F&C Capital and Income Investment Trust PLC

Report and Accounts

2008

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.

Visit the website at **www.fandccit.com**

Registered in England with company registration number 2732011.

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

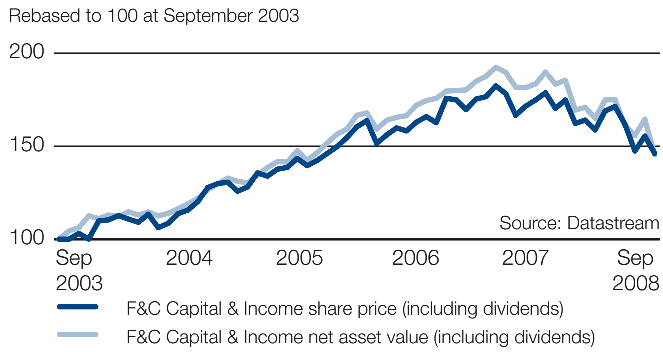
Financial Highlights

Summary of results

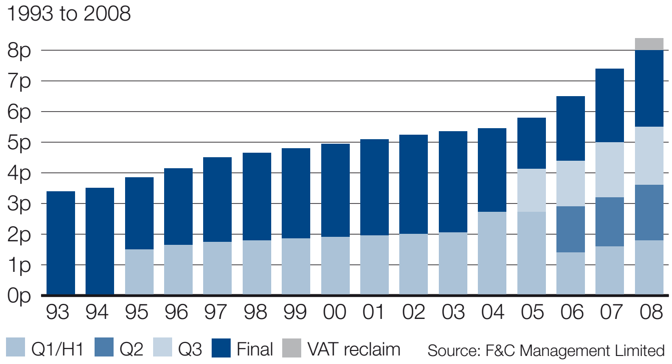
Attributable to equity shareholders	**30 September 2008**	30 September 2007	% Change
Net assets	**£158.20m**	£204.13m	-22.5
Net asset value per share	**200.45p**	258.76p	-22.5
Net revenue after tax	**£7.61m**	£6.60m	+ 15.3
Revenue return per share	**9.69p**	8.25p	+ 17.5
Dividends per share	**8.40p***	7.40p	+ 13.5
Share price	**196.50p**	243.25p	-19.2

* includes a special dividend of 0.4 pence per share.

Total returns over five years – 2003 to 2008



Dividends per share – pence



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Financial calendar

Annual general meeting	**15 January 2009**
Final and special dividends payable	**19 January 2009**
First interim dividend payable	**March 2009**
Half-year results for 2009 announced	**May 2009**
Second interim dividend payable	**June 2009**
Third interim dividend payable	**September 2009**
Final results for 2009 announced	**November 2009**

Chairman's Statement

Dear shareholder

Last year was one of the worst on record for UK equity investors with the FTSE All-Share Index falling by 25.1%. Our share price fell 19.2% and the net asset value ("NAV") per share declined 22.5%. Despite that, your Company's earnings per share still grew by 17.5% and we are recommending a final dividend of 2.5 pence per share and a special dividend of 0.4 pence per share as explained later. This brings the total dividend for the year to 8.4 pence – an increase of 13.5% year on year.

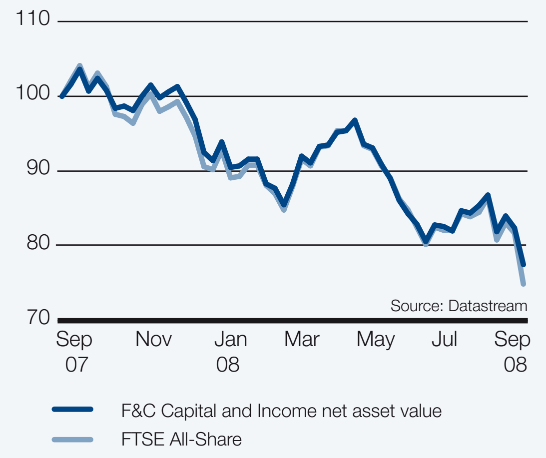
At the time of writing in November it is impossible to know for sure whether actions by governments and central banks around the world have fully stabilised the financial markets but we are certainly heading for a recession. I describe below how your Board has reacted to the crisis and reviewed your Company's investment policy.

Capital performance

At the heart of the weakness in all financial markets is the fact that levels of borrowing, particularly by individuals, but also by some governments and companies, had become unsustainable. Why did we all not see that coming? It is partly because the associated risks were hidden by layer upon layer of derivatives so that we lost sight of where the risks were attached in reality. Risk control methodology focused too much on data collected during a relatively long benign economic period, and not enough on what could happen in worse times. In other words, the various forms of stress testing turned out to be woefully flawed.

Net asset value performance over one year

30 September 2007 to 30 September 2008
Rebased to 100 at 30 September 2007



The consequential loss of confidence virtually paralysed the financial system and triggered a very serious fall in asset prices, which subsequently made banks more reluctant to lend. This in turn caused asset prices to fall further, thus perpetuating the cycle and spreading from the US mortgage market, where the problems started, to nearly all other financial assets.

As we all know this financial turmoil had a severe impact on the UK equity market and on your Company's own portfolio. The fact that the NAV of your Company fell a little less than the wider market is a consequence of the relatively defensive approach taken by the Manager in both stock selection and gearing, and the longer term record of your Company still remains relatively strong. Over the last five and 10 years it has achieved capital growth, both in absolute terms and relative to the FTSE All-Share Index.

The 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.

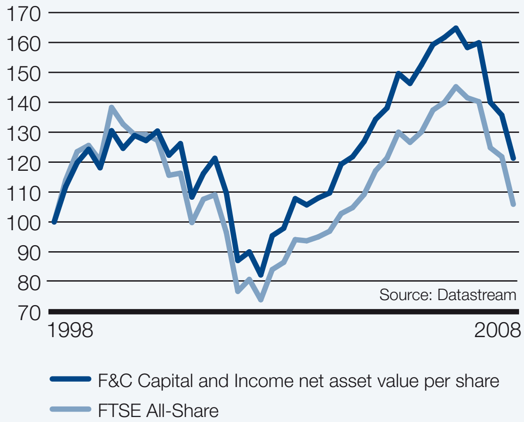
Revenue and dividend

The revenue performance of your Company has by contrast been much more encouraging. I am pleased to report that once again your Company has achieved its income target and the dividend for the year has grown well in excess of the rate of inflation.

Growth in earnings per share of 17.5% was very strong and driven by a number of factors. First, the level of income generated by the portfolio has been well in excess of the previous year as there have been good levels of dividend growth from our investee companies. Second, our costs fell for a number of reasons. The management fee was reduced by 32% as it is based on your Company's asset value; also for the first time, we did not have to pay VAT on the fee and were actually able to recover earlier VAT of £578,000, of which £289,000 has been included in the revenue account in line with the Company's accounting policies. This allows us to declare a special dividend of 0.4 pence per share (details below). Last, we paid less interest than in the previous year because we reduced our level of borrowing.

Net asset value performance over 10 years

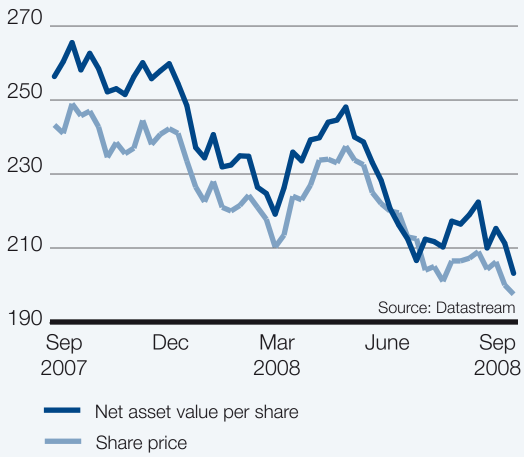
30 September 1998 to 30 September 2008
Rebased to 100 at 30 September 1998



We are recommending a final dividend of 2.5 pence per share which, when added to the interim dividends and the special dividend declared, brings the total dividend for the year to 8.4 pence, an increase of 13.5% year on year. Over five years, the dividend has grown at a compound rate of 9.4% and both of these growth rates are far in excess of inflation which is our primary hurdle. Excluding the special dividend, the underlying total dividend for the year is 8.0 pence, an increase of 8.1% over one year and 8.4% compounded over five years.

Share price and net asset value per share

September 2007 to September 2008



You will notice that the timing of the final dividend, as detailed on page 1, has been changed so that it will now be paid in time to be included in the income distribution made by F&C to holders of its savings plans at the end of January.

VAT

In our annual report last year we explained that the Association of Investment Companies had won a case in the European Court of Justice freeing investment trusts from paying VAT on management fees in the future. This has noticeably reduced the costs of running the Company and opened up the possibility of recovering some past VAT payments. Accordingly your Board, with the valuable help of the Manager and our legal advisers Dickson Minto, has been active throughout the year pursuing such recoveries.

For complicated legal reasons the claims must be made by the Manager, on behalf of the Company, and must be divided into three different periods – 1992 to 1996, 1997 to March 2001 and April 2001 to September 2007. Both your Company and its subsidiary, F&C Income Growth Investment Trust PLC (in liquidation) ("FIGIT"), have potential claims. FIGIT was merged into your Company in 2005 but has been kept in being as a subsidiary in course of liquidation purely for this reason.

A reclaim has been made by the Manager in respect of the years 2001 to 2007 and your Board is sufficiently confident of receiving at least £578,000 (0.7 pence per share) that an accrual has been made in this year's results. This accrual is split equally between the revenue and capital accounts in accordance with the Company's accounting policies and the Company will be returning the 0.4 pence per share accrued in the revenue account to shareholders as a special dividend. FIGIT has reached a similar stage in the reclaim process and the Directors expect it to pass up a capital distribution equal to the amounts it receives. An accrual has therefore been made in the capital account for the receipt of £260,000.

At the time of writing the Directors are hopeful of receiving, but do not have sufficient certainty to accrue, further VAT repayments relating to the first period for both companies, as well as interest on all amounts reclaimed. At present we believe that recoveries for the middle period are unlikely.

Chairman's Statement (continued)

Share price performance and discount

The commitment to ensuring the Company's share price should not trade at a material discount to NAV per share remains strong. To try to limit the discount a share buyback programme has been active during the year and in total 665,000 shares were bought at an average discount of 8.8%. The share price started the year at a discount to NAV per share of 6.0% and ended the year at a discount of 2.0%, with an average discount over the year of 4.5%.

There were no shares held in Treasury at the year end.

Gearing

Your Company has included in its investment policy the power to borrow in order to invest in equities when the returns seem likely to exceed the cost of the borrowing and thus enhance shareholder value. Gearing was at only modest levels throughout the year and all loans had been repaid on 1 September. Since the year end and as markets moved lower, your Company has once again started to borrow to invest with the expectation of being able to achieve attractive long-term returns.

Although, with hindsight, it would have been profitable to protect the portfolio in some way, either through derivative transactions or from a substantial move into cash, the extent of the decrease in markets was not anticipated by either your Board or the Manager, such a change would not have been consistent with our investment policy as approved by shareholders.

Investment policy

Your Board periodically reviews your Company's investment policy and takes a strategic look at whether we could or should propose changes to this policy in the interest of shareholders. The investment policy, which is detailed on page 17, is unchanged. We have, for example, discussed in the past whether we could increase income to shareholders by taking more risk – being more adventurous so to speak – and more recently whether we should reduce risk further in the current turmoil. Our conclusion each time has been that our investment policy sets out to potential and present shareholders what kind of asset class they are choosing when buying shares in your Company and that we should not change "what it says on the tin". Against this background we feel that our Manager has done what we have asked.

Shareholders

Despite difficult market conditions, it is positive to note that the Company has continued to diversify and add to its shareholder base. This has come primarily through the F&C savings plans which now have more than 21,000 investors. Growth has been particularly strong via the Child Trust Fund, which has more than offset the relative maturity of the Individual Savings Account.

In order to satisfy demand for the Company's shares from investors, 700,000 shares were issued during the year at a small premium to NAV per share.

In order to seek opinions on their investment needs, a survey was recently completed by around 300 holders of the Company's shares within the F&C savings plans. Your Board was encouraged that the results indicated that the Company's objective meets shareholders' investment needs.

Proportional voting for savings plans

The Manager has modified its arrangements under which investors in its savings plans vote at shareholder meetings. Under the new arrangements the nominee company, which holds around 80% of the share capital on behalf of these investors, will vote the shares held on behalf of plan holders who have not returned their voting directions in proportion to the directions of those who have, subject to any limits imposed by regulators. Plan holders may exclude their shares from this arrangement if they wish.

Annual general meeting ("AGM")

All shareholders are of course welcome to attend the AGM which will be held on 15 January 2009 at F&C's offices. As in previous years, the Manager will make a presentation on the results for the last year, investment policy and prospects for the coming year. I look forward to welcome as many shareholders as are able to come to the meeting.

Electronic communications

A resolution is to be put to the AGM to amend the Company's articles of association, more details of which are set out on pages 56 and 57. Part of these changes will allow the Company to communicate with shareholders both in electronic form and via a website in future. We expect these new communication arrangements to begin in 2009 and will write to all shareholders in due course to allow you to elect to continue to receive paper copy documents.

Outlook

Since the year end equity markets have been both weak and volatile. This has had an inevitable adverse impact on our NAV.

The UK and much of the developed world are undoubtedly heading for a recession in the immediate future. Growth in China and India which many, including myself, thought a year ago would be relatively unaffected, is also slowing down. Overall growth is expected to recover only relatively slowly as it will inevitably take considerable time for debt to reduce to more sustainable levels. It is encouraging that the UK and US governments have stated that they will do whatever is necessary to restore stability to the financial system and are considering ways of increasing public expenditure to inject demand. This is clearly a necessary condition but it may not be a sufficient one to restore growth. Confidence between financial institutions is currently lacking and restricting the supply of capital to individuals and companies. The shock of the crisis seems likely to increase the desire to save and to reduce the scope for households to consume on the back of borrowing. Many households have lost wealth and may cancel or defer discretionary spending where they can.

