12901

Foreign & Colonial Investment Trust PLC

Report and Accounts

2005

About your Company

Objective

To secure long-term growth in capital and income through a policy of investing primarily in a diversified international portfolio of equities with 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 £2.5 billion investing in over 625 companies in 35 countries.

Over 110,000 shareholders, including over 70,000 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 (except Private Equity) is carried out by F&C Management Limited ("**F&C**") under contract.

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

Manager incentivised to produce superior performance.

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

Performance

Net asset value and share price total returns of 27.2% and 35.6% respectively over one year.

Net asset value and share price total returns are both above 70% over three years.

Net asset value and share price total returns of 108.3% and 88.3%, or 7.6% and 6.5% per annum compound, respectively over 10 years.

Dividend up 129.5%, or 8.7% per annum compound, over 10 years.

Increase in dividend every year for the past 35 years.

Advantages of an investment trust

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

The flexibility to invest in a wide range of assets – we are now investing in private equity.

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

The ability to buy back shares – we have introduced a buy-back policy to keep the discount below 10% in normal market conditions, enhancing net asset value per share for continuing shareholders.

Low charges to investors, typically well below those for comparable unit trusts – our total expense ratio for 2005 was 0.45% (excluding performance fee accrual). The cumulative benefits of such low costs over many years are very significant for long-term investors.

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 (debt at market) up 25.2% to 285.7p

Annual dividends per share up 18.8% to 4.75p

Share price up 32.9% to 258.5p

Contents

Financial Calendar

AGM	**19 May 2006**
Final dividend payable	**24 May 2006**
Interim results for 2006 announced	**July 2006**
Interim dividend payable	**11 September 2006**
Final results for 2006 announced	**March 2007**

Registered in England with Company Registration No. 12901

Chairman's Statement

Mark Loveday Chairman

We have changed the format of the Report and Accounts this year to introduce a detailed Business Review, expanding on all aspects of our business and pulling together information which in the past has been included in various separate reports and reviews. In essence, we are trying to make it easier for our shareholders to understand what we are doing, why we are doing it, how we have done in the past and our strategy for the future. We have also set out our Key Performance Indicators which we use to measure our performance, together with the potential risks to our business and how we seek to mitigate them.

My Chairman's Statement concentrates on the matters that most concern shareholders.

Asset value and share price performance

Performance is what matters most to shareholders, and I am pleased to report that your Company has had a good year.

Net asset value per share (with debt at market value) was up 25.2% to 285.7 pence. The opening net asset value at 31 December 2004 has been restated from 226.1 pence to 228.2 pence, as a result of changes in UK Accounting Standards. These changes require the Company to reflect investments on a bid value basis (previously mid value) and to take account of the dividends payable only in the period in which the Company is liable to pay them. Our total assets are now £2.5 billion.

The share price was up 32.9% to 258.5 pence, and the share price total return with dividends reinvested was 35.6%.

These are good absolute returns, but we have also performed well on a relative basis, with the Company out-performing the now agreed composite benchmark of 40% FTSE All-Share/60% FTSE WI World ex UK indices by 3.2 percentage points, as well as the FTSE All-Share Index by 4.9 percentage points. When measured against the weighted average of the Company's close peer group and of the AITC Global Growth Sector, there was a slight out-performance in share price total return and a marginal under-performance in net asset value total return.

These are just one year's performance figures for a savings vehicle with a long-term investment horizon. The progress made and the changes introduced this year are a clear indication of our intent to bring about a sustainable improvement in longer-term performance.

Performance attribution

In analysing performance for 2005, the portfolio total return of 24.7% was generated as to 24.5% by the listed investments and as to 0.2% by Private Equity. Asset allocation - in particular the Company's significantly overweight position in Emerging

Markets/Developed Asia and its big underweighting of North America - was positive. Gearing was also positive, while stock selection was marginally negative. In terms of regional performance, it is encouraging that all our main markets produced positive returns this year. Looking at our own regional portfolios, the Europe ex UK and Emerging Markets/Developed Asia portfolios delivered out-performance against their respective local indices, while our UK portfolio marginally under-performed. The North America portfolio again under-performed, although the US Smaller Companies portfolio did well, while our Japan portfolio produced the worst relative under-performance.

The Board is satisfied with the performance of the Private Equity investments to date and the way in which the funds are developing.

Changes to the portfolio

In respect of changes to the portfolio during 2005, money was taken out of all the main markets to cover the costs of the share buy-backs (£192.3 million) and the Private Equity investments (£17.6 million). The Company's year end exposure increased slightly in all markets other than North America, where there was a small reduction. Towards the end of 2005 and early in 2006, a further US$69.05 million was committed to Private Equity in a new secondary fund called Dover Street VI, managed by HarbourVest Partners, which means that £189 million has now been committed to this asset class.

Buy-back policy and discount

After careful consideration, your Board decided in November 2005 that it was in the interests of shareholders to change the buy-back policy. The new policy has already contributed to a reduction in the discount and has, as a new objective, a less volatile discount with a ceiling, in normal market conditions, of 10% (with debt at market value). The original objective of enhancing net asset value per share for continuing shareholders remains in place. In 2005, we bought back 9.4% of the share capital, increasing the net asset value per share by 3.0 pence and narrowing the discount from 14.8% to 9.5% (with debt at market value). Your Board believes that this policy will provide shareholders, and potential new investors, with greater confidence that there will be less divergence in future between the share price and net asset value per share.

Revenue and dividends for 2005

We enjoyed another year of very strong dividend growth not only from UK companies, but also as a result of the trend of rising dividends from overseas companies. Management fees increased as a result of the structural changes introduced during the year, but with other costs being kept under tight control, net revenue increased by 16.1%. Earnings per share increased by 22.7% to 5.57 pence, enhanced by the reduction in the number of shares in issue as a result of buy-backs.

The Board is recommending a final dividend of 2.55 pence per share making a total of 4.75 pence per share for the year to 31 December 2005, an increase of 18.8% on last year's annual dividend and an increase of 13.1% on last year's total dividend that included a special payment of 0.2 pence. This represents substantial progress in real terms and is the 35th consecutive year of dividend increases by your Company. The annual dividend has increased at a compound annual growth rate of 8.7% over the last 10 years, which is well ahead of the average of the Company's close peer group and the AITC Global Growth sector.

As explained in the Business Review, presentational changes have been made to the Statement of Total Return (now called the Income Statement) as a result of accounting policy changes. The income and expenditure in the revenue column of the Income Statement for 2004 nevertheless remains unchanged by these new policies.

Dividend forecast for 2006

The Board is forecasting an increase in the total annual dividend of not less than 10% for the year to 31 December 2006. This shows your Board's intention to continue the trend of consistent real dividend growth and, with our strong revenue reserve, there is plenty of cover and flexibility for a progressive dividend policy.

Management changes

During the last year your Board has made some important changes in the way that the portfolio is managed. We have refined the structure whereby our Manager, F&C, retains overall responsibility over the whole portfolio (other than Private Equity), including asset allocation, gearing and risk management. In the case of the regional portfolios, however, F&C now have the flexibility to delegate their management to

Chairman's Statement (continued)

external third party managers when this seems likely to result in better performance. As a result of these changes, the North America portfolio, other than the US Smaller Companies portfolio, has been sub-contracted out to five external sub-managers based in the United States, and the Japan portfolio has also been sub-contracted out to an external sub-manager. F&C continues to manage the UK, Europe ex UK, Emerging Markets/Developed Asia and US Smaller Companies portfolios, where performance has been satisfactory over time.

The Board has also renegotiated fee arrangements with F&C, so that our Manager now receives a lower, fixed fee for its services, while being eligible for a performance-related fee on the total portfolio in the event of out-performance against the agreed benchmark plus a hurdle of 0.5%, excluding Private Equity and the effect of share buy-backs. The first period for the performance fee runs from 31 July 2005 to 31 December 2006 - so far, £2.1 million has been accrued. The contract with our Manager is now on a six month notice period.

The intention behind these changes is to align the interests of the Manager with those of shareholders, avoid conflicts of interest and provide a fair reward for our Manager achieving superior performance across the whole portfolio.

Manager re-appointment

The Board has given our Manager, F&C, another thorough examination this year in respect of their investment process and performance, as well as all the other services provided. Overall, investment performance was much better in 2005 and all the secretarial, financial and other services continue to be provided efficiently. It is your Board's opinion that the continuing appointment of F&C as Manager on the terms now agreed is in the interests of shareholders as a whole.

Gearing

Your Company's objective remains that of securing long-term growth in capital and income through a policy of investing primarily in a diversified international portfolio of equities with use of gearing. Effective gearing (valuing debt at market value) started the year at 10.0% and ended the year at 6.6%. On the recommendation of our Manager, following the changes to the buy-back policy, your Board has now agreed that the gearing range should be increased from 0-15% to 0-20%. This provides the Company with sufficient flexibility to take advantage of investment opportunities and helps prevent it being placed in the position of a forced seller in periods of market weakness.

Marketing

Your Board recognises the ongoing need to encourage buyers of the Company's shares directly in the market and through the F&C savings plans promoted by our Manager. In 2005, there were gross purchases through the savings plans of £36.7 million in the Company's shares and gross sales of £61.9 million, resulting in a net outflow of £25.2 million for the year. Nevertheless, F&C has retained its dominant position in the industry and the launch of the Child Trust Fund looks promising, having successfully attracted 6,600 new investors. Your Board will be conducting a full review of marketing to ensure that the Company is promoted in the most effective way, with a view to both retaining its existing shareholders and attracting new ones.

Corporate governance

As always, we continue to take a vigilant approach to safeguarding your assets and to looking after your interests, with corporate governance and the management of risk and control matters being regularly reviewed by your Board.

Directors

Two new Directors were appointed to the Board during the year. The first was Ronald Gould, who has worked for over 30 years in investment management in the UK, USA and Japan and is now an adviser to the Financial Services Authority. The second was Christopher Keljik, who has recently retired as Group Executive Director of Standard Chartered PLC. Between them they bring a wealth of knowledge and experience to the Company, particularly in the areas of investment management, banking, finance, treasury, risk and international exposure.

There are four Directors up for election by shareholders at this year's AGM, Ewen Macpherson and Max Ward for re-election and Ronald Gould and Christopher Keljik for election for the first time. Following the annual Directors' appraisal process carried out by me and on the recommendation of the Nomination Committee, the Board has approved all these Directors standing for election.

The future

After three years of strong returns from equity markets, it may be difficult to maintain the same rate of progress in 2006. However, corporate balance sheets remain strong, the prospects for dividend growth are good, the valuation of many companies is not excessive by historic standards and liquidity in global markets remains high. The momentum from 2005 has so far continued into 2006 and, unless there is a major unexpected shock somewhere in the world, most markets should show a positive return for the year.

Our priorities for 2006 are to continue to strive for even better investment performance, to develop further our Private Equity strategy for the future and to focus more on the promotion of the Company to investors.

Our overall aim is to create a virtuous circle of a continuing improvement in net asset value performance, a dividend growing in real terms, a narrower and less volatile discount and low running costs, in order to produce better returns for existing shareholders and to attract new investors.

M. A. Loveday

Mark Loveday

Chairman

2 March 2006

Business Review

The review which follows is designed to provide shareholders with information primarily about the Company's business and results in 2005 and covers:

- Objective and strategy
- Buy-back policy
- Principal risks and their mitigation
- Management arrangements
- Management changes in 2005
- F&C's management of the listed portfolio
- Private Equity portfolio
- Management fees
- Changes to the Statement of Total Return
- Revenue and dividends
- Performance attribution in 2005
- Performance measurement
- Manager evaluation and re-appointment
- *The Board's priorities for 2006*
- Prospects

Summary of results for 2005

Net asset value per share*	+25.2% to 285.7p
Net asset value total return per share*	27.2%
Share price	+32.9% to 258.5p
Share price total return	35.6%
Annual dividends per share	+18.8% to 4.75p
Total dividends per share†	+13.1% to 4.75p
Total expense ratio#	0.45%
Share capital repurchased**	9.4%
Discount	from 14.8% to 9.5%

- Total return includes reinvestment of dividends.
* With debt at market value.
** adding 3.00p to net asset value per share.
† includes a special dividend of 0.20p in respect of 2004
# excluding performance fee accrual

Prospects for 2006

The momentum from 2005 has so far continued into 2006, and unless there is a major unexpected shock somewhere in the world, most markets should show a positive return for the year.

As a mark of confidence in the future, the Board is forecasting an increase of not less than 10% in the total annual dividend for 2006.

OUR OBJECTIVE AND STRATEGY AND HOW THIS IS IMPLEMENTED

Foreign & Colonial ("the **Company**") is an equity savings vehicle which many see as a core holding for investors, particularly for private investors who now account for approximately 80% of all shareholders. Its objective is to secure long-term growth in capital and income through a policy of investing primarily in a diversified international portfolio of equities, with use of gearing. It is a "long-only" equity vehicle, which means that it will tend to remain fully invested in equities at all times. The Board has determined that there will be no material change to its investment objective or to its investment policy without prior shareholder approval.

The Company's strategy in aiming to meet its objective is to seek superior investment performance, within carefully set risk parameters, by optimising the allocation of the Company's assets in international equity markets and the application of high-quality stock selection, together with a growing exposure to Private Equity. This is leveraged through the effective use of borrowings within a range recently increased from 0 – 15% to 0 – 20%. Any change to this range will always be notified publicly. The Company has an international spread of investments with around 41% of its assets in the UK, 15% in Continental Europe, 21% in North America, 6% in Japan, 15% in Emerging Markets/Developed Asia and 2% in Private Equity.

The Board believes that the optimum basis for implementing its strategy and achieving its stated objective is a strong working relationship with its investment manager, F&C Management Limited ("**F&C**" or "the **Manager**"), the more detailed arrangements for which are explained later in this review. The structure that has been developed avoids conflicts of interest and provides continuity and flexibility, with F&C having overall responsibility for the management of the Company's assets (other than Private Equity), and for asset allocation, gearing, stock selection and risk. Furthermore, F&C's interests are now more 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-manager firms.

The Board has a number of Key Performance Indicators, whereby it measures the relative performance of the Manager and the Company against an external benchmark and against its peer group over shorter and longer term periods. The Board has set the Manager an annual net asset value performance hurdle of at least 0.5% above a composite benchmark of 40% FTSE All-Share and 60% FTSE WI World ex UK indices. It also aims to out-perform the net asset value returns of each of its five closest peers within the AITC Global Growth Investment Trust sector. Measurement against the Company's Key Performance Indicators can be found below in the Performance Measurement section of this review.

OUR BUY-BACK POLICY

As part of its wider strategy, the Board decided in November 2005 that it was in the interests of shareholders to change the buy-back policy. The policy has, as a new objective, a less volatile discount with a ceiling, in normal market conditions, of 10% (with debt at market value). The original objective of enhancing net asset value per share for continuing shareholders remains in place.

In 2005, the Company bought back and cancelled 85,757,998 shares, of which 45,859,435 were purchased following the change in policy (9.4% and 5.0% of the share capital respectively), and this increased the net asset value per share by 3.0 pence. During the year, the discount reduced from 14.8% to 9.5% (with debt at market value). Between the year end and 2 March 2006, a further 8,672,200 shares have been purchased (which represents approximately 1.0% of the share capital). The Board believes that this policy will provide shareholders, and potential new investors, with greater confidence that there will be less divergence in future between the share price and the net asset value per share.

OUR PRINCIPAL RISKS AND HOW WE SEEK TO MITIGATE THEM

The Company's assets mainly consist of listed equities and its principal risks are therefore market-related. The large number of listed investments held in the Company's portfolio, together with the industrial and geographical diversity of the portfolio, enables the Company to spread its risks with regard to liquidity, market volatility, currency movements and revenue streams. 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 an international generalist investment trust, acquisition opportunities and the rationale for not introducing a continuation vote, are considered at various meetings of the Board.

ii) **Investment policy, gearing and currency** – inappropriate asset allocation, and sector and stock selection, leading to under-performance relative to the Company's benchmark index and peer group. Furthermore, borrowing money to invest in markets has a negative impact on asset value if those markets subsequently fall. Foreign currency exposures will impact on performance when those currencies weaken against sterling.

   In the management and mitigation of these risks, the Board continues to maintain a diversified spread of international equities and exposure to their underlying currencies, and at each Board meeting reviews investment policy and investment performance with the Fund Manager. 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. Thus far, the Company has not hedged its foreign currency exposures through derivatives.

Business Review (continued)

The Fund Manager works within asset allocation and gearing ranges, and other investment limits that have been set, and are monitored by the Board.

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 venture capital, buy-out and mezzanine fund of funds and by the wide spread of underlying private equity firms, which in turn have diversified investment portfolios.

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

The Company has introduced 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).

v) **Operational and regulatory** – breach of Section 842 of the Income and Corporation Taxes Act 1988 could lead to the Company being subject to capital gains tax on the sale of its investments, whilst serious breach of other regulatory rules may lead to suspension from 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. Furthermore, full contractual obligations and indemnification provisions have been put in place with each of the third party service providers.

The Board regularly consider all risks, the measures in place to monitor and control them and the possibility of any other risks that could arise. More information concerning the Company's Internal Controls and Management of Risk can be found on pages 31, 37 and 38 and in note 26 on the accounts.

ARRANGEMENTS FOR THE MANAGEMENT OF OUR ASSETS

*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, Private Equity investment decisions, monitoring investment performance and for marketing policy and budgeting. The Board's role is detailed on page 34.

Most investment trusts, including your Company, have no employees and instead appoint fund management companies to manage their investment portfolios on a day-to-day basis as well as to carry out the administrative, secretarial, accounting and marketing functions. The Company has appointed F&C as Manager to carry out these functions on its behalf, with the exception of the management of the Private Equity portfolios which is carried out by Pantheon Ventures Limited and HarbourVest Partners LLC. Jeremy Tigue acts as the Fund Manager for the Company.

The Company has had a long association with its Manager, which it established for the purpose of managing its assets as far back as 1953, but the relationship is now fully arms-length with no cross-directorships or common share interests. The Manager, which is now owned by F&C Asset Management plc (itself 51% owned by Friends Provident plc), is one of the largest UK fund management groups and is the largest manager of investment trusts with £6.9 billion under management. 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.

The Board looks to the Manager primarily to deliver investment performance, but also to provide administrative, secretarial, accounting and marketing services, and a comprehensive review of their appointment is carried out annually.

MANAGEMENT CHANGES IN 2005

As reported last year, the Board considered the performance of the North America and Japan portfolios over the then preceding five years to be unsatisfactory and the Board announced that, whilst retaining F&C as its overall Manager, it would nevertheless require changes in portfolio management and in fees for management.

Following consultation with Watson Wyatt, a leading firm of investment consultants, the Board introduced with the Manager the changes set out in the table below. The structure has been refined to continue to take advantage of the Manager's strengths as a leading investment trust manager, but also to recognise that no one investment management firm can be expected to produce sustained out-performance in all areas at all times. The Manager retains overall responsibility for the entire portfolio (other than Private Equity), including asset allocation, gearing and risk management. In the case of the regional portfolios, however, F&C now have the flexibility to delegate their management to external third party managers when this seems likely to result in better performance. The Board has the right of veto over the appointment of sub-managers recommended by the Manager. The Manager also remains responsible for the overall risk management of the Company's assets, within the limits set and regularly monitored and reviewed by the Board.

Changes were also made to the basis of the management fee, which included the introduction of a performance fee element. These changes are explained on page 18.

The Manager continues to manage directly the Company's UK, Europe ex UK, Emerging Markets/Developed Asia and US Smaller Companies portfolios but, with the Board's approval, delegated the management of the North America and Japan portfolios to external sub-managers in July 2005. As part of the review, and with the Board's approval, the Manager has appointed an independent specialist multi-manager, Investment Manager Selection Limited ("**IMS**"), to advise it specifically in relation to the appointment of sub-managers for the North America mid and large-cap equity portfolios. IMS is an independent specialist multi-manager founded in 1999, which manages and advises on assets of approximately £4.1 billion. It has an experienced team and a strong and consistent track record of delivering for its clients superior US equity performance within a tightly controlled risk framework. It is a privately-owned business and its founders have held senior positions in the asset management industry. Their appointment provides the Company with access to a much better spread of investment strategies in the United States than hitherto. IMS construct portfolios by breaking a market down into categories across a benchmark and overweighting the managers operating in favoured specialist areas. For the Company's North America portfolio, this has meant dividing the assets between sub-managers focusing on "growth, value and core", under what is colloquially referred to as a "barbell" approach. The initial overweighting with sub-managers in value stocks has now been moved to an overweighting in growth stocks.

New management structure

Board

Asset allocation and gearing | F&C | Private Equity Committee

Stock Selection

IMS (Adviser) | America | Cap Segregated Portfolio | UK | Europe ex UK | Emerging Markets/ Developed Asia | Japan

Barrow Hanley | Gartmore | GMO | Loomis Sayles | T. Rowe Price | F&C | Goldman Sachs | HarbourVest | Pantheon

Business Review (continued)

On the advice of IMS, the Manager appointed on 27 July 2005, four US sub-managers to manage the Company's large and mid-cap North America portfolio. The US smaller companies bespoke portfolio remains under the direct management of the Manager, which has an excellent track record in this specialist area. A fifth US sub-manager was added in February 2006.

The Manager chose Goldman Sachs Asset Management ("**GSAM**"), with the approval of the Board, to manage the Japan portfolio. GSAM has a strong record of consistent out-performance of the Japanese market through active management, based on quantitative analysis of fundamental drivers with low risk.

The split of the North America assets, a brief summary of the sub-managers' investment philosophies and their performance records, and the performance of the IMS blended US portfolio and F&C US Smaller Companies PLC, together with the performance of the Japan sub-manager, in respect of the $4^1/2$ years to 30 June 2005, are set out in the table below, to demonstrate the basis on which the sub-managers were selected.

The Company's exposure to Private Equity is made via limited partnerships managed by HarbourVest

Sub-managers' performance records

	6 months to 30 June	Year to 31 December			
US	2005*	2004	2003	2002	2001
Barrow Hanley					
– Deep value	+6.8%	+21.5%	+32.3%	-12.0%	+10.1%
Gartmore					
– Pragmatic growth with a bias towards mid-cap	-0.8%	+7.3%	+41.2%	-20.9%	-10.5%
GMO					
– Value tilted but with momentum factors	+0.7%	+9.8%	+26.7%	-19.3%	-7.4%
Loomis Sayles					
– Large/mid-cap growth	+0.7%	+16.9%	+33.6%	-22.2%	-23.9%
T. Rowe Price					
– Large/mid-cap growth	+5.2%	+18.0%	+4.8%	-19.7%	-17.5%
IMS blended US portfolio	+3.2%	+12.3%	+26.3%	-22.7%	-9.8%
S&P 500 Index $ performance	-0.8%	+10.9%	+28.7%	-22.1%	-11.9%

Source: IMS. *US$ net of fees

F&C US Smaller Companies PLC	+8.2%	+19.5%	+45.2%	-17.8%	+2.0%
Russell 2000 Smaller Companies Index	-1.8%	+17.0%	+45.4%	-21.6%	+1.0%

Source: F&C Management Limited. *US$ gross of fees as at 30 June 2005.

