

# 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 2009 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

## **Respective responsibilities of Directors and auditors**

As explained more fully in the Statement of Directors' Responsibilities in Respect of the Financial Statements set out on page 32, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with sections 495 to 497A of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

## **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2009 and of its net return and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Corporate Governance Statement with respect to Rules 7.2.5 and 7.2.6 of the Disclosure and Transparency Rules issued by the Financial Services Authority is consistent with the financial statements; and
- the information given in the Directors' Report and Business Review for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which we are required to report by exception**

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on pages 17 and 18, in relation to going concern; and
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Parwinder Purewal (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants & Statutory Auditors  
London  
27 November 2009

# Income Statement

Revenue notes Capital notes		for the year ended 30 September					2009			
		Revenue £'000s	Capital £'000s	Total £'000s	Revenue £'000s	Capital £'000s	Total £'000s	Revenue £'000s	Capital £'000s	Total £'000s
11		Gains/(losses) on investments	–	884	884	–	(47,234)	(47,234)		
		Foreign exchange gains	–	–	–	–	4	4		
3	20	Income	8,181	212	8,393	8,480	260	8,740		
4	20	Management fee	(304)	(304)	(608)	(348)	(348)	(696)		
5		Recoverable VAT	167	–	167	289	289	578		
6	20	Other expenses	(656)	(11)	(667)	(558)	(9)	(567)		
		<b>Net return before finance costs and taxation</b>	<b>7,388</b>	<b>781</b>	<b>8,169</b>	7,863	(47,038)	(39,175)		
7	20	Finance costs	(154)	(154)	(308)	(178)	(178)	(356)		
		<b>Net return on ordinary activities before taxation</b>	<b>7,234</b>	<b>627</b>	<b>7,861</b>	7,685	(47,216)	(39,531)		
8		Taxation on ordinary activities	(24)	–	(24)	(77)	–	(77)		
		<b>Net return attributable to shareholders</b>	<b>7,210</b>	<b>627</b>	<b>7,837</b>	7,608	(47,216)	(39,608)		
9	9	<b>Return per share – pence</b>	<b>8.85</b>	<b>0.77</b>	<b>9.62</b>	9.69	(60.16)	(50.47)		

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

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

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

# Reconciliation of Movements in Shareholders' Funds

Notes	for the year ended 30 September 2009							Total shareholders' funds
	Share capital £'000s	Share premium account £'000s	Capital redemption reserve £'000s	Special reserve £'000s	Capital reserves £'000s	Revenue reserve £'000s	£'000s	
	19,731	77,630	4,146	4,434	46,365	5,895	158,201	
	<b>Movements during the year ended 30 September 2009</b>							
10	-	-	-	-	-	(7,303)	(7,303)	
	1,180	6,769	-	-	-	-	7,949	
	-	-	-	-	627	7,210	7,837	
	<b>20,911</b>	<b>84,399</b>	<b>4,146</b>	<b>4,434</b>	<b>46,992</b>	<b>5,802</b>	<b>166,684</b>	
	<b>Balance at 30 September 2009</b>							

  

Notes	for the year ended 30 September 2008							Total shareholders' funds
	Share capital £'000s	Share premium account £'000s	Capital redemption reserve £'000s	Special reserve £'000s	Capital reserves £'000s	Revenue reserve £'000s	£'000s	
	20,548	76,334	3,154	6,034	93,581	4,480	204,131	
	<b>Movements during the year ended 30 September 2008</b>							
10	-	-	-	-	-	(6,193)	(6,193)	
	-	-	-	(1,600)	-	-	(1,600)	
	(992)	-	992	-	-	-	-	
	175	1,296	-	-	-	-	1,471	
	-	-	-	-	(47,216)	7,608	(39,608)	
	<b>19,731</b>	<b>77,630</b>	<b>4,146</b>	<b>4,434</b>	<b>46,365</b>	<b>5,895</b>	<b>158,201</b>	
	<b>Balance at 30 September 2008</b>							

