Foreign & Colonial Investment Trust PLC

Report and Accounts

2008

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 £1.9 billion investing in over 650 listed companies in 36 countries.

Some 108,000 shareholders, with over 84,000 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 ("**F&C**") under contract.

Manager 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 between the Company and its Manager.

Performance

Share price total return of -26.7% over one year – below the benchmark, but above the weighted average of the close peer group.

Share price total return of 34.4% and 45.8% over five and 10 years respectively – above both the benchmark and the weighted average of the close peer group.

Dividend up 133%, or 8.8% compound, over 10 years.

Increase in dividend every year for the past 38 years.

Over 20 years an investment of £1,000 has grown to £5,856 on a total return basis – or 10.1% per annum compound. This is 3.7% more than the weighted average of the close peer group, 18.7% more than the FTSE All-Share index and 126% more than a bank or building society deposit account.

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.

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 2008 was 0.58%, including performance fee accrual. 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

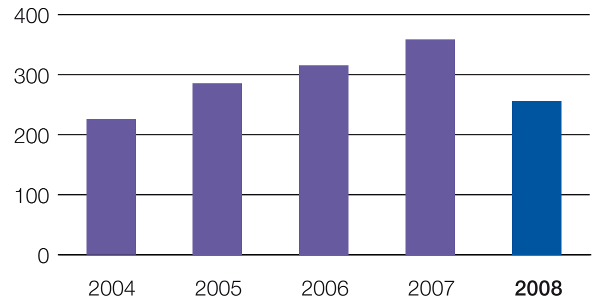
Summary of Results

Net asset value per share down 28.5% to 256.6p (debt at market value)

Annual dividends per share up 10.3% to 6.45p

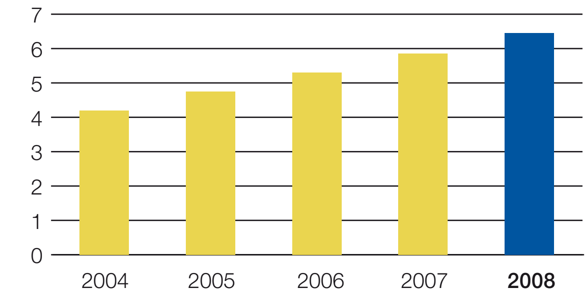
Share price down 28.3% to 228.50p

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



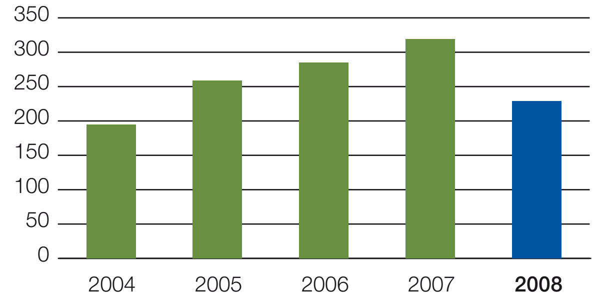
Source: F&C Management Limited

Dividends per share – pence



Source: F&C Management Limited

Mid-market price per share at 31 December – pence



Source: F&C Management Limited

Contents

Financial Calendar

AGM	**1 May 2009**
Final dividend payable	**8 May 2009**
Interim results for 2009 announced	**end July 2009**
Interim dividend payable	**September 2009**
Final Results for 2009 announced	**March 2010**

Registered in England with Company Registration No. 12901

Chairman's Statement

Mark Loveday Chairman

Dear Shareholder

2008 was the single worst year for investors and for your Company since 1974. The fact that investors around the world and in most asset classes had a similar experience is of little consolation. Sticking to our long-term policy of being fully invested in global equities was painful, and having borrowings in a falling market also resulted in underperformance relative to our benchmark, although we did outperform the weighted average of our close peer group.

- The net asset value total return was -26.7%, worse than the -22.2% for our benchmark, but better than the -27.4% for the weighted average of our close peer group.
- The total dividend for the year is 6.45 pence per share, 10.3% higher than in 2007, with a final recommended dividend of 3.45 pence per share. We are forecasting an at least maintained total dividend in 2009.
- The share price fell by 28.3% to 228.5 pence, with the discount to net asset value ending the year at 10.9% against 11.1% last year. We repurchased only 0.9% of our shares in 2008, much less than in previous years.

So far, 2009 is proving to be just as difficult and volatile as 2008. The Company's share price as at 28 February 2009 stood at 194.5 pence. I fear that uncertainty will continue for some time yet, but I am convinced that opportunities will start to appear in due course and that our long-term investment approach will ultimately add value for shareholders, as it has in the past.

Over the last ten years to 31 December 2008, shareholders have had a total return of 45.8%, compared with the total return of our benchmark of 18.6% and the weighted average of our close peer group of 31.4%. Shareholders have also seen good performance from an investment over 20 years as evidenced in the table below:

£1,000 invested 20 years ago (total return basis)	£
Foreign & Colonial Investment Trust share price	5,856
Close peer group share price (weighted average)	5,647
FTSE All-Share index	4,935
Bank/building society deposit account	2,478

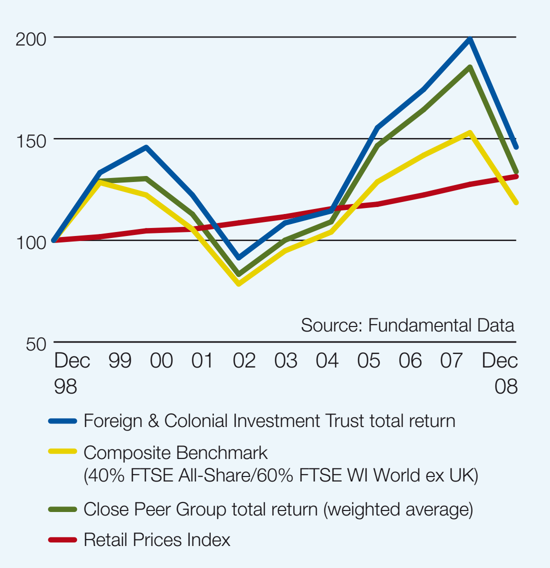
Source: Fundamental Data and the AIC

Performance and Attribution

I need hardly remind you why share prices performed so badly in the year. A succession of major shocks, starting in the US mortgage market, spreading globally to credit markets and undermining most major banks, unfolded in the first half of the year. In the second half the financial problems worsened with the collapse of Lehman Brothers, followed by a global liquidity crisis and the nationalisation or rescue of many banks and financial companies. More damage was then caused by the collapse in oil and other commodity prices, and the realisation that there would be a very sharp downturn in the global economy in 2009. The speed and scale of these events was difficult for anyone to absorb, let alone anticipate.

In such volatile and difficult markets there were many influences on our performance, good and bad, which are explained in detail in the Fund Manager's Review, but there were three key factors that had the most impact.

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



The biggest mistake we made in the year was to have any borrowings at all in falling markets. We started the year with an effective gearing level of 7.0% and ended at 12.2%, valuing our debt at par. The ability to borrow to enhance returns and to move our borrowings between currencies is a great strength, which we have used to add value over many years. In 2008 gearing was a major negative, although this was mitigated by moving all of our short-term borrowings into Sterling between February and September. Since the year end we have repaid all our short-term Sterling borrowings with the proceeds of the sale of some of our US investments, so the effective gearing level is now 7%.

Secondly, despite a fall of approximately one-third in the valuation of our private equity funds, all of which are denominated in US Dollars or Euros, the value of the private equity portfolio actually rose by £26.7m to £288m, when translated into Sterling at year end. This was entirely due to the severe weakness in Sterling in the second half of the year. I explain this in more detail below.

Thirdly, stock selection overall was slightly negative, although it was good in the UK and in line in Emerging Markets, while being below par in Europe ex UK, in Developed Asia and in Japan. The most disappointing of all was in North America, particularly as the contribution to performance had been so good in 2007. Since the year end our Fund Manager has taken direct responsibility for the North America portfolio to strengthen the relationships with the local managers we use. This has led to the removal of the external adviser and a current concentration on two large company managers.

The most significant portfolio shifts we made in the year were to sell UK and Emerging Markets equities, in order to fund private equity investments and purchases of US equities. Overall, asset allocation again added value as it has for many years.

Our Manager, F&C, did not earn a performance fee against the benchmark this year, but did earn a performance fee of £0.6m for outperforming the average total return of our close peer group. We have now received all our VAT repayments and interest in respect of the periods 1990-1996 and 2001-2007 amounting to £8.9 million. We recognised £5 million as recoverable in our 2007 accounts and the balance of £3.9 million is included in our 2008 accounts. Our total expense ratio was 0.58% of average total assets including the Manager's performance fee, and 0.56% excluding this fee, compared with 0.71% and 0.48% respectively in 2007.

Private Equity

We have been investing in private and unlisted companies for over sixty years and have extensive experience of the higher risks and higher rewards such investing produces. We started investing in private equity funds of funds managed by HarbourVest and Pantheon in early 2003 after two very difficult years in listed markets. Since then private equity has been one of our best performing assets. Our portfolio is now made up of sixteen funds of funds including global, regional, buyout, venture capital, mezzanine, direct and secondary funds. The portfolio is therefore highly diversified by fund manager, geography, vintage year, strategy and industry with over ten thousand underlying investments.

Our two fund of funds managers' estimated unaudited valuations of all our holdings as at 31 December 2008 represented a substantial reduction in values versus the prior year end in terms of the US Dollar and Euro currencies in which the holdings are denominated. However, the resulting

Chairman's Statement (continued)

reduction of £59.4m over the year was more than offset by the severe weakness of Sterling, which added £86.1m to the overall value of the portfolio; a net increase of £26.7m. Our private equity portfolio was valued at £288m at the year end, accounting for 14.4% of the total portfolio compared with 7.4% at the end of 2007. This was above our 10% target which we set in 2006.

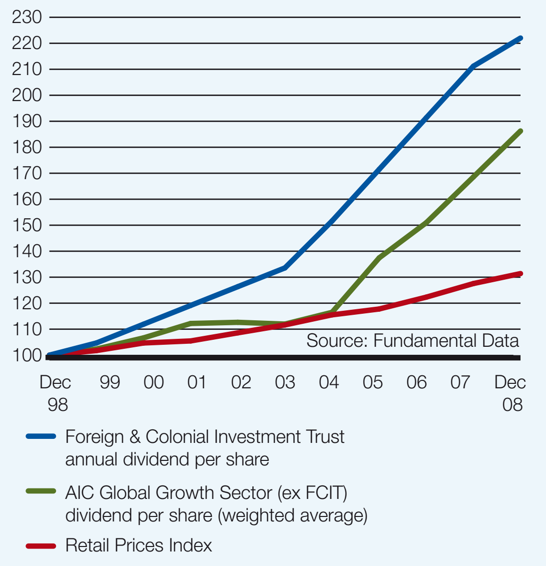
Your Board had already taken steps to take into account the speed at which public markets had been falling relative to the frequency at which private equity funds calculate and report values based on historic information – these valuations are produced on a quarterly basis. In late November 2008, the Board revalued the private equity portfolio by an adjustment equivalent to the movement in the FTSE World (Sterling adjusted, total return) Index by reference to the latest valuations available for each fund. A "mark to market" process was applied thereafter on a daily basis. Since 1 January 2009, the process has continued to be applied to the private equity managers' estimated unaudited valuations as at 31 December 2008 to reflect movements in the listed markets. Our intention is that our adjusted "mark to market" values should not be greater than the most up-to-date valuations produced by our two managers.

At 28 February 2009 the "mark to market" process had led to a further fall of £49m in the valuation of the portfolio, resulting in a value of £240m and representing 15.1% of the total portfolio. So far in 2009, we have invested a further £9m, we have not received any cash distributions and the pound has strengthened against the Euro.

We have outstanding US Dollar and Euro commitments to our existing holdings, which were equivalent to a Sterling value of £333m at the year end. This number fluctuates with drawdowns and exchange rate movements and at 28 February 2009 was £318m. We expect these commitments to be drawn down over at least the next five years, and to be financed from the listed portfolio and distributions from existing fund investments. This additional annual investment in respect of calls on our existing commitments, together with any further weakness in Sterling, is likely to 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.

Our private equity portfolio outperformed our listed portfolio in 2008, but we expect it to underperform in 2009. However, we remain optimistic about the long-term prospects for private equity, and think there will be attractive investment opportunities in 2009 and 2010.

FCIT's annual dividend per share vs AIC Global Growth sector dividend per share weighted average and Retail Prices Index over 10 years



Dividends

A year ago I forecast that the total dividend for 2008 would be 6.45 pence per share, an increase of 10.3% over 2007. The interim dividend of 3.00 pence was paid in September 2008, and the Board is recommending a final dividend of 3.45 pence per share to be paid in May 2009.

Revenue return per share rose 7.8%, because we received more refunds and interest from past VAT payments than we had expected, and because the pound's fall increased the Sterling value of our overseas dividends. As a result, our revenue reserve increased again and this now covers the cost of our annual dividend more than two and a half times.

The outlook for dividends in 2009 and beyond is very uncertain. We expect many companies to reduce or eliminate dividends but, if Sterling remains weak against the US Dollar and the Euro, we will receive a further windfall gain from overseas dividends. The Board has decided that our own dividend will be at least maintained at 6.45 pence per share in 2009, even if this means using part of our revenue reserve. As the year progresses we should have more certainty about the outlook for dividends, and I expect to give more detail in the interim results.

Directors

We have refreshed the Board over the last year with the appointment of three new Directors, Roger Bone, Stephen Burley and David Clementi, who bring a wide range of experience and skills to the Board.

Five Directors are standing for election or re-election at the Annual General Meeting. David Clementi is standing for election, Ronald Gould and Christopher Keljik retire by rotation and are standing for re-election, and 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 all of these Directors should be elected or re-elected.

During the year Stephen Burley joined the Audit Committee and more recently Michael Bunbury and David Clementi have joined the Nomination Committee.

Management

After its annual comprehensive review of the Manager's overall performance and service in a difficult 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.

During the year an amendment to the contract with F&C was approved by your Board to clarify responsibilities in respect of the F&C savings plans.

