

Management and Advisers

The management company

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

Julian Cane

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

Mike Woodward

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

Debbie Fish

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

Secretary and registered office

F&C Management Limited, Exchange House,
Primrose Street, London EC2A 2NY
Telephone: 020 7628 8000
Facsimile: 020 7628 8188
Website: www.fandc.com
Email: info@fandc.com
Registered in England

Independent auditors

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

Bankers

JPMorgan Chase & Co
Lloyds TSB

Custodian

JPMorgan Chase & Co

Registrars

Computershare Investor Services PLC,
PO Box 82, The Pavilions, Bridgwater Road,
Bristol BS99 7NH
Telephone: 0870 889 4094
Facsimile: 0870 703 6143

Solicitors

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

Stockbrokers

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

Directors

Pen Kent CBE Chairman

Appointed to the Board on 22 July 2003, Pen became Chairman of the Company on 5 May 2005. He worked for the Bank of England for over 30 years, culminating in his appointment as one of four executive directors between 1993 and 1997. Pen is chairman of the Euroclear UK Markets Advisory Committee and is a non-executive director of Schroder & Co Limited and Punjab National Bank International Ltd.

Neil Dunford

Neil joined the Board on 5 May 2005. He has 30 years' experience in investment management and was chairman of Deutsche Asset Management Limited until 2002. He is a trustee of the Richmond (UK) Pension Plan and of Lloyd's Register Superannuation Fund. He is also an adviser to Lincolnshire County Council Pension Fund. He is a Chartered Accountant.

John Emly

John joined the Board on 5 May 2005. He is the investment director of the Civil Aviation Authority Pension Scheme, following a career spanning 25 years at Flemings, the London-based international investment bank. He is a director of JPMorgan Mid-Cap Investment Trust PLC and Shaftesbury PLC. In addition he is a member of the investment committees of the P&O and the Balfour Beatty Pension Schemes. John is the Company's Senior Independent Director.

Professor James (Jim) Norton

Appointed to the Board on 24 July 2001. He is a vice president and trustee of the British Computer Society and a director of the Foundation for Information Policy Research (FIPR) Ltd. He is also a senior policy advisor for the Institute of Directors. He is a Chartered Director and chairs the Company's Audit and Management Engagement Committee.

Hugh Priestley

Appointed to the Board on 9 February 2000. Hugh is non-executive chairman of Jupiter European Opportunities Trust PLC and a non-executive director of Perpetual Japanese Investment Trust PLC. He is a member of the investment committee of SAUL (Superannuation Arrangements of the University of London) and chairs the investment committee of the charity IndependentAge.

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

Directors' Report and Business Review

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

Results and dividends

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

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

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

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

Principal activity and status

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

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

Duration of the Company

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

Investment trust taxation status

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

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

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

Accounting and going concern

The financial statements, starting on page 32, comply with current UK financial reporting standards, supplemented by the revised statement of recommended practice for investment trust companies ("SORP"). The principal accounting policies of the Company are set out in note 2 on the accounts. The auditors' opinion on the financial statements appears on pages 30 and 31. The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts as the Company has adequate resources to continue in operation for the foreseeable future.

and its assets consist mainly of securities that are readily realisable.

Investment objective and policy

The Company's investment objective is to secure long-term capital and income growth from a portfolio consisting mainly of FTSE All-Share companies. The Board believes that the structure of the Company as a UK listed investment trust, with a fixed capital and an independent Board of Directors, is well suited to investors seeking longer-term returns.

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

Investment risk is reduced by investing mainly in UK blue chip companies. The portfolio, which is set out in full on pages 12 and 13, is diversified, with 70 holdings as at 30 September 2008. The majority of holdings are in large and mid-capitalisation companies, although the Company does also hold investments in smaller companies. There is no maximum limit set for investment in smaller companies which, while considered attractive value from time to time, can be more volatile and vulnerable to market and other changes, but the Board seeks to ensure that investment in this area is limited.

