F&C Investments

F&C Capital and Income Investment Trust PLC

Report and Accounts

2007

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.

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all your ordinary shares in F&C Capital and Income Investment Trust PLC please forward this document, together with the accompanying documents, immediately to the purchaser or transferee or to the stockbroker, bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

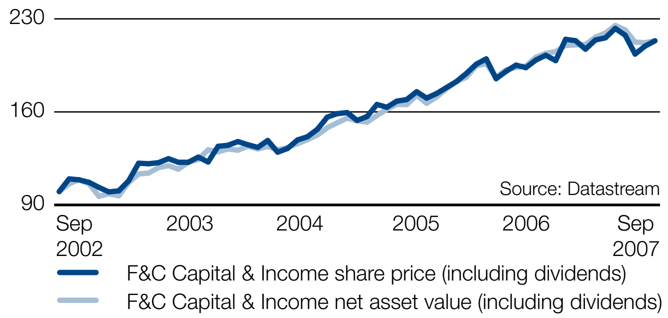
Registered in England with Company Registration No. 2732011

Financial Highlights

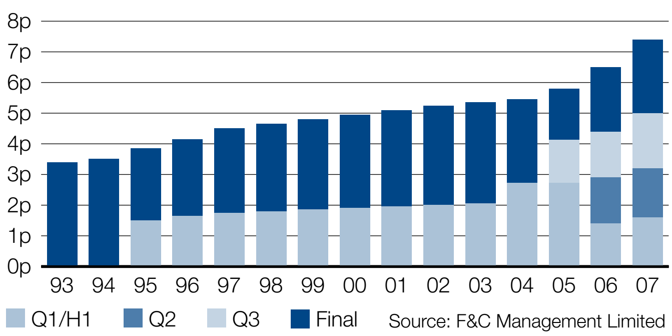
Summary of results

Attributable to equity shareholders	30 September 2007	30 September 2006	% Change
Net assets	**£204.13m**	£200.76m	+ 1.7
Net asset value per share	**258.76p**	249.03p	+ 3.9
Net revenue after tax	**£6.60m**	£5.88m	+ 12.3
Return per share – revenue	**8.25p**	7.25p	+ 13.8
Dividends per share	**7.40p**	6.50p	+ 13.8
Share price	**243.25p**	233.50p	+ 4.2

Total returns over five years – 2002 to 2007



Dividends per share – pence



Contents

Financial calendar

Annual General Meeting	**28 January 2008**
Final dividend payable	**31 January 2008**
First interim dividend payable	**March 2008**
Interim results for 2007/2008 announced	**May 2008**
Second interim dividend payable	**June 2008**
Third interim dividend payable	**September 2008**
Final results for 2007/2008 announced	**November 2008**

For investors through an F&C ISA or PEP who have elected to receive cash, the final dividend will be paid on or around 23 April 2008, in accordance with the terms and conditions of the F&C plans. The interim dividends are expected to be paid in April, July and October 2008.

Chairman's Statement

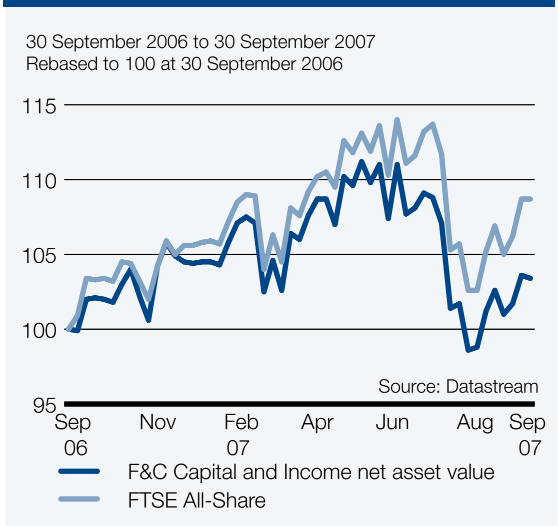
Dear Shareholder

Your Board is proposing a final dividend of 2.4 pence per share, which makes a total increase year-on-year of 13.8%. This maintains the record of rising annual dividends every year since launch. However, the gain in our net asset value ("NAV") per share was a relatively disappointing 3.9% compared to a rise in our Benchmark, the FTSE All-Share Index, of 8.7%. This is against a background of fluctuating global stock markets which became increasingly volatile because of the uncertainty of the impact of the US sub-prime mortgage crisis. Our long-term performance continues to be well ahead of our benchmark – as shown on the chart on page 3.

Capital performance

During the summer and autumn the problems in the US sub-prime mortgage market created very considerable uncertainty about the prospects for economic growth in the US and elsewhere. The response of the US monetary authorities in reducing interest rates and the injection of extra liquidity into the markets by the European Central Bank seemed to restore confidence and stock markets showed more resilience than many analysts predicted. Despite the run on Northern Rock, the UK stock market recovered most of its lost ground and by the end of the year was 8.7% higher than a year earlier. The UK stock market benefited during the year from reasonable levels of earnings and dividend growth and from continued corporate activity in mergers and acquisitions.

Net asset value performance over one year



Although the recent NAV performance of your Company has been somewhat disappointing, as already stated our results over the longer term have been good. This was primarily because we were relatively defensively positioned when the market was weak, but also kept a little ahead of the market when conditions turned more positive. Throughout this time, the investment approach used has been to focus predominantly on UK companies with a higher than average dividend yield and on their ability to increase the dividend significantly.

At the beginning of the year your Board reviewed this investment approach to consider whether there was a convincing case for increasing our risk appetite and therefore broadening the range of assets in our portfolio in pursuit of higher returns. We concluded that our shareholders had actively chosen our existing investment policy when they decided to buy shares in the Company and that it would be wrong to change it.

The Investment Manager's Review and Investment Portfolio by Sector look in more detail at the performance of the UK and European stock markets and your Company's holdings.

Revenue and dividend

Your Company has recorded a good increase in revenue and earnings over the year allowing us to declare our largest increase in the dividend since launch in 1992.

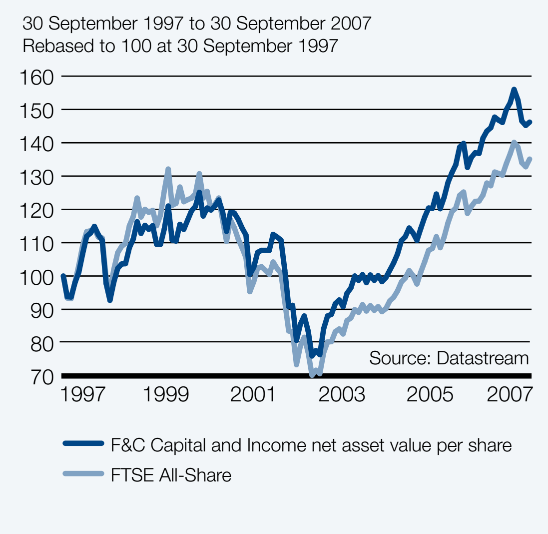
Income from investments, net return before taxation, and net return to shareholders all increased by more than 12% as many companies within the portfolio reported strong levels of dividend growth. Revenue return per share increased by 13.8% as there was a positive impact from the share buy-back programme.

The proposed final dividend of 2.4 pence per share brings the total dividend for the year to 7.4 pence per share, an increase of 13.8%. Over five years, the dividend has grown at a compound rate of 7.1%, well in excess of retail price inflation.

Share price performance and discount

The Directors remain committed to ensuring that the Company's share price does not trade at a material

Net asset value performance over ten years

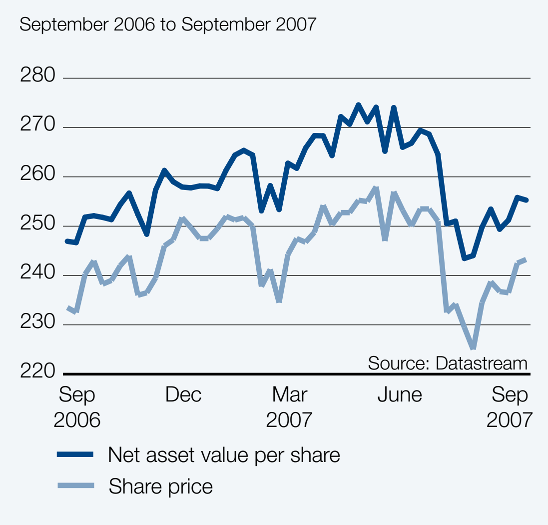


discount to NAV and to this end the Company maintains an active share buy-back programme. The share price started the year at a discount to NAV of 6.2% and finished at a discount of 6.0%, with an average discount over the year of 5.6%. In total 1.73 million shares, representing 2.1% of the shares in issue, were bought at an average discount of 6.8%.

Gearing

Throughout the year, the Company borrowed money to invest in equities. The amounts borrowed were relatively modest at between £8 million and £13 million compared to shareholders' equity of over £200 million. Over the year as a whole the impact of gearing was marginal as the total return on the portfolio was very similar to the cost of borrowing.

Share price and NAV per share



Shareholders

Your Board continues to value the benefits of a diversified shareholder base and is encouraged that there is a continued increase in the number of investors attracted to the Company via the F&C savings schemes. For historical reasons, the shareholder base has been dominated by investors who first came to the Company via Personal Equity Plans, but it is encouraging that there are now more than 6,500 investors via the Child Trust Fund and a growing number via the Individual Savings Account and the Private Investor Plan.

VAT

The Association of Investment Companies, of which your Company is a member, has recently won an important case in the European Court of Justice for all investment trust companies in the UK. It frees them in the future from VAT on management fees, thus reducing their total costs. The UK authorities have accepted the ruling in principle and it is highly probable that your Company will be able to recover at least some of the VAT suffered in the past on management fees. The Board is in discussion with the Manager and the Association of Investment Companies on how to calculate and recover the amounts due to us. The claims will also include VAT paid in earlier years by F&C Income Growth Investment Trust ("FIGIT") before it merged with your Company in 2005. It is for this reason FIGIT has been kept in legal being, albeit as a dormant company in liquidation. We are not yet able to quantify the size of our claims nor to know when it will be paid. Note 25 on the accounts contains more details.

Annual General Meeting ("AGM")

This year's AGM will be held on Monday 28 January 2008. As in previous years, the investment manager will make a presentation on investment policy and prospects for the coming year. I hope to welcome as many shareholders as are able to come to the meeting.

