F&C Investments

F&C Capital and Income Investment Trust PLC

Report and Accounts

2012

Objective

Our objective at F&C Capital and Income Investment Trust PLC is to secure long-term capital and income growth from a portfolio consisting mainly of FTSE All-Share companies.

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all your ordinary shares in F&C Capital and Income Investment Trust PLC please forward this document, together with the accompanying documents, immediately to the purchaser or transferee or to the stockbroker, bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This document may contain forward-looking statements with respect to the financial condition, results of operations and business of the Company. Such statements involve risk and uncertainty because they relate to future events and circumstances that could cause actual results to differ materially from those expressed or implied by forward-looking statements. The forward-looking statements are based on the Directors' current view and on information known to them at the date of this document. Nothing should be construed as a profit forecast.

Visit the website at **www.fandccit.com**
Registered in England and Wales with company registration number 02732011.

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

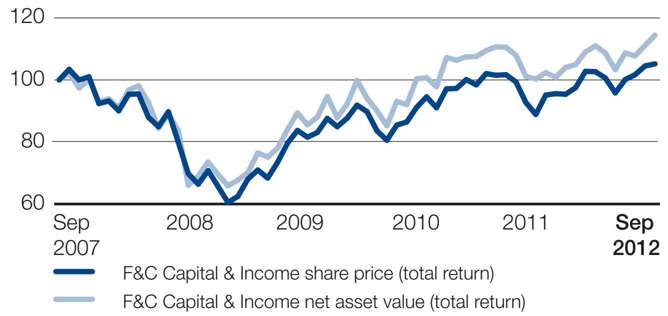
Financial Highlights

Summary of results

Attributable to shareholders	**30 September 2012**	30 September 2011	% Change
Net assets	**£195.11m**	£167.29m	+16.6
Net asset value per share	**222.01p**	194.96p	+13.9
Net revenue after tax	**£8.72m**	£8.34m	+4.5
Revenue return per share	**10.01p**	9.75p	+2.7
Dividends per share	**9.00p**	8.65p	+4.0
Share price	**225.50p**	206.00p	+9.5

Total return over five years – 2007 to 2012

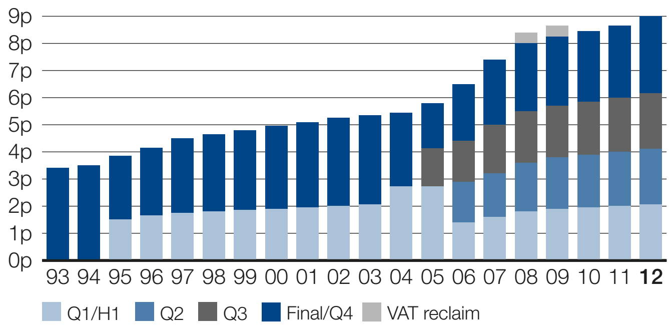
Rebased to 100 at September 2007



Source: Datastream

Dividends per share – pence

1993 to 2012



Source: F&C Management Limited

Contents

Financial calendar

2012 financial year events

Fourth interim dividend payable	**31 December 2012**
Annual general meeting	**13 February 2013**

2013 financial year events

First interim dividend payable	**March 2013**
Half-yearly results announced	**May 2013**
Second interim dividend payable	**June 2013**
Third interim dividend payable	**September 2013**
Annual results announced	**November 2013**
Fourth interim dividend payable	**December 2013**

Chairman's Statement

Dear Shareholder

It is always difficult to take over from a successful Chairman, and my predecessor, Pen Kent, was certainly that. That is why I am glad to be able to report, in my first annual statement to you, a good year in both absolute and relative terms. Furthermore, this is the 20th anniversary of your Company and, for those of you who have been shareholders since the launch, returns have been good. You have seen a total return of over 320% and the annual dividend has risen from an initial 3.4 pence per share to 9 pence per share this year. This represents income growth of 165%. By way of comparison, dividends on the FTSE All-Share Index ("**the Index**") have risen by 87% over the same period. All this highlights the value of taking a long term approach to investment.

Your company was amongst the first to be involved in the use of share buybacks to control the discount to net asset value and also amongst the first to issue new stock when the share price traded at a premium. If the Board and the Fund Manager can deliver a similar combination of good returns and corporate innovation over the next 20 years, we will have reason to be proud.

Performance

Turning to the year under review, the Net Asset Value ("**NAV**") rose by 13.9% while the Index rose by 13.0%. Including income, the NAV return was 18.4%, whilst the Index was 17.3%. In absolute terms, this is a positive result in what was a difficult year for the UK economy. In relative terms it is pleasing that your Fund Manager, Julian Cane, has outpaced the Index by a reasonable margin. As you know, our strategy aims to generate returns from both income growth and capital accretion. This can be particularly challenging relative to an index when either growth or income dominates investment returns. This year, though, our total return was also greater than that of the FTSE 350 High Yield Index of 16.1%. In his Manager's Review, Julian explains some of the reasons behind this satisfactory outturn.

Turning to five year returns, we can see the impact of the financial crisis. Our NAV over this period fell by 14.2%, but when we add the income back, that becomes a positive return of 5.2%. This is ahead of the FTSE 350 High Yield index but slightly behind the All-Share Index, illustrating the point that it is sometimes hard to serve two masters. Nevertheless, your Board continues to believe that there is an inherent logic in trying to generate returns from solid dividends and dividend growth as well as from capital appreciation.

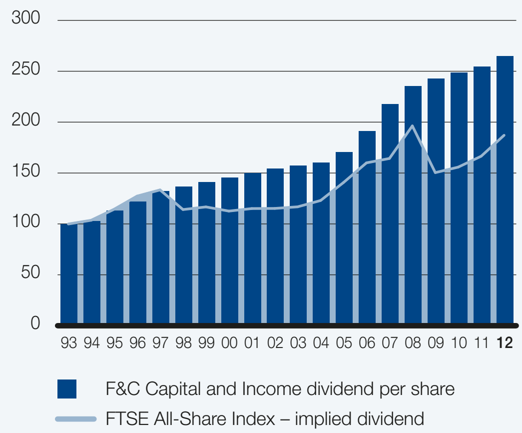
Over the year, the share price lagged the NAV somewhat, increasing by 9.5%. This reflects the fact that the premium to NAV has shrunk from the rather elevated level it reached at the end of the last financial year.

Net asset value performance over one year

Total return over five years

Dividend growth since launch

Rebased to 100 at September 1993



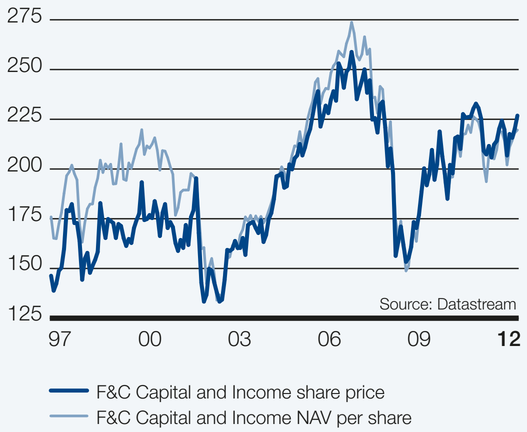
Source: Datastream & F&C

Revenue account

Our income rose by 4.5%, reflecting a rise in dividends from the portfolio of 7.6%. Dividend increases partly illustrate further recovery from the damage wrought by the financial crisis, but reflect other factors which are more surprising. The absence of corporate activity and the low level of capital spending have combined to allow companies to build up cash in a way which is unusual at this stage of an economic cycle. This is a feature of a rather lacklustre economic environment

Share price and net asset value per share

Q3 1997 to Q3 2012



which might lead one to think that corporations are in poor shape. The opposite is true, though, with margins and free cash flow being surprisingly robust.

This year the income from our option writing strategy was lower than last year, although still a helpful contributor. It will, however, remain a volatile source of extra income because of the innate conservatism of the approach Julian is following.

Putting this together, we have been able to pay three dividends so far this year amounting to 6.15 pence per share, and we are paying a fourth of 2.85 pence per share to give a total for the year of 9.00 pence per share. This represents an increase over the previous year of just over 4% and continues the progressive trend. The fourth payment will, as usual, be paid as an interim rather than final dividend, which means we can pay it at the calendar year end rather than wait until after the AGM in February. This does mean that shareholders do not vote on the matter, but feedback from you has been strongly in favour of maintaining a regular quarterly payment.

Discount

Yours is one of the fortunate few investment trusts whose shares have rarely traded at a discount in recent years. During the year, it traded at a discount on 3 days and averaged a premium of 2.3% over the course of the year. This general situation has been the case now for nearly four years. There are no doubt many reasons why the shares trade frequently at a premium to NAV, but it is perhaps not a coincidence that investors have a preference for yield in a capital market environment where income is hard to come by from traditional sources such as bank deposits. While nobody likes discounts in investment trusts, they should be just as wary of excessive premiums. For this reason, the Board issues shares to meet demand from shareholders and this year we have issued 2,075,000 shares, which amounts to just over 2.4% of last year's share capital.

Of course, things can change and it is worth reiterating the words of my predecessor that we remain committed to buying shares back should a material discount arise.

