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CIT/INT/08

Investments

# F&C Capital and Income Investment Trust PLC

Report and accounts
for the half-year to **31 March 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.

**Financial calendar**

| | |
|---|---|
| Second interim dividend payable | 30 June 2008 |
| Third interim dividend payable | 30 September 2008 |
| Final results for 2007/2008 announced | 25 November 2008 |
| Final dividend payable | 19 January 2009 |

For investors through an F&C ISA, who have elected to receive cash, the above dividends will be paid on or around 23 July 2008, 23 October 2008 and 23 January 2009 respectively, in accordance with the terms and conditions of the F&C savings plans (on 6 April 2008 PEP accounts were reclassified as stocks and shares ISA accounts).

Visit the website at **www.fandccit.com**
Registered in England with company registration number 2732011



# Summary of Unaudited Results

| **Attributable to equity shareholders** | **31 March 2008** | 30 September 2007 | % Change |
|---|---|---|---|
| Net assets | **£179.14m** | £204.13m | -12.2 |
| Net asset value per share | **229.00p** | 258.76p | -11.5 |
| Share price | **217.00p** | 243.25p | -10.8 |

| | **Half-year ended 31 March 2008** | Half-year ended 31 March 2007 | % Change |
|---|---|---|---|
| Revenue return per share | **4.04p** | 3.68p | +9.8 |

| | **Half-year ended 31 March 2008** | Half-year ended 31 March 2007 | % Change |
|---|---|---|---|
| Dividends per share | | | |
| First interim dividend in respect of year ending | | | |
| 30 September 2008 | **1.80p*** | – | |
| 30 September 2007 | **–** | 1.60p | |
| Second interim dividend in respect of year ending | | | |
| 30 September 2008 | **1.80p**** | – | |
| 30 September 2007 | **–** | 1.60p | |
| Total dividends relating to the period | **3.60p** | 3.20p | + 12.5 |

* Paid on 31 March 2008.

** Payable on 30 June 2008 to shareholders registered on 23 May 2008.

# Chairman's Statement

**DEAR SHAREHOLDER**

From 1 October 2007 to 31 March 2008, the UK stock market, as measured by the FTSE All-Share index, fell by 11.8% as the global credit crisis began to affect not just financial markets but the underlying economies as well. Over the same period, your Company's share price and net asset value (NAV) per share decreased by 10.8% and 11.5% respectively.

The second interim dividend for the period from 1 January 2008 to 31 March 2008 is 1.8 pence per share, which together with the first interim dividend, also of 1.8 pence, gives a total of 3.6 pence per share in respect of the first six months of the current year, an increase of 12.5% on the same period last year.

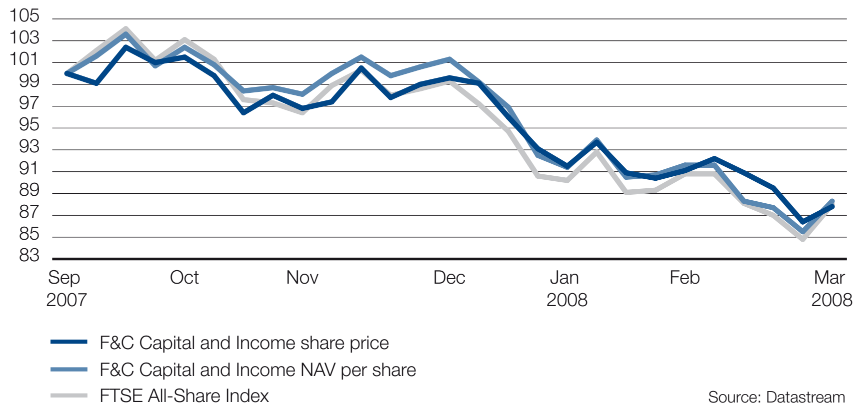
## Capital performance

The financial crisis that started last summer continued to develop over the course of the last six months, becoming more intense and significant in terms of impact. It has now spread far beyond the point of its initiation, namely residential mortgages made to US citizens with only limited ability to repay. Losses stemming directly from this, and the uncertainty that has resulted, have brought about a liquidity crisis and a credit crunch, as banks have actively sought to reduce their exposures and conserve cash. Against this background, and despite two cuts in interest rates from the recent peak of 5.75% to 5.25%, the UK stock market fell, in common with nearly all other stock markets.