No more than 10% of the portfolio (at the time of investment) will be invested in securities quoted on the Alternative Investment Market, with 3.0% invested in this market at the year end. There are no unquoted investments in the portfolio, and no such securities will be purchased without the prior approval of the Board.

The Company may, from time to time, invest in leading overseas companies. Whilst no individual country limits are imposed, the total value of investments outside the UK will not exceed 10% of the Company's gross assets at the time of investment. As at 30 September 2008, 6.7% of the total portfolio was held outside the UK, all in Continental European stocks. The portfolio is well diversified across various sectors, as set out on pages 10 and 11, although

no maximum exposure limits are set. No single investment in the portfolio will exceed 10% of the Company's total assets at the time of purchase.

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

The Company uses gearing to enhance its returns. The articles of association contain a borrowing limit equal to the value of its adjusted total of capital and reserves. However, the level of gearing within the portfolio would not normally be expected to exceed 20% of the portfolio value. There were no borrowings at 30 September 2008.

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

Compliance with the investment policy is monitored by the Board.

Capital structure and buyback policy

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

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

Directors' Report and Business Review (continued)

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

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

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

Borrowings

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

Principal risks

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

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

- **Investment strategy** – inappropriate long-term strategy, asset allocation and stock selection might lead to underperformance against the

Company's benchmark index and peer group. The Board periodically reviews the investment strategy and regularly monitors the Company's investment portfolio, investment selection, performance and operations of the Manager.

- **Investment management resources** – the quality of the management team employed by F&C is a crucial factor in delivering good performance, and loss of the Manager's key staff could affect investment returns. The Manager develops its recruitment and remuneration packages in order to retain key staff, has training and development programmes in place and undertakes succession planning.
- **Regulatory** – failure to comply with applicable legal and regulatory requirements could result in the Company losing its listing and/or being subject to corporation tax on the sale of its investments. The Board reviews regular reports from the Manager on the controls in place to ensure the Company's compliance with these requirements, together with regular investment listings and income forecasts as part of its monitoring of compliance with Section 842.
- **Operational** – failure of the Manager's core accounting systems, or a disastrous disruption to its business, could lead to an inability to provide accurate reporting and monitoring. The Manager is contractually obliged to ensure that its conduct of business conforms to applicable laws and regulations. The Manager has confirmed that reliable back-up systems are in place.
- **Financial** – inadequate financial controls could result in misappropriation of assets, loss of income and debtor receipts and inaccurate reporting of NAV per share. The Board regularly reviews the Manager's statements on its internal controls and procedures and subjects the books and records of the Company to an annual audit. The financial risks are set out in more detail in note 25 on the accounts on pages 47 to 50.
- **Counterparties** – the Company is exposed to potential failures by counterparties; more details are included on page 50.

The Board

The Board of non-executive Directors, whose appointment is approved by shareholders, is charged with ensuring that the Company complies with its

objectives and the various rules and regulations. Further information on the role and powers of the Board is contained in the Corporate Governance Statement on pages 25 and 26.

Directors

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

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

Directors' remuneration and shareholdings

The Directors' Remuneration Report, which can be found on page 24, provides detailed information on the remuneration of the Directors. Shareholders will be asked to approve the Directors' Remuneration Report at the AGM. The Directors' remuneration is not conditional upon the resolution being passed.

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

Directors' interests		
at 30 September	2008	2007
Pen Kent	nil	nil
Neil Dunford	7,588	7,588
John Emly	4,150	4,064
Professor Jim Norton	nil	nil
Hugh Priestley	15,000	15,000

There have been no changes in any of the Directors' interests in shares detailed above since the Company's year end.

No Director held any interest, beneficial or otherwise, in the issued shares of the Company other than stated above.

Directors' re-election

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

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

Director indemnification and insurance

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

Investment management and administration

In common with most investment trusts, the Company does not have any employees, and the Board has appointed F&C Management Limited ("F&C" or "the Manager") to manage the investment portfolio on a day-to-day basis, as well as to carry out administrative, accounting, company secretarial and marketing activities on behalf of the Company.