	6 months to 30 June	Year to 31 December			
Japan	2005*	2004	2003	2002	2001
Goldman Sachs	+6.9%	+15.2%	+30.9%	-12.9%	-14.2%
Topix Index	+3.2%	+11.3%	+25.2%	-17.5%	-18.9%

Source: Goldman Sachs,

* Japanese ¥ gross of fees as at 30 June 2005

North America and Japan performance figures for the period since appointment can be found on page 20.

Partners LLC and Pantheon Ventures Limited. Both of these specialist firms, which were appointed late in 2002, are leading fund of funds managers with access to top performing funds and have excellent long-term performance records. More information relating to the Private Equity portfolio can be found on pages 15 to 19.

F&C'S MANAGEMENT OF OUR LISTED PORTFOLIO

This section of the Business Review describes the way in which F&C, as Manager, managed the portfolio in 2005, the impact of asset allocation, gearing and stock selection decisions, the actions taken and the results achieved in each of the regional portfolios, and the prospects for each region in 2006.

Asset allocation

In 2003, the Manager made a major strategic recommendation to the Board to increase the portfolio weighting in Emerging Markets/Developed Asia from the then level of under 5% to 15%. This recommendation was driven by the conviction that, after almost a decade of financial crises and setbacks, the outlook for Emerging Market economies was far more settled, corporate governance had improved significantly, growth prospects were superior to more mature economies and company valuations were lower than for equivalent businesses in the US and Europe. A gradual switch into Emerging Markets/Developed Asia began in late 2003 and accelerated when these markets fell in the second quarter of 2004. By the start of 2005 the weighting in these markets had reached 14.4%, almost at the target set some fifteen months earlier. More money continued to be invested during the first part of 2005, and these markets performed extremely well, such that by the end of September 2005 16.7% of the portfolio was invested in Emerging Markets/Developed Asia. By then F&C had become more cautious about the immediate outlook for many of these markets and a reduction in exposure was undertaken in October 2005, so the year-end weighting was 15.1%, not dissimilar from the position at the start of the year.

Investment Changes during the year ended 31 December 2005

£m	Valuation at 31 Dec 04	Purchases	Sales	Gains	Valuation at 31 Dec 05
UK	954	140	(213)	168	1,049
North America	529	747	(835)	77	518
Continental Europe	343	153	(189)	67	374
Japan	126	195	(203)	39	157
Emerging Markets/ Developed Asia	332	203	(279)	125	381
Private Equity	19	18	(1)	5	41
Totals	*2,303*	*1,456*	*(1,720)*	*481*	*2,520*

Source: F&C Management Limited

The corollary of the positive view taken on Emerging Markets/Developed Asia was a cautious view of the US stockmarket. The Manager has been cautious about the US equity market for some time, not through a lack of confidence in the US economy, but because of concern about the very high valuations of US companies compared with past history and current valuations in the rest of the world. Nothing happened to change this view during 2005 and the US under-performed most other markets, despite the strength of the dollar.

Apart from the strategic view taken in Emerging Markets/Developed Asia, other asset allocation changes in the year were smaller and driven by different factors. Buy-back activity was the principal reason there was disinvestment from all equity markets during the year, as the cost of buy-backs amounted to £192.3 million, but the Manager also took the decision to reduce gearing as explained below. In addition, there were draw-downs of US$17.3 million and €11.7 million by the Private Equity partnerships as they increased their investments.

Overall, asset allocation decisions made a positive contribution of 1.2% to performance against the benchmark. Being overweight in Emerging Markets/Developed Asia and underweight in the US were strong positives. The main negative was being underweight in Japan, as it rallied sharply after the long bear market.

Gearing

The Board's gearing range within which the Manager manages short-term gearing activity was set at 0-15% throughout the year. The Company has a long-term

Business Review (continued)

£110 million 11.25% sterling debenture which was taken out in 1989, in the expectation of strong returns from equities in the 25 years to maturity in 2014. The Board and Manager review formally every six months whether this debenture should be repaid early. So far the decision has been not to repay, as the premium to be paid for early repayment outweighs the likely benefits of lower borrowing costs.

Short-term gearing activity is more tactical and opportunistic in nature. In deciding on gearing tactics, the Manager bears three main factors in mind – are markets going to rise to make it worthwhile borrowing to enhance returns? What is the cheapest interest rate at which to borrow? Which currency is likely to be the weakest over the term of the loan? At the start of the year the Manager's analysis of these factors led to all of the Company's short-term borrowings being in US dollars, as markets were expected to rise, US interest rates were low and the US dollar was forecast to be weak against all other currencies. This view subsequently changed, and all loans were switched into Euros and Yen before the US dollar strengthened and US interest rates went up. In August and October 2005 a more cautious view of the prospects for equity markets was taken, and the remaining loans were repaid in the expectation of less strong equity market performance in the months ahead.

Over the year the range of effective gearing (taking the debenture at its market value) was 1.6% to 11.9%, with the high being reached in June and the low in October 2005. One innovation was the use of "reverse stock loans" to achieve a lower borrowing cost. By using stocks in the portfolio as collateral for short-term loans, it was possible to borrow at better rates without distorting the management of the underlying portfolio.

During the year gearing made a positive contribution of 1.5% to performance against the benchmark, net of all borrowing costs. In hindsight, it would have been better to have had more short-term borrowings throughout the year, as this would have resulted in an even more positive contribution.

Subsequent to the year end, the gearing range was increased to 0-20% in order to provide the Company with sufficient flexibility to take advantage of investment opportunities and help protect it against being a forced seller in periods of market weakness.

Stock selection

All stockmarkets had a good year in 2005, largely for similar reasons. Economic growth was more robust than expected, despite steadily rising interest rates in the US and a large rise in the oil price. Despite the latter, inflation worldwide was subdued, possibly because of the continuing deflationary impact of the very rapid growth in China. Corporate profits growth was generally better than expected, as companies continued to improve efficiency and exercise tight control over costs. The two most striking corporate developments were the rapid growth in dividends across the world, and the upsurge in merger and acquisition activity which reached its highest level since 2000. Overall, stock selection made a marginally negative contribution of 0.2% to performance against the benchmark.

Risk management

The portfolio has continued to be managed within the asset allocation and gearing ranges set by the Board. The investment management process includes the use of risk measurements aimed, not only as a means of control, but also at adding value with an acceptable level of risk.

The UK portfolio

In the UK, the FTSE All-Share Index rose by 22.0% and the UK portfolio rose by 21.8%. The marginal under-performance arose in December, when oil stocks did poorly after a strong performance earlier in the year. The best performing sector was mining on the back of the boom in demand from China and one of the Company's largest holdings, Rio Tinto, was up 73% over the year. Takeover activity was an important factor in the market and the holdings in Allied Domecq and East Surrey were sold at large premia. The portfolio was underweight in the banking sector, as the Manager believed the banks would suffer from the slowdown in UK consumer spending, which also caused problems for many retailers. Dividend growth was very strong, led by Vodafone which doubled its dividend in its financial year to March 2005, although its share price actually fell by 11% in the calendar year. Other important dividend increases came from BP and Shell.

The most striking individual share price performance came from Resolution Life. The Company invested £20 million in this unlisted company in September 2004 and another £3 million in March 2005 to support its strategy of acquiring closed life funds. At the time it was expected that further acquisitions would follow, and a listing at some time in the future. In the event, in June 2005 Resolution Life announced a merger with at a listed competitor, Britannic Group. The combined company, called Resolution, became the Company's seventh largest holding at the year end, when it was valued at 93% above its cost price.

Industrial classification of total assets less current liabilities

	2005 %	2004 %
Resources	15.2	10.7
General industrials	3.9	5.2
Non-cyclical consumer goods	13.5	13.4
Cyclical services	10.9	12.1
Non-cyclical services - including telecoms	6.3	9.3
Financials - including banks	28.8	25.5
Information technology	6.6	7.1
Private Equity	1.6	0.8
Other*	13.2	15.9
Total assets less current liabilities (excluding loans)	100.0	100.0

Source: F&C Management Limited

* Other includes basic industrials, investment trusts, cyclical consumer goods, general industrials, utilities, fixed interest.

The prospects for the UK market in 2006 will be strongly influenced by the outlook for oil and metal prices, as these sectors now account for almost a quarter of the market. The portfolio is overweight in the oil sector and remains underweight in the banking and consumer related sectors. It is expected that consumer spending will remain under pressure as a result of rising energy and utility bills. Interest rates may come down another quarter point, but this is unlikely to be sufficient to cause another sharp rise in house prices. It does seem that the UK remains a very attractive market for takeovers from overseas, and so far in 2006 there have been approaches to BAA and BOC, both held by the Company.

The North America portfolio

There were significant changes to the management of the North America portfolio in 2005. In May, a bespoke US smaller company portfolio was created by the in-specie transfer from the F&C Portfolios Fund – US Small Cap in which the Company had held a longstanding and successful investment. In July, the North America large company portfolio was transferred to four US sub-managers chosen on the advice of IMS.

The US was a relatively poor performer in 2005, but the strength of the dollar increased returns for UK investors. In sterling terms, the FTSE World North America Index rose 20.2% and the Russell 2000 Smaller Companies Index rose 16.9%. The Company's portfolio was up 18.3% for the year as a whole. The US market was not held back by economic problems or lack of profits growth, as the economy was stronger than expected and corporate profits also exceeded expectations. However, the valuation of US equities remained high by international standards and this restrained investor enthusiasm.

The strategy for the North America large company portfolio changed in the fourth quarter of the year. It is expected that earnings growth will be slower in 2006 and that large growth companies will be the best performers in the market. The selection of sub-managers was changed to give more exposure to these stocks and less to value stocks which have performed very well. The first part of this change was implemented in November 2005, with some money being transferred between the existing US sub-managers, and the second in February 2006 with the addition of T. Rowe Price as a new sub-manager. If there is more confidence in the potential of large growth

Business Review (continued)

companies, there will be further portfolio shifts towards growth in 2006.

The US Smaller Companies portfolio had a very good year.

The Emerging Markets/Developed Asia portfolio

The best performing stockmarkets in 2005 were all in Emerging Markets/Developed Asia. Of the larger markets where the Company was invested, Russia and South Korea were the best performers. There were several reasons why performance was so strong across the board. The most important was growing confidence among investors who were prepared to invest in markets that hitherto they had regarded as too risky. As a result, interest rates in emerging markets fell sharply. Linked to this was an absence of domestic economic or financial crises that had been such a regular feature of emerging market investment for so many years. In a far more stable environment economic growth was strong and inflation subdued. Company profits and dividends rose strongly, giving support to the increases in share prices.

The Company's portfolio is measured against a benchmark made up of 70% Emerging Markets and 30% Developed Asia. This composite benchmark rose by 44.0% in the year and the portfolio itself beat this marginally, rising by 44.2%. Compared with the benchmark, the portfolio was overweight in Emerging Markets and underweight in Developed Asia in the correct expectation that growth would be faster in the former than in the latter. The portfolio was overweight in countries benefiting from strong domestic growth, such as Korea and South Africa, and sectors such as financials, telecoms and retailers. The main underweight positions were in Brazil and Mexico, where it was believed that there will be earnings and election risks in 2006. This was too cautious a view in 2005, as these two markets performed strongly. The share price of the largest holding in the portfolio, Samsung Electronics, rose by 68% and the best performers overall were Unibanco in Brazil and Gazprom in Russia, where share prices were up 124% and 126% respectively.

For 2006, domestic growth is expected to remain the main motor of economic expansion in most emerging markets. This is a long-term structural change and there are numerous opportunities to participate in this development. However, after almost two years of very strong growth across the board from emerging market stocks, there may well be a correction in 2006, perhaps caused by increased political tensions.

The Europe ex UK portfolio

The Europe ex UK portfolio performed well, rising by 25.6% compared with a rise of 24.1% in the FTSE Europe ex UK Index. Economic growth in much of Europe was lower than in the rest of the world, and there was political paralysis in the European Union following the "No" votes in the French and Dutch referenda on the proposed constitution. These negative developments had little impact on companies, which produced faster than expected profits and dividend growth. There was also a surge in merger and acquisition activity. As a result, European markets performed very well.

The portfolio benefited from being overweight in HypoVereinsBank and Bank Austria which were acquired by UniCredito of Italy. The overweight position in pharmaceuticals was largely due to holding Roche, which has a strong product pipeline and had a one-off benefit from pandemic stockpiling of Tamiflu.

The portfolio focus during the year was on companies showing underlying sales growth, those engaged in restructuring and potential acquisition targets. This led the portfolio to being overweight in banks, insurers and pharmaceuticals, with companies such as UBS, AXA and Novartis.

This policy is continuing into 2006. The risks are the effect of higher oil prices and elections in Italy, but the influence of merger and acquisition activity is expected to remain important and overall valuations are not high, with equity dividend yields being above cash returns.

The Japan portfolio

Japan was an outstandingly strong performer in 2005 and the FTSE Japan Index rose 39.7%. Over the year the portfolio rose by 35.7%, but almost all of this rise occurred in the second half of the year. At the start of the year the portfolio was managed by F&C directly and was positioned for a recovery in the Japanese domestic economy, so it underperformed when the market was relatively weak. A key event was the general election in September, which resulted in a decisive victory for the Prime Minister, Mr Koizumi, and was seen by investors as an emphatic endorsement of reform policies. Economic growth accelerated, but inflation failed to pick up. However, fears of widespread deflation diminished sharply after several years during which this had been the biggest worry for investors. Interest rates remained close to zero with no sign that this policy would change in the immediate future. Corporate profits growth was strong and there was far more confidence that Japan had made a decisive break from the bear market that began in 1989.

In July 2005, the Manager transferred the Japan portfolio to GSAM, which uses disciplined security analysis to construct a portfolio that maximises risk adjusted expected returns. The rapid recovery in the Japan market was not fully reflected in this portfolio over the five months following the transfer.

OUR PRIVATE EQUITY PORTFOLIO

The Board is responsible for making commitments to, and investments in, Private Equity and monitoring their progress and performance. In addition to investments decided upon by the Board and made through fund of funds, the Manager is encouraged to propose suitable investments in individual unlisted companies, as highlighted on page 13 by the outstandingly successful investment in Resolution Life.

At 31 December 2004 the Company's commitments to Private Equity fund of funds consisted of one of €115 million to a single fund managed by Pantheon Ventures Limited ("**Pantheon**") in London and invested principally in the UK and European Markets, and one totalling US$120 million to three funds managed by HarbourVest Partners LLC ("**HarbourVest**") in Boston, USA and invested principally in the US market. These commitments were originally made in December 2002.

During 2005, both Pantheon and HarbourVest (together the "**Private Equity managers**") made substantial progress in making investment commitments on behalf of the funds. The table below gives a general analysis of the number of Private Equity funds to which the Private Equity managers have committed and the number of secondary transactions carried out as at 31 December 2005, together with comparative figures for a year earlier.

In respect of these commitments, the Private Equity managers have drawn down significant sums from the Company during the year. The table on page 16 sets out the position at 31 December 2005 and compares it with that at 31 December 2004. Shareholders will note both the figures for cash sums drawn, and also the "cash drawn plus underlying commitments made", which totalled £128 million. This latter figure gives a more meaningful measure of the Company's actual exposure to Private Equity at the year-end, and shareholders will note the substantial increase in that exposure during the year in both the Pantheon and the HarbourVest funds. Pantheon's fund is fully committed and HarbourVest expect that their three funds will also be effectively fully committed by 31 December 2006. The Company, thus, has a very wide spread of investments in 136 funds and 4 direct investments.

A year ago the valuations of all of the Company's

Number of funds/direct investments

	Pantheon Europe Fund III	HarbourVest Partners VII Buyout Fund	HarbourVest Partners VII Venture Fund	HarbourVest Partners VII Mezzanine Fund	Dover Street VI
Private Equity firms 2005	29	23	36	8	–
Private Equity firms 2004	22*	15	19	4	–
Secondary transactions 2005	3	12	20	3	2
Secondary transactions 2004	2*	7	11	1	–
Direct investments 2005	1	–	–	3	–
Direct investments 2004	–	–	–	3	–

* Restated - 4 Secondary transactions previously reported in Pantheon figures in 2004 have been reclassified as a single investment in Private Equity firms in 2004.

Business Review (continued)

investments in funds showed unrealised losses. It was explained that this was to be expected owing to management fees and the performance of less successful investments tending to be apparent early in the life of a fund, but successes taking some time to come through either by way of realisations or valuation increases. This effect is known as the "J Curve". It is pleasing to report that, a year on, the J Curve is now on a rising trend and that three out of four of the funds show unrealised gains at the year-end. In addition, realisations made since inception have resulted in US$2,225,000 of cash being returned to the Company *and have resulted in realised gains of US$457,000.*

It was also reported that the measurement of performance of Private Equity is not straightforward and it is still too early to make a meaningful assessment of the performance of these funds, *which may have a life of up to 17 years. However, the* Board still observes that, when the Company made its commitment in 2002, the evidence was that the total return of Private Equity from top quality funds might, over time, exceed that of listed markets by at least 5% per annum, net of all fees. Our Private Equity managers are aware that the Board consider

Private Equity disclosure table

	Pantheon Europe Fund III €'000s	HarbourVest Partners VII Buyout Fund US$'000s	Venture Fund US$'000s	Mezzanine Fund US$'000s	Total US$'000s	Dover Street VI US$'000s
Original commitment#	115,000*	78,000	30,000	12,000	120,000	65,000
Cash drawn at 31 December						
2005	31,670	18,330	7,050	2,040	27,420	1,950
2004	19,364	8,190	2,850	1,080	12,120	–
Cash drawn as % of original commitment at 31 December						
2005	27.5%	23.5%	23.5%	17.0%	22.9%	3.0%
2004	16.8%	10.5%	9.5%	9.0%	10.1%	–
Cash drawn plus underlying commitments made						
2005	115,000	52,260	24,480	7,248	83,988	2,535
2004	75,904	34,398	12,690	3,084	50,172	–
Cash drawn plus underlying commitments as % of original commitment at 31 December						
2005	100.0%	67.0%	81.6%	60.4%	70.0%	3.9%
2004	66.0%	44.1%	42.3%	25.7%	41.8%	–
Cash returned to 31 December 2005						
- original proceeds of investments realised	–	2,003	222	–	2,225	–
- profit on investments realised	–	408	49	–	457	–
Value of holding at 31 December †						
2005	34,576	18,853	6,935	1,890	27,678	1,849
2004	18,433	7,098	2,735	1,009	10,842	–
Net unrealised gains/(losses) 2005	2,906***	2,118	58	(150)	2,026	(101)
Net unrealised gains/(losses) 2004	(931)**	(415)	(115)	(71)	(601)	–

* Excludes management fees

** Net of €504,000 (£344,000) management fees paid to Pantheon since inception.

*** Net of €1,080,000 (£739,000) management fees paid to Pantheon since inception

\# Since 31 December 2005 an additional US$4,050,000 commitment has been made to Dover Street VI.

† Sterling equivalents are shown on the list of investments on page 48.

that figure as still being an appropriate expectation.

The Board is satisfied with the performance of the Private Equity investments to date and the way in which the funds are developing.

Dover Street VI L.P.

In December 2005 and early in 2006, the Company made new commitments of just over US$69 million to Dover Street VI L.P. ("**Dover Street**"), a new fund of US$600 million to be managed by HarbourVest. Dover Street was formed principally to acquire holdings, in whole or in part, from investors in other existing Private Equity funds. These interests often consist of investments in funds that were made several years earlier and thus it can be expected that cash will be realised and returned to investors relatively quickly. Such interests are known as "secondaries". Dover Street is a specialist secondary fund formed to purchase holdings in funds investing both in the United States and elsewhere in the world. So far Dover Street has committed nearly US$100 million in transactions involving partnerships which have investments in over 15 underlying Private Equity funds.

When making our original commitment to Private Equity in 2002 the Board considered making an investment in a secondary fund. However, it was decided not to make an investment in that more specialist area of Private Equity at that time. With the benefit of three years of monitoring the secondary market, the Board decided to make a commitment to HarbourVest's new Dover Street fund in 2005.

HarbourVest has had an outstanding record with its earlier secondary funds. Most of those funds were very much smaller than Dover Street and there can be no guarantee that past performance can be replicated in the future. However, the market in secondary funds has expanded substantially in recent years and, although competition for deals is intense, HarbourVest have convinced the Board that the combination of opportunities that are arising and HarbourVest's particular position in that marketplace should ensure excellent returns from a portfolio of secondary investments.

The Private Equity market

2005 was a very active year for Private Equity managers in general, particularly those involved in the Buyout market. Valuations of companies increased on the back of the improvement in stockmarkets and the availability of debt finance. Very large sums of debt were available from both banking and other sources which allowed multi-billion dollar public to private deals to be financed. The ready availability of that debt finance allowed managers to refinance existing investments, very often taking the opportunity to extract large sums of cash for their investors in the process. In addition, 2005 was a very busy year for Initial Public Offerings on listed markets, which also produced some substantial gains for Private Equity investors.

This climate benefited Buyout funds throughout the world and in particular the very large funds both in the United States and Europe. Perhaps surprisingly at first sight, those large funds have hitherto both been able to find suitable investments and to perform well. On the back of this performance, and with the increasing pools of money chasing returns wherever they could be found, very large new Buyout funds were raised in 2005 by established managers with good track records.

Venture managers, who invest in higher risk start-ups and early stage companies, had a somewhat less active year, although still with significantly increased fund raising, investing and realisation of investments as compared with recent years. This pick-up in activity is expected to continue in 2006.

Mezzanine managers (specialist lenders between debt and equity) have had a difficult time in recent years with significant competition from hedge funds. However, HarbourVest have advised that they are confident that the Mezzanine Fund will show acceptable returns in due course and expect investment activity to pick up in 2006.

The secondary market was very active with increased competition for deals and rising valuations. However, it continues to be an expanding and developing market with deals being structured in innovative ways to satisfy the requirements of new categories of sellers. This innovation is creating new opportunities for purchasers and continued activity in this market is to be expected.

Business Review (continued)

The future for Private Equity

Private Equity is a cyclical, and long-term, asset class. The Company's commitment in 2002 was made very close to the bottom of the cycle and this bodes well for those commitments. The subsequent pick-up was faster and stronger than in previous cycles and there is no doubt that the combination of higher valuations of companies, rising dollar interest rates and the possibility that the current super-abundance of debt might reverse, increases the risks of a downturn.

The Board now faces the decision as to when to make yet further commitments beyond that made to Dover Street in recent months. The Company has US$189 million and €115 million (in aggregate equivalent to £189 million) committed to this asset class. Of this, £128 million has so far been allocated to underlying partnerships, and US$29.4 million and €31.7 million has actually been invested by the Company. These investments represent 1.6% of the Company's total assets at the year-end – £41.6 million. Current cash flow projections suggest that the peak investment of the Company's present commitment will be reached in 2007/8 and thereafter will decline rapidly as investments are realised and cash returned. If the Company does not commit to further investment in Private Equity during 2006, it seems likely that it will not maintain the level of its involvement in the asset class by 2009/10. The Board will be considering whether to make further commitments during 2006, despite the present buoyant climate in some of the markets. Whenever that commitment is made, as before, it will be essential that it is to funds where the Private Equity manager will provide the Company with access to top-performing underlying funds.