The three largest positive contributors to investment performance were Mining, Tobacco and Banks. The portfolio's holding in Rio Tinto gave a return of more than 24% as metal prices were firm and as BHP Billiton approached it to try to merge the two companies. Tobacco shares continued to perform well during a period of economic and financial uncertainty. Despite their ostensibly high yields, we have taken a relatively cautious view of the prospects of the banking sector where the decision to underweight banks with a high domestic mortgage exposure has benefited performance.

**Performance over six months**

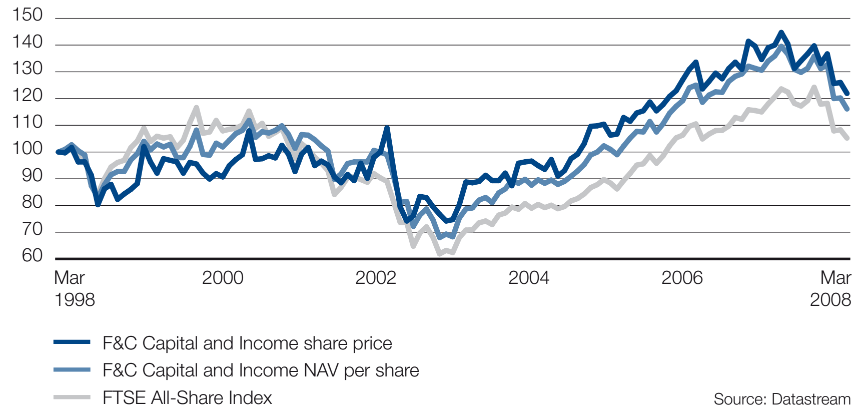
(rebased to 100 at September 2007)




Source: Datastream

**Performance over ten years**

(rebased to 100 at March 1998)




Source: Datastream

The biggest disappointments came from the Oil sector; although the oil price rose from $80 per barrel to $100, the share prices of both the oil majors, BP and Royal Dutch Shell, in which the portfolio has considerable investments, fell. Companies exposed to leisure spending in the UK, such as the pub owners Marstons and Punch, and nightclub operator Luminar, also performed poorly.

## Revenue and dividend

Companies in the UK stock market have grown their dividends at a good rate over the last year and the increases from the stocks in your Company's portfolio have resulted in a 4.2% increase in income. The elimination of VAT on the management fee helped to bring about a reduction in overall expenses and this, together with a lower amount of interest payable following a reduction in borrowing levels, led to a 6.9% increase in pre-tax return.

Although no shares were bought back during the latest quarter, the impact of previous repurchases had a positive effect on the return per ordinary share, which rose by 9.8% to 4.04p. The first two interim dividends, each of 1.8p, to give a half year total of 3.6p represent a 12.5% increase on the same period last year; taking account of the previous dividend increases this results in dividend growth of 32.1% over the three years to 31 March 2008.

# Chairman's Statement (continued)

**Recovery of VAT**

In our last annual report we described the prospects for recovery of VAT wrongly paid in the past on management fees. Your Board continues to take this forward but we still lack certainty on the amount and the timing of any reclaims. Further details are set out in note 9 on the accounts.

**Gearing**

Your Company started the new financial year with borrowings of £10 million and this was reduced to £4 million by the end of March. Given the fall in markets over the period the use of gearing has not been profitable, but because of the small amounts borrowed relative to the level of net assets, the overall impact has not been significant.

**Discount to NAV and share buy-backs**

The Company has maintained its active share buy-back programme with the intention of ensuring that the Company's share price does not trade at a material discount to NAV. The shares started the year trading at a discount of 6.0% and more than 500,000 shares were bought during the first quarter at an average discount to NAV of 8.8% as the discount widened. At the end of March the discount had narrowed to 5.2% and, as already stated, no further shares were bought back in the last quarter.

