F&C Capital and Income Investment Trust PLC

Report and Accounts

2006

Objective

Our objective at F&C Capital and Income Investment Trust PLC is to secure long-term capital and income growth from a portfolio consisting mainly of FTSE All-Share companies.

Financial Highlights

Summary of Results

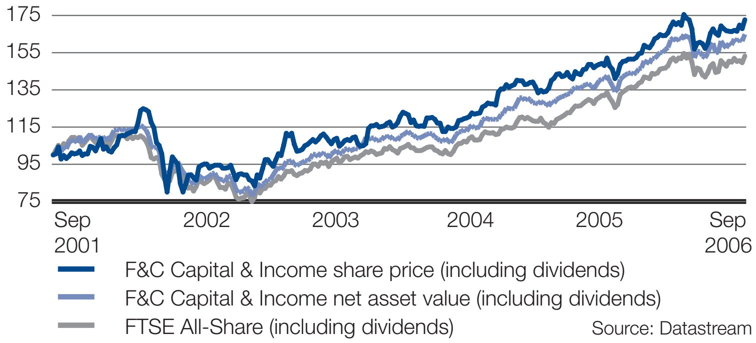
Attributable to ordinary shareholders	30 September 2006	30 September 2005	% Change
Net assets	**£200.76m**	*£179.35m	+11.9
Net asset value per share	**249.03p**	*220.39p	+13.0
Net revenue after tax†	**£5.88m**	£4.05m	+45.2
Return per share – revenue†	**7.25p**	6.56p	+10.5
Dividends per share	**6.50p**	5.80p	+12.1
Share price	**233.50p**	211.25p	+10.5

* Restated to reflect changes in accounting policies (see note 2 on the accounts)

† The results for the year ended 30 September 2006 are not directly comparable with the corresponding prior year as a consequence of the merger of the Company with F&C Income Growth Investment Trust PLC (FIGIT) on 5 May 2005.

Total returns over five years

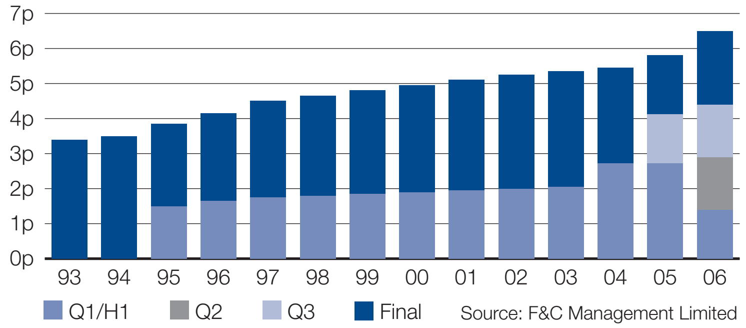
September 2001 to September 2006
Rebased to 100 at September 2001



Source: Datastream

Dividends per share – pence

1993 to 2006



Source: F&C Management Limited

Following the merger with FIGIT on 5 May 2005 the Company commenced paying quarterly dividends.

Contents

Financial Calendar

Annual General Meeting	**30 January 2007**
Final dividend payable	**2 February 2007**
First interim dividend payable	**March 2007**
Interim results for 2006/2007 announced	**May 2007**
Second interim dividend payable	**June 2007**
Third interim dividend payable	**September 2007**
Final results for 2006/2007 announced	**November 2007**

Registered in England with Company Registration No. 2732011

Chairman's Statement

Dear Shareholder

The year to 30 September 2006 again saw a period of good performance from the UK stock market, and the performance of your Company reflected this. Over the last twelve months the FTSE All-Share index rose by 11.1%, while the net asset value (NAV) per share and share price of your Company rose by 13.0% and 10.5% respectively.

The Directors are recommending a final dividend of 2.1 p per share to give a total for the year of 6.5p per share, an increase of 12.1% on the previous year.

Capital Performance

Your Company's asset performance last year was encouraging with a return of 13.0%, ahead of its main benchmark, the FTSE All-Share Index. The market continued to rebound from the bear market of 2000 to 2003, and your Company, while being more resilient throughout that downturn, has also recovered more rapidly than the index in recent years. Over the medium and long term, results are well ahead of the FTSE All-Share benchmark index.

The UK stock market has been driven upwards by a combination of strong earnings and dividend growth while interest rates and bond yields have remained at low levels. These conditions have led to improved sentiment towards equities and to continued merger and acquisition activity as companies and private equity investors have taken advantage of cheap finance.

The Manager's Review, which follows, examines more thoroughly the performance of the UK and European stock markets and your Company's holdings. There is further commentary by industry classifications in the review of the Investment Portfolio by Sector.

Revenue and Dividend

The merger with F&C Income Growth Investment Trust (FIGIT) in May 2005, was very positive for your Company, but it complicates comparisons between the year under review and previous years. This year's figures show the effects of the merger for a full twelve months, but those for last year reflect them for less than five months. This accounts for much of the increase in revenues and costs between the two periods. The best indicator is the revenue return per ordinary share as this shows the dividend paying capacity of the Company. This increased by 10.5% to 7.25p per share (following an increase of more than 20% in the previous year) and largely reflects the strong corporate dividend growth over the past year.

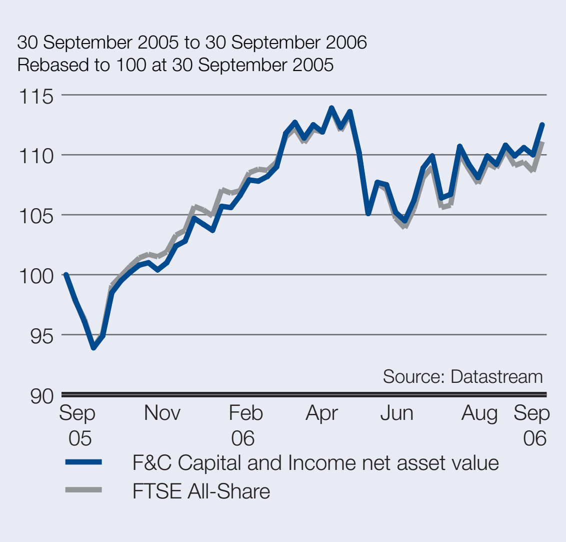
Against this background the Directors are recommending to shareholders a final dividend of 2.1p per share. This, together with the three quarterly dividends already paid of 4.4p per share in total, gives a dividend for the year as a whole of 6.5p per share. The rate of growth in the total dividend of more than 12% is well ahead of the rate of underlying inflation (RPI-X) of 3.2% and of the headline rate of 3.6% (RPI) for the year to 30 September 2006.

Share Price Performance and Discount

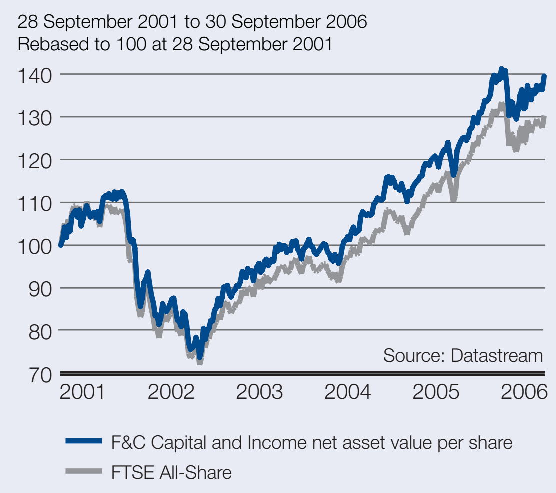
The rise in NAV per share was greater than that of the FTSE All-Share index, but the rise in the share price was a little less. The shares ended the year trading at a discount 2% wider than at the start of the year.

Whilst the change in NAV measures exactly the performance of the investment portfolio after all costs, the share price reflects supply and demand for the Company's shares and therefore often does not track the NAV movement precisely. To help strengthen the relationship between the two, the Directors remain committed to ensuring that the Company's shares should not stand at a material discount to NAV. This commitment has been shown by an active share buy-back programme resulting in the purchase of 760,011 shares during the year at an average price of 215.3p per share.

Net asset value performance over one year



Net asset value performance over five years



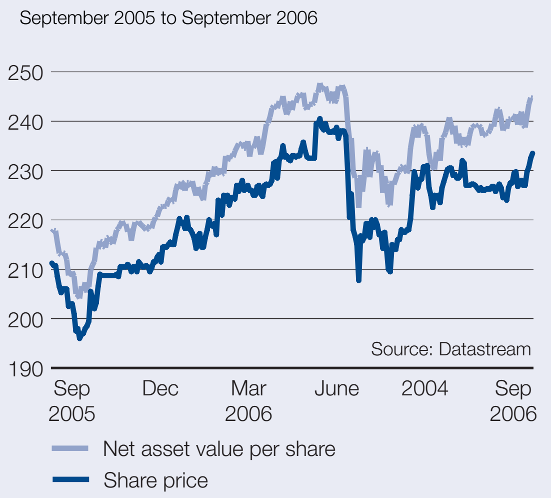
Gearing

Throughout the year, your Company had modest borrowings which were never greater than £14m. As the total return on the additional assets of the portfolio exceeded the interest cost incurred, the use of gearing was advantageous for shareholders.

Shareholders

Your Board recognises the attractions of a broadly spread shareholder base and this has widened considerably over the last 18 months. Before the merger with FIGIT more than two-thirds of the 8,000 investors in your Company held their shares within Personal Equity Plans. Although most are long-term investors, the dependence on one particular tax wrapper which is closed to new investment meant that the shareholder base was unbalanced. Since the merger the number of investors has increased from nearly 16,000 to 20,000, with more than 4,000 in each of the F&C Private Investor Plan and the F&C Child Trust Fund and the numbers continue to grow fairly rapidly.

Share price and NAV per share



Annual General Meeting

This year's Annual General Meeting will be held on Tuesday, 30 January 2007 at 11:30 am. As in previous years there will be a presentation by the Manager on investment policy and future prospects and I hope to welcome as many of you to the meeting as possible.

Prospects

Headline stock market valuations are moderately attractive with growth in earnings and dividends expected to continue, albeit at a slower rate than in the past. Inflation, although increasing a little, is far from the worrying levels of earlier decades, and unemployment levels are low. However concerns remain, and fall broadly under two headings. First, that the current phase of economic expansion has been long-lived. Amongst other things, this has encouraged greater risk-taking behaviour by some financial institutions and a considerable accumulation of personal debt, which could prove to be a problem if economic circumstances become less benign. Secondly, the impact of geopolitics; instability in the Middle East and terrorism have the potential to cause severe economic and financial disruption. Despite these concerns, on balance we are cautiously optimistic for the market and your Company's performance over the coming twelve months.

P.H. Kent

Pen Kent

November 2006

Manager's Review

Review of the Stock Market

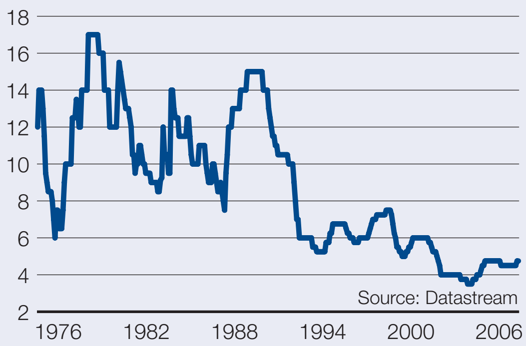
Last year's upward move in the stock market continued to build on the recovery from the bear market that ended in the spring of 2003. The FTSE All-Share index fell from its peak in September 2000 by more than 50% and has subsequently risen by more than 90% from the trough. This put the index level, as at 30 September 2006, less than 7% away from its previous peak.

The rise in the market has arguably been driven by two main factors. First, the very strong increase in corporate earnings and cash flows, and secondly, the low cost of borrowing. Since the trough at the end of the first quarter in 2003, earnings have increased considerably faster than the index as the benefits of earlier restructuring and a benign economic environment have come through. In addition, with more than 20% of the index in oil and mining stocks, the UK index has seen strong profit growth on the back of surging commodity prices.

The second main factor driving the market has been the continued low cost of borrowing. In response to the economic slow-down and falling markets at the start of this decade, monetary authorities world-wide reduced interest rates, and although interest rates have since been increased, current levels are still low in the context of the experience of the last 30 years.

UK Base Rates over 30 years

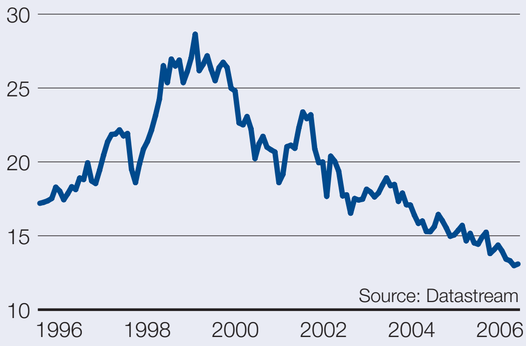
September 1976 to September 2006



UK Base Rates over 30 years

FTSE All-Share price/earnings ratio

September 1996 to September 2006



FTSE All-Share price/earnings ratio

Valuation of the Stock Market

The effect of these two factors has been such that the valuation of the stock market, whether looked at on an absolute level, or relative to other assets such as cash or bonds, has looked attractive. Looking at a simple valuation measure such as the price/earnings ratio, the FTSE All-Share appears considerably cheaper than at any time over the last 10 years. Again, comparing the market earnings yield (the reciprocal of the price/earnings ratio) against bond yields, equities offer a higher return than bonds. These attractive valuation features have encouraged a considerable number of corporate deals as private equity and overseas companies have looked to acquire UK companies.