# Balance Sheet

Notes	at 30 September	2009	2008
		£'000s	£'000s
	<b>Fixed assets</b>		
11	Investments	178,710	157,136
	<b>Current assets</b>		
12	Debtors	946	1,908
	Cash at bank and short-term deposits	2,466	437
		<b>3,412</b>	<b>2,345</b>
	<b>Creditors: amounts falling due within one year</b>		
13	Loans	(14,000)	–
14	Other	(1,438)	(1,280)
		<b>(15,438)</b>	<b>(1,280)</b>
	<b>Net current (liabilities)/assets</b>	<b>(12,026)</b>	<b>1,065</b>
	<b>Net assets</b>	<b>166,684</b>	<b>158,201</b>
	<b>Capital and reserves</b>		
16	Share capital	20,911	19,731
17	Share premium account	84,399	77,630
18	Capital redemption reserve	4,146	4,146
19	Special reserve	4,434	4,434
20	Capital reserves	46,992	46,365
20	Revenue reserve	5,802	5,895
	<b>Total shareholders' funds</b>	<b>166,684</b>	<b>158,201</b>
21	<b>Net asset value per ordinary share – pence</b>	<b>199.28</b>	<b>200.45</b>

Approved by the Board on 27 November 2009  
and signed on its behalf by

Pen Kent, Chairman

# Cash Flow Statement

Notes		for the year ended 30 September	
	£'000s	2009 £'000s	2008 £'000s
<b>Operating activities</b>			
Investment income received	8,018		8,085
Interest received	32		144
Other revenue	225		43
Distribution from subsidiary (in liquidation)	472		–
VAT recovered (including interest thereon)	924		–
Fee paid to management company	(592)		(786)
Fees paid to Directors	(91)		(83)
Other payments	(565)		(487)
<b>22 Net cash inflow from operating activities</b>		<b>8,423</b>	6,916
<b>Servicing of finance</b>			
Interest paid	(304)		(375)
<b>Net cash outflow from the servicing of finance</b>		<b>(304)</b>	(375)
<b>Taxation</b>			
UK tax recovered	–		1
<b>Total taxation</b>		<b>–</b>	1
<b>Financial investment</b>			
Purchases of investments	(43,181)		(35,310)
Sales of investments	23,691		44,359
Other capital charges	(11)		(11)
<b>Net cash (outflow)/inflow from financial investment</b>		<b>(19,501)</b>	9,038
<b>Equity dividends paid</b>		<b>(7,303)</b>	(6,193)
<b>Net cash (outflow)/inflow before use of liquid resources and financing</b>		<b>(18,685)</b>	9,387
<b>Management of liquid resources</b>			
<b>23 Increase in short-term deposits</b>		<b>(1,543)</b>	(433)
<b>Financing</b>			
Sterling loans raised/(repaid)	14,000		(10,000)
Shares purchased	–		(1,600)
Shares issued	7,543		1,471
<b>Net cash inflow/(outflow) from financing</b>		<b>21,543</b>	(10,129)
<b>23 Increase/(decrease) in cash</b>		<b>1,315</b>	(1,175)

# 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 2008 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 accounts of the Company have been prepared under the historical cost convention, modified to include fixed asset investments at fair value and in accordance with the Companies Act 2006, accounting standards applicable in the United Kingdom and with the Revised Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (SORP) issued in January 2009.

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.

There have been no significant changes to the accounting policies during the year ended 30 September 2009.

In accordance with the SORP, the Income Statement has been analysed between a revenue account (dealing with items of a revenue nature) and a capital account (relating to items of a capital nature). Revenue returns include, but are not limited to, dividend income and operating expenses and tax. Net revenue returns are allocated via the revenue account to the revenue reserve, out of which dividend payments may be made. Capital returns include but are not limited to, profits and losses on the disposal and revaluation of fixed asset investments and currency profits and losses on cash and borrowings. Net capital returns may not be distributed by way of dividend and are allocated via the capital account to the capital reserves. Dividends payable to shareholders are shown in the Reconciliation of Movement in Shareholders' Funds.

### (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 disposal 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. Investments which are not quoted or which are not frequently traded are stated at Directors' best estimate of fair value. In arriving at their estimate, the Directors make use of recognised valuation techniques and may take account of recent arms' length transactions in the same or similar instruments. Where no reliable fair value can be estimated, investments are carried at cost or, where subsequently revalued, at their previous carrying amount less any provision for impairment.

#### (ii) Borrowings

Loans and overdrafts are recorded at the value of 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

Monetary assets, monetary liabilities and equity investments denominated in a foreign currency 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign exchange profits and losses on fixed asset investments are included within the changes in fair value in the capital account. Foreign exchange profits and losses on other currency balances are separately credited or charged to the capital account except where they relate to revenue items when they are credited or charged to the revenue account.