**Outlook**

At the time of writing, there is still a great deal of uncertainty in financial markets, but following interest rate cuts and a substantial injection of liquidity into the financial system by the Bank of England, it appears that the risk is receding of bank failures or a systemic collapse. This is undoubtedly good news, but as the financial system is forced to repair its balance sheet and reduce leverage, there are adverse implications for the rest of the economy. Credit, including mortgages, will almost certainly be more expensive and difficult to arrange which in turn will have adverse implications for asset prices and retail sales, particularly as the levels of personal and government debt are very high. To add to this somewhat dismal picture, strong oil, commodity and food prices are squeezing the disposable income of most households.

Notwithstanding the immediate gloomy environment, it should be remembered that the stock market is a discounting mechanism and seeks to anticipate future events. This helps to explain why share prices have already fallen considerably, even before the credit and liquidity crisis has had much of an impact on the real economy, and why, with an historic price/earnings ratio of under 12 times on the FTSE All-Share index and a yield of more than 3.6%, valuations appear attractive. Corporate profits will clearly be under pressure from the economic slow-down and from cost pressures, and dividends in the banking sector in particular remain under threat. However, the weakness of sterling should help export recovery and the overseas earnings of UK companies in sterling terms. At some stage, probably before the clouds lift, but not necessarily this year, it will be right to take a more aggressive view, and at that stage we will look to reposition the portfolio accordingly in terms of stock selection and gearing.

Pen Kent
May 2008

# Principal Risks and Uncertainties

The Company's assets consist mainly of listed securities and its principal risks are therefore market related. The Company may, from time to time, invest in leading overseas companies and so is exposed to currency risk in respect of these investments. Other key risks faced by the Company include investment strategy, management resources, regulatory, operational and financial risks. These risks, and the way in which they are managed, are described in more detail under the heading "principal risks and risk management" within the business review in the Company's annual report for the year ended 30 September 2007. The Company's principal risks and uncertainties have not changed materially since the date of that report.

# Statement of Directors' Responsibilities in Respect of the Half-Yearly Financial Report

We confirm that to the best of our knowledge:

- the condensed set of financial statements have been prepared in accordance with the statement "Half-Yearly Financial Reports" issued by the UK Accounting Standards Board and give a true and fair view of the assets, liabilities, financial position and return of the Company as required by the Disclosure and Transparency Rules ("DTR") 4.2.4R;
- the Chairman's Statement (constituting the interim management report) includes a fair review of the information required by DTR 4.2.7R, being an indication of important events that have occurred during the first six months of the financial year and their impact on the financial statements;
- the Statement of Principal Risks and Uncertainties shown above is a fair review of the information required by DTR 4.2.7R; and
- the financial statements include a fair review of the information required by DTR 4.2.8R regarding related party transactions.

