
Excludes recoverable VAT on management fees
Source: F&C Management Limited

Further detailed performance statistics can be found in the Ten Year Record on pages 65 and 66.

F&C Savings Plans investment flows in FCIT

£m	2009	2008	2007	2006	2005
Purchases	53.2	52.1	49.5	48.1	36.7
Withdrawals	31.5	40.3	78.5	73.5	61.9
Net flow	21.7	11.8	(29.0)	(25.4)	(25.2)

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

MANAGER EVALUATION AND RE-APPOINTMENT

The process

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 being undertaken in January each year. In order to carry this out, the Board receives monthly detailed reports and views from the Fund Manager on investment policy, asset allocation, gearing and risk, together with quarterly presentations from F&C in respect of the UK, Europe, Emerging Markets, Developed Asia and US Small Cap portfolios. Regular presentations have been given by Goldman Sachs Asset Management in respect of the Japan portfolio. The Fund Manager and Stephen Burley received presentations in respect of the portfolios managed by the US sub-managers during a visit to the US in January 2010. The Board also receives comprehensive performance measurement schedules, provided by Morningstar UK Limited and F&C, at each meeting. These enable it to assess the success or failure of the management of the total portfolio against the performance objectives set by the Board, to assess the sources of positive and negative contribution to the portfolio in terms of gearing, asset allocation and stock selection and to assess the performance of each region against its local index and the risk/return characteristics of the portfolio.

The annual review and evaluation of the Manager's performance over the past year was carried out at the Board meeting held in January 2010. The process involved a formal presentation to the Board by F&C's Chief Executive Officer, the Head of Equities, the Fund Manager and Deputy Fund Manager and the Head of Investment Trusts, which covered recent developments at F&C, ongoing investment process measures to achieve top quartile performance, the Company's investment performance in 2009, as well as the provision of resources and services during the year. This was followed by a closed session of the Board to assess the Manager's overall performance and consider its re-appointment for the ensuing year.

Matters considered

(i) Overall investment performance – The Company's net asset value per share rose 18.8% to 304.7 pence (with debt at market value), and 18.0% to 309.8 pence (with debt at par). The Manager underperformed its target composite benchmark by 2.1 percentage points, and its other target, the weighted average of the net asset value total return of the close peer group, by 6.6 percentage points. It underperformed the weighted average of the net asset value total return of the AIC Global Growth sector by 5.7 percentage points. It also underperformed against the weighted average share price total returns of the close peer group and the AIC Global Growth sector. The Company was marginally below the composite benchmark over three years, but had comfortably outperformed over five and ten years. It had marginally underperformed the weighted average of the close peer group over three and five years and marginally outperformed over ten years.

(ii) Performance attribution – The asset allocation weighting in private equity had made the largest negative contribution, whereas the listed portfolio outperformed the benchmark. Gearing had made a positive impact. Stock selection in Europe and in US smaller companies had been positive, whilst the Emerging Markets portfolio had slightly underperformed its benchmark. The Developed Asia portfolio had underperformed, but was well ahead over three years. The UK portfolio had been negative, but the long-term record remained strong. The Board had welcomed the strong improvement in the European portfolio and was satisfied with the overall performance of the regional portfolios directly managed by F&C. The performance of the sub-managed North America portfolio had improved significantly. The outsourced Japan portfolio had underperformed again, and the decision had already been taken to bring the portfolio back under the direct management of F&C.

(iii) Resources, services and advice provided – The Manager had significant resources, a wide and developing product range and continued to have substantial assets under management. The results of its three year plan, started in January 2007, to build an integrated and robust operating structure for the long-term delivery of enhanced investment performance, were recognised in the market place, along with the strength of its new independent status. In addition to its investment management capabilities, F&C had the necessary resources and experienced people to provide the full range of investment trust services required by the Company, including provision of secretarial, accounting, administration, marketing, performance and risk measurement, internal audit and risk control functions, as well as advice on buybacks, discount control mechanisms, corporate structuring and industry issues. The marketing of F&C's savings schemes had again proved very successful with positive net inflows. The sponsorship of a garden at the Chelsea Flower Show, for the second year running, had been successful and would be

Directors' Report and Business Review (continued)

repeated in 2010. A new sponsorship initiative, to help teach young children about money, had also been put in place. F&C had demonstrated its capability to attract new investors to the Company in an increasingly competitive and difficult marketplace, although it had been recognised that this could become increasingly difficult in worsening economic conditions. Investor relations and press communication had once again been well conducted, with the Fund Manager carrying out an extensive programme of regional presentations to private client investment managers, which had been very well received.

Decision to re-appoint

Following this review and evaluation, it was the opinion of the Board that the continuing appointment of F&C as Manager on the terms agreed was in the interests of shareholders as a whole. The Board noted F&C's ongoing commitment to the Company and to its investment trust business in general. The resources, people and experience available and the quality of advice offered on a wide range of subjects were all important factors in the decision to continue with F&C as Manager. All the services provided to the Company, including secretarial, accounting and marketing, had been professionally and efficiently delivered.

FCAM, the parent company of F&C, is now fully independent, following Friends Provident's distribution of its 52% holding to its shareholders in July 2009. This has removed much uncertainty over its future, but the future of F&C and its ability to build on its independent status and continue to deliver benefits realised from its three-year plan announced in January 2007 and to demonstrate top quartile achievement in all areas of its business will continue to be important. The Board will monitor F&C's ability to attract and retain talented individual fund managers, both internally and externally, and to continue with improvements made in stock selection and overall investment performance. The ongoing challenge for F&C will remain that of maintaining the good long-term investment performance of the Company.

The Board's priorities for 2010

The Board considers its priorities and sets its objectives for the year ahead as part of its annual appraisal process. The overriding priority remains consistent achievement of relative outperformance, adding value for shareholders through a virtuous circle of net asset value and share price total return, discount management, dividend growth, a low and competitive total expense ratio and effective marketing. The Board will continue to test the Manager's marketing strategy to ensure that the Company is receiving value for money and is continuing to be promoted effectively, in order to generate demand by attracting new investors whilst retaining existing shareholders.

Future prospects

The outlook for the Company is reported in the Chairman's Statement on pages 5 and 6 and in the Fund Manager's Review on pages 12 and 13. The Board expects that the total dividend for the year 2010 will be at least the same as that of 2009.

GENERAL INFORMATION

Voting rights

At 3 March 2010 the Company had 624,750,664 ordinary shares in issue with a total of 624,750,664 voting rights. As at that date the Company had received notification of the following holdings of voting rights (under the FSA's Disclosure and Transparency Rules):

Legal & General Group plc	4.3%

The above percentage is calculated by applying the shareholding as notified to the Company to the issued ordinary share capital as at 3 March 2010.

The Manager holds 42.3% of the Company's share capital on behalf of non-discretionary clients through its savings plans. It is intended that the nominee company holding these shares will vote the shares held on behalf of planholders who have not returned their voting directions in proportion to the directions of those who have. Implementation of this arrangement is subject to a minimum threshold of 5% of the shares held in the savings plans being voted. A maximum limit of 660,000 shares that any one individual investor can vote, being approximately 5% of the minimum threshold, will also apply. Any shares voted by an investor in excess of the maximum limit will remain valid, but will not form part of the proportional voting basis. Planholders have the right to exclude their shares from the proportional voting arrangement.

Charitable donations

It is the Board's policy not to make charitable donations, as the role of an investment trust is somewhat different from most other types of companies and as taxation incentives towards charitable donations are balanced in favour of direct contributions by individuals rather than companies. Therefore, no such contributions were made during the year.

Independent auditors

So far as each Director is aware, there is no relevant audit information of which PricewaterhouseCoopers LLP (the "**Auditors**") are unaware. The Directors believe that they have each taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Auditors are aware of the information.

The Auditors have indicated their willingness to continue in office and resolutions will be proposed at the Annual General Meeting to re-appoint them and determine their remuneration (Resolutions 6 and 7).

Articles of association

It is proposed to adopt new articles of association of the Company in order to reflect further changes in company law brought about by the Companies Act 2006 ("**CA 2006**"), the final parts of which came into effect on 1 October 2009, and the implementation of the Companies (Shareholders' Rights) Regulations 2009, which came into force on 3 August 2009 (Resolution 10).

Annual General Meeting

Shareholders will have received a separate enclosure containing explanatory information and the Notice of the Annual General Meeting (the "**Meeting**") to be held at Merchant Taylors' Hall, 30 Threadneedle Street, London EC2 on 6 May 2010 at 12 noon. In addition to the ordinary business of the Meeting, resolutions 8 to 11 will be proposed as special business.

Retirement of the Chairman

Mark Loveday, who has been chairman of the Company for the last eight years, retires immediately after the Annual General Meeting. The Board would like to express its gratitude to Mark, and record its appreciation of the extraordinary dedication he has shown to the prosperity of the Company and its shareholders throughout his tenure.

By order of the Board,
for and on behalf of F&C Management Limited,
Secretary
4 March 2010

Directors

Mark Loveday – Chairman Elected to the Board in May 2001, appointed Chairman in May 2002 and was Chairman of the Nomination Committee until 27 January 2010. He was senior partner of the corporate advisory, stockbroking and investment management company, Cazenove & Co, for seven years, retiring in April 2001 after 36 years in the firm. He was a trustee of the Grosvenor Estate from March 1998 until October 2008 and was appointed chairman of the Grosvenor Pension Fund in December 2008. He has no other directorships. *Age 66.*

Simon Fraser – Chairman Designate*† Appointed to the Board on 22 September 2009. He spent his career at Fidelity International, where he started as an analyst and spent a number of years in Japan, latterly as Chief Investment Officer for the Asia/Pacific region. He returned to the UK in 1999 to take up the position of Chief Investment Officer for Fidelity International, a position he held until 2005. He held a number of other positions including President of Fidelity International's European and UK Institutional business and latterly President of the Investment Solutions Group. He stepped down from his executive responsibilities at the end of 2008. He is also a non-executive director of Barclays PLC, Merchants Trust PLC, Fidelity European Values PLC and Fidelity Japanese Values PLC. *Age 50.*

Sir Roger Bone KCMG† Appointed to the Board in March 2008. He has been president of Boeing UK since 2005. Prior to that he served as British Ambassador to Brazil from 1999 to 2004 and to Sweden from 1995 to 1999. He was an Assistant Under-Secretary of State in the Foreign and Commonwealth Office between 1991 and 1995, head of the Economic Relations Department there from 1989 to 1991 and Political Counsellor at the British Embassy in Washington DC from 1985 to 1989. He was a visiting fellow at Harvard University in 1984/85 and served as a private secretary to the Foreign Secretary between 1982 and 1984. *Age 65.*

Sir Michael Bunbury Bt KCVO*† Appointed to the Board in March 1998, is Chairman of the Audit and Management Engagement Committee and is a representative of the Company on the advisory committees of its private equity managers. He joined the stockbroking firm, Buckmaster & Moore, in 1968 and moved to Smith & Williamson in 1974, where he was subsequently chairman and to which he is now a consultant. He was also chairman of Smith & Williamson Investment Management Ltd for seven years. He has been advising private clients and families on quoted and unquoted investments and property portfolios for many years. He is chairman of JPMorgan Claverhouse Investment Trust plc and HarbourVest Global Private Equity Limited, and a director of Invesco Perpetual Select Trust plc. *Age 63.*

Stephen Burley* Joined the Board in January 2008. He was Head of Pension Investments at Rio Tinto from 1982 until his retirement in March 2007. He is currently an adviser to the BAE Systems Pension Fund. He was an adviser to, and then a trustee of, the Central Board of Finance of the Church of England from 2002 to 2007. *Age 62*.