Chairman's Statement (continued)

Continuation Vote

There will be a quinquennial vote at this year's AGM on whether your Company should continue. Having consideration for the long-term record of capital performance and dividend growth, the Board believes it is in shareholders' best interests to continue and therefore encourages all shareholders to vote in favour of the resolution to be put to the AGM. Directors will be voting all their shares in favour of this resolution.

Prospects

At the time of writing it is impossible to foresee the full impact on the real economy of the turmoil in credit markets . If many banks have large losses and are forced to restrict rates of further lending, future rates of growth of the economy and of asset prices are likely to be reduced. The evidence, especially in the property sector, that this slowdown has started is getting stronger, although employment levels and consumer spending remain fairly robust despite high levels of personal indebtedness. There seems to be little impact on the economies of China and India which are fast becoming locomotive global economies. However, while interest rates are expected to decline over the next year, the inflationary pressures resulting from the recent sharp rise in oil prices will be a restraining influence on the Bank of England. On balance the risks to growth are increasing and the weakness of the dollar could add to strains in the financial sector.

The current valuation of the UK stock market is being tested by these uncertainties but current expectations for further growth in earnings and dividends remain quite encouraging. We may be in for a rather bumpy ride in the stock market but with dividends so far comfortably covered by earnings and the prospect of reasonable rates of future income growth from the portfolio, the outlook for the Company's own dividends remains positive.

P. H. Kent

Pen Kent
Chairman
November 2007

Manager's Review

Review of the stock market

The UK stock market recorded another positive move last year, building on the recovery from the bear market that ended in 2003. The FTSE All-Share Index ("the Index") fell from its peak in September 2000 by more than 50% but recovered strongly enough to set a new record closing level in July. Momentum has been slowing and the period from March to September saw a fall in the market as problems stemming from sub-prime lending in the US started to grow and spread into other areas. In response to the developing crisis, the US Federal Reserve cut interest rates and other central banks injected extra liquidity into money markets to try to ensure orderly conditions. This in turn caused equity markets to rally and retrace about half the loss from July's high point.

The strength of the equity market in the year under review was driven by two main features. First, there have been strong increases in corporate profit and dividends and secondly, interest rates and the cost of borrowing have remained reasonably low despite four base rate increases.

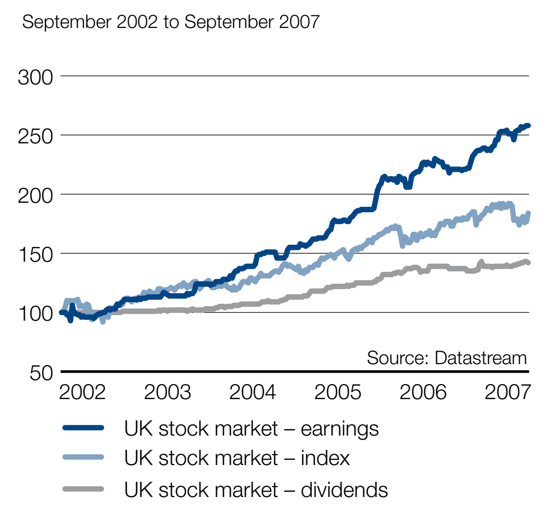
Over the last five years company earnings have increased considerably more rapidly than the Index as company profits have bounced back from the previous slow-down and as the benefit of past restructuring has come through. Dividend growth has not kept pace with earnings growth or the rise in the Index over this period, although the absolute level of increase has been attractive. The UK stock market is also increasingly international with the majority of earnings being generated overseas and those companies with exposure to the fast growing emerging markets have fared particularly well.

The second main factor behind the strength of the market has been the low cost of finance. Although interest rates are no longer as low as they were at the start of the decade when rates were cut to stimulate activity, they still remain fairly low in the context of the last 30 years. Having started the Company's financial year at 4.75%, UK interest rates finished the year at 5.75% after four increases. Low interest rates make it more attractive for companies to borrow for investment or for predators to try to acquire companies; they also make the returns available on equities appear more appealing relative to bonds.

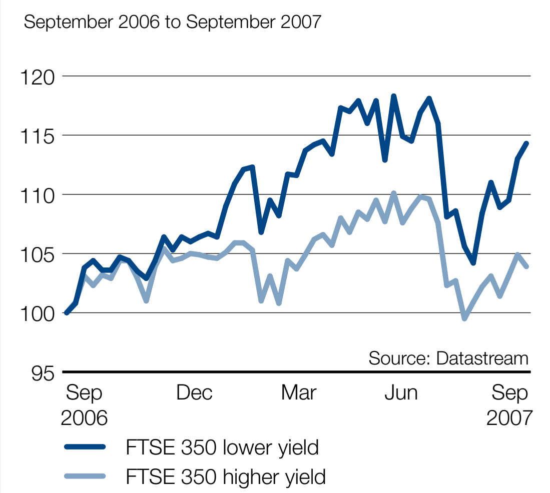
Performance within the stock market

The single digit return from the Index over the last year hides very considerable divergence at the stock and sector level, with the best performing sector, mining, up almost 60%, while banks and real estate were down 9% and 15% respectively. In general, the market exhibited strong correlation, with those stocks that had done well in previous years continuing to go up in value and with little mean reversion. This had an adverse impact on sectors with an above average yield to which, unsurprisingly, this portfolio has a relatively large exposure. The chart below shows the divergence between the FTSE 350 High Yield and

UK stock market over five years



Slower progress from high yielding shares



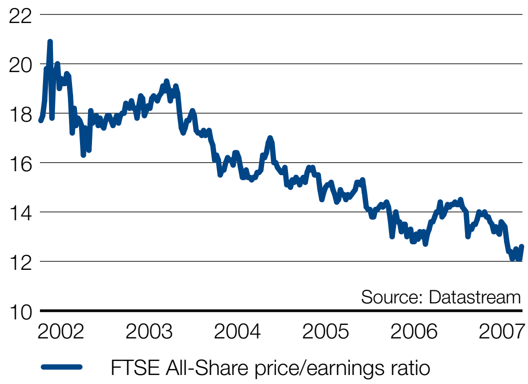
Manager's Review (continued)

Low Yield Indices over the last year and illustrates the head wind against which yield oriented funds have been battling.

The rapid industrialisation and growth of emerging markets, particularly China and India, has continued to have a strong influence on markets, especially commodities. Oil started the year trading at less than $60 per barrel, reaching more than $80 by the end of September, and then moving sharply towards $100. Copper doubled the previous year from $3,800 per tonne to $7,600 and was back above $8,000 per tonne at the year end after having fallen to $5,500 in between; this continued to have a positive impact on the mining sector.

FTSE All-Share price/earnings ratio

September 2002 to September 2007

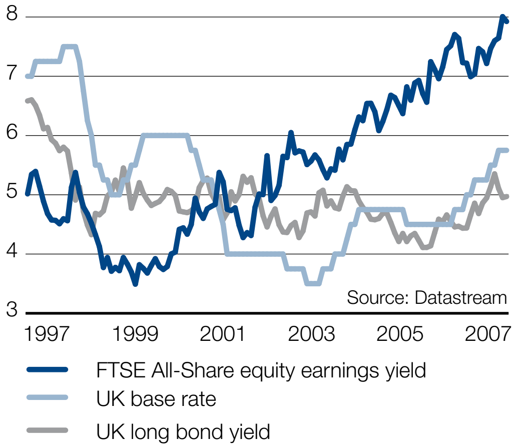


Valuation of the stock market

The effect of strong earnings growth and low interest rates makes equity valuations look attractive, whether looked at as an absolute level or relative to cash or bonds. Earnings growth in excess of the increase in the Index has caused the price/earnings multiple to decline with the Index appearing cheaper now than it was at the bottom of the last bear market.

Asset yields

September 1997 to September 2007



Looking at yields relative to other assets, the UK Benchmark Bond 15 years (where returns are fixed with zero growth) is yielding about 4.7%, while the earnings yield (the reciprocal of the price/earnings ratio) is close to 8% with the prospect of earnings growth from equities into the future. The main caveat to this analysis is that earnings have already seen strong increases and it is therefore possible, particularly with some sectors, such as banks, that earnings may disappoint in the short-term with current uncertain conditions.

Julian Cane
Fund Manager
November 2007

Twenty Largest Equity Holdings

This year	*Last year*	**Company** Description	% of total investments	Value £'000s
1	*(1)*	**BP** One of the largest integrated oil companies in the world; new management needs to turn around recent performance.	7.07	15,082
2	*(4)*	**Royal Dutch Shell** Leading international oil exploration, production and marketing group which has scope for efficiency increases.	5.94	12,676
3	*(3)*	**HSBC** The attractions of HSBC's investments in fast growing emerging markets offsets its exposure to sub-prime lending in the US.	5.94	12,663
4	*(5)*	**Vodafone** The world's leading mobile telephone provider with a strong international network.	5.29	11,290
5	*(2)*	**GlaxoSmithKline** One of the world's leading pharmaceutical companies and conservatively valued by historic standards.	4.86	10,376
6	*(9)*	**Rio Tinto** The mining industry is experiencing very strong operating conditions and BHP Billiton has recently announced its intention to acquire Rio Tinto.	4.55	9,715
7	*(8)*	**Scottish & Southern Energy** A well-managed multi-utility group with an attractive dividend yield and strong commitment to dividend growth.	3.68	7,857
8	*(10)*	**British American Tobacco** A leading international cigarette manufacturer and distributor with scope to generate further efficiency increases.	3.28	7,004
9	*(6)*	**Barclays** The valuation of this large retail and commercial bank already discounts very considerable bad news stemming from the current problems in the credit market.	2.93	6,248
10	*(14)*	**Tesco** The leading food retailer in the UK, continuing to expand through its non-food offerings and international expansion.	2.88	6,150
11	*(17)*	**National Grid** One of the world's largest utilities, owning and operating gas and electricity networks in the UK and US.	2.64	5,632
12	*(7)*	**AstraZeneca** A leading pharmaceutical company which is conservatively valued by historic standards.	2.53	5,388
13	*(15)*	**Royal Bank of Scotland Group** The valuation appears very low and discounting considerable bad news either from the acquisition of ABN Amro or its exposure to credit markets	2.21	4,709
14	*(15)*	**Diageo** A leading international drinks company with scope to increase returns and growth.	1.96	4,178
15	*(–)*	**Anglo American** Large international mining company benefiting from strong commodity prices.	1.68	3,590
16	*(–)*	**Reuters Group** News, financial information and transaction service company that is planning to merge with Thomson Group of Canada.	1.51	3,215
17	*(–)*	**Standard Chartered** International bank with strong, fast growing operations in emerging markets.	1.50	3,196
18	*(–)*	**United Utilities** Multi-utility group trading with an attractive yield.	1.41	3,008
19	*(–)*	**Cattles** Specialist money lender in the UK seeing fast rates of growth and stable bad debts.	1.33	2,844
20	*(–)*	**British Energy** The largest and most carbon efficient producer of electricity in the UK via its nuclear plants. It would be a beneficiary of new nuclear development, but is currently suffering operational problems.	1.25	2,670

The value of the twenty largest equity holdings represents 64.5% of the Company's total investments (30 September 2006: 61.5%).