On behalf of the Board
Pen Kent
Chairman
12 May 2008

# Twenty Largest Equity Holdings at 31 March 2008

| 31 Mar 2008 | 30 Sep 2007 | Company<br>Company description | Value £'000s | % of total investments |
|---|---|---|---|---|
| 1 | *1* | **BP**<br>One of the largest integrated oil companies in the world; new management needs to turn around recent performance. | 13,606 | 7.52 |
| 2 | *3* | **HSBC**<br>The attractions of HSBC's investments in fast growing emerging markets offsets its exposure to sub-prime lending in the US. | 11,620 | 6.42 |
| 3 | *6* | **Rio Tinto**<br>The mining industry is experiencing very strong operating conditions and consolidation in the industry remains possible. | 10,989 | 6.07 |
| 4 | *2* | **Royal Dutch Shell**<br>Leading international oil exploration, production and marketing group which has scope for efficiency increases. | 10,685 | 5.90 |
| 5 | *4* | **Vodafone**<br>The world's leading mobile telephone provider with a strong international network. | 9,651 | 5.33 |
| 6 | *5* | **GlaxoSmithKline**<br>One of the world's leading pharmaceutical companies and conservatively valued by historic standards. | 8,520 | 4.71 |
| 7 | *8* | **British American Tobacco**<br>A leading international cigarette manufacturer and distributor with scope to generate further efficiency increases. | 7,560 | 4.18 |
| 8 | *7* | **Scottish & Southern Energy**<br>A well-managed multi-utility group with an attractive dividend yield and strong commitment to dividend growth. | 7,296 | 4.03 |
| 9 | *9* | **Barclays**<br>This diversified bank has so far weathered the financial crisis better than most. | 5,750 | 3.18 |
| 10 | *10* | **Tesco**<br>The leading food retailer in the UK, continuing to expand through its non-food offerings and internationally. | 5,309 | 2.93 |
| 11 | *11* | **National Grid**<br>One of the world's largest utilities, owning and operating gas and electricity networks in the UK and US. | 4,968 | 2.74 |
| 12 | *12* | **AstraZeneca**<br>A leading pharmaceutical company which is conservatively valued by historic standards. | 4,143 | 2.29 |
| 13 | *14* | **Diageo**<br>A leading international drinks company with scope to increase returns and growth. | 3,952 | 2.18 |
| 14 | *13* | **Royal Bank of Scotland**<br>This diversified bank will have a considerably stronger financial position having just announced a major rights issue. | 3,731 | 2.06 |
| 15 | – | **BG**<br>Major international gas and energy business with considerable potential from gas exploration, especially in Brazil. | 3,313 | 1.83 |
| 16 | *15* | **Anglo American**<br>Large international mining company benefiting from strong commodity prices. | 3,303 | 1.82 |
| 17 | *18* | **United Utilities**<br>Multi-utility group trading with an attractive yield. | 2,969 | 1.64 |
| 18 | – | **Intertek**<br>A leading provider of quality and safety testing services for a wide range of industries around the world. | 2,681 | 1.48 |
| 19 | – | **Reed Elsevier**<br>A world-leading publisher of information for professional users. | 2,561 | 1.41 |
| 20 | – | **Imperial Tobacco**<br>The world's fourth largest international tobacco company has benefited from astute acquisitions. | 2,317 | 1.28 |

The value of the twenty largest equity holdings represents 69.0% (30 September 2007: 64.5%) of the Company's total investments.

# Unaudited Income Statement

| Notes | | Half-year ended 31 March 2008 | | | Half-year ended 31 March 2007 | | | Year ended 30 September 2007 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Revenue £'000s | Capital £'000s | Total £'000s | Revenue £'000s | Capital £'000s | Total £'000s | Revenue £'000s | Capital £'000s | Total £'000s |
| | (Losses)/gains on investments | – | (22,995) | (22,995) | – | 13,071 | 13,071 | – | 8,734 | 8,734 |
| | Exchange gains on currency balances | 1 | 17 | 18 | – | 1 | 1 | – | 1 | 1 |
| 2 | Income | 3,745 | – | 3,745 | 3,594 | – | 3,594 | 7,947 | – | 7,947 |
| | Management fee | (180) | (180) | (360) | (255) | (255) | (510) | (513) | (513) | (1,026) |
| | Other expenses | (284) | (6) | (290) | (254) | (1) | (255) | (508) | (4) | (512) |
| | **Net return before finance costs and taxation** | 3,282 | (23,164) | (19,882) | 3,085 | 12,816 | 15,901 | 6,926 | 8,218 | 15,144 |
| | Interest payable and similar charges | (113) | (113) | (226) | (121) | (121) | (242) | (285) | (285) | (570) |
| | **Net return on ordinary activities before taxation** | 3,169 | (23,277) | (20,108) | 2,964 | 12,695 | 15,659 | 6,641 | 7,933 | 14,574 |
| | Taxation on ordinary activities | (1) | – | (1) | (4) | – | (4) | (37) | – | (37) |
| | **Net return attributable to equity shareholders** | 3,168 | (23,277) | (20,109) | 2,960 | 12,695 | 15,655 | 6,604 | 7,933 | 14,537 |
| 3 | **Return per share – pence** | 4.04 | (29.68) | (25.64) | 3.68 | 15.78 | 19.46 | 8.25 | 9.92 | 18.17 |