### (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 the capital account.

### (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 – arising on investments sold via the capital account; and
- 50% of management fees and 50% of finance costs are allocated to capital reserve – arising on investments sold 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 for in accordance with FRS19 "deferred tax" on all timing differences that have originated but not reversed by the Balance Sheet date, based on the tax rates that are expected to apply in the period. 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 and cancelled 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 – arising on investments sold

The following are accounted for in this reserve:

- gains and losses on the disposal 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 – arising on investments held

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

	2009 £'000s	2008 £'000s
<b>Income from investments</b>		
UK dividends	7,124	7,556
UK scrip dividend	62	104
Bond interest	186	–
Overseas dividends	373	634
	<b>7,745</b>	8,294
Interest on cash and short-term deposits	32	143
Interest on VAT recovered (see note 5)	179	–
Underwriting commission	221	43
Other income	4	–
	<b>436</b>	186
<b>Total income</b>	<b>8,181</b>	8,480
<b>Total income comprises</b>		
Dividends	7,559	8,294
Other income	622	186
	<b>8,181</b>	8,480
Income from investments		
Quoted UK	7,295	7,660
Quoted overseas	450	634
	<b>7,745</b>	8,294

As at 30 September 2009 there were no outstanding underwriting contracts.

## 4. MANAGEMENT FEE

	2009 £'000s	2008 £'000s
Management fee	608	733
Irrecoverable VAT thereon*	–	(37)
	<b>608</b>	696
Less: allocated to capital reserve – arising on investments sold (see note 20)	<b>(304)</b>	(348)
	<b>304</b>	348

\*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

	2009 £'000s	2008 £'000s
Recoverable VAT in respect of management fees	167	578

Management fees are no longer subject to VAT. The Company has now recovered £745,000 from HMRC, via its Manager, in relation to VAT paid on such fees in the periods 1990 to 1996 and 2001 to 2007. Of this amount, £578,000 was recognised in the Income Statement for the year ended 30 September 2008 and £167,000 has been recognised in the current year to 30 September 2009. Amounts relating to the period 1997 to 2000 have not been accrued or recognised as a contingent asset as their recovery remains uncertain under law. In addition, interest of £179,000 relating to the VAT recovered has been received and is recognised in the Income Statement in the current period (see note 3).

In addition, the Company received a distribution from its subsidiary, F&C Income Growth Investment Trust PLC (in liquidation) ("FIGIT"), of £472,000 in respect of VAT and interest receipts relating to the same periods. Of this amount, £260,000 was included within the capital reserve in the year ended 30 September 2008 and £212,000 has been recognised in the capital reserve in the current year (see note 20).

## 6. OTHER EXPENSES

	2009 £'000s	2008 £'000s
Auditors' remuneration:		
– for audit services <sup>1</sup>	30	29
– for other services <sup>2, 3</sup>	2	2
Directors' fees for services to the Company <sup>4</sup>	91	83
Directors' and Officers' liability insurance	11	11
Loan commitment fee	32	14
Marketing	70	80
Professional fees	18	35
Printing and postage	61	50
Registrars' fees	24	28
Savings plan expenses	204	156
Subscriptions and listing fees	40	34
Sundry expenses	73	36
	<b>656</b>	<b>558</b>

1. Includes irrecoverable VAT of £3,800 (2008: £4,000).

2. Includes irrecoverable VAT of £250 (2008: £300)

3. In addition, during the year the auditors earned £7,700 (2008: £19,000) in respect of the liquidation of the subsidiary company (see note 20).

4. See the Directors' Remuneration Report on page 26.

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

## 7. FINANCE COSTS

	2009 £'000s	2008 £'000s
Interest payable on bank loans and overdrafts repayable within five years, not by instalments	308	356
Less: allocated to capital reserve – arising on investments sold (see note 20)	(154)	(178)
	<b>154</b>	<b>178</b>

# Notes on the Accounts (continued)

## 8. TAXATION ON ORDINARY ACTIVITIES

### (a) Analysis of tax charge for the year

	Revenue £'000s	Capital £'000s	2009 Total £'000s	Revenue £'000s	Capital £'000s	2008 Total £'000s
Overseas taxation	24	–	24	77	–	77
Current tax charge on ordinary activities (see note 8(b))	24	–	24	77	–	77