Sir David Clementi† Joined the Board in May 2008 and is Chairman of King's Cross Central General Limited Partner, the private company responsible for the major land development in the area around King's Cross Station and St Pancras Station. He is also a non-executive director of Rio Tinto plc. He was chairman of Prudential plc from December 2002 until December 2008 and from 1997 to 2002 he was Deputy Governor of the Bank of England and served as a member of the Monetary Policy Committee. From 1975 to 1997 he worked for Kleinwort Benson Group, latterly as Chief Executive. *Age 61.*

Christopher Keljik OBE* Appointed to the Board in September 2005. He retired as a director of Standard Chartered plc in May 2005 after 29 years, during which time he held a number of senior positions working in London, Hong Kong, New York and Singapore in corporate finance, treasury and general management. Prior to his retirement, his responsibilities at Standard Chartered included its businesses in Africa, the Middle East, South Asia, the UK and the Americas. He is a chartered accountant and is also a non-executive director of Millennium & Copthorne Hotels plc and Henderson TR Pacific Investment Trust plc. *Age 61.*

Maxwell Ward – Senior Independent Director† Elected a Director in May 2000. He was a partner in Baillie Gifford & Co, the Edinburgh firm of fund managers, for 25 years and was manager of Scottish Mortgage Investment Trust plc for 11 years. He is chairman of Scottish Equitable Policyholders' Trust, managing director of The Independent Investment Trust plc and a non-executive director of the life assurance company, Aegon UK plc. *Age 60.*

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

Management and Advisers

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

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

Jeremy Tigue. Appointed Fund Manager in 1997. He is responsible for overall portfolio management including private equity, for investment performance and other key areas such as marketing and investor relations of Foreign & Colonial. He joined F&C in 1981. He is a deputy chairman of the Association of Investment Companies and a non-executive director of Graphite Enterprise Trust PLC.

Julian Cane Appointed Deputy Fund Manager in 2005. He joined F&C in 1993 and is responsible for Foreign & Colonial's UK portfolio.

Hugh Potter Represents the Manager as Company Secretary and is responsible for Foreign & Colonial's statutory compliance. He joined F&C in 1982.

Michael Woodward Head of Investment Trusts at F&C and responsible for its relationship with Foreign & Colonial since 2007.

Sub-Managers to F&C (North America large and medium cap portfolio)
Barrow Hanley – appointed July 2005
T. Rowe Price – appointed February 2006

Sub-Managers to F&C (Japan Portfolio)
Goldman Sachs Asset Management – July 2005 until January 2010

Private Equity Managers
HarbourVest Partners LLC – appointed 2003
Pantheon Ventures Limited – appointed 2003

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Facsimile: 020 7628 8188
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Email: info@fandc.com
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Chartered Accountants and Statutory Auditors
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1 Hay's Lane, London SE1 2RD

Custodian
JPMorgan Chase

Bankers
Royal Bank of Scotland
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Authorised and regulated in the UK by the Financial Services Authority

Solicitors
Norton Rose

Stockbrokers
JPMorgan Cazenove Limited

Directors' Remuneration Report

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £500,000 per annum. Within that limit, it is the responsibility of the Board as a whole to determine and approve the Directors' fees, following a recommendation from the Chairman and, in his case, from the Senior Independent Director; the Board of Directors is composed solely of non-executive Directors, none of whom has a service contract with the Company, and therefore no remuneration committee has been appointed. The amounts paid, which were for services to the Company solely in the capacity of non-executive Directors and have no performance-related element, are set out in the table below.

Remuneration for qualifying services (audited)

Director	Fees for services to the Company 2009 £'000s	2008 £'000s
Mark Loveday[1]	**65**	65
Sir Roger Bone	**30**	25
Sir Michael Bunbury[2]	**48**	46
Stephen Burley	**36**	31
Sir David Clementi	**33**	18
Simon Fraser[3]	**10**	–
Ronald Gould[4]	**36**	36
Christopher Keljik	**36**	37
Maxwell Ward	**40**	38
Ewen Macpherson[5]	**–**	15
John Rennocks[6]	**–**	14
Total	**334**	325

(1) Chairman and highest paid Director.
(2) Received £5,000 as the Company's representative on the advisory committees of Pantheon and HarbourVest.
(3) Joined the Board on 22 September 2009.
(4) Retired as a Director on 27 January 2010.
(5) Retired as a Director on 1 May 2008.
(6) Retired on 1 May 2008 as Director and Chairman of the Audit Committee.

Reference to the information in the table above, which has been audited, can be found in the Independent Auditors' Report on page 39.

There had been no increase in the basic level of the Directors' fee since 1 July 2007. During the year this fee was increased following a review, which took account of the following factors:

- the absolute and relative performance of the Company over the period 1 July 2007 to 31 May 2009 and whether the Directors had added value;
- earnings and price inflation over the period 1 July 2007 to 31 May 2009 respectively;
- a comparison with other F&C managed investment trusts, peer group investment trusts and similar sized financial companies;
- available independent reports on remuneration of the boards and non-executive directors of UK investment trusts and other companies; and
- specific matters in respect of the responsibilities and time committed to the Company's business, of the Chairman, Senior Independent Director, Directors, and chairmen and members of the various committees of the Board.

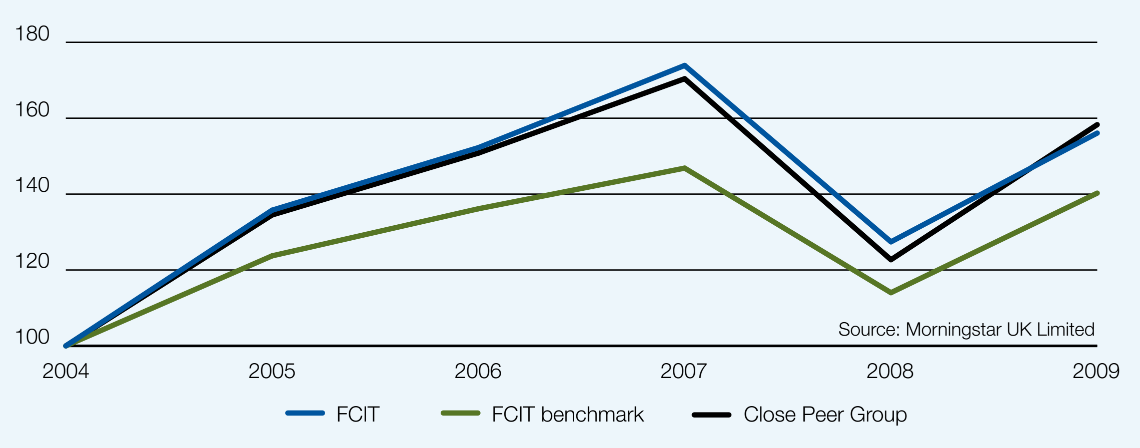
In the light of these factors the Board agreed the Chairman's recommendation that the basic fee should be £31,000 with effect from 1 July 2009, representing an increase of 3.3% over a two-year period. The Board also agreed the Chairman's recommendation that the Audit and Management Engagement Committee Chairman's fee be increased from £8,000 to £10,000 per annum. No other changes were recommended or agreed. The fees for specific responsibilities are set out in the table below.

Annual fees for Board responsibilities

	2009 £'000s	2008 £'000s
Board		
Chairman	**62.0**	62.0
Senior Independent Director[1]	**37.3**	36.3
Director[1]	**31.0**	30.0
Audit and Management Engagement Committee		
Chairman[1]	**10.0**	8.0
Members	**5.0**	5.0
Nomination Committee		
Chairman	**3.0**	3.0
Members	**3.0**	3.0
Private Equity Committee[2]		
Chairman[3]	**–**	13.0
Members	**–**	5.0
Service Providers and Marketing Committee[2]		
Chairman	**–**	8.0
Directors	**–**	5.0

(1) Change of fees with effect from 1 July 2009.
(2) The Private Equity Committee and the Service Providers and Marketing Committee ceased on 1 May 2008.
(3) Includes £8,000 as Chairman and £5,000 as the Company's representative on the advisory committees of Pantheon and HarbourVest.

Total shareholder return



It is a company law requirement to compare the performance of the Company's share price to a single broad equity market index. As the Manager's performance is measured against a composite benchmark of 40% FTSE All-Share and 60% FTSE WI World ex UK indices a comparison against this composite benchmark has been shown. The Close Peer Group Share Price Total Return (weighted average) has additionally been shown, as the Manager's performance is also measured against this criterion.

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

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

By order of the Board,
for and on behalf of F&C Management Limited,
Secretary
4 March 2010

Corporate Governance Statement

Introduction

The Board has considered the principles set out in the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2008 (the "**Combined Code**") and the AIC Code of Corporate Governance (the "**AIC Code**").* The Board believes that during the period under review the Company has complied with the provisions of the Combined Code, in so far as they relate to the Company's business. The Board is also adhering to the principles and recommendations of the AIC Code.

The Board

The Board is responsible for the effective stewardship of the Company's affairs and has reviewed the schedule of matters reserved for its decision, which are categorised under various headings, including strategy, policy, finance, risk, investment restrictions, performance, marketing, appointments, the Board and public documents. It has responsibility for all corporate strategic issues, dividend policy, share buyback policy and corporate governance matters which are all reviewed regularly. In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information. At each meeting the Board reviews the Company's investment performance and considers financial analyses and other reports of an operational nature. The Board monitors compliance with the Company's objectives and is responsible for setting asset allocation, investment and gearing limits within which the Fund Manager has discretion to act, and thus supervises the management of the investment portfolio which is contractually delegated to the Manager. The Board has the right of veto over the appointment of sub-managers recommended by the Fund Manager. The Board has responsibility for the approval of private equity and unlisted investments and all investments in in-house funds managed or advised by the Manager.

The following table sets out the number of Directors' meetings (including committee meetings) held and attended during the year under review.

* Investors in New Zealand should note that the corporate governance rules and principles applicable to the Company in the UK may differ from those of the New Zealand Stock Exchange's Corporate Governance Best Practice Code.

The Board held an Away-Day meeting in December 2009 to consider strategic issues and also met in closed session on three occasions during the year, without any representation from the Manager. All the Directors attended the Annual General Meeting.

Directors' attendance

	Board	Audit Committee	Nomination Committee
No. of meetings	10	5	5
M A Loveday	10	n/a	5
R Bone	10	n/a	n/a
M W Bunbury	10	5	5
S Burley	10	5	n/a
D Clementi	10	n/a	4
R J Gould(1)	10	4	n/a
C A Keljik	10	5	n/a
S J Fraser(2)	4	0	0
M C B Ward	10	n/a	5

(1) Retired as a Director on 27 January 2010.
(2) Appointed as a Director on 22 September 2009.

The Board aims to maintain a balance of skills, experience, diversity, age and length of service through succession planning. A nine year limit is imposed on tenure to be served by new Directors, only to be exceeded for phasing and continuity purposes where experience can add to the strength of the Board, or in exceptional circumstances. In order to review the effectiveness of the Board, the Committees and the individual Directors, the Chairman completed a thorough appraisal process in early January 2010 in respect of the year under review. This encompassed both quantitative and qualitative measures of performance in respect of the Board and the Committees implemented by way of an evaluation survey, a questionnaire and interviews with the Chairman. The Fund Manager and the Company Secretary also participated in this part of the process to provide all-round feedback to the Board. With regard to individual Directors, the performance appraisal was qualitative, implemented by way of a questionnaire and an appraisal meeting with the Chairman. The appraisal of the Chairman follows the same process and is carried out, in his absence, by the Board as a whole under the leadership of the Senior Independent Director. The appraisal process is considered by the Board to be constructive in terms of identifying areas for improving the functioning and performance of the Board and the Committees and the contribution of individual Directors, building on and developing individual and collective strengths, as well as setting priorities for the following year. The Board has considered the option of external facilitation of the process and will give further consideration to this in 2010.