Friends Provident PLC has stated that it intends to distribute its 52% shareholding in F&C Asset Management plc ("**FCAM**") to Friends Provident shareholders by mid 2009. FCAM itself is continuing to explore opportunities which might or might not lead to an offer for FCAM. Your Board is monitoring this situation closely and is hoping for a satisfactory outcome to ensure the continued successful management of your investments.

Shareholders, Savings Plans and Buybacks

Last year we increased our efforts to attract new shareholders and three key measures showed our success. The total number of shareholders increased to 108,000, the various savings plans had their best year since 2003 with a net inflow of £11.8m, and the rate of share buybacks was the lowest since 2003 with less than 1% of our shares being repurchased. We will continue to expand our marketing efforts in 2009.

The Future

The immediate outlook for the global economy is bleak and it seems almost certain that 2009 will be the worst year for economic growth since 1945. So many previously unthinkable events occurred in 2008 that it is very difficult to predict what might happen this year.

Governments and central banks around the world have continued to try to stop the collapse of the banking and monetary system and to prevent an economic depression, by providing support to the banks, by reducing interest rates towards zero and by implementing fiscal measures. We do not believe that stability or optimism can begin to return to global economies or markets until the financial position of the banks is stabilised, credit starts to become more available and US house prices stop falling. Until then, deflation will be more of a worry for investors than inflation, but we need to be alert to the possibility that this could change rapidly at any time. World trade, which has been so positive a factor in global economic growth, will shrink if each country seeks to protect itself from global problems. This could be accompanied by even greater exchange rate volatility than we have seen in 2008. Corporate profits and dividends will fall in 2009, there will be more examples of fraud and poor accounting, many businesses will collapse and unemployment will rise.

Share prices fell sharply in 2008 in anticipation of these problems and have continued to fall in 2009 as the economic news has deteriorated. We do not yet know if they have fallen enough or too much, but we do know that equities are cheaper

Chairman's Statement (continued)

than they have been for many years on almost every valuation measure. Many share prices, including our own, are back to levels first reached 10 years ago. Another striking comparison is between UK base rate, currently 0.5%, and Foreign & Colonial's dividend yield, which is over 3%.

Many private equity-backed companies will have a very challenging time in 2009, and we expect there to be further falls in the value of our private equity portfolio during the year, which will have a negative impact on our overall results.

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. Foreign & Colonial's size and spread makes it better placed than most funds to cope with the current market conditions, giving us some protection from individual company or sector problems, while maintaining our exposure to some interesting opportunities.

We will continue to press and 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.

Electronic Communications

Last year we introduced arrangements for investors holding their shares directly on the Company's shareholder register to access the Annual Report and Accounts via the Company's website. Investors holding their shares in this way were also given the opportunity to lodge their proxy votes online. Similar arrangements have been put in place this year for investors holding their shares in the F&C savings plans.

F&C Savings Plans proportional voting

In 2008, F&C modified its arrangements under which investors in its savings plans vote at shareholder meetings. Under these arrangements, the nominee company, which holds 37.4% of the Company's share capital on behalf of these investors, votes the shares held on behalf of plan holders who have not returned their voting directions in proportion to those who have. This arrangement will apply at the Annual General Meeting, subject to a minimum threshold of 5% of the shares held in the savings plans being voted. A maximum limit of 630,000 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. Any investor wishing to exclude his shares from the proportional voting basis may do so.

Annual General Meeting

I do hope you will be able to attend the Annual General Meeting at Merchant Taylors' Hall in the City of London at 12 noon on Friday 1 May 2009. 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.

Mark Loveday

Mark Loveday
Chairman
5 March 2009

Fund Manager's Review

Jeremy Tigue Fund Manager

2008 was a dreadful year with more going wrong than right and almost nowhere to hide. I did not expect markets or economies to suffer as much as they did and I should have been more cautious. However, the diversification of our portfolio reduced the impact of this strategic error to some extent.

What we did and why

Our overriding objective was to maintain flexibility and freedom of manoeuvre. Share prices, commodity prices and exchange rates were more volatile than at any time in my career, often in ways that were hard to understand. Throughout the year we remained very diversified, and kept looking for ways to make money and mitigate losses. In periods of such high volatility it is almost always right to avoid making dramatic changes in strategy, as what looks right one day can look totally wrong the next day.

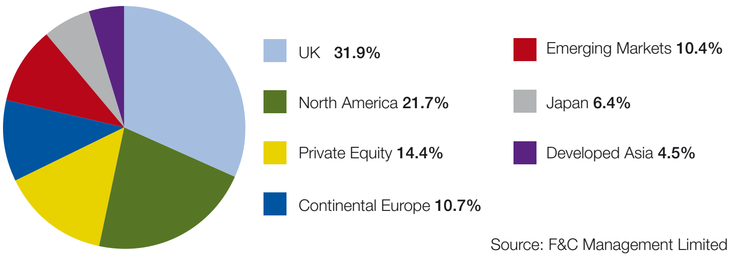
Managing gearing was the most important priority throughout the year. Before the market turmoil began in August 2007 we had reduced gearing to the lowest level since 2000. We kept gearing around the 10% level until the collapse of Lehman Brothers, then responded to sharply falling prices by buying shares in October 2008. Gearing reached a peak level of 13.0% before returning to 12.2% by the year end.

The second priority was not to be a forced seller, but to be able to take advantage of those who were forced sellers. We increased our committed bank facilities to £200m and in October 2008 bought £16m of shares when markets were awash with forced selling from investors who were over-extended.

Our third priority was to pre-empt the anticipated falls in the value of our private equity portfolio. We began this process in November 2008 by writing down the portfolio in line with the falls in world markets in the second half of the year.

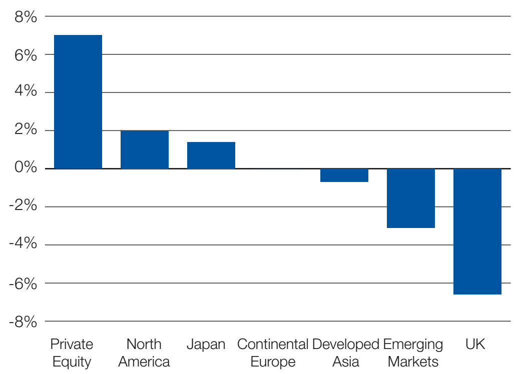
These priorities must be seen in the context of my serious misreading of how bad market conditions would get. Many others made a similar mistake, but that is no excuse. Why did I get it so wrong? Looking back on the year I think there were two key features I missed. The first was that the roots of the market turmoil went back so far it was difficult to realise that many of the problems in the financial system had been building up slowly over decades. For example, the origins of the US mortgage providers Fannie Mae and Freddie Mac, go back to the aftermath of

Geographical distribution of our portfolio as at 31 December 2008



Source: F&C Management Limited

Percentage changes in the asset mix of our portfolio in 2008



Source: F&C Management Limited

Fund Manager's Review (continued)

the Depression in the 1930s. The second mistake was to think that because there had been a severe bear market between 2000 and early 2003 and equity markets were not valued at historically high levels, they would be able to escape the problems in the credit markets. In the event, problems in credit markets forced many investors to sell equities, as these were the only assets they could sell.

What the results were and why

The three most important influences on our performance relative to our benchmark index and our close peer group of similar funds are asset allocation, stock selection and gearing.

Contributors to total returns in 2008	%
Benchmark return	(22.2)
Asset allocation	1.7
Stock selection	(0.9)
Effect of management fees/other costs	(1.9)
Effect of buybacks	0.1
Effect of gearing	(3.5)
Net asset value total return*	(26.7)
Effect of increase in discount	(0.0)
Share price total return	(26.7)

*Debt at market value.

Source: F&C Management Limited

Gearing was the biggest negative in 2008 as we had borrowings in falling markets.

Asset allocation made a positive contribution as it has every year since 2000. Two key strategies have been behind that success. First, since 2003 we have had more than 15% of the portfolio invested in Emerging Markets and Developed Asia. This added considerable value up to 2007, but in 2008 Emerging Markets and Developed Asia had a disappointing year. Hopes that the US economic problems would have limited impact on these markets were dashed by the severity of the US downturn and the collapse in oil and commodity prices. Secondly, since 2006 we have been targeting a 10% weighting in private equity. This has been our best performing asset over the last five years. In 2008 performance was dominated by the weakness of Sterling and by the end of the year 14.4% of the portfolio was invested in private equity.

The main changes we made to the portfolio were sales in the UK and Emerging Markets to fund private equity drawdowns and some small purchases in North America.

Stock selection in each market is explained in more detail below. We did well in the UK, but for the portfolio as a whole poor performance in North America was the biggest problem.

Borrowings and Gearing

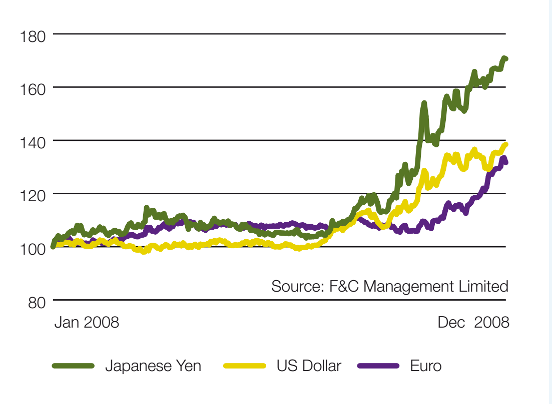
Careful use of borrowings to increase returns to shareholders has been an important part of the

Investment changes during the year ended 31 December 2008 (£m)

£m	Valuation at 31 December 2007	Purchases	Sales	Gains/ (losses)	**Valuation at 31 December 2008**
UK	1,027	66	(133)	(327)	**633**
North America	525	395	(382)	(106)	**432**
Continental Europe	284	157	(142)	(84)	**215**
Japan	134	80	(77)	(7)	**130**
Emerging Markets	359	321	(342)	(129)	**209**
Developed Asia	139	59	(54)	(53)	**91**
Private Equity	197	79	(14)	26	**288**
Totals	2,665	1,157	(1,144)	(680)	**1,998**

Source: F&C Management Limited

Currency movements vs Sterling in 2008



management of Foreign & Colonial for decades. In 1989 we borrowed £110m for 25 years and invested most of the proceeds into the UK market. The interest rate on this long-term debenture is 11.25%, very high by today's standards, but the companies purchased in 1989 have increased their capital value and their dividends substantially over the years. In addition to this large fixed rate loan we have been active for many years in borrowing short-term to achieve several different goals.

The first is to move the level of gearing up or down in accordance with our views on markets. We would expect to have no short-term borrowings when we are cautious and to have as much as is prudent when we are optimistic. The Board has set an upper limit on gearing of 20%, so we would have to be very optimistic indeed to be at the 20% level. In the middle of 2007 we had no short term debt, and we increased the level gradually after markets became more volatile in the expectation of relative calm returning to markets in the second half of 2008. This did not happen and indeed further market falls had the effect of increasing our gearing level to a high of 13.0% at the end of November 2008.

The second reason to borrow is to benefit from lower interest rates in some countries than others. For most of the last decade, most of our short-term loans have been in Japanese Yen where the interest rate paid was well below 1%. Almost all the stocks purchased with the proceeds of these loans had dividend yields higher than the borrowing cost.

The third reason to borrow is to benefit from exchange rate movements. This was particularly important in 2008 when we moved all our short-term loans into Sterling well before the pound fell sharply against the US Dollar and other currencies. In this way the weakness of Sterling mitigated part of the effect of falling markets.

In the autumn we decided that we should increase our banking facilities so that we would have more flexibility in the event of very difficult market conditions. We now have total facilities of £200m from three major banks compared with £70m from two banks a year ago. Maintaining these facilities on the best possible terms is a priority for 2009.

Weighting, stock selection and performance in each market vs Index at 31 December 2008

Market	Our portfolio weighting %	Benchmark weighting %	Our portfolio performance %	Local index performance in Sterling %
UK	31.9	40.0	(28.4)	(29.9)
North America	21.7	33.0	(17.9)	(13.4)
Europe ex UK	10.7	14.5	(24.7)	(23.8)
Japan	6.4	6.2	(3.1)	(1.1)
Emerging Markets	10.4	5.2	(35.2)	(35.2)
Developed Asia	4.5	1.1	(34.4)	(31.0)
Private Equity	14.4	–	12.2	–

Source: F&C Management Limited

Fund Manager's Review (continued)

UK portfolio

We had another year of good relative performance in the UK for the same reasons as in 2007. We were cautious about the banks and about all companies reliant on the UK consumer, though we made a mistake in supporting the first rights issue from Royal Bank of Scotland. Our strong emphasis on international companies with most of their earnings coming from outside the UK also helped performance, and we avoided the worst effect of the collapse in commodity related shares in the second half of the year. At the year end the portfolio was still positioned defensively as many companies need to repair their balance sheets, but we are very conscious of the low valuations of more and more businesses.

	Largest UK Holdings	£'000s
1	BP	60,154
2	Royal Dutch Shell	59,799
3	GlaxoSmithKline	47,421
4	Vodafone	44,607
5	HSBC	30,452
6	Scottish & Southern	26,019
7	Astrazeneca	25,184
8	British American Tobacco	25,130
9	Tesco	23,674
10	National Grid	17,826

North America portfolio

After a good year in 2007 our US large company portfolio had a disappointing year. Two of the three managers underperformed as they struggled to find companies with reliable growth characteristics. Since the year end we have changed the way we manage the US large company portfolio, removing Loomis Sayles and dropping the services of an external specialist adviser. We will now have a closer relationship with the US managers and we will develop a deeper knowledge of US fund managers generally. The US small company portfolio managed by F&C had a very good relative performance, up by 2.3% compared with its benchmark index fall of 8.3%.