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

	Revenue £'000s	Capital £'000s	2009 Total £'000s	Revenue £'000s	Capital £'000s	2008 Total £'000s
Return on ordinary activities before tax	7,234	627	7,861	7,685	(47,289)	(39,604)
Return on ordinary activities multiplied by the effective rate of corporation tax of 28% (2008: 29%)	2,026	176	2,202	2,229	(13,714)	(11,485)
Effects of:						
UK dividends*	(1,995)	–	(1,995)	(2,181)	–	(2,181)
UK scrip dividend*	(17)	–	(17)	(30)	–	(30)
Overseas dividends*	(14)	–	(14)	–	–	–
Expenses utilised from prior years	(117)	–	(117)	(71)	–	(71)
Surrender of losses to FIGIT**	87	–	87	15	–	15
Expenses not utilised in the year	–	71	71	–	69	69
Expenses not deductible for tax purposes	28	–	28	36	–	36
Overseas taxation not relieved	24	–	24	77	–	77
Movement in taxable income accruals	2	–	2	2	–	2
Capital returns*	–	(247)	(247)	–	13,645	13,645
Total current taxation (see note 8(a))	24	–	24	77	–	77

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

\*\* Unutilised tax expenses surrendered to subsidiary company for relief against taxable profits of that company.

The potential deferred tax asset of £2.2 million (2008: £2.2 million) in respect of unutilised expenses and unrelieved overseas taxation at 30 September 2009 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 shareholders of £7,210,000 profit (2008: £7,608,000 profit).

### Capital return

The capital return per share is based on the capital return attributable to shareholders of £627,000 profit (2008: £47,216,000 loss).

### Total return

The total return per share is based on the total return attributable to shareholders of £7,837,000 profit (2008: £39,608,000 loss).

### Weighted average ordinary shares in issue

Both the revenue and capital returns per share are based on a weighted average of 81,433,763 (2008: 78,479,263) 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	2009 £'000s	2008 £'000s
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
Final for the year ended 30 September 2008 of 2.50 pence per share	5 Dec 2008	19 Jan 2009	<b>1,983</b>	
Special for the year ended 30 September 2008 of 0.40 pence per share	5 Dec 2008	19 Jan 2009	<b>317</b>	
First of four interims for the year ended 30 September 2009 of 1.90 pence per share	6 Mar 2009	31 Mar 2009	<b>1,536</b>	
Special for the year ended 30 September 2009 of 0.40 pence per share	6 Mar 2009	31 Mar 2009	<b>323</b>	
Second of four interims for the year ended 30 September 2009 of 1.90 pence per share	29 May 2009	30 Jun 2009	<b>1,562</b>	
Third of four interims for the year ended 30 September 2009 of 1.90 pence per share	28 Aug 2009	30 Sep 2009	<b>1,582</b>	
			<b>7,303</b>	6,193

The Directors have declared a fourth interim dividend in respect of the year ended 30 September 2009 of 2.55 pence per share, payable on 31 December 2009 to all shareholders on the register at close of business on 11 December 2009. The fourth interim dividend has not been included as a liability in these financial statements. The dividends paid and payable in respect of the financial year ended 30 September 2009, which form the basis of the retention test for section 842 of the Income and Corporation Tax Act 1988, are set out below:

	2009 £'000s
Net revenue return attributable to shareholders	<b>7,210</b>
First interim for the year ended 30 September 2009 of 1.90 pence per share	<b>(1,536)</b>
Special for the year ended 30 September 2009 of 0.40 pence per share	<b>(323)</b>
Second interim for the year ended 30 September 2009 of 1.90 pence per share	<b>(1,562)</b>
Third interim for the year ended 30 September 2009 of 1.90 pence per share	<b>(1,582)</b>
Fourth interim dividend for the year ended 30 September 2009 of 2.55 pence per share <sup>†</sup>	<b>(2,133)</b>
Estimated undistributed revenue for section 842 purposes*	<b>74</b>

\* Estimated undistributed revenue represents 1.0% of income from investments of £7,683,000 (see note 3).

† Based on 83,644,268 shares in issue and entitled to dividend at 25 November 2009.