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

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

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

# Unaudited Reconciliation of Movements in Shareholders' Funds

| Notes | | Share capital £'000s | Share premium account £'000s | Capital redemption reserve £'000s | Special reserve £'000s | Capital reserves £'000s | Revenue reserve £'000s | Total equity shareholders' funds £'000s |
|---|---|---|---|---|---|---|---|---|
| | **Half-year ended 31 March 2008** | | | | | | | |
| | Balance at 30 September 2007 | 20,548 | 76,334 | 3,154 | 6,034 | 93,581 | 4,480 | 204,131 |
| | Movements during the half-year ended 31 March 2008: | | | | | | | |
| | Dividends paid | – | – | – | – | – | (3,285) | (3,285) |
| 7 | Purchase of ordinary shares held in treasury | – | – | – | (1,600) | – | – | (1,600) |
| 7 | Cancellation of ordinary shares previously held in treasury | (992) | – | 992 | – | – | – | – |
| | Return attributable to equity shareholders | – | – | – | – | (23,277) | 3,168 | (20,109) |
| | **Balance at 31 March 2008** | **19,556** | **76,334** | **4,146** | **4,434** | **70,304** | **4,363** | **179,137** |
| | **Half-year ended 31 March 2007** | | | | | | | |
| | Balance at 30 September 2006 | 20,548 | 76,334 | 3,154 | 10,313 | 85,648 | 4,758 | 200,755 |
| | Movements during the half-year ended 31 March 2007: | | | | | | | |
| | Dividends paid | – | – | – | – | – | (4,184) | (4,184) |
| | Purchase of ordinary shares held in treasury | – | – | – | (989) | – | – | (989) |
| | Return attributable to equity shareholders | – | – | – | – | 12,695 | 2,960 | 15,655 |
| | **Balance at 31 March 2007** | 20,548 | 76,334 | 3,154 | 9,324 | 98,343 | 3,534 | 211,237 |
| | **Year ended 30 September 2007** | | | | | | | |
| | 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: | | | | | | | |
| | Dividends paid | – | – | – | – | – | (6,882) | (6,882) |
| | Purchase of ordinary shares held in treasury | – | – | – | (4,279) | – | – | (4,279) |
| | 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 |

# Unaudited Balance Sheet

| Notes | | 31 March 2008 £'000s | 31 March 2007 £'000s | 30 September 2007 £'000s |
|---|---|---|---|---|
| | **Fixed assets** | | | |
| | Investments | **181,034** | 220,497 | 213,328 |
| | **Current assets** | | | |
| | Debtors | **1,717** | 1,731 | 875 |
| | Cash at bank and short-term deposits | **707** | 18 | 346 |
| | | **2,424** | 1,749 | 1,221 |
| | **Creditors: amounts falling due within one year** | | | |
| 5 | Short-term loans | **(4,000)** | (9,000) | (10,000) |
| | Other | **(321)** | (2,009) | (418) |
| | | **(4,321)** | (11,009) | (10,418) |
| | **Net current liabilities** | **(1,897)** | (9,260) | (9,197) |
| | **Net assets** | **179,137** | 211,237 | 204,131 |
| | **Capital and reserves** | | | |
| 6 | Share capital | **19,556** | 20,548 | 20,548 |
| | Share premium account | **76,334** | 76,334 | 76,334 |
| | Capital redemption reserve | **4,146** | 3,154 | 3,154 |
| | Special reserve | **4,434** | 9,324 | 6,034 |
| | Capital reserves | **70,304** | 98,343 | 93,581 |
| | Revenue reserve | **4,363** | 3,534 | 4,480 |
| | **Total equity shareholders' funds** | **179,137** | 211,237 | 204,131 |
| 7 | **Net asset value per share – pence** | **229.00** | 263.34 | 258.76 |