Against this background we anticipate company earnings and dividends will be under pressure, although exporters and companies with significant foreign earnings will benefit from the recent fall in sterling. But after the steep falls in stock markets around the globe, equity market valuations now appear attractive both in absolute terms and relative to cash or bonds. We have resumed borrowing to take advantage of these conditions and, as noted above, the portfolio is once again modestly geared. Our own dividend is comfortably covered by earnings and, although we are expecting little or no revenue growth from the portfolio, the outlook for our own dividend is reasonably positive. Your Board still believes our investment policy is right.

Pen Kent
Chairman
25 November 2008

Manager's Review

Review of the stock market

Last year the UK equity market saw one of the most rapid falls in history and subsequent performance has only worsened this experience. Share prices have fallen in response to a combination of slowing economic growth and a collapse of confidence in the financial system; as prices have fallen, many investors and banks have been forced to reduce their debt levels by selling assets. This of course has had the effect of forcing prices lower, thus necessitating the further deleveraging of investors. This process of forced selling has spread from the US mortgage market where it first started and has now taken in just about all asset classes. Furthermore, the banks' inability and unwillingness to extend credit to companies and consumers has had an increasingly negative impact on the real economy. The impact of this deleveraging process has accelerated beyond the end of September, making October and November also very poor months for returns.

Throughout most of the year governments and monetary authorities in the UK and US have responded in a fairly piecemeal way to the developing crisis with the Bank of England increasing liquidity to the banking sector as early as last October and cutting interest rates three times during the year. Specific solutions were found to the collapse of Northern Rock, Bear Stearns, Fannie Mae, Freddie Mac, Indy Mac, Washington Mutual, AIG, Bradford & Bingley and HBOS, but only after the failure of Lehman Brothers which threatened the whole financial system, were more general solutions sought. Government commitments to do whatever is necessary to stabilise the financial infrastructure have been evident in the forced recapitalisation of banks in the UK and the Troubled Asset Relief Program in the US.

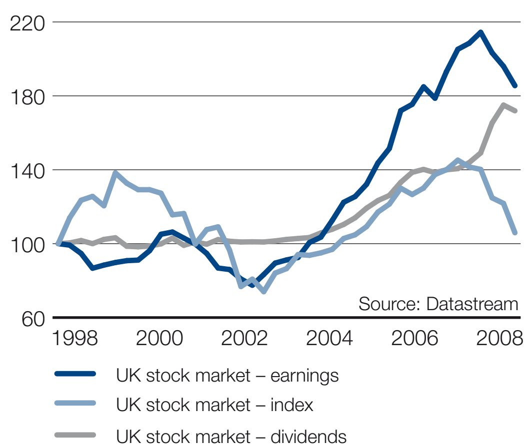
Throughout the year there has been concern that UK inflation, which is the only official target of the Bank of England, has remained above target, and this has constrained its ability to cut interest rates more aggressively. The collapse in oil and other commodity prices from summer onwards and a rapidly weakening economy have led expectations for inflation to fall, and hence paved the way for the Bank of England to make its dramatic 1.5% cut in interest rates in November.

Performance within the stock market

There was very considerable divergence within the market over the year, but with a 25% fall in the headline index only two sectors, Electricity (+2.9%) and Oil Equipment & Services (+0.4%), recorded an absolute gain. In general, those areas with least exposure to the financial sector or the consumer tended to perform well, while more cyclically exposed sectors fell more sharply in value. As well as the two sectors noted above, Tobacco (-0.5%), Pharmaceuticals (-6.3%), Health Care (-6.8%) and Non-Life Insurance (-7.1%) held up relatively well

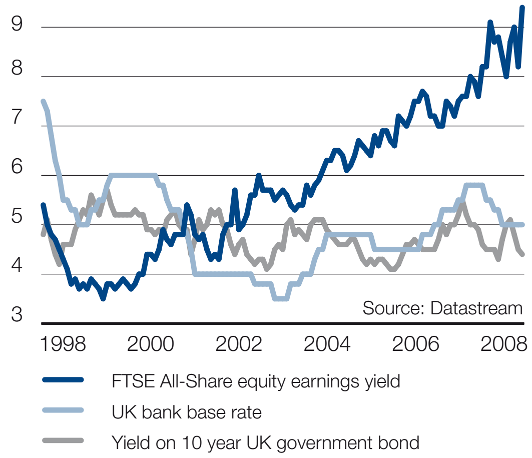
UK stock market over 10 years

September 1998 to September 2008



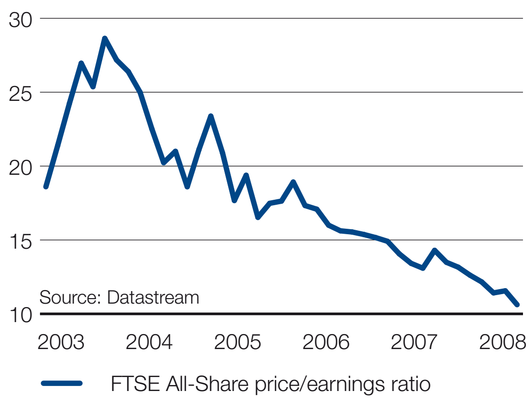
Yields from competing assets

September 1998 to September 2008



FTSE All-Share price/earnings ratio

September 2003 to September 2008



and were in contrast to Leisure Goods (-53%), Industrial Metals (-49%), General Retailers (-48%) and Construction & Materials (-47.0%).

Valuation of the Stock Market

In contrast to many other periods of stock market weakness, the headline valuations of equities have not appeared expensive at any stage. For example, focusing on the price/earnings ("p/e") multiple (an easily calculated figure showing how expensive shares or an index are relative to the reported earnings), at the end of the 1990s, the p/e multiple on the UK market peaked at over 28 times. For every £1 of earnings produced by the market, investors were willing to pay £28. This high level was justified by those buying aggressively on the grounds that growth in earnings would bring the multiple down rapidly. In fact however, earnings fell to a low point in 2003 and have risen rapidly since, until starting to decline in the second half of 2008. This overall rise in earnings, together with the recent fall in the market level, have brought about a fairly steady reduction in the historic p/e multiple to 10.6 times. Over the last 10 years the FTSE All-Share Index has only increased by 6%, while earnings have increased 86% and dividends 72%.

Even with earnings likely to be under pressure from the imminent recession the fall in market level and low p/e multiple appears to be discounting a recession at least as bad as any in recent history. It is highly likely that for those with a long-term view, this period of uncertainty will prove to be a better time to invest than at any stage in the last 10 years.

Julian Cane
F&C Management Limited
25 November 2008

Twenty Largest Equity Holdings

30 Sep 2008	*30 Sep 2007*	**Company** Description	% of total investments	Value £'000s
1	*1*	**BP** One of the largest integrated oil companies in the world; despite a lower oil price, new management has started to turn around recent performance and the commitment to a progressive dividend policy is positive.	8.15	12,806
2	*3*	**HSBC** The bank's balance sheet strength, conservative management and geographic diversity has marked HSBC out as one of the few banks worldwide not needing to raise extra capital so far and this has allowed the share price to perform relatively well.	7.34	11,526
3	*2*	**Royal Dutch Shell** Leading international oil exploration, production and marketing group benefitting by efficiency increases.	6.33	9,941
4	*5*	**GlaxoSmithKline** One of the world's leading pharmaceutical companies with a new management team. The company remains conservatively valued by historic standards.	6.17	9,688
5	*4*	**Vodafone** The world's leading mobile telephone provider with a strong international network. The commitment to dividend growth rather than share buybacks, when coupled with an attractive dividend yield, is positive.	5.19	8,156
6	*7*	**Scottish & Southern Energy** A well-managed multi-utility group with an attractive dividend yield and strong commitment to dividend growth.	4.72	7,419
7	*8*	**British American Tobacco** A leading international cigarette manufacturer and distributor with further scope to generate efficiency increases.	4.67	7,340
8	*6*	**Rio Tinto** A leading mining company with high quality assets. BHP Billiton has been trying to acquire Rio Tinto for the last year.	4.64	7,289
9	*11*	**National Grid** One of the world's largest utilities owning and operating gas and electricity networks in the UK and US.	3.52	5,530
10	*10*	**Tesco** The dominant food retailer in the UK, continuing to expand through its non-food offerings and by international expansion.	3.46	5,430
11	*12*	**AstraZeneca** A leading pharmaceutical company discovering, developing, manufacturing and marketing prescription drugs, biologics and vaccines. It is conservatively valued by historic standards.	3.44	5,412

30 Sep 2008	*30 Sep 2007*	**Company** Description	% of total investments	Value £'000s
12	*9*	**Barclays** Once recapitalised, the bank should be in a relatively strong position to take advantage of its strength in capital markets, while its core UK retail business has been conservatively run with a relatively low exposure to property and development.	2.81	4,408
13	*13*	**Royal Bank of Scotland** The immediate outlook for international retail and investment banking activities may be poor, but valuations now appear to discount a very weak outcome. New management, following a second round of refinancing, should start to simplify operations and improve returns.	2.08	3,273
14	*24*	**BG** An international resource company engaged in discovery, extraction, transmission, distribution and supply of natural gas. Its latest finds off Brazil could be very significant.	1.83	2,883
15	*28*	**Imperial Tobacco** The acquisition of Altadis should allow Imperial to derive considerable benefits from cost synergies as it has in past acquisitions.	1.72	2,696
16	–	**Reed Elsevier** This is an international publisher and information provider across scientific, medical, legal and business areas. Many of these areas have been relatively resilient in previous economic downturns.	1.46	2,302
17	*18*	**United Utilities** The group owns, operates and maintains utility assets including water, wastewater, electricity and gas and pays an attractive dividend.	1.46	2,299
18	*32*	**Inmarsat** This is a leading provider of global mobile communications services for government and civil uses via its own fleet of 10 geostationary satellites.	1.38	2,174
19	*53*	**Cable & Wireless** This is an international telecommunications company operating in 39 countries. The highly incentivised team is acting to improve operations and realise value.	1.37	2,145
20	*15*	**Anglo American** Large international mining and resource company which is a global player in platinum group metals and diamonds, with interests in coal, base and ferrous metals and industrial minerals.	1.29	2,026

The value of the twenty largest equity holdings represents 73.0% (30 September 2007: 64.5%) of the Company's total investments.

Investment Portfolio by Sector at 30 September 2008

	% of total investments	% of FTSE All-Share Index
Oil & gas	16.3	17.8
Much the largest holdings in this sector are the integrated oil majors, BP and Shell. Both companies have attractive dividend yields and are expected to increase their dividends to shareholders almost irrespective of the oil price. The international nature of their operations and the setting of the dividend in US dollars are further positive aspects as the UK domestic economy and currency weaken.		
Basic materials	7.1	8.8
The mining sector performed well in the first half of this year, but as concerns grew over rates of economic growth and commodity prices fell, the sector came under heavy pressure. The portfolio's exposure to mining companies was reduced over the year – first, the holding in Rio Tinto was trimmed on the approach by the Aluminium Corporation of China and second, the holding in Lonmin was sold in its entirety, following continued production problems. Rio Tinto is the largest holding in the sector.		
Industrials	3.1	7.1
With concerns over global economic growth, this sector, which is typically sensitive to economic activity, performed poorly. Exposure to Intertek, a global testing, inspection and certification business was reduced on valuation grounds, while the investment in Wolseley, the world's largest distributor of heating and plumbing products, was increased even though it is currently suffering from the housing slow-down in the US.		
Consumer goods	12.5	10.6
This is a broadly spread sector, with business interests from tobacco and drinks through to house building. There was no change to the major holding in British American Tobacco, while Imperial Tobacco was supported on its rights issue to finance Altadis. The investment in Diageo was reduced after good relative performance.		
Health care	9.6	8.3
This sector is dominated by the major pharmaceutical companies, with GlaxoSmithKline and AstraZeneca being the portfolio's largest holdings. No changes were made to either holding. In contrast to previous years when performance of the sector had been rather disappointing, the stable, defensive characteristics of these companies were better appreciated this year and led to strong relative share price performance.		
Consumer services	2.8	9.5
This sector ranges from food retailers, to travel and leisure companies to media. Direct exposure to the most exposed areas of consumer expenditure is very limited with the most significant investment being in Tesco. The holding in Reuters was sold after the share price responded positively to the merger plans with Thomson Group.		

