

Chairman's Statement

Dear Shareholder

The year under review was turbulent, with both the economy and the stock market plunging sharply and then shares at least recovering dramatically to end the period higher than at the start. Many companies have cut or passed their dividends and the aggregate payout from the market has been lower than last year. Despite this, we have again been able to increase our dividend with an underlying annual dividend of 8.25 pence per share, an increase of 3.1%, and a total, including special dividend as explained later, of 8.65 pence per share.

Capital performance

The Manager's Review describes economic and stock market developments over the past year in more detail, but for equities the extent and speed of the collapse and subsequent recovery were quite exceptional. Sentiment changed from increasing gloom during the winter to rapidly growing optimism thereafter as confidence cautiously returned to the banking system following government intervention.

Over the course of the year, your Company's net asset value ("NAV") per share decreased by 0.6% compared to an increase in the FTSE All-Share Index of 6.1%. Nearly all of this shortfall occurred in the first half when the NAV per share fell 24.3% compared to the fall in the Index of 20.1%, while in the second half the NAV per share rose 31.4%

compared to 32.8% for the Index. Our focus on maintaining and growing the dividend to shareholders has been partly at the expense of NAV as there has been a marked negative correlation between dividend yield and capital performance; many of the strongest performing companies had little or no dividend yield, whilst the share price of many companies with attractive dividend yields fell.

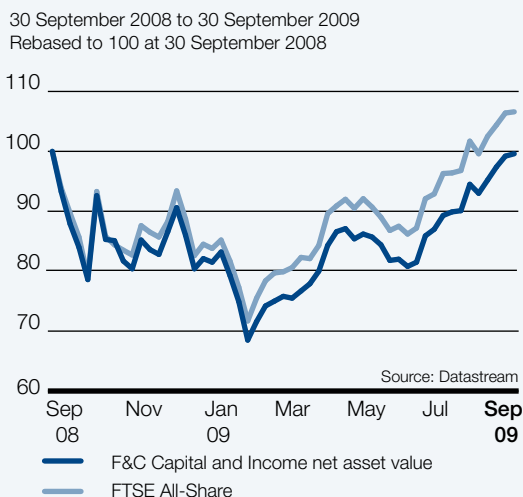
The extent of the longer-term weakness of equity markets is better shown by looking at performance over the last ten years. At the end of this period, the FTSE All-Share Index was lower than at the start but, encouragingly, our NAV per share was ahead relative to the Index and in absolute terms.

Revenue and dividend

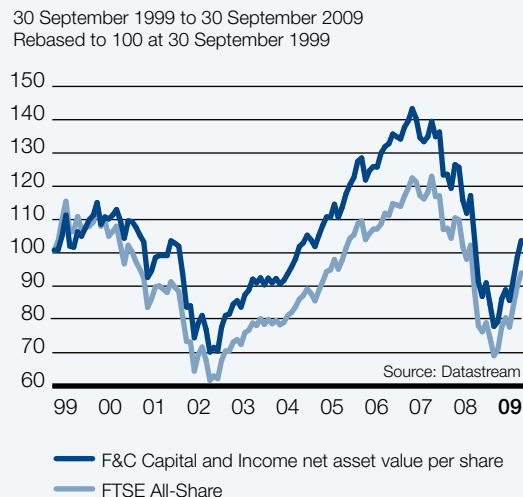
Against a background of falling dividend payments, we are pleased that we can increase the underlying dividend to shareholders. The increase, at 3.1%, contrasts with the 1.4% fall in the Retail Price Index. As last year, there has also been a separate special dividend payment to reflect a further reclaim of VAT as explained later.

Reflecting the difficult environment, your Company's income fell 3.5%. The fall was considerably less than that of the market generally and would have been larger but for a number of factors. First, the portfolio had been positioned conservatively with a focus on companies that