	Largest North America Holdings	£'000s
1	Wal-Mart Stores	13,215
2	Apple	7,830
3	Occidental Petroleum	7,766
4	Hewlett-Packard	7,705
5	Google	7,217
6	Amazon.com	6,964
7	Wells Fargo	6,877
8	Qualcomm	6,746
9	Gilead Sciences	6,585
10	Verizon	6,551

Emerging Markets portfolio

A year ago some investors hoped that Emerging Markets could escape the effects of the credit crunch. We were never that optimistic, but we

North American Large and Mid Cap Performance (US Dollars)

	31 December 2008		12 month
	Value (US$m)	Approx % of US Portfolio	Performance %
T Rowe Price US Equity	196.2	33.7	(42.1)
Loomis Sayles US Large Cap Growth	124.3	21.4	(49.8)
Barrow Hanley US Large Cap Value Equity	261.2	44.9	(34.4)
Total Large and Mid Cap portfolio	581.7	100.0	(41.8)
S&P 500 Total Return Index			(37.0)
Russell 1000 Value Index			(36.9)
Russell 1000 Growth Index			(38.4)

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

Source: Fundquest

did think that Emerging Markets would withstand these problems far better than in the past, as a result of the structural improvements in many of these economies over the last decade. In the event, Emerging Markets fell heavily during the year, but our portfolio performed exactly in line with its benchmark index. During the year we reduced the emphasis on domestic growth within individual markets and at the year end the markets we were most enthusiastic about were China, India and Brazil.

	Largest Emerging Markets Holdings	£'000s
1	Petroleo Brasileiro	10,020
2	China Mobile	9,457
3	Samsung Electronic	6,796
4	Taiwan Semiconductor	6,254
5	Gazprom	6,159
6	CNOOC	6,091
7	Teva Pharmaceuticals	6,022
8	China Life Insurance	5,205
9	Reliance Industries	5,106
10	America Movil	4,743

European portfolio

After two difficult years our European portfolio moved closer to the benchmark index in 2008 but still underperformed. The portfolio was concentrated on companies with strong financial positions and attractive long-term growth prospects, but this was not enough to protect us from difficult market conditions and problems in some individual holdings.

	Largest European Holdings	£'000s
1	Total	10,536
2	Svenska Handelsbanken	9,835
3	Roche Holding	9,720
4	Novartis	9,599
5	Unilever	9,087
6	Deutsche Post	9,078
7	ENI	7,582
8	G4S	7,226
9	Wolters Kluwer	7,215
10	UBS	7,105

Japanese portfolio

For local investors the Japanese markets had a terrible year, but the strength of the Yen meant that for Sterling investors it was a very resilient performer. However, the strength of the Yen had a devastating impact on companies exporting from Japan and the domestic economy was not strong enough to compensate. Our portfolio, which is managed by Goldman Sachs Asset Management on an active quant basis, underperformed the market, but by less than in the previous year.

	Largest Japanese Holdings	£'000s
1	NTT	3,914
2	Mitsubishi UFJ	3,839
3	Honda Motor	3,638
4	Toyota Motor	3,520
5	Astellas Pharma	3,369
6	Osaka Gas	2,848
7	Nintendo	2,763
8	Mizuho Financial	2,602
9	NTT Docomo	2,490
10	Canon	2,460

Developed Asia Portfolio

We underperformed in this area after a terrific 2007. This region is particularly exposed to a slowdown in global economic growth. We tried to protect our portfolio from this by concentrating on companies operating in domestic sectors, but we suffered from our exposure to oil and gas businesses.

	Largest Developed Asia Holdings	£'000s
1	BHP Billiton	7,288
2	China Mobile	6,598
3	Woolworths	4,909
4	QBE Insurance	4,221
5	CSL	3,866
6	Westfield Group	3,380
7	Commonwealth Bank of Australia	3,148
8	Sonic Healthcare	3,107
9	Santos	2,748
10	Hutchison Whampoa	2,483

Fund Manager's Review (continued)

Private Equity

We thought 2008 would be a difficult year for private equity and there would be an increase in investors selling out of some of their existing private equity interests. This view was premature as most of the problems now look like occurring in 2009 and 2010. We expect most of the news around private equity to be poor with companies and funds having a tough time, some investors being forced sellers and many valuations being cut substantially.

Our own private equity portfolio has been constructed to mitigate these problems. We are invested in 16 funds of funds which have been investing in funds and companies all over the world since 2002. These funds have invested in more than 10,000 individual companies. We have limited exposure to the large financially engineered buyouts that dominated the private equity sector in 2006 and 2007. We have much more exposure to smaller buyouts, growth and venture capital funds and to the opportunities in the secondary market where we can be a buyer rather than a forced seller.

In 2008 we made commitments of US$25m each to two new funds, HarbourVest VI Asia Pacific and HarbourVest VI Emerging Markets. During the year our existing holdings drew down £79m in new investments and received cash distributions of £14m, so the net investment was £65m compared with £72m in 2007 and £43m in 2006.

All of our private equity funds are denominated in US Dollars or Euros, so currency movements can have a significant impact on results. At the end of

Private equity portfolio

		Original commitment €'000s	Cumulative commitment drawn down €'000s	Commitment outstanding €'000s	Cumulative cash returned €'000s	Value of holding 31 December 2008 €'000s
Total Euro denominated portfolio	2008	290,000	182,425	107,575	59,846	122,492
	2007	290,000	141,300	148,700	46,565	133,885
		US$'000s	US$'000s	US$'000s	US$'000s	US$'000s
Total US Dollar denominated portfolio	2008	589,050	259,244	329,806	17,421	165,883
	2007	539,050	170,884	368,166	8,950	196,041

		Commitment outstanding 31 December 2008 £'000s	Value of holding 31 December 2008 £'000s
Total private equity portfolio(1)	Brought forward	294,170	196,818
Committed in 2008(2)		25,000	n/a
Cash drawn in 2008(2)		(79,238)	79,238
Cash returned in 2008(2)		n/a	(14,431)
Valuation movements(3)		n/a	(59,400)
Exchange movements		93,461	86,150
Total private equity portfolio(3)	Carried forward	333,393	288,375

(1) At exchange rates ruling at 31 December 2007
(2) At actual exchange rates in 2008
(3) At exchange rates ruling at 31 December 2008

Source: F&C Management Limited

the year we had total outstanding commitments with a Sterling value of of £333m and these will be drawn down gradually over at least the next five years. These drawdowns can be financed from selling shares in the rest of the portfolio as needed, but we also expect to get money back from earlier investments when economic conditions improve.

Our two fund of funds managers' estimated unaudited valuations of all our holdings as at 31 December 2008 represented a substantial reduction in values versus the prior year end in terms of the US Dollar and Euro currencies in which the holdings are denominated. However, the resulting reduction of £59.4m over the year was more than offset by the severe weakness of Sterling, which added £86.1m to the overall value of the portfolio; a net increase of £26.7m. Our private equity portfolio was valued at £288m at the year end, accounting for 14.4% of the total portfolio compared with 7.4% at the end of 2007. This was above our 10% target which we set in 2006.

Many weaker players – funds and investors – are being forced to scale back their private equity activities. For those like us, who are able to finance their commitments and have the ability to take a longer term view, we think there could be some interesting investment opportunities in 2009 and 2010. Private equity, investing in companies not listed on stock markets, is a huge sector that will not disappear and retains the potential to deliver better returns than listed markets.

Buybacks

Since November 2005 Foreign & Colonial has had a very clear policy to buy back shares to prevent the discount rising above 10% in normal market conditions. Market conditions were far from normal in 2008, but we bought back fewer shares than in any year since 2003. A total of 6,298,878 shares, 90% fewer than in 2007, were repurchased, representing 0.9% of the share capital, and adding 0.3 pence to the net asset value per share. Many other trusts have failed to carry out the buy back policies they promised and their discounts have become larger and more volatile. Our own determination to stick to our policy has been an important factor in setting Foreign & Colonial apart from weaker trusts in the market.

Shareholders and Marketing

We have over 108,000 shareholders, more than any other investment trust as a result of the success of the various F&C savings plans, including the Child Trust Fund. In 2008 new money invested into these plans increased slightly and the level of sales fell sharply. The net inflow of £11.8m was the best figure since 2003. We will continue to develop our marketing efforts in 2009, which is 25 years after the launch of the Private Investor Plan.

Analysis of ordinary shareholders at 31 December 2008

Category	Holding
F&C savings plans	37.4%
Discretionary/Advisory	23.3%
Institutions	18.2%
Direct individuals	13.7%
Skandia IFA products*	4.8%
New Zealand individuals	2.6%
	100.0%

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

As part of our marketing efforts in 2008 we sponsored a garden at the Chelsea Flower Show. The garden won a gold medal and it proved a very cost effective way of raising our profile among private investors, many of whom will be keen gardeners, and who are highly likely to be existing or potential shareholders. We are sponsoring a garden again this year to build on the success achieved.

Professional investors managing portfolios for private clients are another key market for us, and in 2007 and 2008 we held a series of meetings around the country with leading members of this group to update them on Foreign & Colonial. We will repeat the exercise later in 2009.

Current strategy

So far this year we have made a series of changes. We have taken more active control over the US large company portfolio to give us more direct involvement in the US market and to improve manager selection. At the same time we have

Fund Manager's Review (continued)

sold all the stocks in the portfolio previously managed by Loomis Sayles, and converted the US Dollar proceeds into Sterling. Together with the proceeds of some sales from the UK portfolio, this has eliminated all our short term borrowings, so effective gearing at the end of February 2009 was 7.2% compared with 12.2% at 31 December 2008.

There are several reasons for these changes. After a short rally in markets at the end of 2008 there have been further substantial falls so far in 2009. There has been a big increase in companies seeking to raise cash from their shareholders, usually out of necessity but sometimes to seize the opportunities that are being produced by the economic and market turmoil. We want to have the firepower to be able to support these fund raisings when we think they are attractive. One of the best decisions in 2008 was to move all our short-term borrowings into Sterling. Now that Sterling has fallen so far there is little reason to remain so bearish about the currency. The US has led the world into recession and will have to lead it out, but we do not think the US stock market or the US Dollar will be particularly strong during this process. The long-term effect of the financial crisis of the last eighteen months will be to accelerate the shift in economic power away from the US towards Emerging Markets. We will also need to fund additional private equity investments before cash returns from earlier investment start to resume.

There is no sign that 2009 will be any easier than 2008, but these actions will give us more flexibility to respond to whatever events may unfold during the year.

Jeremy Tigue
Fund Manager
5 March 2009

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	*(5)*	**Pantheon Europe Fund III** Private equity fund of funds investing principally in the European market, with the largest exposure being to the UK.	3.3%	66,418
2	*(2)*	**BP** Global oil company.	3.2%	64,212
3	*(1)*	**Royal Dutch Shell** Global oil company.	3.0%	59,799
4	*(7)*	**GlaxoSmithKline** One of the world's leading pharmaceutical companies.	2.4%	47,421
5	*(4)*	**Vodafone** World's leading mobile telephone provider with a strong international network.	2.2%	44,607
6	*(14)*	**Dover Street VI** Fund of funds specialising in buying holdings in existing private equity funds.	1.8%	36,533
7	*(13)*	**Harbourvest Partners VII Buyout Fund Partnership LP** Fund of funds investing in buyouts of US businesses.	1.7%	34,948
8	*(16)*	**Harbourvest V Direct Fund** Specialist private equity fund that makes direct investments alongside other fund managers.	1.6%	31,998
9	*(6)*	**HSBC** Broadly diversified international bank operating in over 80 countries worldwide.	1.5%	30,452
10	*(9)*	**Scottish & Southern Energy** Multi-utility group.	1.3%	26,019
11	*(–)*	**Astrazeneca** Leading global pharmaceutical company.	1.3%	25,184
12	*(10)*	**British American Tobacco** Leading international manufacturer and distributor of cigarettes.	1.3%	25,130
13	*(–)*	**Pantheon Europe Fund V** Private equity fund of funds investing principally in the European market, with the largest exposure being to the UK.	1.2%	24,076
14	*(11)*	**Tesco** The leading food retailer in the UK.	1.2%	23,674
15	*(–)*	**Pantheon Global Secondary Fund III** Fund of funds specialising in buying holdings in existing private equity funds.	1.1%	21,025
16	*(20)*	**National Grid** Electricity and gas company operating in Great Britain and the North Eastern United States.	0.9%	17,826
17	*(8)*	**Utilico Emerging Markets** Specialist fund concentrating on utility and infrastructure investments in emerging markets.	0.9%	17,815
18	*(–)*	**China Mobile** Largest mobile phone operator in China.	0.8%	16,055
19	*(–)*	**MW Tops** Listed hedge fund investing in European shares.	0.8%	15,930
20	*(–)*	**HarbourVest Partners VII Venture Fund Partnership LP** Fund of funds specialising in US venture capital.	0.7%	14,538

The value of the twenty largest holdings represents 32.2% (2007: 29.6%) of the Company's total investments.
The figures in brackets denote the position at the previous year end.
The value of convertible securities in the total portfolio at 31 December 2008 was £1,917,000 or 0.1% of total assets less current liabilities (2007: £14,734,000 or 0.6% of total assets less current liabilities).

Directors' Report and Business Review

The Directors present their Report, Business Review and the financial statements of Foreign & Colonial Investment Trust PLC (the "**Company**" or "**FCIT**") for the year ended 31 December 2008. The financial statements are set out on pages 41 to 65.

Results and dividends

The net assets of the Company as at 31 December 2008 were £1.8 billion (2007: £2.5 billion) or 262.50 pence per share when deducting debt at its par value (2007: 363.47 pence). When deducting debt at its market value, the net asset value per share was 256.59 pence (2007: 358.63 pence). The net assets as at 28 February 2009 were £1.5 billion or 220.24 pence per share when deducting debt at par value. The net asset value as at that date when deducting debt at market value was 214.33 pence.

The Fund Manager's Review on pages 7 to 14, 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 2009. The Company's full list of its investments can be viewed on the website. The twenty largest holdings can be found on page 15, and the ten largest investments in each of the regional sub-portfolios are disclosed in the Fund Manager's Review.

Revenue was higher than in 2007, with net revenue return increasing by 2.4% and revenue return per share by 7.8%. This was mainly as a result of the higher value of overseas dividends due to the weakness of Sterling, and the recovery from HM Revenue and Customs ("**HMRC**") of VAT and related interest payments of £8.9m, of which £5.0m had been accrued in 2007, leaving £3.9m to be included in 2008. Income from stock lending was £0.37m (2007: £0.33m). This activity ceased in September 2008, without loss to the Company, due to increasing uncertainty and concern over counterparty risk in abnormal market conditions.