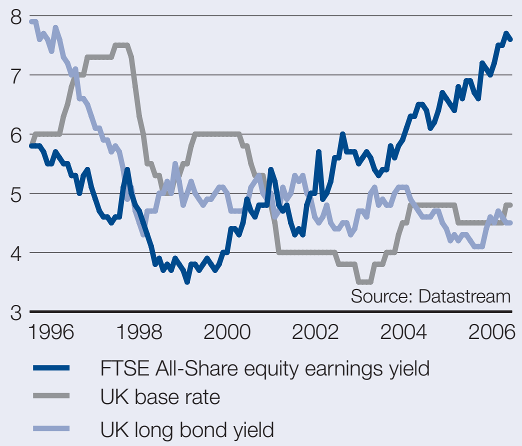
Performance within the Stock Market

While the FTSE All-Share index rose 11.1% over the year, there was considerable divergence of performance within the market, as the FTSE Mid-250 index of medium-sized companies gained 25.7%, and the FTSE 100 and FTSE Small Cap indices only rose 8.8% and 12.1% respectively. The difference has been driven largely by take-over activity as this has been mostly focused on medium-sized companies, while the FTSE 100 index has been held back by, amongst other things, the poor performance of the large Oil and Gas sector.

In a similar way to last year, commodity markets have generally been very strong as China's dynamic industrialisation continued apace. Copper started the year trading at £2,150 per tonne and finished almost twice as high at £4,052, having at one stage reached more than £4,500. This naturally caused strength in the Mining sector, which rose 23.6%. Oil by contrast started and finished the year at about the same level of $60 per barrel and this lack of movement brought about disappointment in the Oil & Gas sector.

Asset Yields

[September 1996 to September 2006]



Activity over the Year

In total, purchases over the year amounted to £45.7m, or under 23% of shareholders' funds at the year end, while sales were just over £50m. The level of turnover, although higher than in some recent years, is still relatively low and reflects the long-term approach taken to our investments. There was a net disinvestment from the market of £3.1m, but much of this was driven by take-over activity. Of the five largest reductions in individual share positions, three (Associated British Ports, BAA and BOC) were as a result of merger and acquisition activity, and these collectively were worth £8.8m.

At the sector level, the biggest net investments were made in the Utilities sector (£4.8m) with their attractive combination of yield and dividend growth, and in the Oil & Gas sector (£2.8m) as the major oil companies seemed to be lowly valued relative to their strong cash flows. The largest reduction was in the Industrials sector (£6.0m), largely as a result of the take-overs of Associated British Ports and BAA.

More commentary on the portfolio is contained in the Investment Portfolio by Sector and the description of the twenty largest holdings.

Julian Cane
November 2006

Twenty Largest Equity Holdings at 30 September 2006

This Year	*Last Year*	Company Description	% of total investments	Value £'000s
1	*(1)*	**BP** One of the largest integrated oil companies in the world.	7.58	15,468
2	*(2)*	**GlaxoSmithKline** One of the world's leading pharmaceutical companies.	5.57	11,368
3	*(5)*	**HSBC** Broadly diversified international bank operating in many developed and emerging markets around the world.	5.01	10,227
4	*(4)*	**Royal Dutch Shell** Leading international oil exploration, production and marketing group which has scope for efficiency increases.	4.73	9,644
5	*(3)*	**Vodafone Group** The world's leading mobile telephone provider with a strong international network.	3.83	7,808
6	*(6)*	**Barclays** Retail and commercial bank that is well placed to benefit from further efficiencies.	3.67	7,476
7	*(7)*	**AstraZeneca** One of the world's leading pharmaceutical companies.	3.60	7,341
8	*(8)*	**Scottish & Southern Energy** A well-managed multi-utility group with an attractive dividend yield and strong commitment to dividend growth.	3.36	6,848
9	*(9)*	**Rio Tinto** One of the largest diversified mining companies in the world benefiting from the persistent strength of commodity prices.	2.85	5,810
10	*(14)*	**British American Tobacco** A leading international manufacturer and distributor of cigarettes.	2.83	5,772
11	*(12)*	**Lloyds TSB Group** High street bank with a concentration on retail assets and insurance.	2.83	5,767
12	*(13)*	**Royal Bank of Scotland Group** An increasingly global bank valued very conservatively.	2.69	5,496
13	*(15)*	**Johnson Matthey** Chemical company with strong positions in auto catalysts, precious metal processing and the development of fuel cell technology.	2.03	4,134
14	*(–)*	**Tesco** The leading food retailer in the UK, continuing to expand through its non-food offerings and international expansion.	1.85	3,777
15	*(16)*	**Diageo** A leading international drinks company trading at a low valuation.	1.80	3,668
16	*(–)*	**Centrica** A leading supplier of energy and related services to residential and business customers in the UK and overseas. Its short-term profits have been temporarily hit by the large increase in gas prices.	1.72	3,510
17	*(–)*	**National Grid** This is one of the world's largest utilities that owns and operates gas and electricity transmission and gas distribution networks in the UK and US, and electricity distribution networks in the US.	1.47	3,002
18	*(–)*	**Inchcape** An international automotive services group, distributing and retailing a number of motor manufacturers' cars.	1.38	2,819
19	*(20)*	**Bellway** Well managed house building company within the UK.	1.36	2,767
20	*(17)*	**Land Securities Group** The largest property company in the UK, providing a diversified exposure to the sector.	1.35	2,754

The value of the twenty largest equity holdings represents 61.5% (2005: 62.3%) of the Company's total investments.

Investment Portfolio by Sector at 30 September 2006

	% of total portfolio	% of FTSE All-Share Index
Basic Materials	6.5	6.8
This sector performed very strongly on the back of rising commodity markets, which have continued to be driven by increased demand from China and no significant increase in supply. The holding in BHP Billiton was switched into Anglo American as we perceived there to be more upside to be realised from corporate restructuring, while the holding in BOC was taken over by Linde, a competitor.		
Consumer Goods	9.2	9.5
This is a broadly spread sector, with business interests from tobacco and drinks through to house building. There were no changes to the major holdings, which remain British American Tobacco, Diageo, Bellway and Imperial Tobacco.		
Consumer Services	12.2	12.2
This sector ranges from the food retailers, to travel and leisure companies to media. The largest holdings are Tesco, Inchcape, an international auto distributor which was a new addition, and Yell, owner of the Yellow Pages. The holdings in Tesco and Sainsbury were added to from the proceeds of Morrison, regrettably sold before its strong recovery. Reuters, the electronic publisher of news and financial data, was also a new addition. De Vere was another shareholding that was taken over.		
Financials	28.9	30.0
This sector represents a large part of the UK equity market, primarily because of the size of the UK Bank sub-sector. The largest additions were to the international banks, HSBC and Standard Chartered and to the new holdings, Resolution, a specialist in consolidating closed life funds, and ICAP, an inter-dealer broker. The long-standing substantial holding in Liberty International was reduced following very strong performance.		
Health Care	9.2	8.5
This sector is dominated by the large pharmaceutical companies, with GlaxoSmithKline and AstraZeneca being the portfolio's holdings. A small addition was made to the holding in GSK.		
Industrials	4.2	6.9
The largest changes in this sector were a result of corporate activity as both Associated British Ports and BAA were taken over. Intertek, a global testing, inspection and certification business is the largest remaining holding in the sector.		
Oil & Gas	13.9	15.2
The largest holdings in this sector by a large margin are the integrated oil majors, BP and Shell. Both of these were added to in the expectation that the companies would benefit from the continued strength of the oil price.		
Telecommunications	5.4	5.3
Vodafone is the largest holding in the sector, and Inmarsat the second largest. The latter is a new purchase, providing global mobile satellite communication services.		
Utilities	10.5	4.6
Despite being very predictable and defensive, the sector performed very strongly as cheap financing and inflation-linked revenues proved attractive for private equity bidders. This sector experienced the largest addition, totalling £4.8m net of reductions. Scottish & Southern Electricity remains the largest holding while new holdings were started in Scottish Power and Severn Trent. National Grid and Centrica were added to, while East Surrey Holdings was taken over.		
Technology	–	1.0
There are no holdings in this sector.		

List of Investments

Listed investments	Holding	30 September 2006 Value £'000s
UNITED KINGDOM – EQUITIES		
Abacus Polar	447,000	743
Alea Group	450,000	381
Alexandra	208,904	356
Alliance & Leicester	140,001	1,519
Alumasc	420,000	738
Anglo American	120,000	2,678
AstraZeneca	220,000	7,341
ATH Resources	340,500	707
Aviva	190,000	1,487
Barclays	1,110,000	7,476
Bellway	215,000	2,767
BG Group	284,848	1,847
BP	2,660,000	15,468
British American Tobacco	400,000	5,772
BT Group	555,000	1,486
Centrica	1,080,000	3,510
Clarke (T)	230,739	545
Close Brothers Group	40,000	408
Compass Group	460,000	1,233
Debenhams	548,898	996
Dee Valley	50,000	581
Diageo	389,000	3,668
Emap	104,166	920
Emap B shares	125,000	
Equest Balkan Properties	349,264	375
Friends Provident	378,615	732
GlaxoSmithKline	800,000	11,368
GUS	158,000	1,525
Hitachi Credit (UK)	283,000	657
Holidaybreak	70,000	492
HSBC	1,050,000	10,227
ICAP	390,000	2,011
Imperial Tobacco Group	100,000	1,779
Inchcape	538,428	2,819
Inmarsat	450,000	1,709
Intertek Group	260,000	2,027
Johnson Matthey	300,000	4,134
Land Securities Group	140,000	2,754
Legal & General Group	1,310,400	1,864
Liberty International	225,000	2,754
Lloyds TSB Group	1,070,000	5,767
Luminar	230,000	1,304
Menzies (John)	98,000	434

Listed investments	Holding	30 September 2006 Value £'000s
National Grid	450,000	3,002
New Star Asset Management	323,738	1,329
Office 2 Office	175,000	450
Personal Group	135,421	345
Provident Financial	172,000	1,075
Prudential	268,333	1,779
Punch Taverns	90,000	872
Raven Russia	1,135,918	1,213
Resolution	330,000	2,036
Restaurant Group	444,444	1,066
Reuters Group	500,000	2,171
Rio Tinto	230,000	5,810
Royal Bank of Scotland Group	299,000	5,496
Royal Dutch Shell A shares	9,800	9,644
Royal Dutch Shell B shares	522,662	
Sainsbury (J)	600,000	2,252
Scottish & Southern Energy	520,000	6,848
Scottish Power	250,000	1,628
Senior	475,820	275
Senior (rights nil paid)	95,164	
Severfield Rowen	50,000	750
Severn Trent	165,000	2,203
Signet Group	635,000	700
Spectris	90,000	567
Spirax-Sarco Engineering	49,000	451
Stadium Group	490,343	308
Standard Chartered	200,000	2,734
Teesland Advantage Property	400,000	434
Tesco	1,050,000	3,777
Trinity Mirror	48,750	232
TT Electronics	280,000	550
United Utilities	250,000	1,763
Vodafone Group	6,400,000	7,808
Wichford	310,440	629
Wolverhampton & Dudley	149,000	2,144
XP Power	190,000	725
Yell Group	395,000	2,350
888 Holdings	90,615	133
United Kingdom Total		**192,908**

Listed investments	Holding	30 September 2006 Value £'000s
CONTINENTAL EUROPE – EQUITIES		
FRANCE		
Total	39,812	1,397
Suez Lyon	70,154	1,650
France Total		**3,047**
GERMANY		
Bayer Motoren Werk	50,743	1,454
Puma	8,747	1,594
Germany Total		**3,048**
ITALY		
Unicredito Italiano	414,755	1,839
Italy Total		**1,839**
NETHERLANDS		
Koninklijke Numico	60,375	1,452
Netherlands Total		**1,452**
SWITZERLAND		
EFG International	95,957	1,684
Switzerland Total		**1,684**
Continental Europe Total		**11,070**
TOTAL INVESTMENTS		**203,978**

The total number of companies in the portfolio is 85 (2005: 102). There are no convertible securities in the portfolio.