Net asset value performance over one year

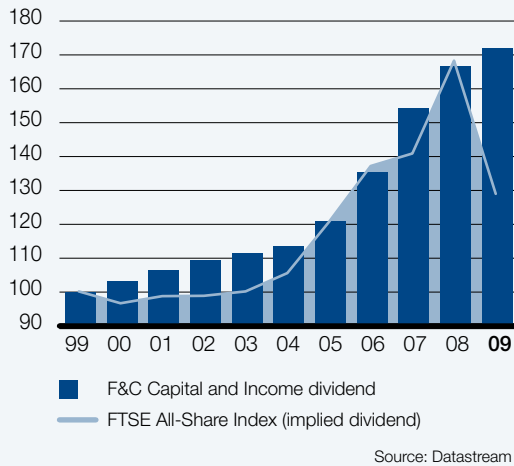


Net asset value performance over 10 years



Dividend growth over 10 years

September 1999 to September 2009



would be able to maintain and grow their dividends. Secondly, the Company received many dividends denominated or paid in foreign currencies which have experienced an uplift following the weakness of sterling. Thirdly, the use of gearing was positive as we were able to invest in companies that yielded more than the cost of borrowing, especially as interest rates were reduced. Fourthly, the Company benefited from two additional sources of income: interest on the convertible bond holdings and sub-underwriting

Share price and net asset value per share

September 2008 to September 2009



commission on rights issues, which has proven to be very profitable.

The largest single increase in costs over the year came about due to the success of the F&C Child Trust Fund and the extra administration cost these savings plans incur. Nevertheless, the total expense ratio (including the management fee and other running costs of the Company) is very low at 0.7% of average total assets and compares favourably not only with other investment trusts, but also with the vast majority of unit trusts.

The Directors have declared a fourth interim dividend for the year of 2.55 pence per share which, together with the three previous quarterly dividends each of 1.9 pence per share, takes the total underlying dividend for the year to 8.25 pence per share. This fourth dividend will in future be paid as an interim rather than a final in order that the dividends fall more regularly at each of the calendar quarter ends and so give our shareholders more certainty about the timing of dividend payments. An interim dividend does not require approval from shareholders unlike a final dividend, so it can be paid before the annual general meeting ("AGM").

VAT

Your Board has been active again this year in pursuing VAT recoveries from the government after the victory of the Association of Investment Companies in a case in the European Court of Justice which freed investment trusts from VAT on management fees. The Directors' policy has been to distribute these recoveries to shareholders and the recovery achieved this year of 0.4 pence per share was paid to shareholders in March 2009.

Share price performance and discount

The share price, which rose 1.3% over the year, performed a little better than the NAV per share. It has traded at a small premium to NAV per share on average over the course of the year as demand for your Company's shares has remained strong and even grown, despite market conditions. There has been some volatility along the way, with the discount reaching more than 10%, but for one day only when markets were at their most volatile. Your Company maintains its commitment to its share

Chairman's Statement (continued)

buyback programme with the intention of ensuring that the Company's share price does not trade at a material discount to NAV per share. The last share buyback took place in December 2007.

Shareholders

The majority of the Company's shares are held by shareholders through F&C's range of savings plans ("F&C plans"). Your Company has remained popular within the F&C plans both in terms of the number of investors and in cash amounts invested. New investors have continued to come in and each of the F&C plans (Individual Savings Account, Private Investor Plan, Child Trust Fund and Pension Savings Plan) has seen cash inflows. The total number of shareholders in the Company is now more than 25,000.

In order to satisfy demand for the Company's shares, particularly from dividend reinvestment and regular investment through the F&C plans, the Company issued 4,720,000 shares at a small premium to NAV per share in the year under review. Such issues are positive for existing shareholders as they help to spread fixed costs across a larger number of shareholders at no dilution to NAV per share, and positive for new shareholders as they limit the price paid for shares to a small premium to NAV per share. Your Board was pleased that shareholders granted authority at an extraordinary general meeting held on 6 October 2009 for the Company to issue a further 4.5 million shares in the run up to the AGM in 2010. Your Board is asking at the 2010 AGM for authority to issue further shares, equal to just under 10% of the Company's shares in issue at the date of this report. This will give your Directors the maximum flexibility to continue to issue shares when appropriate to the benefit of shareholders over the coming year.

Gearing

Your Company has the ability to borrow to finance investment and it does this when we expect future returns to exceed the cost of borrowing. This year we have been reasonably active in our balance sheet management. We started with no borrowings and increased them steadily as markets moved lower (which made future returns look potentially more attractive). This coincided with a reduction in interest

rates making the hurdle rate to beat for income on the investments even lower. At the year end, your Company had borrowed £14 million at an annualised cost of just over 1%. The use of gearing has an impact on both NAV per share, as share prices rise and fall, and on earnings, as the extra investments that we have purchased pay a dividend or coupon that has typically exceeded the cost of the debt.