Summary of results for 2008	
Net asset value per share*	-28.5% to 256.59p
Net asset value total return per share*	-26.7%
Share price	-28.3% to 228.50p
Share price total return	-26.7%
Annual dividend per share	+10.3% to 6.45p
Total expense ratio#	0.6%
Share capital repurchased**	0.9%
Discount	From 11.1% to 10.9%

* With debt at market value.
\# includes performance fee accrual.
** adding 0.3p to net asset value per share.

Performance fees to F&C Management Limited ("**F&C**" or "the **Manager**") were significantly lower due to underperformance against the composite benchmark, although there was a small outperformance against the weighted average of the close peer group, resulting in a fee of £0.6m.

The total expense ratio, including the performance fee accrual but excluding recoverable VAT, was 0.58% (2007: 0.71%) and 0.56% excluding the performance fee accrual (2007: 0.48%).

Attributable to equity shareholders	
	£'000s
Revenue return attributable to equity shareholders	46,989
Dividends paid on ordinary shares:	
Final of 3.15p paid on 9 May 2008*	(21,525)
Interim of 3.00p paid on 9 September 2008**	(20,380)
Amount transferred to revenue reserve	5,084

*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 final dividend now recommended for payment on 8 May 2009 of 3.45 pence per share, will bring the total dividend for the year to 6.45 pence per share. This represents an increase of 10.3% over the comparative 5.85 pence per share paid in the previous year. (Resolution 3 at the forthcoming Annual General Meeting relates to the approval of the final dividend).

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 subject to the UK Listing Authority's Listing Rules, UK Company Law, Financial Reporting Standards, Taxation Law and its own Articles of Association.

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 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 HMRC, 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 2007, and continues to conduct its affairs in compliance with section 842.

Accounting and going concern

The Financial Statements, starting on page 41, comply with current UK Financial Reporting Standards, supplemented by the Statement of Recommended Practice for Investment Trust Companies ("**SORP**"). 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 a committee of 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 the changes in 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 objectives 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 such investment requires specific Board approval. The Board's target of 10% for its private equity exposure was passed during the year and was 14.4% at the year end and 15.1% at 28 February 2009. Additional investment in respect of calls on our existing commitments, together with any further weakness in Sterling, is likely to 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

Directors' Report and Business Review (continued)

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 56 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 its Manager, 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 external 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 25.

Capital structure and buyback policy

As at 31 December 2008 there were 679,019,714 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 2008 the discount stood at 10.9% (with debt at market value), and at 9.3% as at 28 February 2009.

At the Annual General Meeting held on 1 May 2008, shareholders renewed the Board's authority to buy back the Company's ordinary shares for cancellation. The Company bought back and cancelled far fewer shares during the year than in recent years; a total of 6,298,878 shares were bought back and cancelled, representing 0.9% of the number of shares in issue at 31 December 2007 and enhancing the net asset value per share by 0.3 pence. The purchases were made at prices ranging between 197.75 pence and 316.95 pence and the aggregate consideration paid for the shares, excluding stamp duty and commissions, was £18,332,000.

Between the year-end and 5 March 2009, a further 100,000 shares have been purchased (which represents approximately 0.01% of the share capital) at a price of 217.56 pence.

As at 5 March 2009, the number of ordinary shares in issue stood at 678,919,714. A resolution to renew the authority to buy back up to 101,770,000 shares will be put to shareholders at the Annual General Meeting (Resolution 12). A resolution to authorise the Directors to allot up to 33,944,000 shares will also be proposed (Resolution 11).

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 utilise short-term borrowings by way of loans and overdrafts subject to the limits set out in the Company's objective and policy section above. The Company maintains multi-currency credit facilities with Royal Bank of Scotland, ING Bank and Lloyds Banking Group totalling £200m (2007: £70m), which will be subject to review between September and October 2009. All the Company's short-term borrowings, amounting to £110m, were repaid in February 2009. Further reference is made on pages 8 and 9 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. The Corporate Governance Statement on page 37 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 at various meetings of 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-

Directors' Report and Business Review (continued)

approves all borrowing facility agreements. The investment policy allows the use of derivatives for the purpose of hedging foreign currencies, but to date the Company 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 and reviews annually the SAS70 report on the Custodian, which is produced 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) 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 has 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. The Company discontinued stock lending in September 2008. Further information can be found on page 53.

(vi) 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).

(vii) 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.

(viii) 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 against 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 policy budgets. Further information in relation to the Board can be found on page 33.

Directors

Information on the individual Directors, all of whom are resident in the UK, can be found on page 29.

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 31 and 32, 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).

Details of Directors' shareholdings in the Company are contained in note 6 on the accounts.

Directors' election and re-election

Other than Sir Roger Bone and Sir David Clementi, who joined the Board on 6 March 2008 and 23 May 2008 respectively, all the Directors held office throughout the year under review. Mr Stephen Burley joined the Board on 1 January 2008 and he and Sir Roger Bone were elected as Directors by shareholders at the Annual General Meeting held on 1 May 2008. Sir David Clementi will stand for election at the forthcoming Annual General Meeting (Resolution 4). Mr Ronald Gould and Mr Christopher Keljik retire by rotation and will stand for re-election (Resolutions 5 and 6). Sir Michael Bunbury and Mr Max Ward stand for re-election having served over 11 and nearly nine years respectively (Resolutions 7 and 8). Mr Ewen Macpherson and Mr John Rennocks retired on 1 May 2008.

The Nomination Committee considered the re-election of the Directors at a meeting held in January 2009, appraising their performance and reviewing their status and commitment as independent and, in the case of of Sir Michael Bunbury and Mr Max Ward, long serving non-executive Directors. The Board has concurred 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. This 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, a company with which it has a

Directors' Report and Business Review (continued)

long association, having originally established and developed it for the purpose of managing its assets as far back as 1953. It is now owned by F&C Asset Management plc ("**FCAM**"), a large pan-European investment group. Friends Provident plc ("**FP**"), which owns 52% of FCAM, has stated that it intends to distribute its entire shareholding in FCAM to FP shareholders by the middle of 2009. The FCAM board is continuing to explore opportunities which might or might not lead to an offer for FCAM.

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**"). 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 the period under review there were three such managers for the North America large and mid-cap equity portfolios, namely Loomis Sayles, Barrow Hanley and T Rowe Price, and one manager for the Japan portfolio, Goldman Sachs Asset Management. An independent specialist multi-manager, FundQuest (formerly known as Investment Management Selection Limited), advised the Manager in relation to the appointment of third party investment managers for the North America portfolio. In February 2009 the Manager ceased the advisory relationship with FundQuest and terminated the sub-management agreement with Loomis Sayles. The Manager has no current intention of making a replacement advisory appointment.

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.

All contested takeovers affecting the Company's investments are referred to the Board.

The Manager's fees

The Manager was paid a fixed fee of £6.7 million (2007: £6.4 million) for its services in 2008, less amounts equal to the fees already received in respect of holdings in the portfolio that it also manages. The fixed fee is subject to annual review and for 2009 remains at £6.7 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 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. For 2008, the Manager was paid a £0.6 million performance-related fee solely in relation to the close peer group. 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 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 has incurred fees in respect of advice from FundQuest in relation to its delegation of the management of the North America portfolio, and also incurs investment management fees from the sub-managers that it has appointed to manage both that and the Japan portfolio. The Company reimburses the Manager for these fees, which in 2008 amounted to £2.2 million (2007: £2.5 million).

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 2008 (2007: £4.8 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 2008 the Company's outstanding trade creditors were equivalent to seven days' payments to suppliers (2007: 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.

Directors' Report and Business Review (continued)

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)	(26.7)	(4.4)	33.7	36.6
Benchmark†	(22.2)	(7.9)	25.1	18.6
Close Peer Group* weighted average net asset value†	(27.4)	(8.7)	29.0	25.0
AIC Global Growth Sector weighted average net asset value†	(26.5)	(7.6)	36.0	37.9
FTSE All-Share†	(29.9)	(13.8)	18.6	12.4
FTSE WI World ex UK†	(17.1)	(3.9)	29.3	22.7
FCIT share price†	(26.7)	(6.1)	34.4	45.8
Close Peer Group* weighted average share price†	(27.7)	(10.3)	29.9	31.4
AIC Global Growth Sector weighted average share price†	(27.0)	(12.1)	37.1	53.2
Retail Prices Index	1.0	9.7	16.0	29.5

Source: Fundamental Data
* 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

2008	5/6	Over 3 years	2/6
2007	2/6	Over 5 years	3/6
2006	4/6	Over 10 years	2/6
2005	4/6		
2004	5/6		

Source: Fundamental Data

Asset allocation, stock selection and gearing attribution

%	1 year	3 years	5 years
Asset allocation	1.7	6.3	8.8
Stock selection	(0.9)	0.8	(1.0)
Gearing	(3.5)	(1.8)	(0.6)

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

Regional portfolio attribution in Sterling

	1 year		3 years		5 years	
%	FCIT	Index	FCIT	Index	FCIT	Index
UK	(28.4)	(29.9)	(9.6)	(13.8)	19.8	13.5
North America	(17.9)	(13.4)	(14.8)	(7.1)	(18.8)	(1.7)
Europe ex UK	(24.7)	(23.8)	(1.6)	6.0	24.2	44.9
Japan	(3.1)	(1.1)	(17.5)	(14.3)	(17.6)	(14.3)
Emerging Markets/Developed Asia	(35.0)	(34.5)	8.6	4.9	51.0	44.3
Emerging Markets	(35.2)	(35.2)	5.1	3.6	n/a	n/a
Developed Asia	(34.4)	(31.0)	20.7	10.7	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)	
31 December	%
2008	10.9
2007	11.1
2006	9.8
2005	9.5
2004	14.8

Source: F&C Management Limited

Compound annual dividend growth		
%	5 years	10 years
FCIT	11.8	8.8
Close Peer Group ex FCIT	5.6	4.3
FTSE All-Share	7.6	2.4
Inflation (RPI)	3.0	2.6

Source: F&C Management Limited; Fundamental Data

Total expense ratio		
%	A	B
2008	0.56	0.58
2007	0.48	0.71
2006	0.46	0.53
2005	0.46	0.53
2004	0.50	0.50

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 66 and 67.

F&C Savings Plans investment flows in FCIT					
£m	2008	2007	2006	2005	2004
Purchases	52.1	49.5	48.1	36.7	54.6
Withdrawals	40.3	78.5	73.5	61.9	47.8
Net flow	11.8	(29.0)	(25.4)	(25.2)	6.8

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 ex UK, Emerging Markets, Developed Asia and US Small Cap portfolios. These have been mirrored in quarterly presentations from FundQuest in respect of the portfolios managed by the US sub-managers and from Goldman Sachs Asset Management in respect of the Japan portfolio. The Board also receives comprehensive performance measurement schedules, provided by Fundamental Data 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 2009. 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 2008, 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 fell

Directors' Report and Business Review (continued)

28.5% to 256.59 pence (with debt at market value), and 27.8% to 262.50 pence (with debt at par). Following the highly satisfactory performance of the Manager in 2007, there was mixed performance in the volatile and unprecedented market conditions of 2008. The Manager underperformed its target composite benchmark by 4.5 percentage points, but beat its other target, the weighted average of the net asset value total return of the close peer group, by 0.7 percentage points. It underperformed the weighted average of the net asset value total return of the AIC Global Growth sector by 0.2 percentage points. It outperformed against the weighted average share price total returns of the close peer group and the AIC Global Growth sector. The Company had comfortably outperformed both the composite benchmark and the weighted averages of the close peer group over three, five and 10 years.

(ii) Performance attribution – The asset allocation weighting in private equity had made the largest positive contribution, whilst gearing had made the biggest negative impact. Stock selection in the UK and in US smaller companies had been positive, whilst the Emerging Markets portfolio had performed in line with its benchmark and had outperformed over three years. The Developed Asia portfolio had underperformed, but was ahead over three years. The Board had been closely monitoring the performance of the European portfolio which, although it had underperformed against its benchmark, was better than in previous years. The Board was therefore satisfied with the overall performance of the regional portfolios directly managed by F&C. The outsourced Japan portfolio had underperformed slightly, but less so than many actively managed Japan portfolios. The biggest disappointment continued to be the performance of the sub-managed North America portfolio, which the Manager planned to address by greater direct involvement in the selection and appointment of the US sub-managers going forward.

(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 three year plan that had been put in place in January 2007 continued to be followed. This was part of a strategy of accelerated investment in people and infrastructure introduced to support the delivery of enhanced investment performance and a number of new product initiatives. 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 proved very successful with positive net inflows in a year of great turbulence for investors generally and the first since 2004. Initiatives included the sponsorship of a garden at the Chelsea Flower Show, which will be repeated in 2009. F&C had demonstrated their 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. 2008 had been a difficult year, but performance had been satisfactory over the longer term measurement horizons. The Board noted F&C's relative stability in a year of unprecedented market turmoil and their 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.

The future of F&C and its ability to deliver the benefits envisaged under its reinvestment programme announced in January 2007 and achieve its stated ambition of reaching top quartile in all areas of its business will continue to be important. The Board will continue to monitor developments and progress at F&C with regard to Friends Provident's proposed distribution of its 52% holding to its shareholders. It will also 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. This will be particularly important in North America. The ongoing challenge for F&C will be that of maintaining the good long-term investment performance of the Company.

The Board's priorities for 2009

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. Investment performance will continue to be monitored closely, particularly with regard to the relative underperformance in North America. 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 13 and 14. The Board expects that the total dividend for the year 2009 will at least be maintained.

GENERAL INFORMATION

Voting rights

At 4 March 2009 the Company had 678,919,714 ordinary shares in issue with a total of 678,919,714 voting rights. As at that date the Company received notification of the following holdings of voting rights (under the FSA's Disclosure and Transparency Rules):

Legal & General Group plc	4.0%

The above percentage is calculated by applying the shareholding as notified to the Company to the issued ordinary share capital as at 4 March 2009.