Directors

Pen Kent Chairman

Appointed to the Board on 22 July 2003, Pen became Chairman of the Company on 5 May 2005. He worked for the Bank of England for over 30 years, culminating in his appointment as one of four Executive Directors between 1993 and 1997. Pen is chairman of the Euroclear UK Markets Advisory Committee and is a non-executive director of Schroder & Co Limited. He was chairman of the Strategic Rail Authority until last November. *Aged 69*

Neil Dunford

Neil joined the Board on 5 May 2005 following the merger of the Company with F&C Income Growth Investment Trust PLC. He has 30 years' experience in investment management and was chairman of Deutsche Asset Management Limited until 2002. He is a trustee of the Richemont (UK) Pension Plan and an adviser to Lincolnshire County Council Pension Fund. He is a Chartered Accountant. *Aged 59*

John Emly

John joined the Board on 5 May 2005 following the merger of the Company with F&C Income Growth Investment Trust PLC. He is the investment director of the Civil Aviation Authority Pension Scheme, following a career spanning 25 years at Flemings, the London-based international investment bank. He is a director of JPMorgan Mid-Cap Investment Trust PLC and Shaftesbury PLC. In addition he is a member of the Investment Committees of the P&O and the Balfour Beatty Pension Schemes. John is the Company's Senior Independent Director. *Aged 65*

Professor James (Jim) Norton

Appointed to the Board in July 2001. He the senior independent director at Zetex PLC and a director of the Foundation for information Policy Research (FIPR) Limited. He is also a Senior Policy Advisor for the Institute of Directors. Professor Norton is a Chartered Director and chairs the Company's Audit and Management Engagement Committee. *Aged 53*

Hugh Priestley

Appointed to the Board in February 2000. Hugh is non-executive chairman of Jupiter European Opportunities Trust PLC and a non-executive director of Perpetual Japanese Investment Trust PLC. He is a member of the Investment Committee of SAUL (Superannuation Arrangements of the University of London). *Aged 64.*

Members of the Audit Committee

Professor James Norton (Chairman)
Neil Dunford
John Emly
Pen Kent
Hugh Priestley

Management and Advisers

The Management Company

The Company is managed by F&C Management Limited (the "Manager"), a wholly owned subsidiary of F&C Asset Management plc ("F&C") which is authorised and regulated by the Financial Services Authority and listed on the London Stock Exchange. The Manager is appointed under a management agreement with the Company setting out its responsibilities for investment management, administration and marketing.

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Investment Manager, Secretary and Registered Office

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

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Registered in England

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Bankers and Custodian

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60 Victoria Embankment, 6th Floor
London EC4Y 0JP

Registrars

Computershare Investor Services PLC,
PO Box 82, The Pavilions, Bridgwater Road,
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Telephone:	0870 702 0130
Facsimile:	0870 703 6143

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London EC3A 7AN

Stockbrokers

UBS Limited
1 Finsbury Avenue
London EC2M 2PP

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The Association of Investment Companies

Report of the Directors

BUSINESS REVIEW

Introduction

The Company is an investment trust whose principal objective is to secure long-term capital and income growth from a portfolio consisting mainly of FTSE-All Share companies. The Business Review is designed to provide shareholders with an insight into the operations of the Company during the year. In particular, it gives information on:

- the regulatory and competitive environment within which the Company operates;
- the internal environment relating to the Company, including the framework of governance implemented by the Board to ensure the Company's objectives are achieved with minimum risk;
- the Manager's role in managing the assets; and
- the Company's performance in the year measured against Key Performance Indicators ("**KPIs**").

Regulatory and Competitive Environment

The Company is subject to the Listing Rules of the London Stock Exchange, UK Company Law, Financial Reporting Standards, Taxation Law and its own Articles of Association. The wholly non-executive Board of Directors is charged with ensuring that the Company complies with its objectives as well as these regulations and is governed in the interests of its shareholders. In order to achieve this goal, the Board has appointed F&C Management Limited ("**F&C**" or the "**Manager**") to manage the investment portfolio on a day-to-day basis, as well as carry out the administrative, accounting, secretarial and marketing activities on behalf of the Company. The Manager receives a quarterly management fee payable in arrears equal to 0.1% of funds under management for carrying out these functions under an agreement the notice period of which is six months (reduced from 12 months in the previous financial year).

The Company falls within the definition of an investment company under the Companies Act 1985, Section 266. As such, it categorises its income between profits available for distribution by way of dividends (revenue profits) and other profits available for distribution by way of capital reductions (capital profits). The Financial Statements starting on page 28, report on these profits, the Balance Sheet position and the Cash Flows in the current and prior financial period. This is in compliance with current UK Financial Reporting Standards, supplemented by the Revised Statement of Recommended Practice for Investment Trust Companies ("**SORP**"). The principal accounting policies of the Company are set out in note 2 on the accounts. The Auditors opinion on the Financial Statements which is unqualified, appears on page 27.

In addition to annual and interim results, the Company makes daily net asset value ("**NAV**") announcements via the Stock Exchange's Regulatory News Service. Detailed month end NAV statistics are released via the Association of Investment Companies ("**AIC**"), of which the Company is a member. This allows brokers and investors to compare its performance with its peer group. The Company also reports to shareholders on performance against the investment objectives, corporate governance, investment activities and share buybacks, amongst other things.

A shareholders' meeting is held each year to allow shareholders to vote on the appointment of Directors and the Auditors, the payment of dividends, share issues and buybacks and any other special business. The business of the next such Annual General Meeting, ("**AGM**") scheduled for 30 January 2007, is set out on pages 48 and 49.

The Company is subject to corporation tax on its net revenue profits but is exempt from corporation tax on capital gains, provided it complies at all times with Section 842 of the Income and Corporation Taxes Act 1988. Section 842 requires, broadly, that:

- the Company's revenue (including dividend and interest receipts but excluding profits on sale of shares and securities) should be derived mainly from shares and securities;
- the Company must not retain in respect of any accounting period more than 15% of its income from shares and securities;
- no holding in a company should represent more than 15% by value of the Company's investments in shares and securities; and
- realised profits on sale of shares and securities may not be distributed by way of dividend.

Compliance with these rules is proved annually in retrospect to HM Revenue and Customs ("**HMRC**"). HMRC approval of the Company as an investment trust is granted "subject to there being no subsequent enquiry under corporation tax self assessment". Such approval has been received in respect of all relevant years up to an including the year ended 30 September 2005, and the Company continues to comply with these rules. Whilst these rules are similar to those regulating open-end investment vehicles (OEICs and Units Trusts), as a closed end investment trust, the Company has the advantage that it can borrow money to invest and is able to take a longer term view of markets to manage its capital base better.

Governance

The Company's Board of Directors is responsible for overall stewardship of the Company's affairs, including corporate strategy, corporate governance, risk and controls assessment, overall investment policy, asset allocation and gearing limits. Details of the Directors, can be found on page 10.

In common with most investment trusts, the Company does not have any executives or employees. Day-to-day management and administration of the Company is undertaken by F&C, whose performance is monitored by the Board and whose remuneration and re-appointment is assessed annually (see page 16).

As part of the Board's governance process, regular reports from the Manager and from other independent sources are reviewed to assess the on-going performance of the Company as well as the impact of national and international economic and political issues affecting the Company. Income forecasts are reviewed to enable costs to be managed within budget and to ensure that the Company is able to pursue its progressive dividend policy whilst continuing to comply with section 842 of the Income and Corporation Taxes Act 1988. Other reports that are reviewed regularly include those covering the list of investments, the level of gearing, the discount to NAV and the shareholder register. The Board's assessment of the major risks faced by the Company, together with the principal controls in place to mitigate the risks, is set out later in this review.

Capital Structure

The Company has a fixed share capital although, subject to and on the terms of the approvals granted annually by its shareholders, it may purchase its own shares at a discount to NAV, which can either be cancelled or held in treasury to be sold as and when the shares return to trading at a premium to NAV. The Board is seeking to renew these authorities at the AGM in January 2007.

The Directors review quarterly the number of shares purchased and held in treasury. During the year under review a total of 760,011 ordinary shares, with a nominal value of £190,002, were purchased by the Company and held in treasury under the authority given at the AGM in January 2006. The prices paid for these shares ranged from 206.0p to 231.2p per share and the total cost amounted to £1,647,000. Although no shares were sold from treasury last year, 1.92% of the Company's total issued capital was held in treasury as at 30 September 2006. Since the year-end, the Company has bought back a further 50,000 shares for treasury at a price of 234.0p per share. As at 28 November 2006, the total number of shares held in treasury was 1,625,011 which represents 1.98% of the ordinary shares in issue.

Principal risks and risk management

In accordance with "Internal Control: Guidance for Directors on the Combined Code" published by the Working Party for the Institute of Chartered Accountants in England and Wales, the Board has established an ongoing process for identifying, evaluating and managing significant risks faced by the Company and regularly reviews the effectiveness of the internal control systems. This process has been in place throughout the year under review and to date and will continue to be reviewed regularly by the Board going forward. A summary of the Company's system of internal control and management of risk is set out in the Corporate Governance section of this annual report.

Principal risks faced by the Company, together with the Board's approach to mitigation, include the following:

- Investment Strategy – inappropriate long-term strategy, asset allocation and stock selection might lead to under-performance of the Company's benchmark index and peer group.

Report of the Directors (continued)

The Board periodically reviews the investment strategy and regularly monitors the Company's investment portfolio and the investment selection, performance and operations of the Manager.

- Investment management resources – the quality of the management team employed by F&C is a crucial factor in delivering good performance and loss of the Manager's key staff could adversely affect investment returns. The Manager has training and development programs in place for its employees and develops its recruitment and remuneration packages in order to retain key staff.
- Regulatory – failure to comply with applicable legal and regulatory requirements could result in the Company losing its listing and or/being subject to corporation tax on the sale of its investments. The Board receives and reviews regular reports from the Manager on the controls in place to ensure the Company's compliance with these requirements. The Board also receives regular investment listings and income forecasts as part of its monitoring of compliance with the provisions of Section 842 of the Income and Corporation Taxes Act 1988.
- Operational – failure of the Manager's core accounting systems (or disastrous disruption to its business) might lead to an inability to provide accurate reporting and monitoring. Full contractual obligations have been put in place with the Manager to ensure that its conduct of business on behalf of the Company conforms to every law and regulation and that reliable back up systems are in place.
- Financial – inadequate financial controls could result in misappropriation of assets, loss of income and debtor receipts and inaccurate reporting of NAVs. The Board regularly reviews the Manager's reports on its internal controls and procedures and subjects the books and records of the Company to an annual audit. The financial risks are set out in more detail in note 24 on pages 42 to 44.

Management of Assets

The manager of the investment portfolio is a subsidiary of F&C Asset Management plc, which is one of the largest UK fund management groups with £105.0 billion under management as at 30 September 2006.

Briefly, the duties of the Manager encompass seeking to:

- achieve the Company's Objective through investment in stocks and securities in relevant countries and industries (within the Board's communicated strategies and guidelines on gearing) and through collection of income from those investments;
- control the discount at which the Company's shares trade by comparison with their underlying asset value within limits set down by the Board from time to time, and to make recommendations as to whether shares bought in are held in treasury or immediately cancelled;
- oversee the Company's relationship with the custodian of the Company's assets;
- maintain the Company's books and records; and
- maintain compliance with relevant rules and regulations; and operate shareholder savings plans and products in which the Company participates, that are designed to provide investors with a cost-effective and flexible way to invest in the Company.

The Manager aims to identify investments in companies that have good long-term prospects but whose share prices are depressed by adverse short-term sentiment, either because of current difficulties or simply because they are unfashionable. Many of the stocks purchased have a higher than average dividend yield, which in turn enables the Company to pay a relatively high dividend to its shareholders.

The Manager carries out research and derives a value for each company that it analyses. When the relevant company's share price is below this value, it looks to buy, and when it rises above, it looks to sell. Importantly, the Manager derives the value from its own assessment of the company's prospects and not simply by following a consensus view. The Manager believes that share prices are much more volatile than changes in the underlying worth of companies and that this mis-match creates investment opportunities. However, over the long term share prices will reflect intrinsic worth as the value of companies' cash flows, earnings, dividends or assets are realised. This approach can result in periods of relative underperformance when market values are substantially out of line with underlying worth, as with the speculative bubble in the telecommunication and technology sectors in the late 1990s. Nevertheless, this process has demonstrated that it will generate superior results over the longer term. The Board looks to long-term out-performance rather than high-risk short-term opportunities.

Performance Highlights

The Board monitors numerous KPI indices and ratios for the purpose of assessing and reporting investment performance. The Chairman, in his statement, summarises performance of the Company's net asset value and share price against the FTSE All-Share Index for the year ended 30 September 2006, as well as over five years. He also describes the revenue performance and dividends paid for the year, comparing these to the Retail Price Index movement in the year. Details relating to the performance of the investment portfolio for the year can be found in the Manager's Review on pages 4 to 5 and ten year statistics covering revenue and capital performance are set out on pages 46 to 47. In addition, the Board monitors the following additional KPIs:

- AIC peer group of 26 "UK Growth and Income" investment trusts (23 as at 30 September 2005, the increase being attributable to investment trusts entering and leaving the peer group), whose net asset value and share price performance over one, three, five and ten years is set out in statistics produced monthly by the AIC. At 30 September 2006, the Company was joint 15th, 13th, joint 11th and 12th respectively in its peer group NAV performance over one, three, five and ten years, and 19th, 19th, 11th and 14th respectively in respect of share price performance;
- share price discount to NAV, an important measure of demand for the Company's shares and a key indicator of the need for shares to be bought back (if discount to NAV is high) or issued (if share price is at a premium to NAV). At the start of the year under review, the discount to NAV was 4.2% compared with 6.2% at the year end;
- expense ratios, reported in the ten year record on page 47, which enable the Board to measure the control of costs and help in meeting the dividend payment objective. The ratio of operating expenses to net assets is relatively stable at 0.74%;
- levels of gearing, the costs of which are absorbed 50% through Revenue Account and 50% through Capital Account, are monitored to ensure that the Manager is adhering to the Board's gearing limit and is not excessively borrowing in falling markets. Borrowing during the year was maintained within a range of £4.5m to £14.0m; and
- Section 842 rules in respect of individual shareholdings, levels of income from shares and levels of retained income, all of which are vital to the Company's tax status.