Although gearing before early March was not immediately profitable, keeping it in place and increasing it through the second half of the year was beneficial to both capital and income performance over the year as a whole.

Investment strategy

This year the Board used its regular strategy meeting, with the help of the Manager and its broker, to review the Company's investment policy and explore whether there were attractive ways of enhancing shareholder returns at acceptable levels of risk. These could include using more aggressive gearing; reducing the cost of existing gearing by using futures instead of bank loans; diversifying our asset range to include more unquoted stocks or private equities; or holding a larger proportion of overseas equities in the portfolio.

Given the level of demand for the Company's shares in the market, which has kept the share price at a small premium to NAV for much of the last year, and the relatively good dividend track record, the Board concluded that our shareholders, who have plenty of alternative choices, have broadly chosen our existing investment policy and it would therefore not be right to change it. The Board will continue to explore ways of reducing the cost of our limited gearing, but otherwise it has resolved to leave your Company's investment policy basically unchanged.

Annual general meeting

The AGM will be held on 14 January 2010 at the Company's registered office, Exchange House, Primrose Street, London EC2 and shareholders are encouraged to attend. As in previous years, Julian Cane, the fund manager, will make a presentation on the results for the year, the investment policy and the outlook for the coming year.

Electronic communications

Arrangements have been made to allow shareholders and investors through the F&C plans, other than the Pension Savings Plan, to access the annual report via the website and to lodge their proxy vote online. Details of how to do so are given on the AGM voting forms.

F&C plans proportional voting

In 2008, F&C modified its arrangements for investors in the F&C plans to vote at shareholder meetings. Under these arrangements, the nominee company, which holds around 80% of the Company's share capital on behalf of these investors, now votes the shares held on behalf of planholders who have not given their voting directions in the same proportion to those who have. This arrangement will apply at the Company's AGM, provided that a minimum threshold of 10% of the shares held in the F&C plans are voted. There will be a maximum ceiling of 330,000 on the number of shares of any one individual investor included for the purposes of calculating voting proportions, being approximately 5% of the minimum threshold. Any shares voted by an investor in excess of that limit will remain valid, but will not form part of the proportional voting calculation. Any investor wishing to exclude their shares from the proportional voting calculation may do so.

Prospects

At the time of writing, stock markets had staged a strong recovery from the low point in March and

appear to be anticipating a strong cyclical recovery in the economy. So whilst the economy is showing some signs of pulling out of the recession, it is doing so as a result of the unprecedented fiscal and monetary stimulus. There remains relatively little discussion as to how and when the stimulus will be scaled back, and in the case of quantitative easing and fiscal stimulus, how the money will be repaid. The prospect of a rising tax burden, a rise in interest rates to more normal levels and cuts in public sector expenditure may slow down the recovery in growth. In particular the Bank of England has recently warned that bank lending will probably recover only slowly over the next two or three years. Consumers are also likely to spend less and save more for the foreseeable future.

Nevertheless valuations of many companies do not appear too demanding. This is particularly true when looking at your Company's own investments and we expect future returns to be driven more by valuation than by sentiment or speculation on recovery. With our focus on steady growth in income, the prospect for our own dividend is reasonably positive although we do not expect much revenue growth from the portfolio over the course of the next 12 months.



Pen Kent
Chairman
27 November 2009

Manager's Review

Review of the economy

The UK economy experienced one of the sharpest slow-downs in history, with provisional GDP statistics showing a fall of 5.2% for the year to 30 September 2009. The better news is that it appears the worst of the fall has now occurred. Inflation, as measured by the CPI, has remained stubbornly high, only falling below the Bank of England's target rate of 2.0% towards the end of the Company's financial year. Positively, although the number of unemployed has risen, the increase has been less marked than in other recessions.

Whilst there is always a link between financial markets and the economy, recently the link has been much more direct and substantial. The turmoil experienced in the banking sector affected not only the supply of credit to the economy, but also had a significant impact on sentiment and confidence, especially via the media.