The Manager holds 37.4% 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 630,000 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 of the Directors is aware, there is no relevant audit information of which PricewaterhouseCoopers LLP (the "**Auditors**") are unaware. The Directors believe that they have taken all the steps that they ought to have taken as

Directors' Report and Business Review (continued)

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 9 and 10).

Articles of association

It is proposed to amend the articles of association of the Company in order to reflect certain changes made or to be made to the law by the Companies Act 2006 ("**CA 2006**"). The remaining provisions of the Companies Act 2006 are due to come into force in October 2009. In addition, various regulations that relate to certain of these provisions have yet to be finalised. Consequently, it will be necessary for the Company to undertake a further review of its articles of association in due course in order to reflect these other provisions. As these further changes to the articles of association will be reasonably substantial in number, it is anticipated that the Company will adopt new articles of association at its Annual General Meeting in 2010.

Resolutions 13 and 14 will be put to the shareholders at the Annual General Meeting to enable the Company to implement the following changes to its articles of association:

(a) removing, with effect from 1 October 2009, those provisions of the memorandum of association that will, from that date, be treated as part of its articles (under section 28 CA 2006);

(b) abolition of authorised share capital, also with effect from 1 October 2009; and

(c) authorising a general meeting (other than an annual general meeting) to be held on 14 days' rather than 21 days' notice.

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 1 May 2009 at 12 noon. In addition to the ordinary business of the Meeting, resolutions 11 to 14 will be proposed as special business.

By order of the Board,
for and on behalf of F&C Management Limited,
Secretary
5 March 2009

Directors

Mark Loveday – Chairman† Elected to the Board in May 2001, appointed Chairman in May 2002 and is Chairman of the Nomination Committee. 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 recently appointed chairman of the Grosvenor Pension Fund. He has no other directorships. *Age 65.*

Sir Roger Bone KCMG Appointed to the Board on 6 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 64.*

Sir Michael Bunbury Bt KCVO*† Appointed to the Board in March 1998, is Chairman of the Audit Committee and represents the Company's interests 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 62.*

Sir David Clementi† Joined the Board on 23 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 60.*

Stephen Burley* Joined the Board on 1 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 61.*

Ronald Gould* Appointed to the Board in May 2005. Formerly managing director of BZW Investment Management, vice chairman of BZW/ Barclays Asset Management and president of BZW Investment Management (Japan) and managing director of Barclays Trust and Banking (Japan). He was more recently senior executive vice president and managing director of AXA Investment Managers and, subsequently, chief executive officer of, and now a consultant to, ABG Sundal Collier ASA. He is an adviser to the Financial Services Authority and a non-executive director of JPMorgan Asian Investment Trust plc and Miller Insurance Services Limited. *Age 61.*

Christopher Keljik OBE* Appointed to the Board in September 2005. He is a chartered accountant and 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 also a non-executive director of Millennium & Copthorne Hotels plc, Jardine Lloyd Thompson Group plc and Henderson TR Pacific Investment Trust plc. *Age 60.*

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 59.*

* Members of the Audit 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
Loomis Sayles – appointed July 2005 and removed in February 2009
T. Rowe Price – appointed February 2006

Sub-Managers to F&C (Japan Portfolio)

Goldman Sachs Asset Management – appointed July 2005

Private Equity Managers

HarbourVest Partners LLC – appointed 2003
Pantheon Ventures Limited – appointed 2003

Secretary and Registered Office

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Facsimile: 020 7628 8188
Website: www.fandc.com
Email: info@fandc.com
Authorised and regulated in the UK by the Financial Services Authority

Independent Auditors

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

Custodian

JPMorgan Chase

Bankers

Royal Bank of Scotland
ING Bank
Lloyds Banking Group

Registrars

Computershare Investor Services PLC,
The Pavilions, Bridgwater Road,
Bristol BS99 6ZZ
Telephone: 0870 707 1529
Facsimile: 0870 703 6143
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

Director	Fees for services to the Company 2008 £'000s	2007 £'000s
Mark Loveday(1)	65	63
Sir Michael Bunbury(2)	46	55
Maxwell Ward	38	36
Ronald Gould(3)	36	37
Christopher Keljik(4)	37	40
Sir Roger Bone(5)	25	–
Stephen Burley(6)	31	–
Sir David Clementi(7)	18	–
Ewen Macpherson(8)	15	43
John Rennocks(9)	14	42
The Rt Hon Kenneth Clarke(10)	–	10
Sir Andrew Wood(10)	–	12
Total	325	338

(1) Chairman and highest paid Director.
(2) Received £5,000 as the Company's representative on the advisory committees of Pantheon and HarbourVest. He was Chairman of the Private Equity Committee.
(3) Chairman of Service Providers and Marketing Committee until 1 May 2008 when he joined the Audit Committee.
(4) Member of Service Providers and Marketing Committee until 1 May 2008.
(5) Joined the Board on 6 March 2008.
(6) Joined the Audit Committee on 1 September 2008.
(7) Joined the Board on 23 May 2008.
(8) Retired as a Director on 1 May 2008.
(9) Retired on 1 May 2008 as Director and Chairman of the Audit Committee.
(10) Retired on 4 May 2007.

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

During the year the fee rates were reviewed in relation to the following factors:

- the absolute and relative performance of the Company over the year to 31 May 2008 and whether the Directors had added value;
- earnings and price inflation over the year to April 2008 and May 2008 respectively, when the last increase became effective;
- 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.

The Board agreed that no change would be made to the basic Director's fee of £30,000 per annum, but approved the Chairman's recommendation that the fee payable to members of the Nomination Committee be increased from £2,000 to £3,000 per annum. The fees for specific responsibilities are set out in the table below.

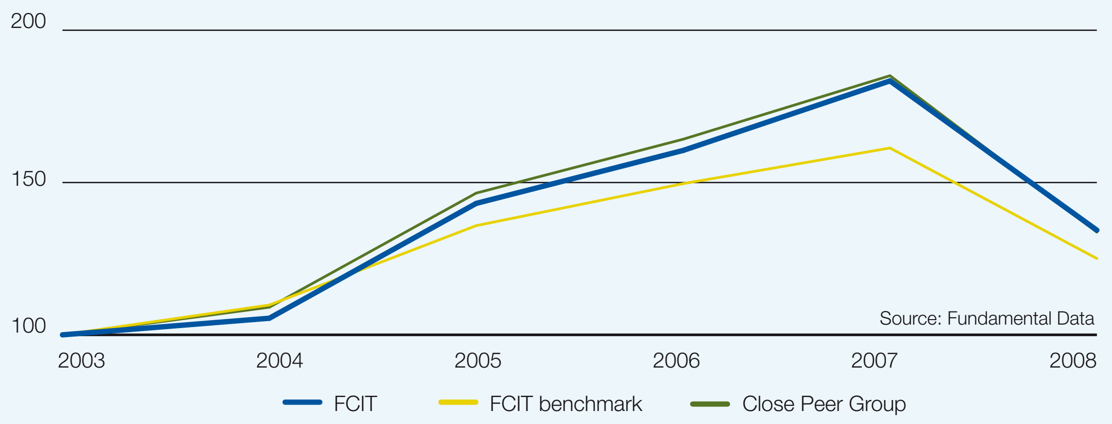
Annual fees for Board responsibilities

	2008 £'000s	2007 £'000s
Board		
Chairman	62.0	62.0
Senior Independent Director	36.3	36.3
Director	30.0	30.0
Audit Committee		
Chairman	8.0	8.0
Members	5.0	5.0
Nomination Committee		
Chairman	3.0	2.0
Members	3.0	2.0
Private Equity Committee(1)		
Chairman(2)	13.0	13.0
Members	5.0	5.0
Service Providers and Marketing Committee (1)		
Chairman	8.0	8.0
Directors	5.0	5.0

(1) The Private Equity Committee and the Service Providers and Marketing Committee ceased on 1 May 2008.
(2) Represents £8,000 as Chairman and £5,000 as the Company's representative on the advisory committees of Pantheon and HarbourVest.

Directors' Remuneration Report (continued)

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.

Both the Private Equity Committee and the Service Providers and Marketing Committee were dissolved with effect from 1 May 2008, having achieved their main objectives. Their ongoing responsibilities were reallocated to the Fund Manager or the Audit Committee as appropriate or, in certain cases, to the Board. The members of these committees therefore received the pro rata element of the annual fees for these responsibilities up to 1 May 2008.

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
5 March 2009

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 2006 (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. 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. Strategic issues are reviewed regularly.

The following table sets out the number of Directors' meetings (including committee meetings) held and attended during the year under review. The Board held an Away-Day meeting in November 2008 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	Private Equity Committee	Service Providers and Marketing Committee
No. of meetings	10	5	2	1	2
M A Loveday	10	n/a	2	n/a	n/a
R Bone(1)	8	n/a	n/a	n/a	n/a
M W Bunbury(2)	10	5	1	1	n/a
S Burley(3)	10	2	n/a	n/a	n/a
D Clementi(4)	7	n/a	n/a	n/a	n/a
R J Gould(5)	10	3	n/a	n/a	2
C A Keljik	10	5	n/a	n/a	2
E C S Macpherson(6)	2	n/a	1	1	n/a
J L Rennocks(7)	2	1	n/a	1	n/a
M C B Ward	10	n/a	2	1	n/a

(1) Appointed as a Director with effect 6 March 2008.
(2) Joined Nomination Committee on 17 September 2008.
(3) Joined Audit Committee on 17 September 2008.
(4) Appointed as a Director with effect 23 May 2008.
(5) Joined Audit Committee on 1 May 2008.
(6) Retired 1 May 2008.
(7) Retired 1 May 2008.

The Board aims to maintain a balance of skills, experience, diversity, 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 carried out a thorough appraisal process in December 2008 in respect of the year under review. This encompassed both quantitative and

* 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.

Corporate Governance Statement (continued)

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 using external appraisal consultants and, whilst it believes that this is unlikely to provide any meaningful advantage over the internal process that has been adopted, it could nevertheless provide an independent perspective if used on an occasional basis. This will be given further consideration in 2009.

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 its nominated representative, is responsible for ensuring that Board and Committee procedures are followed and applicable regulations are complied with. The proceedings at all Board and other meetings are fully recorded through a process that allows any Directors' concerns to be recorded in the minutes. The Board has the power to appoint or remove the Secretary in accordance with the terms of the Management Agreement.

Independence of Directors

The Board, 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 over 11 and nearly nine years respectively and are standing for annual re-election, have been assessed by the Nomination Committee 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.

Sir Michael Bunbury was appointed non-executive chairman of HarbourVest Global Private Equity Limited ("**HVGPE**") in October 2007. HVGPE is a Guernsey incorporated closed-end investment company listed on Euronext Amsterdam. HVGPE is advised by HarbourVest Advisers LP, an affiliate of HarbourVest 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.

The Nomination Committee's assessments of Director independence have been endorsed by the Board, which 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

It is now a statutory requirement that a company director must 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**"). While it remains the responsibility of each individual Director to avoid an unauthorised conflict situation arising, the Company has implemented procedures to enable it to assess situational conflicts and take action where necessary.

The Nomination Committee is responsible for considering Directors' requests for authorisation of situational conflicts and for making recommendations to the Board on whether or not the situational conflict should be authorised. Directors are given guidance on the Company's procedure. They must disclose any other directorships they hold and must identify the interests of any person closely connected to them in order to consider whether a situational conflict could arise out of those interests.

A Director wishing to seek authorisation must submit a formal request to the Nomination Committee when it is deciding whether or not to recommend authorisation of a situational conflict, or when the Board is deciding whether or not to authorise the situational conflict. The factors to be considered will include whether the situational conflict could prevent the Director from properly performing his 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.

Where the Board authorises a conflict, terms will usually be attached. These 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 matter must also abstain from voting on it.

The Board implemented authorisation procedures in October 2008, during which no situational conflicts were identified or authorised other than the formal authorisation of the Directors' other existing directorships.

Going forward, the Nomination Committee will review annually any situational conflicts which have been authorised, together with any updates that have been provided by the relevant Director. Provided that there has been no material change in circumstance and the Nomination Committee is of the view that the situational conflict has not affected the individual in his role as a Director of the Company, the Nomination Committee will usually not recommend any change to the terms of the authorisation. Where the Nomination Committee is notified that the facts have changed materially, it will review the change, consider whether the authorisation should be renewed, varied or withdrawn, and make its recommendation to the Board accordingly.

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 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 29 and attendance at meetings on page 33. The Private Equity Committee and the Service Providers and Marketing Committee were disbanded on 1 May 2008 and their responsibilities allocated between the Fund Manager, the Audit Committee and the Board.

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 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 2008 and in January 2009. The Board appointed three new Directors during

Corporate Governance Statement (continued)

the year upon the recommendation of the Committee. This followed the appointment of a search agency in 2007 for the purpose of finding replacement Directors for those retiring in 2007 and 2008, and the selection process applied by the Committee. 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 31 and 32 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 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 Auditor's 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 Custodian;

(ix) review the Manager's dealing efficiency and associated costs; and

(x) review trade marks and intellectual property rights.

The Committee has also been responsible for the review of stock lending performance and restrictions applying to that activity, which was ceased in September 2008.

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 2008 and in February 2009. 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 and, on the basis of these 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 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 £16,000 in 2008, and considers them to be cost effective and not to compromise the independence of the Auditors. The non-audit services include taxation matters 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 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 and other management issues. In December 2008 and January 2009, the Audit Committee carried out with the Manager a review of the process for the identification, mitigation, monitoring and reporting of the key risks faced by the Company, as a result of which enhancements were recommended for the purpose of assisting the Board in the ongoing management of the Company's principal risks. A quarterly control report is prepared by the Manager's Audit, Risk and Compliance Department that provides details of any material internal control failure. The control report incorporates an enhanced key risk summary that enables the Board to identify and manage 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 19 to 21, 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 2008 (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.

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 22, 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

Corporate Governance Statement (continued)

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 15 of these shareholders owning a total of 13% of the share capital. The Fund Manager also gave a series of presentations to portfolio managers, private client wealth managers and opinion-formers across the country. In aggregate, 192 managers attended the presentations, representing 17% 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 2009.