Performance

	1 year %	3 years %	5 years %
Company net asset value return	15.6%	69.4%	63.4%
Company share price return	13.5%	61.7%	70.0%
Benchmark Index return*	14.7%	65.7%	53.2%

Source: AIC Information Services Ltd
*Benchmark: FTSE All-Share companies

The adoption of new accounting policies (as set out in note 2 on page 32) has led to the restatement of prior year figures to include investments at bid value and to exclude the accrual of dividends payable until the date of payment. The effect of the restatements on the previously reported net asset values and performance is immaterial. These restatements ensure that annual performance is measured on a like-for-like basis.

Report of the Directors (continued)

Manager's evaluation and re-appointment

The review of the Manager's performance is an ongoing duty and responsibility of the Board which is carried out at every Board meeting. In addition, a formal review is undertaken annually and was last carried out in November 2006. In evaluating the performance of the Manager, the Board considered a range of factors including the investment performance as summarised above, the skills, experience and depth of the team involved in managing the Company's assets, the resources and commitment of the Manager, and the quality of the marketing and administrative services provided to the Company.

In the light of the overall performance of the Manager, and in particular the investment performance, it is the opinion of the Board that the continuing appointment of the Manager on the terms agreed is in the interests of shareholders as a whole.

ANNUAL GENERAL MEETING

The AGM will be held on Tuesday, 30 January 2007 at 11.30 am. The notice of meeting can be found on pages 48 to 49. In addition to the ordinary business of the meeting, the resolutions numbered 6 to 9 are proposed as special business.

Authority to Allot Shares (resolution 6)

Resolution 6 is similar to the authority and power given to the Directors at previous AGMs. By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders. In addition, directors require specific authority from shareholders before allotting new shares (or granting rights over shares) for cash without first offering them to existing shareholders in proportion to their holdings. Resolution 6 gives the Directors the necessary authority to either allot securities, or sell shares held in treasury, up to an aggregate nominal amount of £1,007,078 (which is equivalent to 5% of the issued ordinary share capital of the Company, excluding treasury shares, at the date of this report), and empowers the Directors to allot such securities for cash otherwise than to existing shareholders on a pro-rata basis. This authority will expire at the conclusion of the AGM in 2008 and provides the Directors with a degree of flexibility to increase the assets of the Company by the issue of new shares, should any favourable opportunities arise to the advantage of shareholders. The Directors can, if necessary, use this authority to satisfy demand from participants in the F&C Child Trust Fund, F&C ISA, F&C Private Investor Plan and F&C Pension Savings Plan when they believe it is advantageous to such participants and the Company's shareholders to do so.

Under no circumstances would the Directors use the authority and power to issue shares, or sell shares held in treasury, at a price which would result in a dilution of net asset value per ordinary share.

Authority for the Company to Purchase its Own Shares (resolution 7)

Resolution 7 authorises the Company to purchase in the market up to a maximum of 12,076,883 ordinary shares (equivalent to approximately 14.99% of the issued share capital, excluding treasury shares, at the date of this report) at a minimum price of 25p per share and a maximum price per share of not more than 5% above the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately before the date of purchase.

The Directors would use this authority with the objective of enhancing shareholder value. Purchases would only be made, within guidelines established from time to time by the Board, through the market for cash at prices below the prevailing net asset value per ordinary share, which would have the effect of increasing net asset value per ordinary share for the remaining shareholders. Any shares which are purchased will either be placed into treasury, or, failing that, cancelled.

The Directors consider that it would be advantageous to shareholders for the Company to have the authority to make such purchases as and when it considers the timing to be favourable. However, use of this authority, if given, will depend upon market conditions and the Board's judgment of its likely effectiveness in increasing net asset value per share and/or reducing the discount.

It is proposed that any purchase of shares would be financed out of realised revenue reserves and/or realised capital reserves (including the reserve which arose on the reduction of the Company's share premium account) and funded from the Company's own cash resources or, if appropriate, from short-term borrowings.

The authority to purchase ordinary shares will continue until the expiry of 18 months from the date of the passing of such resolution. The Board intends to seek a renewal of such authority at subsequent AGMs.

Directors' Indemnities (resolution 8)

The Directors propose that the Company's Articles of Association be amended to reflect the new statutory provisions concerning directors' indemnities. The proposed resolution is a special resolution to amend Article 160 of the Articles of Association of the Company to allow the Company to indemnify its directors on the terms permitted by these new statutory provisions.

The Companies (Audit, Investigations and Community Enterprise) Act 2004 ("**CAICE**") came into force on 6 April 2005. CAICE inserts sections 309A and 309B into the Companies Act 1985. These provisions broadly allow a company or an associated company to indemnify the directors of a company against liability to third parties arising in connection with any negligence, default, breach of duty or breach of trust by the directors in relation to the company. Such an indemnity may not, however, protect a director against liability incurred by the director to the company or any associated company. The company may not provide an indemnity against either liability incurred by a director in defending criminal proceedings in which he is convicted or a liability to pay a fine imposed in criminal proceedings or by a regulatory authority. Indemnities permitted by these new provisions must be disclosed in the directors' report on the annual accounts and made available for inspection at the company's registered office.

CAICE also inserts a new section 337A into the Companies Act 1985. This allows a company to fund its directors' defence costs as they are incurred in both criminal and civil cases, through the granting of a loan to a director. The loan must be repaid by any director who is not exonerated (though the costs incurred in civil cases involving third parties could be paid by the company under the indemnity discussed above). Previously, companies have only been able to fund a director's defence costs once final judgment in the director's favour has been reached.

Directors are increasingly being added as defendants in legal actions against companies and litigation is often very lengthy and expensive. The Directors believe that the provision of appropriate indemnities and the funding of directors' defence costs as they are incurred, as permitted by the new legislation, are reasonable protection for the Company's Directors, and are important to ensure that the Company continues to attract and retain the highest calibre of directors.

Directors' Fees (resolution 9)

The aggregate amount that can be paid by way of directors' fees is authorised by the Company's Articles of Association. The current limit of £80,000 was set in January 2002 and, at current rates, the fees payable to the Company's five Directors over a whole year amount to, in aggregate, £80,000. Accordingly, the Directors will seek authority from shareholders for an increase in the limit in the Articles of Association and propose, under Resolution 9, an aggregate sum of £120,000 per annum. There is no intention to increase the fees payable until the AGM in 2008 at the earliest.

OTHER MATTERS

Duration of the Company

Under the Articles of Association a continuation vote must be proposed at every fifth Annual General Meeting. The next such vote will occur at the Annual General Meeting to be held in 2008.

Going concern

The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts as the Company has adequate resources to continue in operation for the foreseeable future and its assets are readily realisable.

Savings Plans

The Company's shares are eligible for inclusion in an Individual Savings Account ("**ISA**") and as an investment for Personal Equity Plan ("**PEP**") transfers. Investors are also able to acquire shares in the Company via the F&C Private Investor Plan ("**PIP**"), Child Trust Fund ("**CTF**") or Pension Savings Plan ("**PSP**"). Further details on how to invest in the Company may be found on page 51.

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

Analysis of savings plans

30 September	2006	2005
CTF	4,438	1,700
ISA	2,231	2,021
PEP	6,203	6,681
PIP	4,465	3,445

Investment restrictions

The Company may, from time to time, invest in leading overseas companies both in Europe and elsewhere. The value of the non-UK portfolio will not exceed 10% of the Company's gross assets 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).

Results and Dividends

	£'000s	£'000s
Net revenue available for distribution		5,879
Dividends paid:		
2nd interim for 2005 of 1.40p per share paid on 31 October 2005	1,140	
Final dividend for 2005 of 1.765p per share paid on 3 February 2006	1,359	
1st interim for 2006 of 1.40p per share paid on 3 April 2006	1,135	
2nd interim for 2006 of 1.50p per share paid on 3 July 2006	1,216	(4,850)
Amount transferred to revenue reserve		1,029

The third interim dividend of 1.50p per share in respect of the year ended 30 September 2006 was paid on 2 October 2006 to shareholders registered on 1 September 2006. The total cost of this dividend, based on 80,684,140 shares entitled to dividend, was £1,210,000. The Directors recommend a final dividend in respect of the year ended 30 September 2006 of 2.10p per share payable on 2 February 2007 to all shareholders on the register at close of business on 5 January 2007. The three interim dividends together with the final dividend in respect of the year ended 30 September 2006 total 6.50p per share. This represents an increase of 12.1% over the 5.80p per share for the previous year.

Substantial Share Interests

As at 28 November 2006 the Company had received notification of the following holding of more than 3% of its ordinary share capital:

	Ordinary shares	%
F&C Asset Management plc*	62,812,930	78.0

*The holding is made up of 0.01% held on behalf of discretionary clients of F&C Asset Management plc and 77.95% 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

All of the Directors of the Company listed on page 10 held office throughout the year under review.

In accordance with the Articles of Association, Pen Kent retires by rotation at the AGM and, being eligible, stands for re-election. Mr Kent was appointed Chairman of the Company on 5 May 2005 following the retirement of Graham Ross Russell.

The Board has appraised the performance of Mr Kent concluding and recommending that, on the basis of his skills, knowledge and experience and valuable contribution in the role, he is re-elected at the AGM.

Each Director has signed a letter of appointment setting out the terms of his engagement as a non-executive Director, copies of which are available on request; none of the Directors has a service contract. Details of the Directors' shareholdings in the Company and their interests in contracts and agreements may be found in note 6 on page 35.

Directors' remuneration

The Directors' Remuneration Report on page 25 and note 6 on the accounts provide detailed information on the remuneration arrangements for the Directors. Shareholders will be asked to approve the Directors' Remuneration Report at the AGM.

Policy on payments to suppliers

The Company's principal supplier, the Manager, is paid in the month following the end of each calendar quarter in accordance with the terms and conditions of the management agreement as summarised in note 4 on the accounts. Other suppliers are paid in accordance with individually agreed payment terms.

At 30 September 2006, the Company's outstanding trade creditors were equivalent to two day's payment to suppliers (2005: one day).

Independent Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution to re-appoint them and to authorise the Directors to determine their remuneration will be proposed at the AGM. The auditors provide some non-audit services to the Company, the details of which are set out in note 5 on the accounts and on page 35. So far as each of the Directors is aware there is no relevant audit information of which the Company's auditors are unaware. The Directors believe that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of this information.

Charitable donations

The Company did not make any charitable donations during this, or the previous year.

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

28 November 2006

Corporate Governance

The Company is committed to high standards of corporate governance. The Board has considered the principles and recommendations of the AITC Code of Corporate Governance ("**AITC Code**") by reference to the AITC Corporate Governance Guide for Investment Companies ("**AITC Guide**"). The AITC Code, as explained by the AITC Guide, addresses all the principles set out in Section 1 of the Combined Code of Corporate Governance (the "**Combined Code**"), as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AITC Code, and by reference to the AITC Guide (which incorporates the Combined Code), will provide better information to shareholders.

The Company has complied with the recommendations of the AITC Code and the relevant provisions of Section 1 of the Combined Code except as set out below.

The Combined Code includes provisions relating to:

- the role of the chief executive;
- executive directors' remuneration;
- the need for an internal audit function.

For the reasons set out in the AITC Guide, and in the preamble to the Combined Code, the Board considers these provisions are not relevant to the Company as it is an investment company.

The Company does not have its own nomination committee (for the reasons explained on page 22).

The Board

The Board is currently comprised of five non-executive Directors, all of whom are resident in the UK. Their biographical details, which are on page 10, demonstrate the wide range of skills and experience that they bring to the Board.

The Board is responsible for the effective stewardship of the Company's affairs and a formal schedule of matters reserved for their decision has been adopted. In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information. The Board meets at least four times a year and at each meeting reviews the Company's investment performance, as well as other high level management information including financial reports and other reports of a strategic nature. It monitors compliance with the Company's objectives and is responsible for approving the asset allocation, investment and gearing ranges within which the Manager is given discretion to act. Key representatives of the Manager attend each Board meeting. Board meetings are also held on an ad hoc basis to consider particular issues as they arise.

	Board Meetings	Audit and Management Engagement Committee Meetings
No of meetings	5	3
Pen Kent	5	3
Neil Dunford	4	3
John Emly	5	3
Professor Jim Norton	5	3
Hugh Priestley	5	3

The above table sets out the number of Board meetings and committee meetings held during the year under review and the number of meetings attended by each Director. The Board met on one occasion without any representation from the Manager.