Investment Portfolio by Sector at 30 September 2007

	% of total portfolio	% of FTSE All-Share Index
Oil & gas	**14.1**	**15.5**
The largest holdings in this sector by a large margin are the integrated oil majors, BP and Shell. These are substantial positions and are held for a combination of yield and a view that they will recover from recent operational difficulties and will benefit from a strong oil price.		
Basic materials	**7.6**	**10.0**
The mining companies have performed very strongly as rapidly increasing demand from China and other developing economies has continued to drive the commodity markets. In an environment where there has been no significant increase in supply, a period of consolidation may occur and it is interesting to note that BHP Billiton has announced its intention to acquire Rio Tinto, which is the portfolio's largest mining investment.		
Industrials	**4.6**	**7.1**
Wolseley and Intertek are the biggest holdings in this sector. Intertek is a global testing, inspection and certification business and should be a beneficiary of increasing levels of world trade coupled with regulation requiring more product testing. Wolseley is the world's largest distributor of heating and plumbing products; it is currently suffering from the housing slow-down in the US.		
Consumer goods	**11.8**	**9.5**
This is a broadly spread sector, with business interests including tobacco, drinks and house building. There were no changes to the major holdings of British American Tobacco, Diageo and Imperial Tobacco. The investment in housebuilder Bellway was reduced and a new holding in the food producer Unilever started in anticipation of a corporate turnaround.		
Health care	**7.4**	**6.9**
This sector is dominated by the large pharmaceutical companies, with investments in GlaxoSmithKline and AstraZeneca. No changes were made to either holding. Performance of the sector remains disappointing as the market focuses on short-term product difficulties while the valuations are low compared to historic ranges.		
Consumer services	**7.3**	**11.6**
This sector includes food retailers, travel and leisure companies and media. The most significant investment is in Tesco, whilst exposure to more discretionary consumer spending was reduced through the sale of Debenhams, Home Retail and Experian. The relatively recent holding in Reuters performed well on announced plans to merge with Thomson Group of Canada.		

	% of total portfolio	% of FTSE All-Share Index
Telecommunications	**7.5**	**6.8**
Vodafone has performed well over the year given its combination of an attractive dividend yield and growth from its exposure to emerging markets. It is the largest holding in the sector. The second largest holding is Inmarsat, a provider of global mobile satellite communication services which should benefit considerably from the introduction of mobile telephone calls in aircraft. Cable & Wireless is a new holding reflecting our confidence in the management.		
Utilities	**10.0**	**4.2**
There have been a number of changes in the sector as British Energy was a new addition, the holdings in United Utilities and National Grid were increased and Centrica reduced after strong performance. Scottish & Southern remains the largest utility investment.		
Financials	**23.2**	**27.4**
FInancials represent a large part of the UK equity market, primarily because of the size of the UK bank sub-sector. New investments over the course of the year were in Cattles, Man Group, the hedge fund manager, Northern Rock and Prodesse, a high-yielding investment. Northern Rock was the biggest single negative in the portfolio over the year as the shares fell sharply during a liquidity crisis. It has since been sold. The holding in New Star Asset Management was sold after strong performance from the initial placing.		
Technology	**–**	**1.0**
This is a small sector in the UK market and there are no holdings currently in the portfolio.		
Europe	**6.5**	**–**
The investments in Europe are held to diversify the portfolio through gaining exposure to industries or regions that cannot be accessed directly through UK companies, or to add exposure to companies that are cheaper than UK equivalents. The return from these European holdings was more than 30% over the year.		

List of Investments

Quoted Investments	Holding	30 September 2007 Value £'000s
UNITED KINGDOM – EQUITIES		
Alumasc	300,000	660
Anglo American	109,200	3,590
AstraZeneca	220,000	5,388
ATH Resources*	340,500	637
Aviva	190,000	1,398
Barclays	1,050,000	6,248
Bellway	165,000	1,698
BG	284,848	2,410
Biffa	165,000	364
BP	2,660,000	15,082
British American Tobacco	400,000	7,004
British Energy	500,000	2,670
BT	555,000	1,704
Cable & Wireless	531,232	976
Cattles	815,997	2,844
Centrica	557,100	2,118
Chesnara	370,000	650
Clarke (T)	271,000	507
Clarkson	73,000	708
Dee Valley	9,616	89
Diageo	389,000	4,178
Emap	104,166	916
Equest Balkan Properties*	606,264	521
Friends Provident	378,615	651
GlaxoSmithKline	800,000	10,376
Halfords	200,000	707
Hogg Robinson	698,957	447
Holidaybreak	90,000	668
HSBC	1,400,000	12,663
ICAP	390,000	2,055
Imperial Tobacco	100,000	2,240
Inchcape	538,428	2,267
Inmarsat	450,000	2,043
International Personal Finance	172,000	339
Intertek	260,000	2,458
Land Securities	140,000	2,355
Legal & General	1,310,400	1,749
Lonmin	25,000	912
Luminar	230,000	1,382
Man	200,000	1,106
Marstons	596,000	2,016
Menzies (John)	125,000	692
National Grid	718,410	5,632
Norcros	816,667	621
Northern Rock	425,000	762
Oakdene Homes*	305,882	468
Pendragon	1,000,000	598
Prodesse Investment	257,295	1,132
Provident Financial	86,000	769
Prudential	268,333	2,015
Punch Taverns	90,000	886
Raven Russia*	2,081,806	2,056
Resolution	330,000	2,252
Restaurant	444,444	1,201
Reuters	500,000	3,215
Rio Tinto	230,000	9,715
Royal Bank of Scotland	897,000	4,709
Royal Dutch Shell	630,000	12,676
Scottish & Southern Energy	520,000	7,857
SIG	113,873	1,183
Somero Enterprises*	456,150	557
Spectris	90,000	788
Standard Chartered	200,000	3,196
Tesco	1,400,889	6,150
TT Electronics	380,000	574
Unilever	100,000	1,545
United Utilities	430,000	3,008
Vodafone	6,400,000	11,290
Wolseley	300,000	2,478
XP Power	190,000	676
Yell	395,000	1,695
United Kingdom total		**199,190**

* Quoted on the Alternative Investment Market in the UK.

Quoted Investments	Holding	30 September 2007 Value £'000s
EUROPE – EQUITIES		
FINLAND		
Nokia	131,987	2,456
Finland total		2,456
FRANCE		
Carrefour	51,745	1,774
PPR	15,052	1,386
Rhodia	79,928	1,424
Suez	70,154	2,020
France total		6,604
GERMANY		
BMW	50,743	1,606
Fresenius Medical	75,984	1,978
Germany total		3,584
REPUBLIC OF IRELAND		
Smurfit Kappa	9,145	102
Republic of Ireland total		102
SPAIN		
Grifols	57	1
Spain total		1
SWITZERLAND		
EFG International	61,121	1,391
Switzerland total		1,391
Europe – total		**14,138**
TOTAL INVESTMENTS		**213,328**

The total number of companies in the portfolio is 81 (2006:85).

There are no convertible securities in the portfolio.

Directors

Pen Kent CBE 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 and Punjab National Bank International Ltd. *Aged 70*.

Neil Dunford

Neil joined the Board on 5 May 2005. 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 of Lloyd's Register Superannuation Fund. He is also an adviser to Lincolnshire County Council Pension Fund. He is a Chartered Accountant. *Aged 60*.

John Emly

John joined the Board on 5 May 2005. 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 66.*

Professor James (Jim) Norton

Appointed to the Board on 24 July 2001. He is 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. He is a Chartered Director and chairs the Company's Audit and Management Engagement Committee. *Aged 54.*

Hugh Priestley

Appointed to the Board on 9 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) and chairs the investment committee of the charity IndependentAge. *Aged 65*.

All the Directors are members of the Audit and Management Engagement Committee

Management and Advisers

The management company

The Company is managed by F&C Management Limited (the "Manager"), which is authorised and regulated in the UK by the Financial Services Authority, and is a wholly owned subsidiary of F&C Asset Management plc which is 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.

Julian Cane Fund Manager

Director of UK equities at F&C, has managed the Company since March 1997.

Simon Cordery

Head of investor relations, investment trust companies, responsible for marketing the Company to private client stockbrokers.

Norman Judd

Head of investment trust accounting, responsible for preparing the financial information reported by the Company.

Eric Mackay

Head of audit, risk and compliance, responsible for monitoring and reporting to the Company on internal controls and risk management.

Mike Woodward

Head of investment trusts at F&C and responsible for F&C's relationship with the Company.

Debbie Fish

Carries out the company secretarial duties of the Company on behalf of the Manager.

Investment Manager, Secretary and registered office

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Report of the Directors

The Directors present their report and the financial statements of the Company for the year ended 30 September 2007.

BUSINESS REVIEW

Introduction

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 investment objective and policy;
- 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").

Investment objective and policy

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 Board believes that the structure of the Company as a UK listed investment trust, with a fixed capital and an independent Board of Directors, is well suited to investors seeking longer-term returns.

The Company seeks to achieve this objective by identifying investments in companies which have good long-term prospects but whose share prices are depressed by adverse short-term sentiment, either because of difficulties or simply because they are unfashionable. Many of the stocks purchased have a higher than average dividend yield, which enables the Company to pay a consistently increasing dividend to its shareholders.

Investment risk is reduced by investing mainly in UK blue chip companies. The portfolio, which is set out in full on pages 10 and 11, is diversified, with 81 holdings as at 30 September 2007. The majority of holdings are in large and mid-capitalisation companies, although the Company does also hold investments in smaller companies. There is no maximum limit set for investment in smaller companies which, while considered attractive value from time to time, can be more volatile and vulnerable to market and other changes, but the Board seeks to ensure that investment in this area is limited.