MANAGEMENT FEES

How F&C is paid for managing the portfolio

As noted above, the basis of the fees payable to the Manager was changed during the year. From 1 August 2005 the Company pays a fixed fee, subject to annual review, of £5,650,000 per annum to the Manager, for investment management, secretarial, accounting and marketing-related services, less amounts equal to the fees that the Manager already receives in respect of holdings in the portfolio that it also manages. The Manager is also eligible for a performance-related fee on the total portfolio, excluding Private Equity and the effect of share buybacks. This performance fee, which is subject to a cap of 0.3%, will be 10% of any out-performance of the net asset value total return over the benchmark of 40% FTSE-All Share and 60% FTSE WI World ex UK indices plus a 0.5% hurdle, calculated on a cumulative basis and carrying forward under-performance and over-performance from year to year. There is also a high watermark condition, so that any performance fee payable will be deferred if the share price has fallen over the year. The agreement with the Manager, which is now on the basis of a six month notice period, has been revised to reflect these changes.

The new fee basis has been structured to avoid conflicts of interest, particularly in respect of asset allocation, provide a fair reward for the Manager achieving superior performance across the whole portfolio and to ensure that the Manager's interests are closely aligned with those of the shareholders. The fixed fee payable to the Manager is lower than would have been the case under the previous arrangements, but allowing for the fees payable to IMS and the US sub-managers and to GSAM in Japan, it is expected that there will be an increase in costs of around £1.1 million in fixed fees in a full year, based on the relevant assets at 31 December 2005. The Board consider that this increase is reasonable in the context of a total of £2.5 billion of gross assets, and justified in striving to achieve much improved performance. If performance turns out to be very strong, then higher fees will be payable under the performance fee structure, but the Board believes that this is also reasonable, as shareholders will benefit from the enhanced performance. The first period in respect of the performance fee arrangements runs from 31 July 2005 to 31 December 2006, and it is to be noted that the Manager has out-performed the benchmark plus the hurdle of 0.5% by 0.85 percentage points during the first five months to 31 December 2005. A performance fee of £2.1 million has therefore been accrued at the year end. Note 4 on the accounts provides detailed information in relation to the fees.

How the Private Equity managers are paid

In respect of Pantheon Europe Fund III, management fees are invoiced directly to the Company by Pantheon, whereas the fees relating to the five funds managed by HarbourVest are charged against the underlying investments and are not directly paid by the Company. Fees payable for the underlying funds are negotiated by Pantheon and HarbourVest. The arrangements 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. However, the fees vary considerably between the various funds and underlying managers.

Pantheon are paid a quarterly fee of 0.1625% on the capital committed by Pantheon Europe Fund III to the underlying funds. The fees charged in 2005 amounted to £395,000 (2004: £208,000). In addition, Pantheon is entitled to a performance fee of 10% of all distributions once the total of all capital drawn from the Company, together with a compound cash return of 15% per annum, has been returned.

The HarbourVest Partners VII funds charged fees at a rate of 0.75% per annum of capital commitments up to 1 February 2005 and have since been charged at 1%. Dover Street charges fees at a rate of 0.625% of capital commitments and this will rise over time to 1.25%. Fee rates will decline in later years in accordance with the terms of the partnership agreements. Fees payable and charged within the HarbourVest funds amounted to £701,000 in 2005 (2004: £467,000).

CHANGES TO THE STATEMENT OF TOTAL RETURN

The Income Statement (formerly the "Statement of Total Return") on page 51 is being presented slightly differently to those of previous years in that it does not take account of dividends. These are now accounted for in a new Reconciliation of Movement in Shareholders' Funds which, as a primary statement, shows the reconciliation of the movements between the 2005 and 2004 Balance Sheets. Income and expenditure in calendar years 2005 and 2004 are accounted for in accordance with the policies set out in note 2 on the accounts. The figures for the prior year have been restated to reflect policy changes arising out of new UK Accounting Standards. The changes are in respect of:

- the requirement to value the investment portfolio at bid value rather than the previous (higher) mid value – as set out in notes 11, 20 and 25 on the accounts, there is a decrease of £504,000 in the net movement in unrealised appreciation in the 2004 capital column of the Income Statement, and the value of investments at 31 December 2004 has decreased by £2,166,000 or 0.09%.
- the requirement to recognise dividends only in the period in which the Company is liable to pay them – note 10 on the accounts sets out the dividends which have been accounted for and those which are proposed, whilst note 25 on the accounts sets out the effect of non-accrual of the final and special dividends, amounting to £20,999,000 in the 2004 Balance Sheet.

The net effect of the changes on the restated 2004 Balance Sheet is an uplift of £18,833,000, or 2.07 pence per share, as shown in note 25 on the accounts.

REVENUE AND DIVIDENDS

The Company's portfolio enjoyed another year of very strong dividend growth not only from UK companies, but also as a result of the trend of rising dividends from overseas companies. Management fees rose as a result of the structural changes introduced during the year, but other costs declined as a result of lower marketing expenditure, lower savings scheme costs and reduced custodian charges. The Board now has more direct control over marketing and advertising expenditure, and continues to monitor all costs very closely. The total expense ratio fell from 0.50% to 0.45%, excluding the performance fee accrual. Net revenue increased by 16.1%, while revenue earnings per share increased by 22.7%, enhanced by the reduction in the number of shares in issue as a result of buy-backs.

The final dividend of 2.55 pence per share will bring the total dividend for the year to 4.75 pence per share, an increase of 18.8% over last year, and 13.1% when taking into account the special dividend that was also paid last year.

A full analysis of earnings, expense and dividend ratios is set out in the Ten Year Record on pages 74 and 75.

Business Review (continued)

PERFORMANCE ATTRIBUTION IN 2005

Performance attribution is undertaken to assess whether value is being added through asset allocation, gearing, stock selection in the regional portfolios and Private Equity.

Contributors to total returns in 2005

Benchmark return	+23.7%
Asset allocation	+1.2%
Stock selection	-0.2%
Effect of management fees/other costs	-0.5%
Effect of buy-backs	+1.2%
Effect of gearing	+1.5%
Net asset value total return	+26.9%
Effect of decrease in discount	+8.7%
Share price total return	+35.6%

Source: F&C Management Limited

In analysing performance for 2005, the portfolio total return of 24.7% was generated as to 24.5% by the listed investments and as to 0.2% by Private Equity. Asset allocation – in particular, the Company's significantly overweight position in Emerging Markets/Developed Asia and its big underweighting of North America – was positive. Gearing was also positive, while stock selection was marginally negative.

Geographic attribution in 2005

Market	Our portfolio weighting %	Benchmark weighting %	Our portfolio performance %	Local index performance in sterling %
UK	+41.7	+40.0	+21.8	+22.0
North America	+20.5	+37.3	+18.3	+20.2
Europe ex UK	+14.9	+10.8	+25.6	+24.1
Japan	+6.2	+5.6	+35.7	+39.7
Emerging Markets/ Developed Asia	+15.1	+6.3	+44.2	+44.0
Private Equity	+1.6	–	+17.0	–

Source: F&C Management Limited and Fundamental Data.

In terms of regional performance, all of the Company's main markets produced positive returns in 2005. The Europe ex UK and Emerging Markets/Developed Asia regional portfolios delivered out-performance against their respective local indices, while the UK portfolio slightly under-performed. The North America portfolio again under-performed, although the US Smaller Companies portfolio did well, while the Japan portfolio produced the worst relative under-performance.

The North America and Japan portfolio returns up to and following the management changes made in July 2005 are detailed below:-

Our North America and Japan portfolio returns in 2005 in sterling

	North America %	Japan %
7 months to 31 July 2005	+13.5	+2.5
Local index	+13.8	+4.1
5 months to 31 Dec 2005	+4.2	+32.4
Local index	+5.6	+34.2
12 months to 31 Dec 2005	+18.3	+35.7
Local index	+20.2	+39.7

Source: F&C Management Limited and Fundamental Data.

The US sub-managers together out-performed their S&P 500 Composite Index by 0.54% over the five months following their appointment, but not the local FTSE US Index used by the Board, whilst the Japan sub-manager under-performed the FTSE Japan Index in a sharply rising market by 3.3 percentage points.

Although Private Equity made a return on the relatively small amount invested so far, including a modest return of cash, it was not surprising that the Company's immature Private Equity portfolio did not match the return of most listed markets.

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 on a day to day basis. The Manager's objective is to achieve annual net asset value performance of at least 0.5% above the composite benchmark of 40% FTSE All-Share and 60% FTSE WI World ex UK indices, excluding Private Equity and the effect of share buy-backs. The performance of the Manager is also monitored in terms of the Company's net asset value returns relative to those of its 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.

Key Performance Indicators

The Board assesses its performance in meeting the Company's objective against the following Key Performance Indicators:-

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

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

Net asset value and share price total return performance

	1 year %	3 years %	5 years %	10 years %
FCIT* net asset value†	27.2	71.5	6.1	108.3
Benchmark	23.7	64.0	5.5	98.9
Close Peer Group weighted average net asset value**	28.4	71.7	10.1	107.5
AITC Global Growth Sector weighted average net asset value	29.6	79.8	24.2	136.0
FTSE All-Share	22.0	66.4	11.6	113.9
FTSE WI World ex UK	24.8	62.4	1.5	88.9
FCIT* share price	35.6	70.0	6.6	88.3
Close Peer Group weighted average share price**	34.6	76.5	13.1	103.9
Retail Prices Index	1.9	8.5	12.4	28.5

Source: Fundamental Data

* Foreign & Colonial Investment Trust ("FCIT")

** *Alliance Trust, The Bankers Investment Trust, Scottish Investment Trust, Scottish Mortgage Investment Trust and Witan Investment Trust*

† Net asset value total return with debt at market value.

Business Review (continued)

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

2005	4/6	Over 3 years	3/6
2004	5/6	Over 5 years	4/6
2003	2/6	Over 10 years	3/6
2002	4/6		
2001	3/6		
2000	2/6		

Source: Fundamental Data

Asset allocation, stock selection, gearing attribution

	1 year %	3 years %	5 years %
Asset allocation	+1.2	+4.2	+7.3
Stock selection	-0.2	-1.9	-3.5
Gearing	+1.5	+3.2	-0.5

Source: F&C Management Limited

Regional portfolio attribution in sterling

	1 year		3 years		5 years	
	FCIT %	Index %	FCIT %	Index %	FCIT %	Index %
UK	21.8	22.0	66.5	66.4	19.1	11.6
North America	18.3	20.2	37.4	45.6	-19.7	-8.2
Europe ex UK	25.6	24.1	74.8	83.2	5.1	7.5
Japan	35.7	39.7	67.0	89.0	-4.9	13.2
Emerging Markets/ Developed Asia	44.2	44.0	n/a	n/a	n/a	n/a

Source: F&C Management Limited and Fundamental Data.

The Emerging Markets/Developed Asia portfolio has only been run in its present form for two years. Prior to 2004, FCIT had a Pacific ex Japan portfolio, which rose 36.1% against an increase of 28.7% for its index in 2003 and fell 16.8% against a decline of 17.6% for the index in 2002.

Discount
(with debt at market value)

	%
2005	9.5
2004	14.8
2003	10.3
2002	5.9
2001	9.0

Source: F&C Management Limited

Compound annual dividend growth

	5 years %	10 years %
FCIT	8.9	8.7
Close Peer Group ex FCIT	4.1	4.5
FTSE All-Share	4.8	2.0
Inflation (RPI)	2.4	2.5

Source: F&C Management Limited and Fundamental Data

Total expense ratio

	%
2005*	0.45
2004	0.50
2003	0.58
2002	0.56
2001	0.52

* Excludes performance fee

Source: F&C Management Limited

F&C Savings Plans investment flows in FCIT

	2005 £m	2004 £m	2003 £m	2002 £m	2001 £m
Purchases	36.7	54.6	55.6	71.6	80.8
Withdrawals	61.9	47.8	20.0	23.4	25.4
Net flow	(25.2)	6.8	35.6	48.2	55.4

The above figures cover all of the F&C Savings Plans in FCIT, including the Personal Pension Plan and Child Trust Fund. External comparative figures for all of these plans are not available. FCIT's share of net outflow of ISA, Private Investor Plan and Personal Equity Plan increased from 47.8% to 59.6% of the AITC Global Growth Sector outflow in 2005. 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 during the year, with a formal annual 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 and Emerging Markets/Developed Asia portfolios. These are mirrored in quarterly presentations from IMS in respect of the portfolios managed by the US sub-managers and from GSAM in respect of the Japan portfolio. The Board also receives at each meeting comprehensive performance measurement schedules, with figures provided by Fundamental Data Limited and F&C, to enable it to assess the success or failure of the management of the total portfolio against the performance objective 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 2006. The process involved a formal presentation to the Board by F&C's Chief Executive, the Head of Investments, the Fund Manager, the Deputy Fund Manager and the Head of Investment Trusts, which covered recent developments at F&C, the changes in process to achieve top quartile performance, the Company's investment performance in 2005, as well as the provision of resources, products and services during the year. This was followed by a closed session of the Board to assess the Manager's overall performance and consider their re-appointment for the ensuing year.

Matters considered

(i) **Overall investment performance** - The Board considered that the relative net asset value total return performance of the Company in 2005 was highly satisfactory against the objective set for the Manager, following a disappointing performance in 2004. The Manager beat the benchmark by 3.2 percentage points, thus exceeding its target. The Company's net asset value per share rose 25.2% to 285.7 pence (with debt at market value), and to 291.8 pence (with debt at par). The Company was fourth out of six in its close peer group, but when measured against the weighted average of the Company's close peer group and of the AITC Global Growth sector, there was a slight out-performance in share price total return and a marginal under-performance in net asset value total return. Although relative performance over three, five and 10 years had been improving, there was still some ground to be made up, particularly over five and 10 years.

(ii) **Investment matters, including F&C's regional fund managers and performance** - In respect of the regional portfolios managed directly by F&C, the higher conviction approach adopted by Davina Curling, the fund manager of the Europe ex UK portfolio, had started to come through with improved stock selection performance. The Emerging Markets/Developed Asia portfolio had an excellent year beating its benchmark. However, Rupert Brandt, the lead manager for Emerging Markets/Developed Asia, announced in January 2006 that he would be leaving F&C and the Board will therefore monitor the appointment of his replacement. Julian Cane, the Deputy Fund Manager, continued to manage the UK portfolio which, after five years of good performance, had a slightly disappointing year, losing its out-performance in the last month of the year. Although the North America and Japan portfolios both under-performed their benchmarks over the year as a whole, it was too early to make any meaningful assessment of the performance after only five months with new sub-managers in place. The Board believed that longer term these portfolios should perform well under the new arrangements. The US Smaller Companies portfolio, which remained with Robert Siddles at F&C, again performed well.

Business Review (continued)

(iii) **Resources, services and advice provided by F&C** - The Manager was one of the larger fund management companies in the UK following the merger between ISIS and F&C, with significant resource, a wide product range and substantial assets under management.

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 secretarial, provision of fund accounting, administration, stock lending operations, performance and risk measurement, internal audit function and risk control, as well as advice on buy-backs, discount control mechanisms, corporate structuring and industry issues.

The marketing of F&C's savings schemes has been very successful over time, but net outflows occurred during the last year. A review of marketing is underway with F&C. Shareholder relations and press communication had also been well conducted.

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. It was clear that F&C's investment performance had improved considerably in 2005. The Board was impressed with the ongoing commitment that F&C had shown not only to the Company during a year of significant change, but also to its investment trust business in general, and also with the resources, people and experience available and the quality of advice offered on a wide range of subjects. Furthermore, all the services provided to the Company, including secretarial, accounting, marketing and shareholder interface, had been professionally, efficiently and effectively delivered.

The success of F&C in achieving its aim of reaching top quartile in all areas of its business will be important. The Board will continue to monitor the progress of F&C, and its ability to attract and retain talented managers and achieve improved stock selection and overall investment performance from internal and external management. The challenge for F&C will be to bring about consistently good investment performance, particularly relative performance over 5 and 10 years, and to assist the Board in its objective of generating demand for the Company's shares from new investors.

The progress made and the changes introduced this year were a clear indication of the Board's intent to ensure that the Manager brings about a sustainable improvement in longer-term performance.

THE BOARD'S PRIORITIES FOR 2006

Much work was carried out in 2005 in terms of reviewing strategy and introducing with F&C a new form of management structure, and the Board now wishes to see these new arrangements firmly bedded down and working satisfactorily. There are always on-going challenges and opportunities, and the Board has considered its priorities and set its objectives for the year ahead, as part of its annual appraisal process. The priorities for 2006 are to continue to strive for even better investment performance, to develop further the Private Equity strategy for the future and to focus more on the marketing of the Company's shares. The Board will continue to consider the Company's overall strategy and continually review the position of the Company in its role as a leading savings vehicle in an ever changing and competitive market place. All aspects of the Company's marketing will be reviewed over the coming year to ensure that it is being promoted efficiently and effectively to the benefit of all investors, with a view to both retaining existing shareholders and generating demand by attracting new investors, as well as appealing to private client managers and brokers, advisers and opinion formers.

In summary, the Board will continue to strive for good and consistent relative out-performance, and aim 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.

PROSPECTS

Many of the important themes that influenced markets in 2005 have continued into 2006. The US Federal Reserve has continued its policy of small and regular increases in interest rates, the oil price has remained above US$60 on concerns about Iran developing nuclear weapons and Russia interrupting gas supplies to Europe. Investors have continued to look for assets with higher income or growth characteristics without worrying about the risks associated with higher returns. The most striking trend has been the acceleration of merger and acquisition activity worldwide which is close to the previous peak seen in 2000. After a period of concentrating on cost cutting and cash generation, many companies are now considering buying other companies to make strategic changes. In addition, as discussed in the Private Equity Portfolio section of this review, many large Private Equity funds are raising record amounts from investors.

Merger and acquisition activity is a symptom of the large amounts of cash available for investment. Part of this cash is coming from the surpluses arising in China and other Asian countries and an increasing part from the surpluses generated by oil exporting countries. An indirect source that is increasing in importance is the return of cash from companies to shareholders, either by dividends or share buybacks; at the moment companies are preferring to return surplus cash to shareholders than to make capital investments. While all these trends continue they will provide important support to markets.

The retirement of Alan Greenspan after eighteen years as chairman of the Federal Reserve was a significant event. His successor, Ben Bernanke, has impressive credentials, but does not have Mr Greenspan's long experience of markets and reputation for swift and decisive action in financial crises. Since markets have been much less volatile in the past three years than in the previous decade, Mr Bernanke could face some stiff tests in 2006, just as Mr Greenspan had to deal with the 1987 stockmarket crash soon after he took office.

After a period when growth in Europe and Japan was much slower than in the United States, world economic growth is likely to be more balanced in 2006. The rise in the oil price has had only a limited effect on economic activity and inflation and there are few signs of this changing. The long-term disinflationary forces of technological change remain intact, and China is now being joined by India as a motor of global growth. After several years of very strong corporate profits, growth will be slower in 2006, but companies remain in good shape with strong balance sheets and the ability to carry on increasing dividends. At the moment, consensus expectations are for earnings growth of around 10% in most of the major markets and dividends should grow in line with earnings.

The large US trade deficit had been expected by some to lead to a collapse in the US dollar, but in fact the dollar strengthened in 2005. While the oil price remains strong it seems unlikely the dollar will fall significantly and, as interest rates in the US, UK and Europe are closer now than they have been for many years, interest rate differentials are unlikely to cause major currency movements.

After three years of strong returns from equity markets, it may be difficult to maintain the same rate of progress. However, corporate balance sheets remain strong, the prospects for dividend growth are good, the valuation of many companies is not excessive by historic standards and liquidity in global markets remains high. The momentum from 2005 has so far continued into 2006 and, unless there is a major unexpected shock somewhere in the world, most markets should show a positive return for the year.

As a mark of confidence in the future, and given the current expectation that companies will be increasing their dividend payments in 2006, and taking into account the Company's strong revenue reserves, the Board is forecasting an increase in total dividends of not less than 10% for the year ending 31 December 2006.

By order of the Board,
H.N. Potter,
for and on behalf of F&C Management Limited,
Secretary
2 March 2006

Twenty Largest Equity Holdings

This Year	Last Year	**Company** Country Description	% of total investments	Value £'000s
1	*(-)*	**GMO US Equity Fund IV** USA US equity fund with an emphasis on value investing.	3.7	92,663
2	*(6)*	**BP** UK Very large oil company benefiting from the strong oil price.	3.6	90,301
3	*(2)*	**Royal Dutch Shell** UK/Netherlands Leading global oil company which is restructuring after a major problem with its reserves.	3.1	78,448
4	*(3)*	**GlaxoSmithKline** UK One of the world's leading pharmaceutical companies.	2.5	62,874
5	*(1)*	**Vodafone** UK World's leading mobile telephone provider with a strong international network which has doubled its dividend.	2.3	57,122
6	*(7)*	**Rio Tinto** UK/Australia Leading international mining company benefiting from strong commodity prices.	2.1	53,804
7	*(14)*	**Resolution** UK Assurance company established in closed life funds.	1.5	38,850
8	*(5)*	**HSBC** UK Broadly diversified international bank operating in over 80 countries worldwide.	1.5	38,157
9	*(4)*	**Royal Bank of Scotland** UK Leading bank which has expanded organically and by acquisition.	1.3	33,326
10	*(-)*	**AstraZeneca** UK International pharmaceutical company with prospects underpinned by its new product pipeline.	1.2	31,108
11	*(10)*	**Legal & General** UK Major UK life assurer which is relatively well placed as market conditions improve.	1.1	26,778
12	*(9)*	**Scottish & Southern Energy** UK Multi-utility group with an attractive and growing dividend.	1.0	25,338
13	*(13)*	**British American Tobacco** UK Leading international manufacturer and distributor of cigarettes.	1.0	24,681
14	*(-)*	**Pantheon Europe Fund III** Europe Private equity fund of funds investing principally in the European market, with the largest exposure being to the UK.	0.9	23,757
15	*(12)*	**BAA** UK Airport operator benefiting from the long-term growth in air travel.	0.9	23,577
16	*(-)*	**F&C Latin American Investment Trust** UK Investment trust specialising in Latin America.	0.9	22,876
17	*(15)*	**Lloyds TSB** UK High street bank with a very attractive dividend yield.	0.8	18,939
18	*(-)*	**F&C Emerging Markets Investment Trust** UK Investment trust investing in a wide range of companies in emerging markets.	0.7	18,885
19	*(-)*	**Johnson Matthey** UK Chemical company with strong positions in auto catalysts, precious metal processing and the development of fuel cell technology.	0.7	18,349
20	*(-)*	**UBS** Switzerland Largest bank in Switzerland with global investment banking and wealth management businesses.	0.7	17,333

The value of the twenty largest equity holdings represents 31.5% (2004: 25.8%) of the Company's total investments.