At the AGM in 2013 the Board is asking for authority to issue further shares without pre-emption rights equal to 10% of the Company's shares in issue

Chairman's Statement (continued)

at the date of this report. These shares will only be issued at a premium so as not to dilute the interests of existing shareholders. This authority will give the Board the maximum flexibility to continue to issue shares throughout the year and we believe it to be in the interests of all shareholders.

Board

The succession plan put in place in 2010 continues to develop as foreseen. This year, we appointed Clare Dobie to the Board. She has a background as a financial journalist and then in senior marketing roles in investment management. We regard the issue of shareholder communication as increasingly important, partly as a result of changes in the regulatory environment and partly because it is an area which has too often been overlooked. Clare has expertise in this subject and has already contributed to the shareholder survey which we have been conducting ahead of our continuation vote. She will put herself forward for election at the AGM in February and I hope that she will have your support.

Sadly, Hugh Priestley will be retiring at the AGM. He has served on the Board for 13 years and I would like to thank him on behalf of all of us for his contributions, always delivered with insight and wry humour. It may sound like a bit of a cliché, but we wish him all the best in the future.

My predecessor foreshadowed a review of Directors' fees which were last reviewed in July 2008. The long gap between reviews presents specific problems, not least the sensitivity of proposing an increase. Nevertheless, market evidence suggests that the fees paid to your Company's Directors have fallen well behind the peer group average and do not reflect the increased work load associated with a higher regulatory burden. For this reason, we have decided to phase in over two years the increases needed to bring Directors' fees up to a more competitive level. Details are set out in the Remuneration Report on page 28.

Shareholder Communication

The majority of you hold your shares through one or other of the F&C Savings Plans. This makes it difficult to communicate directly with you other than through formal documents like this one. For this reason, and to canvass opinion ahead of the continuation vote which will be held at the AGM in February, we have conducted a shareholder survey to solicit a broad range of your views and opinions on the Company. In order to keep the budget within prudent limits, we conducted the survey by addressing approximately one third of our shareholder base. This does not mean that we are not interested in everyone's views, and we encourage you to let us know directly if you wish to express an opinion, whether good or bad.

The results of this survey have now been collated and I thought you might be interested to hear the general conclusions. The first is that, of the 9,710 surveys sent out, we received 1,887 responses, a rate of 19.4%. This is an excellent rate of response, and I would like to thank all of you who took the time to fill in the questionnaire. Many of you are genuinely involved in the process of making and monitoring your investment. I can assure you that both the Board and the Manager value and will take into account the views you have expressed.

For us as a Board, probably the most important questions you answered related to the Company's objective and how it is doing. On the matter of what we are about, more than half of you felt that the capital growth element of our return was what mattered most, with a smaller number (but still over 40% of responders) seeing dividend growth as particularly important. This seems to reflect the dual mandate implied in our Company name. On the matter of investment performance, nearly 60% of you felt that the performance was satisfactory or very satisfactory, with the balance sitting largely in the neutral camp. Very few shareholders seem to feel dissatisfied with the returns they have been seeing, although many of you note that long term poor performance would be a likely sell trigger should it arise. There was general support for the continuation of the quarterly dividend, and so we intend to carry on as we are on this front.

At the AGM, I will say a few words about the survey and there will be an opportunity to ask questions of the Board and Manager about the issues it raises. The results endorse the Board's view that the Company should continue as an investment trust and that it continues to serve a useful purpose.

AGM

This will take place on 13 February 2013 at the registered office, Exchange House, Primrose Street, London EC2 at 11:30 am. I would encourage all shareholders to attend if they can. My colleagues on the Board and I will be available to answer any questions you may have and Julian will be making a presentation on the investment scene.

Apart from the normal business of an AGM, there are two unusual pieces of business.

1. The first is a continuation vote. The Company holds a continuation vote every five years to give shareholders the opportunity to vote on whether they wish the Company to continue as an investment trust. The Company has returned strong performance over the long term and my fellow Directors and I have no hesitation in recommending that you vote in favour of the Company's continuation. Those directors who hold shares intend to vote their own beneficial holdings the same way.
2. The second is a proposal to amend the articles of association so as to allow the Company to pay dividends out of its capital profits. This is a change permitted by new provisions in the Companies Act to provide boards with greater flexibility in how to make dividend payments. Although technical in nature, this is a liberalisation of the rules which had allowed dividends to be paid only out of revenue.

   While your Board has no current intention of paying dividends out of capital and indeed has revenue reserves of £7,522,000, it seems prudent to update the articles to reflect the new state of affairs.

Investment Outlook

It has been one of those years when investors look at the economy and try to relate it to the stock market performance and find the whole thing rather confusing. The economic prognosis at home remains difficult, with the prospect of several more years where we all face further austerity as the headwinds to growth remain powerful. On the global front, the fiscal cliff in the US and the continuing crisis in Europe are potentially unsettling and it can seem mystifying then that the stock market should put in a very respectable performance for the year.

There are many reasons, though, why it is doing fairly well. The first is that there is a dearth of investment opportunity elsewhere: cash yields almost nothing; government bonds look more expensive than at any time in history; and that interest rates, and therefore returns on cash, are likely to remain low for the foreseeable future. Second, the corporate sector is in good shape: balance sheets are sound; sales have held up fairly well; and returns on capital remain strong. Third, the stock market offers reasonable value: yields are relatively high; dividends are growing; and on longer

Significant Events in Your Company's History

2012 Steven Bates appointed Chairman
2008 Court case won on VAT payments allowing the payment of special dividends in 2008 and 2009
2005 merger with F&C Income Growth Investment Trust
2005 move to pay dividends quarterly
2003 first shares issued at a premium to Net Asset Value
2003 name change to F&C Capital and Income Investment Trust
2002 name change to F&C PEP and ISA Investment Trust
2002 share buy back powers used more aggressively *"to ensure, so far as it is within the Board's power, that the Company's shares do not stand at any material discount to Net Asset Value"*
2001 introduction of first shareholder survey
1999 name change to Foreign & Colonial PEP and ISA Investment Trust
1999 introduction of share buy back facility and first shares purchased
1997 Julian Cane becomes investment manager
1994 Foreign & Colonial Income Growth Investment Trust launched
1992 launched as Foreign & Colonial PEP Investment Trust

1992 1993 **1994** 1995 1996 **1997** 1998 **1999** 2000 **2001** **2002** **2003** 2004 **2005** 2006 2007 **2008** 2009 2010 2011 **2012**

Chairman's Statement (continued)

term comparisons, the market is as much as 20% below its average 10 year valuation.

Most of these influences will remain powerful in the year ahead. Of course, a strong rise in the market would undermine the valuation pillar of the argument, but for now and in the absence of a major geopolitical accident, they are supportive.

The Board is confident that Julian Cane and his team have the experience and resources needed to take advantage of the opportunities in the markets and that the next twenty years should be rewarding, albeit with many fluctuations.

Steven Bates
Chairman
28 November 2012

Manager's Review

Review of the economy

It has been very difficult for the economy to make progress over the past year. The level of economic activity at the end of the third calendar quarter was lower than 12 months previously as the economy had fallen back into recession. Three successive quarters of falling GDP were only partially offset by growth of 1% in the July – September quarter. There have been numerous distortions to the figures during the year, including the Olympics, Jubilee celebrations, extra Bank Holidays and the weather, but the overall picture is of a struggling economy. In this it is little different to the previous year when GDP grew only 0.5%. Since the previous recession started in the spring of 2008 and ended in the summer of 2009, the pace of recovery has been even slower than that from the Great Depression of the 1930s.

The UK economy is far from alone. Much of Europe has also been in recession, growth in the US has been fairly lacklustre and even China has been slowing. As these are our trading partners, their lack of growth only makes it more difficult for the UK. The underlying problem for the developed economies is that debts, for individuals and governments, are at very elevated levels. As consumers and governments spent beyond their means throughout the previous decade, debts grew ever larger and economic activity was flattered beyond sustainable levels. In order to avoid an even greater fall in economic activity, governments and central banks acted to provide monetary stimulus in the form of low interest rates (the UK Base Rate has been unchanged at 0.5% throughout the year) and also introduced unconventional stimulus, in the form of Quantitative Easing (QE). To date, the Bank of England has bought £375bn of gilts in an attempt to increase the money supply and avoid a depression.

The UK government's fiscal policy has received a great deal of comment, but despite the much discussed "cuts", cash spending is flat in absolute terms. This is, at least in part, because of the recessionary conditions for most of the year; while tax revenues were lower than expected automatic stabilising spending to counter the slowdown has increased. The government, spending 45% of UK GDP, continues to run a huge deficit of over £160bn (more than 5% of GDP), increasing debt levels still further.

Despite the difficult background, there has been better news as unemployment rates have fallen and the number of people in work hit a record high of almost 30 million. In addition, the pace of price rises in the UK slowed during the year with the inflation rate at its lowest level for nearly three years. In the year to September, the Consumer Price Index (CPI) increased by 2.2%, having been above 4.0% for most of the previous year. Considering the concerns about QE, seen by many as printing money. The current rate of inflation outcome is particularly good news for the economy as it allows reduced interest rates to continue.

Review of the stock market

Although the economic background provided little encouragement, the Index rose by 13.0% over the year in capital terms, and produced a total return of 17.3% with dividends reinvested. These returns are above the long run historical averages, highlighting that last year was a good year for equity investors.