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 Secretary, at the address set out on page 30 or by emailing to FCITCoSec@fandc.com.

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

Independent Auditors' Report

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

Respective responsibilities of directors and auditors

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

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

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 and of its net return and cash flows for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report and Business Review is consistent with the financial statements.

PricewaterhouseCoopers LLP
Hay's Galleria
1 Hay's Lane
London SE1 2RD
5 March 2009

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 and financial statements which give a true and fair view of the state of affairs of the Company as at 31 December 2008 and of the results for the year then ended. In preparing the financial statements, suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made. The Directors are also responsible for ensuring that adequate accounting records are maintained and have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

On behalf of the Board
Mark Loveday
Chairman
5 March 2009

Income Statement

Revenue Notes	Capital Notes	for the year ended 31 December	**2008 Revenue £'000s**	**2008 Capital £'000s**	**2008 Total £'000s**	2007 Revenue £'000s	2007 Capital £'000s	2007 Total £'000s
	11	(Losses)/gains on investments	**–**	**(679,894)**	**(679,894)**	–	288,498	288,498
	20	Exchange (losses)/gains	**(36)**	**(4,374)**	**(4,410)**	22	(725)	(703)
3		Income	**67,920**	**–**	**67,920**	63,253	–	63,253
4	4	Management fees	**(4,357)**	**(4,933)**	**(9,290)**	(4,477)	(4,981)	(9,458)
	4	Performance fee	**–**	**(560)**	**(560)**	–	(6,170)	(6,170)
5	5	Recoverable VAT	**1,105**	**245**	**1,350**	3,411	1,589	5,000
6	20	Other expenses	**(2,983)**	**(88)**	**(3,071)**	(3,128)	(103)	(3,231)
		Net return before finance costs and taxation	**61,649**	**(689,604)**	**(627,955)**	59,081	278,108	337,189
7	20	Interest payable and similar charges	**(8,541)**	**(8,541)**	**(17,082)**	(7,364)	(7,364)	(14,728)
		Net return on ordinary activities before taxation	**53,108**	**(698,145)**	**(645,037)**	51,717	270,744	322,461
8	20	Taxation on ordinary activities	**(6,119)**	**2,978**	**(3,141)**	(5,808)	2,801	(3,007)
9	9	**Net return attributable to equity shareholders**	**46,989**	**(695,167)**	**(648,178)**	45,909	273,545	319,454
9	9	**Return per share – basic (pence)**	**6.90**	**(102.10)**	**(95.20)**	6.40	38.10	44.50

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 2008	Share Capital £'000s	Capital Redemption Reserve £'000s	Capital Reserves £'000s	Revenue Reserve £'000s	Total Shareholders' Funds £'000s
	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 equity 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**

Notes	For the year ended 31 December 2007	Share Capital	Capital Redemption Reserve	Capital Reserves	Revenue Reserve	Total Shareholders' Funds
	Balance brought forward 31 December 2006	187,494	75,268	2,030,568	114,810	2,408,140
10	Dividends paid	–	–	–	(40,222)	(40,222)
	Shares repurchased by the Company	(16,164)	16,164	(196,422)	–	(196,422)
	Return attributable to equity shareholders	–	–	273,545	45,909	319,454
	Balance carried forward 31 December 2007	171,330	91,432	2,107,691	120,497	2,490,950

Balance Sheet

Notes	At 31 December	£'000s	2008 £'000s	£'000s	2007 £'000s
	Fixed assets				
11	Investments		**1,998,277**		2,664,514
	Current assets				
13	Debtors	**5,493**		10,641	
	Cash at bank	**4,026**		32,910	
		9,519		43,551	
	Creditors: amounts falling due within one year				
14	Loans	**(110,000)**		(92,220)	
15	Other	**(4,772)**		(14,320)	
		(114,772)		(106,540)	
	Net current liabilities		**(105,253)**		(62,989)
16	Total assets less current liabilities		**1,893,024**		2,601,525
	Creditors: amounts falling due after more than one year				
17	Debentures		**(110,575)**		(110,575)
	Net assets		**1,782,449**		2,490,950
	Capital and reserves				
18	Share capital		**169,755**		171,330
19	Capital redemption reserve		**93,007**		91,432
20	Capital reserves		**1,394,106**		2,107,691
20	Revenue reserve		**125,581**		120,497
	Total shareholders' funds – equity		**1,782,449**		2,490,950
21	**Net asset value per share – prior charges at nominal value (pence)**		**262.50**		363.47

Approved by the Board on 5 March 2009 and signed on its behalf by:

Mark Loveday

Mark Loveday

Michael Bunbury

Sir Michael Bunbury

Cash Flow Statement

Notes	For the year ended 31 December	£'000s	2008 £'000s	£'000s	2007 £'000s
	Operating activities				
	Investment income	**60,380**		59,080	
	Interest received	**3,152**		1,008	
	Stock lending fees received	**418**		278	
	Other revenue	**118**		14	
	VAT recovered on Management fees	**6,350**		–	
	Management and performance fees paid	**(15,935)**		(12,271)	
	Fees paid to directors	**(325)**		(338)	
	Other cash payments	**(2,869)**		(3,656)	
22	Net cash inflow from operating activities		**51,289**		44,115
	Servicing of finance				
	Interest paid	**(16,473)**		(14,553)	
	Cash outflow from servicing of finance		**(16,473)**		(14,553)
	Financial investment				
	Purchases of equities and other investments	**(1,155,908)**		(1,555,150)	
	Sales of equities and other investments	**1,144,152**		1,759,650	
	Other capital charges and credits	**(98)**		(99)	
	Net cash (outflow)/inflow from financial investment		**(11,854)**		204,401
	Equity dividends paid		**(41,905)**		(40,222)
	Net cash (outflow)/inflow before use of liquid resources and financing		**(18,943)**		193,741
	Financing				
	Net loans raised	**9,543**		23,537	
	Costs of shares repurchased	**(23,347)**		(212,479)	
	Net cash outflow from financing		**(13,804)**		(188,942)
23	**(Decrease)/increase in cash**		**(32,747)**		4,799

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 2007 and all previous applicable financial years. Such approval exempts the Company from UK Corporation Tax on gains realised in the relevant year on its portfolio of fixed asset investments.

2 Significant accounting policies

(a) Basis of accounting

The accounts of the Company have been prepared on a going concern basis under the historical cost convention, modified to include fixed asset investments at fair value, and in accordance with the Companies Act 1985, Accounting Standards applicable in the United Kingdom and with the Revised Statement of Recommended Practice "Financial Statements of Investment Trust Companies" (SORP) issued in December 2005.

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

The Company had no operating subsidiaries at any time during the year ended 31 December 2008. Consequently, consolidated accounts have not been prepared.

There have been no significant changes to the accounting policies during the year ended 31 December 2008.

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

(b) Principal accounting policies

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

(i) Fixed assets 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 may be carried at cost 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.

(ii) Borrowings

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

(iii) Foreign currency

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

2. Significant accounting policies (continued)

(iv) Income

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

(v) Expenses, including finance charges

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

– expenses incidental to the acquisition or disposal of fixed assets 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.

(vi) Taxation

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

(vii) Capital Redemption Reserve

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

(viii) 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

	2008 £'000s	2007 £'000s
Income from investments		
UK dividends	**31,774**	33,007
UK fixed interest	**–**	71
Overseas dividends	**31,512**	28,618
Scrip dividends	**1,065**	214
	64,351	61,910
Other Income		
Interest on cash and short-term deposits	**553**	1,002
Interest on VAT recoverable (see note 5)	**2,523**	–
Stock lending fees	**375**	326
Underwriting commission	**118**	4
Sundry income	**–**	11
	3,569	1,343
Total income	**67,920**	63,253

Total income comprises:		
Dividends	**64,351**	61,839
Interest from investments	**–**	71
Other income	**3,569**	1,343
	67,920	63,253

Income from investments comprises:		
Listed UK	**32,331**	32,763
Listed Overseas	**31,674**	28,832
Unlisted	**346**	315
	64,351	61,910

4 Management and performance fees

		2008	2008	2007	2007
		£'000s	£'000s	£'000s	£'000s
Payable directly to F&C Management Limited (F&C):					
– in respect of management services provided by F&C	(i)	6,479		6,074	
– re-imbursement in respect of services provided by Advisers and Sub-Managers	(i)	2,235		2,518	
		8,714		8,592	
– in respect of performance fees	(ii)	560		6,170	
			9,274		14,762
Payable directly to Private Equity Managers	(ii)		576		505
Incurred indirectly within Funds:					
– managed by Private Equity Managers	(iii)		4,953		4,337
			14,803		19,604
VAT suffered on:					
– management fees			–		361
Total direct and indirect management and performance fees			14,803		19,965

(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 fees

	2008 £'000s	2007 £'000s
– payable directly to F&C	8,714	8,592
– payable directly to Private Equity Managers	576	505
	9,290	9,097
– VAT thereon	–	361
	9,290	9,458
Less: allocated to capital reserves	(4,933)	(4,981)
Allocated to revenue account	4,357	4,477

Performance fees payable to F&C	560	6,170
Allocated to capital reserves	560	6,170

(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 Company revised the management fee payable to the Manager, as well as the performance fee arrangements, with effect from 1 January 2007. The bases and rates applying in 2008 and 2007 are set out below.

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 (2007: £6.39m) per annum, payable monthly in arrears, less fees of £0.23m (2007: £0.32m) 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 2008, 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 High Watermark test). For the year ending 31 December 2008, the adjusted net asset performance of -27.4% represented underperformance of the composite benchmark by 6.6% (year ending 31 December 2007, 6.3% outperformance). Cumulative underperformance of 4.0% (2007: outperformance of 2.8%) 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 2008 over the Close peer group (as referred to on page 22), with outperformance in excess of 3% carried forward for inclusion in the calculation for the subsequent period. For the year ending 31 December 2008, the adjusted net asset performance of -27.3% represented outperformance of the Close Peer Group by 0.6% (2007: 1.9% 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 2008 the Company had commitments in five Private Equity Funds managed by Pantheon Ventures Limited (2007: five) and eleven Private Equity Funds managed by HarbourVest Partners LLC (2007: nine). 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 (2007: 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 2008 varied from 0.375% per annum to 1.95% per annum (2007: 0.5% to 1.95%).

5 Recoverable VAT

	2008 £'000s	2007 £'000s
Recoverable VAT	**1,350**	5,000

Management and performance fees are no longer subject to VAT. In recognition that VAT was paid in error prior to 2008, the Company has recovered from HMRC, via its Manager, all such VAT payments made (and not already reclaimed from HMRC) in the periods 1990 to 1996 and 2001 to 2007. Amounts relating to the intervening period, 1997 to 2000, have not been accrued or recognised as a contingent asset, as their recoverability remains uncertain under EU Law. In addition, interest of £2,523,000 relating to the VAT recovered has been received (see note 3).

6 Other expenses

	2008 £'000s	2007 £'000s
Auditors' remuneration:		
for audit services	**66**	63
for other services*	**17**	26
Custody fees	**279**	345
Directors' emoluments (see Directors' Remuneration Report on pages 31 and 32):		
fees for services to the Company	**325**	338
Subscriptions	**46**	37
Directors' and Officers' liability insurance	**63**	92
Marketing expenses	**647**	608
Private Investor Plan expenses	**892**	912
Loan commitment fees	**95**	31
Registrars' fees	**130**	85
Professional charges	**146**	151
Printing and postage	**120**	271
Sundry expenses	**157**	169
	2,983	3,128

* Total Auditors' remuneration for other services, exclusive of VAT, amounts to £16,000 (2007: £25,000) comprising £6,000 for taxation advice (2007: £16,000) and £10,000 relating to review of half-year accounts and debenture compliance certificate (2007: £9,000). No part of these amounts was charged to capital reserves (2007: £nil).

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 31 and 32.

(b) Remuneration from related parties

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

Notes on the Accounts (continued)

6 Other expenses (continued)

(c) Directors' interests in shares

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

	31 December 2008		31 December 2007	
	Beneficial	**Other**	Beneficial	Other
Mark Loveday	**100,000**	**35,000**	100,000	35,000
Sir Roger Bone	**3,146**	**–**	–	–
Sir Michael Bunbury	**97,000**	**17,500**	97,000	17,500
Stephen Burley	**25,000**	**–**	–	–
Sir David Clementi	**1,241**	**–**	–	–
Ronald Gould	**4,705**	**–**	3,316	–
Christopher Keljik	**44,545**	**–**	43,633	–
Maxwell Ward	**30,000**	**–**	30,000	–

Since the year end, the following Directors have acquired further ordinary shares: Sir Roger Bone 221 shares, Sir David Clementi 663 shares and Ronald Gould 266 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.

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

(d) 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.

(e) 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 £325,000 (2007: £338,000). Emoluments attributable to the highest paid Director amounted to £65,500 (2007: £62,500).

7 Interest payable and similar charges

	2008 £'000s	2007 £'000s
Debenture stocks	**12,399**	12,399
Loans	**4,593**	1,718
Overdrafts	**90**	611
	17,082	14,728
Less: allocated to capital reserves (see note 20)	**(8,541)**	(7,364)
	8,541	7,364
The interest on debenture stocks, loans and overdrafts is further analysed as follows:		
Loans and overdrafts repayable within one year, not by instalments	**4,683**	2,329
Loans and overdrafts repayable between two and five years, not by instalments	**–**	–
Debentures repayable in more than five years, not by instalments	**12,399**	12,399
	17,082	14,728

8 Taxation on ordinary activities

(a) Analysis of tax charge for the year

			2008			2007
	Revenue £'000s	Capital £'000s	Total £'000s	Revenue £'000s	Capital £'000s	Total £'000s
Corporation tax at 28.5% (2007:30%)	6,048	(3,007)	3,041	5,761	(3,071)	2,690
Relief for overseas taxation	(3,041)	–	(3,041)	(2,690)	–	(2,690)
	3,007	(3,007)	–	3,071	(3,071)	–
Overseas taxation	3,041	100	3,141	2,723	284	3,007
Total current taxation (note 8b)	6,048	(2,907)	3,141	5,794	(2,787)	3,007
Deferred tax	71	(71)	–	14	(14)	–
	6,119	(2,978)	3,141	5,808	(2,801)	3,007

Deferred tax in the revenue account is in respect of corporation tax on accrued income that will be taxed in future years. There is no effect on the total tax charge, or the assets or liabilities of the Company, due to utilisation of tax deductible expenses transferred from the capital account.