No more than 10% of the portfolio (at the time of investment) will be invested in securities listed on the Alternative Investment Market, with 2% invested in this market at the year end. There are no unquoted investments in the portfolio, and no such securities will be purchased without the prior approval of the Board.

The Company may, from time to time, invest in leading overseas companies. Whilst no individual country limits are imposed, the total value of investments outside the UK will not exceed 10% of the Company's gross assets at the time of investment. As shown on page 11, 6.6% of the total portfolio was held outside the UK as at 30 September 2007, all in European stocks. The portfolio is well diversified across various sectors, as set out on pages 8 and 9, although no maximum exposure limits are set. No single investment in the portfolio will exceed 10% of the Company's total assets.

The Company may use derivatives principally for the purpose of efficient portfolio management, but to date has not done so.

The Company uses gearing to enhance its returns. The Articles of Association contain a borrowing limit equal to the value of its adjusted total of capital and reserves. However, the level of gearing within the portfolio would not normally be expected to exceed 20% of the portfolio value. At 30 September 2007 the effective gearing was 4.7%.

No more than 10% of the total assets of the Company will be invested in other listed investment companies (including investment trusts) except in such other investment companies which themselves have stated they will invest no more than 15% of their total assets in other listed investment companies, in which case the limit is 15%. The Company does not currently have any holdings in such companies.

Compliance with the investment policy is monitored by the Board.

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, whose appointment is approved by shareholders, is charged with ensuring that the Company complies with these regulations and is governed in the interests of its shareholders. In order to achieve this, 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 to 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 which can be terminated on six months' notice.

The Company falls within the definition of an investment company under section 266 of the Companies Act 1985. 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 repayments (capital profits). The financial statements, starting on page 29, 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 28.

In addition to annual and half-year results, the Company makes daily net asset value ("NAV") announcements via the Stock Exchange's Regulatory News Service ("RNS"). The Company will also submit interim management statements to the market via RNS in order to update shareholders between the annual and half-year reports. 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 performance with the Company's peer group. The Company also reports to shareholders on performance against the investment objective, corporate governance, investment activities, share buy-backs and other relevant items.

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 buy-backs and any other special business. The business of the next such Annual General Meeting ("AGM"), scheduled for 28 January 2008, 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 ("ICTA"). 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 wholly or 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;
- realised profits on sale of shares and securities may not be distributed by way of dividend; and
- the Company must not be a close company.

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 and including the year ended 30 September 2006, and the Company continues to comply with these rules. Whilst these rules are similar to those regulating open-ended investment companies and unit 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 12.

In common with most investment trusts, the Company does not have any executives or employees. Day-to-day management and administration of the Company has been delegated by the Board to F&C. The Board monitors performance and annually assesses the remuneration and re-appointment of the Manager (see page 18).

As part of the Board's governance process, regular reports from the Manager and from other independent sources are reviewed to assess the ongoing 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 ICTA. 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

As at 30 September 2007 there were 82,191,279 ordinary shares of 25 pence each in issue (including those held in treasury). 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 2008.

Every quarter, the Directors review the number of shares purchased and held in treasury. During the year under review a total of 1,727,000 ordinary shares, with a nominal value of £431,750, were purchased by the Company and held in treasury under the authority given at the AGM in January 2007. The prices paid for these shares ranged from 228.0 pence to 256.5 pence per share and the total cost amounted to £4,279,000. No shares were sold from treasury last year and 3,302,011 were held in treasury as at 30 September 2007. Since the year-end, the Company has bought back a further 235,000 shares for treasury. As at 27 November 2007, the total number of shares held in treasury was 3,537,011 which represents 4.3% of the ordinary shares in issue.

The revenue profits of the Company (including accumulated revenue reserves) are available for distribution by way of dividends to the holders of the ordinary shares (excluding those ordinary shares held in treasury which have no entitlement to dividends). On a winding up, after meeting the liabilities of the Company, the surplus assets will be paid to the holders of ordinary shares and distributed among such holders rateably.

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 will continue to be reviewed regularly by the Board. A summary of the Company's system of internal controls 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 against the Company's benchmark index and peer group. 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 programmes in place

for its employees and develops its recruitment and remuneration packages in order to retain key staff and undertakes succession planning.

- Regulatory – failure to comply with applicable legal and regulatory requirements could result in the Company losing its listing and or/being subject to corporation tax on 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 ICTA.
- 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 applicable laws and regulations 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 43 to 45.

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 £103.5 billion under management as at 30 September 2007.

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 and to make recommendations as to whether shares bought back 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;
- maintain compliance with relevant rules and regulations;
- operate shareholder savings plans and products in which the Company participates. These are designed to provide investors with a cost effective and flexible way to invest in the Company; and
- providing marketing and investor relations services to the Company.

The Manager carries out research and derives a value for each company that it analyses, which it uses as the basis upon which to buy or 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. 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 short-term opportunities.

Performance highlights

The Board monitors key performance indicator indices and ratios for the purpose of assessing and reporting investment performance. The Chairman, in his statement, summarises performance of the Company's NAV and share price against the FTSE All-Share Index for the year ended 30 September 2007 and over 10 years. He also describes the revenue performance and dividends paid for the year. Details relating to the performance of the investment portfolio for the year can be found in the Manager's Review on pages 5 and 6 and ten year statistics covering revenue and capital performance are set out on pages 46 and 47. The table below shows performance data over one, three and five years.

Report of the Directors (continued)

Total return performance

Returns	1 year %	3 years %	5 years %
Company net asset value	6.3	56.9	113.6
Company share price	7.3	53.7	113.5
Benchmark Index*	12.2	60.6	117.0

Source: Datastream
*Benchmark: FTSE All-Share Index.

The Board monitors, in particular, the following:

- AIC peer group of 25 "UK Growth and Income" investment trusts whose NAV and share price performance over one, three, five and ten years is set out in statistics produced monthly by the AIC. At 30 September 2007, the Company was 15th, 13th, 13th and 12th respectively in its peer group NAV performance over one, three, five and ten years, and 16th, 17th, 14th and 7th respectively in terms 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 6.2% compared with 6.0% 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 0.73%;
- 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 £8.0 million to £13.0 million; 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.

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 2007. In evaluating the performance of the Manager, the Board considers 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 longer term investment performance of the Manager, 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 Monday, 28 January 2008 at 11.30 am. The notice of meeting can be found on pages 48 and 49. In addition to the ordinary business of the meeting, the resolutions numbered 6 to 8 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 £983,178 (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 2009 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 NAV 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 11,790,274 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 25 pence 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 and/or reducing the discount. 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 NAV per ordinary share, which would have the effect of increasing NAV per ordinary share for the remaining shareholders. Any shares which are purchased will either be placed into treasury, or, failing that, cancelled.

Any purchase of shares would be financed out of realised 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 will continue until the expiry of 18 months from the date of the passing of the resolution unless it is varied, revoked or renewed prior to that by the Company in general meeting by special resolution. The Board intends to seek a renewal of such authority at subsequent AGMs.

Continuation vote (resolution 8)

In accordance with the Company's Articles of Association, an ordinary resolution for the continuation of the Company will be proposed at the AGM. The continuation of the Company will be proposed at every fifth AGM thereafter.

If the resolution is not passed, the Directors are required to formulate proposals to reorganise, reconstruct or wind up the Company to be put to shareholders within four months of the date on which the resolution was considered.

The Board believes that it is in the best interests of shareholders for the Company to continue and encourages shareholders to vote in favour of this resolution, as they intend to do in respect of their own beneficial shareholdings.

Form of proxy

Registered shareholders will find enclosed a form of proxy for use at the AGM. Please complete, sign and return the form of proxy in the envelope provided as soon as possible in accordance with the instructions, whether or not you intend to be present at the AGM. The return of a form of proxy will not preclude you from attending the meeting and voting in person if you wish to do so. A form of proxy should in any event be returned so as to be received by 11.30 am on 26 January 2008.

Form of direction

Participants in the various F&C plans will find enclosed a form of direction. Please complete and sign the form of direction as soon as possible in accordance with the instructions and ensure, in any event, that it is returned in the enclosed envelope to Computershare Investor Services PLC not later than 11.30 am on 23 January 2008 in order for the plan administrator to submit a form of proxy in compliance with the deadline stated above.

Recommendation

The Directors consider that the resolutions to be proposed at the meeting are in the best interests of shareholders as a whole and recommend that they

Report of the Directors (continued)

vote in favour as the Directors intend to do in respect of their own beneficial shareholdings.

OTHER MATTERS

Going concern

As the Directors are recommending that shareholders vote for the continuation of the Company, they believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts. 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 a Personal Equity Plan ("PEP"). 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.

Analysis of savings plans

	Number of holders	
30 September	**2007**	**2006**
CTF	6,597	4,438
ISA	2,428	2,231
PEP	5,742	6,203
PIP	5,448	4,465
PSP	379	423
Total	20,594*	17,760

*These investors hold 62,147,580 shares, which is 79% of the shares in issue (excluding treasury shares).

Dividends

The Directors recommend a final dividend in respect of the year ended 30 September 2007 of 2.40 pence per share payable on 31 January 2008 to all shareholders on the register at close of business on 4 January 2008. The three interim dividends together with the final dividend in respect of the year ended 30 September 2007 total 7.40 pence per share. This represents an increase of 13.8% over the 6.50 pence per share for the previous year.

Dividends for 2006 and 2007

Dividends paid:	£'000s
3rd interim for 2006 of 1.50 pence per share paid on 1 October 2006	1,210
Final dividend for 2006 of 2.10 pence per share paid on 1 February 2007	1,690
1st interim for 2007 of 1.60 pence per share paid on 29 March 2007	1,284
2nd interim for 2007 of 1.60 pence per share paid on 29 June 2007	1,275
3rd interim for 2007 of 1.80 pence per share paid 28 September 2007	1,423
	6,882

Significant voting rights

As at 27 November 2007 the Company had 78,654,268 ordinary shares in issue with a total of 78,654,268 voting rights. As at that date no notifications of significant voting rights in respect of the Company's ordinary share capital had been received.

Directors

All the Directors of the Company listed on page 12 held office throughout the year under review.

In accordance with the Articles of Association, Professor Jim Norton retires by rotation at the AGM and, being eligible, stands for re-election.

The Board has appraised the performance of Professor Jim Norton and recommends that, on the basis of his skills, knowledge and experience and valuable contribution in the role, he be re-elected at the AGM.