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

The duties of the Manager encompass seeking to:

- achieve the Company's objective through investment in stocks and securities in relevant countries and industries (within the Board's strategies and guidelines on gearing) and through collection of income from those investments;
- control the discount at which the Company's shares trade by comparison with their underlying asset value within limits set down by the Board and to make recommendations as to whether shares bought back are held in treasury or immediately cancelled;
- maintain the Company's books and records;
- maintain compliance with relevant rules and regulations;
- operate shareholder savings plans and products through which the Company's shares can be

Directors' Report and Business Review (continued)

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

- provide marketing and investor relations services to the Company.

The Manager carries out research and derives a value for each company that it analyses, which it uses as the basis upon which to buy or sell. Importantly, the Manager derives the value from its own assessment of a company's prospects and not simply by following a consensus view. The Manager believes that share prices are much more volatile than changes in the underlying worth of companies and that this mis-match creates investment opportunities. However, over the long term share prices will reflect intrinsic worth as the value of companies' cash flows, earnings, dividends or assets are realised. This approach can result in periods of relative underperformance when market values are substantially out of line with underlying worth. Nevertheless, this process has demonstrated that it will generate superior results over the longer term. The Board looks to long-term outperformance rather than short-term opportunities.

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

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

The Manager is a subsidiary of F&C Asset Management plc ("FCAM"), a leading European investment group with over £90 billion under management. Friends Provident plc ("FP"), which

Analysis of savings plans

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

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

owns 52% of FCAM, announced on 31 January 2008 that, as wealth management no longer forms part of its strategy, it would work with FCAM's board and management team to review its shareholding. On 31 October 2008 FCAM announced that its management had conducted a wide-ranging process to assist FP in its review and that FP had announced its intention to distribute its entire shareholding in FCAM to its shareholders. The FCAM board is continuing to explore opportunities and remains in discussion with interested parties, which may or may not lead to an offer for FCAM. The Board is closely monitoring developments.

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

Management fee

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

Creditor payment policy

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

Key performance indicators

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

- Association of Investment Companies (“AIC”) peer group of 25 “UK growth and income” investment trusts whose NAV and share price total return performance over one, three, five and 10 years is set out in statistics produced monthly by the AIC. At 30 September 2008, the Company was 3rd, 5th, 7th and 9th respectively in its peer group NAV performance over one, three, five and 10 years, and 2nd, 6th, 8th and 6th respectively in terms of share price performance;
- share price discount to NAV, an important measure of demand for the Company’s shares and a key indicator of the need for shares to be bought back or issued. At the start of the year under review the discount to NAV was 6.0% compared with 2.0% at the year end;
- expense ratios, which enable the Board to measure the control of costs and help in meeting the dividend payment objective. The ratio of operating expenses to net assets is relatively stable at 0.70%; and
- levels of gearing, the costs of which are absorbed 50% through the revenue account and 50% through the capital account, are monitored to ensure that the Manager is adhering to the Board’s gearing limit and is not borrowing excessively in falling markets. Borrowing during the year was maintained within a range of nought to £10.0 million.

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

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

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

Manager’s evaluation and re-appointment

The review of the Manager’s performance is an ongoing duty and responsibility of the Board, which is carried out at every Board meeting, with a formal evaluation taking place in November each year. In evaluating the performance of the Manager, the Board considers a range of factors including the investment performance of the portfolio as a whole, performance of the various regional sub-portfolios and the skills, experience and depth of the team involved in managing the Company’s assets.

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

In light of the longer term investment performance of the Manager and the quality and efficiency of the overall service provided, it is the opinion of the Board that the continuing appointment of the Manager on the terms agreed is in the interests of shareholders as a whole.

Outlook

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

GENERAL INFORMATION

Voting rights

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

Individual savings accounts (“ISAs”)

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

Independent auditors

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

Directors' Report and Business Review (continued)

So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware. The Directors believe that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of this information.