	% of total investments	% of FTSE All-Share Index
Telecommunications	**8.5**	**6.1**
Vodafone is much the largest investment in this sector and its prospects and commitment to a progressive dividend are much preferred to British Telecom. Inmarsat, the second largest holding, has continued to perform well given its strong market position, while we have continued to add to the investment in Cable & Wireless.		
Utilities	**10.8**	**5.0**
This remains a relatively large and important part of the portfolio on the grounds that the companies are defensive in nature and typically offer attractive levels of dividend with the prospects of further growth. Over the course of the year, the holding in British Energy was sold after strong performance. Scottish & Southern and National Grid are the two largest utility investments.		
Financials	**22.6**	**25.7**
Financials represent a large part of the UK equity market, primarily because of the size of the UK bank sub-sector. For most of the year, the portfolio had little exposure to the UK mortgage sector, with no investments in HBOS, Lloyds, Alliance & Leicester or Bradford & Bingley. After very substantial falls in values, tentative positions were started in HBOS and Lloyds. The largest investment in the bank sector is HSBC, which by virtue of its size and international strength has been relatively unaffected by the financial crisis. New holdings over the course of the year were in ACP Mezzanine, a fund which is now in the process of being run off, CQS Rig Finance, a fund designed to produce an attractive yield through investing in bonds secured on oil rigs, and London & Stamford, a property company set up to take advantage of falling prices.		
Technology	0.0	**1.1**
This is a small sector in the UK market and there are no holdings currently in the portfolio.		
Continental Europe	**6.7**	**0.0**
The investments in Continental 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. After a return of more than 30% in the previous year, the Continental European part of the portfolio experienced a return of -23%, which was much in line with the UK equity market		

List of Investments

Quoted investments	Holding	30 September 2008 Value £'000s
UNITED KINGDOM – EQUITIES		
ACP Mezzanine	2,065,861	798
Anglo American	109,200	2,026
AstraZeneca	220,000	5,412
ATH Resources *	340,500	545
Aviva	300,000	1,440
Barclays	1,350,000	4,408
Bellway	165,000	890
BG	284,848	2,883
BP	2,760,000	12,806
British American Tobacco	400,000	7,340
BT	555,000	894
Cable & Wireless	1,300,000	2,145
Cattles	1,300,000	991
Centrica	557,100	1,747
Chesnara	518,395	596
City of London Investment *	175,000	394
Clarke (T)	271,000	371
CQS Rig Finance Fund	900,000	504
Dawson	263,351	134
Diageo	150,000	1,417
Diploma	411,765	628
Equest Balkan Properties *	501,985	306
Friends Provident	378,615	356
GlaxoSmithKline	800,000	9,688
Halfords	200,000	518
HBOS	1,020,000	1,248
Hellenic Carriers *	290,275	476
Hill & Smith	230,582	590
Holidaybreak	90,000	290
HSBC	1,280,000	11,526
Imperial Tobacco	150,000	2,696
Inchcape	538,428	1,008
Inmarsat	450,000	2,174
Intertek	100,000	833
Land Securities	140,000	1,747
Legal & General	1,310,400	1,310
London & Stamford *	836,750	837
Luminar	209,090	389

Quoted investments	Holding	30 September 2008 Value £'000s
Man	365,000	1,228
Marstons	596,000	934
Melrose *	404,924	570
National Grid	775,000	5,530
Prodesse Investment	262,295	970
Provident Financial	86,000	722
Prudential	268,333	1,362
Punch Taverns	90,000	122
Raven Russia *	2,500,000	1,550
Royal Bank of Scotland	1,828,366	3,273
Restaurant	444,444	549
Rio Tinto	210,000	7,289
Royal Dutch Shell "B"	630,000	9,941
Scottish & Southern Energy	520,000	7,419
SIG	150,000	575
Somero Enterprises *	376,026	113
Spectris	90,000	597
Sportech	404,260	320
Tesco	1,400,889	5,430
Unilever	100,000	1,518
United Utilities	332,272	2,299
Vodafone	6,650,000	8,156
Wolseley	340,000	1,417
Yell	395,000	300
United Kingdom total		**146,545**

* Quoted on the Alternative Investment Market in the UK.

Quoted investments	Holding	30 September 2008 Value £'000s
CONTINENTAL EUROPE – EQUITIES		
NETHERLANDS		
ING	119,946	1,410
Reed Elsevier	277,547	2,302
TNT	102,729	1,579
Wolters Kluwer	93,049	1,038
Netherlands total		6,329
GERMANY		
Fresenius Medical	51,151	1,475
Germany total		1,475
REPUBLIC OF IRELAND		
Greencore	322,551	450
Republic of Ireland total		450
SWEDEN		
Eniro	387,800	743
Sweden total		743
BELGIUM		
Inbev	48,502	1,594
Belgium total		1,594
Continental Europe – equities total		**10,591**
TOTAL INVESTMENTS		**157,136**

The number of companies in the portfolio is 70 (2007: 81).
There are no convertible securities in the portfolio (2007: none).

Management and Advisers

The management company

F&C Capital and Income Investment Trust PLC ("the Company") is managed by F&C Management Limited ("F&C" or the "Manager"), a wholly owned subsidiary of F&C Asset Management plc. The Manager is authorised and regulated in the UK by the Financial Services Authority. F&C is appointed under a management agreement with the Company setting out its responsibilities for investment management, administration and marketing.

Julian Cane

Fund Manager and director of UK equities at F&C, has managed the Company since March 1997.

Mike Woodward

Head of investment trusts at F&C and responsible for F&C's relationship with the Company. He joined F&C in 2006.

Debbie Fish

Carries out the company secretarial duties of the Company on behalf of the Manager. She joined F&C in 2004.

Secretary and registered office

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

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

Registered in England

Independent auditors

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

Bankers

JPMorgan Chase & Co
Lloyds TSB

Custodian

JPMorgan Chase & Co

Registrars

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

Telephone:	0870 889 4094
Facsimile:	0870 703 6143

Solicitors

Dickson Minto W.S.
Royal London House
22/25 Finsbury Square
London EC2A 1DX

Stockbrokers

Cenkos Securities Ltd
6–8 Tokenhouse Yard
London EC2R 7AS

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.

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.

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.

Professor James (Jim) Norton

Appointed to the Board on 24 July 2001. He is a vice president and trustee of the British Computer Society and a director of the Foundation for Information Policy Research (FIPR) Ltd. 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.

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.

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

Directors' Report and Business Review

The Directors present their Report, Business Review and the financial statements of the Company for the year ended 30 September 2008. The financial statements are set out on pages 32 to 50.

Results and dividends

The Company's net asset value ("NAV") per share fell by 22.5% in the year ended 30 September 2008, compared to a fall of 25.1% in the FTSE All-Share Index ("the Index"). The Manager's Review on pages 6 and 7, which forms part of this Business Review, describes the background to this performance.

The net assets of the Company as at 30 September 2008 were £158,201,600 and dividends paid in the year are set out below:

Dividends for 2007 and 2008

Dividends paid:	£'000s
Final dividend for 2007 of 2.40 pence per share paid on 31 January 2008	1,877
1st interim for 2008 of 1.80 pence per share paid on 26 March 2008	1,408
2nd interim for 2008 of 1.80 pence per share paid on 30 June 2008	1,408
3rd interim for 2008 of 1.90 pence per share paid on 30 September 2008	1,500
	6,193

The recommended final dividend of 2.50 pence per share and the declared special dividend of 0.40 pence per share are payable on 19 January 2009 to shareholders on the register of members on 5 December 2008. These dividends, together with the three interim dividends paid during the year, makes a total dividend of 8.40 pence per share. This represents an increase of 13.5% over the 7.40 pence per share for the previous year.

Principal activity and status

The Company is an investment company as defined by Section 833 of the Companies Act 2006 ("CA2006"). As such, it analyses its income between revenue, which is available for distribution by way of dividends, and capital, which it is prohibited from distributing other than by way of share buybacks.

The Company is subject to the UK Listing Authority's Listing Rules, UK company law, financial reporting standards, taxation law and its own articles of association, amendments to which must be approved by shareholders via a special resolution.

Duration of the Company

In accordance with the articles of association, a continuation vote is proposed at every fifth annual general meeting ("AGM"). The next such vote will be at the AGM in 2013.

Investment trust taxation status

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

Compliance with these rules qualifies the Company as an investment trust, and this status is granted annually in retrospect by HM Revenue and Customs subject to there being no subsequent enquiry under corporation tax self-assessment. The Company has qualified as an investment trust in respect of all relevant years up to and including the year ended 30 September 2007, and continues to conduct its affairs in compliance with Section 842.

Whilst these tax rules are similar to regulations covering competing open-ended investment companies and unit trusts, the Company's structure as a closed-ended investment trust provides it with the flexibility to borrow money to invest and take a longer-term view of markets.

Accounting and going concern

The financial statements, starting on page 32, comply 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 appears on pages 30 and 31. The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts as the Company has adequate resources to continue in operation for the foreseeable future and its assets consist mainly of securities that are readily realisable.

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 has enabled 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 12 and 13, is diversified, with 70 holdings as at 30 September 2008. 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 quoted on the Alternative Investment Market, with 3.0% 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 at 30 September 2008, 6.7% of the total portfolio was held outside the UK, all in Continental European stocks. The portfolio is well diversified across various sectors, as set out on pages 10 and 11, although no maximum exposure limits are set. No single investment in the portfolio will exceed 10% of the Company's total assets at the time of purchase.

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. There were no borrowings at 30 September 2008.

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.

Capital structure and buyback policy

As at 30 September 2008 there were 78,924,268 ordinary shares of 25 pence each in issue. All ordinary shares rank equally for dividends and distributions and carry one vote each. Details of the capital structure can be found in note 16 on the accounts. The revenue profits of the Company (including accumulated revenue reserves) are available for distribution by way of dividends to the holders of the ordinary shares. Upon a winding-up, after meeting the liabilities of the Company, the surplus assets would be distributed to shareholders pro rata to their holdings of ordinary shares.

The Company has, conditional upon annual shareholder approval, authority to allot new shares for cash without first offering them to existing shareholders in proportion to their holdings. In accordance with this authority, the Company was granted a block listing of 3,911,213 ordinary shares of 25 pence each on 11 July 2008. In order to satisfy demand for the Company's shares from the F&C savings plans, the Company allotted 700,000 shares out of this authority in the year under review, and a

Directors' Report and Business Review (continued)

further 380,000 between the year end and the date of this report.

Subject to annual shareholder approval, the Company may purchase its own shares at a discount to NAV per share 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 Company purchased 665,000 shares during the year, representing 0.84% of the issued share capital at 30 September 2007 (excluding shares held in treasury), at prices between 233.0 pence and 243.4 pence per share. The total consideration (including expenses) paid for all the shares purchased was £1,600,000. All of the shares purchased were held in treasury under the authorities given by shareholders. No shares were sold from treasury during the year, but the balance of 3,967,011 shares held in treasury was cancelled on 9 January 2008, resulting in there being no shares held in treasury at 30 September 2008. No shares have been purchased for cancellation between the year end and the date of this report.

The Board reviews the number of shares purchased and held in treasury at each meeting and closely monitors the prevailing discount or premium, the historic levels of which are shown in the table on page 51.

Borrowings

The Company has the ability to utilise short-term borrowings by way of loans and overdrafts subject to the limits set out in the Company's investment objective and policy. The Company maintains a multi-currency credit facility of £20 million with Lloyds TSB Scotland plc, which is due for review in September 2009.

Principal risks

The Company's assets consist mainly of listed equities and its principal risks are therefore market related. The Corporate Governance Statement, on pages 27 and 28, includes a summary of the risk management arrangements in place and the process for identifying, evaluating and managing significant risks.

The specific key risks faced by the Company, together with our mitigation approach, include the following:

- Investment strategy – inappropriate long-term strategy, asset allocation and stock selection might lead to underperformance against the Company's benchmark index and peer group. The Board periodically reviews the investment strategy and regularly monitors the Company's investment portfolio, 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 affect investment returns. The Manager develops its recruitment and remuneration packages in order to retain key staff, has training and development programmes in place 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 reviews regular reports from the Manager on the controls in place to ensure the Company's compliance with these requirements, together with regular investment listings and income forecasts as part of its monitoring of compliance with Section 842.
- Operational – failure of the Manager's core accounting systems, or a disastrous disruption to its business, could lead to an inability to provide accurate reporting and monitoring. The Manager is contractually obliged to ensure that its conduct of business conforms to applicable laws and regulations. The Manager has confirmed 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 NAV per share. The Board regularly reviews the Manager's statements 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 25 on the accounts on pages 47 to 50.
- Counterparties – the Company is exposed to potential failures by counterparties; more details are included on page 50.

The Board

The Board of non-executive Directors, whose appointment is approved by shareholders, is charged with ensuring that the Company complies with its objectives and the various rules and regulations. Further information on the role and powers of the Board is contained in the Corporate Governance Statement on pages 25 and 26.

Directors

Information on the individual Directors of the Company, all of whom are resident in the UK is set out on page 15.

There were no contracts of significance to which the Company was a party and in which a Director is, or was, materially interested during the year.

Directors' remuneration and shareholdings

The Directors' Remuneration Report, which can be found on page 24, provides detailed information on the remuneration of 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.

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

Directors' interests

at 30 September	2008	2007
Pen Kent	**nil**	nil
Neil Dunford	**7,588**	7,588
John Emly	**4,150**	4,064
Professor Jim Norton	**nil**	nil
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.

Directors' re-election

All Directors held office throughout the year under review. In accordance with the provisions of the Company's articles of association, Neil Dunford, John Emly and Hugh Priestley will retire by rotation.

Each of these Directors has made a valuable and effective contribution to your Company and the Board therefore recommends that you vote in favour of their re-election.

Director indemnification and insurance

On 15 May 2007, the Company entered into a deed poll providing the Directors with indemnities against liability to third parties arising in connection with any negligence, default, breach of duty or breach of trust by the Directors (such indemnities being qualifying third party indemnities, as permitted under the CA2006). This deed poll is available for inspection at the Company's registered office during normal business hours and at the AGM. The Company has insurance in place which indemnifies the Directors against certain liabilities arising in carrying out their duties.

Investment management and administration

In common with most investment trusts, the Company does not have any employees, and 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 administrative, accounting, company secretarial and marketing activities on behalf of the Company.

This appointment is governed by a management agreement, which is terminable upon six months' notice given by either party. Further details of the management agreement are set out in note 4 on the accounts.

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 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;
- maintain the Company's books and records;
- maintain compliance with relevant rules and regulations;
- operate shareholder savings plans and products through which the Company's shares can be

Directors' Report and Business Review (continued)

held. These are designed to provide investors with a cost effective and flexible way to invest in the Company; and

- provide 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 a 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 outperformance rather than short-term opportunities.

The Board has reviewed and endorsed the Manager's approach to environmental, social and governance issues and its voting policy, which it exercises on behalf of the Company. The Manager's stated belief is that good governance creates value and it takes an interest in corporate governance and sustainable business practices. It votes all of its shares across all global markets whenever possible, and engages with companies on corporate governance matters to encourage good practice. This includes engagement on significant social and environmental issues, where these may impact shareholder value.

The Manager actively promotes investment in the Company's shares through its range of savings plans. These savings plans include the F&C Child Trust Fund ("CTF"), Children's Investment Plan ("CIP"), Individual Savings Account ("ISA"), Pension Savings Plan ("PSP") and Personal Investor Plan ("PIP").

The Manager is a subsidiary of F&C Asset Management plc ("FCAM"), a leading European investment group with over £90 billion under management. Friends Provident plc ("FP"), which owns 52% of FCAM, announced on 31 January 2008 that, as wealth management no longer forms part of its strategy, it would work with FCAM's board and management team to review its shareholding. On 31 October 2008 FCAM announced that its management had conducted a wide-ranging process to assist FP in its review and that FP had announced its intention to distribute its entire shareholding in FCAM to its shareholders. The FCAM board is continuing to explore opportunities and remains in discussion with interested parties, which may or may not lead to an offer for FCAM. The Board is closely monitoring developments.