The Board has reviewed the independence of its members and has determined that all of the Directors meet the criteria.

The Board believes that it has at present a reasonable balance of skills, experience, ages and length of service. Although no Director has served for a term longer than nine years, the Board is of the view that length of service does 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. As such, no limit on overall length of service has been imposed. However, the Board recognises the value of progressive refreshing of, and succession planning for, company boards. Accordingly each Director's appointment is reviewed prior to submission for re-election. All Directors are required to stand for re-election for a fixed term of no more than three years and any term beyond six years is subject to particularly rigorous review. As reported on page 18, Pen Kent will stand for re-election at the forthcoming AGM.

The AITC Code provides that the Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors. In order to review its effectiveness, the Board carries out a process of formal self appraisal. This encompasses both quantitative and qualitative measures of performance in respect of the Board and its Committees, implemented by the completion of an evaluation survey and a subsequent review of the findings. 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. 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 the individual Directors. It is considered that the use of an external appraisal consultant is unlikely to provide any meaningful benefit over the internal process that has been adopted; the option of using such consultants will be kept under review.

The Board has established a procedure whereby Directors, wishing to do so in the furtherance of their duties, may take independent professional advice or training at the Company's expense. The Board has direct access to the advice and services of the Company Secretary, F&C Management Limited, which is responsible for ensuring that Board and Committee procedures are followed and applicable regulations are complied with. The proceedings at all Board and other meetings are fully recorded through a process that allows any concerns of the Directors to be recorded in the minutes. The appointment or removal of the Company Secretary is a matter for the Board as a whole. During the year, the Board has maintained appropriate insurance cover in respect of legal action against the Directors.

Audit and Management Engagement Committee

The Audit and Management Engagement Committee (the "**Audit Committee**") is currently comprised of the entire Board and is Chaired by Professor Jim Norton. All members of the Audit Committee are considered to be independent.

The profiles of the Directors may be found on page 10 and, in the light of their background, it is considered that there is a range of recent and relevant financial experience amongst the members of the Audit Committee.

The Audit Committee operates within written terms of reference clearly setting out its authority and duties. Copies of the terms of reference are available on request and can also be found on the F&C website at www.fandc.com. Details of attendance at meetings are contained in the table on page 20.

The primary responsibilities of the Audit Committee are to review the Company's accounting policies, the integrity and contents of its financial statements, compliance with regulatory and financial reporting requirements; 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 control 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 also has responsibility for considering the performance of the Manager. It carries out a full annual review of the investment management contract with the Manager, including the level and structure of fees payable and the length of notice period.

The Audit Committee has direct access to the auditors, PricewaterhouseCoopers LLP ("**PwC**"). The auditors attend Audit Committee meetings to review the annual and interim results and provide a comprehensive review of the audit of the Company. The Audit Committee also has the opportunity to meet with the auditors without the Manager being present. The Audit Committee, together with the Manager, has reviewed the work carried out by PwC for the audit of the annual financial statements. On the basis of this and their experience in auditing the affairs of the Company, the Audit Committee has assessed the effectiveness of the external audit. The Audit Committee has taken into account the standing, experience and tenure of the audit partner, the nature and level of services provided and confirmation that they have complied with all relevant

Corporate Governance (continued)

UK and professional regulatory and independence standards. The Audit Committee considers PwC to be independent both of the Company and the Manager in all respects.

The Audit Committee has also reviewed the provision of non-audit services by the Auditors. In the year under review, non-audit fees amounted to £9,000 inclusive of irrecoverable VAT. In addition, £35,000 was paid to the auditors in relation to their role as liquidator of the Company's subsidiary F&C Income Growth Investment Trust. The non-audit services were in relation to the review of corporate governance matters, business review and taxation services. It is considered that the non-audit fees were cost effective and that the level of non-audit fees was not sufficient to prejudice the independence of the Auditors. The Audit Committee reviews, from time to time, the "whistleblowing" policy that has been put in place by the Manager under which its staff may, in confidence, raise concerns about any possible improprieties in matters of financial reporting or other matters insofar as they may affect the Company.

The Audit Committee has access to the compliance and internal audit directors 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.

Nomination Committee

Having regard to the small size of the Board, the Directors have concluded that it is appropriate for the Board to fulfil the responsibilities normally carried out by a nomination committee. Accordingly, the Board has not appointed such a committee.

Appointments of new Directors are made on a formalised basis, with the Board agreeing the selection criteria and the method of selection, recruitment and appointment.

New appointees are given a briefing on the workings and processes of the Company (including the receipt of key documentation) and meet the Fund Manager, the Company Secretary and other key employees of the Manager. Major shareholders will be given the opportunity to meet any newly appointed Director.

Remuneration Committee

The Company has no executive Directors and no employees, and consequently does not have a remuneration committee. The Directors' Remuneration Report, which can be found on page 25, and note 6 on the accounts on page 35 provide detailed information on the remuneration arrangements for the Directors of the Company.

Internal controls and management of risk

The Board has overall responsibility for the Company's systems of internal controls and for reviewing their effectiveness and ensuring that the risk management and control processes are embedded in day-to-day operations. These controls 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. The Company's principal risks are set out on pages 13 and 14.

Control of the risks identified, covering financial, operational, compliance and overall risk management, is exercised by the Board through reports provided by the Manager on investment performance, performance attribution and other management issues. The Board has agreed with the Manager the investment policy and restrictions under which the Manager operates and the Manager reports on compliance with this at every meeting. The Board also receives a quarterly control report from the Manager that provides details of any known internal control failures. This report incorporates a key risk table that identifies the risks to which the Company is exposed and the controls in place to mitigate them, including those risks that are not directly the responsibility of the Manager. 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, loss or fraud.

In common with most investment trusts, the Company does not have an internal audit function. All of the Company's management functions are delegated to the Manager, which has its own Audit, Risk and Compliance department and whose controls are monitored by the Board. It is therefore considered unnecessary for the Company to have its own internal audit function, although this will be reviewed annually by the Audit Committee

The Board has carried out a risk and control assessment including a review of the Manager's risk management infrastructure. This review included consideration of the Statement of Internal Corporate Governance for the year ended 31 December 2005 (the "**Statement**"), that is 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 department. 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.

Investment Management

The Board has contractually delegated the management of the investment portfolio, and the provision of company secretarial, accounting, marketing and general administrative services to the Manager. Details of the terms of the agreement with the Manager, are set out in note 4 on the accounts.

The Manager has established a policy on corporate governance, voting policy and socially responsible investment ("**SRI**"). The policy 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 to 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 spelt out in its own guidelines and communicated annually.

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 affect the Company's financial performance. Following a regular review of governance practices, the Manager will engage in a 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.

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

Communication with shareholders is given a high priority. The Company's Annual Report, containing a detailed review of performance and the investment portfolio, is sent to all shareholders at least 20 days before the AGM. At the half-year stage, an interim report, containing updated information in a more abbreviated form, is also sent to all shareholders. Updated information is also available on the F&C website at www.fandc.com.

The Company has a predominantly retail beneficial ownership with private investors holding over 80% of the issued share capital. Shareholders wishing to communicate with the Chairman, the Senior Independent Director or other members of the Board may do so by writing to the Company at the registered office address on page 11.

All shareholders are encouraged to attend the AGM, when a presentation is made by the Manager and where they are given an opportunity to question the Chairman, the Board and the Manager. Proxy voting

Corporate Governance (continued)

figures, having previously been counted, are announced to the shareholders at the AGM and reported on the Company's website. All beneficial shareholders in the F&C savings schemes 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 general meetings.

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

28 November 2006

Directors' Remuneration Report

Remuneration Committee

As the Board of Directors is comprised solely of non-executive directors, it is exempt under the Listing Rules from appointing a remuneration committee. The determination of the Directors' fees is a matter dealt with by the whole Board.

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £80,000 per annum. Subject to this overall limit, it is the Company's policy to determine the level of Directors' fees having regard to the level of fees payable to non-executive directors in the industry generally, the role that individual Directors fulfil in respect of Board and Committee responsibilities, and the time committed to the Company's affairs. The Directors will be seeking authority to amend the Company's Articles of Association to increase the limit of aggregate fees payable to the Directors to £120,000 per annum at the forthcoming Annual General Meeting. There is no intention to increase the fees payable until the AGM in 2008 at the earliest.

The Chairman receives a fee of £20,000 per annum and the other directors each receive a fee of £15,000 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 over five years.

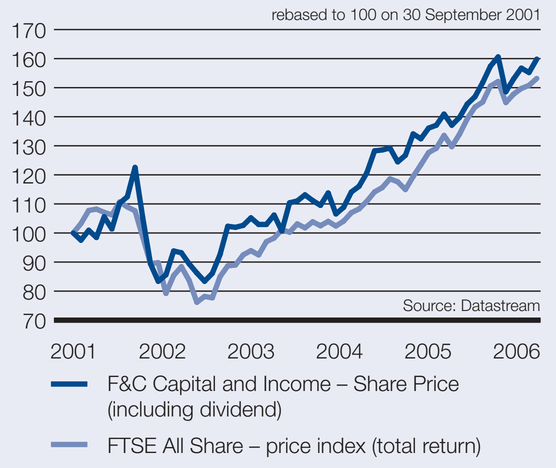
Remuneration for Qualifying Services

Director	2006 Fees for services to the Company £'000s	2005 Fees for services to the Company £'000s
Pen Kent (Chairman)*	20	14
Neil Dunford	15	6
John Emly	15	6
James Norton	15	12
Hugh Priestley	15	12
Graham Ross Russell**	–	9
Peter Hardy	–	6
Totals	80	65

*Appointed Chairman with effect from 5 May 2005.
** Retired as Chairman and director on 5 May 2005.

The information in the above table has been audited (see the Independent Auditors' Report on page 27). The amounts paid by the Company to the Directors were for services as non-executive Directors.

Total shareholder return



The FTSE All-share Index (total return) is shown because the objective of the Company is to secure a long-term capital and income growth from a portfolio consisting mainly of FTSE All-Share companies.

By order of the Board
F&C Management Limited
Secretary

28 November 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 30 September 2006 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.fandc.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.

Independent Auditors' Report

Independent auditors' report to the members of F&C Capital and Income Investment Trust PLC

We have audited the accounts of F&C Capital and Income Investment Trust PLC for the year ended 30 September 2006 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement, and the related notes. These accounts have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of Directors and Auditors

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

Our responsibility is to audit the accounts 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 accounts give a true and fair view and whether the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the accounts. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 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 accounts. The other information comprises only the Chairman's Statement, Manager's Review, 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 accounts. 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 accounts 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 accounts, 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 accounts 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 accounts and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the accounts 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 30 September 2006 and of its return and cash flows for the year then ended;
- the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the accounts.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London 28 November 2006

Income Statement

Revenue Notes	Capital Notes	for the year ended 30 September	Revenue £'000s	Capital £'000s	2006 Total* £'000s	2005 Revenue £'000s	2005 Capital Restated+ £'000s	2005 Total* Restated+ £'000s
	11	Gains on investments	–	22,769	22,769	–	27,234	27,234
	20	Exchange gains /(losses)	1	(24)	(23)	1	8	9
3		Income	7,088	–	7,088	4,876	–	4,876
4	20	Management fee	(472)	(472)	(944)	(316)	(316)	(632)
5	20	Other expenses	(476)	(17)	(493)	(294)	(14)	(308)
		Net return before finance costs and taxation	6,141	22,256	28,397	4,267	26,912	31,179
7	20	Interest payable and similar charges	(229)	(229)	(458)	(178)	(178)	(356)
		Net return on ordinary activities before taxation	5,912	22,027	27,939	4,089	26,734	30,823
8		Taxation on ordinary activities	(33)	–	(33)	(43)	–	(43)
9	9	**Net return attributable to equity shareholders**	5,879	22,027	27,906	4,046	26,734	30,780
9	9	**Return per ordinary share – pence**	7.25	27.18	34.43	6.56	43.34	49.90

* The total column of this statement is the profit and loss account of the Company.
+ Restated to reflect changes in accounting policies (see note 2)
All revenue and capital items in the above statement derive from continuing operations.
A statement of total recognised gains and losses is not required as all gains and losses of the Company have been reflected in the above statement.