Macroeconomic developments did tend to have a strong influence on stock market moves, but the general gloom was offset by the stated willingness of central bankers "to do whatever is necessary". Although this comment was made specifically in relation to saving the Euro, it also summarises the desire to prevent deflation and therefore to avoid a depression; the main tool used for this purpose being QE. As a consequence, real asset prices (such as equities) have been driven upwards. QE, rather than earnings or dividend progression, has therefore been one of the main drivers of stock market appreciation.

The stock market was also less volatile than it had been in some previous years, with only May providing a sharp pull-back in response to poor domestic GDP data, falling house prices and fears that Greece would be forced out of the Euro. This drove some nervous investors towards the safe haven of government bonds and pushed UK gilt yields to the lowest level since records began at the start of the 18th century.

Within the equity market, the relative lack of volatility was also evident at a sector level, with all sectors making positive returns, and a fairly narrow spread from Industrials, the best sector at +30%, to Basic Materials, the worst sector at +5%. There was, of course, considerable dispersion of individual stock returns with the best returns in the portfolio coming

Manager's Review (continued)

from the oil exploration stocks Cove Energy (+198%), which was subject to a bidding battle from Shell and Thailand's PTT Exploration, and Elementis (+92%) on continued recovery. The poorest returns in the portfolio came from Man Group (-42%) as the hedge fund manager's flagship product continued to flounder and Omega Insurance (-34%) as restructuring has proven more difficult than anticipated.

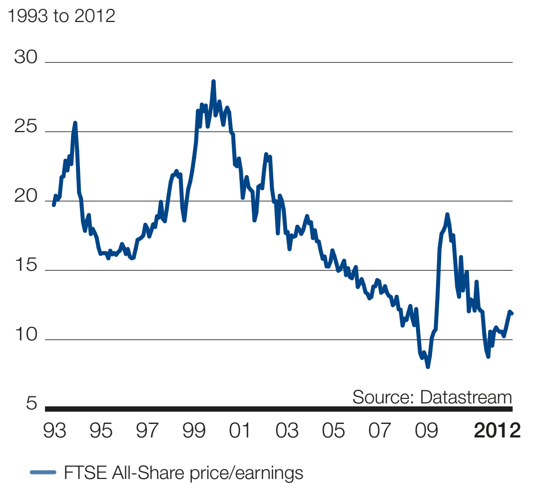
Portfolio

Following this report is a separate commentary on the portfolio by sector and on the twenty largest holdings. As well as the quoted equity holdings there are three other components that have contributed to returns over the year:

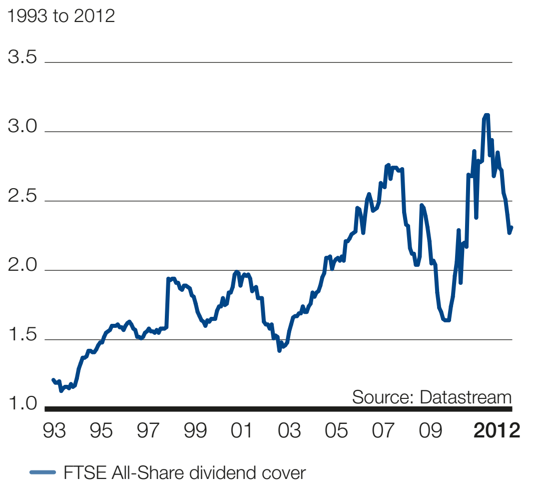
- **Convertible bonds –** There are currently four convertible bonds in the portfolio. Three of these were issued by mining companies, giving us some exposure to a sector which does not generally offer much of a yield. Talvivaara, a Finnish nickel miner, issued two of these convertibles and the other is by London Mining, whose main asset is an iron ore mine in Sierra Leone. The fourth convertible is issued by Essar Energy, an integrated energy company focused on India. These investments carry fixed interest coupons which rank ahead of any dividend payment to equity shareholders. Hence, they should be relatively defensive, giving an attractive income, and as they have all been bought at a substantial discount to their par value, they also have the potential for capital gains as well.
- **Derivatives –** During the course of the year we wrote 14 options. These were a mixture of put and call options which were written to generate extra income for the portfolio of just under £0.4m. The option writing strategy is an integral part of the overall investment strategy, such that we only write options on stocks at price levels where we would be looking to buy (for put options) or looking to sell (call options). Options are written opportunistically

FTSE All-Share dividend yield

FTSE All-Share Index – price/earnings



FTSE All-Share Index – dividend cover



when we assess the premium as being sufficiently attractive for the level of risk assumed. We wrote fewer options than in the previous year as we believed that the level of premium available did not in general reflect the increased risk in the market. Importantly, option writing remained a profitable activity for your Company and will only be pursued when the risk/reward profile looks attractive.

- Gearing – The portfolio has been geared throughout the year in anticipation of positive investment returns. The cost of borrowing, averaging less than 2.5%, has been well below the returns achieved, so the decision to borrow has been profitable over the year. We started the financial year borrowing £15m and this was progressively reduced to £5m in April, just a month before the market setback. In May, the loan was switched from sterling to Euros, partly because it is cheaper for us to borrow in Euros, but mostly because we wanted to have at least a partial hedge for our Euro assets in the portfolio in case the European currency weakened against sterling. The current loan amount is €10m, under half of our £20m facility.

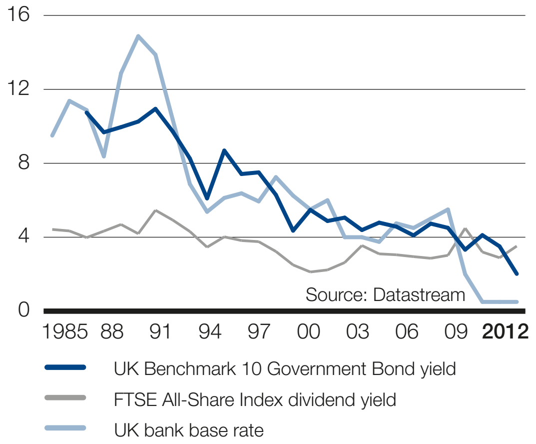
Valuation of the Stock Market

Whether viewed as investments in an absolute sense or relative to other possible mainstream assets, UK equities appear to offer good value. Analysis of the valuation of UK equities compared to their own history of the last couple of decades, shows that shares are still trading towards the lower end of their historic range in terms of multiple of earnings and in the top half in terms of yield. It is also worth noting that dividend cover (the number of times the dividend could be paid from earnings) is still well above 2 times for the FTSE All-Share Index, suggesting that dividend payments from the stock market generally are sustainable and well underpinned.

Although the absolute valuation of UK equities appears attractive enough, the valuation argument relative to other mainstream investment assets is even stronger. For nearly all of the last 50 years, the dividend yield on shares has been less than that of government bonds. This reflected the knowledge that whilst individual shares can be risky, a broad based index or portfolio should be able to diversify this risk and be able to achieve capital and income growth over time, benefitting from economic growth and inflation. By contrast, investments with fixed returns, such as bonds, are not able to, and hence, over longer-time periods have proven to be inferior investments to real assets that are not fixed to a nominal value. Over the last couple of years, UK equities have again started to yield more than gilts (partly because as mentioned earlier gilt yields are close to all time lows) and therefore taking the attractive starting yield of equities, together with the potential for future dividend growth, equities should be a better investment than gilts over the medium- to long-term.

Yields from competing assets

September 1985 to September 2012



Julian Cane
F&C Management Limited
28 November 2012

Twenty Largest Holdings

30 Sep 2012	*30 Sep 2011*	Company Description	% of total investments	Value £'000s
1	*1*	**Vodafone** The world's largest mobile telephone service provider with a strong international presence. Its stake in the US operator, Verizon Wireless, may give strategic options as well as enhancing Vodafone's dividend.	7.1%	14,060
2	*2*	**Royal Dutch Shell** Leading international oil exploration, production and marketing group which has proven itself to be a reliable operator. It also has an attractive dividend yield.	5.3%	10,419
3	*4*	**GlaxoSmithKline** One of the world's leading pharmaceutical companies with valuable healthcare and vaccines businesses. The valuation and dividend yield are still attractive.	4.9%	9,707
4	*3*	**BP** With the proposed combination of its Russian operations with Rosneft, BP has started to regain the strategic initiative following the failure of its earlier Russian Arctic deal.	4.6%	9,167
5	*6*	**British American Tobacco** A leading international manufacturer and distributor of cigarettes. It has proven itself to be a very consistent performer and in a mature industry is able to pay an attractive dividend.	4.4%	8,740
6	*7*	**HSBC** Compared to most banks, HSBC has a strong and liquid balance sheet. Its breadth of geographic operations and exposure to faster growing parts of the world are attractive.	4.0%	7,940
7	*8*	**Scottish & Southern Energy** A well-managed multi-utility group with an attractive dividend yield and commitment to dividend growth.	3.7%	7,219
8	*5*	**Rio Tinto** One of the world's foremost mining companies with significant interests particularly in iron ore. It is our principal exposure to the mining sector.	2.9%	5,813
9	*10*	**AstraZeneca** A major international pharmaceutical company. The pipeline of new drugs is disappointing, but this is reflected in the low valuation and attractive dividend yield.	2.5%	4,956
10	*13*	**BAE Systems** A leading international developer and manufacturer of advanced defence and aerospace systems. Government spending on defence systems is clearly under pressure in developed economies, but this should be offset by its geographic exposure and low valuation.	2.1%	4,129
11	*16*	**Lancashire Holdings** This insurance company underwrites specialty risks, mostly of a short-term nature. It has an excellent track record of profitability and a strategy of returning surplus cash to shareholders.	2.1%	4,115