# Unaudited Summary Cash Flow Statement

| Notes | | Half-year ended 31 March 2008 £'000s | Half-year ended 31 March 2007 £'000s | Year ended 30 September 2007 £'000s |
|---|---|---|---|---|
| 8 | Net cash inflow from operating activities | **2,181** | 1,928 | 6,376 |
| | Interest paid | **(243)** | (234) | (575) |
| | Total tax paid | **(6)** | (3) | (44) |
| 4 | Equity dividends paid | **(3,285)** | (4,184) | (6,882) |
| | Net cash inflow/(outflow) from purchases and sales of investments | **9,281** | (2,080) | 752 |
| | **Net cash inflow/(outflow) before use of liquid resources and financing** | **7,928** | (4,573) | (373) |
| | Increase in short-term deposits | **(703)** | – | (4) |
| | Net cash outflow from financing | **(7,600)** | (144) | (2,434) |
| | **Decrease in cash** | **(375)** | (4,717) | (2,811) |
| | **Reconciliation of net cash flow to movement in net debt** | | | |
| | Decrease in cash | **(375)** | (4,717) | (2,811) |
| | Increase in short-term deposits | **703** | – | 4 |
| | Decrease/(increase) in short-term loans | **6,000** | (1,000) | (2,000) |
| | Exchange movement on currency balances | **17** | 1 | 1 |
| | **Movement in net debt** | **6,345** | (5,716) | (4,806) |
| | **Net debt brought forward** | **(9,654)** | (4,848) | (4,848) |
| | **Net debt carried forward** | **(3,309)** | (10,564) | (9,654) |
| | **Represented by:** | | | |
| | Cash at bank and short-term deposits | **707** | 18 | 346 |
| | Bank overdraft | **(16)** | (1,582) | – |
| | | **691** | (1,564) | 346 |
| | Short-term loans | **(4,000)** | (9,000) | (10,000) |
| | | **(3,309)** | (10,564) | (9,654) |

# Unaudited Notes on the Accounts

## 1 Accounting policies

The half-yearly financial statements have been prepared on the basis of the accounting policies set out in the Company's financial statements at 30 September 2007. These accounting policies are expected to be followed throughout the year ending 30 September 2008.

## 2 Income

| Income from investments | **Half-year ended 31 March 2008 £'000s** | Half-year ended 31 March 2007 £'000s | Year ended 30 September 2007 £'000s |
|---|---|---|---|
| UK dividends | **3,657** | 3,559 | 7,544 |
| Overseas dividends | **6** | 23 | 335 |
| Interest on cash and short-term deposits | **62** | 12 | 58 |
| Underwriting commission | **20** | – | 10 |
| | **3,745** | 3,594 | 7,947 |

## 3 Return per share

Return per share attributable to ordinary shareholders reflects the overall performance of the Company in the period. Net revenue recognised in the first six months is not indicative of the total likely to be received in the full accounting year.

| | **Half-year ended 31 March 2008 £'000s** | Half-year ended 31 March 2007 £'000s | Year ended 30 September 2007 £'000s |
|---|---|---|---|
| Revenue return | **3,168** | 2,960 | 6,604 |
| Capital return | **(23,277)** | 12,695 | 7,933 |
| Total return | **(20,109)** | 15,655 | 14,537 |
| | **Number** | Number | Number |
| Weighted average ordinary shares in issue* | **78,440,022** | 80,462,065 | 80,004,514 |

* Shares held in treasury have been excluded from the weighted average number of shares in issue.

## 4 Dividends

| Dividends on ordinary shares | Payment date | **Half-year ended 31 March 2008 £'000s** | Half-year ended 31 March 2007 £'000s | Year ended 30 September 2007 £'000s |
|---|---|---|---|---|
| Third of three interims for the year ended 30 September 2006: 1.50p per share | 01 Oct 06 | **–** | 1,210 | 1,210 |
| Final for the year ended 30 September 2006: 2.10p per share | 01 Feb 07 | **–** | 1,690 | 1,690 |
| First of three interims for the year ended 30 September 2007: 1.60p per share | 29 Mar 07 | **–** | 1,284 | 1,284 |
| Second of three interims for the year ended 30 September 2007: 1.60p per share | 29 Jun 07 | **–** | – | 1,275 |
| Third of three interims for the year ended 30 September 2007: 1.80p per share | 28 Sep 07 | **–** | – | 1,423 |
| Final for the year ended 30 September 2007: 2.40p per share | 31 Jan 08 | **1,877** | – | – |
| First of three interims for the year ending 30 September 2008: 1.80p per share | 31 Mar 08 | **1,408** | – | – |
| | | **3,285** | 4,184 | 6,882 |