JPMorgan Chase is appointed to act as custodian of the Company's assets. Operational matters with the custodian are carried out by the Manager in accordance with the provisions of the management agreement.

Analysis of savings plans

	Number of holders	
30 September	**2008**	**2007**
CTF	7,794	6,597
ISA†	7,672	8,170
PIP/CIP	5,769	5,448
PSP	376	379
Total	21,611*	20,594

† Includes ex personal equity plan holdings now reclassified as ISA.
*These investors hold 62,811,282 shares, which is 79.2% of the shares in issue.

Management fee

A quarterly fee equal to 0.1% of funds under management is payable in arrears to the Manager.

Creditor payment policy

The Company's principal supplier is the Manager, the payment terms for which are set out in note 4 on the accounts. Other suppliers are paid in accordance with individually agreed payment terms. At 30 September 2008, the Company's outstanding trade creditors were equivalent to nil day's payment to suppliers (2007: one day).

Key performance indicators

The Board uses the following key performance indicators ("KPIs") to help assess progress against the Company's objectives:

- Association of Investment Companies ("AIC") peer group of 25 "UK growth and income" investment trusts whose NAV and share price total return performance over one, three, five and 10 years is set out in statistics produced monthly by the AIC. At 30 September 2008, the Company was 3rd, 5th, 7th and 9th respectively in its peer group NAV performance over one, three, five and 10 years, and 2nd, 6th, 8th and 6th 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 or issued. At the start of the year under review the discount to NAV was 6.0% compared with 2.0% at the year end;
- expense ratios, 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 0.70%; and
- levels of gearing, the costs of which are absorbed 50% through the revenue account and 50% through the capital account, are monitored to ensure that the Manager is adhering to the Board's gearing limit and is not borrowing excessively in falling markets. Borrowing during the year was maintained within a range of nought to £10.0 million.

The performance table below, the Ten Year Record on pages 51 and 52, the Chairman's Statement on pages 2 to 5 and the Manager's Review on pages 6 and 7 provide more information on how the Company has performed against these KPIs.

Total return performance

Returns	1 year %	3 years %	5 years %
Company net asset value	-19.9	-0.3	44.6
Company share price	-16.3	1.9	45.4
Benchmark index*	-22.3	0.0	44.5

Source: F&C Management Limited and Datastream
*Benchmark: FTSE All-Share Index.

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, with a formal evaluation taking place in November each year. In evaluating the performance of the Manager, the Board considers a range of factors including the investment performance of the portfolio as a whole, performance of the various regional sub-portfolios and the skills, experience and depth of the team involved in managing the Company's assets.

It also considers the resources and commitment of the Manager in all areas of its responsibility, including the marketing and administrative services provided to the Company.

In light of the longer term investment performance of the Manager and the quality and efficiency of the overall service provided, 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.

Outlook

The outlook for the Company is reported in the Chairman's Statement on page 5.

GENERAL INFORMATION

Voting rights

At 24 November 2008 the Company had 79,304,268 ordinary shares in issue with a total of 79,304,268 voting rights. As at that date no notifications of significant voting rights in respect of the Company's ordinary share capital had been received.

Individual savings accounts ("ISAs")

The Company's shares are qualifying investments for ISAs, and the Board intends that the Company will continue to conduct its affairs so as to satisfy the requirements to remain so.

Independent auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office as auditors to the Company and resolutions to re-appoint them and to authorise the Directors to determine their remuneration will be proposed at the AGM.

Directors' Report and Business Review (continued)

So far as each Director 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.

Annual general meeting

The AGM will be held on Thursday 15 January 2009 at 11.30 a.m. at Exchange House, Primrose Street, London EC2. The Notice of Annual General Meeting ("the Notice") appears on pages 53 to 57, and includes a map of the venue. Julian Cane will give a presentation covering progress in the year to date and his views on the market for the rest of the year. There will be an opportunity to ask questions during the AGM and shareholders will be able to meet the Directors and Manager more informally over refreshments following the meeting. In addition to the ordinary business of the meeting, the resolutions numbered 9 to 11 are proposed as special business and are explained below.

Authority to allot shares (resolution 9)

Resolution 9 is similar in content 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 9 gives the Directors, for the period until the conclusion of the AGM in 2010, the necessary authority to either allot securities or sell shares held in treasury up to an aggregate nominal amount of £991,303 (3,965,212 ordinary shares). This is equivalent to approximately 5% of the issued ordinary share capital of the Company at the date of this report. It also empowers the Directors to allot such securities for cash, otherwise than to existing shareholders on a pro-rata basis. This authority and power 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 use this authority to satisfy demand from participants in the various F&C savings plans when they believe it is advantageous to plan participants and the Company's shareholders to do so.

Under no circumstances do the Directors use the authority and power to dilute the interests of existing shareholders by issuing shares or selling 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 10)

Resolution 10 authorises the Company to purchase up to a maximum of 11,887,709 ordinary shares (equivalent to approximately 14.99% of the issued share capital) in the market at a minimum price of 25 pence per share and a maximum price per share (exclusive of expenses) of 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 continue to use this authority with the objective of enhancing shareholder value. Purchases would only be made, within guidelines established from time to time by the Board, through the market for cash at prices below the prevailing NAV per ordinary share which would have the effect of increasing the NAV per ordinary share for the remaining shareholders. Any ordinary shares that are purchased would either be placed into treasury or cancelled.

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.

Amendments to the articles of association (resolution 11)

Over the past two years company law in the United Kingdom has undergone major reform through the coming into force of parts of the CA2006. Accordingly, the Board considers it prudent to replace the Company's existing articles of association with new articles which take account of these developments (the "New Articles").

The CA2006 is being brought into force in stages, which began in January 2007, with full implementation scheduled by October 2009. At the AGM in January 2009 the Company proposes to adopt provisions which reflect changes in the law brought about by the CA2006 in respect of, amongst other things, electronic communications, notice periods for meetings, proxy voting and directors' conflicts of interest.

A copy of the New Articles will be available for inspection at the registered office of the Company and at the offices of Dickson Minto at Royal London House, 22–25 Finsbury Square London EC2A 1DX during normal business hours on any weekday (public holidays excepted) from the date of the Notice until the conclusion of the AGM and on the date of the AGM at the Company's registered office from 11.15 a.m. until the conclusion of the meeting.

A summary of the material changes proposed to be brought about by the adoption of the New Articles is set out in the appendix to the Notice on pages 56 and 57.

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 thereon, whether or not you intend to be present at the AGM. This will not preclude you from attending the AGM and voting in person if you wish to do so.

A proxy appointment should be submitted so as to be received not later than 48 hours before the time appointed for holding the AGM.

Form of direction and proportional voting

Participants in the various F&C savings plans will find enclosed a form of direction. The Manager has modified its arrangements under which investors in its savings plans vote at shareholder meetings. Under the new arrangements, it is intended that the nominee company, which holds around 80% of the share capital on behalf of these investors, will vote the shares held on behalf of plan holders who have not returned their voting directions in proportion to the directions of those who have. Plan holders may exclude their shares from the proportional voting arrangements if they wish to do so. Please complete and sign the form of direction as soon as possible in accordance with the instructions thereon and ensure that the form is returned in the enclosed envelope to Computershare Investor Services PLC not later than 96 hours before the time appointed for holding the AGM so that the plan administrator can submit a form of proxy before the 48 hour period begins.

Recommendation

Your Board considers that the resolutions to be proposed at the AGM are in the best interests of shareholders as a whole and recommends that they vote in favour of such resolutions, as the Directors intend to do in respect of their own beneficial holdings.

By order of the Board
F&C Management Limited
Secretary
25 November 2008

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. Within that limit, it is the responsibility of the Board as a whole to determine the level of Directors' fees having regard to the level of fees payable to non-executive directors in the industry generally, the role that individual Directors fulfil in respect of Board and committee responsibilities, and the time committed to the Company's affairs. The Board is comprised solely of non-executive Directors, none of whom has a service contract with the Company, and therefore no remuneration committee has been appointed.

The Chairman receives a fee of £25,000 per annum and the remaining Directors receive a fee of £16,000 per annum. These fees were increased from £20,000 and £15,000 respectively on 1 July 2008. Also with effect from 1 July 2008, the Chairman of the Audit and Management Engagement Committee receives an additional £2,000 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.

Fees for services to the Company

Director	2008 £'000s	2007 £'000s
Pen Kent[1]	**21.3**	20.0
Neil Dunford	**15.3**	15.0
John Emly	**15.3**	15.0
Professor Jim Norton[2]	**15.8**	15.0
Hugh Priestley	**15.3**	15.0
Totals	**83.0**	80.0

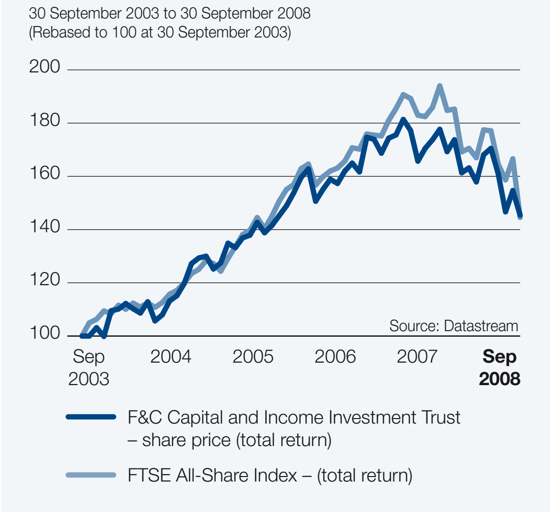
1. Chairman
2. Chairman of the Audit Committee

The information in the table has been audited (see the Independent Auditors' Report on pages 30 and 31).

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

Shareholders will be asked to approve this Directors' Remuneration Report at the annual general meeting (resolution 2).

Total shareholder return over five years



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

By order of the Board
F&C Management Limited
Secretary
25 November 2008

Corporate Governance Statement

The Company is committed to high standards of corporate governance. The Board has considered the principles and recommendations of the Association of Investment Companies ("AIC") Code of Corporate Governance (the "AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide"). The AIC Code addresses all the principles set out in Section 1 of the 2006 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 believes that the Company has complied with the recommendations of the AIC Code during the year under review, and thereby the provisions of the Combined Code that are relevant to the Company.

The Board

The Board is responsible for the effective stewardship of the Company's affairs and a formal schedule of matters reserved for the decision of the Board has been adopted. It has responsibility for all corporate strategic issues, dividend policy, share buyback policy, risk and control assessment, monitoring investment performance, approving marketing budgets and corporate governance matters. It is responsible for the review and approval of annual and half-yearly reports and interim management statements. The Company does not have a chief executive as day-to-day management of the Company's affairs has been delegated to the Manager.

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 management information, which includes reports on investment performance and strategic matters and financial analyses. Income forecasts are reviewed in order that costs can be managed within set budgets and in order that the Company is able to pursue its progressive dividend policy. The Board 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. During the year under review the Board met on five such occasions to discuss various items of business, mainly relating to VAT recoveries.

The table below 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 annual general meeting ("AGM") in January 2008.

Meeting attendance

	A	B
Number of meetings	**9**	**2**
Pen Kent	9	2
Neil Dunford	9	2
John Emly	9	2
Professor Jim Norton	8	2
Hugh Priestley	7	2

A = Board meetings.

B = Audit and Management Engagement Committee meetings.

Each Director has a signed letter of appointment to formalise in writing the terms of their engagement as non-executive Directors, copies of which are available on request and at the Company's AGM.

The Board regularly reviews its structure, size, composition, experience, diversity and skill ranges and considers succession planning and tenure policy and believes that it currently has a reasonable balance of skills, experience and length of service. 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, which includes consideration of the independence of each Director.

All Directors are required to stand for re-election for a fixed term of no more than three years, and those Directors serving more than six years are subject to more rigorous review before being proposed for re-election.

In order to review the effectiveness of the Board, its committees and the individual Directors, the Board

* Copies of the AIC Code, the AIC Guide and the Combined Code may be found on the respective organisations' websites: www.theaic.co.uk and www.frc.org.uk.

Corporate Governance Statement (continued)

carries out a process of formal annual self appraisal. This encompasses both quantitative and qualitative measures of performance in respect of the Board and the Audit and Management Engagement Committee, implemented by the completion of an evaluation survey and 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 Board considers that the appraisal process is a constructive means of assessing the contribution of individual Directors and identifying ways to improve the functioning and performance of the Board and committees and building on and improving collective strengths, including any training needs. The Board does not consider that the use of external consultants to conduct this evaluation is likely to provide any meaningful advantage over the process that has been adopted, but the option of doing so will be kept under review.

The Directors are encouraged to attend relevant training courses and seminars and receive regular updates on the industry and changes to regulations from the Secretary and other parties, including the AIC.

Directors are able to seek independent professional advice at the Company's expense in relation to their duties. No such professional advice was taken by Directors during the year under review. The Board has direct access to the company secretarial advice and services of the Manager which, through its nominated representative, is responsible for ensuring that Board and committee procedures are followed and applicable regulations are complied with. The proceedings at all Board and other meetings are fully recorded through a process that allows any Director's concerns to be recorded in the minutes. The appointment or removal of the Secretary is a matter for the Board as a whole in accordance with the terms of the management agreement.

Appointments of new Directors will be made on a formal basis with the Board agreeing the selection criteria and the method of selection, recruitment and appointment. A non-executive Director role specification is in place which is used to assist the Board with this process.

All new appointments are subject to confirmation by shareholders and institutional shareholders are given the opportunity to meet any newly appointed Director if they wish.

An induction process is in place for new appointees, who meet the fund manager, the Secretary and other key employees of the Manager and are given a briefing on the workings and processes of the Company, including the receipt of a Directors' handbook and key documentation.

Independence of Directors

The Board regularly reviews the independence of its members in accordance with current guidelines. In line with the AIC Code, the Board feels that length of service does not necessarily compromise the independence or contribution of directors of investment trust companies, where experience and continuity can be a significant strength. As such, no limit on the overall length of service has been imposed, although in line with best practice any Director who has served for more than nine years is subject to annual re-election. The Board believes that its five non-executive Directors are independent in character and judgement, with no relationships or circumstances relating to the Company or the Manager likely to alter this position.