30 Sep 2012	*30 Sep 2011*	**Company** Description	% of total investments	Value £'000s
12	*11*	**Standard Chartered** The bank is seeing attractive rates of growth and returns from its international operations while the balance sheet is strong and dividends continue to grow.	2.1%	4,106
13	–	**Total** A French based integrated oil company. We bought the shares after the price had fallen following the gas leak in the Elgin field; the purchase was financed by reductions in BP and Royal Dutch Shell.	2.0%	3,998
14	–	**BHP Billiton** This company has a portfolio of large, low-cost upstream assets, well diversified by commodity and geography. The recent addition was funded by a reduction in Rio Tinto.	1.9%	3,658
15	*18*	**Compass** A food and support services company that continues to experience reasonable rates of growth and that benefits both from outsourcing and from economic recovery.	1.8%	3,617
16	*15*	**Imperial Tobacco** A leading manufacturer and distributor of cigarettes and tobacco products. An above average yield and good dividend growth are attractive.	1.7%	3,437
17	*14*	**London & Stamford** A property company with a very well respected management team. Its opportunistic deals to date have been very successful.	1.6%	3,217
18	–	**Intermediate Capital** This company arranges and provides intermediate capital to companies for buy-outs, refinancings or expansions across Europe. Unlike the mainstream UK banks, it has an attractive dividend yield.	1.6%	3,161
19	*9*	**Tesco** Although growth prospects for its UK food retail operation are limited given its existing dominant position, its international businesses and non-food offering give it scope to continue to expand.	1.5%	2,988
20	–	**Intertek** This is an international group offering product inspection services, certifying a wide range of products for safety to governments, exporters and importers. Growth comes through increasing trade and more exacting standards and regulation.	1.4%	2,738

The value of the twenty largest equity holdings represents 59.2% (30 September 2011: 63.7%) of the Company's total investments.

Investment Portfolio by Sector

at 30 September 2012

	% of total investments*	% of FTSE All-Share Index
Oil & gas This sector is dominated in size terms by the oil majors, Royal Dutch Shell and BP. Both of these were reduced during the year to finance the purchase of Total, a large French integrated oil company, which will help to diversify the portfolio. Although smaller in size and generally without any yield, we also have exposure to a number of exploration and production companies. Of these Cove Energy had the largest impact on returns as it was taken over by PTTEP.	14.2	17.3
Basic materials Although normally considered to be very sensitive to stock market moves, last year this sector lagged the recovery of the broader index, rising by less than 5%. Our exposure to this area of the market is relatively light as we do not have much exposure to the large mining companies, with the exception of Rio Tinto. Johnson Matthey, a long-standing investment, was a strong performer as the shares rose more than 50%.	6.5	9.9
Industrials Despite the difficult economic background, many shares in this sector performed well. Intertek, up almost 50%, made the greatest contribution whilst DS Smith, a new addition, rose by more than 50% on the back of a well-executed acquisition.	13.4	9.1
Consumer goods This is a diverse sector, with businesses ranging from tobacco and drinks through to cars and house building. Our investments in the tobacco companies, British American Tobacco and Imperial Tobacco, have been long standing and successful holdings but the strongest contributions this year came from the Irish companies Glanbia, a dairy and food company, and C&C Group, a cider manufacturer.	10.0	13.7
Health care The major international pharmaceutical companies, GlaxoSmithKline and AstraZeneca are the largest components of this sector. Neither performed much differently to the Index and both look reasonably attractively valued with good dividend yields. The holding in GlaxoSmithKline was reduced a little during the year.	7.9	7.5
Consumer Services This sector spans a number of activities from food retailing, to travel and leisure to media. During the year, the holding in Tesco was reduced and a new investment in UBM, a global business service provider, started while the holding in Reed Elsevier was sold. With a rise of more than 35%, Compass was the leading contributor in the sector.	8.3	9.5

	% of total investments*	% of FTSE All-Share Index
Telecommunications	9.1	6.5
The main holdings in Vodafone and Inmarsat, a satellite telephone service provider, were unchanged over the year. Whilst Vodafone performed much in line with the Index, Inmarsat returned 27%. The holding in BT was reduced when stock was called off us following the exercise of a call option.		
Utilities	6.8	4.0
With generally attractive yields, this is a relatively important part of the portfolio. Although the underlying businesses are fairly stable and defensive, share price performances last year were strong; United Utilities led the way with a return of more than 20%.		
Financials	19.5	21.1
The ongoing crisis in the Eurozone and very considerable monetary stimulus combined to make this a volatile sector, with a strong overall return. The best contributor to our returns was Intermediate Capital (+50%), which we own in preference to the UK domestic banks. Our main insurance holdings, Beazley and Lancashire, also performed well and both of these were added to during the year. The main disappointment was our holding in Man Group, the hedge fund manager. Their main product has continued to lose clients and performance has been lacklustre. The shares have been sold since the year end.		
Technology	1.4	1.4
This is the smallest sector within the portfolio and most possible investments offer relatively little yield. Laird was a strong performer, while the holding in Nokia was sold as its hand set business continues to lose ground.		
Convertibles	2.9	–
Four convertible bonds are held which should give us a secure, but fixed income. Having been bought at a substantial discount to par value, the yield we receive is greater than the headline coupon, and there is potential for capital gains as the bonds move towards maturity and hopefully redemption at par value.		

*Note 14 on the Accounts further analyses investments, by geographical and industrial sector, as a proportion of net assets.

List of Investments

Quoted investments	Holding	30 September 2012 Value £'000s
UNITED KINGDOM – EQUITIES		
Assura	3,165,469	1,013
AstraZeneca	167,716	4,956
BAE Systems	1,270,000	4,129
BBA Aviation	850,056	1,678
Beazley	1,625,000	2,721
BG	134,848	1,685
BHP Billiton	190,000	3,658
Bowleven*	550,000	420
BP	2,100,000	9,167
British American Tobacco	275,000	8,740
BT	550,000	1,268
Carador Income Fund*	3,506,570	2,236
Catco Reinsurance	3,700,000	2,359
Centrica	766,012	2,511
Cineworld	379,722	933
Compass	530,000	3,617
Diageo	60,000	1,043
Diploma	223,529	1,062
Doric Nimrod "C" shares	350,000	756
Doric Nimrod Ordinary shares	650,000	1,456
DS Smith	1,275,000	2,368
Elementis	158,438	367
Galliford Try	190,490	1,386
GlaxoSmithKline	680,000	9,707
Greenko*	244,444	293
Halfords	415,000	1,081
Harvey Nash	1,219,744	683
Hill & Smith	326,406	1,201
Hilton Food	220,719	596
HSBC	1,385,000	7,940
Imperial Tobacco	150,000	3,437
Informa	650,000	2,612
Inmarsat	450,000	2,653
Intermediate Capital	1,060,000	3,161
Intertek	100,000	2,738
Johnson Matthey	71,590	1,726
Jupiter Fund Management	310,706	757
Laird	432,410	971
Lancashire Holdings	500,000	4,115
London & Stamford	2,800,000	3,217
Man Group	1,145,000	943
Melrose	1,013,571	2,455

* Quoted on the Alternative Investment Market in the UK.

Quoted investments	Holding	30 September 2012 Value £'000s
National Grid	175,000	1,195
Novae	269,285	996
Office2Office	449,470	616
PayPoint	132,350	948
Providence Resources*	200,000	1,360
Prudential	268,333	2,151
Raven Russia	2,331,264	1,562
Resolution	575,000	1,248
Rio Tinto	201,486	5,813
Royal Dutch Shell	474,000	10,419
RPC	216,120	921
Sage	350,000	1,097
Salamander Energy	425,000	850
Scottish & Southern Energy	519,000	7,219
Spectris	90,000	1,553
Spirit Pub Company	1,378,800	717
Standard Chartered	293,283	4,106
Tarsus	610,757	1,075
Tesco	900,000	2,988
Tullett Prebon	350,000	1,043
UBM	295,000	2,064
Unilever	99,000	2,229
United Utilities	300,000	2,147
Vodafone	8,000,000	14,060
XP Power Ltd	90,640	906
United Kingdom total		**179,098**
EUROPE (EX UK) – EQUITIES		
FRANCE		
Schneider Electric	13,390	491
Total	130,000	3,998
France total		4,489
GERMANY		
SAP	36,964	1,627
Germany total		1,627
NETHERLANDS		
Akzo Nobel	35,799	1,255
Wolters Kluwer	105,811	1,233
Netherlands total		2,488

Quoted investments	Holding	30 September 2012 Value £'000s
REPUBLIC OF IRELAND		
C&C Group	482,633	1,415
Glanbia	429,093	2,349
Republic of Ireland total		3,764
Europe (ex UK) total		**12,368**
UNITED KINGDOM – CONVERTIBLE FIXED INTEREST		
Essar Energy – 4.25% 02/2016	5,000,000	1,876
London Mining – 8.0% 02/2016	1,900,000	1,102
United Kingdom total		**2,978**
EUROPE (EX UK) – CONVERTIBLE FIXED INTEREST		
FINLAND		
Talvivaara – 4.00% 12/2015	2,000,000	1,199
Talvivaara – 5.25% 05/2016	2,000,000	1,527
Finland total		2,726
Europe (ex UK) total		**2,726**
TOTAL QUOTED INVESTMENTS		**197,170**

Unquoted investments	Holding	30 September 2012 Value £'000s
UNITED KINGDOM		
Caithness Petroleum†	560,180	142
United Kingdom total		**142**
TOTAL UNQUOTED INVESTMENTS		**142**
TOTAL INVESTMENTS		**197,312**

The number of Companies in the portfolio is 77 (2011:83).
There are 4 convertible securities in the portfolio (2011:2).
† At Directors' valuation.