The figures in brackets denotes the position at the previous year end. The country shown is the country of incorporation.

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 is a trustee of The Grosvenor Estate and a director of two of its related private companies, Deva Group Limited and Deva Holdings Limited. He has no other directorships. *Age 62.*

Sir Michael Bunbury Bt KCVO[*#§] Appointed to the Board in March 1998, is Chairman of the Private Equity 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 35 years. He is chairman of JP Morgan Fleming Claverhouse Investment Trust Plc. *Age 59.*

The Rt Hon Kenneth Clarke QC, MP[†] Appointed to the Board in August 1997. He has been the Member of Parliament for Rushcliffe since 1970 and served as a minister throughout the Conservative governments of 1979 to 1997. He was Chancellor of the Exchequer between 1993 and 1997. He is deputy chairman of Alliance Unichem plc, deputy chairman of British American Tobacco plc and a non-executive director of Independent News and Media (UK) Limited. *Age 65.*

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. *Age 58.*

Christopher Keljik OBE Appointed to the Board in September 2005. He retired as a director of Standard Chartered in May 2005 after 29 years where he held a number of senior positions working in London, Hong Kong, New York and Singapore in corporate finance, treasury and general management. More recently he was responsible for governance and performance in Africa, the Middle East and South Asia and had governance responsibility for the United Kingdom and the Americas. He is also a non-executive director of Jardine Lloyd Thompson. *Age 57.*

Ewen Macpherson – Senior Independent Director[*†#§] Joined the Board in February 1997. He is chairman of Merrill Lynch New Energy Technology plc and a Director of William Grant & Sons Limited. He retired in July 1997 as chief executive of 3i Group plc, which is Europe's leading venture capital company, and was a non-executive director of Scottish Power plc until July 2003. He is also the chairman of the trustees of the GlaxoSmithKline Pension Fund. *Age 64.*

John Rennocks[*§] Appointed a Director in August 1997 and is Chairman of the Audit & Management Engagement Committee. He is a Chartered Accountant and was finance director at Smith and Nephew, Powergen and British Steel/Corus throughout the years 1981 to 2001. He is chairman of Nestor Healthcare Group plc and Diploma plc, Deputy Chairman of Inmarsat plc, and a non-executive director of Babcock International Group PLC, JP Morgan Fleming Overseas Investment Trust Plc and Wagon plc. *Age 60.*

Maxwell Ward[#§] 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 & Trust plc for 11 years. He is chairman of Dunedin Income Growth Investment Trust plc, managing director of The Independent Investment Trust plc and a non-executive director of the life assurance company, Aegon UK plc. *Age 56.*

Sir Andrew Wood GCMG Appointed a Director in December 2000. Having served as ambassador in Moscow and Belgrade, he has acted for Ernst & Young, Unilever, GlaxoSmithKline, Diageo, BP and other companies interested in the Russian market. He is a member of the Advisory Councils of the leading investment bank in Russia, Renaissance Capital, and the BCCB, which represents the interests of British consultants and construction firms. He is a director of the Russo-British Chamber of Commerce, the PBN Company, a strategic communications firm with offices in the former Soviet Union, London and Washington DC and of Mechel OAO, a Russian coal and steel company listed on the New York Stock Exchange. *Age 66.*

- * Members of the Audit & Management Engagement Committee
- † Members of the Nomination Committee
- # Members of the Private Equity Committee
- § Members of the Investment Committee until it disbanded in December 2005

Management and Advisers

Jeremy Tigue Fund Manager

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. The Manager is authorised and regulated by the Financial Services Authority. It is appointed under a management agreement with the Company setting out its responsibilities for investment management, administration and marketing.

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

Jeremy Tigue Fund Manager Appointed Fund Manager in July 1997. He is Head of Global Equities at F&C and is responsible for the overall portfolio management and investment performance of Foreign & Colonial. He joined F&C in 1981 and is also a director of the Association of Investment Trust Companies.

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

Jeff Chowdhry Head of Emerging Market Equities at F&C. He joined in 1994.

Davina Curling Head of European High Alpha Equities at F&C and responsible for Foreign & Colonial's European portfolio. She joined in 1995.

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

Michael Wrobel Head of Investment Trusts at F&C and responsible for its relationship with Foreign & Colonial since 2003.

Advisers to F&C (North America large and medium cap portfolio) Investment Management Selection Limited (IMS) – appointed July 2005

Sub-Managers to F&C (North America large and medium cap portfolio)

Barrow Hanley – appointed July 2005

Gartmore – appointed July 2005

Grantham, Mayo, Van Otterloo & Co (GMO) – appointed July 2005

Loomis Sayles – appointed July 2005

T. Rowe Price – appointed February 2006

Sub-Managers to F&C (Japan Portfolio)

Goldman Sachs Asset Management - appointed July 2005

Secretary and Registered Office

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

Telephone:	020 7628 8000
Facsimile:	020 7628 8188
Website:	www.fandc.com
Email:	info@fandc.com

Authorised and regulated in the UK by the Financial Services Authority

Auditors

PricewaterhouseCoopers LLP, Southwark Towers, 32 London Bridge Street, London SE1 9SY

Bankers and Custodian

JPMorgan Chase

Registrars

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

Telephone:	0870 702 0130
Facsimile:	0870 703 6143

Authorised and regulated in the UK by the Financial Services Authority

Solicitors

Norton Rose

Stockbrokers

JPMorgan Cazenove Limited

Report of the Directors

Status of Company

During the year under review the Company carried on the business of an investment trust and has since conducted its affairs to qualify as such under the provisions of Section 842 of the Income and Corporation Taxes Act, 1988. The last accounting period for which the Company has been treated as approved by the Inland Revenue was for the year ended 31 December 2004. This approval is subject to there being no subsequent enquiry under Corporation Tax Self Assessment.

The Company is an investment company as defined by Section 266 of the Companies Act 1985.

Under the Company's Articles of Association, with limited exceptions, no investment can be made by the Company which exceeds 10% of the value of its total portfolio at the time of investment. Furthermore, the Company's policy is to invest no more than 15% of its gross assets in other UK listed investment companies (including investment trusts). As at 31 December 2005 the Company's investments in such companies represented 0.89% of its gross assets.

The Company's shares are eligible for inclusion in an Individual Savings Account ("**ISA**") and Child Trust Fund ("**CTF**") and are also eligible as an investment for Personal Equity Plan ("**PEP**") transfers.

Note 2 on the accounts contains principal details of the accounting policies adopted.

The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts as the assets of the Company consist mainly of securities, which are readily realisable.

Review of the business

A review of the Company's activities is given in the Chairman's Statement on pages 2 to 5, and in the Business Review on pages 6 to 25.

Net assets

The net assets of the Company as at 31 December 2005 were £2.4 billion (291.81 pence per share with debt at par). With debt at market value, the net asset value per share was 285.69 pence.

Revenue and dividends

Attributable to equity shareholders	£'000s
Revenue return attributable to equity shareholders	49,122
Dividends paid on ordinary shares:	
Final of 2.10p paid on 9 May 2005	(19,008)
Special of 0.20p paid on 9 May 2005	(1,810)
Interim of 2.20p paid on 12 September 2005	(19,391)
Amount transferred to revenue reserve	8,913

The interim dividend of 2.20 pence per share, together with the final dividend now recommended for payment on 24 May 2006 of 2.55 pence per share, make a total annual dividend of 4.75 pence per ordinary share for the year ended 31 December 2005. This represents an increase of 18.8% over the comparative 4.0 pence per share paid in the previous year and 13.1% over last year's total dividend of 4.20 pence per share inclusive of the special dividend. (Resolutions 1 and 3 at the forthcoming Annual General Meeting relate to the Annual Report and Accounts and the final dividend).

Share capital

Details relating to the share capital can be found in note 18 on the accounts. At the Annual General Meeting held on 4 May 2005, shareholders renewed the Board's authority to buy back the Company's ordinary shares for cancellation. During the year the Company made market purchases for cancellation of 85,757,998 ordinary shares representing 9.4% of the number of shares in issue at 31 December 2004. The purchases were made at prices ranging between 189.5 pence and 258.5 pence at an average discount of 12.7%, enhancing net asset value per share by 3.0 pence. The aggregate consideration paid for the shares, excluding stamp duty and commissions, was £191 million. Since the year end, a further 8,672,200 shares have been bought back at prices ranging between 254.0 pence and 267.5 pence, enhancing net asset value per share by 0.3 pence. As at 2 March 2006, the number of ordinary shares in issue stood at 818,581,950. A resolution to renew the authority to buy back up to 122,705,000 shares will be put to shareholders at the Annual General Meeting (Resolution 11). A resolution to authorise the Directors to allot up to 40,929,000 shares will also be proposed (Resolution 10).

Report of the Directors (continued)

Substantial share interests

At 2 March 2006 the Company had received notification of the following interests in its ordinary share capital:

	%
F&C Asset Management plc*	34.3
Skandia Life Assurance Company Limited	5.0
Legal & General Group plc	3.5
Barclays PLC	3.1

The above percentages are calculated by applying the shareholdings as notified to the Company to the issued ordinary share capital as at 2 March 2006.

* This holding is made up of 1.2% held on behalf of discretionary clients of F&C Asset Management plc and 33.1% held on behalf of non-discretionary clients through their savings schemes. F&C Asset Management plc is a subsidiary of Friends Provident plc, by virtue of which the latter is deemed to have an interest.

Directors

Information in relation to each Director can be found on page 27 and reference to the Board can also be found on pages 34 and 35. With the exception of Mr Ronald Gould and Mr Christopher Keljik, who were appointed on 5 May 2005 and 1 September 2005 respectively, all the Directors held office throughout the year under review. Mr Gould and Mr Keljik will stand for election at the forthcoming Annual General Meeting (Resolutions 6 and 7). The Board was saddened by the death of Mr Robert Adams on 27 January 2005. Ms Haruko Fukuda retired from the Board on 4 May 2005 .

Mr Max Ward and Mr Ewen Macpherson retire by rotation at the Annual General Meeting and, being eligible, stand for re-election (Resolutions 4 and 5). The Nomination Committee considered the re-election of these Directors at a meeting held in February 2006, as well as the proposed elections of Mr Gould and Mr Keljik. Following an appraisal of their performance, a review of their status as independent Directors, and a recommendation of the Nomination Committee, the Board (with each Director absenting himself from that part of the meeting that dealt with his re-election) has concurred that they each make a valuable and effective contribution as a non-executive Director, based on their individual skills, knowledge and experience and from the time given to the Company in fulfiling their duties. The Board believes that Mr Ward, who will have served six years by the time of the forthcoming Annual General Meeting, and Mr Macpherson who has served nine years, are committed to their role as non-executive Directors of the Company and that their re-elections will be in the interests of the Company. Henceforth, Mr Macpherson will stand for re-election annually in accordance with the requirements of the Combined Code.

Each Director has signed a terms of appointment letter on one month's notice of termination on either side. These are available for inspection at the Company's registered office during normal business hours and will also be available at the Annual General Meeting; no Director has a service contract with the Company.

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

Directors' remuneration

The Directors' Remuneration Report, which can be found on pages 32 and 33, and 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).

Corporate governance

A Corporate Governance statement is set out on pages 34 to 39.

Management

Details relating to the management agreement with F&C Management Limited (the "**Manager**") and to the management fees paid to Pantheon Ventures Limited and HarbourVest Partners LLC can be found in note 4 on the accounts. Further information is also given in the Business Review on pages 18 and 19.

A separate review of the Manager has been carried out by the Board in accordance with the Listing Rules and is detailed on pages 23 and 24 of the Business Review. It is the Board's opinion that the appointment of the Manager on the terms agreed is in the interests of shareholders as a whole.

Risk control

The principal risks faced by the Company are set out in the Business Review on pages 7 and 8, and a summary of the risk control measures taken by the Board is set out in the Corporate Governance statement on pages 37 and 38. By means of the procedures set out in the summary, and in accordance with the Internal Control: Guidance for Directors on the Combined Code (the "**Turnbull guidance**"), 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.

Policy on payment of suppliers

The Company's principal supplier, the Manager, is paid in accordance with the terms and conditions of the management agreement as summarised on page 18 and in note 4 on the accounts. Other suppliers are paid in accordance with the individual payment terms agreed with each supplier. At 31 December 2005, the Company's outstanding trade creditors were equivalent to 29 days' payments to suppliers (2004: one day).

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 now balanced in favour of direct contributions by individuals rather than companies. Therefore, no such contributions were made during the year.

Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office, and a resolution will be proposed at the Annual General Meeting to re-appoint them as auditors (Resolution 8). A separate resolution to authorise the Directors to determine the remuneration of the Auditors will also be proposed (Resolution 9).

Ordinary and Special Business at the Annual General Meeting

Shareholders will find a separate enclosure which contains the Notice of the forthcoming Annual General Meeting of the Company to be held at **Merchant Taylors' Hall, 30 Threadneedle Street, London EC2** on 19 May 2006 at 12 noon. In addition to the ordinary business of the Meeting, resolutions numbered 10 to 13 are proposed as special business. Further information with regard to both the ordinary and special business to be proposed at the Meeting is contained in the enclosure.

By order of the Board,
H.N. Potter,
for and on behalf of F&C Management Limited,
Secretary
2 March 2006

Directors' Remuneration Report

Remuneration Committee

As the Board of Directors is comprised solely of non-executive Directors, it has not appointed a Remuneration Committee.

It is the responsibility of the Board as a whole to determine and approve the Directors' fees, following a recommendation from the Chairman who will have given the matter proper consideration including:-

- price and earnings inflation from the time the last fee increase became effective;
- a comparison with other peer group investment trusts and similar sized financial companies;
- available reports on remuneration of the boards and non-executive directors of UK investment trusts and other companies; and
- specific matters in respect of the increasing 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 Chairman's remuneration is decided and approved by the Board under the leadership of the Senior Independent Director.

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £350,000 per annum and a resolution will be proposed at the forthcoming Annual General Meeting to increase the limit to £500,000 per annum.

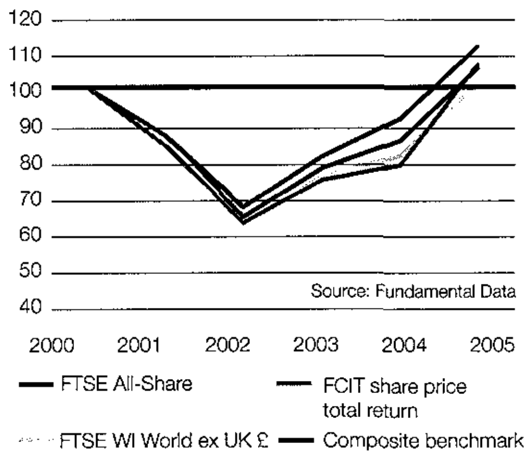
No element of the Directors' remuneration is performance-related.

No Director has a service contract with the Company.

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.

Directors' and Officers' liability insurance cover is maintained by the Company on behalf of the Directors.

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 Managers' 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 FTSE All-Share Index total return and the FTSE WI World ex UK Index total return are also shown.

Remuneration for qualifying services

Director	2005 Fees for services to the Company £'000s	2004 Fees for services to the Company £'000s
Mark Loveday (Chairman and highest paid Director)	**57**	49
Sir Michael Bunbury	**38**	35
The Rt Hon. Kenneth Clarke	**29**	26
Haruko Fukuda[1]	**9**	25
Ewen Macpherson	**42**	39
John Rennocks	**36**	32
Maxwell Ward	**30**	27
Sir Andrew Wood	**28**	25
Ronald Gould[2]	**18**	–
Christopher Keljik[3]	**9**	–
Robert Adams (deceased)	**2**	25
Totals	**298**	283

1 Retired as a Director on 4 May 2005

2 Appointed 5 May 2005

3 Appointed 1 September 2005

No Director received a benefit in kind for the year to 31 December 2005 (2004: £nil).

The amounts paid by the Company to the Directors were for services as non-executive Directors.

The information in the above table has been audited (see the Independent Auditor's Report on page 49).

Annual fees for Board responsibilities

Board	**£'000s**
Chairman	55.0
Senior Independent Director	34.0
Director	27.5
Audit and Management Engagement Committee	
Chairman	8.0
Members	4.4
Nomination Committee	
Chairman	1.5
Members	1.5
Private Equity Committee	
Chairman	6.5
Members	2.5

The current level of annual fees is £314,000.

The Investment Committee, which was established in November 2004 to effect changes in the investment management structure, was disbanded in December 2005. No fees were paid to the members of the Investment Committee in respect of the work that was carried out.

By order of the Board,
H.N. Potter,
for and on behalf of F&C Management Limited,
Secretary
2 March 2006

Corporate Governance

Introduction

The Board has considered the principles set out in the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 (the "**Combined Code**") and the AITC Code of Corporate Governance (the "**AITC Code**") revised in February 2006. 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, save that the Company does not have in place its own internal audit function (the reasons for which are explained on page 37). The Board is also adhering to the principles and recommendations of the AITC Code.

The Board

The biographical details of the Directors, all of whom are resident in the UK, and information on the Directors standing for election and re-election at the Annual General Meeting can be found on pages 27 and 30.

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, appointments, the Board and public documents. It has responsibility for all corporate strategic issues, dividend policy, share buy-back 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 analysis 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 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 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, as highlighted on page 7 of the Business Review, are reviewed regularly. The Board has reviewed and endorsed the Manager's approach to corporate governance, socially responsible investment, shareholder activism and voting policy which is set out under "Investment management" on page 38, and receives periodic reports on its implementation.

The overall attendance rate of Directors at Board meetings in 2005 was over 94%, and all the Directors attended the Annual General Meeting. The following table sets out the number of Directors' meetings (including committee meetings) held and attended during the year under review. The Board also met in closed session on two occasions during the year, without any representation from the Manager.

	Board	Audit & Management Engagement Committee	Nomination Committee	Private Equity Committee	Investment Committee
No of meetings	12	5	3	4	11
M A Loveday	12	n/a	3	n/a	11
R Adams (dec'd)	1	n/a	n/a	n/a	1
M W Bunbury [1]	12	5	n/a	4	8
K H Clarke	9	n/a	2	n/a	n/a
H Fukuda [2]	4	n/a	n/a	n/a	n/a
E C S Macpherson	12	5	3	4	10
J L Rennocks	11	5	n/a	n/a	10
M C B Ward	12	n/a	n/a	4	9
A M Wood	10	n/a	n/a	n/a	n/a
R J Gould [3]	8	n/a	n/a	n/a	n/a
C A Keljik [4]	4	n/a	n/a	n/a	n/a

1 Joined Investment Committee on 23 February 2005.

2 Retired 4 May 2005.

3 Appointed 5 May 2005.

4 Appointed 1 September 2005.

The Board believes that it has at present a reasonable balance of skills, experience, ages and length of service. Two new Directors, Mr Ronald Gould and Mr Christopher Keljik, were appointed during the year. The appointments of Mr Max Ward and Mr Ewen Macpherson, who retire by rotation at the forthcoming Annual General Meeting, and of Mr Gould and Mr Keljik, who will stand for election by shareholders, have been reviewed by the Nomination Committee. All Directors are required to submit themselves for re-election at least every three years.

The Board is of the view that length of service will not necessarily compromise the independence or contribution of directors of an investment trust company, where continuity and experience can add significantly to the strength of a board. No limit on the overall length of service of any of the Company's Directors, including the Chairman, has therefore been imposed.

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 2005 in respect of the year under review. This encompassed both quantitative and qualitative measures of performance in respect of the Board and the Committees implemented by way of an evaluation survey, a questionnaire and interviews with the Chairman. The Fund Manager and the Company Secretary also participated in this part of the process to provide all-round feedback to the Board. With regard to individual Directors, the performance appraisal was qualitative, implemented by way of a questionnaire and an appraisal meeting with the Chairman. The appraisal of the Chairman follows the same process and is carried out by the Board as a whole under the leadership of the Senior Independent Director, in the absence of the Chairman. 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 2006.

The Board has established a procedure whereby Directors, wishing to do so in the furtherance of their duties, may take independent professional advice at the Company's expense. 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 that applicable regulations are complied with. The proceedings at all Board and other meetings are fully recorded through a process that allows any concerns of Directors to be recorded in the minutes. The Board has the power to appoint or remove the Company Secretary in accordance with the terms of the Management Agreement. During the year the Company has maintained appropriate insurance cover in respect of legal action against the Directors.

Independence of Directors

The Board, which is composed solely of non-executive Directors, regularly reviews the independence of its members. All the Directors are independent of the Manager, on the grounds that none has a past or current connection with that organisation. All the Directors, including Mr Macpherson who has served for nine years, are also independent of the Company itself; in the opinion of the Board, each Director remains independent in character and judgement and there are no relationships or circumstances relating to the Company that are likely to affect their judgement. Mr Macpherson, whose continuing independence was assessed by the Nomination Committee and endorsed by the Board, will henceforth stand for re-election annually. Whilst the Board currently comprises independent Directors only, it is nevertheless prepared to have a minority of non-independent Directors should this be considered appropriate at any stage.

The Chairman, Mr Mark Loveday, retired as senior partner of the Company's corporate stockbroker, now named JPMorgan Cazenove Limited, in April 2001. Mr Loveday and the Company have small shareholdings in Cazenove Group Limited, which owns a 50% interest in JPMorgan Cazenove Limited. Mr Loveday did not advise the Board personally during his time as senior partner and the Board does not consider that his independence is compromised by this past connection. Other than Mr Loveday's trusteeship of the Grosvenor Estate and related directorships of Deva Group Limited and Deva Holdings Limited, he has no other external business responsibilities.

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

Board Committees

The Board has appointed a number of committees as set out below. Copies of the terms of reference of each committee are available on request and can also be found on the Company's website at www.foreignandcolonial.com. Membership is listed on page 27 and attendance at meetings on page 34.

Corporate Governance (continued)

Nomination Committee

The primary role of the Nomination Committee is to review and make recommendations with regard to the Board structure, size and composition, the balance of knowledge, experience, skill range and age profile and consider succession planning and tenure policy. It also considers the criteria for future Board appointments and the methods of recruitment, selection, appointment and induction. The Committee considers and makes recommendations to the Board with regard to the appointment of new Directors, committee membership, the re-appointment of those Directors standing for re-election at annual general meetings, variations in terms of appointment and the question of each Director's independence prior to publication of the Annual Report and Accounts. The Committee also reviews the attendance and time commitment of the Directors in fulfilling their duties, including their other directorships.

The process of appointing at least one new Director with investment and international experience, to replace Ms Fukuda and, subsequently, Mr Adams, had commenced towards the end of 2004 with the appointment of a search agency. The Nomination Committee interviewed a short list of five candidates in February 2005 from a total of 14 that had been put forward by the search agency. An additional candidate, who had been put forward informally by another search agency was also interviewed. Following these interviews, the Nomination Committee recommended that the Board appoint Mr Ronald Gould and Mr Christopher Keljik as Directors. The Board subsequently approved these recommendations; 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 has been prepared for new appointees to the Board. This involves a full briefing on the workings and processes of the Company by the Chairman, by the Fund Manager, by the Company Secretary and by other appropriate persons within F&C Management Limited. New appointees are also issued with a Company Handbook and other key documentation.