# Notes on the Accounts (continued)

## 11. INVESTMENTS

	Quoted UK* £'000s	Quoted overseas £'000s	Unquoted £'000s	2009 Total £'000s
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
Movements in the year:				
Purchases at cost	34,204	8,224	1,785	44,213
Sales				
– proceeds	(17,954)	(5,569)	–	(23,523)
– realised losses on sales	(6,178)	(1,395)	–	(7,573)
Movement in unrealised appreciation	5,503	2,954	–	8,457
Valuation at 30 September 2009	162,120	14,805	1,785	178,710
Cost at 30 September 2009	144,414	12,806	1,785	159,005
Unrealised appreciation at 30 September 2009	17,706	1,999	–	19,705
<b>Valuation at 30 September 2009</b>	<b>162,120</b>	<b>14,805</b>	<b>1,785</b>	<b>178,710</b>

The investment portfolio is set out on pages 13 and 14.

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

	2009 £'000s	2008 £'000s
<b>Gains and losses on investments held at fair value</b>		
Realised losses based on historical cost	<b>(20,051)</b>	(135)
Add/(subtract) amounts recognised as unrealised losses/(gains) in previous years	<b>12,478</b>	(2,866)
Realised losses based on carrying value at previous Balance Sheet date	<b>(7,573)</b>	(3,001)
Movement in unrealised appreciation/(depreciation)	<b>8,457</b>	(44,233)
Gains/(losses) on investments	<b>884</b>	(47,234)

### Investment in subsidiary

The Company holds 100% of the issued share capital of FIGIT valued at £nil (2008: £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 405 of the Companies Act 2006, the Company has not prepared consolidated accounts.

## 12. DEBTORS

	2009 £'000s	2008 £'000s
Investment debtors	–	168
Prepayments and accrued income	<b>530</b>	876
Share issue outstanding	<b>406</b>	–
Recoverable VAT	–	578
Amounts due from FIGIT	–	260
Overseas taxation recoverable	<b>2</b>	18
UK taxation recoverable	<b>8</b>	8
	<b>946</b>	1,908

**13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR – LOANS**

	2009 £'000s	2008 £'000s
Sterling loans		
Loan at 1.0532% repaid October 2009	<b>14,000</b>	–

At 25 November 2009, short-term borrowings were £14 million. The maximum unsecured loan facility is £20 million.

**14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR – OTHER**

	2009 £'000s	2008 £'000s
Bank overdraft	–	829
Investment creditors	<b>1,125</b>	155
Management fee	<b>174</b>	158
Accruals	<b>139</b>	138
	<b>1,438</b>	1,280

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

	UK %	Europe ex UK %	2009 Total %	2008 Total %
<b>Equity investments</b>				
Financials	22.3	0.2	<b>22.5</b>	23.4
Oil & gas	18.8	–	<b>18.8</b>	16.2
Consumer goods	9.9	1.4	<b>11.3</b>	13.7
Telecommunications	10.6	–	<b>10.6</b>	8.5
Health care	9.8	–	<b>9.8</b>	10.4
Utilities	9.4	–	<b>9.4</b>	10.8
Consumer services	6.6	2.0	<b>8.6</b>	5.4
Industrials	3.4	3.3	<b>6.7</b>	2.6
Basic materials	5.5	–	<b>5.5</b>	8.3
Technology	–	0.8	<b>0.8</b>	–
<b>Fixed interest investments</b>				
Utilities	1.4	–	<b>1.4</b>	
Basic materials	–	1.4	<b>1.4</b>	
Financials	0.4	–	<b>0.4</b>	–
Total investments	98.1	9.1	<b>107.2</b>	99.3
Net current (liabilities)/assets	(7.2)	–	<b>(7.2)</b>	0.7
Total assets less current liabilities	<b>90.9</b>	<b>9.1</b>	<b>100.0</b>	
2008 totals	93.3	6.7		100.0

# Notes on the Accounts (continued)

## 16. CALLED UP SHARE CAPITAL

Share capital	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 2008	78,924,268	19,731
Ordinary shares issued	4,720,000	1,180
Balance at 30 September 2009	83,644,268	20,911

No further share issues have occurred since the year end.