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's investments since March 1997.

Marrack Tonkin
Head of Investment Trusts, has responsibility for F&C's relationship with the Company. He joined F&C in 1989.

Natalia de Sousa
Carries out the company secretarial duties of the Company on behalf of the Manager. She joined F&C in 2011.

Company 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 and Wales

Chartered accountants and statutory auditors
PricewaterhouseCoopers LLP, ("**PwC**"),
7 More London Riverside, London SE1 2RT

Bankers
JPMorgan Chase Bank
25 Bank Street, Canary Wharf, E14 5JP

Scotiabank (Ireland) Limited
IFSC House, Custom House Quay,
Dublin 1

Custodian
JPMorgan Chase Bank (the "**Custodian**")
25 Bank Street, Canary Wharf, E14 5JP

Registrars
Computershare Investor Services PLC
The Pavilions, Bridgwater Road,
Bristol BS99 6ZZ

Telephone:	0870 889 4094
Facsimile:	0870 703 6142

Solicitors
Dickson Minto W.S.
Broadgate Tower, 20 Primrose Street,
London EC2A 2EW

Stockbrokers
Cenkos Securities plc
6–8 Tokenhouse Yard, London EC2R 7AS

Directors

Steven Bates Chairman

Appointed to the Board on 3 May 2011. He is Chairman of Baring Emerging Europe PLC and a non-executive director of British Empire Securities and General Trust PLC and RENN Universal Investment Trust PLC. He is also a director of Zephyr Management – an investment management business specialising in emerging markets and Chief Investment Officer of Salisbury Partners LLP. He was previously an executive director of JPMorgan Asset Management responsible for emerging market investments. Age 55.

Neil Dunford

Appointed to the Board on 5 May 2005. He has over 30 years' experience in investment management with Schroders, Scottish Widows and, from 1985 to 2002, with Deutsche (formerly Morgan Grenfell) Asset Management Limited where he was executive chairman. He is a trustee of the Richemont (UK) Pension Plan and chairman of Lloyd's Register Superannuation Fund. He is also an adviser to National Grid Pension Fund and Akzo Nobel Pension Scheme. He is a chartered accountant. Age 65.

John Emly Senior Independent Director

Appointed to the Board on 5 May 2005. He is the investment director of the Civil Aviation Authority Pension Scheme. He had a career spanning over 25 years at Flemings, the London-based international investment bank, where he was a specialist UK equity manager and head of UK institutional business. He is a director of JPMorgan Mid-Cap Investment Trust PLC. In addition, he is a member of the investment committee of the P&O Pension Scheme and trustee of the St Paul's Cathedral Pension Scheme. He was treasurer of The Scout Association from 1996 to 2003. Age 71.

Professor Michael James (Jim) Norton FREng
Chairman of the Audit and Management Engagement Committee

Appointed to the Board on 24 July 2001. He is a trustee and Immediate Past President of BCS, the Chartered Institute for IT and a trustee director of BCS Learning & Development Ltd. He is a director of the Foundation for Information Policy Research Ltd. He is also chief external examiner for the Institute of Directors' Certificate in Company Direction and a peer reviewer of potential chartered directors. He is a Fellow of the Royal Academy of Engineering, chartered director, chartered engineer and chartered IT professional. Age 60.

Hugh Priestley

Appointed to the Board on 9 February 2000. He is non-executive chairman of Jupiter European Opportunities Trust PLC. He is a member of the investment committees of SAUL (Superannuation Arrangements of the University of London), of the charity Independent Age (formerly RUKBA) and of Winchester College, a consultant to Rathbones, and a governor (and finance committee member) of Reed's School, Cobham. Age 70.

Clare Dobie

Appointed to the Board on 16 July 2012. She is a director of Braxted Marketing Measures Ltd, a non executive director of Southend University Hospital NHS Foundation Trust and a trustee of Essex and Herts Air Ambulance Trust. She began her career as a financial journalist, working at The Times and The Independent, where she was City Editor. She was then Head of Clients at Barclays Global Investors and Head of Marketing at GAM. Age 55.

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 audited financial statements of F&C Capital and Income Investment Trust PLC for the year ended 30 September 2012. The financial statements are set out on pages 36 to 56.

Results and dividends

The net assets of the Company as at 30 September 2012 were £195,112,000 (2011: £167,290,000). The Company's NAV per share rose by 13.9% in the year ended 30 September 2012, compared to a rise of 13.0% in the Index.

The Manager's Review on pages 7 to 9, which forms part of this Business Review, describes more fully how the Company's assets were invested during the year, how they performed and the outlook for the current financial year. The Directors' Remuneration Report and the Corporate Governance Statement are incorporated by reference into this Directors Report and Business Review.

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

Dividends for 2011 and 2012

Dividends paid:	£'000s
4th interim for 2011 of 2.65 pence per share paid on 30 December 2011	2,289
1st interim for 2012 of 2.05 pence per share paid on 30 March 2012	1,781
2nd interim for 2012 of 2.05 pence per share paid on 29 June 2012	1,792
3rd interim for 2012 of 2.05 pence per share paid on 28 September 2012	1,802
	7,664

As explained in the Chairman's Statement, the Board has declared a fourth interim dividend of 2.85 pence per share. This will be paid on 31 December 2012 to shareholders on the register of members on 7 December 2012. This dividend, together with the other three interim dividends paid during the year (of 2.05 pence per share each), makes a total dividend of 9.0 pence per share. This represents an increase of 4.0% over the 8.65 pence per share for the previous year.

Principal activities and status

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

The Company is registered in England and Wales with company registration number 02732011 and is subject to the UK Listing Authority's listing rules, UK company law, financial reporting standards, taxation law and its own articles of association.

Duration of the Company

In accordance with the articles of association, a continuation vote is proposed at every fifth annual general meeting. The next such vote will take place at the Annual General Meeting on 13 February 2013.

Investment trust taxation status

The Company is liable to corporation tax on its net revenue profits but is exempt from corporation tax on capital gains if it has been approved as an investment trust under section 1158 of the Corporation Tax Act 2010 ("**Section 1158**"). Such compliance, for years ended on or before 30 September 2012, required investing no more than 15% of the total portfolio in any one investment, deriving income wholly or mainly from shares and securities and retaining no more than 15% of that income. For the year ended 30 September 2012, and prior years, the exemption from taxation on capital gains is granted annually in retrospect by HM Revenue and Customs. The Company has qualified as an investment trust in respect of all relevant years up to and including the year ended 30 September 2011 and continues to conduct its affairs in compliance with the rules.

For years beginning on or after 1 January 2012, compliance approval can be sought in advance, under Sections 1158 and 1159, for that and all subsequent financial years. The Company intends to conduct its affairs so as to enable it to apply for Investment Trust status in advance.

Accounting and going concern

The financial statements, starting on page 36, comply with current UK financial reporting standards, supplemented by the Statement of Recommended Practice for Investment Trust Companies ("**SORP**").

The significant accounting policies of the Company are set out in note 2 on the accounts. The unqualified auditors' opinion on the financial statements appears on page 35. The Company's investment objective, strategy and policy, which are described below and are subject to a process of regular Board monitoring, are designed to ensure that the Company is invested mainly in readily realisable, listed securities and that the level of borrowings is restricted. The Company retains title to all assets held by the Custodian and an agreement covers its borrowing facility. Cash is held with banks approved and regularly reviewed by the Manager.

Note 23 on the accounts sets out the financial risk profile of the Company and indicates the effect on the assets and liabilities of fluctuations in the value of securities, the rates of exchange of various currencies against sterling and the changes in market rates of interest.

The Directors are recommending that shareholders vote for the continuation of the Company and believe, in light of the controls and review processes in place, that the Company has adequate resources and arrangements to continue to operate within its stated objective and policy for the foreseeable future. Accordingly, the accounts are drawn up on the basis that the Company is a going concern.

Independent Auditors

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 each 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.

PwC 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.

During the year, in keeping with FRC Guidelines, the Board tendered the audit of the Company to five auditing firms including PwC. A short list of three presented to the Board which decided to retain the services of PwC.

Investment objective, strategy 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.

Investment risk is reduced by investing mainly in UK blue chip companies. The portfolio, which is set out in full on pages 14 and 15, is diversified, with around 80 holdings as at 30 September 2012. The majority of holdings are in large and mid-capitalisation companies, although the Company also holds investments in smaller companies. The Board seeks to ensure that investment in smaller companies is limited. These are considered attractive value from time to time, but can be more volatile and vulnerable to market and other changes.