The second interim dividend in respect of the year ending 30 September 2008 of 1.80p will be paid on 30 June 2008 to shareholders registered on 23 May 2008. The total cost of this dividend, based on 78,224,268 shares in issue and entitled to dividend on 12 May 2008, is £1,408,000.

## 5 Short term loans

| | **31 March 2008 £'000s** | 31 March 2007 £'000s | 30 September 2007 £'000s |
|---|---|---|---|
| Sterling loan repayable within one year | **4,000** | 9,000 | 10,000 |

At 12 May 2008, short-term loans were £3m.

## 6 Share capital

| Equity share capital | Shares held in treasury Number | Shares entitled to dividend Number | Total shares in issue Number | Nominal value of shares in issue £'000s |
|---|---|---|---|---|
| Ordinary shares of 25p each | | | | |
| Authorised | | | 100,000,000 | 25,000 |
| Balance brought forward | 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) |
| **Balance carried forward** | **–** | **78,224,268** | **78,224,268** | **19,556** |

During the period from 1 October to 31 December 2007 665,000 ordinary shares were purchased and held in treasury at a total cost of £1,600,000. On 9 January 2008 the Company cancelled the 3,967,011 ordinary shares previously held in treasury. No shares have been purchased since the period end.

## 7 Net asset value per ordinary share

| | **Half-year ended 31 March 2008** | Half-year ended 31 March 2007 | Year ended 30 September 2007 |
|---|---|---|---|
| Net asset value per share | **229.00p** | 263.34p | 258.76p |
| Net assets attributable at end of period | **£179.14m** | £211.24m | £204.13m |
| Ordinary shares of 25p each in issue at end of period* | **78,224,268** | 80,214,268 | 78,889,268 |

*Excludes shares held in treasury (at 31 March 2008: nil; 31 March 2007: 1,977,011 and 30 September 2007: 3,302,011).



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

| | **Half-year ended 31 March 2008 £'000s** | Half-year ended 31 March 2007 £'000s | Year ended 30 September 2007 £'000s |
|---|---|---|---|
| Net total return before finance costs and taxation | **(19,882)** | 15,901 | 15,144 |
| Adjust for returns from non-operating activities: | | | |
| – Losses/(gains) on investments | **22,995** | (13,071) | (8,734) |
| – Management fee allocated to capital | **180** | 255 | 513 |
| – Exchange gains of a capital nature | **(17)** | (1) | (1) |
| – Non-operating expenses of a capital nature | **6** | 1 | 4 |
| Return from operating activities | **3,282** | 3,085 | 6,926 |
| Adjust for non-cash flow items: | | | |
| – Management fee allocated to capital | **(180)** | (255) | (513) |
| – Exchange losses of a revenue nature | **(1)** | – | – |
| – Increase in accrued income | **(824)** | (912) | (52) |
| – (Decrease)/increase in other creditors | **(96)** | 10 | 15 |
| Net cash inflow from operating activities | **2,181** | 1,928 | 6,376 |

## 9 Contingent asset

As detailed in the annual accounts of the Company to 30 September 2007, the European Court of Justice has ruled that investment trusts are exempted from paying VAT on management fees. A separate UK House of Lords decision in January 2008 ruled that the three year capping imposed by HM Revenue and Customs (HMRC) in relation to VAT claims submitted prior to January 1997 was invalid. The two rulings enable the Company's Manager, F&C Management Limited, to enter into negotiations with HMRC to reclaim a proportion of VAT paid on behalf of the Company and its subsidiary, F&C Income and Growth Investment Trust PLC (in liquidation), in the periods between April 1990 and December 1996 and further periods since April 2001. The total amount of VAT suffered by the Company and its subsidiary in these periods was £780,000 and £372,000 respectively.