## 17. SHARE PREMIUM ACCOUNT

	2009 £'000s	2008 £'000s
Balance brought forward	77,630	76,334
Premium on issue of shares	6,769	1,296
Balance carried forward	84,399	77,630

## 18. CAPITAL REDEMPTION RESERVE

	2009 £'000s	2008 £'000s
Balance brought forward	4,146	3,154
Transfer from share capital on cancellation of ordinary shares	–	992
Balance carried forward	4,146	4,146

## 19. SPECIAL RESERVE

	2009 £'000s	2008 £'000s
Balance brought forward	4,434	6,034
Purchase of ordinary shares held in treasury	–	(1,600)
Balance carried forward	4,434	4,434

## 20. OTHER RESERVES

	Capital reserve – arising on investments sold £'000s	Capital reserve – arising on investments held £'000s	Capital reserve – total £'000s	Revenue reserve £'000s
Movements in the year				
Realised losses on investments	(7,573)	–	(7,573)	–
Transfers on disposal of investments	(12,478)	12,478	–	–
Management fees and related VAT (see note 4)	(304)	–	(304)	–
Distribution from FIGIT (see note 5)	212	–	212	–
Interest expense (see note 7)	(154)	–	(154)	–
Other expenses	(11)	–	(11)	–
Increase in unrealised appreciation on investments	–	8,457	8,457	–
Revenue return				7,210
Return attributable to shareholders	(20,308)	20,935	627	7,210
Dividends paid	–	–	–	(7,303)
Balance at 30 September 2008	47,595	(1,230)	46,365	5,895
<b>Balance at 30 September 2009</b>	<b>27,287</b>	<b>19,705</b>	<b>46,992</b>	<b>5,802</b>

Included within the capital reserve movement for the year are £176,000 of transaction costs on purchases of investments (2008: £132,000) and £36,000 of transaction costs on sales of investments (2008: £71,000). With the exception of the distribution from FIGIT, disclosed above, there were no dividends recognised as capital (2008: £nil).

## 21. NET ASSET VALUE PER ORDINARY SHARE

Net asset value (“NAV”) per ordinary share is based on total net assets of £166,684,000 (2008: £158,201,000) and on 83,644,268 (2008: 78,924,268) ordinary shares in issue at the year end.

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

	2009 £'000s	2008 £'000s
Total return before finance costs and taxation	<b>8,169</b>	(39,175)
Adjust for returns from non-operating activities:		
– (Gains)/losses on investments	<b>(884)</b>	47,234
– Exchange gains of a capital nature	–	(4)
– Non-operating expenses of a capital nature	<b>11</b>	9
Return from operating activities	<b>7,296</b>	8,064
Adjust for non-cash flow items:		
Scrip dividend	<b>(62)</b>	(104)
Decrease/(increase) in debtors	<b>1,184</b>	(848)
Increase/(decrease) in creditors	<b>13</b>	(102)
Overseas taxation	<b>(8)</b>	(94)
Net cash inflow from operating activities	<b>8,423</b>	6,916

# Notes on the Accounts (continued)

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

	2009 £'000s	2008 £'000s
Increase/(decrease) in cash	1,315	(1,175)
Increase in short-term deposits	1,543	433
(Increase)/decrease in short-term loans	(14,000)	10,000
Change in net debt resulting from cash flows	(11,142)	9,258
Exchange movement on currency balances	–	4
Movement in net debt during the period	(11,142)	9,262
Balance at 30 September 2008	(392)	(9,654)
Balance at 30 September 2009	(11,534)	(392)

	Balance at 30 September 2008 £'000s	Cash flow £'000s	Foreign Exchange movement £'000s	Balance at 30 September 2009 £'000s
Represented by:				
Cash at bank	–	486	–	486
Short-term deposits	437	1,543	–	1,980
Bank overdraft	(829)	829	–	–
	(392)	2,858	–	2,466
Short-term loans	–	(14,000)	–	(14,000)
	(392)	(11,142)	–	(11,534)

## 24. 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. 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. 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.

## 24. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

### 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:

	At 30 September	2009 Average for the year	At 30 September	2008 Average for the year
Euro	1.0942	1.1496	1.2690	1.3171

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 shareholders and on the NAV per share:

	2009 £'000s	2008 £'000s
Weakening of sterling by 10% against the euro		
Net revenue return attributable to shareholders	67	47
Net capital return attributable to shareholders	1,645	1,230
Net total return attributable to shareholders	1,712	1,277
NAV per share – pence	2.05	1.55
	2009 £'000s	2008 £'000s
Strengthening of sterling by 10% against the euro		
Net revenue return attributable to shareholders – £'000s	(37)	(41)
Net capital return attributable to shareholders – £'000s	(1,346)	(1,007)
Net total return attributable to shareholders – £'000s	(1,383)	(1,048)
NAV per share – pence	1.65	(1.28)

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. As this analysis only reflects financial assets and liabilities, it does not include the impact of currency exposures on the management fee.