Board committees

The Board has established an Audit and Management Engagement Committee, details of which are below. The terms of reference of this Committee are available on the website www.fandccit.com and on request.

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 24, provides information on the remuneration arrangements for the Directors of the Company.

As the Board is formed entirely of independent non-executive Directors and is small in size, it operates without a nomination committee.

Audit and Management Engagement Committee

The primary responsibilities of the Audit and Management Engagement Committee ("Audit Committee"), which meets at least twice each year, are to review the integrity and contents of the Company's financial statements and the accounting policies included therein; to consider compliance with regulatory and financial reporting requirements; to review the Company's internal control and risk management systems; to review annually the need for the Company to have its own internal audit function; to consider the independence and objectivity of the auditors and the effectiveness of the audit process; and to make recommendations to the Board in relation to the reappointment and remuneration of the auditors. The Board retains the ultimate responsibility for the annual and half-yearly accounts and other significant financial information that is published.

The Audit Committee has direct access to the auditors, PricewaterhouseCoopers LLP ("PwC"), who attend Audit Committee meetings to review the annual 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 Manager and the Company use different audit firms. Taking this into account, and given the nature of services provided and confirmation from PwC that they have complied with all relevant independence standards, the Company's auditors are deemed to be independent. All non-audit work to be undertaken by PwC is approved by the Audit Committee in advance. During the year under review the fee for all non-audit work, which was in relation to taxation, was £2,000 inclusive of irrecoverable VAT. In addition, £19,000 inclusive of irrecoverable VAT was paid to the auditors in relation to their role as liquidator of the Company's subsidiary, F&C Income Growth Investment Trust PLC (in liquidation). The Audit Committee considers that the provision of these services is cost effective and does not impair the independence of PwC.

The Audit Committee, in conjunction with the Manager, has reviewed the work carried out by PwC in the year under review, including its audit of the annual financial statements. On the basis of PwC's experience in auditing the affairs of the Company, the standing, experience and tenure of the audit partner, the level of service provided and confirmation of the auditors' independence, the Audit Committee recommended the continuing appointment of the auditors to the Board.

The Committee has direct access to the senior representatives of the Manager's audit, risk and compliance department and to its group audit committee, and reports its findings to the Board. It receives and reviews the Report referred to below under "Internal controls and management of risk".

Following a recommendation from the Audit Committee, the Board concluded that there is currently no need for the Company to have its own internal audit function. All of the Company's management functions are delegated to the Manager, and the Board monitors the controls in place through the Manager's audit, risk and compliance department.

The Audit Committee carries out an annual review of the performance of the Manager, including a review of the management agreement, the level and structure of fees payable and the length of notice period.

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

The Audit Committee currently comprises all of the Directors, and is chaired by Professor Jim Norton. It is considered that there is a range of recent and relevant financial experience amongst the members of the Audit Committee.

Internal controls and management of risk

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

Corporate Governance Statement (continued)

is exercised by the Board through regular reports provided by the Manager on investment performance, performance attribution, compliance with agreed investment restrictions, financial analyses, revenue estimates and other management issues. A quarterly control report is prepared by the Manager's audit, risk and compliance department that provides details of any material internal control failure. The control report incorporates a key risk table that identifies the risks to which the Company is exposed and the controls in place to mitigate them, including risks that are not directly the responsibility of the Manager. The Company's principal risks are set out on page 18, with additional information given in note 25 on the accounts.

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

The Board has carried out a risk and control assessment including a review of the Manager's risk management infrastructure and the report on policies and procedures in operation and tests for the period 1 January to 31 December 2007 (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. Procedures are in place to capture and evaluate failings and weaknesses and ensure that action would be taken to remedy any significant issues identified from this monitoring, which would be reported to the Board.

Relations with shareholders

Communication with shareholders is given a high priority. In addition to the annual and half-yearly reports that are distributed to shareholders, interim management statements, monthly fact sheets and general information are also available on the www.fandccit.com website. The annual report and notice of AGM are normally sent to shareholders at least 20 working days before the AGM.

At least one shareholder meeting is held each year to allow shareholders to vote on the appointment of Directors and the auditors, share issues and buybacks and any other special business. All shareholders are encouraged to attend the AGM, at which a presentation is made by the Manager and where there is an opportunity to question the Chairman, the Board and the Manager. Proxy voting figures are announced to shareholders at the AGM and are reported on the website. All beneficial shareholders in the F&C savings plans have the right to attend, speak and vote at general meetings. The Manager has stated that the nominee company will vote the shares held on behalf of plan holders who have not returned their voting directions in proportion to the directions of those who have.

The Manager communicates with institutional investors, private client brokers and asset managers throughout the year and regularly reports to the Board on investors' views and attitudes towards the Company. The Chairman is available to attend meetings with these investors, although no such meetings have been held during the year under review.

The Company has a predominantly retail ownership, with private investors holding around 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 Secretary at the registered office address as detailed on page 14.

In order to seek opinions on their investment needs, an electronic survey was recently sent to holders of the Company's shares through the F&C savings plans for which an email address is held. As reported in the Chairman's Statement, some 300 holders responded.

The Board receives regular reports from the Manager on the views and attitudes of shareholders in the Company, the level and nature of any complaints received from investors and its arrangements for "Treating Customers Fairly".

Statement of Directors' Responsibilities in Respect of the Financial Statements

As required by company law, the Directors are responsible for the preparation of the annual report and financial statements which give a true and fair view of the state of affairs of the Company as at 30 September 2008 and of the results for the year then ended. In preparing the financial statements, suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made. The Directors are also responsible for ensuring that adequate accounting records are maintained and have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

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

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

On behalf of the Board
Pen Kent
Chairman
25 November 2008

Independent Auditors' Report

Independent Auditors' Report to the members of F&C Capital and Income Investment Trust PLC

We have audited the financial statements of F&C Capital and Income Investment Trust PLC for the year ended 30 September 2008 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 auditors

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

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

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

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

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code 2006 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 Directors' Report and Business Review, the Corporate Governance Statement, the unaudited part of the Directors' Remuneration Report and all of the other information listed in the contents page. We consider the implications for our report if we become aware of any apparent mis-statements 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 mis-statement, 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 2008 and of its net return and cash flows for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report and Business Review is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Hay's Galleria
1 Hay's Lane
London SE1 2RD
25 November 2008

Income Statement

Revenue notes	Capital notes	for the year ended 30 September	2008 Revenue £'000s	2008 Capital £'000s	2008 Total £'000s	2007 Revenue £'000s	2007 Capital £'000s	2007 Total £'000s
	11	Gains and losses on investments	–	(47,234)	(47,234)	–	8,734	8,734
	20	Foreign exchange gains	–	4	4	–	1	1
3	20	Income	8,480	260	8,740	7,947	–	7,947
4	20	Management fee	(348)	(348)	(696)	(513)	(513)	(1,026)
5		Recoverable VAT	289	289	578	–	–	–
6	20	Other expenses	(558)	(9)	(567)	(508)	(4)	(512)
		Net return before finance costs and taxation	7,863	(47,038)	(39,175)	6,926	8,218	15,144
7	20	Finance costs	(178)	(178)	(356)	(285)	(285)	(570)
		Net return on ordinary activities before taxation	7,685	(47,216)	(39,531)	6,641	7,933	14,574
8		Taxation on ordinary activities	(77)	–	(77)	(37)	–	(37)
		Net return attributable to equity shareholders	7,608	(47,216)	(39,608)	6,604	7,933	14,537
9	9	**Return per share – pence**	9.69	(60.16)	(50.47)	8.25	9.92	18.17

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

The revenue return and capital return columns are supplementary to this Income Statement and are prepared under guidance published by the Association of Investment Companies.

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 2008	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 at 30 September 2007	**20,548**	**76,334**	**3,154**	**6,034**	**93,581**	**4,480**	**204,131**
	Movements during the year ended 30 September 2008							
10	Dividends paid	**–**	**–**	**–**	**–**	**–**	**(6,193)**	**(6,193)**
16	Shares purchased and held in treasury	**–**	**–**	**–**	**(1,600)**	**–**	**–**	**(1,600)**
	Cancellation of ordinary shares previously held in treasury	**(992)**	**–**	**992**	**–**	**–**	**–**	**–**
	Ordinary shares issued	**175**	**1,296**	**–**	**–**	**–**	**–**	**1,471**
	Net return attributable to equity shareholders	**–**	**–**	**–**	**–**	**(47,216)**	**7,608**	**(39,608)**
	Balance at 30 September 2008	**19,731**	**77,630**	**4,146**	**4,434**	**46,365**	**5,895**	**158,201**

Notes	for the year ended 30 September 2007	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 at 30 September 2006	20,548	76,334	3,154	10,313	85,648	4,758	200,755
	Movements during the year ended 30 September 2007							
10	Dividends paid	–	–	–	–	–	(6,882)	(6,882)
	Shares purchased and held in treasury	–	–	–	(4,279)	–	–	(4,279)
	Net return attributable to equity shareholders	–	–	–	–	7,933	6,604	14,537
	Balance at 30 September 2007	20,548	76,334	3,154	6,034	93,581	4,480	204,131

Balance Sheet

Notes	at 30 September	£'000s	2008 £'000s	£'000s	2007 £'000s
	Fixed assets				
11	Quoted investments		**157,136**		213,328
	Current assets				
12	Debtors	**1,908**		875	
	Cash at bank and short-term deposits	**437**		346	
		2,345		1,221	
	Creditors: amounts falling due within one year				
13	Loans	**–**		(10,000)	
14	Other	**(1,280)**		(418)	
		(1,280)		(10,418)	
	Net current assets/(liabilities)		**1,065**		(9,197)
	Net assets		**158,201**		204,131
	Capital and reserves				
16	Share capital		**19,731**		20,548
17	Share premium account		**77,630**		76,334
18	Capital redemption reserve		**4,146**		3,154
19	Special reserve		**4,434**		6,034
20	Capital reserves		**46,365**		93,581
20	Revenue reserve		**5,895**		4,480
	Total shareholders' funds – equity		**158,201**		204,131
21	**Net asset value per ordinary share – pence**		**200.45**		258.76

Approved by the Board on 25 November 2008
and signed on its behalf by
Pen Kent, Chairman

Cash Flow Statement

Notes	for the year ended 30 September	£'000s	2008 £'000s	£'000s	2007 £'000s
	Operating activities				
	Investment income received	**8,085**		7,783	
	Interest received	**144**		61	
	Other revenue	**43**		10	
	Fee paid to management company	**(786)**		(868)	
	Fees paid to Directors	**(83)**		(80)	
	Other payments	**(487)**		(571)	
22	**Net cash inflow from operating activities**		**6,916**		6,335
	Servicing of finance				
	Interest paid	**(375)**		(575)	
	Net cash outflow from the servicing of finance		**(375)**		(575)
	Taxation				
	UK tax recovered/(paid)	**1**		(3)	
	Total taxation		**1**		(3)
	Financial investment				
	Purchases of investments	**(35,310)**		(52,115)	
	Sales of investments	**44,359**		52,872	
	Other capital charges and credits	**(11)**		(5)	
	Net cash inflow from financial investment		**9,038**		752
	Equity dividends paid		**(6,193)**		(6,882)
	Net cash inflow/(outflow) before use of liquid resources and financing		**9,387**		(373)
	Management of liquid resources				
	Increase in short-term deposits		**(433)**		(4)
	Financing				
	Sterling loans (repaid)/raised	**(10,000)**		2,000	
	Shares purchased	**(1,600)**		(4,434)	
	Shares issued	**1,471**		–	
	Net cash outflow from financing		**(10,129)**		(2,434)
23	**Decrease in cash**		**(1,175)**		(2,811)

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 Company registration number 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 2007 and all previous financial years. Such approval exempts the Company from UK corporation tax on gains realised in the relevant year on its portfolio of fixed asset investments.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

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

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

(b) 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.

Foreign 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 actually receivable, without adjustment for the tax credit attaching to the dividends. Dividends from overseas companies are 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Expenses, including finance charges

Expenses, including finance charges, 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 which 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 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 "Deferred tax" 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 purchased 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 share capital for cancellation; and

– costs of purchasing or selling 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 foreign 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 foreign exchange differences of a capital nature.

Notes on the Accounts (continued)

3. INCOME

	2008 £'000s	2007 £'000s
Income from investments		
UK dividends	7,556	7,544
UK scrip dividend	104	–
Overseas dividends	634	335
	8,294	7,879
Interest on cash and short-term deposits	143	58
Underwriting commission	43	10
	186	68
Total income	8,480	7,947
Total income comprises		
Dividends	8,294	7,879
Other income	186	68
	8,480	7,947
Income from investments		
Quoted UK*	7,660	7,544
Quoted overseas	634	335
	8,294	7,879

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

4. MANAGEMENT FEE

	2008 £'000s	2007 £'000s
Management fee	733	873
Irrecoverable VAT thereon*	(37)	153
	696	1,026
Less: allocated to capital reserve realised (see note 20)	(348)	(513)
	348	513

*with effect from 30 September 2007 VAT is no longer chargeable on management fees.

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.

5. RECOVERABLE VAT

	2008 £'000s	2007 £'000s
Recoverable VAT in respect of management fees	578	–
Less allocated to capital reserve realised	(289)	–
	289	–

The Association of Investment Companies and JPMorgan Claverhouse Investment Trust lodged a joint appeal in 2004 for the payment of management and performance fees ("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 fees. A separate decision by the House of Lords on the Condé Nast Case in January 2008 ruled that the imposition of a three year capping by HM Revenue & Customs ("HMRC"), relating to claims submitted prior to January 1997, was invalid.

5. RECOVERABLE VAT (CONTINUED)

HMRC has announced that it would not appeal against either decision, enabling the Company's Manager (F&C Management Limited) to reclaim a proportion of VAT paid on behalf of the Company to HMRC in respect of periods between September 1992 and December 1996 and further periods since April 2001.