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 32 and 33 and in note 6 on the accounts.

Private Equity Committee

The function of the Private Equity Committee is to monitor and assess the performance of the Company's Private Equity investments managed by HarbourVest Partners LLC and Pantheon Ventures Limited (the "**Private Equity managers**") and to make recommendations to the Board regarding further investments. These responsibilities have been carried out in respect of the period under review. Sir Michael Bunbury represents the Company's interests on the advisory committees of the Private Equity managers. No remuneration is paid by the Private Equity managers to Sir Michael Bunbury in respect of these appointments.

Investment Committee

The Board established an Investment Committee in December 2004 which met on 11 occasions in the year. The Committee comprised Mr Mark Loveday (Chairman), Sir Michael Bunbury, Mr Ewen Macpherson, Mr John Rennocks and Mr Max Ward. The purpose of the Committee was to consider the future arrangements for the management of the North America and Japan portfolios and to consider the matter of fees payable to the Manager, including the introduction of a performance fee, as well as changes to the Management Agreement. Details can be found on pages 9 to 11 and 18 and 19 of the Business Review. Following the successful implementation of these arrangements, the Committee was disbanded in December 2005. A new committee is being formed with responsibility for reviewing and monitoring the Company's service providers and its marketing arrangements.

Audit and Management Engagement Committee (the "Audit Committee")

The primary responsibilities of the Audit Committee are to monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance; to review the Company's internal financial controls and the internal control and risk management systems applicable to the Company; to review annually the need for the Company to have its own internal audit function; to make recommendations to the Board in relation to the re-appointment of the Auditors and to approve their remuneration and terms of engagement; to review and monitor the Auditor's independence and objectivity and the effectiveness of the audit process; and to develop and implement policy on the engagement of the Auditors to supply non-audit services. The Audit Committee currently has responsibility for considering the performance of the Manager in providing company secretarial, accounting, administrative and marketing services provided by the Manager.

Other responsibilities that are currently carried out by the Audit Committee include the review, monitoring and evaluation of key delegated services, Directors' and Officers' liability insurance renewal, dealing costs and efficiency, stock lending limits, custodian arrangements and intellectual property rights.

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

All of the Audit Committee's responsibilities have been carried out at its meetings held over the course of 2005 and in February 2006. 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 Audit Committee meeting 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. The Audit Committee has also reviewed the provision of non-audit services and considers them to be cost effective and in no way 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. The cost, which for 2005 was £43,000 and is found in note 5 on the accounts, is not of a material nature.

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, with the exception of Private Equity investment, 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 Statement 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 matters of 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 and for reviewing their effectiveness. These aim to ensure that 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, compliance and risk management, is embedded in the controls of the Company by a series of monthly investment performance and attribution statements, financial and

Corporate Governance (continued)

risk analysis and Manager's reports, and a quarterly control report. The Company's principal risks are set out on pages 7 and 8. The control report incorporates a key risk table that identifies the risks to which the Company is exposed and the controls in place to mitigate them, and includes those risks that are not directly the responsibility of the Manager and details of any known internal control concerns. The systems of internal controls are designed to manage rather than eliminate risk of failure to achieve business objectives, and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board has carried out a risk and control assessment, including a review of the Manager's risk management infrastructure and the Statement of Internal Corporate Governance for the year ended 31 December 2005 (the "**Statement**") that has been prepared by the Manager for its investment trust clients to the standards of the Financial Reporting and Auditing Group Technical Release 21/94 ("**FRAG21**") issued by the Institute of Chartered Accountants in England and Wales. Containing a report from independent external accountants, the Statement 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 Departments. The Company's Audit Committee will continue to work with the Manager's Audit, Risk and Compliance Department to enhance controls as they affect the Company. As reported above under "Audit and Management Engagement Committee", the Board has concluded that there is no current need for the Company to have its own internal audit function, but will keep this matter under review.

Investment management

The Board has contractually delegated the management of the investment portfolio to the Manager (excluding investments in funds managed by the Private Equity managers) giving the Manager 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 Manager's policy on corporate governance, voting policy and socially responsible investment ("**SRI**") takes as its starting point international codes such as those produced by the Organisation for Economic Co-operation and Development ("**OECD**"), as well as relevant national codes such as the Combined Code of the London Stock Exchange and the New York Stock Exchange corporate governance listing standards. Its approach is also informed by codes relating specifically to corporate responsibility issues, such as the OECD Guidelines for Multinational Enterprises and the Association of British Insurers Disclosure Guidelines on Socially Responsible Investment. In some cases, however, the Manager goes beyond these external codes and standards and this is clearly spelled out in its own guidelines and communicated annually.

The Manager has a dedicated team of 14 professionals, reporting directly to the Manager's Head of Equities, which engages companies directly on corporate governance and social, environmental and ethical practice.

With regard to investment policy, the Manager considers the governance practices of investee companies in their broadest sense, which includes social, environmental and ethical factors where these may affect the Company's financial performance. Following a regular review of governance practices, the Manager will engage in dialogue with the investee companies through its voting and shareholder process, to encourage adoption of better practices. Where the engagement process uncovers evidence of positive or negative impact on company financial valuation, the Manager will consider this information in the course of selecting, holding or disposing of shares. At all times, the driving investment principle remains the maximisation of performance for a given level of risk.

It is the Manager's policy to exercise its voting rights at shareholder meetings of investee companies as far as practicable. In 2005, the Manager voted at over 3,000 meetings in 50 countries, and opposed resolutions in 9% of cases. Decisions on contested takeover bids are always referred to the Company's Board of Directors.

The Manager's current policy, which is available on the F&C website, has been reviewed and endorsed by the Board, which encourages and supports the Manager on its voting policy and its stance towards SRI and shareholder activism. The Board receives periodic reports on the implementation of this policy.

Relations with shareholders

Shareholder communication is given a high priority. Shareholders can receive either an Annual Review and Summary Financial Statement, which is designed to meet the information needs of most investors, or, upon request, a copy of the full Annual Report and Accounts of the Company. At the half-year stage an Interim Report is sent out to all shareholders. Information in updated form is also available on the Foreign & Colonial website at www.foreignandcolonial.com.

A regular dialogue is maintained with the Company's institutional shareholders and private client asset managers and, at annual general meetings, all investors have the opportunity to question 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, in accordance with the Articles of Association, have the right to attend, speak and vote at the meetings. The Board monitors investor complaint levels and will keep under review the Manager's arrangements for "Treating Customers Fairly".

During the year the Chairman wrote to the top 23 institutional shareholders and to 30 of the largest private client asset managers, as a result of which meetings were held with nine of these shareholders, some of which were also attended by the Senior Independent Director and Fund Manager. In total, shareholders representing 40% of the share capital were invited to meet with the Chairman and those owning 7.9% of the share capital took the opportunity to do so. Over the last three years, some 35 institutions and private client asset managers have had meetings or telephone contact with the Chairman, representing approximately 30% of the shares now in issue. Those meetings have been 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 2006. If so required, the Senior Independent Director will attend any meeting on his own, as will any other Director.

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 28 or by e-mailing to FCITCoSec@fandc.com.

List of Investments

Listed Investments	31 December 2005 Holding	Value £'000s
EUROPE EX UK		
Equities		
BELGIUM		
KBC	79,820	4,313
Mobistar	79,842	3,670
Total Belgium		**7,983**
DENMARK		
Danske Bank	170,110	3,471
Trygvesta	80,218	2,354
Total Denmark		**5,825**
FINLAND		
Elisa Communications	64,500	693
Fortum	337,918	3,678
F Secure	1,277,580	1,800
KCI Konecranes	62,980	1,790
Kone	83,452	1,914
Neste Oil	136,773	2,244
Nokia	882,635	9,364
Total Finland		**21,483**
FRANCE		
Accor	61,340	1,957
Aventis	163,760	8,326
AXA	471,555	8,832
BNP Paribas	203,083	9,530
Carrefour	96,874	2,633
Danone	63,157	3,830
Elior	223,590	1,682
France Telecom	241,454	3,479
Iliad	83,580	2,992
Infogrames Entertainment	2,457,017	2,296
LVMH	84,777	4,369
Pernod-Ricard	41,969	4,251
Suez Lyon	253,716	4,585
Total	92,874	13,541
Vivendi Universal	273,033	4,964
Total France		**77,267**
GERMANY		
Aareal Bank	167,432	3,681
Adidas	24,480	2,694
Allianz	80,430	7,074
BASF	73,665	3,273
Bayer	152,490	3,688
Commerzbank	121,505	2,186
Daimler Chrysler	76,730	2,270

Listed Investments	31 December 2005 Holding	Value £'000s
Deutsche Bank	77,651	4,367
Deutsche Telecom	301,951	2,915
E.On	68,671	4,124
Hypo Real Estate	87,856	2,646
Man	84,910	2,626
Metro	104,040	2,924
Munchener Rueckver	64,691	5,077
SAP	33,416	3,545
Siemens	131,530	6,539
Total Germany		**59,629**
GREECE		
Alpha Bank	120,213	2,037
Germanos	189,751	1,854
National Bank of Greece	249,134	6,152
Total Greece		**10,043**
IRELAND		
Bank of Ireland	342,607	**3,107**
ITALY		
Assicurazioni Generali	188,840	3,832
Banche Popolari Unite	15,830	201
Eni	435,041	7,001
Luxottica	138,160	2,031
Telecom Italia	3,857,876	5,547
Unicredito Italiano	2,832,897	11,309
Total Italy		**29,921**
NETHERLANDS		
ING	300,558	6,051
Philips Electronics	329,811	5,949
Unilever	86,460	3,434
Total Netherlands		**15,434**
NORWAY		
Fast Search Transfer	735,500	1,563
Norsk Hydro	82,294	4,906
Petroleum Geoservice	111,260	1,986
Stepstone	989,773	792
Storebrand	365,210	1,830
Total Norway		**11,077**
SPAIN		
Altadis	171,833	4,524
Banco Santander	611,305	4,679
BBVA	579,001	5,987
Indra Sistemas	120,879	1,371
Telefonica	452,597	3,949
Total Spain		**20,510**

Listed Investments	31 December 2005 Holding	Value £'000s
SWEDEN		
Ericsson	3,785,913	7,537
Investor	447,211	4,550
Nordea Bank	498,340	3,009
Total Sweden		**15,096**
SWITZERLAND		
Crédit Suisse	255,517	7,555
EFG International	157,835	2,442
Holcim	58,159	2,298
Nestlé	69,416	12,011
Novartis	528,145	16,095
Richemont	199,130	5,017
Rouche	139,933	12,190
Syngenta	44,157	3,185
UBS	314,242	17,333
Zurich Financial Services	31,539	3,903
Total Switzerland		**82,029**
GENERAL		
F&C Portfolios Fund SICAV:		
European High Yield Bond Fund	1,387,000	**15,067**
TOTAL EUROPE EX UK		**374,471**

EMERGING MARKETS AND DEVELOPED ASIA:

DEVELOPED ASIA (EXCLUDING JAPAN)

Equities

AUSTRALIA		
Alumina	780,000	2,470
BHP Billiton	680,000	6,607
Commonwealth Bank Of Australia	130,000	2,372
Downer Edi	510,000	1,549
Energy Resources of Australia	169,800	715
MacQuarie Insurance Australia	1,140,000	1,724
Orica	320,625	2,795
QBE Insurance	550,000	4,604
Rio Tinto	160,000	4,705
Suncorp Metway	230,000	1,969
Tabcorp	340,000	2,261
Westfield	460,000	3,562
Westpac Banking	280,000	2,716
Woodside Petroleum	204,000	3,415
Total Australia		**41,464**

Listed Investments	31 December 2005 Holding	Value £'000s
HONG KONG		
Cheung Kong	836,000	4,996
Cheung Kong Infrastructure	1,520,000	2,758
CNOOC	9,820,000	3,799
Esprit	425,000	1,758
Hutchison Whampoa	460,000	2,552
Lianhua Supermarket	753,000	407
Ping An Insurance	5,069,000	5,427
Sun Hung Kai Properties	600,000	3,403
Swire Pacific	599,500	3,130
Total Hong Kong		**28,230**
NEW ZEALAND		
Telecom New Zealand	700,000	**1,666**
SINGAPORE		
City Developments	347,000	1,051
Keppel	620,000	2,389
Olam International	13,600,000	7,194
Sembcorp Industrials	2,280,000	2,180
Singapore Telecom	1,975,000	1,799
Total Singapore		**14,613**
SOUTH KOREA		
Amore Pacific	5,146	937
Daelim	48,040	1,993
Daewoo Shipbuilding	141,410	2,245
Daishin Securities	270,040	3,517
GS Engineering & Construction	76,030	2,322
Hyundai Mobiles	56,950	3,032
Hyundai Motors	67,184	3,767
Kookmin Bank	98,580	4,346
Samsung Electronics	44,978	17,080
Samsung Fire & Marine Insurance	51,520	3,800
Samsung SDI	15,128	1,016
Samsung Securities	30,810	1,103
Shinhan Financial	224,050	5,300
SK Corporation	115,330	3,462
Total South Korea		**53,920**
TAIWAN		
Acer	2,729,360	3,994
Asustek Computer	2,706,500	4,848
Cathay Financial	2,808,000	2,958
China Trust Financial Holdings	4,783,855	2,206
Compal Electronics	5,127,156	2,687
Far Eastern Textile	4,362,522	1,706
Hon Hai Precision Industry	2,110,068	6,736

List of Investments (continued)

Listed Investments	31 December 2005 Holding	Value £'000s
Mega Financial	5,062,600	1,917
Taiwan Semiconductor	7,366,631	8,166
Yuanta Core Pacific Securities	1,498,748	607
Total Taiwan		**35,825**
TOTAL DEVELOPED ASIA (EXCLUDING JAPAN)		**175,718**
EMERGING MARKETS		
Equities		
BRAZIL		
All America Latina Logistics	231,300	5,754
Cia Brazilera de Distribuicao ADR	135,700	2,600
Cia Vale Rio Doce PN	257,600	5,381
Petróleo Brasileiro ADR	217,860	8,167
Unibanco GDS	128,900	4,764
Total Brazil		**26,666**
CHILE		
Distribucion y Servicio ADR	126,216	1,414
Enersis ADR	230,300	1,472
Total Chile		**2,886**
CHINA		
China Merchants	2,508,000	3,156
China Netcom	2,200,500	2,033
China Petroleum and Chemical	17,646,000	5,071
China Shenhua Energy	4,576,000	2,922
China Shipping Development	6,490,000	2,755
China Southern Airlines	2,918,000	482
Zhejiang Expressway	10,910,000	3,914
Total China		**20,333**
HUNGARY		
Magar Olaj-es Gazipari	19,879	1,069
OPT Bank	123,325	2,332
Total Hungary		**3,401**
INDONESIA		
Telekomunikasi Indonesia	8,322,500	**2,907**
INDIA		
Gujarat Ambuja Cement	2,124,327	2,188
ICICI Bank	87,800	1,472
Infosys Tech	20,926	812
Reliance Industries	153,168	1,763
State Bank Of India GDR	91,810	2,700
Tata Consultancy Services	137,864	3,037
Total India		**11,972**

Listed Investments	31 December 2005 Holding	Value £'000s
ISRAEL		
Bank Hapoalim	1,269,146	3,433
Check Point Software	147,590	1,725
IDB Holdings	129,747	1,706
Teva Pharmaceutical Industries ADR	165,600	4,149
Total Israel		**11,013**
MALAYSIA		
Maxis Communications	758,300	982
Resorts World	1,680,500	2,901
Total Malaysia		**3,883**
MEXICO		
America Moviles ADR	79,260	1,348
Grupo Modelo	964,900	2,021
Grupo Televisa ADR	31,600	1,478
WalMart de Mexico	1,027,796	3,292
Total Mexico		**8,139**
POLAND		
Bank Polska Kasa Opieki Grupa GDR	38,900	**1,210**
RUSSIA		
Gazprom ADS	57,288	2,389
Lukoil ADR	232,980	7,993
Mobile Telesystems ADR	77,255	1,575
Pyaterochka ADR	164,348	1,382
Surgutneftegaz ADR	39,900	1,241
Vimpel Communications ADR	182,769	4,708
Total Russia		**19,288**
SOUTH AFRICA		
Edgars Consolidated Stores	509,520	1,638
First Rand	2,508,191	4,238
Gold Fields	322,579	3,311
Impala Platinum	25,391	2,169
Imperial Holdings	287,384	3,711
JD	203,404	1,422
MTN	568,199	3,243
Naspers	387,938	3,990
Sasol	275,820	5,712
Standard Bank	313,529	2,183
Telkom South Africa	213,730	2,645
Total South Africa		**34,262**

Listed Investments	31 December 2005 Holding	Value £'000s
THAILAND		
Advanced Info Service	824,700	1,172
Kasikornbank	2,523,700	2,689
Krung Thai Bank	9,627,800	1,505
PTT	720,000	2,312
Shin	2,318,100	1,391
Siam Cement	297,500	1,116
Total Thailand		**10,185**
OTHER		
F&C Emerging Markets Investment Trust*	15,384,975	18,885
F&C Latin American Investment Trust*	8,098,940	22,876
Latin American Extra Yield Fund	965,000	5,789
Total Other		**47,550**
TOTAL EMERGING MARKETS		**203,695**
***TOTAL DEVELOPED ASIA AND* EMERGING MARKETS**		**379,413**
JAPAN		
Equities		
Aioi Insurance	206,000	834
Alps Electric	262,900	2,121
Amada	667,000	3,414
Bank of Fukuoka	109,000	541
Bank of Nagoya	49,000	229
Brother Industries	14,000	85
Canon	213,300	7,263
Canon Sales	54,000	666
Central Glass	239,000	770
Chubu Electric Power	268,800	3,721
Dai Nippon Printing	487,000	5,023
Daiwa Securities	874,000	5,763
Diamond Lease	54,200	1,442
Fuji Electric	498,000	1,536
Fuji Fire & Marine Insurance	460,000	1,024
Fuji Photo Film	165,100	3,178
Gunze	384,000	1,486
Hankyu Department Stores	250,000	1,265
Hitachi	669,000	2,615
Hitachi High Technologies	75,800	1,092
Hitachi Information Systems	21,500	331
Hitachi Software Engineering	84,100	1,025

Listed Investments	31 December 2005 Holding	Value £'000s
Honda Motor	77,000	2,557
Japan Petroleum Exploration	43,600	1,597
Japan Tobacco	5	42
Kirin Brewery	225,000	1,527
Komatsu	325,000	3,120
Kyocera	2,800	118
Kyowa Hakko Kogyo	331,000	1,338
Makita	97,000	1,376
Marubeni	1,276,000	3,986
Matsushita Electric	394,000	4,424
Matsushita Electric Works	111,000	603
Mazda Motor	1,391,000	3,707
Mitsubishi Chemical	127,500	468
Mitsubishi Gas Chemicals	144,000	792
Mitsubishi UFJ Financial	597	4,714
Mitsui Chemicals	769,000	3,010
Mitsui Trust Holdings	285,000	1,992
Mizuho Financial	*1,297*	*5,953*
Nichicon	84,900	651
Nintendo	5,500	387
Nippon Oil	266,000	1,193
Nippon Steel	2,085,000	4,311
Nippon Tel & Tel	2,258	5,940
Nippon Television Network	11,650	1,042
Nippon Yusen	477,000	1,895
Nisshin Seifun	177,000	1,088
Nisshin Steel	262,000	491
Nomura Research Institute	26,300	1,876
NTT Data Corp	1,228	3,551
Ono Pharmaceutical	25,900	681
Otsuka	3,900	250
Sankyo Gunma	9,600	321
Sapporo Hokuyo	162	863
Seino Transportation	59,000	372
Shimachu	51,800	902
Shinko Electric Industries	10,800	474
Shionogi	72,000	590
Sompo Japan Insurance	541,000	4,240
Sony	300,400	7,146
Sumisho Lease	32,200	958
Sumitomo Bakelite	117,000	562
Sumitomo Chemical	1,045,000	4,146
Sumitomo Corp	125,000	933
Sumitomo Electric Industries	259,000	2,276

* Listed in Great Britain

List of Investments (continued)

Listed Investments	31 December 2005 Holding	31 December 2005 Value £'000s
Sumitomo Mitsui Financial	466	2,852
Suzuki Motor	185,200	1,997
Taisho Pharmaceutical	34,000	371
Tanabe Seiyaku	38,000	215
Toho Gas Co	95,000	222
Tohoku Electric Power	169,200	2,004
Tokyu Land	642,000	3,707
Toppan Printing	460,000	3,126
Toyo Suisan Kaisha	78,000	732
Toyota Auto Body	27,000	306
Toyota Motor	116,900	3,496
TV Asahi	262	377
ULVAC	19,300	343
UNY	12,000	110
Yamaha	199,700	1,932
Yamaha Motor	38,000	575
York Benimaru	12,100	229
TOTAL JAPAN		**156,481**
NORTH AMERICA		
Equities		
CANADA		
HUB International	41,366	**622**
UNITED STATES		
Actuant	20,909	679
Adobe Systems	148,400	3,193
Advanced Micro Devices	114,900	2,045
Aetna	77,010	4,228
Airgas	41,674	798
Alleghany	3,312	546
Allied Capital	35,276	602
Allstate	120,570	3,795
Alltel	19,100	701
Altria	98,697	4,295
Amerada Hess	8,000	591
American Capital Strategies	32,767	690
American Electric Power	82,860	1,788
American Equity Investment	43,200	328
American Express	31,200	934
American Financial Realty	110,680	772
American International	66,030	2,624
American Power Conversion	223,580	2,859
American Tower	40,600	641

Listed Investments	31 December 2005 Holding	31 December 2005 Value £'000s
Americas Car-Mart	75,322	723
Ameriprise Financial	9,879	236
Ameritrade	174,950	2,447
Amgen	59,258	2,717
Anadarko Petroleum	35,900	1,980
Andrew	83,304	520
Apollo Investment	61,529	643
Apple Computer	186,990	7,809
Avocent	33,100	524
Axis Capital	39,520	720
Baldor Electric	30,620	457
Bank of America	97,870	2,627
Bankunited Financial	48,335	748
Baxter International	150,280	3,295
Big 5 Sporting Goods	43,383	553
Boeing	35,100	1,434
Boyd Gaming	17,000	472
BP Spons	103,370	3,866
Bristol-Myers Squibb	140,550	1,881
Brunswick	21,320	505
Burlington North Santa Fe	70,460	2,906
Capital One Financial	44,100	2,217
Capitalsource	59,791	775
Caremark RX	176,645	5,328
Carnival	91,887	2,861
CB Richard Ellis	75,050	2,573
Centerpoint Energy	68,520	512
Cerner	8,700	460
Checkers Drive-In Restaurant	89,331	788
Cherokee International	76,626	206
Chevron Corporation	56,370	1,862
Chicago Mercantile Exchange	14,833	3,175
Chicos Fas	109,315	2,794
Cigna	17,640	1,146
Citigroup	144,650	4,087
Cna Surety	54,521	462
Coach	231,570	4,496
Cognizant Technology	122,123	3,572
Community Health Systems	33,786	755
Conagra Foods	148,610	1,755
Conns	52,326	1,123
Conocophillips	156,170	5,283
Corning	343,782	3,937
Cousins Properties	54,772	902