The Directors are encouraged to attend relevant training courses and seminars. Directors are able to seek independent professional advice at the Company's expense in relation to their duties. No such advice was taken during the year under review. The Board has direct access to company secretarial advice and services of the Manager which, through the Company Secretary, is responsible for ensuring that Board and Committee procedures are followed and applicable regulations are complied with. The proceedings at all Board and other meetings are fully recorded through a process that allows any Directors' concerns to be recorded in the minutes. The Board has the power to appoint or remove the Company Secretary in accordance with the terms of the Management Agreement.

Independence of Directors

The Board, which is composed solely of independent non-executive Directors, regularly reviews the independence of its members. All the Directors, and in particular Sir Michael Bunbury and Maxwell Ward who have served for twelve and nearly ten years respectively and are standing for annual re-election, have been assessed by the Board as remaining independent of the Manager and of the Company itself; none has a past or current connection with the Manager and each remains independent in character and judgement with no relationships or circumstances relating to the Company that are likely to affect that judgement. The Board is prepared to have a minority of non-independent Directors should this be considered appropriate at any stage.

There is no chief executive position within the Company, as day-to-day management of the Company's affairs has been delegated to the Manager.

Conflicts of interest

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

The Board has in place procedures for authorising situational conflicts of interests relating to the Company's Directors. Directors are required to make a formal request for authorisation to the Nomination Committee. The factors to be considered will include whether the situational conflict could prevent the Director from properly performing his duties; whether the situational conflict has, or could have, any impact on the Company, for example, in financial or public relations terms and whether the situational conflict could be regarded as de minimis and unlikely to affect the judgment and/or actions of the Director in question.

After considering a request for authorisation, the Nomination Committee will make a recommendation to the Board. The terms of authorisation will include the Director absenting himself from meetings where the subject of the conflict is discussed and notifying the Company Secretary, who keeps a register of conflicts, as soon as the facts of the matter change. A Director interested in a particular matter must also abstain from voting in relation to it.

Other than the formal authorisation of the Directors' other directorships as situational conflicts, no authorisations have been sought by the Directors. The Nomination Committee reviewed the authorisation of each individual Director's directorships in January 2010. In each case there had been no material change in circumstances, and the Nomination Committee concluded that these situational conflicts had not affected any individual in his role as a Director of the Company.

This review included Sir Michael Bunbury's non-executive chairmanship of HarbourVest Global Private Equity Limited ("**HVGPE**"). HVGPE is a Guernsey incorporated closed-end investment company listed on Euronext Amsterdam. HVGPE is advised by HarbourVest Advisers LP, an affiliate of HarbourVest

Corporate Governance Statement (continued)

Partners LLC, which also manages part of the Company's private equity portfolio. Sir Michael Bunbury is not a partner of, nor does he receive any fees from, HarbourVest Partners LLC.

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

Board committees

The Board has appointed a Nomination Committee and an Audit and Management Engagement Committee ("**Audit Committee**") as set out below. Copies of the terms of reference of the committees are available on request and can also be found on the Company's website at www.foreignandcolonial.com. Membership is listed on page 28 and attendance at meetings on page 32.

Nomination Committee

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

(i) Board structure, size and composition, the balance of knowledge, experience, skill range, diversity and age profile;
(ii) succession planning and tenure policy;
(iii) the criteria for future Board appointments and the methods of recruitment, selection, appointment and induction;
(iv) the appointment of new Directors and the re-appointment of those Directors standing for re-election at annual general meetings;
(v) changes in committee membership;
(vi) the attendance and time commitment of the Directors in fulfilling their duties, including the extent of their other directorships;
(vii) the question of each Director's independence prior to publication of the Annual Report and Accounts;
(viii) the authorisation of each Director's situational conflicts of interests in accordance with the provisions of the Companies Act 2006 and the policy and procedures established by the Board in relation to these provisions; and
(ix) the Directors' contract for services and terms of office as set out in their Letter of Appointment.

All of the Nomination Committee's responsibilities have been carried out over the course of 2009 and in January 2010. The Board appointed one new Director, as Chairman Designate, during the year upon the recommendation of the Committee. This followed the appointment of a search agency for the purpose of finding a replacement for the Chairman, who will retire immediately following the Annual General Meeting. The Committee considered an extensive list of candidates put forward by the search agency and interviewed a short list of individuals for the position. A recommendation was then made to the Board and a separate meeting arranged between the recommended candidate and the rest of the Board. Following acceptance by the Board as a whole, the appointment was confirmed.

The final decision with regard to appointments always rests with the Board and all such appointments are subject to confirmation by shareholders. An induction process is in place for new appointees to the Board.

Remuneration Committee

As the Board has no executive Directors and no employees, and is composed solely of non-executives, it does not have a remuneration committee. Detailed information on the remuneration arrangements for the Directors of the Company can be found in the Directors' Remuneration Report on pages 30 and 31 and in note 6 on the accounts.

Audit Committee

The primary responsibilities of the Audit Committee are to:

(i) monitor the integrity of the financial statements of the Company, including the statutory audit of the annual accounts, and any formal announcements relating to the Company's financial performance;
(ii) review the Company's internal financial controls and the internal control and risk management systems applicable to the Company;
(iii) review annually the need for the Company to have its own internal audit function;

(iv) make recommendations to the Board in relation to the re-appointment of the Auditors and to approve their remuneration and terms of engagement;
(v) review and monitor the Auditors' independence and objectivity and the effectiveness of the audit process;
(vi) develop and implement policy on the engagement of the Auditors to supply non-audit services;
(vii) review Directors' and Officers' liability insurance;
(viii) review and monitor the Company's service providers, and the fees charged in respect of those services, including those of the Manager and the Custodian;
(ix) review the Manager's dealing efficiency and associated costs; and
(x) review trade marks and intellectual property rights.

The Audit Committee has direct access to the Auditors, PricewaterhouseCoopers LLP, and to the internal audit, risk and compliance director of the Manager, and to the Manager's group audit committee, and reports its findings to the Board. The Board retains ultimate responsibility for all aspects relating to the annual and interim accounts and other significant published financial information.

All of the Audit Committee's responsibilities have been carried out at its meetings held over the course of 2009 and in February 2010. A meeting has been held with the Auditors to review the work carried out for the audit of the annual financial statements. The Auditors also attend each of the scheduled Audit Committee meetings. The appointment of the auditors has not been put out to tender, but on the basis of their attendance at the scheduled meetings, the Audit Committee has been able to assess the effectiveness of the external audit. In completing this review, the Audit Committee has taken into account the standing, experience and tenure of the audit partner and his team, the nature and level of services provided, and confirmation that they have complied with the relevant UK independence standards. The Auditors are required to rotate the audit partner every five years and this is the first year that the current partner has been in place. The Manager and the Company use different audit firms. On the basis of its assessment, the Audit Committee has recommended the continuing appointment of the Auditors to the Board. The Audit Committee has also reviewed the provision of non-audit services, which cost £119,000 in 2009, and considers them to be cost effective and not to compromise the independence of the Auditors. The non-audit services include taxation matters, assistance in analysing and mitigating risk, and the review of the interim results. The Chairman of the Audit Committee is advised of non-audit work required and a decision to authorise is taken on a case-by-case basis. Further information can be found in note 6 on the accounts.

Following a recommendation from the Audit Committee, the Board has concluded that there is no current need for the Company to have an internal audit function; all of the Company's management functions are delegated to the Manager, which has its own internal Audit, Risk and Compliance department, and whose controls are monitored by the Board. The Audit Committee has received and reviewed the Report referred to under "Internal controls and management of risk" below and an annual compliance report from the Manager's head of Audit, Risk and Compliance.

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

Internal controls and management of risk

The Board has overall responsibility for the Company's systems of internal controls, for reviewing their effectiveness and ensuring that risk management and control processes are embedded in the day-to-day operations of the Company. These controls aim to ensure that the assets of the Company are safeguarded, proper accounting records are maintained, and the financial information used within the business and for publication is reliable. Control of the risks identified, covering financial, operational, reputational, compliance and

Corporate Governance Statement (continued)

overall risk management, is exercised by the Board through regular reports provided by the Manager on investment performance, performance attribution, compliance with agreed investment restrictions, financial analyses, revenue estimates, performance of the third party administrators of the F&C savings plans ("**F&C plans**") and on other management issues. The Manager's Audit, Risk and Compliance Department prepares a control report that provides details of any internal control failure. A key risk summary is also produced to help identify the risks to which the Company is exposed and the controls in place to mitigate them, including risks that are not directly the responsibility of the Manager. The Company's principal risks are set out on pages 18 to 19, with additional information given in note 26 on the accounts.

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

The Board has carried out a risk and control assessment, including a review of the Manager's risk management infrastructure and the report on policies and procedures in operation and tests for the period 1 January to 31 December 2009 (the "**Report**"). This has been prepared by the Manager for its investment trust clients to the standards of the Institute of Chartered Accountants in England and Wales Technical Release AAF (01/06). Containing a report from independent external accountants, the Report sets out the Manager's control policies and procedures with respect to the management of its clients' investments. The effectiveness of these controls is monitored by the Manager's group audit committee, which receives regular reports from the Manager's Audit, Risk and Compliance Department. Procedures are in place to capture and evaluate failings and weaknesses and ensure that action would be taken to remedy any significant issues identified from this monitoring, which would be reported to the Board. No material failings or weaknesses in respect of the Company were identified in the year under review.

Investment management

The Board has contractually delegated the management of the investment portfolio to the Manager, giving it responsibility for gearing, asset allocation and sector and stock selection, together with the overall risk management of the Company's assets, within the limits set and regularly reviewed and monitored by the Board.

The Board has reviewed and endorsed the Manager's approach to environmental, social and governance issues and voting policy which is explained under "Responsible ownership" on page 21, and receives periodic reports on its implementation.

Relations with shareholders

Shareholder communication is given a high priority. In addition to the annual and half-yearly reports that are available to shareholders, monthly fact sheets and general information are available on the Company's website at www.foreignandcolonial.com.

A regular dialogue is maintained with the Company's institutional shareholders and private client asset managers. As in previous years, the Chairman contacted the top institutional shareholders, as a result of which telephone discussions or email correspondence took place with 10 of these shareholders owning a total of 11% of the share capital. The Fund Manager also gave a series of 16 presentations to portfolio managers, private client wealth managers and opinion-formers across the country. In aggregate, 192 managers attended the presentations, representing 15% of the share capital. This communication programme proved constructive in providing a two-way forum for the canvassing of shareholder views, gauging opinion, and for enabling the Board to become aware of any issues or concerns. The programme will be continued in 2010.

At annual general meetings, all investors have the opportunity to question and meet the Chairman, the Board and the Fund Manager.

All beneficial shareholders in the F&C savings plans have the opportunity to vote using a form of direction and have the right to attend, speak and vote at all meetings. The Manager has stated that the nominee company will vote the shares held on behalf of planholders, who have not returned their voting directions in proportion to the directions of those who have.

Shareholders wishing to communicate with the Chairman, the Senior Independent Director or any other member of the Board may do so by writing to the Company, for the attention of the Company Secretary, at the address set out on page 29 or by emailing to FCITCoSec@fandc.com.

The Board monitors investor complaint levels and keeps under review the Manager's arrangements for "Treating Customers Fairly".