The amounts recoverable by the Manager on behalf of the Company, and the timing of the recoveries, are dependent upon negotiations between the Manager and HMRC, on the one hand, and between the Manager and the Company on the other. Taking into account HMRC's acceptance of the ECJ and Condé Nast decisions, the Directors believe that the negotiations with the Manager have reached a position of clarity such that the Company is certain of recovering at least £0.6 million of VAT via the Manager in respect of the periods since April 2001. This sum has been recognised as a separate item within the Income Statement in the current year.

The Directors understand that the liquidator of the Company's subsidiary, F&C Income Growth Investment Trust PLC (in liquidation) ("FIGIT"), has reached a similar level of clarity over £0.3 million of VAT recoverable by that company for the same period. As a consequence an accrual has been made for £0.3 million in the capital account within the Income Statement, in agreement with the liquidator, to be distributed by FIGIT to the Company by way of liquidation distribution.

The Directors are unable to state with any degree of certainty the timing and extent in the capital column to which they believe amounts in excess of those already accrued will be recovered via the Manager on behalf of either the Company or FIGIT.

6. OTHER EXPENSES

	2008 £'000s	2007 £'000s
Auditors' remuneration:		
– for audit services[1]	29	28
– for other services[2, 3]	2	3
Directors' fees for services to the Company[4]	83	80
Directors' and Officers' liability insurance	11	11
Marketing	80	82
Professional fees	35	13
Printing and postage	50	53
Registrars' fees	28	22
Savings plan expenses	156	154
Subscriptions and listing fees	34	21
Other expenses	50	41
	558	508

1. Includes irrecoverable VAT of £4,000 (2007: £4,000).
2. Includes irrecoverable VAT of £300 (2007: £500)
3. In addition, during the year the auditors earned £19,000 in respect of the liquidation of the subsidiary company (see note 20).
4. See the Directors' Remuneration Report on page 24.

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

7. FINANCE COSTS

	2008 Total £'000s	2007 Total £'000s
Interest payable on bank loans and overdrafts repayable within five years, not by instalments	356	570
Less: allocated to capital reserve realised (see note 20)	(178)	(285)
	178	285

Notes on the Accounts (continued)

8. TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of tax charge for the year

	Revenue £'000s	Capital £'000s	2008 Total £'000s	Revenue £'000s	Capital £'000s	2007 Total £'000s
Overseas taxation	**77**	**–**	**77**	37	–	37
Current tax charge on ordinary activities (see note 8(b))	**77**	**–**	**77**	37	–	37

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

	Revenue £'000s	Capital £'000s	2008 Total £'000s	Revenue £'000s	Capital £'000s	2007 Total £'000s
Return on ordinary activities before tax	**7,685**	**(47,289)**	**(39,604)**	6,641	7,933	14,574
Return on ordinary activities multiplied by the effective rate of corporation tax of 29% (2007: 30%)	**2,229**	**(13,714)**	**(11,485)**	1,992	2,380	4,372
Effects of:						
UK franked dividends*	**(2,181)**	**–**	**(2,181)**	(2,259)	–	(2,259)
UK scrip dividend*	**(30)**	**–**	**(30)**	–	–	–
Expenses utilised from prior years	**(71)**	**–**	**(71)**	–	–	–
Surrender of losses to FIGIT	**15**	**–**	**15**	–	–	–
Expenses not utilised in the year	**–**	**69**	**69**	233	239	472
Expenses not deductible for tax purposes	**36**	**–**	**36**	35	–	35
Overseas taxation not relieved	**77**	**–**	**77**	36	–	36
Movement in taxable income accruals	**2**	**–**	**2**	–	–	–
Capital returns*	**–**	**13,645**	**13,645**	–	(2,619)	(2,619)
Total current taxation (see note 8(a))	**77**	**–**	**77**	37	–	37

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

The deferred tax asset of £2.2 million (2007: same) in respect of unutilised expenses and unrelieved overseas taxation at 30 September 2008 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 £7,608,000 profit (2007: £6,604,000 profit).

Capital return

The capital return per share is based on the capital return attributable to equity shareholders of £47,216,000 loss (2007: £7,933,000 profit).

Weighted average ordinary shares in issue

Both the revenue and capital returns per share are based on a weighted average of 78,479,263 (2007: 80,004,514) ordinary shares in issue during the year. Shares held in treasury have been excluded from the weighted average number of shares in issue with effect from the date of purchase.

10. DIVIDENDS

Dividends on ordinary shares	Register date	Payment date	2008 £'000s	2007 £'000s
Third of three interims for the year ended 30 September 2006 of 1.50 pence per share	1 Sep 2006	1 Oct 2006	–	1,210
Final for the year ended 30 September 2006 of 2.10 pence per share	5 Jan 2007	1 Feb 2007	–	1,690
First of three interims for the year ended 30 September 2007 of 1.60 pence per share	2 Mar 2007	29 Mar 2007	–	1,284
Second of three interims for the year ended 30 September 2007 of 1.60 pence per share	8 Jun 2007	29 Jun 2007	–	1,275
Third of three interims for the year ended 30 September 2007 of 1.80 pence per share	31 Aug 2007	28 Sep 2007	–	1,423
Final for the year ended 30 September 2007 of 2.40 pence per share	4 Jan 2008	31 Jan 2008	1,877	–
First of three interims for the year ended 30 September 2008 of 1.80 pence per share	8 Feb 2008	31 Mar 2008	1,408	–
Second of three interims for the year ended 30 September 2008 of 1.80 pence per share	23 May 2008	30 Jun 2008	1,408	–
Third of three interims for the year ended 30 September 2008 of 1.90 pence per share	29 Aug 2008	28 Sep 2008	1,500	–
			6,193	6,882

The Directors recommend a final dividend in respect of the year ended 30 September 2008 of 2.50 pence per share and have declared a special dividend of 0.40 pence per share, both payable on 19 January 2009 to all shareholders on the register at close of business on 5 December 2008. The recommended final dividend is subject to approval by shareholders at the annual general meeting. Neither the recommended final dividend nor the special dividend has been included as a liability in these financial statements. The dividends paid and payable in respect of the financial year ended 30 September 2008, which form the basis of the retention test for Section 842 of the Income and Corporation Tax Act 1988, are set out below:

	2008 £'000s
Net revenue return attributable to equity shareholders	7,608
First interim for the year ended 30 September 2008 of 1.80 pence per share	(1,408)
Second interim for the year ended 30 September 2008 of 1.80 pence per share	(1,408)
Third interim for the year ended 30 September 2008 of 1.90 pence per share pence	(1,500)
Recommended final dividend for the year ended 30 September 2008 of 2.50 pence per share†	(1,983)
Special dividend for the year ended 30 September 2008 of 0.40 pence per share†	(317)
Estimated undistributed revenue for Section 842 purposes*	992

* Undistributed revenue represents 12.1% of income from investments of £8,190,000 (see note 3).

† Based on 79,304,268 shares in issue and entitled to dividend at 24 November 2008.

Notes on the Accounts (continued)

11. INVESTMENTS

	Quoted UK* £'000s	Quoted overseas £'000s	2008 Total £'000s
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
Movements in the year:			
Purchases at cost	19,325	16,244	35,569
Sales			
– proceeds	(28,731)	(15,796)	(44,527)
– realised gains on sales	(1,131)	(1,870)	(3,001)
Movement in unrealised appreciation	(42,108)	(2,125)	(44,233)
Valuation at 30 September 2008	146,545	10,591	157,136
Cost at 30 September 2008	145,733	12,633	158,366
Unrealised appreciation/(depreciation) at 30 September 2008	812	(2,042)	(1,230)
Valuation at 30 September 2008	**146,545**	**10,591**	**157,136**

The investment portfolio is set out on pages 12 and 13.

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

Gains and losses on investments held at fair value	2008 £'000s	2007 £'000s
Realised (losses)/gains based on historical cost	**(135)**	13,125
Less amounts recognised as unrealised gains in previous years	**(2,866)**	(9,343)
Realised (losses)/gains based on carrying value at previous balance sheet date	**(3,001)**	3,782
Movement in unrealised appreciation	**(44,233)**	4,952
(Losses)/gains on investments	**(47,234)**	8,734

Investment in subsidiary

The Company holds 100% of the issued share capital of F&C Income Growth Investment Trust PLC (in liquidation) ("FIGIT") valued at £nil (2007: £nil). See notes 5, 12 and 20 in connection with recoverable VAT in relation to FIGIT. The consolidation of the subsidiary undertaking is not material for the purpose of giving a true and fair view and hence in accordance with section 229 of the Companies Act 1985, the Company has not prepared consolidated accounts.

12. DEBTORS

	2008 £'000s	2007 £'000s
Investment debtors	**168**	–
Prepayments and accrued income	**876**	866
Recoverable VAT	**578**	–
Amounts due from FIGIT	**260**	–
Overseas taxation recoverable	**18**	6
UK taxation recoverable	**8**	3
	1,908	875

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Sterling loans	2008 £'000s	2007 £'000s
Loan at 6.65% repaid October 2007	–	8,500
Loan at 6.61% repaid October 2007	–	1,500
	–	10,000

At 24 November 2008, short-term borrowings were £8 million. The maximum unsecured loan facility is £20 million.

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Other	2008 £'000s	2007 £'000s
Bank overdraft	829	–
Investment creditors	155	–
Management fee	158	249
Accruals	138	169
	1,280	418

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

	UK %	Europe ex UK %	2008 Total %	2007 Total %
Equity investments				
Financials	22.5	0.9	23.4	24.9
Oil & Gas	16.2	–	16.2	14.8
Consumer Goods	12.4	1.3	13.7	14.0
Utilities	10.8	–	10.8	11.5
Health Care	9.5	0.9	10.4	8.7
Telecommunications	8.5	–	8.5	7.8
Basic Materials	7.3	1.0	8.3	8.6
Consumer Services	2.8	2.6	5.4	8.3
Industrials	2.6	–	2.6	4.7
Technology	–	–	–	1.2
Total investments	92.6	6.7	99.3	104.5
Net current (liabilities)/assets	0.7	–	0.7	(4.5)
Total assets less current liabilities	93.3	6.7	100.0	–
2007 totals	92.6	7.2	–	100.0

Notes on the Accounts (continued)

16. CALLED UP SHARE CAPITAL

Equity share capital	Shares held in treasury – number	Shares entitled to dividend – number	Total shares in issue – number	Total shares in issue £'000s
Ordinary shares of 25 pence each				
Authorised			100,000,000	25,000
Balance at 30 September 2007	3,302,011	78,889,268	82,191,279	20,548
Purchase of ordinary shares held in treasury	665,000	(665,000)	–	–
Cancellation of ordinary shares previously held in treasury	(3,967,011)	–	(3,967,011)	(992)
Ordinary shares issued	–	700,000	700,000	175
Balance at 30 September 2008	**–**	**78,924,268**	**78,924,268**	**19,731**

During the year 665,000 ordinary shares were purchased at a total cost of £1,600,000 and held in treasury. On 9 January 2008 the Company cancelled the 3,967,011 ordinary shares previously held in treasury. On 15 July 2008 700,000 shares were issued, with total proceeds of £1,471,000. Since the year end a further 380,000 ordinary shares have been issued. Total proceeds were £2,126,000. As at 24 November 2008, the total number of shares held in treasury was nil. Ordinary shares held in treasury have no entitlement to dividends paid or proposed.

17. SHARE PREMIUM ACCOUNT

	2008 £'000s	2007 £'000s
Balance brought forward	**76,334**	76,334
Premium on issue of shares	**1,296**	–
Balance carried forward	**77,630**	76,334

18. CAPITAL REDEMPTION RESERVE

	2008 £'000s	2007 £'000s
Balance brought forward	**3,154**	3,154
Transfer from equity share capital on cancellation of ordinary shares	**992**	–
Balance carried forward	**4,146**	3,154

19. SPECIAL RESERVE

	2008 £'000s	2007 £'000s
Balance brought forward	**6,034**	10,313
Purchase of ordinary shares held in treasury	**(1,600)**	(4,279)
Balance carried forward	**4,434**	6,034

20. OTHER RESERVES

	Capital reserve – realised £'000s	Capital reserve – unrealised £'000s	Capital reserve – total £'000s	Revenue reserve £'000s
Movements in the year				
Realised losses on investments*	(3,001)	–	(3,001)	–
Transfers on disposal of investments	2,866	(2,866)	–	–
Management fees and related VAT (see note 4)	(348)	–	(348)	–
VAT recoverable (see note 5)	289	–	289	–
Accrued distribution from FIGIT (see note 5)	260	–	260	–
Interest expense (see note 7)	(178)	–	(178)	–
Exchange gains and losses on currency balances	8	(4)	4	–
Other expenses	(9)	–	(9)	–
Decrease in unrealised appreciation on investments	–	(44,233)	(44,233)	–
Revenue return	–	–	–	7,608
Return attributable to equity shareholders	(113)	(47,103)	(47,216)	7,608
Dividends paid	–	–	–	(6,193)
Balance at 30 September 2007	47,708	45,873	93,581	4,480
Balance at 30 September 2008	**47,595**	**(1,230)**	**46,365**	**5,895**

*Includes £19,000 paid to the auditors in respect of the liquidation of the subsidiary.

Included within the capital reserve movement for the year are £132,000 of transaction costs on purchases of investments (2007: £246,000) and £71,000 of transaction costs on sales of investments (2007: £83,000). There were no dividends recognised as capital (2007: £nil).

Distributable capital reserves

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

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

This technical interpretation of the meaning of distributable reserves would, as a consequence, give rise at 30 September 2008 to capital reserves available for distribution, including special reserve, of approximately £50.8 million and non-distributable capital reserves, excluding the capital redemption reserve of £77.6 million.

21. NET ASSET VALUE PER ORDINARY SHARE

Net asset value per ordinary share is based on total net assets of £158,201,000 (2007: £204,131,000) and on 78,924,268 (2007: 78,889,268) ordinary shares in issue at the year end, which excludes shares held in treasury (2008: nil; 2007: 3,302,011).