Listed Investments	31 December 2005 Holding	Value £'000s	Listed Investments	31 December 2005 Holding	Value £'000s
Cox Radio	53,268	437	HCC Insurance	43,597	753
Dean Foods	55,250	1,211	Healthsouth	157,570	441
Denbury Resources	47,722	634	Hewlett Packard Co	234,050	3,900
Diageo	56,400	1,915	Hillenbrand Industries	21,570	619
Dollar General	311,200	3,455	Home Depot	27,740	653
Dollar Thrifty Automotive	36,192	760	Honeywell	113,720	2,465
Duke Energy	160,380	2,561	Hovnanian Enterprises	16,600	485
Ebay	123,025	3,098	Hudson City Bancorp	67,700	477
EGL	26,480	579	IBM	19,500	933
Emerson Electric	54,940	2,391	Illinois Tool Works	52,300	2,681
Ensco International	15,800	407	Imperial Tobacco	128,520	4,516
Entergy	78,152	3,125	Intel	115,471	1,674
Express Scripts	57,350	2,799	Invitrogen Corp	16,536	642
F5 Networks	14,600	486	ITT Industries	19,050	1,141
Family Dollar Stores	56,450	814	Jack Henry & Associates	34,200	380
F&C US Smaller Companies*	2,968,169	8,741	Jacobs Engineering	12,400	490
Fedex	14,900	896	Jarden	33,844	594
Firstcity Financial	*54,099*	*362*	*JB Hunt Transport Services*	71,500	941
Firstenergy	26,420	753	Joy Global	15,300	356
Florida Rocks	11,500	329	Juniper Networks	196,775	2,551
Fluor	10,400	467	Kirby	26,153	794
Forest Oil	12,380	329	Lamar Advertising	24,386	655
Foundry Networks	43,400	349	Laureate Education	14,132	432
Franklin Resources	122,290	6,696	Legg Mason	79,150	5,513
Freds	95,285	901	Lehman Brothers	25,165	1,879
Freeport-Mcmoran Copper&Gold	23,100	723	Lifepoint Hospitals	25,130	549
Gannett Company	74,830	2,640	Lithia Motors	47,171	861
Genentech	93,199	5,021	Lkq Corporation	41,434	835
General Dynamics	10,600	703	Loews Corp Carolina	41,440	1,061
General Electric	205,878	4,202	Lowes	111,850	4,340
Genesee & Wyoming	35,501	775	Mac Gray	4,900	33
Genesis Healthcare	20,429	435	Marathon Oil	36,670	1,302
Genuine Parts	26,220	670	Marriott International New A	18,100	706
Getty Images	60,215	3,131	Martin Marietts Materials	8,665	387
Gilead Sciences	100,100	3,065	Mattel	287,450	2,646
GMO US Equity Fund IV	11,306,287	92,663	MBNA	192,580	3,044
Goldman Sachs	59,555	4,425	MDU Resources	26,400	503
Goodrich	60,202	1,439	Medtronic	143,150	4,795
Google	36,175	8,742	Mentor Graphics	89,322	537
Gtech	52,160	961	Mercantile Bankshares	12,985	427
Halliburton	19,200	693	Merrill Lynch	15,000	592
Hartford Financial Services	63,445	3,170	MGIC	28,310	1,085
Harvard Bioscience	123,261	317	Microsoft	214,250	3,259
Harvest Natural Resources	77,066	398	Midland	27,804	583

* Listed in Great Britain

List of Investments (continued)

Listed Investments	31 December 2005 Holding	Value £'000s
Monster Worldwide	95,300	2,265
Moodys	125,015	4,473
Morgan Stanley	28,900	954
Motorola	296,855	3,901
Mueller Industries	38,292	610
Murphy Oil	16,600	522
National Semiconductor	59,800	905
Neustar	31,280	555
New York Community Bancorp	101,100	973
Newfield Exploration	6,500	189
Nokia Oyj	411,830	4,390
Norfolk Southern	32,100	836
Nvidia	11,100	236
Occidental Petroleum	112,713	5,239
Palm Harbour Homes	42,088	458
Partnerre	18,800	715
Paychex	72,625	1,613
Peoples Bank	50,940	921
Pepsico	132,100	4,541
Pervasive Software	128,944	329
Petsmart	33,900	507
Pfizer	340,640	4,623
Pinnacle West Capital	37,220	896
Pogo Producing	12,300	356
Praxair	30,600	944
Price Communications	51,450	445
Pride International	45,398	813
Prudential Financial	42,035	1,792
Psychiatric Solutions	14,400	490
Qualcomm	193,507	4,847
Radian	30,020	1,024
Regis	22,031	495
Republic Services	39,788	870
Reynolds & Reynolds	33,771	551
Reynolds American	20,370	1,129
Roper Industries	30,244	695
Royal Caribbean Cruises	40,440	1,061
Ryder System	42,940	1,024
Sandisk	74,825	2,736
Saxon Capital	73,787	487
Schering-Plough	125,370	1,522
Schwab Charles	84,200	717
SCP Pool	33,242	720

Listed Investments	31 December 2005 Holding	Value £'000s
Service	67,080	318
Sherwin Williams	38,600	1,021
SLM	116,300	3,729
Sourcecorp	43,170	602
South Financial	49,031	785
Southwest Airlines	74,100	709
Southwestern Energy	112,100	2,345
Sri/Surgical Express	17,513	59
St Jude Medical	158,675	4,635
Stanley Works	172,030	4,811
Starbucks	171,225	2,989
Stryker	17,200	445
Sunrise Snr Living	24,588	482
T. Rowe Price	44,155	1,849
Target	104,850	3,357
TCF Financial	41,270	630
Tech Data	44,170	1,019
TNS	55,150	613
Triad Hospitals	33,770	771
Trimble Navigation	24,000	495
Under Armour	7,600	170
United Healthcare	218,024	7,889
Universal Health Services	21,500	585
Universal Truckload Services	35,480	475
Urban Outfitters	108,925	1,605
URS	20,900	457
UST	172,350	4,097
Vail Resorts	22,072	424
Valeant Pharmaceuticals	45,770	481
Verizon Communications	92,050	1,614
Vulcan Materials	8,600	339
Wachovia	22,700	698
Washington Mutual	132,570	3,359
Webex Communications	25,500	321
Wellpoint	224,153	10,405
Wells Fargo	82,010	3,001
Werner Enterprises	43,700	501
Whirlpool	21,400	1,043
Whole Foods Market	71,135	3,205
Willis	48,010	1,033
Winnebago Industries	26,860	520
Wyeth	57,010	1,528
Xcel Energy	57,790	591

Listed Investments	31 December 2005 Holding	Value £'000s
Xilinx	31,100	456
Xl Capital	79,800	3,128
Xm Satellite Radio	30,900	491
Xto Energy	68,920	1,742
Yahoo	270,340	6,167
Zimmer	71,475	2,808
Total United States		**516,585**
TOTAL NORTH AMERICA		**517,207**

UNITED KINGDOM

Equities and convertibles

Listed Investments	31 December 2005 Holding	Value £'000s
888 Holdings	516,504	1,001
Abacus Polar	305,718	313
Acambis	745,359	1,541
Alea	3,225,702	3,347
Anite	1,900,000	1,287
Associated British Ports	993,000	5,824
AstraZeneca	1,100,000	31,108
Autologic	174,896	174
Aviva	280,000	2,608
BAA	3,763,255	23,577
Barclays	2,500,000	15,263
Bespak	215,000	1,085
BG	1,808,286	10,380
BHP Billiton	1,246,000	11,825
Blacks Leisure	329,968	1,634
Bloomsbury Publishing	305,000	1,026
BOC	500,000	5,985
BP	14,600,000	90,301
British American Tobacco	1,900,000	24,681
Brit Insurance	7,274,000	6,456
British Sky Broadcasting	1,704,000	8,452
BSS	388,000	1,233
Burberry	417,850	1,795
Cable & Wireless	1,727,338	2,056
Cairn Energy	518,866	9,957
Cardpoint	501,912	364
Centaur	1,190,000	1,148
Center Parcs	1,380,000	955
Centrica	6,200,000	15,779
Close Brothers	610,000	5,532
CLS	257,831	1,289
Codascisys	297,000	1,235
Compass Group	3,254,000	7,167
Computacenter	1,905,014	4,853
Connaught	190,000	1,842
Cranswick	290,000	1,644
Detica	228,916	2,752
Diageo	1,350,000	11,367
E2V Technologies	611,000	1,511
Emap	600,000	5,175
Ennstone	1,335,122	527
First Choice Holidays	3,375,000	8,429
Friends Provident	2,420,971	4,582
GlaxoSmithKline	4,283,000	62,874
Gus	1,178,200	12,153
Gyrus	543,502	2,064
Havelock Europa	666,459	964
Helphire	533,478	1,834
HSBC	4,091,864	38,157
Imperial Tobacco	399,911	6,942
Intertek	1,670,000	11,632
Johnson Matthey	1,300,400	18,349
La Tasca	800,000	1,106
Lambert Howarth	80,255	158
Land Securities	899,500	14,950
Lasmo Oil Production	140,000	57
Legal & General	21,994,418	26,778
Liberty International	1,100,000	10,780
Lloyds TSB	3,879,000	18,939
Logica CMG	1,900,000	3,363
Luminar	1,718,960	8,328
Maclellan	1,478,338	1,179
Majestic Wine	529,800	1,482
Morgan Sindall	210,000	1,951
Morrison WM Supermarkets	5,766,000	11,142
Mouchel Parkman	415,000	1,136
Neutec Pharma	54,918	246
Office 2 Office	450,000	1,169
Pipex Communications	10,225,600	1,221
Provident Financial	1,700,000	9,299
Punch Taverns	1,400,000	11,879
Rathbone Brothers	170,000	1,686
Raymarine	340,289	823
Reckitt & Benckiser	420,000	8,060
Reed Elsevier	703,000	3,835
Resolution	6,000,000	38,850
Restaurant Group	840,000	1,276

List of Investments (continued)

Listed Investments	Holding (31 December 2005)	Value £'000s (31 December 2005)
Rio Tinto	1,850,000	49,099
Royal Bank of Scotland	1,900,000	33,326
Royal Dutch Shell "A"	569,186	78,447
Royal Dutch Shell "B"	3,681,885	
Sainsbury J.	3,000,000	9,450
Scottish & Southern Energy	2,500,000	25,337
Sondex	909,000	1,898
Spectris	1,166,666	7,385
Spice	496,232	1,290
Standard Chartered	805,000	10,416
Standard Life European	8,000,000	13,140
Ted Baker	209,065	1,077
Teesland	1,652,184	1,508
Tesco	1,440,350	4,771
Torex Retail	1,070,000	1,142
Tullow Oil	3,108,299	8,384
Unite	385,000	1,462
United Utilities	*1,500,000*	*10,058*
Utilico Investment Trust	6,481,367	
Utilico Investment Trust CULS 3.75% 31/12/09	3,299,498	22,433
Utilico Investment Trust Zero Preference	3,824,705	
Utilico Investment Trust Warrants	2,337,927	
Vodafone	45,606,410	57,122
White Young Green	450,000	1,616
Workspace	650,000	2,014
Yell	2,769,000	14,848
TOTAL UNITED KINGDOM		**1,029,945**
TOTAL LISTED INVESTMENTS		**2,457,517**

Unlisted Investments	Holding (31 December 2005)	Value £'000s (31 December 2005)
UNLISTED INVESTMENTS		
UNITED KINGDOM		
Equities		
Cazenove Capital Holdings	1,400,000	3,416
Cazenove Group	1,400,000	
Cazenove New Europe Access Fund	280,800	5,022
Frontiers Capital II L.P	-	1,025
Utilico Emerging Markets	10,000,000	11,285
Utilico Emerging Markets Warrants	2,000,000	
UNITED STATES		
Equities		
US Ventures Series II L.P	199,988	691
EMERGING MARKETS		
Equities		
GP Capital Partners	–	452
PRIVATE EQUITY		
EUROPE		
Pantheon Europe Fund III L.P	€34,576,000	23,757
UNITED STATES		
Harbourvest Partners VII		
-Buyout Fund Partnership L.P	$18,853,000	10,982
-Venture Partnership Fund L.P	$6,935,000	4,039
-Mezzaninine Fund L.P	$1,890,000	1,101
Dover Street VI L.P	$1,849,000	1,077
TOTAL UNLISTED INVESTMENTS		**62,847**
TOTAL INVESTMENTS		**2,520,364**

The total number of companies in the portfolio is 629 (2004: 488). The value of convertible securities in the total portfolio at 31 December 2005 was £7,066,000 or 0.3% of total assets less current liabilities (2004: £5,605,000 or 0.2% of total assets less current liabilities).

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 2005 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, the Directors' Remuneration 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 Directors' Statement of Responsibilities.

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 if, in our opinion, the Report of the Directors is not consistent with the financial statements, if 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 2003 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 Business Review, the Report of the Directors, the unaudited part of the Directors' Remuneration Report and the Corporate Governance statement. 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 judgments 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 2005 and of its return and cash flows for the year then ended; and
- 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP,
Chartered Accountants and Registered Auditors,
London
2 March 2006

Directors' Statement of Responsibilities

As required by company law, the Directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the Company as at 31 December 2005 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 financial statements are prepared in accordance with applicable accounting standards and on a going concern basis. 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 a website maintained by the Company's Investment Manager, F&C Management Limited ("**F&C**"). The maintenance 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. 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.

Analysis of Ordinary Shareholders

Analysis of ordinary shareholders at 31 December 2005

Category	Number of shares	% Holding
F&C savings plans	269,410,381	32.57
Nominee holdings	251,488,335	30.40
Direct individual holdings	132,873,251	16.06
Institutions	173,482,183	20.97
	827,254,150	100.00

Source: RD:IR/F&C Management Limited

Income Statement

Revenue Notes	Capital Notes	*(incorporating the Revenue Account)†* for the year ended 31 December	2005 Revenue £'000s	2005 Capital £'000s	2005 Total £'000s	2004 Revenue £'000s	2004 Capital Restated* £'000s	2004 Total Restated* £'000s
	11	Gains on investments held at fair value	–	481,090	481,090	–	138,145	138,145
	20	Exchange (losses)/gains	(31)	(2,112)	(2,143)	(27)	5,961	5,934
3		Income	66,582	–	66,582	59,656	–	59,656
4		Management and administration fees	(3,522)	(3,910)	(7,432)	(3,453)	(3,651)	(7,104)
	4	Performance fee	–	(2,106)	(2,106)	–	–	–
5	20	Other expenses	(3,513)	(103)	(3,616)	(4,010)	(160)	(4,170)
		Net return before finance costs and taxation	59,516	472,859	532,375	52,166	140,295	192,461
7	20	Interest payable and similar charges	(6,801)	(6,801)	(13,602)	(6,962)	(6,962)	(13,924)
		Return on ordinary activities before taxation	52,715	466,058	518,773	45,204	133,333	178,537
8	20	Taxation on ordinary activities	(3,593)	(13)	(3,606)	(2,911)	(138)	(3,049)
9	9	Return attributable to equity shareholders	49,122	466,045	515,167	42,293	133,195	175,488
9	9	**Return per share – basic (pence)**	5.57	52.87	58.44	4.54	14.28	18.82

† 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.
* Restated for a change in accounting policy (see note 2)

Reconciliation of Movements in Shareholders' Funds

Notes		*Called up* Share Capital £'000s	*Capital* Redemption Reserve £'000s	Capital Reserves £'000s	Revenue Reserve £'000s	*Total* Shareholders' Funds £'000s
	Balance brought forward 31 December 2003 (as previously reported)	237,251	25,511	1,706,739	72,244	2,041,745
	Add back accrued dividend at 31 December 2003	–	–	–	18,031	18,031
	Less investment valuation restatements	–	–	(1,662)	–	(1,662)
25	Balance at 31 December 2003 (restated)	237,251	25,511	1,705,077	90,275	2,058,114
	Dividends paid during 2004	–	–	–	(35,685)	(35,685)
	Shares repurchased by the Company during 2004	(8,998)	8,998	(66,620)	–	(66,620)
	Return attributable to equity shareholders in 2004 (as previously stated)	–	–	133,699	42,293	175,992
	Less investment valuation restatements	–	–	(504)	–	(504)
25	Balance at 31 December 2004 (restated)	228,253	34,509	1,771,652	96,883	2,131,297
10	Dividends paid during 2005	–	–	–	(40,209)	(40,209)
20	Shares repurchased by the Company during 2005	(21,439)	21,439	(192,254)	–	(192,254)
	Return attributable to equity shareholders in 2005	–	–	466,045	49,122	515,167
	Balance carried forward 31 December 2005	206,814	55,948	2,045,443	105,796	2,414,001

Balance Sheet

Notes	at 31 December	£'000s	2005 £'000s	Restated* £'000s	2004 Restated* £'000s
	Fixed assets				
11	*Investments held at fair value*		**2,520,364**		2,302,754
	Current assets				
13	Debtors	**8,446**		5,666	
	Cash at bank	**7,390**		39,261	
		15,836		44,927	
	Creditors: amounts falling due within one year				
14	Foreign currency loans	**–**		(104,172)	
15	Other	**(9,518)**		(1,637)	
		(9,518)		(105,809)	
	Net current assets/(liabilities)		**6,318**		(60,882)
16	**Total assets less current liabilities**		**2,526,682**		2,241,872
	Creditors: amounts falling due after more than one year				
17	Debentures		**(110,575)**		(110,575)
4	Performance fee		**(2,106)**		–
	Net assets		**2,414,001**		2,131,297
	Capital and reserves				
18	Called up share capital		**206,814**		228,253
19	Capital redemption reserve		**55,948**		34,509
20	Capital reserves		**2,045,443**		1,771,652
20	Revenue reserve		**105,796**		96,883
	Total shareholders' funds – equity		**2,414,001**		2,131,297
21	**Net asset value per share – prior charges at nominal value (pence)**		**291.81**		233.44

*Restated for changes in accounting policy see note 2.

Approved by the Board on 2 March 2006 and signed on its behalf by:

M.A. Loveday John Rennocks

Mark Loveday **John Rennocks**

Cash Flow Statement

Notes	for the year ended 31 December		2005		2004
		£'000s	£'000s	£'000s	£'000s
	Operating activities				
	Investment income	64,276		57,530	
	Interest received	1,465		1,219	
	Stock lending fees received	341		593	
	Other revenue	15		11	
	Management and administration fees paid	(6,131)		(6,600)	
	Fees paid to directors	(298)		(283)	
	Other cash payments	(2,618)		(3,936)	
22	**Net cash inflow from operating activities**		57,050		48,534
	Servicing of finance				
	Interest paid	(13,882)		(13,736)	
	Cash outflow from servicing of finance		(13,882)		(13,736)
	Taxation				
	Overseas tax paid	(3,528)		(2,851)	
	Total tax paid		(3,528)		(2,851)
	Financial investment				
	Purchases of equities and other investments	(1,414,703)		(1,143,367)	
	Sales of equities and other investments	1,681,164		1,217,135	
	Other capital charges and credits	(97)		(147)	
	Net cash inflow from financial investment		266,364		73,621
	Equity dividends paid		(40,209)		(35,685)
	Net cash inflow before use of liquid resources and financing		265,795		69,883
	Management of liquid resources				
	Decrease/(Increase) in short-term deposits		35,000		(25,000)
	Financing				
	Net loans (repaid)/raised	(107,976)		20,687	
	Costs of shares repurchased	(191,382)		(66,620)	
	Net cash outflow from financing		(299,358)		(45,933)
23	**Increase/(decrease) in cash**		1,437		(1,050)

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 2004 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 assets investments.

2. Significant accounting policies

(a) Basis of accounting

The accounts of the Company have been prepared under the historical cost convention, modified to include fixed assets 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 2005. Consequently, consolidated accounts have not been prepared.

(b) Changes in presentation

In accordance with the SORP, the Income Statement (formerly called the "Statement of Total Return") has been analysed between a Revenue Account (dealing with items of a revenue nature) and a Capital Account (relating to items of a capital nature).

Revenue returns include, but are not limited to, dividend income and operating expenses and tax (insofar as the expenses and tax are not allocated to capital, as described in note 2 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 no longer reflected in the Income Statement, although they continue to be shown in the Reconciliation of Movement in Shareholders' Funds which is now presented as a primary statement.

(c) Changes in accounting policies

With effect from 1 January 2005, the Company has adopted Financial Reporting Standards (FRS) 21 to 26. The effect of adoption, where it has resulted in a change in a significant accounting policy, is described below.

FRS 21 (Events after the Balance Sheet date) – Dividends paid by the Company are accounted for in the period in which the Company is liable to pay them. Previously, the Company accrued dividends in the period in which the net revenue, to which those dividends related, was accounted for.

FRS 25 (Financial Instruments: Disclosure and Presentation) and FRS 26 (Financial Instruments: Measurement) – The Company has designated its assets as being measured at "fair value through profit or loss". The fair value of fixed asset listed investments is deemed to be the bid value of those investments at the close of business on the relevant date. Previously, all listed investments were valued at mid value.

There have been no other changes to significant accounting policies during the year.

The comparatives for the year ended 31 December 2004 have been restated to give effect to the above changes. Notes 9, 11, 20 and 25 on the accounts further explain the restatements.

2. Significant accounting policies (continued)

(d) 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 by way of note 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.

(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 reserve.

Notes on the Accounts (continued)

2. Significant accounting policies (continued)

(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, including any related irrecoverable VAT, invoiced to the Company in respect of certain Private Equity investments are allocated to capital reserve realised, via the capital account, in accordance with the Board's long-term expected split of returns from those investments;
- 50% of other management fees, including related irrecoverable VAT, and 50% of finance costs (both net of applicable tax relief) which are allocated to capital reserve realised via the capital account, in accordance with the Board's long-term expected split of returns from the investment portfolio (excluding Private Equity investments) of the Company; and
- so much of the performance-related management fees, including related irrecoverable VAT, as is directly attributable to the realised and unrealised returns from investments recognised in the capital account in the period. 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 – realised

The following are accounted for in this reserve:

- gains and losses on the realisation 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 purchasing ordinary share capital.