By order of the Board
for and on behalf of F&C Management Limited
Secretary
4 March 2010

Statement of Directors' Responsibilities in Respect of the Financial Statements

As required by company law, the Directors are responsible for the preparation of the annual report, Directors' remuneration report and financial statements which give a true and fair view of the state of affairs of the Company as at 31 December 2009 and of the results for the year then ended. In preparing the financial statements, suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made. The Directors are also responsible for ensuring that adequate accounting records are maintained and have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

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

- the financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK Accounting Standards and applicable laws), on a going concern basis, and give a true and fair view of the assets, liabilities, financial position and net return of the Company;
- the Directors' Report and Business Review contained in the annual report includes a fair review of the development and performance of the business and the position of the Company and their impact on the financial statements;
- the principal risks section of the Directors' Report and Business Review describes the principal risks and uncertainties for the forthcoming financial year; and
- the financial statements and the Directors' Report and Business Review include details on related party transactions.

On behalf of the Board
Mark Loveday
Chairman
4 March 2010

Independent Auditors' Report

Independent Auditors' Report to the members of Foreign & Colonial Investment Trust PLC

We have audited the financial statements of Foreign & Colonial Investment Trust PLC for the year ended 31 December 2009 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 38, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its net return and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report 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; or
  - a corporate governance statement has not been prepared by the Company.
- Under the Listing Rules we are required to review:
  - the Directors' statement, set out on page 16, in relation to going concern; and
  - the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

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

Income Statement

Revenue Notes	Capital Notes	for the year ended 31 December	2009 Revenue £'000s	2009 Capital £'000s	2009 Total £'000s	2008 Revenue £'000s	2008 Capital £'000s	2008 Total £'000s
	11	Gains/(losses) on investments	**–**	**317,695**	**317,695**	–	(679,894)	(679,894)
	20	Exchange (losses)/gains	**(43)**	**(913)**	**(956)**	(36)	(4,374)	(4,410)
3		Income	**52,694**	**–**	**52,694**	67,920	–	67,920
4	4	Management fees	**(3,859)**	**(4,537)**	**(8,396)**	(4,357)	(4,933)	(9,290)
	4	Performance fee	**–**	**–**	**–**	–	(560)	(560)
5	5	Recoverable VAT	**–**	**–**	**–**	1,105	245	1,350
6	20	Other expenses	**(4,440)**	**(157)**	**(4,597)**	(2,983)	(88)	(3,071)
		Net return before finance costs and taxation	**44,352**	**312,088**	**356,440**	61,649	(689,604)	(627,955)
7	20	Finance costs	**(6,573)**	**(6,573)**	**(13,146)**	(8,541)	(8,541)	(17,082)
		Net return on ordinary activities before taxation	**37,779**	**305,515**	**343,294**	53,108	(698,145)	(645,037)
8	20	Taxation on ordinary activities	**(2,170)**	**–**	**(2,170)**	(6,119)	2,978	(3,141)
9	9	**Net return attributable to shareholders**	**35,609**	**305,515**	**341,124**	46,989	(695,167)	(648,178)
9	9	**Return per share – basic (pence)**	**5.31**	**45.54**	**50.85**	6.90	(102.10)	(95.20)

The total column of this statement is the profit and loss account of the Company
All revenue and capital items in the above statement derive from continuing operations. A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

Reconciliation of Movements in Shareholders' Funds

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

Notes	For the year ended 31 December 2008	Share Capital	Capital Redemption Reserve	Capital Reserves	Revenue Reserve	Total Shareholders' Funds
	Balance brought forward 31 December 2007	171,330	91,432	2,107,691	120,497	2,490,950
10	Dividends paid	–	–	–	(41,905)	(41,905)
	Shares repurchased by the Company	(1,575)	1,575	(18,418)	–	(18,418)
	Return attributable to shareholders	–	–	(695,167)	46,989	(648,178)
	Balance carried forward 31 December 2008	169,755	93,007	1,394,106	125,581	1,782,449

Balance Sheet

Notes	At 31 December	£'000s	2009 £'000s	£'000s	2008 £'000s
	Fixed assets				
11	Investments		**2,074,117**		1,998,277
	Current assets				
13	Debtors	**3,765**		5,493	
	Cash at bank	**–**		4,026	
		3,765		9,519	
	Creditors: amounts falling due within one year				
14	Loans	**–**		(110,000)	
15	Other	**(8,838)**		(4,772)	
		(8,838)		(114,772)	
	Net current liabilities		**(5,073)**		(105,253)
16	Total assets less current liabilities		**2,069,044**		1,893,024
	Creditors: amounts falling due after more than one year				
17	Debentures		**(110,575)**		(110,575)
	Net assets		**1,958,469**		1,782,449
	Capital and reserves				
18	Called-up share capital		**158,022**		169,755
19	Capital redemption reserve		**104,740**		93,007
20	Capital reserves		**1,578,300**		1,394,106
20	Revenue reserve		**117,407**		125,581
	Total shareholders' funds		**1,958,469**		1,782,449
21	**Net asset value per share – prior charges at nominal value (pence)**		**309.84**		262.50

Approved by the Board on 4 March 2010 and signed on its behalf by:

Mark Loveday

Sir Michael Bunbury

Cash Flow Statement

Notes	For the year ended 31 December	£'000s	2009 £'000s	£'000s	2008 £'000s
	Operating activities				
	Investment income	**50,553**		60,380	
	Interest received	**79**		3,152	
	Stock lending fees received	**–**		418	
	Other revenue	**865**		118	
	VAT recovered on Management fees	**–**		6,350	
	Management and performance fees paid	**(8,958)**		(15,935)	
	Fees paid to directors	**(334)**		(325)	
	Other cash payments	**(3,943)**		(2,869)	
22	Net cash inflow from operating activities		**38,262**		51,289
	Servicing of finance				
	Interest paid	**(14,048)**		(16,473)	
	Cash outflow from servicing of finance		**(14,048)**		(16,473)
	Financial investment				
	Purchases of equities and other investments	**(786,886)**		(1,155,908)	
	Sales of equities and other investments	**1,030,655**		1,144,152	
	Other capital charges and credits	**(161)**		(98)	
	Net cash inflow/(outflow) from financial investment		**243,608**		(11,854)
	Equity dividends paid		**(43,783)**		(41,905)
	Net cash inflow/(outflow) before use of liquid resources and financing		**224,039**		(18,943)
	Financing				
	Net loans (repaid)/raised	**(110,000)**		9,543	
	Costs of shares repurchased	**(121,094)**		(23,347)	
	Net cash outflow from financing		**(231,094)**		(13,804)
23	**Decrease in cash**		**(7,055)**		(32,747)

Notes on the Accounts

1 General information

Foreign & Colonial Investment Trust PLC is an Investment Company, incorporated in the United Kingdom with a primary listing on the London Stock Exchange. The Company Registration number is 12901, and the Registered office is Exchange House, Primrose Street, London, EC2A 2NY, England. The Company conducts its affairs so as to qualify as an Investment Trust under the provisions of Section 842 of the Income and Corporation Taxes Act, 1988. Approval of the Company under S842 has been received (subject to there being no subsequent enquiry) in respect of the year ended 31 December 2008 and all previous applicable financial years. Such approval exempts the Company from UK Corporation Tax on gains realised in the relevant year on its portfolio of fixed asset investments.

2 Significant accounting policies

(a) Basis of accounting

The accounts of the Company have been prepared on a going concern basis under the historical cost convention, modified to include fixed asset investments at fair value, through profit or loss and in accordance with the Companies Act 2006, Accounting Standards applicable in the United Kingdom and with the Revised Statement of Recommended Practice "Financial Statements of Investment Trust Companies" (SORP) issued in January 2009.

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

The Company had no operating subsidiaries at any time during the year ended 31 December 2009. Consequently, consolidated accounts have not been prepared.

There have been no significant changes to the accounting policies during the year ended 31 December 2009.

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

(b) Principal accounting policies

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

(i) 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 Instruments depends on the lowest significant applicable input, as follows:

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

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

Level 3 – External inputs are unobservable. Value is the Directors' best estimate, 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 in Level 3 are investments in private companies or securities, whether invested in directly or through pooled Private Equity vehicles.

Notes on the Accounts

2. Significant accounting policies (continued)

(ii) Fixed asset investments

As an Investment Trust, the Company measures its fixed asset investments at fair value through profit or loss and treats all transactions on the realisation and revaluation of investments held as fixed assets, as transactions on the Capital Account. Investment purchases are recognised on the relevant trade date, inclusive of expenses which are incidental to the acquisition of the investments. Investment sales are also recognised on the trade date, after deducting expenses incidental to the sales. Listed investments are valued at bid value at the close of business on the relevant date on the exchange on which the investment is listed. Investments which are not listed or which are not frequently traded are stated at Directors' best estimate of fair value. In arriving at their estimate, the Directors make use of recognised valuation techniques and may take account of recent arm's length transactions in the same or similar investment instruments. Where no reliable fair value can be estimated, investments are carried at cost or, where subsequently revalued, at their previous carrying amount, less any provision for impairment.

With respect specifically to investments in private equity, whether through funds or partnerships, the Directors rely on unaudited valuations of the underlying unlisted investments as supplied by the managers of those funds or partnerships. The Directors regularly review the principles applied by the managers to those valuations to ensure they are in compliance with the above policies.

(iii) Derivative Instruments

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

(iv) Debt Instruments

The Company's debt instruments include short-term bank borrowings and overdrafts, measured at fair value through profit or loss, and long-term debenture stock valued at proceeds received, net of issue costs. No debt instruments held during the year required hierarchical classification.

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

(v) Foreign currency

Foreign currency assets and liabilities are expressed in Sterling at rates of exchange ruling at the balance sheet date. Purchases and sales of investment securities, dividend income, interest income and expenses are translated at the rates of exchange prevailing at the respective dates of such transactions. Exchange profits and losses on fixed asset investments are included within the changes in fair value in the capital account. Exchange profits and losses on other currency balances are separately credited or charged to the capital account except where they relate to revenue items.

(vi) Income

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

Bank deposit interest is accounted for on an accruals basis.

2. Significant accounting policies (continued)

(vii) Expenses, including finance charges

Expenses are charged to the Revenue Account of the Income Statement, except as noted below:

- expenses incidental to the acquisition or disposal of fixed asset investments are included within the cost of the investments or deducted from the disposal proceeds of investments and are thus charged to capital reserve realised via the capital account;
- 100% of management fees, invoiced to the Company in respect of certain Private Equity investments, are allocated to capital reserves, via the capital account, in accordance with the Board's long-term expected split of returns from those investments;
- 50% of other management fees, and 50% of finance costs (both net of applicable tax relief) are allocated to capital reserves via the capital account, in accordance with the Board's long-term expected split of returns from the investment portfolio (excluding private equity investments) of the Company; and
- 100% of the performance-related management fees, as is directly attributable to the returns from investments recognised in the capital account in the period, is allocated to capital reserves. Details of the performance-related fee calculation are set out in note 4 on the accounts.

All expenses are accounted for on an accruals basis.

(viii) Taxation

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

(ix) Capital Redemption Reserve

The nominal value of Ordinary share capital repurchased for cancellation is transferred out of Share Capital and into the Capital Redemption Reserve.

Capital Reserves

Capital reserve – arising on investments sold

The following are accounted for in this reserve:

- gains and losses on the disposal of fixed asset investments;
- realised exchange differences of a capital nature;
- costs of professional advice, including related irrecoverable VAT, relating to the capital structure of the Company;
- other capital charges and credits charged or credited to this account in accordance with the above policies; and
- costs of repurchasing ordinary share capital.