The Company has reached an agreement with the Manager over the broad principles of repayment of any VAT recovered from HMRC and a proportion of the VAT offset by the Manager over these periods. Nevertheless, although recovery of a proportion of VAT suffered remains highly probable, the quantum and timing of recoveries is largely dependent upon the outcome of the Manager's separate negotiations with HMRC. As a consequence of this ongoing uncertainty, no amount relating to VAT recoverable has been recognised as an asset within these accounts.

# Unaudited Notes on the Accounts (continued)

### 10 Results

The results for the half-year ended 31 March 2008 and 31 March 2007, which are unaudited, constitute non-statutory accounts within the meaning of Section 434 of the Companies Act 2006. The latest published accounts which have been delivered to the Registrar of Companies are for the year ended 30 September 2007; the report of the auditors thereon was unqualified and did not contain a statement under Section 498 of the Companies Act 2006. The abridged financial statements shown above for the year ended 30 September 2007 are an extract from those accounts.

By order of the Board

F&C Management Limited, Secretary

Exchange House

Primrose Street

London EC2A 2NY

12 May 2008



# Availability of reports and accounts

The Company's report and accounts are available on the internet at www.fandccit.com. Printed copies may be obtained during normal business hours from the Company's registered office, Exchange House, Primrose Street, London EC2A 2NY.

# How to invest

Our Manager, F&C, runs a number of savings products which have been set up to provide cost effective and flexible ways to invest. Details of these products are listed below. You can also buy F&C Capital and Income Investment Trust shares using a bank or stockbroker or through a telephone dealing service. The shares can also be bought online; the F&C website at www.fandc.com has a link to Selftrade, one of Europe's biggest online stockbrokers.

### Private Investor Plan ("PIP")

It only costs 0.2% (plus 0.5% Government Stamp Duty) to invest in F&C Capital Investment Trust via this simple savings scheme and there are no ongoing charges. You can invest from £50 each month via a direct debit (£25 on behalf of a child) or from £500 as a lump sum. The minimum for top-up investments is £250. Investments in the PIP can now be made online.

### Pension Savings Plan ("PSP")

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

### Child Trust Fund ("CTF")

F&C has launched a CTF so that parents can invest the Government voucher issued to all children born since 1 September 2002. Parents and grandparents (or other relatives and friends) can add contributions totalling £1,200 a year. You can invest from £25 each month via direct debit or from £300 for lump sums once you have invested your voucher.

### Individual Savings Account ("ISA")

You can invest up to £7,200, the annual ISA subscription limit for 2008/09, using the F&C stocks and shares ISA. The minimum monthly direct debit is £50, minimum lump sum investment is £500 and the minimum top-up is £250. Investments in the ISA can be made online. The annual management fee on the ISA is £60 plus VAT.

### Personal Equity Plan ("PEP")

On 6 April 2008 all PEP accounts were reclassified as stocks and shares ISA accounts and will operate as ISAs going forward. It is now possible for you to consolidate accounts that were PEP accounts with an ISA account.

Gains arising from assets held in an ISA and CTF are exempt from tax. Interest and dividends

# How to invest (continued)

received on assets in these savings products are free of income tax. Although the dividend tax credit cannot be reclaimed, there are income tax savings for higher rate taxpayers.

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

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

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

Investor Services on
**0800 136 420**
**info@fandc.com**

or Broker Support on
**08457 992 299**
**adviser.enquiries@fandc.com**
(UK calls charged at the local rate)

Fax **0131 243 1330**

You can also find more information on the website:
**www.fandc.com**

If you wish to write to us, the address is:
Investor Services Team,
F&C Management Limited,
80 George Street,
Edinburgh
EH2 3BU

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

The information on pages 19 and 20 has been issued and approved by F&C Management Limited, authorised and regulated in the UK by the Financial Services Authority.