Reconciliation of Movements in Shareholders' Funds

Notes		Called up share capital £'000s	Share premium account £'000s	Capital redemption reserve £'000s	Special reserve £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total shareholders' funds £'000s
	Balance at 30 September 2004							
	(as previously reported)	12,051	18,771	3,154	12,348	36,970	1,005	84,299
	Investment valuation restatement	–	–	–	–	(83)	–	(83)
	Dividend accrued at 30 September 2004	–	–	–	–	–	1,293	1,293
25	**Balance at 30 September 2004**							
	(restated)	12,051	18,771	3,154	12,348	36,887	2,298	85,509
	Movements during the year ended							
	30 September 2005:							
10	Dividends paid	–	–	–	–	–	(2,615)	(2,615)
	Purchase of ordinary shares held in treasury	–	–	–	(2,360)	–	–	(2,360)
	Sale of ordinary shares held in treasury	–	272	–	1,972	–	–	2,244
	Issue of ordinary shares	8,497	57,291	–	–	–	–	65,788
	Return attributable to equity shareholders							
	(as previously reported)	–	–	–	–	26,785	4,046	30,831
	Investment valuation restatement	–	–	–	–	(51)	–	(51)
25	**Balance at 30 September 2005**							
	(restated)	20,548	76,334	3,154	11,960	63,621	3,729	179,346
	Movements during the year ended							
	30 September 2006:							
10	Dividends paid	–	–	–	–	–	(4,850)	(4,850)
16	Purchase of ordinary shares							
	held in treasury	–	–	–	(1,647)	–	–	(1,647)
	Return attributable to equity shareholders	–	–	–	–	22,027	5,879	27,906
	Balance carried forward at							
	30 September 2006	**20,548**	**76,334**	**3,154**	**10,313**	**85,648**	**4,758**	**200,755**

Balance Sheet

Notes	at 30 September	£'000s	2006 £'000s	Restated* £'000s	2005 Restated* £'000s
	Fixed assets				
11	Investments				
	Listed in the United Kingdom		**192,908**		176,108
	Listed outside the United Kingdom		**11,070**		9,622
			203,978		185,730
	Current assets				
12	Debtors	**3,069**		6,582	
	Cash at bank and short-term deposits	**3,152**		1,700	
		6,221		8,282	
	Creditors: amounts falling due within one year				
13	Loans	**(8,000)**		(8,500)	
14	Other	**(1,444)**		(6,166)	
		(9,444)		(14,666)	
	Net current liabilities		**(3,223)**		(6,384)
	Net assets		**200,755**		179,346
	Capital and reserves				
16	Called up share capital		**20,548**		20,548
17	Share premium account		**76,334**		76,334
18	Capital redemption reserve		**3,154**		3,154
19	Special reserve		**10,313**		11,960
20	Capital reserves		**85,648**		63,621
20	Revenue reserve		**4,758**		3,729
21	**Total equity shareholders' funds**		**200,755**		179,346
21	**Net asset value per ordinary share – pence**		**249.03**		220.39

* Restated to reflect changes in accounting policies (see note 2)

Approved by the Board on 28 November 2006
and signed on its behalf by:

Pen Kent, Chairman

Cash Flow Statement

Notes	for the year ended 30 September	£'000s	2006 £'000s	£'000s	2005 £'000s
	Operating activities				
	Investment income received	**6,970**		4,492	
	Interest received	**70**		30	
	Other revenue	**13**		2	
	Fee paid to management company	**(781)**		(443)	
	Fees paid to Directors	**(80)**		(65)	
	Other cash payments	**(475)**		(264)	
22	**Net cash inflow from operating activities**		**5,717**		3,752
	Servicing of finance				
	Interest paid	**(455)**		(360)	
	Net cash outflow from the servicing of finance		**(455)**		(360)
	Taxation				
	Overseas tax paid	**(21)**		(45)	
	Total tax paid		**(21)**		(45)
	Financial investment				
	Purchases of equities and other investments	**(50,189)**		(28,566)	
	Sales of equities and other investments	**53,717**		27,098	
	Other expenses	**(19)**		(14)	
	Net cash inflow/(outflow) from financial investment		**3,509**		(1,482)
	Equity dividends paid		**(4,850)**		(2,615)
	Net cash inflow/(outflow) before use of liquid resources and financing		**3,900**		(750)
	Management of liquid resources				
	Decrease/(increase) in short-term deposits		**1,700**		(1,700)
	Financing				
	Sterling loans (repaid)/raised	**(500)**		2,500	
	Purchase of ordinary shares	**(1,605)**		(2,419)	
	Cash outflow under Scheme of Arrangement	**–**		(1,675)	
	Proceeds from ordinary share issues and sale of treasury shares	**–**		2,973	
	Net cash (outflow)/inflow from financing		**(2,105)**		1,379
23	**Increase/(decrease) in cash**		**3,495**		(1,071)

Notes on the Accounts

1 General information

F&C Capital and Income Investment Trust PLC is an investment company incorporated in the United Kingdom with a listing on the London Stock Exchange. The registration number of the Company is 2732011 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 Section 842 has been received (subject to there being no subsequent enquiry) in respect of the year ended 30 September 2005 and all previous financial years. Such approval exempts the Company from UK corporation tax on gains realised on its portfolio of fixed asset investments.

2 Significant accounting policies

(a) Basis of accounting

The accounts of the Company have been prepared under the historical cost convention, modified to include fixed asset investments 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.

(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 below). Net revenue returns are allocated via the revenue account to the revenue reserve, out of which dividend payments are made. Capital returns include, but are not limited to, realised and unrealised profits and losses on fixed asset investments and derivative instruments 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 October 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 quoted investments is deemed to be the bid value of those investments at the close of business on the relevant date. Previously, all quoted investments were valued at middle market value.

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

The comparatives for the year ended 30 September 2005 have been restated to give effect to the above changes. Notes 9, 11, 20 and 25 on the accounts further explain the restatements.

(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, as transactions on the capital account. Purchases are recognised on the relevant trade date, inclusive of expenses which are incidental to their acquisition. Sales are also recognised on the trade date, after deducting expenses incidental to the sales.

Quoted investments are valued at bid value at the close of business on the relevant date on the exchange on which the investment is quoted.

2 Significant accounting policies (continued)

(ii) Borrowings

Loans and overdrafts are recorded at the proceeds received, net of issue costs, irrespective of the duration of the instrument.

(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 reserves.

(v) Expenses, including finance charges

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

- expenses incidental to the acquisition or disposal of fixed assets investments are included within the cost of the investments or deducted from the disposal proceeds of investments and are thus charged to capital reserve realised via the capital account; and
- 50% of management fees, including related irrecoverable VAT, and 50% of finance costs 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 of the Company.

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 called-up share capital and into the capital redemption reserve.

(viii) Special reserve

The costs of purchasing ordinary share capital are accounted for in this reserve.

Notes on the Accounts (continued)

2 Significant accounting policies (continued)

(ix) 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,.

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

	2006 £'000s	2005 £'000s
Income from investments		
UK dividends	6,779	4,473
UK unfranked interest	21	40
Overseas dividends	205	329
	7,005	4,842
Other income		
Interest on cash and short-term deposits	70	31
Underwriting commission	13	3
	83	34
Total income	7,088	4,876
Total income comprises:		
Dividends	7,005	4,842
Other income	83	34
	7,088	4,876
Income from investments		
Listed UK	6,800	4,513
Listed overseas	205	329
	7,005	4,842

4 Management fee

	2006 £'000s	2005 £'000s
Management fee	804	538
Irrecoverable VAT thereon*	140	94
	944	632
Less: allocated to capital reserve realised (see note 20)	(472)	(316)
	472	316

* 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.

The Manager provides investment management and general administrative services to the Company for a quarterly management fee payable in arrears equal to 0.1% of the funds under management. The management agreement may be terminated upon six month's notice given by either party.

5 Other expenses

	2006 £'000s	2005 £'000s
Auditors' remuneration:		
for audit services	28	25
other services*	9	3
Custody fees	7	2
Directors' emoluments:		
fees for services to the Company (see Directors' Remuneration Report on page 25)	80	65
Directors' and Officers' Liability insurance	13	15
Marketing	77	56
Private Investor Plan expenses	125	19
Printing and postage	60	33
Registrars fees	26	14
Sundry expenses	51	62
	476	294

All expenses are stated gross of irrecoverable VAT where applicable.

*In addition, the auditors received £35,000 in respect of liquidation of the subsidiary company (see note 20).

6 Directors' remuneration and contracts

(a) Remuneration

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 did not include any payments or rights to pensions are detailed in the table in the Directors' Remuneration Report on page 25.

(b) Directors' interests in shares

The beneficial interests of the directors in the ordinary shares of the Company at 30 September were as follows:

	2006 Beneficial	2005 Beneficial
Pen Kent (Chairman)	–	–
Neil Dunford	7,588	7,588
John Emly	3,986	3,923
James Norton	–	–
Hugh Priestley	15,000	1,000

Since the year end Mr Emly acquired a further 10 shares, resulting in a total holding of 3,996 shares. There have been no other changes in any of the Directors' interests in shares detailed above since the Company's year end. No director held any interest, beneficial or otherwise, in the issued shares of the Company other than stated above.

(c) Directors' interests in contracts

No contract of significance to which the Company is a party and in which a Director is or was materially interested subsisted during the year.

7 Interest payable and similar charges

	2006 £'000s	2005 £'000s
On bank loans and overdrafts repayable within five years, not by instalments	458	356
Less: allocated to capital reserve realised (see note 20)	(229)	(178)
	229	178

Notes on the Accounts (continued)

8 Taxation on ordinary activities

(a) Analysis of tax charge for the year

	Revenue £'000s	Capital £'000s	2006 Total £'000s	Revenue £'000s	Capital £'000s	2005 Total £'000s
Overseas taxation	**33**	**–**	**33**	43	–	43
Current tax charge on ordinary activities (see note 8(b))	**33**	**–**	**33**	43	–	43

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

	Revenue £'000s	Capital £'000s	2006 Total £'000s	Revenue £'000s	Capital Restated £'000s	2005 Total Restated £'000s
Return on ordinary activities before tax	**5,912**	**22,027**	**27,939**	4,089	26,734	30,823
Return on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005: 30%)	**1,774**	**6,608**	8,382	1,227	8,020	9,247
Effects of:						
UK franked dividends*	**(2,034)**	**–**	**(2,034)**	(1,342)	–	(1,342)
Excess expenses not utilised	**235**	**210**	**445**	123	148	271
Expenses not deductible for tax purposes	**30**	**–**	**30**	10	–	10
Overseas taxation not relieved	**23**	**–**	**23**	30	–	30
Movement in taxable income accruals	**5**	**–**	**5**	(5)	–	(5)
Capital returns*	**–**	**(6,818)**	**(6,818)**	–	(8,168)	(8,168)
Total current taxation (see note 8(a))	**33**	**–**	**33**	43	–	43

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

The deferred tax asset of £2.0m (2005: £1.1m) in respect of unutilised expenses at 30 September 2006 has not been recognised as it is unlikely that these expenses will be utilised.

9 Return per ordinary share

Revenue return

The revenue return per share is based on the revenue return attributable to equity shareholders of £5,879,000 (2005: £4,046,000).

Capital return

The capital return per share is based on the capital return attributable to equity shareholders of £22,027,000 (2005: £26,734,000 restated). The capital return for the year ended 30 September 2005 has been decreased by £51,000 (0.8 pence per share). This reflects the effect of the decrease in valuation of investments at 30 September 2004 by £83,000 and 30 September 2005 by £134,000.

Both the revenue and capital returns are based on a weighted average of 81,045,828 (2005: 61,686,327) ordinary shares in issue during the year. Shares held in treasury have been excluded from the weighted average number of shares in issue with effect from the date of purchase.

10 Dividends

Dividends on ordinary shares	Register date	Payment date	2006 £'000s	2005 £'000s
Final for year ended 30 September 2004 of 2.725p per share	07 January 2005	04 February 2005	–	1,294
First of two interims for the year ended 30 September 2005 of 2.725p per share	22 April 2005	20 May 2005	–	1,321
Second of two interims for the year ended 30 September 2005 of 1.40p per share	09 September 2005	31 October 2005	1,140	–
Final for year ended 30 September 2005 of 1.675p per share	06 January 2006	03 February 2006	1,359	–
First of three interims for the year ended 30 September 2006 of 1.40p per share	03 March 2006	03 April 2006	1,135	
Second of three interims for the year ended 30 September 2006 of 1.50p per share	09 June 2006	03 July 2006	1,216	
			4,850	2,615

The third interim dividend of 1.50p per share in respect of the year ended 30 September 2006 was paid on 2 October 2006 to shareholders registered on 1 September 2006. The total cost of this dividend, based on 80,684,140 shares entitled to dividend, was £1,210,000. The Directors recommend a final dividend in respect of the year ended 30 September 2006 of 2.10p per share payable on 2 February 2007 to all shareholders on the register at close of business on 5 January 2007. The recommended final dividend is subject to approval by shareholders at the Annual General Meeting. Neither the recommended final dividend nor the third interim dividend has been included as a liability in these financial statements. Previously dividends were recognised in respect of the period to which they related. The dividends paid and payable in respect of the financial year ended 30 September 2006, which form the basis of the retention for Section 842 of the Income and Corporation Tax Act 1988, are set out below:

	2006 £'000s
Net revenue return attributable to equity shareholders	5,879
First interim for the year ended 30 September 2006 of 1.40p per share	(1,135)
Second interim for the year ended 30 September 2006 of 1.50p per share	(1,216)
Third interim for the year ended 30 September 2006 of 1.50p per share	(1,210)
Recommended final dividend for the year ended 30 September 2006 of 2.10p per share†	(1,693)
Estimated undistributed revenue for Section 842 purposes*	625

* Undistributed revenue represents 8.9% of income from investments of £7,005,000 (see note 3).