Annual general meeting

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

Authority to allot shares (resolution 9)

Resolution 9 is similar in content to the authority and power given to the Directors at previous AGMs. By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders. In addition, directors require specific authority from shareholders before allotting new shares (or granting rights over shares) for cash without first offering them to existing shareholders in proportion to their holdings. Resolution 9 gives the Directors, for the period until the conclusion of the AGM in 2010, the necessary authority to either allot securities or sell shares held in treasury up to an aggregate nominal amount of £991,303 (3,965,212 ordinary shares). This is equivalent to approximately 5% of the issued ordinary share capital of the Company at the date of this report. It also empowers the Directors to allot such securities for cash, otherwise than to existing shareholders on a pro-rata basis. This authority and power provides the Directors with a degree of flexibility to increase the assets of the Company by the issue of new shares should any favourable opportunities arise to the advantage of shareholders.

The Directors use this authority to satisfy demand from participants in the various F&C savings plans when they believe it is advantageous to plan participants and the Company's shareholders to do so.

Under no circumstances do the Directors use the authority and power to dilute the interests of existing shareholders by issuing shares or selling shares held in treasury at a price which would result in a dilution of NAV per ordinary share.

Authority for the Company to purchase its own shares (resolution 10)

Resolution 10 authorises the Company to purchase up to a maximum of 11,887,709 ordinary shares (equivalent to approximately 14.99% of the issued share capital) in the market at a minimum price of 25 pence per share and a maximum price per share (exclusive of expenses) of 5% above the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately before the date of purchase. The Directors would continue to use this authority with the objective of enhancing shareholder value. Purchases would only be made, within guidelines established from time to time by the Board, through the market for cash at prices below the prevailing NAV per ordinary share which would have the effect of increasing the NAV per ordinary share for the remaining shareholders. Any ordinary shares that are purchased would either be placed into treasury or cancelled.

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

Amendments to the articles of association (resolution 11)

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

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

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

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

Form of proxy

Registered shareholders will find enclosed a form of proxy for use at the AGM. Please complete, sign and return the form of proxy in the envelope provided as soon as possible in accordance with the instructions thereon, whether or not you intend to be present at the AGM. This will not preclude you from attending the AGM and voting in person if you wish to do so.

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

Form of direction and proportional voting

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

Recommendation

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

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

Directors' Remuneration Report

The Company's articles of association limit the aggregate fees payable to the Board of Directors to a total of £120,000 per annum. Within that limit, it is the responsibility of the Board as a whole to determine the level of Directors' fees having regard to the level of fees payable to non-executive directors in the industry generally, the role that individual Directors fulfil in respect of Board and committee responsibilities, and the time committed to the Company's affairs. The Board is comprised solely of non-executive Directors, none of whom has a service contract with the Company, and therefore no remuneration committee has been appointed.

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

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

Fees for services to the Company

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

1. Chairman
2. Chairman of the Audit Committee

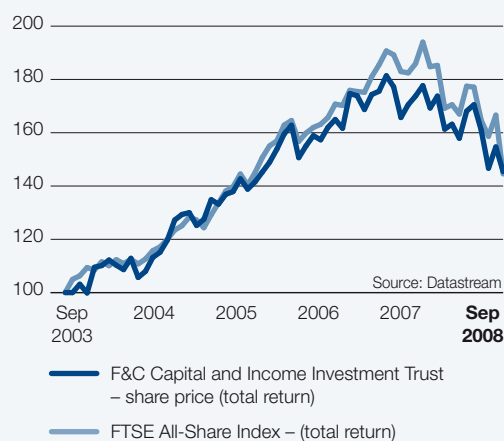
The information in the table has been audited (see the Independent Auditors' Report on pages 30 and 31).