Each Director has a signed letter of appointment setting out the terms of his engagement as a non-executive Director, copies of which are available on request and at the AGM. Details of the Directors' shareholdings in the Company and their interests in contracts and agreements may be found in note 6 on page 36. No Director has a service contract with the Company. There were no contracts of significance to which the Company was a party and in which a Director is, or was, materially interested during the year.

On 15 May 2007 the Company entered into a deed poll providing the Directors with, inter alia, indemnities against liability to third parties arising in connection with any negligence, default, breach of duty or breach of trust by the Directors (such indemnities being qualifying third party indemnities, as permitted under the Companies Act 1985). This deed poll is available for inspection at the Company's registered office during normal business hours and at the AGM. The Company has in place insurance which indemnifies the Directors against certain liabilities arising in carrying out their duties.

Directors' remuneration

The Directors' Remuneration Report on page 26 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. The Directors' remuneration is not conditional upon the resolution being passed.

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 2007, the Company's outstanding trade creditors were equivalent to one day's payment to suppliers (2006: two days).

Independent auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution to reappoint 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 28. 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.

Donations

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

By order of the Board
F&C Management Limited, Secretary
27 November 2007

Corporate Governance

The Company is committed to high standards of corporate governance. The Board has considered the principles and recommendations of the AIC Code of Corporate Governance ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide"). The AIC Code 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 AIC Code, and by reference to the AIC Guide (which incorporates the Combined Code), provides better information to shareholders.

The Company has complied with the recommendations of the AIC 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 AIC 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 a nomination committee (for the reasons explained on page 24).

The Board

The Board currently comprises five non-executive Directors, all of whom are resident in the UK. Their biographical details, which are on page 12, 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. The Board is also responsible for the review and approval of the annual and half-year accounts.

Meeting attendance

	A	B
Number of meetings	**5**	**2**
Pen Kent	5	2
Neil Dunford	5	2
John Emly	5	2
Professor Jim Norton	5	2
Hugh Priestley	4	2

A = Board meetings.

B = Audit & Management Engagement Committee meetings.

The above table sets out the number of Board and committee meetings held during the year under review and the number of meetings attended by each Director. All Directors attended the AGM in January 2007.

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 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. This is in accordance with the AIC Code. 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 20, Professor Jim Norton will stand for re-election at the forthcoming AGM.

The AIC 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. Key representatives of the Manager also complete an evaluation survey on the Board. 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, John Emly. 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 is 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") currently comprises 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 12 and, in the light of their background, it is considered that the members of the Audit Committee have a range of recent and relevant financial experience.

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 22.

The primary responsibilities of the Audit Committee are to review the Company's accounting policies, the integrity and contents of its financial statements and compliance with regulatory and financial reporting requirements. It also reviews the Company's internal financial controls and the internal control and risk management systems applicable to the Company and the need for the Company to have its own internal control function.

It makes recommendations to the Board in relation to the reappointment of the auditors, their remuneration and terms of engagement and monitors the auditors' independence and objectivity and the effectiveness of the audit process. It develops and implements 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 and assessed the effectiveness of the external audit. The Audit Committee has taken into account the

Corporate Governance (continued)

standing, experience and tenure of the audit partner, the nature and level of services provided and confirmation that they have complied with all relevant 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 £2,650 net of VAT. In addition, £12,000 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 are 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 26, and note 6 on the accounts on page 36 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 page 16.

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 its 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. This included a review of the Manager's risk management infrastructure and the report on policies and procedures in operation and tests for the period 1 January to 31 December 2006 (the "Report") that has been prepared by the Manager for its investment trust clients to the standards of the Institute of Chartered Accountants in England and Wales Technical Release AAF (01/06). Containing a report from independent external accountants, the Report sets out the Manager's control policies and procedures with respect to the management of its clients' investments. The effectiveness of these controls is monitored by the Manager's group audit committee which receives regular reports from the Manager's audit, risk and compliance department and ensures that action would be taken to remedy any significant failings or weakness identified from this monitoring.

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 engages with investee companies on corporate governance and socially responsible investment and exercises voting rights on behalf of the Company.

In November 2004, the Manager outsourced certain of its administrative functions to Mellon Bank N.A. (London Branch) ("Mellon"). On 1 July 2007 the contract between Mellon and the Manager was terminated and these functions are now provided by the Manager. The Manager retained full responsibility for these functions throughout the year under review and thereafter.

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 Board anticipates that the Company will make its first interim management statement ("IMS") in accordance with the Disclosure and Transparency Rules of the UK Listing Authority in January 2008. Thereafter, the IMS is expected to be released to the market via the London Stock Exchange Regulatory News Service in January and July each year.

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 13.

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 figures, having previously been counted, are announced to the shareholders at the AGM and reported on the F&C 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.

Directors' Remuneration Report

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £120,000 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. As the Board of Directors comprises 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 Chairman receives a fee of £20,000 per annum and the other Directors each receive a fee of £15,000 per annum.

The amounts paid to each Director, which were for services to the Company solely in the capacity of non-executive Directors and have no performance related element, are set out in the table below.

Remuneration for qualifying services

Director	Fees for services to the Company 2007 £'000s	2006 £'000s
Pen Kent (Chairman)	**20**	20
Neil Dunford	**15**	15
John Emly	**15**	15
Professor Jim Norton	**15**	15
Hugh Priestley	**15**	15
Totals	**80**	80

The information in the above table has been audited (see the Independent Auditors' Report on page 28).

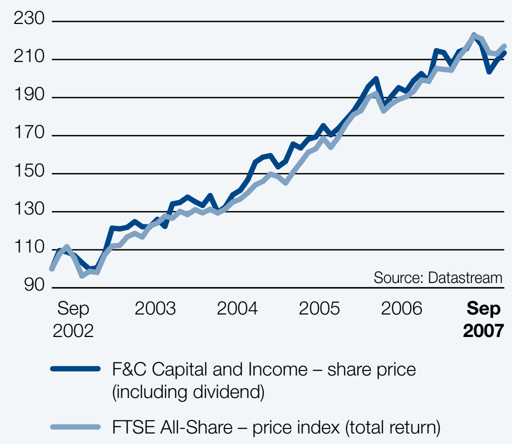
No Director past or present has any entitlement to a pension, and the Company has not awarded any share options or long-term performance incentives to any of the Directors.

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

By order of the Board
F&C Management Limited
Secretary
27 November 2007

Total shareholder return over 5 years

30 September 2002 to 30 September 2007
(Rebased to 100 at 30 September 2002)



The FTSE All-Share (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.

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 2007 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 Manager, F&C Management Limited ("F&C"). The content and integrity of the website maintained by F&C or any of its subsidiaries is, so far as it relates to the Company, the responsibility of F&C. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Overseas visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

Independent Auditors' Report

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

We have audited the financial statements of F&C Capital & Income Investment Trust PLC for the year ended 30 September 2007 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of Directors and auditor

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities. The Directors are also responsible for preparing the Directors' Remuneration Report. Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

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

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code 2003 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 September 2007 and of its net return and cash flows for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Hay's Galleria
1 Hay's Lane
London SE1 2RD
27 November 2007

Income Statement

Revenue notes	Capital notes	for the year ended 30 September	Revenue £'000s	Capital £'000s	2007 Total £'000s	Revenue £'000s	Capital £'000s	2006 Total £'000s
	11	Gains on investments	–	8,734	8,734	–	22,769	22,769
	20	Exchange gains/(losses)	–	1	1	1	(24)	(23)
3		Income	7,947	–	7,947	7,088	–	7,088
4	20	Management fee	(513)	(513)	(1,026)	(472)	(472)	(944)
5	20	Other expenses	(508)	(4)	(512)	(476)	(17)	(493)
		Net return before finance costs and taxation	6,926	8,218	15,144	6,141	22,256	28,397
7	20	Interest payable and similar charges	(285)	(285)	(570)	(229)	(229)	(458)
		Net return on ordinary activities before taxation	6,641	7,933	14,574	5,912	22,027	27,939
8		Taxation on ordinary activities	(37)	–	(37)	(33)	–	(33)
		Net return attributable to equity shareholders	6,604	7,933	14,537	5,879	22,027	27,906
9	9	**Return per ordinary share – pence**	8.25	9.92	18.17	7.25	27.18	34.43

The total column of this statement is the profit and loss account of the Company.

All revenue and capital items in the above statement derive from continuing operations.

A statement of total recognised gains and losses is not required as all gains and losses of the Company have been reflected in the above statement.

Reconciliation of Movements in Shareholders' Funds

Notes	**for the year ended 30 September 2007**	**Called-up share capital £'000s**	**Share premium account £'000s**	**Capital redemption reserve £'000s**	**Special reserve £'000s**	**Capital reserves £'000s**	**Revenue reserve £'000s**	**Total equity share-holders' funds £'000s**
	Balance brought forward at 1 October 2006	**20,548**	**76,334**	**3,154**	**10,313**	**85,648**	**4,758**	**200,755**
10	Dividends paid	**–**	**–**	**–**	**–**	**–**	**(6,882)**	**(6,882)**
16	Purchase of ordinary shares held in treasury	**–**	**–**	**–**	**(4,279)**	**–**	**–**	**(4,279)**
	Return attributable to equity shareholders	**–**	**–**	**–**	**–**	**7,933**	**6,604**	**14,537**
	Balance carried forward at 30 September 2007	**20,548**	**76,334**	**3,154**	**6,034**	**93,581**	**4,480**	**204,131**

Notes	for the year ended 30 September 2006	Called-up share capital £'000s	Share premium account £'000s	Capital redemption reserve £'000s	Special reserve £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total equity share-holders' funds £'000s
	Balance brought forward at 1 October 2005	20,548	76,334	3,154	11,960	63,621	3,729	179,346
10	Dividends paid	–	–	–	–	–	(4,850)	(4,850)
	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	2007 £'000s	£'000s	2006 £'000s
	Fixed assets				
11	Investments		**213,328**		203,978
	Current assets				
12	Debtors	**875**		3,069	
	Cash at bank and short-term deposits	**346**		3,152	
		1,221		6,221	
	Creditors: amounts falling due within one year				
13	Loans	**(10,000)**		(8,000)	
14	Other	**(418)**		(1,444)	
		(10,418)		(9,444)	
	Net current liabilities		**(9,197)**		(3,223)
	Net assets		**204,131**		200,755
	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		**6,034**		10,313
20	Capital reserves		**93,581**		85,648
20	Revenue reserve		**4,480**		4,758
	Total equity shareholders' funds		**204,131**		200,755
21	**Net asset value per ordinary share – pence**		**258.76**		249.03