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

2009	Investments £'000s	Short-term debtors £'000s	Cash at bank £'000s	Short-term creditors – loans £'000s	Short-term creditors – other £'000s	Net exposure £'000s
Sterling	163,905	946	2,456	(14,000)	(1,438)	151,869
Euro	14,094	–	2	–	–	14,096
Other	711	–	8	–	–	719
Total	178,710	946	2,466	(14,000)	(1,438)	166,684

# Notes on the Accounts (continued)

## 24. FINANCIAL RISK MANAGEMENT (CONTINUED)

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
<b>Total</b>	<b>157,136</b>	<b>1,908</b>	<b>437</b>	<b>–</b>	<b>(1,280)</b>	<b>158,201</b>

### Interest rate exposure

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

	<b>2009 Within one year £'000s</b>	2008 Within one year £'000s
Exposure to floating rates		
Cash	<b>2,466</b>	437
Overdrafts	–	(829)
Exposure to fixed rates		
Fixed interest securities	<b>5,370</b>	–
Borrowings	<b>(14,000)</b>	–
<b>Net exposure</b>	<b>(6,164)</b>	(392)
Minimum net exposure during the year	<b>474</b>	3,427
Maximum net exposure during the year	<b>(6,164)</b>	(9,489)

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.

The Company holds fixed interest investments. The weighted average interest rate and average duration until maturity is detailed below.

	£'000s	Weighted average interest rate	<b>2009 Average duration until maturity</b>	£'000s	Weighted average interest rate	2008 Average duration until maturity
Fixed interest securities	<b>5,370</b>	<b>4.81%</b>	<b>4.2 years</b>	–	–	–

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

## 24. FINANCIAL RISK MANAGEMENT (CONTINUED)

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:

	Increase in rate £'000s	2009 Decrease in rate £'000s	Increase in rate £'000s	2008 Decrease in rate £'000s
Revenue return	(91)	91	(9)	9
Capital return	(140)	140	–	–
Total return	(231)	231	(9)	9
NAV per share – pence	(0.29)	0.29	(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 £178,710,000 at 30 September 2009 (2008: £157,136,000) 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, including the management charge, 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 shareholders and on the NAV per share:

	Increase in value £'000s	2009 Decrease in value £'000s	Increase in value £'000s	2008 Decrease in value £'000s
Capital return	35,742	(35,742)	31,427	(31,427)
NAV per share – pence	42.73	(42.73)	38.24	(38.24)

### (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 (68 at 30 September 2009); 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 March 2011.

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:

	2009 Three months or less £'000s	2008 Three months or less £'000s
Current liabilities – loans	14,000	–
Current liabilities – other	1,438	1,280
	15,438	1,280

# Notes on the Accounts (continued)

## **24. FINANCIAL RISK MANAGEMENT (CONTINUED)**

### **(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. Such transactions must be settled on the basis of delivery against payment (except where local market conditions do not permit).

Responsibility for the approval, limit setting and monitoring of counterparties is delegated to the Manager and a list of approved counterparties is periodically reviewed by the Board. Broker 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. 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 F&C (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.

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.

## **25. RELATED PARTY TRANSACTIONS**

The following are considered related parties: the Board of Directors (the "Board") and F&C Management Limited ("F&C"). There are no transactions with the Board other than: aggregated remuneration for services as Directors as disclosed in the Directors' Remuneration Report on page 26 and as set out in note 6 on the accounts; and the beneficial interests of the Directors in the ordinary shares of the Company as disclosed on page 20. There are no outstanding balances with the Board at the year end. Transactions between the Company and F&C are detailed in note 4 on management fees and the outstanding balance is detailed in note 14.