The Bank of England's response to the developing economic crisis has been incremental, with interest rates being reduced rapidly in November and then successively every month until reaching an unprecedented 0.5% from March onwards. In addition, the Bank has continued its Special Liquidity Scheme to help free up the interbank market

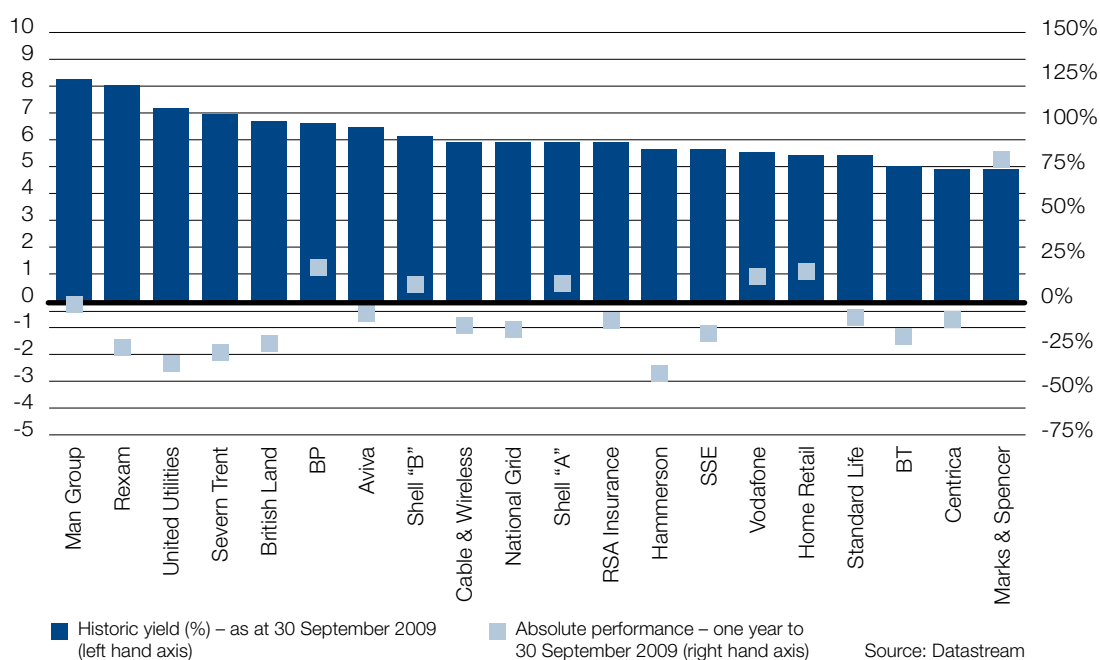
and the Treasury announced its Asset Protection Scheme in February to act as an insurance policy to provide a formal state guarantee to those banks that needed it. Perhaps most controversial of the Bank's policy responses has been the initiation of quantitative easing ("QE"), in which upwards of £175 billion of newly created money has been used almost exclusively to purchase gilts. Whilst helping the Treasury to issue new gilts to finance the deficit, it appears to have had limited impact on the monetary policy objectives for which it was set up.

The collapse in tax revenue and increased expenditure has led to a sharply deteriorating fiscal position for the government such that the UK is one of only three major economies (together with the US and Ireland) that are expected to have a budget deficit greater than 10% of GDP. This has caused the ratings agency S&P to revise its outlook for the AAA rating for UK government bonds from stable to negative.

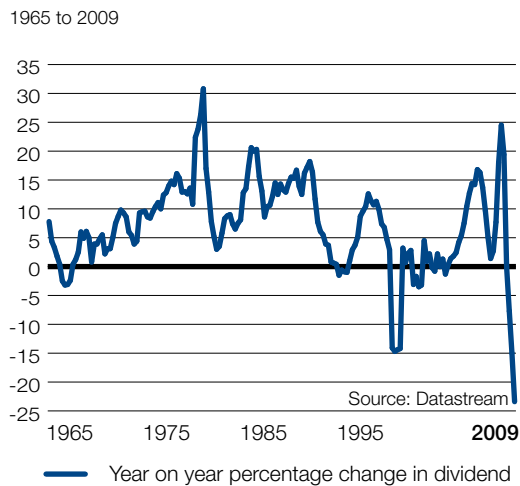
Stock market

There was a remarkable switchback performance from the UK stock market over the year with the turning point coming in early March. From the start of the Company's financial year to the low point on 3 March, the FTSE All-Share Index fell 28%, but

Highest yielding stocks 2009



FTSE All-Share dividend – year on year percentage change



then rallied by 48% to end the year 6% higher as the FTSE 100 Index recorded its strongest ever quarter between July and September. For the first five months, equities were concerned by the deteriorating economic situation, but a point was then reached when a combination of the attractiveness of the valuation and the start of QE restored sufficient

confidence in the financial system that share prices started to rise.