Approved by the Board on 27 November 2007 and signed on its behalf by:

P.H. Kent

Pen Kent, Chairman

Cash Flow Statement

Notes	for the year ended 30 September	£'000s	2007 £'000s	£'000s	2006 £'000s
	Operating activities				
	Investment income received	7,824		6,970	
	Interest received	61		70	
	Other revenue	10		13	
	Fee paid to management company	(868)		(781)	
	Fees paid to Directors	(80)		(80)	
	Other cash payments	(571)		(475)	
22	**Net cash inflow from operating activities**		6,376		5,717
	Servicing of finance				
	Interest paid	(575)		(455)	
	Net cash outflow from the servicing of finance		(575)		(455)
	Taxation				
	Overseas tax paid	(41)		(21)	
	UK tax paid	(3)		–	
	Total tax paid		(44)		(21)
	Financial investment				
	Purchases of equities and other investments	(52,115)		(50,189)	
	Sales of equities and other investments	52,872		53,717	
	Other expenses	(5)		(19)	
	Net cash inflow from financial investment		752		3,509
	Equity dividends paid		(6,882)		(4,850)
	Net cash (outflow)/inflow before use of liquid resources and financing		(373)		3,900
	Management of liquid resources				
	(Increase)/decrease in short-term deposits		(4)		1,700
	Financing				
	Sterling loans raised/(repaid)	2,000		(500)	
	Purchase of ordinary shares	(4,434)		(1,605)	
	Net cash outflow from financing		(2,434)		(2,105)
23	**(Decrease)/increase in cash**		(2,811)		3,495

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 2006 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) Going concern

As referred to in the Chairman's Statement on page 3 and the Report of the Directors on page 19, resolution 8, proposing the continuation of the Company, will be put to the shareholders at the forthcoming Annual General Meeting on 28 January 2008. The Directors are recommending that shareholders vote "for" this resolution. The Directors therefore believe that it is appropriate for the accounts to be prepared on a going concern basis.

(b) 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.

(c) Principal accounting policies

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

(i) Fixed asset investments

As an investment trust, the Company measures its fixed asset investments at "fair value through profit or loss" and treats all transactions on the realisation and revaluation of investments 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.

(ii) Borrowings

Loans and overdrafts are recorded at the proceeds received, net of issue costs, irrespective of the duration of the instrument. Finance charges, including interest, are accrued using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period. See (v) below for allocation of finance charges within the Income Statement.

(iii) Foreign currency

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

(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 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 (FRS) 16 "Current Taxation" on the basis of income

Notes on the Accounts (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 asset investments are included within the cost of the investments or deducted from the disposal proceeds of investments and are thus charged to capital reserve realised via the capital account; 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 following are accounted for in this reserve:

- costs of purchasing ordinary share capital for cancellation; and
- costs of purchasing or selling ordinary share capital to be held in, or sold out of, treasury.

(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; and
- 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

	2007 £'000s	2006 £'000s
Income from investments		
UK dividends	7,544	6,779
UK unfranked interest	–	21
Overseas dividends	335	205
	7,879	7,005
Other income		
Interest on cash and short-term deposits	58	70
Underwriting commission	10	13
	68	83
Total income	7,947	7,088
Total income comprises		
Dividends	7,879	7,005
Other income	68	83
	7,947	7,088
Income from investments		
Quoted UK*	7,544	6,800
Quoted overseas	335	205
	7,879	7,005

* Includes investments quoted on the Alternative Investment Market in the UK.

4. MANAGEMENT FEE

	2007 £'000s	2006 £'000s
Management fee	873	804
Irrecoverable VAT thereon* (see note 25)	153	140
	1,026	944
Less: allocated to capital reserve realised (see note 20)	(513)	(472)
	513	472

* 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 months' notice given by either party.

Notes on the Accounts (continued)

5. OTHER EXPENSES

	2007 £'000s	2006 £'000s
Auditors' remuneration:		
for audit services[1]	28	28
for other services[2, 3]	3	9
Custody fees	7	7
Directors' emoluments:		
fees for services to the Company (see Directors' Remuneration Report on page 26)	80	80
Directors' and Officers' liability insurance	11	13
Marketing	82	77
Private Investor Plan expenses	154	125
Printing and postage	53	60
Registrars' fees	22	26
Sundry expenses	68	51
	508	476

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

1. Includes irrecoverable VAT of £4,000 (2006: £4,000).
2. Includes irrecoverable VAT of £500 (2006: £1,500)
3. In addition, during the year the auditors earned £12,000 in respect of the 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 are detailed in the table in the Directors' Remuneration Report on page 26 and were for services as non-executive Directors and did not include any payments or rights to pensions.

(b) Directors' interests in shares

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

	2007 Beneficial	2006 Beneficial
Pen Kent (Chairman)	–	–
Neil Dunford	7,588	7,588
John Emly	4,064	3,986
Professor Jim Norton	–	–
Hugh Priestley	15,000	15,000

There have been no changes in any of the Directors' interests in shares detailed above since the Company's year end. No Director held any interest, beneficial or otherwise, in the issued shares of the Company other than stated above.

(c) Directors' interests in contracts with the Company

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

	2007 Total £'000s	2006 Total £'000s
On bank loans and overdrafts repayable within five years, not by instalments	570	458
Less: allocated to capital reserve realised (see note 20)	(285)	(229)
	285	229

8. TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of tax charge for the year

	Revenue £'000s	Capital £'000s	2007 Total £'000s	Revenue £'000s	Capital £'000s	2006 Total £'000s
Overseas taxation	37	–	37	33	–	33
Current tax charge on ordinary activities (see note 8(b))	37	–	37	33	–	33

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

	Revenue £'000s	Capital £'000s	2007 Total £'000s	Revenue £'000s	Capital £'000s	2006 Total £'000s
Return on ordinary activities before tax	6,641	7,933	14,574	5,912	22,027	27,939
Return on ordinary activities multiplied by the standard rate of corporation tax of 30% (2006: 30%)	1,992	2,380	4,372	1,774	6,608	8,382
Effects of:						
UK franked dividends*	(2,259)	–	(2,259)	(2,034)	–	(2,034)
Excess expenses not utilised	233	239	472	235	210	445
Expenses not deductible for tax purposes	35	–	35	30	–	30
Overseas taxation not relieved	36	–	36	23	–	23
Movement in taxable income accruals	–	–	–	5	–	5
Capital returns*	–	(2,619)	(2,619)	–	(6,818)	(6,818)
Total current taxation (see note 8(a))	37	–	37	33	–	33

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

The deferred tax asset of £2.3 million (2006: £2.0 million) in respect of unutilised expenses and unrelieved overseas taxation at 30 September 2007 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 £6,604,000 (2006: £5,879,000).

Capital return

The capital return per share is based on the capital return attributable to equity shareholders of £7,933,000 (2006: £22,027,000).

Weighted average ordinary shares in issue

Both the revenue and capital returns are based on a weighted average of 80,004,514 (2006: 81,045,828) 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.

Notes on the Accounts (continued)

10. DIVIDENDS

Dividends on ordinary shares	Register date	Payment date	2007 £'000s	2006 £'000s
Second of two interims for the year ended 30 September 2005 of 1.40 pence per share	09 Sep 05	31 Oct 05	–	1,140
Final for year ended 30 September 2005 of 1.675 pence per share	06 Jan 06	03 Feb 06	–	1,359
First of three interims for the year ended 30 September 2006 of 1.40 pence per share	03 Mar 06	03 Apr 06	–	1,135
Second of three interims for the year ended 30 September 2006 of 1.50 pence per share	09 Jun 06	03 Jul 06	–	1,216
Third of three interims for the year ended 30 September 2006 of 1.50 pence per share	01 Sep 06	01 Oct 06	1,210	–
Final for the year ended 30 September 2006 of 2.10 pence per share	05 Jan 07	01 Feb 07	1,690	–
First of three interims for the year ended 30 September 2007 of 1.60 pence per share	02 Mar 07	29 Mar 07	1,284	–
Second of three interims for the year ended 30 September 2007 of 1.60 pence per share	08 Jun 07	29 Jun 07	1,275	–
Third of three interims for the year ended 30 September 2007 of 1.80 pence per share	31 Aug 07	28 Sep 07	1,423	–
			6,882	4,850

The Directors propose to pay a final dividend in respect of the year ended 30 September 2007 of 2.40 pence per share payable on 31 January 2008 to all shareholders on the register at close of business on 4 January 2008. The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The dividends paid and payable in respect of the financial year ended 30 September 2007, which form the basis of the retention for Section 842 of the Income and Corporation Tax Act 1988, are set out below:

	2007 £'000s
Net revenue return attributable to equity shareholders	6,604
First interim for the year ended 30 September 2007 of 1.60 pence per share	(1,284)
Second interim for the year ended 30 September 2007 of 1.60 pence per share	(1,275)
Third interim for the year ended 30 September 2007 of 1.80 pence per share pence	(1,423)
Proposed final dividend for the year ended 30 September 2007 of 2.40 pence per share†	(1,888)
Estimated undistributed revenue for Section 842 purposes*	734

* Undistributed revenue represents 9.3% of income from investments of £7,879,000 (see note 3).

† Based on 78,654,268 shares in issue and entitled to dividend at 27 November 2007.

11. INVESTMENTS

	Listed UK* £'000s	Listed overseas £'000s	2007 £'000s
Cost at 1 October 2006	144,186	9,532	153,718
Unrealised appreciation at 1 October 2006	48,722	1,538	50,260
Valuation at 1 October 2006	192,908	11,070	203,978
Movements in the year:			
Purchases at cost	42,775	8,459	51,234
Sales			
– proceeds	(42,041)	(8,577)	(50,618)
– realised gains on sales	2,572	1,210	3,782
Increase in unrealised appreciation	2,976	1,976	4,952
Valuation at 30 September 2007	199,190	14,138	213,328
Cost at 30 September 2007	155,676	11,783	167,459
Unrealised appreciation at 30 September 2007	43,514	2,355	45,869
Valuation at 30 September 2007	**199,190**	**14,138**	**213,328**

The investment portfolio is set out on pages 10 and 11.

*Includes investments quoted on the Alternative Investment Market in the UK.