No more than 10% of the portfolio (at the time of investment) may be invested in securities quoted on the Alternative Investment Market, with 2.2% invested in this market at the year end. No unquoted securities may be purchased without the prior approval of the Board. There is one unquoted investment in the portfolio.

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 2012, 7.4% of the total portfolio was held outside the UK, all in other European stocks. The portfolio is well diversified across various sectors, as set out on pages 12 and 13, although no maximum exposure limits are set. No single investment in the portfolio may exceed 10% of the Company's total assets at the time of purchase.

The Company may use derivatives principally for the purpose of income enhancement and efficient portfolio management. Options may only be written on quoted stocks and the total nominal exposure is limited to a maximum of 5% of gross assets at the time of investment for both put and call options. More details can be found on page 47 in note 10 on the accounts.

The Company uses gearing to enhance its returns. Its 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. As at 30 September 2012 the Company had borrowings of €10 million (net gearing of 1.2%).

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

The Manager's compliance with the limits set out in the investment policy is monitored by the Board.

Capital structure

As at 30 September 2012 there were 87,884,268 ordinary shares of 25 pence each in issue. All ordinary shares rank equally for dividends and distributions and carry one vote each. There are no restrictions concerning the transfer of securities in the Company, no special rights with regard to control attached to securities, no agreements between holders of securities regarding their transfer known to the Company and no agreement which the Company is party to that effects its control following a takeover bid. Details of the capital structure can be found in note 15 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.

Share issue and buyback policy

The Board closely monitors the prevailing share price discount or premium to NAV, the historic levels of which are shown in the table on page 57. The Company has, conditional upon shareholder approval, authority to allot shares for cash without first offering them to existing shareholders in proportion to their holdings. Any such allotments are only made when the Company's shares are trading at a premium to NAV. At the AGM held on 15 February 2012 shareholders renewed the Board's authority to issue up to 10% of the Company's shares. In order to satisfy demand for the Company's shares, mainly from holders through the F&C savings plans ("**F&C plans**"), the Company allotted 2,075,000 shares in the year under review.

Subject to annual shareholder approval, the Company may also 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 a premium. At the AGM held on 15 February 2012 shareholders gave the Board authority to buy back up to 12,952,700 ordinary shares. No shares were purchased for cancellation by the Company either during the year under review or since the year end to the date of this report. No shares are currently held in treasury.

Marketing

The Manager actively promotes investment in the Company's shares through the F&C savings plans. These include the F&C Child Trust Fund ("**CTF**"), Individual Savings Account ("**ISA**"), Pension Savings Plan ("**PSP**") Private Investor Plan ("**PIP**") and Junior ISA ("**JISA**"). The plans are designed to provide investors with a cost effective and flexible way to invest in the Company.

Analysis of savings plans

	Number of holders	
30 September	**2012**	**2011**
CTF	**11,637**	11,576
ISA*	**6,207**	7,142
PIP	**6,992**	7,112
PSP	**328**	340
Total	**25,164**	26,170

* Includes ex personal equity plan holdings now reclassified as ISA.
JISA launched after 30 September 2012.
These investors hold 71,686,380 shares, which is 81.6% of the shares in issue.

Voting rights and proportional voting

At 27 November 2012 the Company had 87,884,268 ordinary shares in issue with a total of 87,884,268 voting rights. As at and since that date no notifications of significant voting rights in respect of the Company's ordinary share capital have been received.

Approximately 82% of the Company's share capital is held on behalf of non-discretionary clients through the F&C plans. The nominee company holding these shares votes the shares held on behalf of planholders who have not returned their voting directions in proportion to the directions of those who have ("**proportional voting**"). Implementation of this arrangement is subject to a minimum threshold of 10% of the shares held in the F&C plans being voted. A maximum limit of 358,300 shares that any one individual investor can vote, being approximately 5% of the relevant minimum threshold, also applies. Any individual voting directions received in excess of the maximum limit will remain valid, but will not form part of the proportional voting basis. Planholders have the right to exclude their shares from the proportional voting arrangement.

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, strategy and policy statement. The Company has a £20,000,000 multi-currency credit facility with Scotiabank (Ireland) Limited. This facility is due for renewal in March next year. The Custodian has also made an overdraft facility available equal to 10% of the Company's assets.

Principal risks and their management

Like all businesses, the Company faces risks and uncertainties. Most of the Company's principal risks, and its opportunities, are market related and no different from those of other investment trusts investing primarily in listed markets. The Corporate Governance Statement on page 33 summarises the risk management arrangements. By means of the procedures set out in that summary, and in accordance with the Turnbull Guidance, the Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and has regularly reviewed the effectiveness of the internal control systems for the period. This process has been in place throughout the year under review and to the date hereof and will continue to be regularly reviewed by the Board.

The principal risks and uncertainties faced by the Company, and the Board's mitigation approach, are described below. Arrangements are also in place to mitigate other more general risks including those relating to regulatory change. Note 23 on

Objective and Strategy

Risk description: *Inappropriate objective and strategy in relation to investor demands in a rapidly changing financial services and savings market.*

Mitigation: The Board regularly reviews the Company's position within the investment trust industry and considers strategic issues annually.

Investment policy, gearing and currency

Risk description: *Inappropriate asset allocation, sector and stock selection and use of gearing and derivatives leading to investment underperformance.*

Mitigation: Investments are primarily in a diversified spread of FTSE All-Share companies. Investment policy and performance are reviewed with the Fund Manager at each Board meeting, along with the monitoring of cash and borrowing levels as well as options written. The Board approves all borrowing facility agreements and has set limits on gearing and option writing.

Management resource, stability and controls

Risk description: *The Company has no employees and therefore all of its operational functions are delegated to service providers. The Manager is the main service provider and its failure to continue operating effectively could put in jeopardy the business of the Company.*

Mitigation: The Board meets regularly with the senior management of the Manager and reviews its appointment annually. Control reports are provided by the Manager's Internal Audit function. The Board has access to publicly available information indicative of its financial position and performance. The contract can be moved at six months' notice.

Service providers

Risk description: *Administrative errors or control failures by or between service providers could be damaging to the interests of investors and the Company.*

Mitigation: The Board receives regular reports from the Manager on its oversight of providers of services relating to investments settlement and record keeping and to administration of the F&C Savings Plans. Such regular oversight includes: audit site visits; technical compliance monitoring; service delivery meetings including key performance indicators; and detailed reviews and investigation of complaints, errors and breaches. The Manager also has arrangements in place to limit risks from safe custody and counterparty failures and reports regularly to the Board in that regard.

the accounts sets out the Company's financial risk management policy.

The Board's responsibilities

The Board of Directors is wholly non-executive and is responsible for corporate strategy, corporate governance, risk and control assessment, the overall investment policy of the Company, setting limits on gearing, derivatives and asset allocation, monitoring investment performance and for approving marketing policy budgets. Further information on the role and powers of the Board is contained in the Corporate Governance Statement on pages 29 to 33. Further information on the individual Directors, all of whom are resident in the UK, is set out on page 17.

Directors' remuneration

The Directors' Remuneration Report, which can be found on page 28, 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.

Director election and re-election

Other than Clare Dobie, who joined on 16 July 2012, all the Directors held office throughout the year under review. Mrs Dobie will stand for election at the forthcoming annual general meeting in accordance with the Company's articles of association. Having served over nine years, Professor Jim Norton will stand for re-election at the AGM. In line with its policy set out in the Corporate Governance Statement on page 31, and after careful consideration, the Board does not feel that the length of service of Professor Norton impairs his independence in any way. Following a review of their performance, the Board believes that each of the Directors has made a valuable and effective contribution to your Company and therefore recommends that shareholders vote in favour of the resolutions for their respective election and re-election. Hugh Priestley will retire from the Board immediately following the meeting. Pen Kent retired from the Board on 15 February 2012.

Directors' interests and indemnification

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.

The Company has granted a Deed of Indemnity, to the extent permitted by law, to the Directors in respect of liabilities that may attach to them in their capacity as Directors of the Company. The Deed of Indemnity 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.

Directors' beneficial share interests

at 30 September	2012	2011
Steven Bates	**nil**	nil
Neil Dunford	**7,588**	7,588
John Emly[(1)]	**4,572**	4,498
Professor Jim Norton	**nil**	nil
Hugh Priestley	**15,000**	15,000
Clare Dobie[(2)]	**nil**	n/a
Pen Kent[(3)]	**n/a**	nil

(1) Since 30 September 2012 John Emly purchased 40 and sold 32 ordinary shares.

(2) Since 30 September 2012 Clare Dobie purchased 2,192 ordinary shares.

(3) Retired 15 February 2012.

There have been no changes in any of the other 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.

The Manager's responsibilities

In common with most investment trusts, the Company does not have any employees. The Board has appointed F&C as Manager. The Manager is responsible for managing the investment portfolio on a day-to-day basis and carrying out administrative, accounting, secretarial and marketing activities on its behalf. F&C is a subsidiary of F&C Asset Management plc, an independent investment firm listed on the London Stock Exchange.