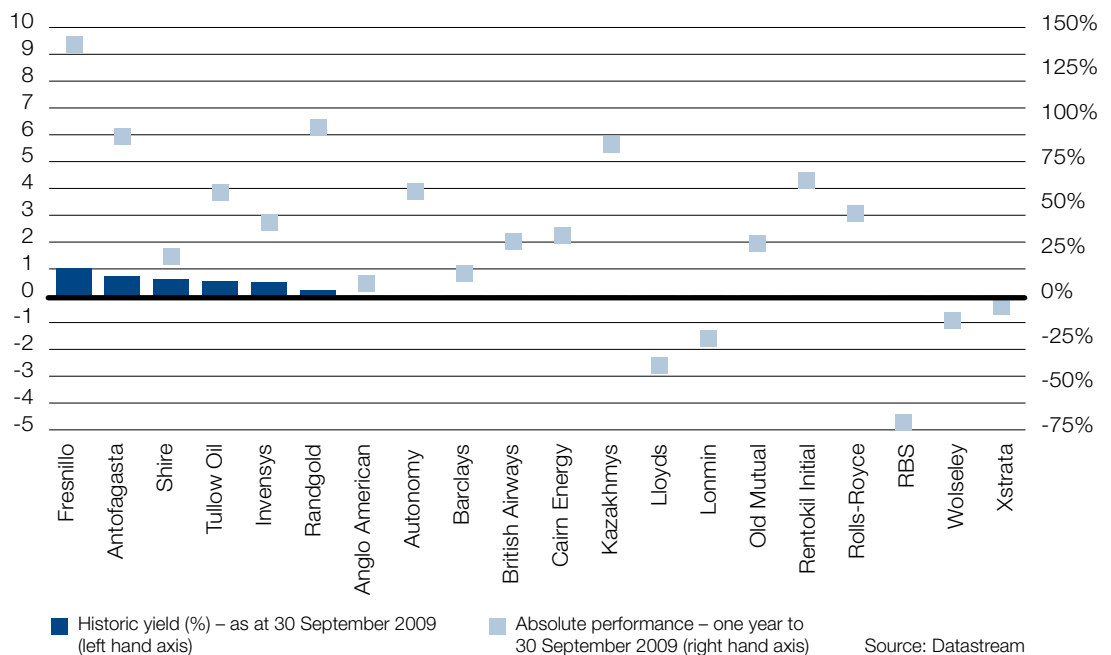
Although capital values ended the year higher, the level of income from the UK stock market has slumped by almost one quarter. This is unprecedented in recent years and reflects the difficulties that some companies have faced when trying to refinance bank debt or bonds at a time of financial turmoil in a recession. Foremost amongst those companies that omitted or reduced their dividends were the banks, but many other significant companies, including Anglo American and Rio Tinto, have followed.

Fresh equity raisings have been particularly associated with dividend cuts. According to the London Stock Exchange, companies already listed on the market raised a record amount in 2008 of £63.6 billion, but 2009 will set a new record, led by £12.5 billion for HSBC which completed the largest ever rights issue in Europe. This period of record share issuance has inevitably caused great pressure on dividend payments.

Performance within the stock market

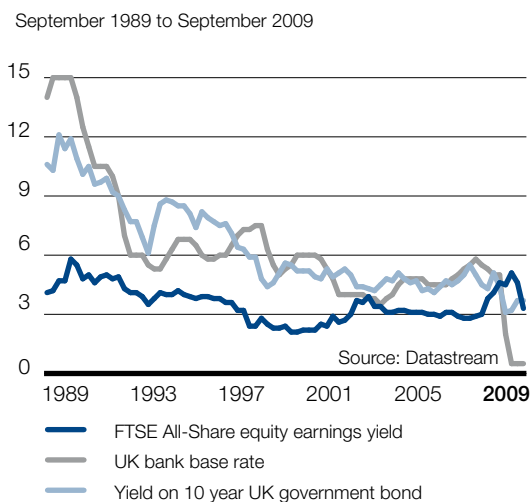
Many of the highest yielding companies have performed fairly poorly this year, giving a negative

Lowest yielding stocks 2009



Manager's Review (continued)

Yields from competing assets



correlation between capital performance and dividend yield. Companies with stable, defensive businesses and those that are able to generate cash and pay attractive dividends performed well at the start of the crisis, but have been overlooked and surpassed by more speculative companies for whom any improvement in conditions would generate a greater recovery.