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

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

Total shareholder return over five years

30 September 2003 to 30 September 2008
(Rebased to 100 at 30 September 2003)



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

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

Corporate Governance Statement

The Company is committed to high standards of corporate governance. The Board has considered the principles and recommendations of the Association of Investment Companies ("AIC") Code of Corporate Governance (the "AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide"). The AIC Code addresses all the principles set out in Section 1 of the 2006 Combined Code of Corporate Governance (the "Combined Code"), as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.*

The Board believes that the Company has complied with the recommendations of the AIC Code during the year under review, and thereby the provisions of the Combined Code that are relevant to the Company.

The Board

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

In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information. The Board meets at least four times a year and at each meeting reviews the Company's management information, which includes reports on investment performance and strategic matters and financial analyses. Income forecasts are reviewed in order that costs can be managed within set budgets and in order that the Company is able to pursue its progressive dividend policy. The Board monitors compliance

with the Company's objectives and is responsible for approving the asset allocation, investment and gearing ranges within which the Manager is given discretion to act. Key representatives of the Manager attend each Board meeting. Board meetings are also held on an ad-hoc basis to consider particular issues as they arise. During the year under review the Board met on five such occasions to discuss various items of business, mainly relating to VAT recoveries.

The table below sets out the number of Board and committee meetings held during the year under review and the number of meetings attended by each Director. All Directors attended the annual general meeting ("AGM") in January 2008.

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

A = Board meetings.

B = Audit and Management Engagement Committee meetings.

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

The Board regularly reviews its structure, size, composition, experience, diversity and skill ranges and considers succession planning and tenure policy and believes that it currently has a reasonable balance of skills, experience and length of service. The Board recognises the value of progressive refreshing of, and succession planning for, company boards. Accordingly, each Director's appointment is reviewed prior to submission for re-election, which includes consideration of the independence of each Director.

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

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

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

Corporate Governance Statement (continued)

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

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

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

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

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

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

Independence of Directors

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

Board committees

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

The Company has no executive Directors and no employees and consequently does not have a remuneration committee. The Directors' Remuneration Report, which can be found on page 24, provides information on the remuneration arrangements for the Directors of the Company.

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

Audit and Management Engagement Committee

The primary responsibilities of the Audit and Management Engagement Committee ("Audit Committee"), which meets at least twice each

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

The Audit Committee has direct access to the auditors, PricewaterhouseCoopers LLP ("PwC"), who attend Audit Committee meetings to review the annual results and provide a comprehensive review of the audit of the Company. The Audit Committee also has the opportunity to meet with the auditors without the Manager being present.

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

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

recommended the continuing appointment of the auditors to the Board.

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

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

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

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

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

Internal controls and management of risk

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

Corporate Governance Statement (continued)

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

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

The Board has carried out a risk and control assessment including a review of the Manager's risk management infrastructure and the report on policies and procedures in operation and tests for the period 1 January to 31 December 2007 (the "Report") that has been prepared by the Manager for its investment trust clients to the standards of the Institute of Chartered Accountants in England and Wales Technical Release AAF (01/06). Containing a report from independent external accountants, the Report sets out the Manager's control policies and procedures with respect to the management of its clients' investments. The effectiveness of these controls is monitored by the Manager's group audit committee which receives regular reports from the Manager's audit, risk and compliance department. Procedures are in place to capture and evaluate failings and weaknesses and ensure that action would be taken to remedy any significant issues identified from this monitoring, which would be reported to the Board.

Relations with shareholders

Communication with shareholders is given a high priority. In addition to the annual and half-yearly reports that are distributed to shareholders, interim management statements, monthly fact sheets and general information are also available on the

www.fandccit.com website. The annual report and notice of AGM are normally sent to shareholders at least 20 working days before the AGM.

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

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

The Company has a predominantly retail ownership, with private investors holding around 80% of the issued share capital. Shareholders wishing to communicate with the Chairman, the Senior Independent Director or other members of the Board may do so by writing to the Secretary at the registered office address as detailed on page 14.

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

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

Statement of Directors' Responsibilities in Respect of the Financial Statements

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

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

the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

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

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

On behalf of the Board

Pen Kent

Chairman

25 November 2008