This appointment is governed by a management agreement, which may be terminated upon six months' notice given by either party. Further information on the management agreement is 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;
- seeking to control the discount or premium at which the Company's shares trade by comparison with their underlying asset value by managing the buyback or issue of shares within limits set by the Board and making recommendations as to whether shares bought back are held in treasury or immediately cancelled;
- maintaining the Company's books and records;
- maintaining compliance with relevant rules and regulations;
- operating shareholder savings plans and products through which the Company's shares can be held; and
- providing 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 mismatch 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.

Safe custody of assets

The Company's listed investments are held in safe custody by the Custodian. Operational matters with the Custodian are carried out by the Manager in accordance with the provisions of the management agreement.

Responsible ownership

F&C's stated belief is that good governance creates value and therefore it takes a particular interest in corporate governance and sustainable business practices. This includes the integration of environmental, social and governance issues into its investment decisions. 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.

F&C's current policy, which is available on the website www.fcamplc.com, has been reviewed and endorsed by the Board, which encourages and supports the Manager on its voting policy and its stance towards environmental, social and governance issues. The Manager's statement of compliance with the UK Stewardship Code is included on the website www.fandc.com/ukstewardshipcode.

The Manager's fee

A quarterly fee equal to 0.1% of funds under management is payable in arrears to the Manager in respect of the management, administration and ancillary services provided to the Company.

Creditor payment policy

The Company's principal supplier is the Manager, the payment terms for which are set out above and in note 4 on the accounts. Other suppliers are paid in accordance with individually agreed payment terms. At 30 September 2012, the Company's outstanding trade creditors were equivalent to nil days' payment to suppliers (2011: nil).

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 23 "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. At 30 September 2012, the Company was 12th, 20th, 13th and 14th respectively in its peer group NAV performance and 19th, 20th, 12th and 10th respectively in terms of share price performance over those time periods;
- 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 year end the premium to NAV was 1.6% compared with a premium of 5.2% at the start of the year;
- ongoing charges, which enable the Board to measure the control of costs and help in meeting the dividend payment objective. The ratio of ongoing charges to average net assets has decreased this year; 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 £8m to £15m.

The performance table below, the Ten Year Record on pages 57 and 58, the Chairman's Statement on pages 2 to 6 and the Manager's Review on pages 7 to 9 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	18.4	25.6	5.2
Company share price	14.1	28.1	14.4
Benchmark index*	17.3	26.1	8.7

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

Manager 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 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 against its peers and the quality 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.

Annual general meeting

The AGM will be held on Wednesday 13 February 2013 at 11.30 a.m. at Exchange House, Primrose Street, London EC2. The Notice of Annual General Meeting appears on pages 59 to 62 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 Mr Cane more informally after the meeting. Resolutions numbered 7 to 12 are explained below.

Authorities to allot shares (resolutions 7 and 8)

Resolution 7 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. The Directors are also seeking to renew this authority.

Resolution 8 gives the Directors, for the period until the conclusion of the AGM in 2014, the necessary authority to either allot securities or sell shares held in treasury up to an aggregate nominal amount of £2,197,000 (8,788,000 ordinary shares). This is equivalent to approximately 10% of the issued share capital of the Company at 27 November 2012. Resolution 8 empowers the Directors to allot such securities for cash, other than to existing shareholders on a pro-rata basis. These authorities and powers provide the Directors with the flexibility to increase the assets of the Company by the issue of shares should any favourable opportunities arise to the advantage of shareholders.

The Directors anticipate that they will mainly use these authorities to satisfy demand from participants in the F&C plans when they believe it is advantageous to plan participants and the Company's shareholders to do so. In no circumstances would the Directors use them 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 9)

Resolution 9 authorises the Company to purchase up to a maximum of 13,173,800 ordinary shares (equivalent to approximately 14.99% of the issued share capital) 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 intend 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 remaining shareholders. Any ordinary shares that are purchased would either be placed into treasury or cancelled.

The authority will continue until the expiry of 15 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.

Amendment to the Company's Articles of Association (resolution 10)

As shareholders know, the Company conducts its affairs so that it qualifies as an investment trust and an investment company.

Following a consultation process, certain of the statutory rules governing investment trusts and investment companies were amended recently. In particular, the rule which prohibited an investment trust or company from distributing any surplus arising from the realisation of its investments was repealed. This gives companies such as ours greater flexibility with regard to paying dividends.

In order to comply with the previous statutory regime, the Company has a provision in its articles of association (the "**Articles**") which expressly prohibits the distribution of any surplus arising from the realisation of any investment/capital profit. Under the new regime this requirement has been abolished. In the light of the amended statutory rules, the Board no longer considers it appropriate to have such a prohibition in the Articles and therefore proposes that it is deleted. Resolution 10 will, if passed, remove this prohibition by deleting article 148 and article 150(c). No other changes are being proposed to the Articles. The Board believes that the removal of this restriction will give the Company greater flexibility in the long term as it will allow distributions to be made from any surplus arising from the realisation of an investment. The Directors do not currently intend to make use of this greater flexibility.

A copy of the new Articles marked to show the change being made by Resolution 10 is available for inspection at the registered office of the Company from 11:15 am until the conclusion of the meeting and at the offices of Dickson Minto W.S., Broadgate Tower, 20 Primrose Street, London EC2A 2EW during normal business hours on any weekday (public holidays excepted) from the date of the Notice until the conclusion of the meeting.

Notice period for meetings (resolution 11)

The Act provides that all general meetings (other than AGMs) can be convened on 14 days' notice. However, one of the requirements of the Shareholder Rights Directive is that all general meetings must be held on 21 clear days' notice, unless shareholders agree to a shorter notice period. Your Board is of the view that it is in the Company's interests to have a shorter notice period which complies with the provisions of the Act and the Company's articles allow all general meetings (other than an AGM) to be called on 14 clear days' notice. The passing of resolution 11 would constitute shareholders' agreement for the purposes of the Shareholder Rights Directive (which agreement is required annually) and would therefore preserve the Company's ability to call general meetings (other than an AGM) on 14 clear days' notice. The Board would utilise this authority to provide flexibility when merited and would not use it as a matter of routine. The Board intends to seek a renewal of such authority at subsequent AGMs.

Continuation vote (resolution 12)

In accordance with the Company's articles of association, an ordinary resolution for the continuation of the Company will be proposed at the AGM. The continuation of the Company will be proposed at every fifth AGM thereafter.

If the resolution is not passed, the Directors are required to formulate proposals to reorganise, reconstruct or wind up the Company to be put to shareholders within four months of the date on which the resolution was considered.

The Board believes that it is in the best interests of shareholders for the Company to continue and encourages shareholders to vote in favour of the resolution, as they intend to do in respect of their own beneficial holdings.

Form of proxy

Registered shareholders will find enclosed a form of proxy for use at the AGM. Shareholders also have the option of lodging their proxy votes using the internet. For shares held through CREST, proxy appointments may be submitted via the CREST proxy voting system. Votes should be lodged as soon as possible in accordance with the instructions whether or not shareholders intend to be present at the AGM. This will not preclude shareholders from attending the AGM and voting in person.

All proxy appointments should be submitted so as to be received not later than 48 hours before the time appointed for holding the AGM (any part of a day which is a non-working day shall not be included in calculating the 48 hour period).

Form of direction

Investors in any of the F&C savings plans will find enclosed a form of direction for use at the AGM. Investors, other than those in the Pension Savings Plan, also have the option of lodging voting directions using the internet. Proportional voting will apply as described on page 21. All voting directions should be submitted so as to be received not later than 96 hours (any part of a day which is a non-working day shall not be included in calculating the 96 hour period) before the time appointed for holding the AGM so that the nominee company can submit a form of proxy before the 48 hour period begins.

Recommendation

The Board considers that the resolutions to be proposed at the AGM are in the best interests of the Company and are most likely to promote the success of the Company for the benefit of its members as a whole. The Directors recommend that shareholders vote in favour of each resolution, as the Directors intend to do in respect of their own beneficial holdings.

By order of the Board
F&C Management Limited
Secretary
28 November 2012

Directors' Remuneration Report

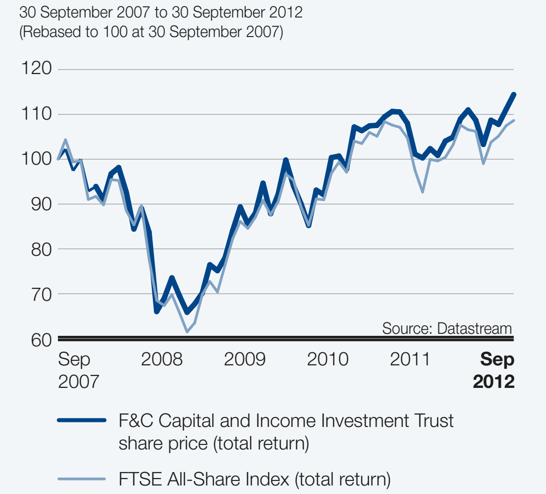
The Company's articles of association limit the aggregate fees payable to the Board of Directors to a total of £180,000 per annum. Within the limit, it is the responsibility of the Board as a whole to determine the level of Directors' fees having regard to the level of fees payable to non-executive directors 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 composed 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 received a fee of £25,000 per annum and the remaining Directors received a fee of £16,000 per annum. The Chairman of the Audit and Management Engagement Committee received an additional £2,000 per annum.