This is particularly relevant to your Company with its objective of securing long-term income growth. Over the short-term, income and capital growth occasionally, such as last year, can point in different directions, but over the long-term there is strong evidence that income and income growth are the most significant drivers of capital growth.

Portfolio

There have been two tactical changes in composition to the portfolio over the last year to complement the quoted equity portfolio. First,

was the addition of a small number of convertible bonds from high quality issuers. Amongst the financial turmoil, these had become very attractively priced and have subsequently given not only an attractive level of income, which has helped to support the Company's own revenue, but have also risen strongly in value. The second change has been the investment in an unquoted company, Caithness Petroleum. This has attractive assets in the North Sea, the US and Morocco; the Company's investment was in a fund raising to enable further drilling to take place, which should realise a substantial increase in value. Caithness is expecting to achieve a full listing during 2010.

Valuation of the stock market

One of the consequences of the Bank of England's QE is to make risky assets, such as equities, appear cheap relative to safer assets such as bonds and cash. Equities have appeared good value throughout the year, hence the use of gearing and, despite the strong recovery in share prices, valuations are not yet expensive. Much depends on the future course of the economy; if this recovers with no further mishaps, company earnings should be able to stabilise and improve, making shares attractive relative to alternative investments. The yield on the FTSE All-Share Index, which reflects all the dividend cuts already announced, is well above the yield on cash and similar to the yield on government bonds. This valuation should be attractive for an investor in equities based on the history of the last 50 years.

Julian Cane
F&C Management Limited
27 November 2009

Twenty Largest Holdings

30 Sep 2009	30 Sep 2008	Company Description	% of total investments	Value £'000s
1	1	BP One of the largest integrated oil companies in the world; new management has started to turn around recent performance while the dividend is secure at the current oil price.	8.7	15,481
2	2	HSBC Following its rights issue, HSBC has restored its balance sheet strength. Its breadth of geographic operations and exposure to faster growing parts of the world are attractive.	7.5	13,411
3	5	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.	6.3	11,212
4	3	Royal Dutch Shell Leading international oil exploration, production and marketing group which has scope for efficiency increases.	6.1	10,931
5	4	GlaxoSmithKline One of the world's leading pharmaceutical companies with a valuable health care business. The company remains conservatively valued by historic standards.	5.5	9,836
6	8	Rio Tinto One of the largest diversified mining companies in the world with some of the best quality assets.	4.8	8,543
7	7	British American Tobacco A leading international manufacturer and distributor of cigarettes with scope for considerable cost savings.	4.4	7,848
8	6	Scottish & Southern Energy A well-managed multi-utility group with an attractive dividend yield and strong commitment to dividend growth.	3.7	6,616
9	11	AstraZeneca A leading pharmaceutical company discovering, developing, manufacturing and marketing prescription drugs, biologics and vaccines. It is conservatively valued by historic standards.	3.5	6,169
10	10	Tesco The dominant food retailer in the UK, continuing to expand through its non-food offerings and international operations.	3.1	5,597

Twenty Largest Holdings (continued)

30 Sep 2009	30 Sep 2008	Company Description	% of total investments	Value £'000s
11	26	Unilever One of the world's leading suppliers of fast-moving consumer goods with a large presence in emerging markets. It is expected the new management team can reinvigorate the portfolio of brands.	2.7	4,887
12	9	National Grid One of the largest utilities in the world with transmission and distribution assets in the UK and the US.	2.6	4,673
13	19	Cable & Wireless An international telecommunications company operating in many countries. The incentivised management team is acting to improve operations and the recently announced demerger should help to realise value.	2.2	3,982
14	28	Aviva An international life and non-life insurance group with a reasonable capital surplus and attractive yield.	2.0	3,582
15	43	London & Stamford A recently formed property company with a well respected management team, looking to build a portfolio taking advantage of current market conditions.	1.8	3,264
16	14	BG An international resource company engaged in discovery, extraction, transmission, distribution and supply of natural gas. Its latest finds off Brazil could be significant.	1.7	3,091
17	35	Man Group An investment manager of hedge funds, many of which have performed very well over the long-term. It has a very strong balance sheet and good yield.	1.6	2,847
18	15	Imperial Tobacco The acquisition of Altadis should allow Imperial to derive considerable benefits from cost synergies as it has in past acquisitions.	1.5	2,711
19	-	Intermediate Capital A leading independent provider of mezzanine finance in Europe. Following its rights issue, its own finances are much more secure and it is able to pay an attractive dividend out of cash flow.	1.4	2,541
20	18	Inmarsat A leading provider of global mobile communications services for government and civil uses via its own fleet of 10 geostationary satellites.	1.4	2,475