Capital reserve – arising on investments held

The following are accounted for in this reserve:

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

Notes on the Accounts (continued)

3 Income

	2009 £'000s	2008 £'000s
UK dividends	**25,852**	31,774
Overseas dividends	**25,713**	31,512
Scrip dividends	**187**	1,065
	51,752	64,351
Other Income		
Interest on cash and short-term deposits	**78**	553
Interest on VAT recoverable (see note 5)	**–**	2,523
Stock lending fees	**–**	375
Sundry	**83**	–
Underwriting commission	**781**	118
	942	3,569
Total income	**52,694**	67,920
Total income comprises:		
Dividends	**51,752**	64,351
Other income	**942**	3,569
	52,694	67,920
Income from investments comprises:		
Listed UK	**25,276**	32,331
Listed Overseas	**25,899**	31,674
Unlisted	**577**	346
	51,752	64,351

4 Management and performance fees

			2009		2008
		£'000s	£'000s	£'000s	£'000s
Payable directly to F&C Management Limited (F&C):					
– in respect of management services provided by F&C	(i)	6,268		6,479	
– re-imbursement in respect of services provided by Advisers and Sub-Managers	(i)	1,450		2,235	
		7,718		8,714	
– in respect of performance fees	(ii)	–		560	
			7,718		9,274
Payable directly to Private Equity Managers	(ii)		678		576
Incurred indirectly within Funds:					
– managed by Private Equity Managers	(iii)		4,808		4,953
Total direct and indirect management and performance fees			13,204		14,803

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

Directly incurred fees are analysed as follows:

Management and Administration fees

	2009 £'000s	2008 £'000s
– payable directly to F&C	7,718	8,714
– payable directly to Private Equity Managers	678	576
	8,396	9,290
Less: allocated to capital reserves	(4,537)	(4,933)
Allocated to revenue account	3,859	4,357

Performance fees payable to F&C	–	560
Allocated to capital reserves	–	560

(a) Management fees payable to F&C Management Limited

F&C Management Limited (the Manager) provides investment management, company secretarial, financial, marketing and general administrative services to the Company under the terms of an agreement which may be terminated upon six months' notice given by either party. In the event of a change of control of the Manager, the Company may give three months' notice of termination.

The fee bases and rates applying in 2009 and 2008 are set out on page 48.

Notes on the Accounts (continued)

4 Management and performance fees (continued)

Management Fee Basis	Fixed Fee: Adjusted for fees earned by the Manager in respect of investment holdings managed or advised by the Manager or its fellow subsidiaries. Variable fees: Equal to the cost of fees paid by the Manager to third party advisers and sub-managers in respect of the Company's Japanese and US large and medium cap portfolios.
Management Fee Rate	Fixed Fee of £6.71m (2008: £6.71m) per annum, payable monthly in arrears, less fees of £0.44m (2008: £0.23m) earned by the Manager in respect of investment holdings managed or advised by the Manager or its fellow subsidiaries. Variable fees payable monthly in arrears.
Performance Fee Basis	Benchmark performance: Payable on outperformance of the adjusted net assets for the year to 31 December 2009, over the composite benchmark (defined on page 22), plus a hurdle of 0.5%, but with performance in excess of 3.5% over the benchmark, or underperformance of the benchmark, carried forward for inclusion in the calculation for the subsequent period. If the Company's share price at the end of the period is lower than at the start, any fee payable will be deferred until the share price increases over any subsequent performance fee period (the Share Price test). For the year ending 31 December 2009, the adjusted net asset performance of +21.1% represented underperformance of the composite benchmark by 1.8% (year ending 31 December 2008, 6.6% underperformance). Cumulative underperformance of 5.8% (2008: underperformance of 4.0%) is carried forward for inclusion in the calculation for the subsequent period. Close peer group performance: Payable on outperformance of the adjusted net assets for annual period ending 31 December 2009 over the Close peer group (as referred to on page 22), with any outperformance in excess of 3% or underperformance carried forward for inclusion in the calculation for the subsequent period. For the year ending 31 December 2009, the adjusted net asset performance of +22.0% represented underperformance of the Close Peer Group by 6.4% and this is carried forward for inclusion in the calculation for the subsequent period. (2008: 0.6% outperformance).
Performance Fee Rate	Benchmark performance: 5% of outperformance. Net assets are adjusted for the cost of share buybacks, dividends paid and the excess of the market value of the debentures over their cost. No benchmark or peer group performance fee has been accrued in respect of VAT recoverable (see note 5) relating to periods prior to the introduction of the performance fee structures in August 2005. Close peer group performance: 5% of outperformance. Net assets are adjusted for dividends paid and the excess of the market value of the debentures over their cost.

(b) Management fees payable to Private Equity Managers

At 31 December 2009 the Company had commitments in five Private Equity Funds managed by Pantheon Ventures Limited (2008: five) and eleven Private Equity Funds managed by HarbourVest Partners LLC (2008: eleven). Fees in respect of the Pantheon Europe Fund III are paid quarterly, directly to Pantheon Ventures Limited, at a rate of 0.65% per annum (2008: 0.65%) based on capital commitments. These fees are allocated fully to capital reserve realised. Fees in respect of all other Private Equity Funds are based on capital commitments and are charged quarterly against the underlying investments in those funds. The fees are not directly incurred by the Company. The fee rates applying during 2009 varied from 0.39% per annum to 1.95% per annum (2008: 0.375% to 1.95%).

5 Recoverable VAT

	2009 £'000s	2008 £'000s
Recoverable VAT	–	1,350

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. The Company's Auditors, PwC, have provided services in connection with this case for a fee of £35,000 (see note 6). Additional fees may become payable to PwC in the event of a successful outcome to the case, up to a maximum of £230,000. No amounts have been accrued in this regard. The potential recoveries of VAT and interest would be a significant multiple of the potential additional fees payable to PwC. No VAT or related interest recovery has been accrued or recognised as a contingent asset, as the outcome of the case is expected to remain uncertain for several years.

6 Other expenses

	2009 £'000s	2008 £'000s
Auditors' remuneration:		
for audit services	69	66
for other services*	126	17
Custody fees	242	279
Directors' emoluments (see Directors' Remuneration Report on pages 30 and 31):		
fees for services to the Company	334	325
Subscriptions	39	46
Directors' and Officers' liability insurance	64	63
Marketing expenses	779	647
Private Investor Plan expenses	996	892
Loan commitment and arrangement fees	1,103	95
Registrars' fees	115	130
Professional charges	200	146
Printing and postage	213	120
Sundry expenses	160	157
	4,440	2,983

*Total Auditors' remuneration for other services, exclusive of VAT, amounts to £119,000 (2008: £16,000) comprising £97,000 (2008: £6,000) for taxation advice, £9,000 (2008: £10,000) relating to half-year accounts and debenture compliance certificate and £13,000 (2008:£nil) for consultancy.

Taxation advice is further analysed as: £35,000 for VAT services (2008: nil); £59,000 for advice on overseas tax recoveries (2008: £3,000); and £3,000 for advice on UK taxation (2008: £3,000).

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

Directors' remuneration and contracts

(a) Remuneration from the Company

The Company had no employees during the year. The amounts paid by the Company to the Directors of the Company, which were for services as non-executive Directors and which did not include any payments or rights to pensions, are detailed in the Directors' Remuneration Report on pages 30 and 31.

(b) Remuneration from related parties

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

(c) Directors' interests in contracts

No contract of significance, to which the Company or any of its subsidiary undertakings is or was materially interested, subsisted during the year.

Notes on the Accounts (continued)

6 Other expenses (continued)

(d) Details of aggregate remuneration

During the year the aggregate amount of emoluments, paid to or receivable by the Directors for their services as Directors of the Company and their services, while a Director of the Company, as Director of any of its subsidiary undertakings or otherwise in connection with the management of the affairs of the Company or any of its subsidiary undertakings was £334,000 (2008: £325,000). Emoluments attributable to the highest paid Director amounted to £65,000 (2008: £65,000).

7 Finance costs

	2009 £'000s	2008 £'000s
Debenture stocks	12,399	12,399
Loans	659	4,593
Overdrafts	88	90
	13,146	17,082
Less: allocated to capital reserves (see note 20)	(6,573)	(8,541)
	6,573	8,541
The interest on debenture stocks, loans and overdrafts is further analysed as follows:		
Loans and overdrafts repayable within one year, not by instalments	747	4,683
Debentures, loans and overdrafts repayable between two and five years, not by instalments	12,399	–
Debentures repayable in more than five years, not by instalments	–	12,399
	13,146	17,082

8 Taxation on ordinary activities

(a) Analysis of tax charge for the year

			2009			2008
	Revenue £'000s	Capital £'000s	Total £'000s	Revenue £'000s	Capital £'000s	Total £'000s
Corporation tax at 28.0% (2008:28.5%)	2,279	–	2,279	6,048	(3,007)	3,041
Relief for overseas taxation	(2,279)	–	(2,279)	(3,041)	–	(3,041)
	–	–	–	3,007	(3,007)	–
Overseas taxation	2,279	–	2,279	3,041	100	3,141
Total current taxation (note 8b)	2,279	–	2,279	6,048	(2,907)	3,141
Deferred tax	(109)	–	(109)	71	(71)	–
	2,170	–	2,170	6,119	(2,978)	3,141

8 Taxation on ordinary activities (continued)

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

(b) Factors affecting tax charge for the year

			2009			2008
	Revenue £'000s	Capital £'000s	Total £'000s	Revenue £'000s	Capital £'000s	Total £'000s
Return on ordinary activities before taxation	37,779	305,515	343,294	53,108	(698,145)	(645,037)
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 28.0% (2008: 28.5%)	10,578	85,544	96,122	15,136	(198,971)	(183,835)
Effects of:						
UK franked dividends*	(7,221)	–	(7,221)	(9,014)	–	(9,014)
Income not subject to corporation tax	(2,938)	–	(2,938)	(289)	–	(289)
Capital returns*	–	(88,699)	(88,699)	–	194,945	194,945
Expenses not deductible for tax purposes	242	44	286	215	25	240
Expenses not utilised in the year	1,618	3,111	4,729	–	994	994
Indian tax on capital gains	–	–	–	–	100	100
Total current taxation (note 8a)	2,279	–	2,279	6,048	(2,907)	3,141

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

The deferred tax asset of £21.9 million (2008: £17.5 million) in respect of unutilised expenses at 31 December 2009 has not been recognised as it is likely that the unrecognised asset will increase in amount in future. Of this amount £1.6 million (2008: £nil) relates to revenue expenses and £20.3 million (2008: £17.5 million) to capital expenses.

9 Return per share

	2009 pence	2009 £'000s	2008 pence	2008 £'000s
Total return	50.85	341,124	(95.20)	(648,178)
Revenue return	5.31	35,609	6.90	46,989
Capital return	45.54	305,515	(102.10)	(695,167)
Weighted average ordinary shares in issue		670,883,424		680,864,950

10 Dividends

Dividends on ordinary shares	Register date	Payment date	2009 £'000s	2008 £'000s
2007 Final of 3.15p	26 March 2008	9 May 2008	–	21,525
2008 Interim of 3.00p	9 August 2008	9 September 2008	–	20,380
2008 Final of 3.45p	20 March 2009	8 May 2009	23,423	–
2009 Interim of 3.00p	7 August 2009	9 September 2009	20,360	–
			43,783	41,905

The Directors have declared a second interim dividend in respect of the year ended 31 December 2009 of 3.65p per share payable on 31 March 2010 to all shareholders on the register at close of business on 19 March 2010. The total dividends payable in respect of the financial year for the purposes of the income retention test for Section 842 of the Income and Corporation Tax Act 1988 are set out below.