Notes on the Accounts (continued)

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

	2008 £'000s	2007 £'000s
Total return before finance costs and taxation	(39,175)	15,144
Adjust for returns from non-operating activities:		
– Losses/(gains) on investments	47,234	(8,734)
– Exchange gains of a capital nature	(4)	(1)
– Non-operating expenses of a capital nature	9	4
Return from operating activities	8,064	6,413
Adjust for non-cash flow items:		
Scrip dividend	(104)	–
Increase in debtors	(848)	(52)
(Decrease)/increase in creditors	(102)	15
Overseas taxation	(94)	(41)
Net cash inflow from operating activities	6,916	6,335

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

	2008 £'000s	2007 £'000s
Decrease in cash	(1,175)	(2,811)
Increase in short-term deposits	433	4
Decrease/(increase) in short-term loans	10,000	(2,000)
Change in net debt resulting from cash flows	9,258	(4,807)
Exchange movement on currency balances	4	1
Movement in net debt during the period	9,262	(4,806)
Balance at 30 September 2007	(9,654)	(4,848)
Balance at 30 September 2008	(392)	(9,654)

Represented by:	Balance at 1 October 2007 £'000s	Cash flow £'000s	Exchange movement £'000s	Balance at 30 September 2008 £'000s
Cash at bank	342	(346)	4	–
Short-term deposits	4	433	–	437
Bank overdraft	–	(829)	–	(829)
	346	(742)	4	(392)
Loans – short-term	(10,000)	10,000		–
	(9,654)	9,258	4	(392)

24. RELATED PARTY TRANSACTIONS

The following are considered related parties: the Board of Directors (the "Board") and F&C Management Limited ("the Manager") and the beneficial interests of the Directors in the ordiinary shares of the Company as disclosed.

There are no transactions with the Board other than aggregated remuneration for services as Directors as disclosed in the Directors' Remuneration Report on page 24, and as set out in note 6 on the accounts. There are no outstanding balances with the Board at the year end. Transactions between the Company and the Manager are detailed in note 4 on management fees and note 5 on recoverable VAT.

25. FINANCIAL RISK MANAGEMENT

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

The Company's investment objective is to secure long-term capital and income growth from a portfolio consisting mainly of FTSE All-Share companies. The Company can also have exposure to leading overseas companies, with the value of the non-UK portfolio not exceeding 10% of the Company's gross assets. In pursuing this objective, the Company is exposed to financial risks which could result in a reduction of either or both of the value of the net assets and the profits available for distribution by way of dividend. These financial risks are principally related to the market (currency movements, interest rate changes and security price movements), liquidity and credit. The Board, together with the Manager, is responsible for the Company's risk management, as set out in detail in the Directors' Report and Business Review. The Directors' policies and processes for managing the financial risks are set out in (a), (b) and (c) below.

The accounting policies which govern the reported balance sheet carrying values of the underlying financial assets and liabilities, as well as the related income and expenditure, are set out in note 2 on the accounts. The policies are in compliance with UK Accounting Standards and best practice and include the valuation of financial assets and liabilities at fair value. The Company does not make use of hedge accounting rules.

(a) Market risks

The fair value of equity and other financial securities held in the Company's portfolio fluctuates with changes in market prices. Prices are themselves affected by movements in currencies and interest rates and by other financial issues, including the market perception of future risks. The Board sets policies for managing these risks within the Company's objective and meets regularly to review full, timely and relevant information on investment performance and financial results. The Manager assesses exposure to market risks when making each investment decision and monitors ongoing market risk within the portfolio.

As up to 10% of the Company's gross assets can be invested in non-UK assets, other assets and liabilities may be denominated in currencies other than sterling and may also be exposed to interest rate risks. The Manager and the Board regularly monitor these risks. The Company does not normally hold significant cash balances. It is not the Board's general policy to borrow in currencies other than sterling and any such borrowings would be limited to amounts and currencies commensurate with the portfolio's exposure to those currencies, thereby limiting the Company's exposure to future changes in foreign exchange rates. Gearing may be short or long-term in foreign currencies, and enables the Company to take a long-term view of the countries and markets in which it is invested without having to be concerned about short-term volatility.

Income earned in foreign currencies is converted to sterling on receipt. The Board regularly monitors the effects on net revenue of interest earned on deposits and paid on gearing.

Notes on the Accounts (continued)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency exposure

The principal currency to which the Company was exposed during the year was the euro. As stated above, the exposure to currencies other than sterling cannot exceed 10% of the Company's gross assets.

The exchange rates for the euro applying against sterling at 30 September and the average rates during the year ended 30 September were as follows:

	2008 At 30 September	**2008** Average for the year	2007 At 30 September	2007 Average for the year
Euro	**1.2690**	**1.3171**	1.4326	1.4783

Based on the financial assets and liabilities held and the exchange rates applying at the balance sheet date, a weakening or strengthening of sterling against the euro by 10% would have the following approximate effect on returns attributable to equity shareholders and on net asset values ("NAV") per share:

Weakening of sterling by 10% against the euro	**2008 £'000s**	2007 £'000s
Net revenue return attributable to equity shareholders	**47**	30
Net capital return attributable to equity shareholders	**1,230**	1,456
Net total return attributable to equity shareholders	**1,277**	1,486
NAV per share – pence	**1.55**	1.81

Strengthening of sterling by 10% against the euro	**2008 £'000s**	2007 £'000s
Net revenue return attributable to equity shareholders – £'000s	**(41)**	(25)
Net capital return attributable to equity shareholders – £'000s	**(1,007)**	(1,192)
Net total return attributable to equity shareholders – £'000s	**(1,048)**	(1,217)
NAV per share – pence	**(1.28)**	(1.48)

These effects are representative of the Company's activities although the level of the Company's exposure to the euro fluctuates in accordance with the investment and risk management processes.

The fair values of the Company's assets and liabilities at 30 September by currency are shown below:

2008	**Investments £'000s**	**Short-term debtors £'000s**	**Cash at bank £'000s**	**Short-term creditors – loans £'000s**	**Short-term creditors – other £'000s**	**Net exposure £'000s**
Sterling	146,545	1,908	4	–	(1,172)	147,285
Euro	9,848	–	433	–	(108)	10,173
Other	743	–	–	–	–	743
Total	**157,136**	**1,908**	**437**	**–**	**(1,280)**	**158,201**

2007	Investments £'000s	Short-term debtors £'000s	Cash at bank £'000s	Short-term creditors – loans £'000s	Short-term creditors – other £'000s	Net exposure £'000s
Sterling	199,190	875	–	(10,000)	(418)	189,647
Euro	12,747	–	346	–	–	13,093
Other	1,391	–	–	–	–	1,391
Total	213,328	875	346	(10,000)	(418)	204,131

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate exposure

The exposure of the financial assets to interest rate movements at 30 September was:

	2008 Within one year £'000s	2007 Within one year £'000s
Exposure to floating rates		
Cash	437	346
Overdrafts	(829)	–
Exposure to fixed rates		
Borrowings	–	(10,000)
Net exposure	(392)	(9,654)
Minimum net exposure during the year	3,427	(4,848)
Maximum net exposure during the year	(9,489)	(10,629)

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

Interest received on cash balances, or paid on bank overdrafts and borrowings, is at ruling market rates. There were no holdings in fixed interest investment securities during the year or at the year end (2007: same).

The Company's total returns and net assets are sensitive to changes in interest rates on cash and borrowings.

Based on the financial assets and liabilities held and the interest rates ruling at each balance sheet date, a decrease or increase in interest rates of 2% would have the following approximate effects on the income statement revenue and capital returns after tax and on the NAV per share:

	2008 Increase in rate £'000s	2008 Decrease in rate £'000s	2007 Increase in rate £'000s	2007 Decrease in rate £'000s
Revenue return	(9)	9	–	–
Capital return	–	–	–	–
Total return	(9)	9	–	–
NAV per share – pence	(0.01)	0.01	–	–

Other market risk exposures

The Company does not usually enter into derivative transactions in managing its exposure to other market risks. The portfolio of investments, valued at £157,136,000 at 30 September 2008 (2007: £213,328,000) is therefore exposed to market price changes. The Manager assesses these exposures at the time of making each investment decision. The Board reviews overall exposures at each meeting against indices and other relevant information. An analysis of the portfolio by country and major industrial sector is set out in note 15 on the accounts.

Based on the portfolio of investments held at each balance sheet date, and assuming other factors remain constant, a decrease or increase in the fair value of the portfolio in sterling terms by 20% would have had the following approximate effects on the net capital return attributable to equity shareholders and on the NAV per share:

	2008 Increase in value £'000s	2008 Decrease in value £'000s	2007 Increase in value £'000s	2007 Decrease in value £'000s
Capital return	31,427	(31,427)	42,666	(42,666)
NAV per share – pence	38.24	(38.24)	51.91	(51.91)

Notes on the Accounts (continued)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk

The Company is required to raise funds to meet commitments associated with financial instruments and share buybacks. These funds may be raised either through the realisation of assets or through increased borrowing. The risk of the Company not having sufficient liquidity at any time is not considered by the Board to be significant, given: the number of quoted investments held in the Company's portfolio (70 at 30 September 2008); the liquid nature of the portfolio of investments; the industrial and geographical diversity of the portfolio (see note 15); and the existence of an ongoing loan facility agreement. Cash balances are held with approved banks, usually on overnight deposit. The Company does not normally invest in derivative products. The Manager reviews liquidity at the time of making each investment decision. The Board reviews liquidity exposure at each meeting.

The Company has a loan facility with Lloyds TSB Scotland plc of £20 million which is renewable in September 2009.

The contractual maturities of the financial liabilities at each balance sheet date, based on the earliest date on which payment can be required, were as follows:

	2008 Three months or less £'000s	2007 Three months or less £'000s
Current liabilities – loans	**–**	10,000
Current liabilities – other	**1,280**	418
	1,280	10,418

(c) Credit risk and counterparty exposure

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

A list of pre-approved counterparties is maintained and regularly reviewed by the Manager and the Board. Broker and stock lending counterparties are selected based on a combination of criteria, including credit rating, balance sheet strength and membership of a relevant regulatory body. The rate of default in the past has been negligible. Securities can only be loaned to third parties in exchange for collateral which exceeds the value of the securities throughout the duration of the loan. The Company has not engaged in stock lending during the year (2007: same). Cash and deposits are held with approved banks.

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

To the extent that the Manager carries out management and administrative duties (or causes similar duties to be carried out by third parties) on the Company's behalf, the Company is exposed to counterparty risk. The Board assesses this risk through regular meetings with the management of the Manager (including the fund manager) and with the Manager's internal audit function. In reaching its conclusions, the Board also reviews the Manager's parent group's annual audit and assurance faculty report, group accounts and other public information indicative of its financial position and performance.

The Company had no credit-rated bonds or similar securities or derivatives in its portfolio at the year end (2007: none) and does not normally invest in them. None of the Company's financial liabilities are past their due date or impaired.

(d) Fair values of financial assets and liabilities

The assets and liabilities of the Company are, in the opinion of the Directors, reflected in the balance sheet at fair value, or at a reasonable approximation thereof. Borrowings under loan facilities are short-term in nature and hence do not have a value materially different from their capital repayment amount. It is not the Board's general policy to borrow in currencies other than sterling.

(e) Capital risk management

The objective of the Company is stated as being to secure long-term capital and income growth from a portfolio consisting mainly of FTSE All-Share companies. In pursuing this long-term objective, the Board has a responsibility for ensuring the Company's ability to continue as a going concern. It must therefore maintain an optimal capital structure through varying market conditions. This involves the ability to: issue and buy back share capital within limits set by the shareholders in general meeting; borrow monies in the short and long term; and pay dividends to shareholders out of current year revenue earnings as well as out of brought forward revenue reserves.

Changes to ordinary share capital are set out in note 16 on the accounts. Dividend payments are set out in note 10 on the accounts. Details of any loans are set out in note 13 on the accounts.

Ten Year Record

Assets

at 30 September (£'000s)	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005***	**2006**	**2007**	**2008**
Total assets	95,576	101,887	109,714	88,318	70,061	79,466	91,509	187,846	208,755	214,131	**158,201**
Loans	–	–	5,400	–	–	–	6,000	8,500	8,000	10,000	**–**
Net assets	95,576	101,887	104,314	88,318	70,061	79,466	85,509	179,346	200,755	204,131	**158,201**

Net asset value ("NAV")

at 30 September	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005***	**2006**	**2007**	**2008**
NAV per share	161.9p	191.1p	206.0p	175.4p	141.0p	158.5p	180.2p	220.4p	249.0p	258.8p	**200.45p**
NAV total return on 100p – 5 years (per AIC)											**144.8p**
NAV total return on 100p – 10 years (per AIC)											**162.2p**

Share price

at 30 September	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005***	**2006**	**2007**	**2008**
Middle market price per share	143.0p	171.5p	173.0p	161.5p	135.5p	159.0p	173.5p	211.3p	233.5p	243.3p	**196.5p**
Discount/(premium) to NAV	11.7%	10.3%	16.0%	7.9%	3.9%	(0.3)%	3.7%	4.2%	6.2%	6.0%	**2.0%**
Share price high	182.5p	183.5p	192.0p	183.8p	195.0p	169.0p	177.0p	211.0p	240.0p	258.0p	**249.0p**
Share price low	135.5p	136.0p	154.5p	141.5p	119.0p	122.0p	155.5p	174.0p	196.0p	222.5p	**188.5p**
Share price total return on 100p – 5 years (per AIC)											**145.4p**
Share price total return on 100p – 10 years (per AIC)											**188.3p**

Revenue

for the year ended 30 September	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005***	**2006**	**2007**	**2008**
Available for ordinary shares (£'000s)	2,785	2,964	2,546	2,872	2,460	2,629	2,597	4,046	5,879	6,604	**7,608**
Earnings per share	4.72p	5.19p	4.90p	5.70p	4.93p	5.28p	5.38p	6.56p	7.25p	8.25p	**9.69p**
Dividends per share	4.65p	4.80p	4.95p	5.10p	5.25p	5.35p	5.45p	5.80p	6.50p	7.40p	**8.40p**

Performance

(rebased to 100 at 30 September 1998)

	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005***	**2006**	**2007**	**2008**
NAV per share	100.0	118.0	127.2	108.3	87.1	97.9	111.3	136.1	153.8	159.9	**123.8**
Middle market price per share	100.0	119.9	121.0	112.9	94.8	111.2	121.3	147.8	163.3	170.1	**137.4**
Earnings per share	100.0	110.0	103.8	120.8	104.4	111.9	114.0	139.0	153.6	174.8	**205.3**
Dividends per share	100.0	103.2	106.5	109.7	112.9	114.0	117.2	124.7	139.8	159.1	**180.6§**
FTSE All-Share Index	100.0	120.5	129.2	99.8	76.8	86.5	96.9	117.1	130.1	141.5	**105.9**
RPI	100.0	101.1	104.4	106.2	108.0	111.0	114.4	117.5	121.7	126.5	**132.8**

* Restated to reflect changes in accounting policies.
† Restated for the allocation of management fees and finance costs to capital.
§ Comprises a final dividend of 2.50 pence together with a special dividend.