The value of the twenty largest equity holdings represents 72.5% (30 September 2008: 73.0%) of the Company's total investments.

Investment Portfolio by Sector

at 30 September 2009

	% of total investments	% of FTSE All-Share Index
<p>Financials</p> <p>Much of the turmoil of the last year was focused on the financial sector. Our tentative moves to acquire holdings in the UK domestic banks proved far too premature as the extent of their problems almost overwhelmed them and brought about subsequent sharp falls in value. Our support of HSBC in its rights issue has by contrast been very profitable. The largest addition in the sector was to Intermediate Capital, towards the end of our financial year, as the company was refinancing itself by a rights issue. New holdings were taken in RSA and Beazley, both general insurers with attractive yields, and significant additions made to existing holdings in Aviva and Man Group. We also increased the holding in London & Stamford, the property company, during a placing of its equity.</p>	21.3	24.7
<p>Oil & gas</p> <p>The integrated oil majors BP and Royal Dutch Shell are the most significant holdings in this sector and two of the largest stocks within the portfolio. The dividends from these two companies should be secure at current oil prices and they account for more than 20% of the Company's total income. Caithness Petroleum was a new addition to the portfolio; it has exciting exploration prospects, particularly in Morocco.</p>	17.5	18.2
<p>Consumer goods</p> <p>A broadly spread sector, with business interests from tobacco and drinks through to house building. There was no change to the major holdings of British American Tobacco or Imperial Tobacco. A new investment was made in Unilever, whose international operations have good potential for growth.</p>	10.5	11.6
<p>Utilities</p> <p>The attractive levels of dividend available from this sector have made this a relatively important part of the portfolio. At the start of the crisis its defensive nature meant the shares performed well, but during the rally many companies have been left behind in favour of those with greater cyclical exposure. There were no disposals from the sector during the year. A new investment was made in the International Power convertible bond, with further additions to existing holdings in United Utilities and Scottish & Southern Energy.</p>	10.1	3.4
<p>Telecommunications</p> <p>Vodafone is the largest investment in this sector; its commitment to a progressive dividend and the longer-term prospects of realising value from its stake in Verizon are both positive. During the year, the holdings in both Cable & Wireless and Vodafone were increased.</p>	9.9	6.0

Investment Portfolio by Sector

at 30 September 2009 (continued)

	% of total investments	% of FTSE All-Share Index
<p>Health care</p> <p>This sector is dominated by the major pharmaceutical companies, with GlaxoSmithKline and AstraZeneca being the portfolio's largest holdings. No major changes were made to the holdings. Their share prices performed well as the stock market fell during the first half, but have subsequently lagged the strong recovery.</p>	9.2	7.9
<p>Consumer services</p> <p>This sector ranges from food retailers, to travel and leisure companies, to media. Investment in the most exposed areas of consumer expenditure is very limited, with the most significant investment being in Tesco. During the course of the year, exposure to the sector was reduced by £1 million.</p>	8.1	9.6
<p>Basic materials</p> <p>The mining sector performed in an even more geared way than the main UK stock market indices, falling more heavily at the start of the financial year, and then rising even more rapidly. The holding in Anglo American was sold on the announcement that the company would no longer pay a dividend, but this proved to be premature as commodity prices and share prices started to recover shortly thereafter. The Talvivaara convertible bond was a new purchase, giving both an attractive yield and some exposure to a low cost nickel deposit.</p>	6.4	10.2
<p>Industrials</p> <p>This sector is generally sensitive to economic activity and performed much in line with the broader stock market indices over the year. Overall £2.3 million was added to the sector, with this going into two investments in Europe: Deutsche Post, which is the world's largest logistics group; and Siemens, Europe's largest engineering conglomerate.</p>	6.3	6.9
<p>Technology</p> <p>This is a small sector in the UK market and the only holding is Nokia, the world's leading manufacturer of mobile telephones.</p>	0.7	1.5