Notes on the Accounts (continued)

10 Dividends (continued)

	2009 £'000s
Revenue available for distribution by way of dividends for the year	**35,609**
Interim dividend for the year ended 31 December 2009 – 3.00p per share	**(20,360)**
Second interim dividend for the year ended 31 December 2009 – 3.65p per share (estimated cost based on 624,750,664 shares in issue at 3 March 2010)	**(22,803)**
Revenue reserve utilised	**(7,554)**

11 Investments

	(Level 1)* £'000s	(Level 2)* £'000s	(Level 3)* £'000s	Total £'000s
Cost at 1 January 2009	1,687,142	–	272,411	1,959,553
Unrealised gains at 1 January 2009	475	–	38,249	38,724
	1,687,617	–	310,660	1,998,277
Purchases at cost	738,229	–	49,876	788,105
Sales proceeds	(1,026,271)	–	(3,689)	(1,029,960)
Losses on investments sold	(5,742)	–	(183)	(5,925)
Gains/(losses) on investments held	337,954	–	(14,334)	323,620
Value at 31 December 2009	1,731,787	–	342,330	2,074,117
Analysed at 31 December 2009:				
Cost	1,393,359	–	318,415	1,711,774
Unrealised gains	338,428	–	23,915	362,343
Value at 31 December 2009	**1,731,787**	**–**	**342,330**	**2,074,117**

* see note 2(b) (i)

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

Gains/(losses) on investments held at fair value	2009 £'000s	2008 £'000s
Losses on investments sold	**(5,925)**	(45,688)
Gains/(losses) on investments held	**323,620**	(634,206)
Total gains/(losses) on investments	**317,695**	(679,894)

Investments managed or advised by the F&C Group

Investments include £28.8 million (2008: £23.8 million) of funds and investments managed or advised by the Company's Manager (F&C) or its subsidiaries. These investments represent 1.4% (2008: 1.2%) of total assets less current liabilities (excluding loans) of the Company. Under the terms of the Company's Management Agreement with F&C set out in note 4, the management fee is adjusted for fees earned by the Manager on all such holdings. During the year the Company purchased £nil (2008: £nil) of such investments, and received £0.9 million (2008: £5.0 million) from sales.

Holding in F&C Asset Management PLC (FCAM)

During the year, the Company acquired a holding of 223,578 shares in FCAM (the holding company of F&C, the Manager) at nil cost by way of distribution from Friends Provident PLC. The holding in FCAM was subsequently sold for £167,000.

Unlisted investments

Unlisted investments include £294 million of investments described as private equity, together with £48 million of other investments in private companies, funds or partnerships, the underlying portfolios of which principally comprise unlisted investments. These are valued in accordance with the policies set out in note 2 on the accounts.

It is in the nature of private equity and similar unlisted investments that they may be loss making, with no certainty of survival, and that they may prove difficult to realise. The concept of "fair value" as applied to such investments is not precise and their ultimate realisation may be at a value significantly different from that used in the accounts.

12 Subsidiaries and substantial interests

Subsidiary undertakings

The consolidation of the subsidiary undertakings is not material for the purpose of giving a true and fair view and hence in accordance with Section 405(2) of the Companies Act 2006, the Company has not prepared consolidated accounts.

				At 31 December 2009
Company and business	Country of registration, incorporation and operation	Number and class of shares held	Holding %	Capital and reserves £'000s
F&C Securities Limited (dormant – Investment dealing)	England	100 ordinary shares of £1	100	(538)

Substantial interests

At 31 December 2009 the Company held more than 5% of one class of the capital of the following undertakings held as investments, none of which, in the opinion of the Directors, represent a participating interest.

Investment	Country of registration and incorporation	Number and class of shares held	Holding %
Esprit Capital Fund 1 LP	England	–	6.40
Caithness Petroleum	British Virgin Islands	997,609 ordinary shares	9.50
Dover Street VI LP	USA	–	11.12
F&C Portfolios Fund SICAV			
European High Yield Bond Fund*†	Luxembourg	1,307,696 shares	37.62
F&C US Smaller Companies PLC*	England	4,368,169 ordinary shares of 25p	21.09
HIPEP V – Direct Fund LP	USA	–	15.66
HIPEP VI – Emerging Markets Fund LP	USA	–	19.11
HIPEP VI – Asia Pacific Fund LP	USA	–	6.42
Pantheon Europe Fund III LP	USA	–	44.41
Pantheon Europe Fund V LP	Scotland	–	9.29
Pantheon Asia Fund IV LP	Channel Islands	–	8.40
Pantheon Asia Fund V LP	Channel Islands	–	6.19
Utilico Emerging Markets Limited	Bermuda	18,951,661 ordinary shares of 10p	8.93
		3,790,332 warrants	12.33
Utilico Limited	Bermuda	10,452,260 ordinary shares of 1.5625p	12.10
		409,275 warrants	11.40
U.S. Ventures Series II	Cayman Islands	–	41.11

* Investment funds managed by companies within the F&C Group.
† The holding represents 1.1% of the voting rights in the F&C Portfolios Fund SICAV.

Notes on the Accounts (continued)

13 Debtors

	2009 £'000s	2008 £'000s
Investment debtors	**80**	776
Prepayments and accrued income	**3,526**	4,524
Overseas taxation recoverable	**156**	190
Other debtors	**3**	3
	3,765	5,493

14 Creditors: amounts falling due within one year

Loans **Non-instalment debt payable on demand or within one year**	2009 £'000s	2008 £'000s
£50m repaid January 2009	**–**	50,000
£60m repaid January 2009	**–**	60,000
	–	110,000

At 31 December 2009 the Company had two undrawn unsecured revolving credit facilities expiring in July and October 2010. The facilities allow the Company access on demand to a maximum of £100m of bank loans in any major currency. Interest rate margins on the amounts drawn down are variable and are dependent upon commercial terms agreed with each bank. Commitment commission is payable on undrawn amounts at commercial rates.

Both credit facilities limit the amount which the Company may borrow at any one time as a proportion of the value of the relevant portfolio of investments and cash. The most onerous financial covenant limits total borrowings to 35% of the Company's adjusted net asset value, which at 31 December 2009 was £1,616m. Actual total borrowings at market value at 31 December 2009 were £147m, comprising overdrafts of £4m and debentures of £143m (see note 17). The Company met all of its banking covenants during the year.

At 4 March 2010, there were £25m short-term borrowings.

15 Creditors: amounts falling due within one year

Other	2009 £'000s	2008 £'000s
Cost of ordinary shares repurchased	**227**	–
Investment creditors	**2,425**	1,381
Performance fee	**–**	560
Bank overdraft	**3,942**	–
Other accrued expenses	**2,244**	2,831
	8,838	4,772

16 Geographical and industrial classification

a)	UK %	North America %	Europe ex UK %	Japan %	Developed Asia %	Emerging Markets %	**2009 Total %**	2008 Total %
Equities and convertibles								
Oil and gas	8.1	1.8	0.7	0.1	0.3	1.2	**12.2**	12.9
Basic materials	2.3	0.5	0.5	0.3	1.1	1.9	**6.6**	6.9
Industrials	1.0	2.1	1.3	0.5	0.3	0.5	**5.7**	3.0
Consumer goods	3.1	2.0	2.2	1.3	0.4	0.8	**9.8**	10.1
Health care	3.5	2.7	1.0	0.4	0.1	0.1	**7.8**	10.0
Consumer services	0.9	2.1	0.7	0.4	0.1	0.6	**4.8**	5.0
Telecommunications	2.9	0.6	–	0.2	0.1	0.5	**4.3**	5.9
Utilities	2.2	0.6	–	0.1	–	0.3	**3.2**	6.0
Financials	11.0	3.3	2.2	0.7	2.2	3.0	**22.4**	17.5
Technology	1.2	4.2	0.9	0.7	–	1.4	**8.4**	7.4
Private equity	2.1	5.1	4.6	0.2	0.8	1.4	**14.2**	14.3
Total equities and convertibles	38.3	25.0	14.1	4.9	5.4	11.7	**99.4**	99.0
Fixed interest stocks	–	–	0.8	–	–	–	**0.8**	0.7
Total Investments	38.3	25.0	14.9	4.9	5.4	11.7	**100.2**	99.7
Net current assets (excluding loans)	(0.4)	0.2	–	–	–	–	**(0.2)**	0.3
Total assets less current liabilities (excluding loans)	**37.9**	**25.2**	**14.9**	**4.9**	**5.4**	**11.7**	**100.0**	
Total 2008	34.3	27.4	15.3	6.7	5.4	10.9		100.0

b)	UK %	North America %	Europe ex UK %	Japan %	Developed Asia %	Emerging Markets %	2009 Total %	2008 Total %
Net assets 2009	**34.2**	**26.7**	**15.7**	**5.3**	**5.7**	**12.4**	**100.0**	
Net assets 2008	23.3	33.7	19.1	7.2	5.1	11.6		100.0

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

Notes on the Accounts (continued)

17 Creditors: amounts falling due after more than one year

Debentures	2009 £'000s	2008 £'000s
11.25% debenture stock 2014 – secured	**110,000**	110,000
4.25% perpetual debenture stock – secured	**575**	575
	110,575	110,575

The debenture stocks are listed on the London Stock Exchange and secured by floating charges over the assets of the Company. The market value of the debenture stocks at 31 December 2009 was £142,943,000 (31 December 2008: £150,735,000).

The 11.25% debenture stock is redeemable at par on 31 December 2014. Under the terms of the Debenture trust deed: the total of all borrowings, valued in accordance with the Company's accounting policies, shall not at any time exceed the Company's "Adjusted Total of Capital and Reserves" ("ATCR") – at 31 December 2009 the value of the ATCR was £1,610m and the value of all borrowings was £115m. The trust deed also specifies that the aggregate of the Company's debenture stocks valued at par shall not exceed two thirds of the ATCR.

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

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

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

18 Called-up share capital

	Authorised		Issued and fully paid	
	Number	Nominal £'000s	Number	Nominal £'000s
Share capital ordinary shares of 25p each				
Shares repurchased by the Company	–	–	(46,930,650)	(11,733)
Balance brought forward	1,103,600,000	275,900	679,019,714	169,755
Balance carried forward	**1,103,600,000**	**275,900**	**632,089,064**	**158,022**

46,930,650 ordinary shares were repurchased and cancelled during the year at a total cost of £121,321,000. Since the year end 7,338,400 ordinary shares have been repurchased at a total cost of £19,773,000.

19 Capital redemption reserve

	2009 £'000s	2008 £'000s
Transfer from share capital on repurchase of ordinary shares	**11,733**	1,575
Balance brought forward	**93,007**	91,432
Balance carried forward	**104,740**	93,007

20 Other reserves

	Capital reserve arising on investments sold £'000s	Capital reserve arising on investments held £'000s	Capital reserves – total £'000s	Revenue reserve £'000s
Gains and losses transferred in current year				
Losses on investments sold (see note 11)	(5,925)	–	(5,925)	–
Gains on investments held (see note 11)	–	323,620	323,620	–
Exchange movement on currency balances	(717)	(196)	(913)	–
Management fees (see note 4)	(4,537)	–	(4,537)	–
Finance costs (see note 7)	(6,573)	–	(6,573)	–
Other capital charges and credits	(157)	–	(157)	–
Revenue return attributable to shareholders	–	–	–	35,609
Total gains and losses transferred in current year	(17,909)	323,424	305,515	35,609
Cost of ordinary shares repurchased in year	(121,321)	–	(121,321)	
Dividends paid in year	–	–	–	(43,783)
Balance brought forward	1,355,257	38,849	1,394,106	125,581
Balance carried forward	**1,216,027**	**362,273**	**1,578,300**	**117,407**

Included within the capital reserve movement for the year is £nil (2008: £4,138,000) of dividend receipts recognised as capital in nature. £1,908,000 of transaction costs on purchases of investments are included within the capital reserve movements disclosed above (2008: £2,342,000). £1,923,000 of transaction costs on sales of investments are similarly included (2008: £1,968,000).