(b) Factors affecting tax charge for the year

			2008			2007
	Revenue £'000s	Capital £'000s	Total £'000s	Revenue £'000s	Capital £'000s	Total £'000s
Return on ordinary activities before taxation	53,108	(698,145)	645,037	51,717	270,744	322,461
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 28.5% (2007: 30%)	15,136	(198,971)	(183,835)	15,515	81,223	96,738
Effects of:						
UK franked dividends*	(9,014)	–	(9,014)	(9,902)	–	(9,902)
Overseas tax in excess of double tax relief	–	–	–	31	–	31
Income not subject to corporation tax	(289)	–	(289)	(66)	–	(66)
Capital returns*	–	194,945	194,945	–	(86,332)	(86,332)
Expenses not deductible for tax purposes	215	25	240	216	31	247
Expenses not utilised in the year	–	994	994	–	2,007	2,007
Indian tax on capital gains	–	100	100	–	284	284
Total current taxation (note 8a)	6,048	(2,907)	3,141	5,794	(2,787)	3,007

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

The deferred tax asset of £17.5 million (2007: £17.4 million) in respect of unutilised expenses at 31 December 2008 has not been recognised as it is likely that the unrecognised asset will increase in amount in future. Of this amount £nil (2007: £nil) relates to revenue expenses and £17.5 million (2007: £17.4 million) to capital expenses.

Notes on the Accounts (continued)

9 Return per share

	2008 pence	2008 £'000s	2007 pence	2007 £'000s
Total return	**(95.20)**	**(648,178)**	44.50	319,454
Revenue return	**6.90**	**46,989**	6.40	45,909
Capital return	**(102.10)**	**(695,167)**	38.10	273,545
Weighted average ordinary shares in issue		**680,864,950**		717,944,021

10 Dividends

Dividends on ordinary shares	Register date	Payment date	2008 £'000s	2007 £'000s
2006 Final of 2.55p	16 March 2007	9 May 2007	**–**	21,081
2007 Interim of 2.70p	10 August 2007	11 September 2007	**–**	19,141
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**	–
			41,905	40,222

The Directors propose to pay a final dividend in respect of the year ended 31 December 2008 of 3.45p payable on 8 May 2009 to all shareholders on the register at close of business on 20 March 2009. The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. 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.

	2008 £'000s
Revenue available for distribution by way of dividends for the year	**46,989**
Interim dividend for the year ended 31 December 2008 – 3.00p per share	**(20,380)**
Proposed final dividend for the year ended 31 December 2008 – 3.45p per share (estimated cost based on 678,919,714 shares in issue at 5 March 2009)	**(23,423)**
Estimated undistributed revenue for Section 842 purposes*	**3,186**

* Undistributed revenue comprises 5.0% of income from investments of £64,351,000 (see note 3).

11 Investments

	Listed* £'000s	Unlisted £'000s	Total £'000s
Investments held at 1 January 2008			
Cost	1,787,646	203,939	1,991,585
Gains	655,799	17,130	672,929
Valuation	2,443,445	221,069	2,664,514
Movements in the year			
Purchases at cost	1,077,133	80,574	1,157,707
Sales proceeds	(1,126,902)	(17,148)	(1,144,050)
(Losses)/gains on investments sold in year	(228,319)	5,277	(223,042)
(Losses)/gains on investments held at year end	(477,739)	20,887	(456,852)
Valuation of investments held at 31 December 2008	1,687,618	310,659	1,998,277
Analysed at 31 December 2008			
Cost	1,687,142	272,411	1,959,553
Gains	476	38,248	38,724
Valuation	**1,687,618**	**310,659**	**1,998,277**

*Includes investments listed on the Alternative Investment Market

11 Investments (continued)

Gains/(losses) on investments	2008 £'000s	2007 £'000s
(Losses)/gains based on historical cost	(45,688)	312,199
Less: gains recognised in previous years	(177,354)	(253,612)
(Losses)/gains on investments sold in year based on carrying value at previous balance sheet date	(223,042)	58,587
(Losses)/gains on investments held at 31 December	(456,852)	229,911
Total (losses)/gains on investments	(679,894)	288,498

Stock lending	2008 £'000s	2007 £'000s
Aggregate value of securities on loan at 31 December	–	88,615
Maximum aggregate value of securities on loan during the year	377,410	159,439
Income from stock lending during the year	375	326

In respect of securities on loan at the year end, the Company held nil (2007: £97,644,000) as collateral, the value of which exceeds the value of the loan securities by nil (2007:10.2%). In respect of the maximum aggregate value of securities on loan during the year, the Company held £399,595,000 (2007: £167,868,000) as collateral, the value of which exceeded the value of the securities on loan by 5.9% (2007: 5.3%). F&C received remuneration of £118,000 (2007: £82,000) for managing the Company's stock lending activities. The Company ceased stock lending in September 2008.

Investments managed or advised by the F&C Group

Investments include £23.8 million (2007: £30.0 million) of funds and investments managed or advised by the Company's Manager (F&C) or its subsidiaries. These investments represent 1.2% (2007: 1.1%) 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 (2007: £53.7m) of such investments, and received £5.0m (2007: £48.7m) from sales.

Unlisted investments

Unlisted investments include £288.4 million of investments described as Private Equity, together with £22.3 million of other investments in 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.

Notes on the Accounts (continued)

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 229 of the Companies Act 1985, the Company has not prepared consolidated accounts.

Company and business	Country of registration, incorporation and operation	Number and class of shares held	Holding %	At 31 December 2008 Capital and reserves £'000s
F&C Securities Limited (dormant – Investment dealing)	England	100 ordinary shares of £1	100	(538)

Substantial interests

At 31 December 2008 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	147,224 ordinary shares	7.70
Dover Street VI LP	USA	–	11.12
F&C Portfolios Fund SICAV			
European High Yield Bond Fund*†	Luxembourg	1,387,000 shares	39.06
F&C US Smaller Companies PLC*	England	4,368,169 ordinary shares of 25p	21.06
HarbourVest International – Direct Fund	USA	–	15.66
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	8.85
		3,790,332 warrants	11.85
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	266,650 shares	34.21

* Investment funds managed by companies within the F&C Group.
† The holding represents 1.39% of the voting rights in the F&C Portfolios Fund SICAV.

13 Debtors

	2008 £'000s	2007 £'000s
Investment debtors	**776**	673
Prepayments and accrued income	**4,524**	9,769
Overseas taxation recoverable	**190**	196
Other debtors	**3**	3
	5,493	10,641

14 Creditors: amounts falling due within one year

Non-instalment debt payable on demand or within one year	2008 £'000s	2007 £'000s
¥5,985m repaid January 2008	**–**	26,913
US$130m repaid January 2008	**–**	65,307
£50m repaid January 2009	**50,000**	–
£60m repaid January 2009	**60,000**	–
	110,000	92,220

At 31 December 2008 the Company's loans were drawn down under three unsecured revolving credit facilities expiring in September and October 2009. The facilities allow the Company access on demand to a maximum of £200m 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.

All three 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 2008 was £1,472m. Actual total borrowings at market value at 31 December 2008 were £261m, comprising loans of £110m and debentures of £151m (see note 17). The Company met all of its banking covenants during the year.

At 5 March 2009, there were no short-term borrowings.

15 Creditors: amounts falling due within one year

Other	2008 £'000s	2007 £'000s
Cost of ordinary shares repurchased	**–**	4,929
Investment creditors	**1,381**	356
Performance fee	**560**	6,170
Other accrued expenses	**2,831**	2,865
	4,772	14,320

Notes on the Accounts (continued)

16 Geographical and industrial classification

a)	UK %	North America %	Europe ex UK %	Japan %	Developed Asia %	Emerging Markets %	**2008 Total %**	2007 Total %
Equities and convertibles								
Oil and gas	7.7	2.1	0.9	0.1	0.4	1.7	**12.9**	11.9
Basic materials	1.5	1.6	0.8	0.9	0.7	1.4	**6.9**	9.7
Industrials	0.9	0.9	0.4	0.3	0.3	0.2	**3.0**	6.1
Consumer goods	3.1	2.2	1.9	1.6	0.5	0.8	**10.1**	10.1
Health care	3.7	4.1	1.2	0.4	0.3	0.3	**10.0**	6.9
Consumer services	0.4	2.5	1.1	0.5	0.1	0.4	**5.0**	5.8
Telecommunications	2.9	0.8	–	0.3	0.6	1.3	**5.9**	5.8
Utilities	2.5	1.3	0.9	0.6	0.2	0.5	**6.0**	3.5
Financials	8.5	2.2	1.9	1.1	1.2	2.6	**17.5**	25.5
Technology	0.7	3.9	0.9	0.7	0.1	1.1	**7.4**	5.8
Private equity	2.3	5.6	4.6	0.2	1.0	0.6	**14.3**	7.3
Total equities and convertibles	34.2	27.2	14.6	6.7	5.4	10.9	**99.0**	98.4
Fixed interest stocks	–	–	0.7	–	–	–	**0.7**	0.5
Total Investments	34.2	27.2	15.3	6.7	5.4	10.9	**99.7**	98.9
Net current assets (excluding loans)	0.1	0.2	–	–	–	–	**0.3**	1.1
Total assets less current liabilities (excluding loans)	**34.3**	**27.4**	**15.3**	**6.7**	**5.4**	**10.9**	**100.0**	
Total 2007	41.8	22.2	13.0	5.0	6.4	11.6		100.0

b)	UK %	North America %	Europe ex UK %	Japan %	Developed Asia %	Emerging Markets %	2008 Total %	2007 Total %
Net assets 2008	**26.2**	**30.8**	**17.1**	**7.4**	**6.2**	**12.3**	**100.0**	
Net assets 2007	40.4	21.6	13.9	4.4	7.0	12.7		100.0

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

17 Creditors: amounts falling due after more than one year

Debentures	2008 £'000s	2007 £'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 2008 was £150,735,000 (31 December 2007: £143,772,000).

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 2008 the value of the ATCR was £1,573m and the value of all borrowings was £221m. 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 Share capital

	Authorised		Issued and fully paid	
	Number	Nominal £'000s	Number	Nominal £'000s
Equity share capital ordinary shares of 25p each				
Shares repurchased by the Company	–	–	(6,298,878)	(1,575)
Balance brought forward	1,103,600,000	275,900	685,318,592	171,330
Balance carried forward	**1,103,600,000**	**275,900**	**679,019,714**	**169,755**

6,298,878 ordinary shares were repurchased and cancelled during the year at a total cost of £18,418,000. Since the year end 100,000 ordinary shares have been repurchased at a total cost of £219,000.

19 Capital redemption reserve

	2008 £'000s	2007 £'000s
Transfer from share capital on repurchase of ordinary shares	**1,575**	16,164
Balance brought forward	**91,432**	75,268
Balance carried forward	**93,007**	91,432

Notes on the Accounts (continued)

20 Other reserves

	Capital reserve arising on investments sold £'000s	Capital reserve arising on investments held £'000s	Capital reserves – total £'000sl	Revenue reserve £'000s
Gains and losses transferred in current year				
Losses on investments sold in year (see note 11)	(223,042)	–	(223,042)	–
Transfer on investments sold in year (see note 11)	177,354	(177,354)	–	–
Losses on investments held at year end (see note 11)	–	(456,852)	(456,852)	–
Exchange movement on currency balances	(6,284)	1,910	(4,374)	–
Management fees (see note 4)	(4,933)	–	(4,933)	–
Performance fee (see note 4)	(560)	–	(560)	–
VAT recovery (see note 5)	245	–	245	–
Interest expense (see note 7)	(8,541)	–	(8,541)	–
Taxation (see note 8)	2,978	–	2,978	–
Other capital charges and credits	(88)	–	(88)	–
Revenue return attributable to equity shareholders	–	–	–	46,989
Total gains and losses transferred in current year	(62,871)	(632,296)	(695,167)	46,989
Cost of ordinary shares repurchased in year	(18,418)	–	(18,418)	–
Dividends paid in year	–	–	–	(41,905)
Balance brought forward	1,436,546	671,145	2,107,691	120,497
Balance carried forward	**1,355,257**	**38,849**	**1,394,106**	**125,581**

Included within the capital reserve movement for the year is £4,138,000 (2007: £1,322,000) of dividend receipts recognised as capital in nature. £2,342,000 of transaction costs on purchases of investments are included within the capital reserve movements disclosed above (2007: £3,201,000). £1,968,000 of transaction costs on sales of investments are similarly included (2007: £2,968,000).

Distributable capital reserves

Under the terms of the Company's Articles of Association, sums standing to the credit of capital reserves are distributable only by way of redemption or purchase of any of the Company's own shares, for so long as the Company carries on business as an Investment Company. Company Law states that Investment Companies may only distribute accumulated "realised" profits.

The Institute of Chartered Accountants in England and Wales (ICAEW), in its technical guidance TECH 01/08, states that profits arising out of a change in fair value of assets, recognised in accordance with Accounting Standards, may be distributed, provided the change recognised can be readily converted into cash. Securities listed on a recognised stock exchange are generally regarded as being readily convertible into cash and hence gains in respect of such investments held at the balance sheet date, currently included within the reserve arising on investments held, may be regarded as distributable under Company Law.

This technical interpretation of the meaning of distributable reserves would, as a consequence, give rise at 31 December 2008 to capital reserves available for distribution of approximately £1,356m, and non-distributable capital reserves, excluding the capital redemption reserve, of approximately £38m.

21 Net asset value per ordinary share

	2008	2007
Net asset value per share (with debenture stocks at nominal value) pence	**262.50**	363.47
Net assets attributable at end of period £'000s	**1,782,449**	2,490,950
Ordinary shares of 25p in issue at end of year	**679,019,714**	685,318,592

Net asset value per share cum dividend (with debenture stocks at market value) was 256.59p (31 December 2007: 358.63p). The market value of debenture stocks at 31 December 2008 was £150,735,000 (31 December 2007: £143,772,000).