List of Investments

Quoted investments	30 September 2009		Quoted investments	30 September 2009	
	Holding	Value £'000s		Holding	Value £'000s
UNITED KINGDOM – EQUITIES			Raven Russia*	2,500,000	981
ACP Mezzanine*	2,065,861	263	Royal Bank of Scotland	3,065,000	1,618
AstraZeneca	220,000	6,169	Restaurant	273,475	528
Aviva	800,000	3,582	Rio Tinto	320,250	8,543
Barclays	220,000	813	Royal Dutch Shell "B"	630,000	10,931
Beazley	347,175	410	RSA Insurance	975,172	1,305
Bellway	74,391	615	Scottish & Southern Energy	565,443	6,616
BG	284,848	3,091	SIG	408,500	564
BP	2,800,000	15,481	Spectris	90,000	636
British American Tobacco	400,000	7,848	Tesco	1,400,889	5,597
Cable & Wireless	2,775,000	3,982	Tullett Prebon	252,933	988
CareTech*	92,782	366	Unilever	275,000	4,887
Centrica	766,012	1,927	United Utilities	535,000	2,441
Chesnara	273,481	462	Vodafone	8,000,000	11,212
Chime Communications	295,624	517			
City of London Investment*	231,300	648	United Kingdom total		159,075
CQS Rig Finance Fund*	900,000	72			
Diploma	320,989	555	CONTINENTAL EUROPE – EQUITIES		
Elementis	1,149,121	644	NETHERLANDS		
Friends Provident	378,615	315	Reed Elsevier	290,369	2,039
Galliford Try	842,845	480	TNT	111,371	1,866
GlaxoSmithKline	800,000	9,836	Wolters Kluwer	97,347	1,297
Halfords	200,000	704	Netherlands total		5,202
Hill & Smith	184,644	576			
Hilton Food	220,719	435	GERMANY		
HSBC	1,874,112	13,411	Deutsche Post	206,925	2,424
Imperial Tobacco	150,000	2,711	Siemens	22,049	1,284
Inchcape	5,384,280	1,511	Germany total		3,708
Inmarsat	450,000	2,475			
Intermediate Capital	850,000	2,541	REPUBLIC OF IRELAND		
Intertek	100,000	1,268	C&C	305,148	798
Laird	300,784	626	Glanbia	285,428	756
Legal & General	1,310,400	1,151	Republic of Ireland total		1,554
London & Stamford*	2,550,000	3,264			
Luminar	316,152	300	FINLAND		
Man Group	860,000	2,847	Nokia	142,204	1,305
Marston's	1,251,600	1,218	Finland total		1,305
Mears	151,531	440			
National Grid	775,000	4,673	SWEDEN		
Office2Office	389,733	577	Husqvarna	164,400	711
Prodesse Investment	262,295	1,141	Sweden total		711
Prudential	268,333	1,614			
Punch Taverns	555,612	669	Continental Europe total		12,480

* Quoted on the Alternative Investment Market in the UK.

List of Investments (continued)

30 September 2009			30 September 2009		
Quoted investments	Holding	Value £'000s	Unquoted investments	Holding	Value £'000s
UNITED KINGDOM – CONVERTIBLE FIXED INTEREST			UNITED KINGDOM		
International Power – 4.75%	2,650,000	2,307	Caithness Petroleum	51,965	1,785
3i – 3.625%	750,000	738			
United Kingdom total		3,045	United Kingdom total		1,785
CONTINENTAL EUROPE – CONVERTIBLE FIXED INTEREST			TOTAL UNQUOTED INVESTMENTS		
FINLAND			1,785		
Talvivaara – 5.25%	3,000,000	2,325	TOTAL INVESTMENTS		
Finland total		2,325	178,710		
Continental Europe total		2,325	The number of companies in the portfolio is 69 (2008: 70).		
TOTAL QUOTED INVESTMENTS		176,925	There are three convertible securities in the portfolio (2008: none).		