21 Net asset value per ordinary share

	2009	2008
Net asset value per share (with debenture stocks at nominal value) pence	**309.84**	262.50
Net assets attributable at end of period £'000s	**1,958,469**	1,782,449
Ordinary shares of 25p in issue at end of year	**632,089,064**	679,019,714

Net asset value per share cum dividend (with debenture stocks at market value) was 304.72p (31 December 2008: 256.59p). The market value of debenture stocks at 31 December 2009 was £142,943,000 (31 December 2008: £150,735,000).

Notes on the Accounts (continued)

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

	2009 £'000s	2008 £'000s
Total return before finance costs and taxation	356,440	(627,955)
Adjust for returns from non-operating activities		
– (Gains)/losses on investments held at fair value	(317,695)	679,894
– Exchange losses and gains of a capital nature	913	4,374
– Non-operating expenses of a capital nature	157	88
Return from operating activities	39,815	56,401
Adjust for non cash-flow items		
– Exchange gains and losses of a revenue nature	43	36
– Decrease in accrued income	1,374	214
– (Increase)/decrease in prepayments	(157)	4,948
– Decrease in creditors	(242)	(6,243)
– Scrip dividends	(187)	(1,065)
– Overseas taxation	(2,384)	(3,002)
Net cash inflow from operating activities	38,262	51,289

23 Reconciliation of net cash movement to movement in net debt

	2009 £'000s	2008 £'000s
Net cash movement	(7,055)	(32,747)
Decrease/(increase) in loans	110,000	(9,543)
Change in net debt resulting from cash flows	102,945	(42,290)
Exchange movement	(913)	(4,374)
Movement in net debt in the year	102,032	(46,664)
Net debt brought forward	(216,549)	(169,885)
Net debt carried forward	(114,517)	(216,549)

	Balance at 1 January 2009 £'000s	Cash flow £'000s	Exchange Movement £'000s	Balance at 31 December 2009 £'000s
Represented by:				
Cash at bank/(overdrafts)	4,026	(7,055)	(913)	(3,942)
Foreign currency loans	(110,000)	110,000	–	–
Debentures	(110,575)	–	–	(110,575)
	(216,549)	102,945	(913)	(114,517)

24 Contingencies and capital commitments

(a) Contingencies

At the year end the Company had guaranteed until September 2013 rental commitments by F&C Management Limited (F&C) in respect of a property leased and fully sub-let by F&C. Eureko BV has provided a full indemnity to the Company in respect of this guarantee. There has been no change in the guarantee or the indemnity since the year end.

(b) Capital commitments

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

	2009 Currency	2008 Currency	2009 £'000s	2008 £'000s
HarbourVest Partners VII:				
– Buyout Partnership Fund LP	**US$20.7m**	US$22.2m	**12,800**	15,462
– Venture Partnership Fund LP	**US$6.8m**	US$8.9m	**4,180**	6,155
– Mezzanine Fund LP	**US$2.3m**	US$3.1m	**1,412**	2,128
Dover Street VI LP	**US$13.1m**	US$15.2m	**8,124**	10,566
Dover Street VII LP	**US$59.3m**	US$62.3m	**36,691**	43,297
HarbourVest Partners VI – Asia Pacific and Rest of World LP	**US$10.4m**	US$12.9m	**6,425**	8,955
HarbourVest Partners VIII:				
– Buyout Partnership Fund LP	**US$37.8m**	US$41.1m	**23,408**	28,586
– Venture Partnership Fund LP	**US$21.0m**	US$26.0m	**13,004**	18,084
HarbourVest Partners V – Direct Fund LP	**€12.6m**	€19.5m	**11,162**	18,852
HIPEP VI – Asia Pacific Fund	**US$24.6m**	US$25.0m	**15,249**	17,388
HIPEP VI – Emerging Markets Fund	**US$24.8m**	US$25.0m	**15,327**	17,388
Pantheon Europe Fund III LP	**€22.4m**	€23.6m	**19,924**	22,792
Pantheon Europe Fund V LP	**€54.5m**	€64.5m	**48,423**	62,358
Pantheon Asia Fund IV LP	**US$22.5m**	US$28.3m	**13,933**	19,649
Pantheon Asia Fund V LP	**US$33.0m**	US$42.0m	**20,435**	29,212
Pantheon Global Secondary Fund III LP	**US$15.5m**	US$18.0m	**9,598**	12,520
Esprit Capital Fund I LP	**£0.8m**	£0.8m	**774**	800
			260,869	334,192

25 Related Party Transactions

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

There are no transactions with the Board other than aggregated remuneration for services as Directors as disclosed in the Directors' Remuneration Report on pages 30 and 31, and as set out in note 6 to the accounts. There are no outstanding balances with the Board at year end. Transactions between the Company and F&C are detailed in note 4 on Management and performance fees; in note 11, where investments managed and advised by F&C are disclosed; and in note 15 in relation to performance fees owed to F&C at the Balance Sheet date. The Fund Manager, Jeremy Tigue, who is an employee of F&C Management Limited, had a beneficial interest in 363,005 ordinary shares of the Company at 31 December 2009 and 371,042 at 4 March 2010.

Notes on the Accounts (continued)

26 Financial Risk Management

The Company is an Investment Company, listed on the London Stock Exchange, and conducts its affairs so as to qualify in the United Kingdom (UK) as an investment trust under the provisions of Section 842 of the Income and Corporation Taxes Act 1988. In so qualifying, the Company is exempted in the UK from corporation tax on capital gains on its portfolio of investments.

The Company's investment objective is to secure long-term growth in capital and income through a policy of investing primarily in an internationally diversified portfolio of public listed equities, as well as unlisted securities and private equity, with the use of gearing. In pursuing the objective, the Company is exposed to financial risks which could result in a reduction of either or both of the value of the net assets and the profits available for distribution by way of dividend. These financial risks are principally related to the market (currency movements, interest rate changes and security price movements), liquidity and credit. The Board of Directors, together with the Manager, is responsible for the Company's risk management. The Directors' policies and processes for managing the financial risks are set out in (a), (b) and (c) below.

The accounting policies which govern the reported Balance Sheet carrying values of the underlying financial assets and liabilities, as well as the related income and expenditure, are set out in note 2 on the accounts. The policies are in compliance with UK Accounting Standards and best practice. 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 foreign exchange rates. Debenture stocks were issued as part of the Company's planned gearing. All contracts and compliance with them, including the Debenture trust deed, are agreed and monitored by the Board. 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 carrying value of the Company's assets and liabilities at 31 December, by currency, are shown below:

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

26 Financial Risk Management (continued)

2008	Investments £'000s	Short-term debtors £'000s	Cash and deposits/ (overdrafts) £'000s	Debentures £'000s	Short-term unsecured loans £'000s	Short-term creditors £'000s	Net exposure £'000s
Sterling	650,980	2,922	1,418	(110,575)	(110,000)	(3,095)	431,650
US Dollar	655,040	1,466	3,378	–	–	(1,503)	658,381
Euro	257,399	309	(1,371)	–	–	–	256,337
Yen	128,513	245	214	–	–	–	128,972
Other	306,345	551	387	–	–	(174)	307,109
Total	1,998,277	5,493	4,026	(110,575)	(110,000)	(4,772)	1,782,449

The principal currencies to which the Company was exposed were the US Dollar; Euro and Yen. The exchange rates applying against Sterling at 31 December, and the average rates during the year, were as follows:

	2009	Average	2008
US Dollar	**1.6149**	1.5593	1.4378
Euro	**1.12550**	1.1175	1.0344
Yen	**150.3345**	145.5828	130.3321

Based on the financial assets and liabilities held, and exchange rates applying at each Balance Sheet date, a weakening or strengthening of Sterling against each of these currencies by 10% would have had the following approximate effect on annualised income after tax and on net asset value (NAV) per share:

			2009			2008
Weakening of Sterling	**US$ £'000s**	**€ £'000s**	**¥ £'000s**	US$ £'000s	€ £'000s	¥ £'000s
Income Statement Return after tax						
Revenue Return	**708**	**401**	**219**	589	505	220
Capital Return	**65,030**	**26,445**	**9,934**	65,767	25,619	12,881
Total Return	**65,738**	**26,846**	**10,153**	66,356	26,124	13,101
NAV per share – pence	**10.40**	**4.25**	**1.61**	9.77	3.85	1.93

			2009			2008
Strengthening of Sterling	**US$ £'000s**	**€ £'000s**	**¥ £'000s**	US$ £'000s	€ £'000s	¥ £'000s
Income Statement Return after tax						
Revenue Return	**(708)**	**(401)**	**(219)**	(589)	(505)	(220)
Capital Return	**(65,030)**	**(26,445)**	**(9,934)**	(65,767)	(25,619)	(12,881)
Total Return	**(65,738)**	**(26,846)**	**(10,153)**	(66,356)	(26,124)	(13,101)
NAV per share – pence	**(10.40)**	**(4.25)**	**(1.61)**	(9.77)	(3.85)	(1.93)

These analyses are broadly representative of the Company's activities during the current and prior year as a whole, although the level of the Company's exposure to currencies fluctuates in accordance with the investment and risk management processes.

Notes on the Accounts (continued)

26 Financial Risk Management (continued)

Interest Rate exposure

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

	Within one year £'000s	More than one year £'000s	2009 Total £'000s	Within one year £'000s	More than one year £'000s	2008 Total £'000s
Exposure to floating rates						
Cash	–	–	–	5,397	–	5,397
Borrowings	–	–	–	(110,000)	–	(110,000)
Overdrafts	(3,942)	–	(3,942)	(1,371)	–	(1,371)
Exposure to fixed rates						
Cash	–	–	–	–	–	–
Debentures	–	–	–	–	(110,575)	(110,575)
Other borrowings	–	(110,575)	(110,575)	–	–	–
Net exposures						
At year end	(3,942)	(110,575)	(114,517)	(105,974)	(110,575)	(216,549)
Maximum in year	(105,974)	(110,575)	(216,549)	(139,450)	(110,575)	(250,025)
Minimum in year	62,529	(110,575)	(48,046)	(87,353)	(110,575)	(197,928)

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

Interest received on cash balances, or paid on bank overdrafts and borrowings, is at ruling market rates. The interest rates applying on the debenture stocks are set out in note 17 on the accounts. There were no material holdings in fixed interest investment securities during the year or at the year end.

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

Based on the financial assets and liabilities held, and the interest rates pertaining, at each Balance Sheet date, a decrease or increase in interest rates by 2% would have the following approximate effects on the Income Statement revenue and capital returns after tax and on the NAV:

	Increase in rate £'000s	2009 Decrease in rate £'000s	Increase in rate £'000s	2008 Decrease in rate £'000s
Revenue return	(79)	79	(1,019)	1,019
Capital return	–	–	(1,100)	1,100
Total return	(79)	79	(2,119)	2,119
NAV per share – pence	(0.01)	0.01	(0.31)	0.31

Other Market Risk exposures

The Company does not usually enter into derivative transactions in managing its exposure to other market risks. The portfolio of investments, valued at £2,074,117,000 at 31 December 2009 (2008: £1,998,277,000) 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:

26 Financial Risk Management (continued)

	2009 Increase in value £'000s	2009 Decrease in value £'000s	2008 Increase in value £'000s	2008 Decrease in value £'000s
Income statement capital return	**414,823**	**(414,823)**	399,655	(399,655)
NAV per share – pence	**65.63**	**(65.63)**	58.86	(58.86)

(b) Liquidity risk exposure

The Company is required to raise funds to meet commitments associated with financial instruments, private equity investments and share buybacks. These funds may be raised either through the realisation of assets or through increased borrowing. The risk of the Company not having sufficient liquidity at any time is not considered by the Board to be significant, given: the large number of quoted investments held in the Company's portfolio (over 650 at 31 December 2009); the liquid nature of the portfolio of investments; the industrial and geographical diversity of the portfolio (see note 16); and the existence of ongoing loan facility agreements. Cash balances are held with approved banks, usually on overnight deposit. The Company does not normally invest in derivative products. The manager reviews liquidity at the time of making each investment decision. The Board reviews liquidity exposure at each meeting.