Capital reserve – unrealised

The following are accounted for in this reserve:

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

3 Income

	2005 £'000s	2004 £'000s
Income from investments		
UK franked dividends	**33,518**	30,330
UK unfranked interest	**311**	1,201
Overseas dividends	**30,341**	26,060
Scrip dividends	**615**	195
	64,785	57,786
Interest on cash and short-term deposits	**1,465**	1,232
Stock lending fees	**317**	591
Underwriting commission	**15**	36
Sundry income	**–**	11
	1,797	1,870
Total income	**66,582**	59,656

Total income comprises:		
Dividends	**64,474**	56,585
Interest from investments	**311**	1,201
Other income	**1,797**	1,870
	66,582	59,656

Income from investments comprises:		
Listed UK	**33,533**	30,360
Listed Overseas	**30,957**	26,276
Unlisted	**295**	1,150
	64,785	57,786

Notes on the Accounts (continued)

4 Management, administration and performance fees

		2005		2004	
		£'000s	**£'000s**	£'000s	£'000s
Payable directly to F&C Management Limited (F&C):					
- in respect of management services provided by F&C	(i)	**5,668**		6,382	
- in respect of Private Equity administration services provided by F&C	(ii)	**6**		10	
- re-imbursement in respect of services provided by Advisers and Sub-Managers	(i)	**1,000**		–	
		6,674		6,392	
- in respect of performance fees	(iii)	**1,998**		–	
			8,672		6,392
Payable directly to Private Equity Managers	(iii)		**395**		208
Incurred indirectly within Funds:					
- managed by Sub-Managers	(iv)	**170**		–	
- managed by Private Equity Managers	(iv)	**701**		467	
			871		467
Irrecoverable VAT suffered on:					
- management and administration fees		**363**		504	
- performance fees		**108**		–	
			471		504
Total direct and indirect management, administration and performance fees			**10,409**		7,571

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

Directly incurred fees are analysed as follows:-

Management and Administration fees	**2005**	2004
	£'000s	£'000s
- payable directly to F&C	**6,674**	6,392
- payable directly to Private Equity Managers	**395**	208
	7,069	6,600
- irrecoverable VAT thereon *	**363**	504
	7,432	7,104
Less: allocated to capital reserve realised	**(3,910)**	(3,651)
Allocated to revenue account	**3,522**	3,453

Performance fees	**1,998**	–
Irrecoverable VAT thereon *	**108**	–
Allocated to capital reserve realised	**2,106**	–

* The proportion of VAT that is irrecoverable is determined broadly by the ratio of outputs (mainly proceeds of sales of investments) within European Union member countries to outputs worldwide.

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

F&C Management Limited, ("**F&C**" or "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 month's notice given by either party; the notice period was reduced from 12 months with effect from 23 February 2005.

For periods up to and including 31 July 2005, the fee for these services was charged quarterly, based upon a three year historic average of assets under management (excluding all holdings in funds or companies managed or advised by the Manager or any of its subsidiaries and excluding holdings in Private Equity partnerships managed by Pantheon Ventures Limited and HarbourVest Partners) as at the relevant calculation date, a date one year before such calculation date and a date two years before such calculation date. The quarterly fee amounted to 0.075% on the first £2,500 million of chargeable assets, reducing thereafter by 0.00625% per £500 million of additional assets to a minimum of 0.0375% on chargeable assets in excess of £5,000 million. 50% of these fees are allocated to capital reserve realised.

4 *Management, administration and performance fees (continued)*

With effect from 1 August 2005, the fee for these services was changed to a fixed fee, charged monthly in arrears, and an amendment was made to the agreement to allow F&C to earn a performance fee (see (c) below). The fixed fee, which is subject to annual review, amounts to £5.65 million per annum, less any fees earned by F&C in each month in respect of all holdings in funds or companies managed or advised by the Manager or any of its subsidiaries. 50% of these fees are allocated to capital reserve realised.

In addition, with effect from 1 August 2005, F&C is re-imbursed by the Company for investment management fees (inclusive of VAT) charged to F&C by Advisers and Sub-Managers appointed in respect of the Company's Japanese and US large and medium cap portfolios, as described on page19. 50% of these fees are allocated to capital reserve realised.

The fees charged by GMO, one of the appointed Sub-Managers, in the period since 1 August 2005 amounting to £170,000, have been charged directly against an underlying investment in GMO US Corp Equity Fund IV.

In addition, F&C received a fee of £6,000 for the period to 31 July 2005 (2004: £10,000) for administration in relation to Private Equity investments managed by Pantheon Ventures Limited and HarbourVest Partners. This fee was charged to the revenue account.

(b) Management fees payable to Private Equity Managers

In respect of Pantheon Europe Fund III, management fees are invoiced directly by Pantheon Ventures Limited, quarterly in advance. The quarterly fee is the pro-rated portion of an annual management fee of 0.65% (2004: 0.65%) of the capital committed by Pantheon Europe Fund III to the underlying funds. These fees are allocated fully to capital reserve realised.

In respect of Private Equity investments managed by HarbourVest Partners LLC, management fees are charged against the underlying investments and are not directly incurred by the Company. The fees, charged by HarbourVest Partners LLC in respect of the Buyout, Venture and Mezzanine funds are, with effect from 1 February 2005, at a rate of 1% (previously 0.75%) of capital commitments. Those charged in respect of Dover Street VI are at a rate of 0.625% of capital commitments. Total fees paid in respect of HarbourVest Partners funds in the year amounted to £701,000 (2004: £467,000) and are not included within management and administration fees above. The fees relating to the Buyout, Venture and Mezzanine funds will not rise beyond 1% and will decline in later years. Those relating to Dover Street VI are expected to rise to a maximum of 1.25% before declining in later years.

(c) Performance fees payable to F&C Management Limited

With effect from 1 August 2005, the management agreement with the Manager was amended to allow it to earn a performance fee based on the "out-performance" of the Company's "net assets" relative to the "Benchmark Index", subject to a share price hurdle.

A fee will be earned if the net asset performance for the period exceeds the Index performance by a minimum of 0.5% (the hurdle rate of 100.5%) and a maximum of 3.5% (the performance fee cap of 103.5%). Such earned fee will be payable to the Manager, upon approval by the Auditors and the Board, as soon as possible after the relevant period end, provided that the Company's ordinary share price at the end of the period exceeds the price at the beginning of the period (the "share price hurdle"). If the share price hurdle is not achieved, the fee becomes deferred for payment until the next period in which the year end share price exceeds the price at the beginning of the period. The amount of the performance fee will be 10% of the out-performance multiplied by the Net Asset Value at the relevant period end.

Performance below the hurdle rate or above the performance fee cap (under- and over-performance respectively) will be carried forward to the subsequent period and included within the performance calculation for that subsequent period.

Net assets are, for the purposes of the calculation, defined as total assets less total liabilities, increased or decreased for "adjusting events". These include, but are not limited to: the difference between the cost and the market value of the debenture stocks; accrued performance-related fees; the cost of share buy-backs in the period; the amount invested in/received from private equity investments in the period; and the cost of dividends paid.

The Benchmark Index is a composite index of the FTSE All-Share Index Total Return (having a weighting of 40 per cent.) and the FTSE World ex UK Index Total Return (having a weighting of 60 per cent.)

The initial period for which a performance fee may be earned is from 1 August 2005 to 31 December 2006. Thereafter, for so long as the Company's annual period end is 31 December, the fee will be payable based on out-performance in annual periods ending on that date.

Notes on the Accounts (continued)

5 Other expenses

	2005 £'000s	2004 £'000s
Auditors' remuneration:		
for audit services	**57**	38
for other services*	**36**	22
Custody fees	**298**	316
Directors' emoluments (see Directors' Remuneration Report on pages 32 and 33):		
fees for services to the Company	**298**	283
AITC subscriptions and promotional activity	**105**	156
Directors and Officers liability insurance	**140**	165
Marketing expenses	**988**	1,257
Private Investor Plan expenses	**708**	966
Loan commitment fees	**85**	199
Registrars fees	**160**	164
Professional charges	**149**	44
Printing and postage	**300**	224
Sundry expenses	**189**	176
	3,513	4,010

* Total Auditors' remuneration, exclusive of VAT, for other services, amounts to £43,000 (2004 :£20,000) of which £11,000 was charged to capital reserve realised.

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

6 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 32 and 33.*

(b) Remuneration from related parties

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

(c) Directors' interests in shares

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

	31 December 2005		31 December 2004	
	Beneficial	Other	Beneficial	Other
Sir Michael Bunbury	97,000	17,500	97,000	17,500
The Rt. Hon. Kenneth Clarke	42,345	–	41,803	–
Ronald Gould*	–	–	–	–
Christopher Keljik	42,063	–	–	–
Mark Loveday	100,000	35,000	100,000	35,000
Ewen Macpherson	14,500	–	14,500	–
John Rennocks	64,986	–	83,843	–
Maxwell Ward	30,000	–	30,000	–
Sir Andrew Wood	34,163	–	33,446	–

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

* Since the year end, Ronald Gould has acquired 1,154 ordinary shares and has made arrangements to purchase shares on a monthly basis through the F&C Private Investor Plan. 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.

6 Directors' remuneration and contracts (continued)

(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 £298,000 (2004: £283,000). Emoluments attributable to the highest paid Director amounted to £56,500 (2004: £48,750).

7 Interest payable and similar charges

	2005	*2004*
	£'000s	£'000s
Debenture stocks	**12,399**	12,399
Foreign currency loans	**1,169**	1,497
Overdrafts	**34**	28
	13,602	13,924
Less: allocated to capital reserve realised (see note 20)	**(6,801)**	(6,962)
	6,801	6,962
The interest on debenture stocks, foreign currency loans and overdrafts is further analysed as follows:		
Loans and overdrafts repayable within one year, not by instalments	**1,203**	1,525
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
	13,602	13,924

8 Taxation on ordinary activities

(a) Analysis of tax charge for the year

			2005			2004
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
	£'000s	**£'000s**	**£'000s**	£'000s	£'000s	£'000s
Corporation tax at 30% (2004: 30%)	**3,230**	**–**	**3,230**	2,973	–	2,973
Relief for overseas taxation	**(3,230)**	**–**	**(3,230)**	(2,973)	–	(2,973)
	–	**–**	**–**	–	–	–
Overseas taxation	**3,639**	**13**	**3,652**	3,118	138	3,256
Precompte - recovery of tax credits	**(46)**	**–**	**(46)**	(207)	–	(207)
Total current taxation (note 7b)	**3,593**	**13**	**3,606**	2,911	138	3,049

Notes on the Accounts (continued)

8 Taxation on ordinary activities (continued)

(b) Factors affecting tax charge for the year

	Revenue	**Capital**	**2005 Total**	Revenue	Restated Capital	2004 Total
	£'000s	**£'000s**	**£'000s**	£'000s	£'000s	£'000s
Return on ordinary activities before taxation	**52,715**	**466,058**	**518,773**	45,204	133,333	178,537
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 30% (2004: 30%)	**15,815**	**139,817**	**155,632**	13,561	40,000	53,561
Effects of:						
UK franked dividends*	**(10,055)**	**–**	**(10,055)**	(9,099)	–	(9,099)
Overseas tax in excess of double tax relief	**(172)**	**–**	**(172)**	(58)	–	(58)
Overseas income not subject to corporation tax	**264**	**–**	**264**	145	–	145
UK income not subject to corporation tax	**–**	**–**	**–**	(3)	–	(3)
Capital returns*	**–**	**(143,693)**	**(143,693)**	–	(43,232)	(43,232)
Precompte - recovery of tax credits	**(32)**	**–**	**(32)**	(145)	–	(145)
Expenses not deductible for tax purposes	**233**	**31**	**264**	312	48	360
Expenses utilised from prior years	**(2,460)**	**–**	**(2,460)**	(1,802)	–	(1,802)
Expenses not utilised in the year	**–**	**3,845**	**3,845**	–	3,184	3,184
Indian tax on capital gains	**–**	**13**	**13**	–	138	138
Total current taxation (note 7a)	**3,593**	**13**	**3,606**	2,911	138	3,049

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

The deferred tax asset of £14.0 million (2004: £12.7 million) in respect of utilised expenses at 31 December 2005 has not been recognised as it is likely that the unrecognised asset will increase in amount in future. Of this amount £1.4 million (2004: £3.8 million) relates to revenue expenses and £12.6 million (2004: £8.9 million) to capital expenses.

9 Return per share

	2005	2004 Restated
	£'000s	£'000s
Total return	**515,167**	175,488
Revenue return	**49,122**	42,293
Capital return	**466,045**	133,195
Weighted average ordinary shares in issue	**881,509,778**	932,793,035

	2004
As previously stated:	£'000s
Total return	175,992
Capital return	133,699

The total and capital returns for the year ended 31 December 2004 have been reduced by £504,000 (0.05 pence per share). This reflects the effect of the reduction in valuation of investments as a result of the change in accounting policy. (See note 25).

10 Dividends

Dividends on ordinary shares	Register date	Payment date	**2005 £'000s**	2004 £'000s
2003 Final of 1.90p	12 March 2004	17 May 2004	**–**	18,031
2004 Interim of 1.90p	13 August 2004	17 September 2004	**–**	17,654
2004 Special dividend of 0.20p	4 March 2005	9 May 2005	**1,810**	–
2004 Final of 2.10p	4 March 2005	9 May 2005	**19,008**	–
2005 Interim of 2.20p	5 August 2005	12 September 2005	**19,391**	–
			40,209	35,685

The Directors propose to pay a final dividend in respect of the year ended 31 December 2005 of 2.55p payable on 24 May 2006 to all shareholders on the register at close of business on 7 April 2006.

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. Previously dividends were recognised in respect of the period to which they related.

The total dividends payable in respect of the financial year which form the basis of Section 842 of the Income and Corporation Tax Act 1988 are set out below:

	2005 £'000s
Revenue available for distribution by way of dividends for the year	**49,122**
Interim dividend for the year ended 31 December 2005 - 2.20p per share	**(19,391)**
Proposed final dividend for the year ended 31 December 2005 - 2.55p per share (estimated cost based on 818,581,950 shares in issue at 2 March 2006)	**(20,874)**
Estimated undistributed revenue for Section 842 purposes*	**8,857**

* Undistributed revenue comprises 13.7% of income from investments of £64,785,000 (see note 3).

11 Investments held at fair value

	Listed £'000s	Unlisted £'000s	Total £'000s
Cost at 1 January 2005	1,761,751	74,502	1,836,253
Unrealised appreciation/(depreciation) at 1 January 2005			
– as previously stated	479,878	(11,211)	468,667
– adjustment for change in accounting policy*	(2,166)	–	(2,166)
Unrealised appreciation/(depreciation) - restated	477,712	(11,211)	466,501
Valuation at 1 January 2005 (restated)	2,239,463	63,291	2,302,754
Movements in the year†			
Purchases at cost	1,424,799	31,205	1,456,004
Sales - proceeds	(1,681,145)	(38,339)	(1,719,484)
- realised gains	84,679	25	84,704
Movement in unrealised appreciation/(depreciation)	389,721	6,665	396,386
Valuation at 31 December 2005	2,457,517	62,847	2,520,364
Cost at 31 December 2005	1,736,967	69,827	1,806,794
Unrealised appreciation/(depreciation)	720,550	(6,980)	713,570
Valuation at 31 December 2005	**2,457,517**	**62,847**	**2,520,364**

* See note 2 and note 25.

† Movements include an in-specie transfer of assets from F&C Portfolios Fund SICAV US Smallcap Portfolio and similar non-cash movements.

Notes on the Accounts (continued)

11 Investments held at fair value (continued)

Gains/(losses) on investments held at fair value	**2005 £'000s**	2004 Restated* £'000s
Realised gains based on historical cost	**234,021**	83,276
Less: amounts recognised as unrealised in previous years	**(149,317)**	(415,664)
Realised gains/(losses) based on carrying value at previous balance sheet date*	**84,704**	(332,388)
Net movement in unrealised appreciation*	**396,386**	470,533
Gains on investments*	**481,090**	138,145

* Investments at 31 December 2004 have decreased in value by £2,166,000, and at 31 December 2003 by £1,662,000, reflecting the change in accounting policy set out in note 2. The net effect of these changes, £504,000, has been adjusted in the net movement in unrealised appreciation in 2004.

Stock lending	**2005 £'000s**	2004 £'000s
Aggregate value of securities on loan at 31 December	**94,251**	154,275
Maximum aggregate value of securities on loan during the year	**266,052**	402,273
Income from stock lending during the year	**317**	591

In respect of securities on loan at the year end, the Company held £99,530,000 (2004: £163,496,000) as collateral, the value of which exceeds the value of the loan securities by 6% (2004: 6%). In respect of the maximum aggregate value of securities on loan during the year, the Company held £279,776,000 (2004: £423,290,000) as collateral, the value of which exceeded the value of the securities on loan by 5% (2004: 5%). F&C received remuneration of £105,000 (2004: £122,000) for managing the Company's stock lending activities.

Investments managed or advised by the F&C Group

Investments include £71.4 million (2004: £83.7 million) of funds and investments managed or advised by the Company's Manager (F&C) or its subsidiaries. These investments represent 2.8% (2004: 3.6%) 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 calculation excludes the value of all such holdings. During the year the Company purchased £0.4 million (2004: £nil) of investments, and received proceeds of £32.9 million (2004: £nil) from the sale of investments, managed by F&C.

Unlisted investments

Unlisted investments include £40,956,000 of investments described as Private Equity, together with £18,475,000 of other investments in Funds or Partnerships, the underlying portfolios of which are comprised principally of unlisted investments. These are valued in accordance with the policies set out in note 2 on the accounts.

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

12 Subsidiaries and substantial interests

Subsidiary undertakings

The consolidation of the subsidiary undertakings is not material for the purpose of giving a true and fair view and hence in accordance with Section 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	At 31 Dec 2005 Holding %	Capital and reserves £'000s
F&C Securities Limited *(dormant - Investment dealing)*	England	100 ordinary shares of £1	100	(538)
Martindale Securities Limited (dormant - venture capital)	England	100 ordinary shares of £1	100	(107)

Substantial interests

At 31 December 2005 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.

	Country of registration and incorporation	Number and class of shares held	Holding %
Investment funds			
Cazenove New Europe Access Fund L.P.	England	–	6.40
Dover Street VI L.P.	USA	–	11.31
F&C Latin American Investment Trust PLC*	England	8,098,940 ordinary shares of $0.10	10.92
F&C Emerging Markets Investment Trust PLC*	Scotland	15,384,975 ordinary shares of 10p	9.27
F&C Portfolios Fund SICAV *			
European High Yield Bond Fund	Luxembourg	1,387,000 shares	†38.41
F&C US Smaller Companies PLC*	England	2,968,169 ordinary shares of 25p	12.53
Frontiers Capital II L.P.	England	–	7.90
GMO US Equity Fund IV	USA	11,306,287 share class IV	19.11
Latin American Extra Yield Fund*	Eire	965,000 shares	45.88
Pantheon Europe Fund III LP	USA	–	44.41
Utilico Emerging Markets Utilities Limited	Bermuda	10,000,000 ordinary shares of 10p	13.33
		2,000,000 warrants	13.33
Utilico Investment Trust plc	England	6,481,367 ordinary consolidated shares of 1.5625p	10.07
		3,299,498 3.75% loan stock 31/12/09	16.45
		2,337,927 warrants	11.84
		3,824,705 zero dividend preference 177.52p shares	8.45
U.S. Ventures Series II	Cayman Islands	199,988 shares	34.25

* Investment funds managed by companies within the F&C Group.

† The holding represents 1.9% of the voting rights in the F&C Portfolios Fund SICAV.

Notes on the Accounts (continued)

13 Debtors

	2005 £'000s	2004 £'000s
Investment debtors	3,728	335
Prepayments and accrued income	4,634	5,261
Overseas taxation recoverable	81	67
Other debtors	3	3
	8,446	5,666

14 Creditors: amounts falling due within one year

Foreign currency loans **Non-instalment debt payable on demand or within one year**	*2005* £'000s	*2004* £'000s
US$60.0m repayable January 2005	–	31,252
US$105.0m repayable January 2005	–	54,690
US$35.0m repayable January 2005	–	18,230
	–	104,172

At 1 March 2006 short-term borrowings totalled £40,840,000. The exchange rate at which short-term debt was converted to sterling is US$1.71675 (31 December 2004: US$1.9199). At 31 December 2005 the Company had committed loan facilities of £40 million expiring in September 2006 and £60 million expiring in October 2006, upon which commitment commissions are charged on any undrawn amounts at commercial rates. The terms of these loan facilities, including those relating to accelerated repayment and costs of repayment, are typical of those normally found in facilities of this nature.

15 Creditors: amounts falling due within one year

Other	2005 £'000s	2004 Restated* £'000s
Investment creditors	5,710	–
Other accrued expenses	3,808	1,637
	9,518	1,637

* see note 25

16 Geographical and industrial classification

(a)

	UK %	North America %	Europe ex UK %	Japan %	EMDA* %	**2005 Total** **%**	2004 Total %
Equities and convertibles							
Resources	10.2	1.2	1.2	0.1	2.5	**15.2**	10.7
Basic industrials	1.1	0.2	0.5	0.6	0.8	**3.2**	3.3
General industrials	0.4	1.1	0.7	1.3	0.4	**3.9**	5.2
Cyclical consumer goods	0.0	0.6	0.3	0.8	0.2	**1.9**	2.0
Non-cyclical consumer goods	6.0	3.9	2.7	0.3	0.6	**13.5**	13.4
Cyclical services	5.6	2.3	0.8	1.0	1.2	**10.9**	12.1
Non-cyclical services							
– including telecoms	3.5	0.5	0.9	0.2	1.2	**6.3**	9.3
Utilities	2.0	0.4	0.5	0.2	0.2	**3.3**	4.0
Financials – including banks	11.1	7.4	5.4	1.4	3.5	**28.8**	25.5
Information technology	0.7	2.6	1.2	0.3	1.8	**6.6**	7.1
Investment trusts and unit trusts	0.8	0.4	0.0	0.0	1.9	**3.1**	3.6
Miscellaneous	0.0	0.0	0.0	0.0	0.9	**0.9**	0.8
Private equity	0.0	0.7	0.9	0.0	0.0	**1.6**	0.8
Total equities and convertibles	41.4	21.3	15.1	6.2	15.2	**99.2**	97.8
Fixed interest stocks	0.0	0.0	0.6	0.0	0.0	**0.6**	1.2
Total investments	41.4	21.3	15.7	6.2	15.2	**99.8**	99.0
Net current assets (excluding loans)	*(0.3)*	*0.4*	*0.0*	*0.0*	*0.1*	***0.2***	*1.0*
Total assets less current liabilities							
(excluding loans)	**41.1**	**21.7**	**15.7**	**6.2**	**15.3**	**100.0**	
2004 Totals	41.8	23.1	15.4	5.4	14.3		100.0

(b)

	UK %	North America %	Europe ex UK %	Japan %	EMDA* %	**2005 Total** **%**	2004 Total %
Net assets 2005	**38.7**	**22.6**	**16.4**	**6.5**	**15.8**	**100.0**	
Net assets 2004	40.8	20.5	17.9	6.0	14.8		100.0

Note: Geographical classification for the investments held as fixed assets is determined by the location of the major part of the investee company's business.