† Based on 80,616,268 shares in issue and entitled to dividend at 28 November 2006.

Notes on the Accounts (continued)

11 Investments

	Listed UK £'000s	Listed overseas £'000s	Total £'000s
Cost at 1 October 2005	138,729	8,858	147,587
Unrealised appreciation at 1 October 2005:			
– as previously stated	37,500	777	38,277
– adjustment for change in accounting policy	(121)	(13)	(134)
Unrealised appreciation – restated	37,379	764	38,143
Valuation at 1 October 2005 – restated	176,108	9,622	185,730
Movements in the year:			
Purchases at cost	41,179	4,478	45,657
Sales			
– proceeds	(40,579)	(9,599)	(50,178)
– realised gains on sales	3,954	1,890	5,844
Increase in unrealised appreciation	12,246	4,679	16,925
Valuation at 30 September 2006	192,908	11,070	203,978
Cost at 30 September 2006	144,186	9,532	153,718
Unrealised appreciation at 30 September 2006	48,722	1,538	50,260
Valuation at 30 September 2006	**192,908**	**11,070**	**203,978**

The investment portfolio is set out on pages 8 and 9.

Gains and losses on investments

	2006 £'000s	2005 Restated* £'000s
Realised gains based on historical cost	**10,652**	5,073
Amounts recognised as unrealised (gains)/losses in previous years	**(4,808)**	1,808
Realised gains based on carrying value at previous balance sheet date	**5,844**	6,881
Increase in unrealised appreciation	**16,925**	20,353
Gains on investments	**22,769**	27,234

* Investments at 30 September 2005 have decreased in value by £134,000 and at 30 September 2004 by £83,000, reflecting the change in accounting policy set out in note 2. The net effect of these changes, £51,000, has been adjusted in the net movement in unrealised appreciation in 2005.

Investment in Subsidiary

The Company holds 100% of the issued share capital of F&C Income Growth Investment Trust (FIGIT), a dormant company in liquidation, valued at £nil.

12 Debtors

	2006 £'000s	2005 £'000s
Investment debtors	**2,254**	5,792
Amount recoverable from overseas authorities	**3**	14
Prepayments and accrued income	**812**	776
	3,069	6,582

13 Creditors: amounts falling due within one year

Loans	2006 £'000s	2005 £'000s
Sterling loan repayable October 2006	8,000	–
Sterling loan repayable October 2005	–	8,500

At 28 November 2006, short-term borrowings were £8 million. The maximum unsecured loan facility is £20m.

14 Creditors: amounts falling due within one year

Other	2006 £'000s	2005 Restated* £'000s
Investment creditors	881	5,412
Accruals**	408	322
Bank overdraft	–	319
Share buybacks	155	113
	1,444	6,166

* Restated to reflect change in accounting policy (see note 2).

** Includes £244,000 payable to the Manager (2005: £217,000).

15 Geographical and industrial classification (total assets less current liabilities) excluding loans

	UK %	Europe %	2006 Total %	2005 Total %
Assets:				
Equities				
Oil & Gas	12.9	0.7	13.6	15.0
Basic Materials	6.4	–	6.4	6.9
Industrials	4.1	–	4.1	6.4
Consumer Goods	6.9	2.2	9.1	10.5
Health Care	9.0	–	9.0	9.8
Consumer Services	11.9	–	11.9	10.3
Telecommunications	5.3	–	5.3	5.8
Utilities	9.3	0.8	10.1	5.9
Financials	26.5	1.7	28.2	27.1
Technology	–	–	–	0.6
Total equities	92.3	5.4	97.7	98.3
Fixed Interest	–	–	–	0.6
Total investments	92.3	5.4	97.7	98.9
Net current assets	2.3	–	2.3	1.1
Total assets	94.6	5.4	100.0	
2005 totals	91.0	9.0	–	100.0

Notes on the Accounts (continued)

16 Called up share capital

Equity share capital	Shares held in Treasury Number	Shares entitled to dividend Number	Total shares in issue Number	Total shares in issue £'000s
Ordinary shares of 25p each				
Authorised			100,000,000	25,000
Balance brought forward	815,000	81,376,279	82,191,279	20,548
Purchase of ordinary shares held in treasury.	760,011	(760,011)	–	–
Balance carried forward	**1,575,011**	**80,616,268**	**82,191,279**	**20,548**

During the year 760,011 ordinary shares were purchased at a total cost of £1,647,000 and held in treasury.

Since the year end a further 50,000 ordinary shares have been purchased and held in treasury at a total cost of £118,000.

As at 28 November 2006, the total number of shares held in treasury is 1,625,011.

Ordinary shares held in treasury have no entitlement to dividends paid or proposed.

17 Share premium account

	2006 £'000s	2005 £'000s
Balance brought forward	**76,334**	18,771
Issue of ordinary shares	**–**	636
Sale of ordinary shares held in treasury	**–**	272
Issue of ordinary shares under the Scheme of Arrangement	**–**	56,655
Balance carried forward	**76,334**	76,334

18 Capital redemption reserve

	2006 £'000s	2005 £'000s
Balance brought forward and carried forward	**3,154**	3,154

19 Special reserve

	2006 £'000s	2005 £'000s
Balance brought forward	**11,960**	12,348
Purchase of ordinary shares held in treasury	**(1,647)**	(2,360)
Sale of ordinary shares held in treasury	**–**	1,972
Balance carried forward	**10,313**	11,960

20 Other reserves

	Capital reserve (realised) £'000s	Capital reserve (unrealised) £'000s	Capital reserves Total £'000s	Revenue reserve £'000s
Balance brought forward as previously stated	25,474	38,281	63,755	1,218
Add back dividend accrued at 30 September 2005	–	–	–	2,511
Less investment valuation restatement at 30 September 2006	–	(134)	(134)	–
Balance brought forward restated	25,474	38,147	63,621	3,729
Realised gains on investments*	5,844	–	5,844	–
Transfers on disposal of investments	4,808	(4,808)	–	–
Management fees and related VAT (see note 4)	(472)	–	(472)	–
Interest expense (see note 7)	(229)	–	(229)	–
Exchange gains and losses on currency balances	(24)	–	(24)	–
Other expenses	(17)	–	(17)	–
Increase in unrealised appreciation on investments	–	16,925	16,925	–
Dividends paid				(4,850)
Revenue return	–	–	–	5,879
Return attributable to equity shareholders	9,910	12,117	22,027	1,029
Balance carried forward	**35,384**	**50,264**	**85,648**	**4,758**

* Includes £35,000 paid to the auditors in respect of the liquidation of the subsidiary (see note 11).

Included within the capital reserve movement for the year are £247,000 of transactions costs on purchases of investments (2005: £139,000), and £69,000 of transaction costs on sales of investments (2005: £38,000). It also includes £237,000 (2005: £109,000) of dividends recognised as capital.

21 Net asset value per ordinary share

Net asset value per ordinary share is based on total net assets of £200,755,000 (2005: £179,346,000 restated) and on 80,616,268 (2005: 81,376,279) ordinary shares in issue at the year end, which excludes 1,575,011 shares held in treasury (2005: 815,000).

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

	2006 £'000s	2005 Restated £'000s
Net return before finance costs and taxation	28,397	31,179
Adjust for returns from non-operating activities:		
– Gains on investments	(22,769)	(27,234)
– Management fee allocated to capital	472	316
– Exchanges gains/(losses) of a capital nature	24	(8)
– Non-operating expenses of a capital nature	17	14
Return from operating activities	6,141	4,267
Adjust for non-cash flow items:		
Management fee allocated to capital	(472)	(316)
Exchange gains and losses of a revenue nature	(1)	1
Increase in accrued income	(37)	(351)
Increase in creditors	86	151
Net cash inflow from operating activities	5,717	3,752

Notes on the Accounts (continued)

23 Reconciliation of net cash movement to movement in net debt

	2006	2005
	£'000s	£'000s
Increase/(decrease) in cash	**3,495**	(1,071)
(Decrease)/increase in short-term deposits	**(1,700)**	1,700
Decrease/(increase) in short-term loans	**500**	(2,500)
Change in net debt resulting from cash flows	**2,295**	(1,871)
Exchange movement on currency balances	**(24)**	9
Movement in net debt during the period	**2,271**	(1,862)
Net debt brought forward	**(7,119)**	(5,257)
Net debt carried forward	**(4,848)**	(7,119)

	Balance at 1 October 2005	Cash flow	Exchange movement	**Balance at 30 September 2006**
Represented by:	£'000s	£'000s	£'000s	**£'000s**
Cash at bank/(overdraft)	(319)	3,495	(24)	**3,152**
Short-term deposits	1,700	(1,700)	–	**–**
	1,381	1,795	(24)	**3,152**
Short-term loans	(8,500)	500	–	**(8,000)**
	(7,119)	2,295	(24)	**(4,848)**

24 Risk Profile of financial assets and liabilities

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.

The Company's investment objective is to secure long-term capital and income growth from a portfolio consisting mainly of FTSE All-Share companies. The portfolio held throughout the year and at the year end is in line with the Company's investment objective. The Company has the power to take out both short- and long-term borrowings. No long-term borrowings were entered into during the year.

In pursuing its investment objectives, the Company faces financial risks to both assets and revenue. These risks, and the Directors' approach to the management of the risks, are described in the Business Review section on pages 12 to 16.

In the year to 30 September 2006 the Company did not make use of derivatives (2005: nil).

Financial Assets

The interest rate profile of the Company's financial assets (excluding short-term debtors) at 30 September 2006 was:

Currency	Floating rate financial assets £'000s	Fixed rate financial assets £'000s	Weighted interest average rate %	Weighted average period for which rate is fixed
Sterling (undated)	3,152	–	–	–

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 balances that bear interest on the equivalent benchmark for their respective countries.

24 Risk Profile of financial assets and liabilities (continued)

The interest rate profile of the Company's financial assets (excluding short-term debtors) at 30 September 2005 was:

Currency	Floating rate financial assets £'000s	Fixed rate financial assets £'000s	Weighted average interest rate %	Weighted average period for which rate is fixed
Sterling (fixed period)	–	2,885	8.5	1.8 years
Euro (undated)	1,270	–	–	–

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 balances that bear interest on the equivalent benchmark for their respective countries.

Financial Liabilities

The interest rate profile of the Company's financial liabilities (including short-term loans but excluding other short-term creditors) at 30 September 2006 was:

Currency	Floating rate financial liabilities £'000s	Fixed rate financial liabilities £'000s	Weighted average interest rate %	Weighted average period for which rate is fixed
Sterling	–	8,000	5.26	8 days

The interest rate profile of the Company's financial liabilities (including short-term loans but excluding other short-term creditors) at 30 September 2005 was:

Currency	Floating rate financial liabilities £'000s	Fixed rate financial liabilities £'000s	Weighted average interest rate %	Weighted average period for which rate is fixed
Sterling	10,089	–	–	–

Floating rate financial liabilities generate interest based on competitive bank rates.

Currency Exposure

The profile of the Company's net monetary assets/(liabilities) at 30 September 2006, by currency, was:

	Sterling £'000s	Euro £'000s	Total £'000s
Net monetary assets	**189,681**	**11,074**	**200,755**

The profile of the Company's net monetary assets/(liabilities) at 30 September 2005, by currency, was:

	Sterling £'000s	Swiss franc £'000s	Euro £'000s	Swedish Krona £000s	Total £'000s
Net monetary assets	162,740	1,708	14,898	–	179,346

Fair Value

The Directors are of the opinion that there are no material differences between fair value of the financial assets and liabilities and the value as disclosed in the balance sheet,

Notes on the Accounts (continued)

24 Risk Profile of financial assets and liabilities (continued)

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. 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 quoted 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 30 September 2006, the Company had an overdraft facility of £1 million and committed loan facilities of £20 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 quoted 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 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.

25 Restatement of opening balances

A reconciliation is given between the closing balances per the 30 September 2005 and 30 September 2004 accounts and the restated balances following adoption of revisions to UK GAAP.

Balance Sheet

		Previously reported 30 September 2005 £'000s	Adjustment £'000s	Restated 30 September 2005 £'000s	Previously reported 30 September 2004 £'000s	Adjustment £'000s	Restated 30 September 2004 £'000s
	Fixed Assets						
a	Investments	185,864	(134)	185,730	91,012	(83)	90,929
	Current assets						
	Debtors	6,582		6,582	609		609
	Cash at bank and short-term deposits	1,700		1,700	743		743
		8,282		8,282	1,352		1,352
	Current liabilities						
	Short-term loans	(8,500)		(8,500)	(6,000)		(6,000)
b	Other creditors	(8,677)	2,511	(6,166)	(2,065)	1,293	(772)
		(17,177)	2,511	(14,666)	(8,065)	1,293	(6,772)
	Net current liabilities	(8,895)	2,511	(6,384)	(6,713)	1,293	(5,420)
	Net assets	176,969	2,377	179,346	84,299	1,210	85,509
	Shareholders' equity						
	Called up share capital	20,548		20,548	12,051		12,051
	Share premium account	76,334		76,334	18,771		18,771
	Capital redemption reserve	3,154		3,154	3,154		3,154
	Special reserve	11,960		11,960	12,348		12,348
a	Capital reserves	63,755	(134)	63,621	36,970	(83)	36,887
b	Revenue reserve	1,218	2,511	3,729	1,005	1,293	2,298
	Total equity shareholders' funds	176,969	2,377	179,346	84,299	1,210	85,509
a	**Net asset value per ordinary share – pence**	217.47	2.92	220.39	177.62	2.55	180.17

Note to the restatement of opening balances

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

b Effect of recognising dividends in the period in which the Company is liable to pay them.