Gains and losses on investments

	2007 £'000s	2006 £'000s
Realised gains based on historical cost	13,125	10,652
Less amounts recognised as unrealised gains in previous years	(9,343)	(4,808)
Realised gains based on carrying value at previous balance sheet date	3,782	5,844
Increase in unrealised appreciation	4,952	16,925
Gains on investments	8,734	22,769

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 (2006: £nil).

12. DEBTORS

	2007 £'000s	2006 £'000s
Investment debtors	–	2,254
Amount recoverable from overseas authorities	6	3
UK taxation recoverable	3	–
Prepayments and accrued income	866	812
	875	3,069

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Loans	2007 £'000s	2006 £'000s
Sterling loan at 6.65% repaid October 2007	8,500	–
Sterling loan at 6.61% repaid October 2007	1,500	–
Sterling loan at 5.26% repaid October 2006	–	8,000
	10,000	8,000

At 27 November 2007, short-term borrowings were £10 million. The maximum unsecured loan facility is £20 million.

Notes on the Accounts (continued)

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Other	2007 £'000s	2006 £'000s
Investment creditors	–	881
Management fee	249	244
Accruals	169	164
Share buy-backs	–	155
	418	1,444

15. GEOGRAPHICAL AND INDUSTRIAL CLASSIFICATION (TOTAL ASSETS LESS CURRENT LIABILITIES) EXCLUDING LOANS

	UK %	Europe %	2007 Total %	2006 Total %
Equity investments				
Financials	24.2	0.7	24.9	28.2
Oil & gas	14.8	–	14.8	13.6
Consumer goods	12.3	1.7	14.0	9.1
Utilities	10.5	1.0	11.5	10.1
Basic materials	7.9	0.7	8.6	6.4
Telecommunications	7.8	–	7.8	5.3
Health care	7.7	1.0	8.7	9.0
Consumer services	7.6	0.7	8.3	11.9
Industrials	4.7	–	4.7	4.1
Technology	–	1.2	1.2	–
Total investments	97.5	7.0	104.5	97.7
Net current (liabilities)/assets	(4.7)	0.2	(4.5)	2.3
Total assets	92.8	7.2	100.0	–
2006 total assets	94.6	5.4	–	100.0

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 25 pence each				
Authorised			100,000,000	25,000
Balance brought forward	1,575,011	80,616,268	82,191,279	20,548
Purchase of ordinary shares held in treasury	1,727,000	(1,727,000)	–	–
Balance carried forward	3,302,011	78,889,268	82,191,279	20,548

During the year 1,727,000 ordinary shares were purchased at a total cost of £4,279,000 and held in treasury. Since the year end a further 235,000 ordinary shares have been purchased and held in treasury at a total cost of £569,000. As at 27 November 2007, the total number of shares held in treasury is 3,537,011. Ordinary shares held in treasury have no entitlement to dividends paid or proposed.

17. SHARE PREMIUM ACCOUNT

	2007 £'000s	2006 £'000s
Balance brought forward and carried forward	**76,334**	76,334

18. CAPITAL REDEMPTION RESERVE

	2007 £'000s	2006 £'000s
Balance brought forward and carried forward	**3,154**	3,154

19. SPECIAL RESERVE

	2007 £'000s	2006 £'000s
Balance brought forward	**10,313**	11,960
Purchase of ordinary shares held in treasury	**(4,279)**	(1,647)
Balance carried forward	**6,034**	10,313

20. OTHER RESERVES

	Capital reserve – realised £'000s	Capital reserve – unrealised £'000s	Capital reserve – total £'000s	Revenue reserve £'000s
Movements in the year				
Realised gains on investments*	3,782	–	3,782	–
Transfers on disposal of investments	9,343	(9,343)	–	–
Management fees and related VAT (see note 4)	(513)	–	(513)	–
Interest expense (see note 7)	(285)	–	(285)	–
Exchange gains on currency balances	1	–	1	–
Other expenses	(4)	–	(4)	–
Increase in unrealised appreciation on investments	–	4,952	4,952	–
Revenue return	–	–	–	6,604
Return attributable to equity shareholders	12,324	(4,391)	7,933	6,604
Dividends paid	–	–	–	(6,882)
Balance brought forward	35,384	50,264	85,648	4,758
Balance carried forward	**47,708**	**45,873**	**93,581**	**4,480**

* Includes £12,000 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 £246,000 of transaction costs on purchases of investments (2006: £247,000) and £83,000 of transaction costs on sales of investments (2006: £69,000). There were no dividends recognised as capital.

21. NET ASSET VALUE PER ORDINARY SHARE

Net asset value per ordinary share is based on total net assets of £204,131,000 (2006: £200,755,000) and on 78,889,268 (2006: 80,616,268) ordinary shares in issue at the year end, which excludes 3,302,011 shares held in treasury (2006: 1,575,011).

Notes on the Accounts (continued)

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

	2007 £'000s	2006 £'000s
Total return before finance costs and taxation	15,144	28,397
Adjust for returns from non-operating activities:		
– Gains on investments	(8,734)	(22,769)
– Management fee allocated to capital	513	472
– Exchange (gains) and losses of a capital nature	(1)	24
– Non-operating expenses of a capital nature	4	17
Return from operating activities	6,926	6,141
Adjust for non-cash flow items:		
Management fee allocated to capital	(513)	(472)
Exchange losses of a revenue nature	–	(1)
Increase in accrued income	(52)	(37)
Increase in creditors	15	86
Net cash inflow from operating activities	6,376	5,717

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

	2007 £'000s	2006 £'000s
(Decrease)/increase in cash	(2,811)	3,495
Increase/(decrease) in short-term deposits	4	(1,700)
(Increase)/decrease in short-term loans	(2,000)	500
Change in net debt resulting from cash flows	(4,807)	2,295
Exchange movement on currency balances	1	(24)
Movement in net debt during the period	(4,806)	2,271
Net debt brought forward	(4,848)	(7,119)
Net debt carried forward	(9,654)	(4,848)

Represented by:	Balance at 1 October 2006 £'000s	Cash flow £'000s	Exchange movement £'000s	Balance at 30 September 2007 £'000s
Cash at bank	3,152	(2,811)	1	342
Short-term deposits	–	4	–	4
	3,152	(2,807)	1	346
Loans – short-term	(8,000)	(2,000)	–	(10,000)
	(4,848)	(4,807)	1	(9,654)

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 objective 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 on page 16 and in the table on pages 43 to 45.

The Company's financial instruments comprise both assets and liabilities, owned and incurred in accordance with the Company's objective and policies, as follows:

- equity securities held for long-term gain
- cash, liquid resources and short-term debtors and creditors
- short-term borrowings

In the year to 30 September 2007 the Company did not make use of derivatives (2006: nil).

There have been no changes during the year in accounting policies, assumptions or other valuation methods applying to financial instruments.

Currency risk profile

Financial assets

The currency profiles of the financial assets at 30 September are:

2007 Currency	**Investments £'000s**	**Short-term debtors £'000s**	**Cash and deposits £'000s**	**Total £'000s**
Sterling	199,190	863	(15)	**200,038**
Euro	12,747	12	361	**13,120**
Swiss franc	1,391	–	–	**1,391**
	213,328	875	346	**214,549**

2006 Currency	Investments £'000s	Short-term debtors £'000s	Cash and deposits £'000s	Total £'000s
Sterling	192,908	3,063	3,152	199,123
Euro	9,386	6	–	9,392
Swiss franc	1,684	–	–	1,684
	203,978	3,069	3,152	210,199

Financial liabilities

The currency profiles of the financial liabilities at 30 September are:

2007 Currency	**Short-term unsecured loans £'000s**	**Short-term creditors £'000s**	**Total £'000s**
Sterling	10,000	418	10,418

2006 Currency	Short-term unsecured loans £'000s	Short-term creditors £'000s	Total £'000s
Sterling	8,000	1,444	9,444

24. RISK PROFILE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The interest rate risk profile

The interest rate risk profile of the financial assets and liabilities at 30 September are:

2007	Cash flow interest risk £'000s	Fair value interest risk £'000s	No interest risk £'000s	Total £'000s
Investments held at fair value	–	–	213,328	**213,328**
Short-term debtors	–	–	872	**872**
Cash and deposits	346	–	–	**346**
Total financial assets	346	–	214,200	**214,546**
Short-term creditors	–	–	(418)	**(418)**
Short-term fixed rate loans*	(10,000)	–	–	**(10,000)**
Net financial assets/(liabilities)	(9,654)	–	213,782	**204,128**

2006	Cash flow interest risk £'000s	Fair value interest risk £'000s	No interest risk £'000s	Total £'000s
Investments held at fair value	–	–	203,978	203,978
Short-term debtors	–	–	3,069	3,069
Cash and deposits	3,152	–	–	3,152
Total financial assets	3,152	–	207,047	210,199
Short-term creditors	–	–	(1,444)	(1,444)
Short-term fixed rate loans *	(8,000)	–	–	(8,000)
Net financial assets/(liabilities)	(4,848)	–	205,603	200,755

* Maturity dates and applicable interest rates are set out in note 13.

Fair value of financial assets and liabilities

Financial instruments are stated in the balance sheet at values which approximate their fair values at the balance sheet date.

The fair value of listed investments is the bid market price, as set out in note 2 on the accounts. The balance sheet value of cash deposits and short-term debtors, loans and creditors approximate their value as a consequence of their short-term maturity.

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 2007, 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.

24. RISK PROFILE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Management of financial risks (continued)

Risk	Management of risk
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. CONTINGENT ASSET

The Association of Investment Companies and JPMorgan Claverhouse Investment Trust lodged a joint appeal in 2004 for the payment of management fees by investment trusts to be treated as exempt from VAT. In June 2007 the European Court of Justice ("ECJ") found in favour of the appellants, declaring that investment trusts should be treated as special investment funds and thus exempted from VAT on management fees. HM Revenue and Customs ("HMRC") recently announced that it will not appeal against the ECJ decision, in principle. Nevertheless, a number of legal and procedural matters remain to be resolved before certainty is reached in respect of entitlement to repayment of VAT paid in the past.

The Manager has submitted protective claims to HMRC in respect of approximately £740,000 of VAT paid by the Company and £243,000 paid by the Company's subsidiary, F&C Income and Growth Investment Trust (in liquidation), in periods since April 2001. Prior periods, which are not yet certain to fall within the scope of the ECJ ruling as a consequence of separate legal proceedings, have nevertheless also been protected by the Manager.