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

	2008 £'000s	2007 £'000s
Total return before finance costs and taxation	**(627,955)**	337,189
Adjust for returns from non-operating activities		
– Losses/(gains) on investments held at fair value	**679,894**	(288,499)
– Exchange losses/gains of a capital nature	**4,374**	725
– Non-operating expenses of a capital nature	**88**	103
Return from operating activities	**56,401**	49,518
Adjust for non cash-flow items		
– Exchange gains and losses of a revenue nature	**36**	(22)
– Decrease in accrued income	**214**	287
– Decrease/(increase) in prepayments	**4,948**	(4,963)
– (Decrease)/increase in creditors	**(6,243)**	2,453
– Scrip dividends	**(1,065)**	(214)
– Overseas taxation	**(3,002)**	(2,914)
– Effective yield adjustment	**–**	(30)
Net cash inflow from operating activities	**51,289**	44,115

23 Reconciliation of net cash movement to movement in net debt

	2008 £'000s	2007 £'000s
Net cash movement	**(32,747)**	4,799
Increase in loans	**(9,543)**	(23,537)
Change in net debt resulting from cash flows	**(42,290)**	(18,738)
Exchange movement	**(4,374)**	(725)
Movement in net debt in the year	**(46,664)**	(19,463)
Net debt brought forward	**(169,885)**	(150,422)
Net debt carried forward	**(216,549)**	(169,885)

	Balance at 1 January 2008 £'000s	Cash flow £'000s	Exchange Movement £'000s	Balance at 31 December 2008 £'000s
Represented by:				
Cash at bank	32,910	(32,747)	3,863	4,026
Foreign currency loans	(92,220)	(9,543)	(8,237)	(110,000)
Debentures	(110,575)	–	–	(110,575)
	(169,885)	(42,290)	(4,374)	(216,549)

Notes on the Accounts (continued)

24 Contingencies and capital commitments

(a) Contingencies

At the year end the Company had guaranteed 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.

	2008 Currency	2007 Currency	2008 £'000s	2007 £'000s
HarbourVest Partners VII:				
– Buyout Partnership Fund LP	US$22.2m	US$28.1m	15,462	14,106
– Venture Partnership Fund LP	US$8.9m	US$12.3m	6,155	6,179
– Mezzanine Fund LP	US$3.1m	US$5.3m	2,128	2,683
Dover Street VI LP	US$15.2m	US$22.1m	10,566	11,100
Dover Street VII LP	US$62.3m	US$75.0m	43,297	37,677
HarbourVest Partners VI – Asia Pacific and Rest of World LP	US$12.9m	US$17.5m	8,955	8,791
HarbourVest Partners VIII:				
– Buyout Partnership Fund LP	US$41.1m	US$48.6m	28,586	24,415
– Venture Partnership Fund LP	US$26m	US$36.0m	18,084	18,085
HarbourVest Partners V – Direct Fund LP	€19.5m	€34.5m	18,852	25,340
HIPEP VI – Asia Pacific Fund	US$25m	–	17,388	–
HIPEP VI – Emerging Markets Fund	US$25m	–	17,388	–
Pantheon Europe Fund III LP	€23.6m	€32.2m	22,792	23,650
Pantheon Europe Fund V LP	€64.5m	€82.0m	62,358	60,228
Pantheon Asia Fund IV LP	US$28.3m	US$38.0m	19,649	19,090
Pantheon Asia Fund V LP	US$42m	US$50.0m	29,212	25,118
Pantheon Global Secondary Fund III LP	US$18m	US$35.3m	12,520	17,708
Esprit Capital Fund I LP	£0.8m	£2.1m	800	2,071
Frontiers Capital II LP	–	US$0.02m	–	8
			334,192	296,249

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 31 and 32, 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 stock lending fees and 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 341,551 ordinary shares of the Company at 31 December 2008 and 344,374 at 5 March 2008.

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.

26 Financial Risk Management (continued)

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, and include the valuation of financial assets and liabilities at fair value except as noted in (d) below and in note 17 in respect of debenture stocks. 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 fair value of the Company's assets and liabilities at 31 December, by currency, are shown below:

2008	Investments £'000s	Short-term debtors £'000s	Cash and deposits £'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**

2007	Investments £'000s	Short-term debtors £'000s	Cash and deposits £'000s	Debentures £'000s	Short-term unsecured loans £'000s	Short-term creditors £'000s	Net exposure £'000s
Sterling	1,063,352	7,790	13,587	(110,575)	–	(13,019)	961,135
US Dollar	786,361	821	9,549	–	(65,307)	(1,301)	730,123
Euro	252,396	1,250	7,333	–	–	–	260,979
Yen	132,888	71	465	–	(26,913)	–	106,511
Other	429,517	709	1,976	–	–	–	432,202
Total	2,664,514	10,641	32,910	(110,575)	(92,220)	(14,320)	2,490,950

Notes on the Accounts (continued)

26 Financial Risk Management (continued)

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:

	2008	Average	2007
US Dollar	**1.4378**	1.8521	1.9906
Euro	**1.0344**	1.2953	1.3615
Yen	**130.3321**	192.4546	222.3800

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:

Weakening of Sterling			**2008**			2007
	US\$ £'000s	**€ £'000s**	**¥ £'000s**	US\$ £'000s	€ £'000s	¥ £'000s
Income Statement Return after tax						
Revenue Return	**589**	**505**	**220**	309	468	142
Capital Return	**65,767**	**25,619**	**12,881**	72,806	26,041	10,608
Total Return	**66,356**	**26,124**	**13,101**	73,115	26,509	10,750
NAV per share – pence	**9.77**	**3.85**	**1.93**	10.67	3.87	1.52

Strengthening of Sterling			**2008**			2007
	US\$ £'000s	**€ £'000s**	**¥ £'000s**	US\$ £'000s	€ £'000s	¥ £'000s
Income Statement Return after tax						
Revenue Return	**(589)**	**(505)**	**(220)**	(309)	(468)	(142)
Capital Return	**(65,767)**	**(25,619)**	**(12,881)**	(72,806)	(26,041)	(10,608)
Total Return	**(66,356)**	**(26,124)**	**(13,101)**	(73,115)	(26,509)	(10,750)
NAV per share – pence	**(9.77)**	**(3.85)**	**(1.93)**	(10.67)	(3.87)	(1.52)

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.

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:

	2008 Within one year £'000s	2008 More than one year £'000s	2008 Total £'000s	2007 Within one year £'000s	2007 More than one year £'000s	2007 Total £'000s
Exposure to floating rates						
Cash	**5,397**	**–**	**5,397**	32,910	–	32,910
Borrowings	**(110,000)**	**–**	**(110,000)**	(92,220)	–	(92,220)
Overdrafts	**(1,371)**	**–**	**(1,371)**	–	–	–
Exposure to fixed rates						
Cash	**–**	**–**	**–**	–	–	–
Debentures	**–**	**(110,575)**	**(110,575)**	–	(110,575)	(110,575)
Other borrowings	**–**	**–**	**–**	–	–	–
Net exposures						
At year end	**(105,974)**	**(110,575)**	**(216,549)**	(59,310)	(110,575)	(169,885)
Maximum in year	**(139,450)**	**(110,575)**	**(250,025)**	(95,313)	(110,575)	(205,888)
Minimum in year	**(87,353)**	**(110,575)**	**(197,928)**	27,426	(110,575)	(83,149)

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 debenture 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:

	2008 Increase in rate £'000s	2008 Decrease in rate £'000s	2007 Increase in rate £'000s	2007 Decrease in rate £'000s
Revenue return	**(1,019)**	**1,019**	(461)	461
Capital return	**(1,100)**	**1,100**	(922)	922
Total return	**(2,119)**	**2,119**	(1,383)	1,383
NAV per share – pence	**(0.31)**	**0.31**	(0.20)	0.20

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 £1,998,277,000 at 31 December 2008 (2007: £2,664,514,000) 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:

Notes on the Accounts (continued)

26 Financial Risk Management (continued)

	2008 Increase in value £'000s	2008 Decrease in value £'000s	2007 Increase in value £'000s	2007 Decrease in value £'000s
Income statement capital return	**399,655**	**(399,655)**	534,033	(534,033)
NAV per share – pence	**58.86**	**(58.86)**	77.92	(77.92)

(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 2008); 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 £200m 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
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**
2007				
Current liabilities				
Overdrafts	–	–	–	–
Other borrowings	92,220	–	–	92,220
Other creditors	14,320	–	–	14,320
Long-term liabilities				
Debentures	–	–	110,575	110,575
	106,540	–	110,575	217,115

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 (2007: none) and does not normally invest in them. None of the Company's financial liabilities are past their due date or impaired.

(d) Fair Values of financial assets and liabilities

The assets and liabilities of the Company are, in the opinion of the Directors, reflected in the balance sheet at fair value, or at a reasonable approximation thereof, except for the debenture which is carried at par value in accordance with FRS4. The fair value of the debenture, derived from their quoted market price at 31 December 2008 was £150,735,000 (2007: £143,772,000). Borrowings under loan facilities are short-term in nature and hence do not have a value materially different from their capital repayment amount. Borrowings in foreign currencies are converted into Sterling at exchanges rates ruling at each valuation date.

Unquoted investments, including 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 arms' 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 4 March 2009 was 214.01p (31 December 2008: 262.50p)

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	1998	1999	2000	2001	2002	2003*	2004*	2005	2006	2007	2008
Total assets less current liabilities (excl loans)	2,592	3,234	3,137	2,573	1,915	2,259	2,346	2,527	2,587	2,694	**2,003**
Prior charges (incl loans)	202	212	208	218	218	201	215	111	179	203	**221**
Available for ordinary shares	2,390	3,022	2,929	2,355	1,697	2,058	2,131	2,416	2,408	2,491	**1,782**

Net Asset Value

at 31 December

	1998	1999	2000	2001	2002	2003*	2004*	2005	2006	2007	2008
NAV per share	227.4p	296.2p	296.9p	248.1p	178.9p	216.9p	233.4p	291.8p	321.1p	363.5p	**262.5p**
NAV return on 100p – 5 years (per AIC)											**133.4p**
NAV return on 100p – 10 years (per AIC)											**135.1p**

Share Price

at 31 December

	1998	1999	2000	2001	2002	2003*	2004*	2005	2006	2007	2008
Mid-market price per share	188.3p	247.5p	267.5p	221.5p	163.0p	188.5p	194.5p	258.5p	284.5p	318.8p	**228.5p**
Share price High	210.0p	247.5p	288.5p	272.5p	235.0p	191.8p	196.0p	259.0p	287.5p	326.3p	**319.0p**
Share price Low	153.3p	188.3p	229.8p	180.5p	150.0p	141.0p	163.0p	188.0p	240.0p	273.0p	**209.0p**
Share price total return on 100p – 5 years (per AIC)											**134.2p**
Share price total return on 100p – 10 years (per AIC)											**145.6p**

Revenue

for the year ended 31 December

£'000s	1998	1999	2000	2001	2002	2003*	2004*	2005	2006	2007	2008
Available for ordinary shares	34,181	39,100	37,542	38,294	38,758	40,893	42,293	49,122	48,197	45,909	**46,989**
Earnings per share	3.25p	3.76p	3.76p	4.03p	4.08p	4.31p	4.54p	5.57p	6.16p	6.40p	**6.90p**
Dividends per share	2.77p	2.90p	3.10p	3.30p	3.50p	3.70p	4.20p	4.75p	5.30p	5.85p	**6.45p**

Performance

(rebased at 31 December 1997)

	1998	1999	2000	2001	2002	2003*	2004*	2005	2006	2007	2008
NAV per share	100.0	130.3	130.6	109.1	78.7	95.4	102.6	128.3	141.2	159.9	**115.4**
Mid-market price per share	100.0	131.4	142.1	117.6	86.6	100.1	103.3	137.3	151.1	169.3	**121.3**
Earnings per share	100.0	115.7	115.7	124.0	125.5	132.6	139.7	171.4	189.5	196.9	**212.3**
Dividends per share	100.0	104.7	111.9	119.1	126.4	133.6	151.6	171.5	191.3	211.2	**232.9**
RPI	100.0	101.8	104.7	105.5	108.6	111.6	115.5	118.1	123.3	128.3	**129.5**

* Restated for changes in accounting policies

Cost of running the Company

for the year ended 31 December

%	1998	1999	2000	2001	2002	2003*	2004*	2005	2006	2007	2008
Expressed as a percentage of average total assets											
Management fees	0.24	0.24	0.25	0.32	0.38	0.36	0.30	0.30	0.32	0.36	**0.42**
Management fees and performance fees	0.24	0.24	0.25	0.32	0.38	0.36	0.30	0.37	0.39	0.59	**0.44**
Total operating costs	0.38	0.40	0.43	0.52	0.56	0.58	0.50	0.53	0.53	0.71	**0.58**
Expressed as a percentage of average net assets											
Management fees	0.26	0.25	0.26	0.35	0.42	0.40	0.33	0.31	0.35	0.38	**0.46**
Management fees and performance fees	0.26	0.25	0.26	0.35	0.42	0.40	0.33	0.40	0.42	0.63	**0.49**
Total operating costs	0.40	0.42	0.46	0.57	0.63	0.64	0.55	0.57	0.58	0.76	**0.64**

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

Gearing

at 31 December

%	1998	1999	2000	2001	2002	2003*	2004*	2005	2006	2007	2008
Effective gearing	0.3	4.1	4.6	5.7	8.1	8.3	7.6	4.4	7.0	7.0	**12.2**
Fully invested gearing	8.3	7.0	7.1	9.3	12.8	9.8	10.1	4.6	7.4	8.1	**14.8**

* 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 £9,600 in the tax year ended 5 April 2009 without incurring any tax liability.

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

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

Income tax

The proposed final dividend of 3.45 pence per share is payable on 8 May 2009. 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. On 6 April 2008 all existing Personal Equity Plans were reclassified as ISAs. The minimum monthly Direct Debit is £50, minimum lump sum investment is £500 and the minimum top-up is £250. Investments in the ISA can be made online.

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

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

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

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