Ten Year Record

Assets

at 30 September

£'000s	1996†	1997	1998	1999	2000	2001	2002	2003	2004	2005*	**2006**
Total assets less current liabilities (excl. loans)	84,441	103,070	95,576	101,887	109,714	88,318	70,061	79,466	91,509	187,846	**208,755**
Prior charges (incl. loans)	–	–	–	–	5,400	–	–	–	6,000	8,500	**8,000**
Available for ordinary shares	84,441	103,070	95,576	101,887	104,314	88,318	70,061	79,466	85,509	179,346	**200,755**

Net Asset Value (NAV)

at 30 September

	1996†	1997	1998	1999	2000	2001	2002	2003	2004	2005*	**2006**
NAV per share	143.1p	174.6p	161.9p	191.1p	206.0p	175.4p	141.0p	158.5p	180.2p	220.4p	**249.0p**
NAV total return on 100p – 5 years (per AIC)											**163.4p**
NAV total return on 100p – 10 years (per AIC)											**228.6p**

Share Price

at 30 September

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	**2006**
Mid-market price per share	146.0p	145.0p	143.0p	171.5p	173.0p	161.5p	135.5p	159.0p	173.5p	211.3p	**233.5p**
(Premium)/discount to NAV (%)	(2.1)%	17.0%	11.7%	10.3%	16.0%	7.9%	3.9%	(0.3)%	3.7%	4.2%	**6.2%**
Share price High in year	147.0p	149.0p	182.5p	183.5p	192.0p	183.8p	195.0p	169.0p	177.0p	211.0p	**240.0p**
Share price Low in year	132.0p	132.0p	135.5p	136.0p	154.5p	141.5p	119.0p	122.0p	155.5p	174.0p	**196.0p**
Share price total return on 100p – 5 years (per AIC)											**170.0p**
Share price total return on 100p – 10 years (per AIC)											**217.0p**

Revenue

for the year ended 30 September

	1996	1997	1998	1999††	2000	2001	2002	2003	2004	2005	**2006**
Available for ordinary shares (£'000s)	2,713	2,704	2,785	2,964	2,546	2,872	2,460	2,629	2,597	4,046	**5,879**
Revenue return per share – pence	4.67p	4.58p	4.72p	5.19p	4.90p	5.70p	4.93p	5.28p	5.38p	6.56p	**7.25p**
Dividends per share – pence	4.15p	4.50p	4.65p	4.80p	4.95p	5.10p	5.25p	5.35p	5.45p	5.80p	**6.50p**

Performance

(rebased at 30 September 1996)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	**2006**
NAV per share	100.0	122.0	113.1	133.5	144.0	122.6	98.5	110.8	125.9	154.0	**174.0**
Mid-market price per share	100.0	99.3	97.9	117.5	118.5	110.6	92.8	108.9	118.8	144.7	**159.9**
Revenue return per share	100.0	98.1	101.1	111.1	104.9	122.1	105.6	113.1	115.2	140.5	**155.2**
Dividends per share	100.0	108.4	112.0	115.7	119.3	122.9	126.5	127.7	131.3	139.8	**156.6**
RPI	100.0	103.6	106.9	108.1	111.6	113.5	115.5	118.7	122.3	125.6	**130.1**

† The accounts for 1996 were restated in accordance with the Investment Trust SORP.
* Restated to reflect changes in accounting policies (see note 2 on the accounts)
†† Restated for the allocation of management fees and finance costs to capital.

Ten Year Record (continued)

Cost of running the Company (total expense ratio)

For the year ended 30 September

%	1996†	1997	1998	1999	2000	2001	2002	2003	2004	2005*	**2006**
Operating costs as a percentage of:											
Average net assets	0.59%	0.57%	0.57%	0.58%	0.61%	0.60%	0.67%	0.75%	0.74%	0.69%	**0.74%**
Average total assets	0.59%	0.57%	0.57%	0.58%	0.59%	0.59%	0.67%	0.75%	0.69%	0.66%	**0.70%**

Gearing

at 30 September

%	1996†	1997	1998	1999	2000	2001	2002	2003	2004	2005*	**2006**
Effective gearing/(net liquidity)	(1.40)%	(0.50)%	(2.20)%	(1.40)%	4.40%	(0.80)%	(1.30)%	(0.60)%	6.23%	2.94%	**1.81%**
Fully invested gearing	0.00%	0.00%	0.00%	0.00%	5.20%	0.00%	0.00%	0.00%	7.11%	4.74%	**3.99%**

† The accounts for 1996 were restated in accordance with the Investment Trust SORP.
* Restated to reflect changes in accounting policies (see note 2 on the accounts).

Definitions

Prior charges	All loans, overdrafts, etc., used for investment purposes.
Operating costs	All costs charged to revenue and capital, including performance-related management fees but excluding related taxation relief, interest costs, taxation, the costs of purchase of share capital and the costs of buying and selling of investments.
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 Price Index.
Average net assets	Average of net assets at end of each quarter.
NAV total return	Return on net assets per share assuming that all dividends paid to shareholders were reinvested.
Share price total return	Return to the investor on mid-market prices assuming that all dividends received were reinvested.
AIC	Association of Investment Companies.
Effective gearing	Prior charges at balance sheet value, less cash (adjusted for settlements) and fixed interest stocks, as a percentage of net assets (also termed "Actual Gearing"). Where cash and fixed interest stocks exceed prior charges, the Company has "net liquidity".
Fully invested gearing	Prior charges at balance sheet value as a percentage of net assets (also termed "Potential Gearing").

Notice of Annual General Meeting

Notice is hereby given that the thirteenth Annual General Meeting of the Company will be held at the registered office of the Company, Exchange House, Primrose Street, London EC2, on Tuesday, 30 January 2007 at 11.30 am for the following purposes:

Ordinary Business:

1. To receive and adopt the Directors' report and accounts for the year ended 30 September 2006.
2. To approve the Directors' Remuneration Report.
3. To declare a dividend on the ordinary shares.
4. To re-elect Mr Pen Kent as a Director.
5. To re-appoint PricewaterhouseCoopers LLP as auditors and to authorise the Directors to determine their remuneration.

Special Business:

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

   (a) the Directors be and they are hereby:

   (i) generally and unconditionally authorised, in accordance with Section 80 of the Companies Act 1985 (the "**Act**"), to exercise all the powers of the Company to allot relevant securities (as defined in that Section) up to an aggregate nominal amount of £1,007,078 during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the Annual General Meeting of the Company in 2008 (the "**relevant period**"), provided that there shall be deducted from such aggregate nominal amount the aggregate nominal amount of any shares held by the Company in treasury which are sold or otherwise transferred during the relevant period; and

   (ii) empowered, pursuant to Section 95 of the Act, to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the authority referred to in paragraph (a)(i) of this resolution, and/or to transfer equity securities which are held by the Company in treasury, during the relevant period up to an aggregate nominal amount of £1,007,078, in each case as if Section 89(1) of the Act did not apply to any such allotment or transfer,

   but so that this authority and power shall enable the Company to make offers or agreements which would or might require relevant securities or equity securities to be allotted or transferred after the expiry of this authority and power and notwithstanding such expiry the Directors may allot or transfer relevant securities and/or equity securities in pursuance of such offers or agreements; and

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

7. To consider and, if thought fit, pass the following resolution as a special resolution:
   THAT the Company be and is hereby and unconditionally authorised in accordance with Section 166 of the Companies Act 1985 (the "**Act**"), to make market purchases (within the meaning of Section 163 of the Act) of ordinary shares of 25 pence each in the capital of the Company ("**ordinary shares**") on such terms and in such manner as the Directors may from time to time determine, provided that:

   (a) the maximum number of ordinary shares hereby authorised to be purchased is 12,076,883;

   (b) the minimum price which may be paid for an ordinary share shall be 25 pence;

   (c) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased;

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

   (e) the authority hereby conferred shall expire on 29 July 2008, unless such authority is varied, revoked or renewed prior to such time by the Company in general meeting by special resolution; and

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

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

   THAT the Company's Articles of Association be and they are hereby amended with immediate effect by the deletion of existing Article 160.1 and the substitution therefor of the following new Article 160.1:

   "160.1 Subject to the provisions of the Act, the Company may indemnify any Director, alternate Director, Secretary or other officer of the Company or of any associated company (except the Auditors) out of the assets of the Company against all costs, charges, losses, damages and liabilities incurred by him in the actual or purported execution and /or discharge of his duties or exercise of his powers or otherwise in relation thereto. Any such indemnity may, at the Company's discretion, continue to apply in respect of such costs, charges, losses, damages and liabilities after the relevant person has ceased to be a Director, alternate Director, Secretary or other officer of the Company. The Company may also provide a Director with funds to meet expenditure incurred or to be incurred by him in defending criminal or civil proceedings or in connection with an application, as provided in the Act."

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

   THAT the Company's Articles of Association be and they are hereby amended with immediate effect by the deletion of the figure "£80,000" in Article 99.1 and the substitution therefor of the figure "£120,000".

By order of the Board	Registered Office:
F&C Management Limited	Exchange House
Secretary	Primrose Street
28 November 2006	London EC2A 2NY

Notes:

Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, only shareholders registered on the register of members of the Company at 11 pm on 28 January 2007 ("the specified time") shall be entitled to attend and vote or to be represented at the meeting in respect of shares registered in their name at that time. Changes to entries on the register of members after 11 pm on 28 January 2007 shall be disregarded in determining the rights of any person to attend and vote at the meeting. If the meeting is adjourned to a time not more than 48 hours after the time applicable to the original meeting the specified time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at 11 pm on the day which falls 48 hours before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at any time specified in that notice.

A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and vote instead of him or her. A proxy need not be a member of the Company.

To be valid, a form of proxy for use at the meeting and the power of attorney or other authority (if any) under which it is signed, or a notarially certified or office copy of such power or authority, must be deposited with the Company's registrars, Computershare Investor Services PLC, PO Box 1075, Bristol BS99 3ZZ not less than 48 hours before the time appointed for holding the meeting. In view of this requirement, investors holding shares in the Company through the F&C Child Trust Fund, F&C Personal Equity Plan, F&C Individual Savings Account, F&C Private Investor Plan or in an F&C Pension Savings Plan should ensure that forms of direction are returned to Computershare Investor Services PLC not later than 96 hours before the time appointed for holding the meeting.

The register of Directors' holdings is available for inspection at the registered office of the Company during normal business hours on any weekday and will be available at the place of the meeting from 15 minutes prior to the commencement of the meeting until the conclusion thereof.

No Director has a contract of service with the Company.

The final dividend in respect of the year ended 30 September 2006 will, if approved, be paid on 2 February 2007 to holders of ordinary shares on the register at the close of business on 5 January 2007.

Location of the Meeting

Information for Shareholders

Net Asset Value and Share Price

The Company's Net Asset Value (NAV) is released daily, on the working day following the calculation date, to the London Stock Exchange.

The current share price of F&C Capital and Income Investment Trust PLC is shown in the investment trust or investment companies section of the stockmarket page in most leading newspapers, usually under "F&C Capital and Income".

Performance Information

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

More up-to-date performance information is available on the Internet at www.fandc.com (select your country, click on "Investor", followed by "Investment Trusts"). This website also provides a monthly update on the Company's largest holdings, along with comments from the fund manager, under "downloads, factsheets".

Association of Investment Companies ("AIC")

F&C Capital and Income Investment Trust PLC is a member of the AIC, which publishes a monthly statistical information service in respect of member companies. The publication also has details of ISA, PEP and other investment plans available. For further details, please contact the AIC 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 £8,800 in the tax year ended 5 April 2007 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.

Income Tax

The proposed final dividend is payable on 2 February 2007. 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 F&C Capital and Income Investment Trust shares using a bank or stockbroker or through a telephone dealing service. The shares can also be bought online; the F&C website at www.fandc.com has a link to Selftrade one of Europe's biggest on-line stockbrokers.

Private Investor Plan ("PIP")

It only costs 0.2% (plus 0.5% Government Stamp Duty) to invest in F&C Capital and Income 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 online.

Gains arising from assets held in an Individual Savings Account are exempt from tax. Interest and dividends received on assets in this savings product are free of income tax. Although the dividend tax credit cannot be reclaimed there are income tax savings for higher rate taxpayers.

Personal Equity Plan ("PEP")

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

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info@fandc.com

Registrars:

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PO Box 82, The Pavilions, Bridgwater Road,

Bristol BS99 7NH

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