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/(premium) to NAV	Amount by which the middle market share price is less/(greater) 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.

Ten Year Record (continued)

Costs of running the Company (total expense ratio)

for the year ended 30 September	1998	1999	2000	2001	2002	2003	2004	2005*	2006	2007	2008
Operating costs as a percentage of:											
Average net assets	0.57%	0.58%	0.61%	0.60%	0.67%	0.75%	0.74%	0.69%	0.74%	0.73%	**0.70%**
Average total assets	0.57%	0.58%	0.59%	0.59%	0.67%	0.75%	0.69%	0.66%	0.70%	0.70%	**0.69%**

Gearing

at 30 September	1998	1999	2000	2001	2002	2003	2004	2005*	2006	2007	2008
Effective gearing/(net liquidity)	(2.20)%	(1.40)%	4.40%	(0.80)%	(1.30)%	(0.60)%	6.23%	2.94%	1.81%	4.74%	**0.24%**
Fully invested gearing	–	–	5.20%	–	–	–	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 sixteenth annual general meeting of the Company will be held at Exchange House, Primrose Street, London EC2A 2NY on Thursday 15 January 2009 at 11.30 a.m. for the following purposes:

Ordinary business

1. To receive and adopt the Directors' report and accounts for the year ended 30 September 2008.
2. To approve the Directors' Remuneration Report.
3. To declare a final dividend.
4. To re-elect Neil Dunford as a Director.
5. To re-elect John Emly as a Director.
6. To re-elect Hugh Priestley as a Director.
7. To re-appoint PricewaterhouseCoopers LLP as auditors to the Company.
8. To authorise the Directors to determine the remuneration of the auditors.

Special business

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

9. 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 by that section) up to an aggregate nominal amount of £991,303 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 2010 ("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 £991,303, 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;
   - (c) words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings in this resolution; and
   - (d) references in this resolution to the Act, or to sections of the Act, shall, where appropriate, include references to the Companies Act 2006 and any corresponding or similar sections of that act, it being the intention that, to the extent permitted by law, the authorities and powers contained in this resolution shall continue in full force and effect notwithstanding any repeal of the Act or any relevant part or section thereof.

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

10. THAT the Company be and is hereby generally 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 shall be 11,887,709;

Notice of Annual General Meeting

(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 the date which is 18 months after the passing of this resolution, unless such authority is varied, revoked or renewed prior to such time by the Company in general meeting by special resolution;

(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 or executed wholly or partly after the expiry of such authority; and

(g) references in this resolution to the Act, or to sections of the Act, shall where the context requires and where appropriate, include references to the Companies Act 2006 and any corresponding or similar sections of that act, it being the intention that, to the extent permitted by law, the authority and powers contained in this resolution shall continue in full force and effect notwithstanding any repeal of the Act or any relevant part or section thereof.

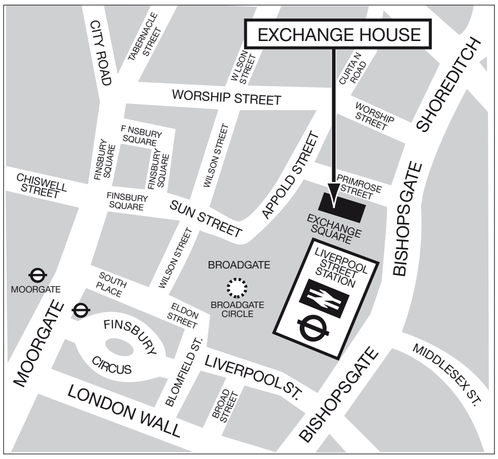
To consider and, if thought fit, pass the following resolution as a special resolution:

11. THAT the draft regulations ("the New Articles") produced to the meeting and, for the purposes of identification, initialled by the Chairman of the meeting be adopted as the articles of association of the Company in substitution for, and to the entire exclusion of, the existing articles of association of the Company.

By order of the Board
F&C Management Limited
Secretary
25 November 2008

Registered office:
Exchange House
Primrose Street
London EC2A 2NY

Location of meeting



Notes:

Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, only shareholders registered on the register of members of the Company at 11 p.m. on 13 January 2009 (the "specified time") shall be entitled to attend and vote or 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 the specified time 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 p.m. on the day which is two days before the day of 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. The proxy form includes details on how to appoint more than one proxy. 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 as 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. As a result, any person holding 3% or more of the voting rights in the Company who grants the Chairman a discretionary proxy in respect of some or all of those voting rights and so would otherwise have a notification obligation under the Disclosure and Transparency Rules, need not make a separate notification 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 24 November 2008, the latest practicable date prior to publication of this document, the Company had 79,304,268 ordinary shares in issue with a total of 79,304,268 voting rights.

In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.

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, not less than 48 hours before the time appointed for the holding of the meeting.

Investors holding shares in the Company through the F&C savings plans should ensure that forms of direction are returned to Computershare Investor Services PLC not later than 96 hours before the time appointed for holding the meeting.

The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with section 147 of the Companies Act 2006 ("nominated persons"). Nominated persons may have a right under an agreement with the registered shareholder who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.

The register of Directors' holdings, Directors' terms of 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.

A copy of the articles of association of the Company as proposed to be adopted with effect from the passing of resolution 11 will be available for inspection at Royal London House, 22–25 Finsbury Square, London EC2A 1DX and at the registered office of the Company from the date of this notice until the conclusion of the annual general meeting and on the date of the annual general meeting at the annual general meeting 15 minutes prior to the start until the conclusion of the meeting.

The members of the Company may require the Company to publish, on its website, a statement setting out any matter relating to the audit of the Company's accounts, including the Independent Auditors' Report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5% of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100.

Appendix: Summary of the proposed material changes to the articles of association of the Company

1. ELECTRONIC AND WEB COMMUNICATIONS

The New Articles allow communications to members in electronic format and permit the Company to take advantage of the provisions in the Companies Act 2006 ("CA2006") relating to website communications.

Various provisions are included in the New Articles to allow the Company to communicate with shareholders via electronic means and to give the Directors the discretion to use electronic communications to distribute notices of meetings, annual reports and accounts.

2. FORM OF RESOLUTIONS AND CONVENING MEETINGS

The existing articles contain provisions referring to "extraordinary" resolutions and "extraordinary" general meetings. With effect from 1 October 2007 these concepts have been abolished under the CA2006. Meetings of shareholders other than annual general meetings are referred to simply as general meetings. Any resolution requiring a 75% majority will be a "special" resolution.

The provisions of the existing articles dealing with the convening of general meetings and annual general meetings and the length of notice required to convene such meetings are amended in the New Articles to conform to the new provisions of the CA2006. In particular, general meetings to consider special resolutions can now be convened on 14 clear days' notice whereas previously 21 clear days' notice was required. The annual general meeting of the Company still requires 21 clear days' notice.

3. PROXIES

The time limits for the appointment of proxies have also been altered by the CA2006 so weekends and bank holidays can be excluded for the purposes of the timing for delivery of proxies. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to different shares held by the shareholder. The New Articles reflect these changes.

4. CORPORATE REPRESENTATIVES

The CA2006 permits a corporate shareholder to appoint multiple corporate representatives who can attend, speak, vote and count towards a quorum at any general meeting. However, where multiple corporate representatives exercise votes in different ways, the CA2006 provides that no votes have been exercised. The New Articles reflect the provisions of the CA2006.

5. CONFLICTS OF INTEREST

The New Articles shall reflect the new provisions of the CA2006 in relation to directors' conflicts of interests which came into force on 1 October 2008.

The CA2006 sets out directors' general duties which largely codify the existing law but with some changes. Under the CA2006, from 1 October 2008, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or may conflict, with the Company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company, an advisor to the Company or a trustee of another organisation. The CA2006 allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, insofar as the articles of association contain a provision to this effect. The CA2006 also allows articles to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty.

There are safeguards in the New Articles which will apply when Directors decide whether to authorise a conflict or potential conflict. First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and second, in taking the decision, the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

It is also proposed that the New Articles contain provisions relating to confidential information, attendance at board meetings and the availability of board papers to protect a Director being in breach of duty if a conflict of interest or a potential conflict of interest arises. It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers to authorise conflicts are operating effectively.

It is proposed that the New Articles will contain provisions giving the Directors authority to approve situations involving Directors' conflicts of interest and to allow conflicts of interest to be dealt with by the Board.

6. PERIODIC RETIREMENT

The Combined Code on Corporate Governance recommends that directors must submit themselves for election by shareholders at the first annual general meeting after their appointment and to re-election thereafter at intervals of no more than three years. The New Articles reflect these provisions.

7. INDEMNITY OF OFFICERS AND INSURANCE

The existing articles already provide for the Company to indemnify any Director or other officer of the Company subject to applicable law. The New Articles take advantage of the new wording in the CA2006 relating to directors' indemnities, to the extent applicable to the Company, and reflect the current market standard provisions which have evolved since the existing indemnity provisions were adopted.

8. CHAIRMAN'S CASTING VOTE

Although the CA2006 precludes the chairman's casting vote provision, this can be retained in the New Articles since, prior to the commencement of the relevant provisions of the CA2006, the Company had such a provision in its articles.

9. REGISTER OF MEMBERS

The current articles provide that the register of members shall not be closed for more than 30 days in any year. The CA2006 repeals the provisions of the Companies Act 1985 which allow a company to close the register of members with the result that the register must be open for inspection at all times. The New Articles reflect this provision.

10. REQUIREMENTS FOR REGISTRATION OF TRANSFER AND REFUSAL TO TRANSFER

The existing articles provide that the Directors may refuse to register a transfer of any certificated share in their absolute discretion and without assigning any reason for the refusal. The CA2006 introduces a new requirement for companies to register transfers or to provide the transferee with reasons for refusal as soon as possible. The New Articles reflect this new requirement.

11. CREST AND THE UNCERTIFICATED SECURITIES REGULATIONS

The New Articles reflect the Uncertificated Securities Regulations 2001 and the CA2006 provisions by permitting shareholders holding uncertificated shares to appoint, instruct, amend and revoke proxy appointments using the CREST system.

12. ARTICLES THAT DUPLICATE STATUTORY PROVISIONS

Certain other provisions in the current articles which replicate provisions contained in companies legislation are amended to bring them into line with the CA2006.

13. ORDINARY BUSINESS

Given the nature of the Company, the definition of ordinary business has been extended in the New Articles to include the granting, renewal or variation of any authority to allot securities in the Company, the disapplication of pre-emption rights and the renewal of share buyback authority as ordinary business when it is transacted at an annual general meeting of the Company (as these resolutions are routinely proposed at the Company's annual general meetings).

14. PREFERENCE SHARES

The provisions for, and references to, preference shares contained in the current articles have been removed since all such shares were redeemed and redesignated as ordinary shares of 25 pence each on 29 October 1992.

Information for Shareholders

Net asset value and share price

The Company's net asset value per share 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 stock market page in most leading newspapers, usually under "F&C Capital and Income".

Performance information

Information on the Company's performance is provided in the half-yearly and final reports which are sent to shareholders in June and December respectively, and in the interim management statement announcements.

More up-to-date performance information is available on the internet at www.fandccit.com. This website also provides a monthly update on the Company's largest holdings, downloadable factsheets and fund manager commentary.

UK capital gains tax ("CGT")

An approved investment trust does not pay tax on capital gains. UK resident individuals may realise net capital gains of up to £9,600 in the tax year ending 5 April 2009 without incurring any tax liability.

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

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

Income tax

The recommended final dividend and declared special dividend are payable in January 2009. Individual UK resident shareholders who are subject to UK income tax at the basic rate have no further tax liability.

Shareholders not resident in the UK, and any shareholders in doubt as to their tax position, should consult their professional advisers.

Association of Investment Companies ("AIC")

F&C Capital and Income Investment Trust PLC is a member of the AIC, which publishes monthly statistical information in respect of member companies. The publication also has details of investment plans available. For further details, please contact the AIC on 020 7282 5555, or visit the website www.theaic.co.uk

aic
The Association of
Investment Companies

How to Invest

Our Manager, F&C, runs a number of savings products which have been set up to provide cost effective and flexible ways to invest. Details of these products are listed below. You can buy 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 online stockbrokers.

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

Private Investor Plan ("PIP")

It only costs 0.2% (plus 0.5% government stamp duty) to invest in F&C Capital and Income Investment Trust via this simple savings plan 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 online.

Pension Savings Plan ("PSP")

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

Child Trust Fund ("CTF")

Parents can invest the Government voucher issued to all children born since 1 September 2002 in a CTF. There are no initial or annual plan charges and there is only 0.5% government stamp duty on any purchases. Parents and grandparents (or other relatives or friends) can add contributions totalling £1,200 a year. You can invest from £25 each month via Direct Debit or from £100 for lump sums once you have invested your voucher.

Individual Savings Account ("ISA")

Individuals can invest up to £7,200 each year in F&C's stocks and shares ISA. On 6 April 2008 all existing Personal Equity Plans were reclassified as ISAs.

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

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

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

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

Contact details

For further details on the savings plans 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 1315**

You can also find more information on the website:

www.fandc.com

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

Investor Services Team, F&C Management Limited, 80 George Street, Edinburgh EH2 3BU

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

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

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