* Emerging Markets and Developed Asia

17 Creditors: amounts falling due after more than one year

Debentures	**2005** **£'000s**	2004 £'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 are secured by floating charges over the assets of the Company and are stated at nominal value. The 11.25% debenture stock 2014 is redeemable at par on 31 December 2014. The market value of debenture stocks at 31 December 2005 was £161,224,000 (31 December 2004: £158,417,000). The terms of the debenture stocks which have been issued, including those relating to accelerated repayment and the cost of repayment, are typical of those normally found in financial instruments of this nature. Covenants contained within the 11.25% debenture stock agreement preclude the Company from having, at any time, borrowings, inclusive of the debentures at cost, in excess of the value of Share Capital and Reserves of the Company (as defined in the agreement).

Notes on the Accounts (continued)

18 Share capital

	Authorised		Issued and fully paid	
		Nominal		Nominal
	Number	£'000s	Number	£'000s
Equity share capital				
ordinary shares of 25p each				
Shares repurchased by the Company	–	–	(85,757,998)	(21,439)
Balance brought forward	1,103,600,000	275,900	913,012,148	228,253
Balance carried forward	1,103,600,000	275,900	827,254,150	206,814

85,757,998 ordinary shares were repurchased and cancelled during the year at a total cost of £192,254,000. Since the year end 8,672,200 ordinary shares have been repurchased at a total cost of £22,749,000.

19 Capital redemption reserve

	2005	2004
	£'000s	£'000s
Transfer from share capital on repurchase of ordinary shares	**21,439**	8,998
Balance brought forward	**34,509**	25,511
Balance carried forward	**55,948**	34,509

20 Other reserves

	Capital reserve – realised £'000s	Capital reserve – unrealised £'000s	Capital reserve – total £'000s	Revenue reserve £'000s
Balance brought forward (as previously reported)	1,295,456	478,362	1,773,818	75,884
add: accrued special dividend				
at 31 December 2004	–	–	–	1,826
add: accrued final dividend				
at 31 December 2005	–	–	–	19,173
Less: investment valuation changes	–	(2,166)	(2,166)	
Balance brought forward (restated)	1,295,456	476,196	1,771,652	96,883
Gains and losses transferred in current year				
Realised gains on investments	84,704	–	84,704	–
Transfer on disposal of investments	149,317	(149,317)	–	–
Increase in unrealised appreciation on investments	–	396,386	396,386	–
Exchange gains and losses on currency balances	7,386	(9,498)	(2,112)	–
Management fees and related VAT (see note 4)	(3,910)	–	(3,910)	–
Performance fee and related VAT (see note 4)	(2,106)	–	(2,106)	–
Interest expense (see note 7)	(6,801)	–	(6,801)	–
Other capital charges and credits	(116)	–	(116)	–
Revenue return attributable to equity shareholders	–	–	–	49,122
Total gains and losses transferred in current year	228,474	237,571	466,045	49,122
Cost of ordinary shares repurchased in year	(192,254)	–	(192,254)	–
Dividends paid in year	–	–	–	(40,209)
Balance carried forward	1,331,676	713,767	2,045,443	105,796

Included within the capital reserve movement for the year is £2,027,000 (2004: £1,233,000) of dividend receipts recognised as capital in nature. £2,161,000 of transaction costs on purchases of investments are included within the capital reserve movements disclosed above (2004: £3,001,000). £2,113,000 of transaction costs on sales of investments are similarly included (2004: £2,718,000).

21 Net asset value per ordinary share

	2005 £'000s	2004 £'000s Restated
Net asset value per share		
(with debenture stocks at nominal value)	**291.81p**	233.44p
Net asset attributable at end of period	**£2,414,001**	£2,131,297
Ordinary shares of 25p in issue at end of year	**827,254,150**	913,012,148

The amounts as previously stated are detailed in note 25. Net asset value per share cum dividend (with debenture stocks at market value) was 285.69p (31 December 2004: 228.20p). The market value of debenture stocks at 31 December 2005 was £161,224,000 (31 December 2004: £158,417,000).

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

	2005 £'000s	2004 £'000s
Total return before finance costs and taxation	**532,375**	192,461
Adjust for returns from non-operating activities		
- Gains on investments held at fair value	**(481,090)**	(138,145)
- Exchange gains and losses of a capital nature	**2,112**	(5,961)
- non-operating expenses of a capital nature	**103**	160
Return from operating activities	**53,500**	48,515
Adjust for non cash-flow items		
- Exchange gains and losses of a revenue nature	**31**	27
- Decrease/(increase) in accrued income	**206**	(109)
- Decrease in prepayments	**46**	20
- Increase in creditors	**3,959**	276
- Scrip dividends	**(616)**	(195)
- Effective yield adjustment	**(76)**	–
Net cash inflow from operating activities	**57,050**	48,534

23 Reconciliation of net cash movement to movement in net debt

	2005 £'000s	2004 £'000s
Net cash movement	**1,437**	(1,050)
(Decrease)/increase in short-term deposits	**(35,000)**	25,000
Decrease/(increase) in loans	**107,976**	(20,687)
Change in net debt resulting from cash flows	**74,413**	3,263
Exchange movement	**(2,112)**	5,961
Movement in net debt in the year	**72,301**	9,224
Net debt brought forward	**(175,486)**	(184,710)
Net debt carried forward	**(103,185)**	(175,486)

Represented by:	Balance at 1 January 2005 £'000s	Cashflow £'000s	Exchange movement £'000s	Balance at 31 December 2005 £'000s
Cash at bank	4,261	1,437	1,692	7,390
Short-term deposits	35,000	(35,000)	–	–
	39,261	(33,563)	1,692	7,390
Foreign currency loans	(104,172)	107,976	(3,804)	–
Debentures	(110,575)	–	–	(110,575)
	(175,486)	74,413	(2,112)	(103,185)

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.

	2005 Currency	2004 Currency	**2005 £'000s**	2004 £'000s
HarbourVest Partners VII:-				
- Buyout Partnership Fund L.P.	**US$59.7m**	US$69.8m	**34,758**	36,361
- Venture Partnership Fund L.P.	**US$23.0m**	US$27.2m	**36,726**	14,141
- Mezzanine Fund L.P.	**US$10.0m**	US$10.9m	**5,823**	5,688
Dover Street VI L.P.	**US$63.1m**	–	**36,726**	–
Pantheon Europe Fund III L.P.	**€84.4m**	€96.1m	**57,998**	68,064
Cazenove New Europe Access Fund L.P.	**£5.7m**	£8.1m	**5,691**	8,051
Frontiers Capital II L.P.	**US$0.02m**	US$0.02m	**9**	8
Vesta Capital Partners L.P.	–	US$0.03m	**–**	141
			177,731	132,454
Uncalled liabilities on nil and partly - paid holdings	£4.3m	£2.3m	**4,338**	2,737
			182,069	135,191

Since the year end a further US$4.05m (£2.36m) has been committed in respect of the Dover Street VI L.P.

25 Restatement of opening balances

A reconciliation is given between the balances at 31 December 2004 and 31 December 2003, as previously reported, and the respective restated balances following adoption of revisions to UK GAAP.

Notes		Previously *reported* 2004 £'000s	Adjustment £'000s	*Restated* 2004 £'000s	Previously *reported* 2003 £'000s	Adjustment £'000s	*Restated* 2003 £'000s
	Fixed assets						
a	Investments held at fair value	2,304,920	(2,166)	2,302,754	2,240,369	(1,662)	2,238,707
	Current assets						
	Debtors	5,666	–	5,666	5,495	–	5,495
	Cash at bank and short term deposits	39,261	–	39,261	15,913	–	15,913
		44,927	–	44,927	21,408	–	21,408
	Creditors: amounts falling due within one year						
	Foreign currency loans	(104,172)	–	(104,172)	(90,048)	–	(90,048)
b	Other	(22,636)	20,999	(1,637)	(19,409)	18,031	(1,378)
		(126,808)	20,999	(105,809)	(109,457)	18,031	(91,426)
	Net current liabilities	(81,881)	20,999	(60,882)	(88,049)	18,031	(70,018)
	Total assets less current liabilities	2,223,039	18,833	2,241,872	2,152,320	16,369	2,168,689
	Creditors: amounts falling due after more than one year						
	Debentures	(110,575)	–	(110,575)	(110,575)	–	(110,575)
	Net assets	2,112,464	18,833	2,131,297	2,041,745	16,369	2,058,114
	Capital and reserves						
	Called up share capital	228,253	–	228,253	237,251	–	237,251
	Capital redemption reserve	34,509	–	34,509	25,511	–	25,511
a	Capital reserves	1,773,818	(2,166)	1,771,652	1,706,739	(1,662)	1,705,077
b	Revenue reserve	75,884	20,999	96,883	72,244	18,031	90,275
	Total shareholders' funds - equity	2,112,464	18,833	2,131,297	2,041,745	16,369	2,058,114
	Net asset value per ordinary share - pence	231.37	2.07	233.44	215.15	1.72	216.87

Notes to the restatement of opening balances

a Effect of revaluation of fixed asset investments from mid to bid value.

b Effect of not recognising the proposed final and special dividends declared after the balance sheet date.

26 *Fund risk profile*

The Company is an Investment Company and 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. In so doing, the Company is exempted from corporation tax on capital gains on its portfolio of investments.

The Company's investment objective is to secure long-term growth in capital and income through a diversified international portfolio of equities, with the use of gearing. The large number of listed investments held in the Company's portfolio (over 600 at 31 December 2005), together with the industrial and geographical diversity of the portfolio (shown on pages 40 to 48 and in note 16 on the accounts) enables the Company to spread its risks with regard to liquidity, market volatility, currency movements and revenue streams. In addition, 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 and markets in which it is invested, without having to be concerned about short-term volatility. The Company does not normally invest in derivative products.

The Company's principal financial risks, and the Directors' approach to management of those risks, are set out in the table on page 73.

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. Under these policies, all financial assets are carried at fair value. Financial liabilities are also stated at fair value, except as noted in respect of the Debenture Stocks in note 17 on the Accounts. The Company does not make use of hedge accounting rules.

Details of the interest rate profiles of the Company's financial assets and liabilities are set out below, together with the currency exposures of the net monetary assets/(liabilities).

Financial Assets

The interest rate profile of the Company's financial assets (excluding short-term debtors) at **31 December 2005** was:

Currency	Floating rate financial assets £'000s	Fixed rate financial assets £'000s	Effective yield %
US dollars (undated)	8,037	–	–
Sterling (undated)	(1,451)	4,487	6.04
Other (undated)	804	–	–

The Company's investments in equity shares and similar instruments have been excluded from the interest rate risk profile, as they do not pay interest nor do they have maturity dates.

The floating rate financial assets comprise sterling bank deposits that earn interest based on the six-month London Inter Bank Offer Rate (LIBOR) and foreign currency bank deposits that earn interest at competitive rates set by JP MorganChase.

The interest rate profile of the Company's financial assets (excluding short-term debtors) at 31 December 2004 was:

Currency	Floating rate financial assets £'000s	Fixed rate financial assets £'000s	Effective yield %
Euro (undated)	41	–	–
US dollars (undated)	130	–	–
Sterling (undated)	1,805	–	–
Sterling (fixed period)	–	35,000	4.73
Sterling long-term (fixed period)	–	17,520	9.35
Taiwan dollar (undated)	1,229	–	–
Israel shekel	574	–	–
Other	482	–	–

Notes on the Accounts (continued)

26 Fund risk profile (continued)

Financial Liabilities

The interest rate profile of the Company's financial liabilities (including loans and debentures but excluding other short-term creditors) at **31 December 2005** was:

Currency	Floating rate financial liabilities £'000s	Fixed rate financial liabilities £'000s	Effective yield %
Sterling	–	110,575*	11.21
Maturity analysis:			
Payable on demand within one year			
Payable in more than five years	–	110,575	

* £575,000 is perpetual debt

The maturity analysis of loans and debentures is set out in note 7.

The interest rate profile of the Company's financial liabilities (including loans and debentures but excluding other short-term creditors) at 31 December 2004 was:

Currency	Floating rate financial *liabilities* £'000s	Fixed rate financial *liabilities* £'000s	Effective *yield* %
US dollars	–	104,172	2.54
Sterling	–	110,575*	11.21
Maturity analysis:			
Payable on demand within one year		104,172	
Payable in more than five years		110,575	

* £575,000 is perpetual debt

The maturity analysis of loans and debentures is set out in note 7.

Currency Exposure

The profile of the Company's net monetary assets/(liabilities) at 31 December, by currency, was:

	€	¥	US$	Other £'000s	Total £'000s
2005: Net monetary assets/(liabilities)	(949)	557	10,242	1,760	11,610
2004: Net monetary assets/(liabilities)	41	58	(102,956)	2,666	(100,191)

Fair Value

The Directors are of the opinion that the financial assets and liabilities of the Company are stated at fair value in the balance sheet with the exception of the debenture stocks which are stated at par in accordance with FRS4. The market value of debenture stocks at 31 December 2005 was £161,224,000 (2004: £158,417,000) – see note 17.

Management of Financial Risks

Risk	Management of Risk
Credit Failure by counterparties to deliver securities which the Company has paid for, or to pay for securities which the Company has delivered.	All transactions are settled on the basis of delivery against payment, except where local market conditions do not permit. Payments relating to Private Equity investments are made only to counterparties with whom a contracted commitment exists. Securities are loaned to third parties only in exchange for collateral which exceeds the value of the securities throughout the duration of the loan. Only approved counterparties are used.
Liquidity Difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments and share buy-backs.	The Company's investments are principally listed equities and are for the most part readily realisable. All securities are held in the name of the Company by the Company's appointed custodian. The Company has the power to take out borrowings, both short-term and long-term. In addition, at 31 December 2005, the Company had an overdraft facility of £2 million and committed loan facilities of £100 million. Covenants relating to these borrowings are continuously monitored. Cash and deposits are held with banks rated AA or higher.
Market Price The Company's assets consist principally of listed equities, the values of which are determined by market forces.	The Board manages the market price risks inherent in the Company's portfolio by ensuring full and timely access to relevant information from the Manager. The Board meets regularly and at each meeting reviews investment performance and financial results.
Interest Rate Assets, liabilities and net revenue may be affected by interest rate movements.	The Company's assets may include fixed interest stocks, the values of which are regularly reviewed by the Board. The Company finances part of its activities through loans and debentures, in currencies and at levels and interest rates approved by the Board. The effect of interest income and costs on net revenue is monitored monthly by the Board.
Currency Certain of the Company's assets and liabilities are denominated in currencies other than sterling. As a result, movements in exchange rates may affect the sterling value of the portfolio, cash, investment purchases and sales and income.	Income denominated in foreign currencies is converted to Sterling on receipt. Borrowings are limited to currencies and amounts commensurate with the asset exposure to those currencies. The Company does not normally hedge its foreign currency exposure through derivatives.
Taxation Non-compliance with the rules of S842 of the Income and Corporation Taxes Act 1988 could result in the Company being subjected to corporation tax on gains realised on sale of the investment portfolio.	All investment movements are monitored by the Board to ensure that no purchase results in any one investment being worth more than 15% of the total value of the portfolio. The Board also considers the level of forecast income and expenditure in order to ensure that income is derived mainly from shares and securities and that the proposed dividends payable to shareholders do not result in breach of S842 retention rules.

Ten Year Record

Assets

at 31 December

£m	1995	1996	1997	1998	1999	2000	2001	2002	2003*	2004*	**2005**
Total Assets less current liabilities (excl loans)	1,814	1,951	2,251	2,592	3,234	3,137	2,573	1,915	2,259	2,346	**2,527**
Prior charges (incl loans)	128	181	113	202	212	208	218	218	201	215	**110**
Available for ordinary shares	1,686	1,770	2,138	2,390	3,022	2,929	2,355	1,697	2,058	2,131	**2,417**

Net Asset Value

at 31 December

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	**2005**
NAV per share	160.4p	168.4p	203.4p	227.4p	296.2p	296.9p	248.1p	178.9p	216.9p	233.4p	**291.8p**
NAV total return on 100p - 5 years (per AITC)											**106.1p**
NAV total return on 100p - 10 years (per AITC)											**207.8p**

Share Price

at 31 December

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	**2005**
Mid-market price per share	162.0p	150.3p	175.8p	188.3p	247.5p	267.5p	221.5p	163.0p	188.5p	194.5p	**258.5p**
Discount/(premium) to NAV %	(1.0)	10.7	13.6	17.2	16.4	9.9	10.8	8.9	13.1	16.7	**11.4**
Share price High	162.5p	169.5p	185.5p	210.0p	247.5p	288.5p	272.5p	235.0p	191.8p	196.0p	**259.0p**
Share price Low	125.5p	147.3p	147.5p	153.3p	188.3p	229.8p	180.5p	150.0p	141.0p	163.0p	**188.0p**
Share price total return on 100p - 5 years (per AITC)											**106.6p**
Share price total return on 100p - 10 years (per AITC)											**188.0p**

Revenue

for the year ended 31 December

£'000s	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Available for ordinary shares	24,480	29,178	30,060	34,181	39,100	37,542	38,294	38,758	40,893	42,293	**49,122**
Earnings per share	2.33p	2.78p	2.86p	3.25p	3.76p	3.76p	4.03p	4.08p	4.31p	4.54p	**5.57p**
Dividends per share	2.07p	2.28p	2.51p	2.77p	2.90p	3.10p	3.30p	3.50p	3.70p	4.20p	**4.75p**

Performance

(rebased at 31 December 1995)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	**2005**
NAV per share	100.0	105.0	126.8	141.8	184.7	185.1	154.7	111.5	135.2	145.5	**181.9**
Mid-market price per share	100.0	92.8	108.5	116.2	152.8	165.1	136.7	100.6	116.4	120.1	**159.6**
Earnings per share	100.0	119.3	122.7	139.5	161.4	161.4	173.0	175.1	185.0	194.8	**239.2**
Dividends per share	100.0	110.1	121.3	133.8	140.1	149.8	159.4	169.1	178.7	202.9	**229.5**
RPI	100.0	102.4	105.7	109.3	111.0	114.2	116.3	118.2	121.6	125.2	**128.8**

* Restated for changes in accounting policies

Cost of running the Company

for the year ended 31 December

%	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	**2005**
Management fees as a percentage of:											
Average total assets	0.26	0.26	0.24	0.24	0.24	0.25	0.32	0.38	0.36	0.30	**0.30**
Other operating costs as a percentage of:											
Average net assets	0.22	0.16	0.14	0.14	0.17	0.20	0.22	0.21	0.24	0.22	**0.15**
Average total assets	0.20	0.15	0.13	0.14	0.16	0.18	0.20	0.18	0.22	0.20	**0.14**
Total operating costs as a percentage of:											
Average net assets	0.52	0.44	0.40	0.40	0.42	0.46	0.57	0.63	0.64	0.55	**0.48**
Average total assets	0.46	0.41	0.37	0.38	0.40	0.43	0.52	0.56	0.58	0.50	**0.45**

Gearing

at 31 December

%	1995	1996	1997	1998	1999	2000	2001	2002	2003*	2004*	**2005***
Effective gearing	5.5	4.7	1.8	0.3	4.1	4.6	5.7	8.1	8.3	7.6	**4.4**
Fully invested gearing	7.4	10.1	5.2	8.3	7.0	7.1	9.3	12.8	9.8	10.1	**4.6**

* restated for changes in accounting policies

Definitions

Prior charges	All debentures, loans, overdrafts, used for investment purposes.
Management fees	All management fees (excluding performance fee accruals) charged to revenue and capital excluding VAT.
Operating costs	All costs charged to revenue and capital, 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.
Price total return	Return to the investor on mid-market prices assuming that all dividends received were reinvested.
AITC	Association of Investment Trust Companies.
Discount to NAV/premium	Based on Net Asset Value with prior charges at balance sheet value.

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 and Germany can obtain share prices from leading newspapers in those countries.

Performance Information

Information on the Company's performance is provided in the interim and final reports which are sent to shareholders in August and April respectively.

More up-to-date performance information is available on the Internet at www.foreignandcolonial.com under 'Prices and Performance'. 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.

Summary Financial Statement

An Annual Review and Summary Financial Statement for the year ended 31 December 2005 is obtainable during normal working hours from the Company's Registered Office at Exchange House, Primrose Street, London EC2A 2NY. This document contains the Chairman's Statement and the Business Review, together with a Summary Report of the Directors and their compliance with the Combined Code on Corporate Governance, Directors' Remuneration Report, Summary Income Statement, Summary Reconciliation of Movement in Shareholders' Funds, Summary Balance Sheet and Notes. It does not contain sufficient information to allow as full an understanding of the results and state of affairs of the Company as is provided by the full Annual Report and Accounts.

The full Annual Report and Accounts and Annual Review and Summary Financial Statement are also published on the Internet at www.foreignandcolonial.com.

Association of Investment Trust Companies ("AITC")

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

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 £8,500 in the tax year ended 5 April 2006 (tax year ending 5 April 2007: £8,800) without incurring any tax liability.

Up to April 1998, the cost of investments for CGT purposes was adjusted to allow for inflation between the month of acquisition and the month of disposal of the investments. For investments held at 6 April 1998 and disposed of after that date, this indexation allowance will be computed for the period from the date of acquisition to April 1998, with taper relief applying after April 1998. For assets acquired on or after 6 April 1998, only taper relief applies. The taper reduces the amount of chargeable gain according to the number of complete years after 5 April 1998 for which the investment has been held.

For UK investors who acquired Foreign & Colonial Investment Trust stock prior to 31 March 1982, the costs for CGT purposes, based on the price at that date, adjusted for capital changes, are as follows:

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

Income Tax

The proposed final dividend of 2.55p per share is payable on 24 May 2006. 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.

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 also buy Foreign & Colonial Investment Trust shares using a bank or 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 also 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 Squaregain one of Europe's biggest on-line stockbrokers.

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

Private Investor Plan ("PIP")

It only costs 0.2% (plus 0.5% Government Stamp Duty) to invest in 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 on-line.

Pension Savings Plan ("PSP")

You can maximise your tax benefits and save for your retirement using this low cost Personal Pension Plan. 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. 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 £300 for lump sums once you have invested your voucher.

Individual Savings Account ("ISA")

You can invest up to £7,000 each year in F&C's Maxi ISA, or £4,000 in the Mini ISA – the minimum monthly Direct Debit is £50, minimum lump sum investment is £500 and the minimum top-up is £250. Investments in the ISA can be made on-line.

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.

Personal Equity Plan ("PEP")

Although PEPs are no longer available for new subscriptions you can transfer investments from one manager to another, subject to Inland Revenue requirements.

F&C's fixed rate charging structure provides excellent value for money as you pay one fixed annual management fee no matter how many Investment Trust PEPs or ISAs you hold with F&C.

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.

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

Investor Services on

0800 136 420 info@fandc.com

or Broker Support on

08457 992 299 adviser.enquiries@fandc.com

(UK calls charged at the local rate)

Fax **0131 243 1330**

You can also find more information on the website:

www.fandc.com

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

Investor Services Team, F&C Management Limited,

80 George Street, Edinburgh EH2 3BU

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

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

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

Registrars:
Computershare Investor Services PLC,
PO Box 82, The Pavilions, Bridgwater Road,
Bristol BS99 7NH
Tel: 0870 702 0130 Fax: 0870 703 6143
www.computershare.com
web.queries@computershare.co.uk