## **26. POST BALANCE SHEET MOVEMENTS IN NET ASSETS**

The NAV per share as at close of business on 24 November 2009 was 203.62 pence (30 September 2009: 199.28 pence)

# Ten Year Record

## Assets

at 30 September (£'000s)	1999	2000	2001	2002	2003	2004	2005*	2006	2007	2008	2009
Total assets	101,887	109,714	88,318	70,061	79,466	91,509	187,846	208,755	214,131	158,201	<b>180,684</b>
Loans	–	5,400	–	–	–	6,000	8,500	8,000	10,000	–	<b>14,000</b>
Net assets	101,887	104,314	88,318	70,061	79,466	85,509	179,346	200,755	204,131	158,201	<b>166,684</b>

## Net asset value ("NAV")

at 30 September	1999	2000	2001	2002	2003	2004	2005*	2006	2007	2008	2009
NAV per share – pence	191.1	206.0	175.4	141.0	158.5	180.2	220.4	249.0	258.8	200.4	<b>199.3</b>
NAV total return on 100p – 5 years (per AIC)											<b>129.8</b>
NAV total return on 100p – 10 years (per AIC)											<b>139.4</b>

## Share price

at 30 September	1999	2000	2001	2002	2003	2004	2005*	2006	2007	2008	2009
Middle market price per share – pence	171.5	173.0	161.5	135.5	159.0	173.5	211.3	233.5	243.3	196.5	<b>199.0</b>
Discount/(premium) to NAV – %	10.3	16.0	7.9	3.9	(0.3)	3.7	4.2	6.2	6.0	2.0	<b>0.1</b>
Share price high – pence	183.5	192.0	183.8	195.0	169.0	177.0	211.3	240.0	258.0	249.0	<b>202.5</b>
Share price low – pence	136.0	154.5	141.5	119.0	122.0	155.5	174.0	196.0	222.5	188.5	<b>140.0</b>
Share price total return on 100p – 5 years (per AIC)											<b>135.1</b>
Share price total return on 100p – 10 years (per AIC)											<b>160.3</b>

## Revenue

for the year ended 30 September	1999	2000	2001	2002	2003	2004	2005*	2006	2007	2008	2009
Available for ordinary shares (£'000s)	2,964	2,546	2,872	2,460	2,629	2,597	4,046	5,879	6,604	7,608	<b>7,210</b>
Earnings per share – pence	5.19	4.90	5.70	4.93	5.28	5.38	6.56	7.25	8.25	9.69	<b>8.85</b>
Dividends per share – pence	4.80	4.95	5.10	5.25	5.35	5.45	5.80	6.50	7.40	8.40	<b>8.65</b>

## Performance

(rebased to 100 at 30 September 1999)

	1999	2000	2001	2002	2003	2004	2005*	2006	2007	2008	2009
NAV per share	100.0	107.8	91.8	73.8	82.9	94.3	115.3	130.3	135.4	104.9	<b>104.2</b>
Mid-market price per share	100.0	100.9	94.2	79.0	92.7	101.2	123.2	136.2	141.9	114.6	<b>116.0</b>
Revenue return per share	100.0	94.4	109.8	95.0	101.7	103.7	126.4	139.7	159.0	186.7	<b>170.5</b>
Dividends per share	100.0	103.1	106.3	109.4	110.4	113.5	120.8	135.4	154.2	175.0	<b>180.2</b>
FTSE All-Share Index	100.0	107.2	82.8	63.7	71.7	80.4	97.1	107.9	117.4	87.9	<b>93.2</b>
RPI	100.0	103.3	105.1	106.9	109.8	113.2	116.2	120.4	125.2	131.4	<b>129.5</b>

\* Restated to reflect changes in accounting policies.

## 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	1999	2000	2001	2002	2003	2004	2005*	2006	2007	2008	2009
Operating costs as a percentage of:											
Average net assets – %	0.58	0.61	0.60	0.67	0.75	0.74	0.69	0.74	0.73	0.70 <sup>†</sup>	<b>0.76<sup>†</sup></b>
Average total assets – %	0.58	0.59	0.59	0.67	0.75	0.69	0.66	0.70	0.70	0.69	<b>0.69</b>

## Gearing

at 30 September	1999	2000	2001	2002	2003	2004	2005*	2006	2007	2008	2009
Effective gearing/(net liquidity) – %	(1.40)	4.40	(0.80)	(1.30)	(0.60)	6.23	2.94	1.81	4.74	0.24	<b>7.60</b>
Fully invested gearing – %	–	5.20	–	–	–	7.11	4.74	3.99	4.91	–	<b>8.40</b>

\* Restated to reflect changes in accounting policies.

† Excludes VAT recovered in respect of management fees

## 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.