The Company has loan facilities of £100m as set out in note 14 on the accounts. The 11.25% Debenture Stock is governed by a trust deed and is redeemable in 2014 or at an earlier date or dates at the Company's behest. The Perpetual Debenture Stock is also governed by a trust deed and is redeemable at par only on the security becoming enforceable. The Board does not therefore consider the repayment of these debenture stocks as a likely short-term liquidity issue.

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
2009				
Current liabilities				
Overdrafts	3,942	–	–	3,942
Other borrowings	–	–	–	–
Other creditors	4,896	–	–	4,896
Long-term liabilities				
Debentures	–	–	110,575	110,575
	8,838	**–**	**110,575**	**119,413**
2008				
Current liabilities				
Overdrafts	1,371	–	–	1,371
Other borrowings	110,000	–	–	110,000
Other creditors	4,772	–	–	4,772
Long-term liabilities				
Debentures	–	–	110,575	110,575
	116,143	–	110,575	226,718

Notes on the Accounts (continued)

26 Financial Risk Management (continued)

(c) Credit Risk and counterparty exposure

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

A list of pre-approved counterparties is maintained and regularly reviewed by the Manager and the Board. Broker counterparties are selected based on a combination of criteria, including credit rating, balance sheet strength and membership of a relevant regulatory body. The rate of default in the past has been negligible. Payments in respect of private equity investments are made only to counterparties with whom a contracted commitment exists. Cash and deposits are held with approved banks.

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

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

The Company had no credit-rated bonds or similar securities in its portfolio at the year end (2008: 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 debentures which are carried at par value in accordance with FRS 25, 26 and 29. The fair value of the debentures, derived from their quoted market price at 31 December 2009, was £142,943,000 (2008: £150,735,000). Borrowings under loan facilities are short-term in nature and hence do not have a value materially different from their capital repayment amount. Borrowings in foreign currencies are converted into Sterling at exchange rates ruling at each valuation date.

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

Unquoted investments, including private equity investments, are valued based on professional assumptions and advice that is not wholly supported by prices from current market transactions or by observable market data. The Directors make use of recognised valuation techniques and may take account of recent arm's length transactions in the same or similar investments. With respect specifically to investments in private equity funds or partnerships, the Directors rely on valuations of the underlying unlisted investments as supplied by the managers of those private equity funds or 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 provide shareholders with long-term growth in capital and income. In pursuing this long-term objective, the Board has a responsibility for ensuring the Company's ability to continue as a going concern. It must therefore maintain an optimal capital structure through varying market conditions. This involves the ability to: issue and buy back share capital within limits set by the shareholders in general meeting; borrow monies in the short and long term; and pay dividends to shareholders out of current year revenue earnings as well as out of brought forward revenue reserves.

Changes to ordinary share capital are set out in note 18 on the accounts. Dividend payments are set out in note 10 on the accounts. Borrowings are set out in notes 14 and 17 on the accounts.

27 Post Balance Sheet Movement in Net Assets

The NAV per share (debt at par) on 3 March 2010 was 325.88p (31 December 2009: 309.84p)

Ten Year Record

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

Assets

at 31 December

£m	1999	2000	2001	2002	2003*	2004*	2005	2006	2007	2008	2009
Total assets less current liabilities (excl loans)	3,234	3,137	2,573	1,915	2,259	2,346	2,527	2,587	2,694	2,003	**2,069**
Loans and debentures	212	208	218	218	201	215	111	179	203	221	**111**
Available for ordinary shares	3,022	2,929	2,355	1,697	2,058	2,131	2,416	2,408	2,491	1,782	**1,958**

Net Asset Value

at 31 December

	1999	2000	2001	2002	2003*	2004*	2005	2006	2007	2008	2009
NAV per share	296.2p	296.9p	248.1p	178.9p	216.9p	233.4p	291.8p	321.1p	363.5p	262.5p	**309.8p**
NAV return on 100p – 5 years†											**146.6p**
NAV return on 100p – 10 years†											**124.3p**

† Source: Morningstar UK Limited.

Share Price

at 31 December

	1999	2000	2001	2002	2003*	2004*	2005	2006	2007	2008	2009
Mid-market price per share	247.5p	267.5p	221.5p	163.0p	188.5p	194.5p	258.5p	284.5p	318.8p	228.5p	**272.1p**
Share price High	247.5p	288.5p	272.5p	235.0p	191.8p	196.0p	259.0p	287.5p	326.3p	319.0p	**275.3p**
Share price Low	188.3p	229.8p	180.5p	150.0p	141.0p	163.0p	188.0p	240.0p	273.0p	209.0p	**185.8p**
Share price total return on 100p – 5 years†											**156.1p**
Share price total return on 100p – 10 years†											**134.0p**

† Source: Morningstar UK Limited.

Revenue

for the year ended 31 December

£'000s	1999	2000	2001	2002	2003*	2004*	2005	2006	2007	2008	2009
Available for ordinary shares	30,382	37,542	38,294	38,758	40,893	42,293	49,122	48,197	45,909	46,989	**35,609**
Earnings per share	2.92p	3.76p	4.03p	4.08p	4.31p	4.54p	5.57p	6.16p	6.40p	6.90p	**5.31p**
Dividends per share	2.90p	3.10p	3.30p	3.50p	3.70p	4.20p	4.75p	5.30p	5.85p	6.45p	**6.65p**

Performance

(rebased at 31 December 1999)

	1999	2000	2001	2002	2003*	2004*	2005	2006	2007	2008	2009
NAV per share	100.0	100.2	83.8	60.4	73.2	78.8	98.5	108.4	122.7	115.4	**104.6**
Mid-market price per share	100.0	108.1	89.5	65.9	76.2	78.6	104.4	114.9	128.8	92.3	**109.9**
Earnings per share	100.0	128.8	138.0	139.7	147.6	155.5	190.8	211.0	219.2	236.3	**181.8**
Dividends per share	100.0	106.9	113.8	120.7	127.6	144.8	163.8	182.8	201.7	222.4	**229.3**
RPI	100.0	102.9	103.6	106.7	109.7	113.5	116.0	121.2	126.1	127.3	**130.3**

* Restated for changes in accounting policies.

Ten Year Record (continued)

Cost of running the Company

for the year ended 31 December

%	1999	2000	2001	2002	2003*	2004*	2005	2006	2007	2008	2009
Expressed as a percentage of average total assets											
Management fees	0.24	0.25	0.32	0.38	0.36	0.30	0.30	0.32	0.36	0.42	**0.37**
Management fees and performance fees	0.24	0.25	0.32	0.38	0.36	0.30	0.37	0.39	0.59	0.44	**0.37**
Total operating costs	0.40	0.43	0.52	0.56	0.58	0.50	0.53	0.53	0.71	0.58	**0.58**
Expressed as a percentage of average net assets											
Management fees	0.25	0.26	0.35	0.42	0.40	0.33	0.31	0.35	0.38	0.46	**0.41**
Management fees and performance fees	0.25	0.26	0.35	0.42	0.40	0.33	0.40	0.42	0.63	0.49	**0.41**
Total operating costs	0.42	0.46	0.57	0.63	0.64	0.55	0.57	0.58	0.76	0.64	**0.63**

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

Gearing

at 31 December

%	1999	2000	2001	2002	2003*	2004*	2005	2006	2007	2008	2009
Effective gearing	4.1	4.6	5.7	8.1	8.3	7.6	4.4	7.0	7.0	12.2	**6.0**
Fully invested gearing	7.0	7.1	9.3	12.8	9.8	10.1	4.6	7.4	8.1	14.8	**5.9**

* restated for changes in accounting policies

Definitions

Prior charges	All debentures (at par value), loans and overdrafts, used for investment purposes.
Management and performance fees	All management fees and performance fees charged to revenue and capital, excluding VAT.
Operating costs	All costs charged to revenue and capital, including management and performance fees but excluding related taxation relief, interest costs, taxation, the costs of purchase of share capital and the costs of buying and selling of investments.
Effective gearing	Prior charges at balance sheet value, less cash and fixed interest stocks, as a percentage of net assets (also termed “Actual gearing”).
Fully invested gearing	Prior charges at balance sheet value as a percentage of net assets (also termed “Potential gearing”).
Total assets	Total assets less current liabilities before deducting prior charges.
NAV	Net asset value (assuming prior charges at balance sheet value).
RPI	All-items Retail Prices Index.
Average net assets	Average of net assets at end of each calendar quarter.
Average total assets	Average of total assets at end of each calendar quarter.
NAV total return	Return on net assets per share assuming that all dividends paid to shareholders were reinvested.
Share price total return	Return to the investor on mid-market prices assuming that all dividends received were reinvested.
AIC	Association of Investment Companies.

Information for Shareholders

Net asset value and share price

The Company's net asset value is released daily, on the working day following the calculation date, to the London Stock Exchange. The current share price of Foreign & Colonial Investment Trust is shown in the investment trust section of the stockmarket page in most leading newspapers, usually under "For & Col". Investors in New Zealand can obtain share prices from leading newspapers in that country.

Performance information

Information on the Company's performance is provided in the half-yearly and final reports which are sent to shareholders in August and March respectively and in the interim management statement announcements. More up-to-date performance information, including the full list of investments in the portfolio as at the most recent quarter end, is available on the Internet at www.foreignandcolonial.com under "Company facts". The F&C website (at www.fandc.com) also provides a monthly update on the Company's geographic spread and largest holdings, along with comments from the Fund Manager.

UK capital gains tax ("CGT")

An approved investment trust does not pay tax on capital gains. UK resident individuals may realise net capital gains of up to £10,100 in the tax year ended 5 April 2010 without incurring any tax liability.

CGT is currently charged at a single rate of 18%. For UK investors who acquired Foreign & Colonial Investment Trust stock prior to 31 March 1982, the costs for CGT purposes, based on the price at that date, adjusted for capital changes are as follows:

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

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

Income tax

The second interim dividend of 3.65 pence per share is payable on 31 March 2010. Individual UK resident shareholders who are subject to UK income tax at the lower rate or the basic rate have no further tax liability. Shareholders not resident in the UK, and any shareholders in doubt as to their tax position, should consult their professional advisers.

Association of Investment Companies ("AIC")

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

aic
The Association of Investment Companies

How to Invest

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

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

Private Investor Plan ("PIP")

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

Pension Savings Plan ("PSP")

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

Child Trust Fund ("CTF")

F&C has launched a CTF so that parents can invest the Government voucher issued to all children born since 1 September 2002. There are no initial or annual plan charges, only 0.5% Government Stamp Duty on any purchases. Parents and grandparents (or other relatives) can add contributions totalling £1,200 a year. You can invest from £25 each month via Direct Debit or from £100 for lump sums once you have invested your voucher.

Individual Savings Account ("ISA")

Individuals can invest up to £7,200 each year in F&C's Stocks and Shares ISA. The limit was raised to £10,200 per annum, for individuals over 50 years old, with effect from 6 October 2009 and will be for all other individuals with effect from 6 April 2010.

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

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

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

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

Contact details

For further details on the savings schemes and application forms, please contact Investor Services on
0800 136 420
info@fandc.com
or Broker Support on
08457 992 299
(UK calls charged at the local rate)
adviser.enquiries@fandc.com
Fax **0131 243 1315**
You can also find more information on the website:
www.fandc.com
If you wish to write to us, the address is:
Investor Services Team, F&C Management Limited, 80 George Street, Edinburgh EH2 3BU

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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.

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FCIT/Ann/09