The likelihood of the Company realising some benefit from HMRC's decision to accept the ECJ ruling is highly probable, but the quantum of the benefit and timing of any receipt by the Company is dependent upon resolution of outstanding matters, including finalisation of agreement with the Manager. Therefore, it is not possible at this point in time to predict with any certainty or accuracy the amounts that might be received and accordingly no amount relating to a VAT repayment has been recognised as an asset within these accounts.

Ten Year Record

Assets

at 30 September (£'000s)	1997	1998	1999	2000	2001	2002	2003	2004	2005*	2006	2007
Total assets less current liabilities (excluding loans)	103,070	95,576	101,887	109,714	88,318	70,061	79,466	91,509	187,846	208,755	**214,131**
Loans	–	–	–	5,400	–	–	–	6,000	8,500	8,000	**10,000**
Available for ordinary shares	103,070	95,576	101,887	104,314	88,318	70,061	79,466	85,509	179,346	200,755	**204,131**

Net asset value (NAV)

at 30 September	1997	1998	1999	2000	2001	2002	2003	2004	2005*	2006	2007
NAV per share	174.6p	161.9p	191.1p	206.0p	175.4p	141.0p	158.5p	180.2p	220.4p	249.0p	**258.8p**
NAV total return on 100p – 5 years (per AIC)											**211.6p**
NAV total return on 100p – 10 years (per AIC)											**193.4p**

Share price

at 30 September	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Mid-market price per share	145.0p	143.0p	171.5p	173.0p	161.5p	135.5p	159.0p	173.5p	211.3p	233.5p	**243.3p**
Discount/(premium) to NAV(%)	17.0%	11.7%	10.3%	16.0%	7.9%	3.9%	(0.3)%	3.7%	4.2%	6.2%	**6.0%**
Share price high in year	149.0p	182.5p	183.5p	192.0p	183.8p	195.0p	169.0p	177.0p	211.0p	240.0p	**258.0p**
Share price low in year	132.0p	135.5p	136.0p	154.5p	141.5p	119.0p	122.0p	155.5p	174.0p	196.0p	**222.5p**
Share price total return on 100p – 5 years (per AIC)											**210.9p**
Share price total return on 100p – 10 years (per AIC)											**227.6p**

Revenue

for the year ended 30 September	1997	1998	1999†	2000	2001	2002	2003	2004	2005	2006	2007
Available for ordinary shares (£'000s)	2,704	2,785	2,964	2,546	2,872	2,460	2,629	2,597	4,046	5,879	**6,604**
Revenue return per share – pence	4.58p	4.72p	5.19p	4.90p	5.70p	4.93p	5.28p	5.38p	6.56p	7.25p	**8.25p**
Dividends per share – pence	4.50p	4.65p	4.80p	4.95p	5.10p	5.25p	5.35p	5.45p	5.80p	6.50p	**7.40p**

Performance

(rebased to 100 at 30 September 1997)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
NAV per share	100.0	92.7	109.5	118.0	100.5	80.8	90.8	103.2	126.2	142.6	**148.2**
Mid-market price per share	100.0	98.6	118.3	119.3	111.4	93.4	109.7	119.7	145.7	161.0	**167.8**
Revenue return per share	100.0	103.1	113.3	107.0	124.5	107.6	115.3	117.5	143.2	158.3	**180.1**
Dividends per share	100.0	103.3	106.7	110.0	113.3	116.7	117.8	121.1	128.9	144.4	**164.4**
FTSE All-Share Index	100.0	95.5	115.1	123.4	95.3	73.4	82.6	92.5	111.8	124.3	**135.1**
RPI	100.0	103.2	104.3	107.8	109.6	111.5	114.6	118.1	121.2	125.6	**130.6**

* Restated to reflect changes in accounting policies.

† Restated for the allocation of management fees and finance costs to capital.

Definitions

Total assets	Total assets less current liabilities (excluding loans).
NAV total return	Return on net assets per share with dividends paid to shareholders reinvested.
AIC	Association of Investment Companies.
Discount to NAV	Amount by which the middle market share price is less than the NAV.
Share price total return	Return on the middle market share price with dividends paid to shareholders reinvested.
RPI	All-items retail price index.

Costs of running the Company (total expense ratio)

for the year ended 30 September	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Operating costs as a percentage of:											
Average net assets	0.57%	0.57%	0.58%	0.61%	0.60%	0.67%	0.75%	0.74%	0.69%	0.74%	**0.73%**
Average total assets	0.57%	0.57%	0.58%	0.59%	0.59%	0.67%	0.75%	0.69%	0.66%	0.70%	**0.70%**

Gearing

at 30 September	1997	1998	1999	2000	2001	2002	2003	2004	2005*	2006	2007
Effective gearing/(net liquidity)	(0.50)%	(2.20)%	(1.40)%	4.40%	(0.80)%	(1.30)%	(0.60)%	6.23%	2.94%	1.81%	**4.74%**
Fully invested gearing	0.00%	0.00%	0.00%	5.20%	0.00%	0.00%	0.00%	7.11%	4.74%	3.99%	**4.91%**

* Restated to reflect changes in accounting policies.

Definitions

Operating costs	All costs charged to revenue and capital, other than interest costs, taxation, the costs of purchase of share capital and the costs of buying and selling investments.
Average net assets	The average of net assets at the end of each quarter.
Average total assets	The average of total assets at the end of each quarter.
Effective gearing	Loans, less cash (adjusted for settlements), as a percentage of net assets.
Fully invested gearing	Loans as a percentage of net assets.

Notice of Annual General Meeting

Notice is hereby given that the fifteenth Annual General Meeting of the Company will be held at the registered office of the Company, Exchange House, Primrose Street, London EC2, on Monday 28 January 2008 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 2007.
2. To approve the Directors' Remuneration Report.
3. To declare a final dividend on the ordinary shares.
4. To re-elect Professor Jim Norton 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 £983,178 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 2009 (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 £983,178, 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 11,790,274;

   (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 27 July 2009, 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.

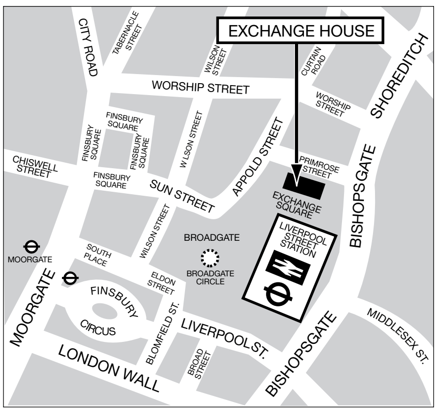
8. To consider and, if thought fit, pass the following resolution as an ordinary resolution:

   THAT, pursuant to Article 158A of the Company's Articles of Association, the Company continue as an investment trust.

By order of the Board
F&C Management Limited
Secretary
27 November 2007

Registered office:
Exchange House
Primrose Street
London EC2A 2NY

Location of meeting



Notes:

Only shareholders registered on the register of members of the Company at 11 pm on 26 January 2008 (the "specified time") shall be entitled to attend and vote or to be represented at the meeting in respect of the shares registered in their name at that time. Changes to entries on the register of members after 11 pm on 26 January 2008 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 is two business days 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, speak and vote at the meeting may appoint one or more proxies to attend, speak and vote instead of him/her. If you wish to appoint more than one proxy please contact the Company's registrars on 0870 889 4094. You may not appoint more than one proxy to exercise rights attached to any one share. A proxy need not be a member of the Company. If the Chairman, as a result of any proxy appointments, is given discretion to how the votes the subject of those proxies are cast and the voting rights in respect of those discretionary proxies, when added to the interests in the Company's securities already held by the Chairman, result in the Chairman holding such number of voting rights that he has a notifiable obligation under the Disclosure and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Services Authority.

Any such person holding 3% or more of the voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the Disclosure and Transparency Rules.

As at 27 November 2007, the latest practicable date prior to publication of this document, the Company had 78,654,268 ordinary shares in issue (excluding treasury shares) with a total of 78,654,268 voting rights.

This notice of meeting does not include an electronic address for the Company and accordingly all documents or information sent to the Company in relation to proceedings at this meeting, or proxies for the meeting, must be in hard copy form. 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, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY by 11.30 am on 26 January 2008. In view of this requirement, investors holding shares in the Company through the F&C Plans should ensure that forms of direction are returned to Computershare Investor Services PLC at the address on the form not later than 11.30 am on 23 January 2008.

The register of Directors' holdings, Directors' appointment letters and a deed poll in relation to Directors' indemnities are 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 any contract of service with the Company.

The final dividend in respect of the year ended 30 September 2008 will, if approved, be paid on 31 January 2008 to holders of ordinary shares on the register at the close of business on 4 January 2008.

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 May and December respectively.

More up-to-date performance information is available on the Internet at www.fandc.com (select your country, click on "Private Investors", then scroll down to the bottom of the page and select the Company from the drop-down menu under the title "F&C Funds"). The Company's section of the F&C Website also provides a link to a monthly factsheet which includes details of the Company's largest holdings, along with comments from the fund manager.

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.theaic.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 £9,200 in the tax year ending 5 April 2008 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.

Significant changes to the CGT regime were proposed in the October 2007 pre-budget report. These changes may come into force through inclusion in the Finance Bill 2008 which is subject to royal assent.

Income tax

The recommended final dividend is payable in January 2008. 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.

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The Association of
Investment Companies

How to Invest

Our Manager, F&C, runs a number of savings products which have been set up to provide cost effective and flexible ways to invest. Details of these products are listed below. You can 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 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 and friends) 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 annual limit is £7,200 from 6 April 2008) – 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. The annual management fee on the ISA is £60 plus VAT.

Gains arising from assets held in an ISA, CTF and PEP 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 HM Revenue and Customs' requirements. From 6 April 2008 all PEP accounts will become ISA accounts following a change in HMRC regulations.

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, Freepost RLRY–LYSR–KYBU, Clandeboye Business Park, West Circular Road, Bangor BT19 1AR.

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 Management Limited, authorised and regulated in the UK by the Financial Services Authority ("FSA").

Notes

Registered Office:

Exchange House, Primrose Street, London EC2A 2NY

Tel: 020 7628 8000 Fax: 020 7628 8188

www.fandc.com

info@fandc.com

Registrars:

Computershare Investor Services PLC,

PO Box 82, The Pavilions, Bridgwater Road,

Bristol BS99 7NH

Tel: 0870 889 4094 Fax: 0870 703 6143

www.computershare.com

web.queries@computershare.co.uk

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