Following five years of no change to the level of remuneration, the Board has decided to phase in an increase in the Directors' fees over the next two years. For the year ending 30 September 2013 the Chairman will receive a fee of £27,500 and the remaining Directors will each receive a fee of £18,000. The Chairman of the Audit and Management Engagement Committee will receive an additional £3,500. For the year ending 30 September 2014 these amounts will increase to £30,000, £20,000 and £5,000 respectively.

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

Total shareholder return over five years



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

Fees for services to the Company

Director	Year ended 2012 £'000s	2011 £'000s
Steven Bates(1)	**21.6**	9.3
Neil Dunford	**16.0**	16.0
John Emly	**16.0**	16.0
Professor Jim Norton	**18.0**	18.0
Hugh Priestley	**16.0**	16.0
Clare Dobie(2)	**3.4**	–
Pen Kent(3)	**9.4**	25.0
Totals	**100.4**	100.3

(1) Appointed Chairman 15 February 2012
(2) Appointed to the Board 16 July 2012
(3) Retired 15 February 2012

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 AGM.

By order of the Board
F&C Management Limited
Secretary
28 November 2012

Corporate Governance Statement

Introduction

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**") issued in October 2010. The AIC Code addresses all the principles set out in the UK Corporate Governance Code (the "**UK 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 that are applicable to smaller companies (those below the FTSE 350) during the year under review and up to the date of this report and thereby the provisions of the UK Code that are relevant to the Company.

Articles of association

The company's articles of association may only be amended by special resolution at general meetings of shareholders.

The Board

The Board is responsible for the effective stewardship of the Company's affairs and has adopted a formal schedule of matters reserved for its decision. It has responsibility for all corporate strategic issues, corporate governance matters, dividend policy, share issue and buyback policy, risk and control assessment, investment performance monitoring and budget approval. It is responsible for the review and approval of annual and half-yearly reports, interim management statements and other public documents. 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 five 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 setting the asset allocation, investment and gearing ranges within which the Manager has 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. 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, with the exception of Clare Dobie, attended the AGM in February 2012. All Directors attended a closed session strategy meeting in September 2012.

Meeting attendance

	Board meetings	Audit and Management Engagement Committee meetings
Number of meetings	5	2
Steven Bates	5	2
Neil Dunford	5	2
John Emly	5	2
Professor Jim Norton	5	2
Hugh Priestley	5	2
Clare Dobie*	1	–

* Joined 16 July 2012.

Committees of the Board met during the year to undertake business such as the approval of the Company's interim management statement, results and dividends.

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

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

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

Corporate Governance Statement
(continued)

a process that allows any Director's concerns to be recorded in the minutes. The Board has the power to appoint or remove the Secretary in accordance with the terms of the management agreement.

Appointments and succession planning

Under the articles of association of the Company, the number of directors on the Board may be no more than ten. Directors may be appointed by the Company by ordinary resolution or by the Board. All new appointments by the Board are subject to confirmation by shareholders at the next AGM and institutional shareholders are given the opportunity to meet any newly appointed Director if they wish.

The Board favours diversity and welcomes appointments that contribute to it, but its first objective is to select Directors on merit with relevant and complementary skills. The Board is therefore unwilling to commit to numerical diversity targets.

Appointments of all new Directors are made on a formal basis using professional search consultants, with the Board agreeing the selection criteria and the method of selection, recruitment and appointment. The Company has engaged Trust Associates Ltd for these purposes and the Board confirms that neither it nor the Company have any other connection with Trust Associates Ltd. A non-executive Director role specification is in place which is used to assist the Board with this process. The Board is currently reviewing its structure, size, composition, experience, diversity and skill ranges. It has implemented a succession plan which will be completed over the next few years.

An induction process takes 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.

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. Each Director's appointment is reviewed prior to submission for re-election, which includes consideration of independence.

Board effectiveness

In order to review the effectiveness of the Board, its committees and the individual Directors, the Board carries out a process of formal annual self appraisal. This is facilitated by the completion of a questionnaire and interviews with the Chairman. Key representatives of the Manager also participate in the process and provide feedback to the Board. The appraisal of the Chairman is carried out by the Board under the leadership of the Senior Independent Director, John Emly. The Board considers that the appraisal process is a constructive means of evaluating the contribution of individual Directors and identifying ways to improve the functioning and performance of the Board and its committees and building on and improving collective strengths, including assessing 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.

Removal of Directors

The Company may by special resolution remove any Director before the expiration of that Director's period of office and may by ordinary resolution appoint another person who is willing to act in that Director's place.

Any Director automatically ceases to be a Director if:

(i) they give the company a written notice of resignation;

(ii) they give the company a written offer to resign and the Board resolves to accept this offer;

(iii) all of the other Directors remove them from office by notice in writing served upon them;

(iv) in the written opinion of a registered medical practitioner they are or have become physically or mentally incapable of acting as a Director and are likely to remain so for more than three months;

(v) by reason of a Director's mental health, a court makes an order which wholly or partly prevents that Director from personally exercising any powers or rights which that Director would otherwise have;

(vi) a bankruptcy order is made against them or they make any arrangement or composition with their creditors generally;

(vii) they are prohibited from being a Director by law;

(viii) they are absent from Board meetings for six consecutive months without permission and the other Directors resolve that their office should be vacated; or
(ix) they cease to be a Director by virtue of the statutes or are removed from office pursuant to the articles of association.

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 any Director who has served for more than nine years is subject to annual re-election. The Board believes that its six 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.

Conflicts of interest

A company director has a statutory obligation to avoid a situation in which he or she has, or potentially could have, a direct or indirect interest that conflicts with the interests of the company (a "**situational conflict**"). The Board therefore has procedures in place for the authorisation and review of situational conflicts relating to the Company's Directors.

Other than the formal authorisation of the Director's other directorships and appointments, no authorisations have been sought. These authorisations were reviewed in November 2012.

Aside from situational conflicts, the Directors must also comply with the statutory rules requiring company directors to declare any interest in an actual or proposed transaction or arrangement with the Company.

In the year under review there have been no instances of a Director being required to absent himself from a discussion or abstain from voting because of a conflict of interest.

Board committees

As the Board is formed entirely of independent non-executive Directors and is small in size, it operates without a nomination committee. Neither does it have a remuneration committee as it has no executive Directors nor employees. The Directors' Remuneration Report on page 28 provides information on the remuneration arrangements for the Directors of the Company.

Audit and Management Engagement Committee

The primary responsibilities of the Audit and Management Engagement Committee are to monitor the integrity of the financial reporting and statements of the Company, and to oversee the audit of the annual and half-yearly accounts and the internal control and risk management processes. Committee membership is listed on page 17 and its terms of reference can be found on the website at www.fandccit.com. All the committee members are independent non-executive Directors. Professor Jim Norton, the chairman of the committee, as well as the remaining committee members have relevant financial and industry experience. The committee has direct access to PwC; the Head of Internal Audit of the Manager; the Chief Risk Officer of the Manager and to the Manager's group audit committee and reports its findings to the Board. The Board retains ultimate responsibility for all aspects relating to external financial statements and other significant published financial information.

The committee met on two occasions during the year with the Manager's Head of Trust Accounting, Head of Internal Audit and the Fund Manager in attendance. PwC are entitled to attend all scheduled committee meetings and attended the year end committee meeting. PwC also met in closed session with the committee. In carrying out its responsibilities the committee has considered the planning, arrangements and conclusions of the audit for the period under review. In May 2012 the committee considered and approved PwC's plan for the full year audit. PwC submitted their report to the committee meeting in November 2012 in which they had highlighted the following areas of focus:

- Valuation and existence of investments.
- Accuracy and completeness of investment accounting entries.
- Recognition of income from the underlying investments.

Corporate Governance Statement (continued)

- Foreign exchange gains/losses.
- Accuracy of the performance fee calculation.
- Correct disclosure of Directors' remuneration.
- Accuracy and disclosure of expenses.
- Taxation charge and maintenance of section 1158 status.
- Current assets and liabilities fairly stated.
- Cash balances and borrowings and calculation of interest.
- Compliance with financial statements and Business Review reporting requirements.
- Compliance with the relevant corporate governance codes.
- The Manager's procedures relating to fraud and the prevention of material misstatement of the financial statements.

PwC confirmed at the meeting that they had no reason not to issue an unqualified audit report in respect of the financial year ended 30 September 2012. The unqualified audit report can be found on page 35.

At each of its meetings the committee receives an internal audit and compliance monitoring report from the Manager. In November 2012 the committee received and reviewed the Report referred to under "Internal controls and management of risk" below and an annual compliance report. Following a recommendation from the committee, the Board has concluded that there is no current need for the Company to have an internal audit function; all of the Company's management functions are delegated to the Manager, which has its own internal audit department, and whose controls are monitored by the Board.

Specifically, the committee considered, monitored and reviewed the following other matters throughout the year:

- The audited results statements, annual and half-yearly reports and accounts and interim management statements;
- The accounting policies of the Company;
- The effectiveness of the Company's internal control environment;
- The effectiveness of the audit process and the independence and objectivity of PwC, their reappointment, remuneration and terms of engagement;
- The policy on the engagement of PwC to supply non-audit services;
- The implications of proposed new accounting standards and regulatory changes;
- The receipt of AAF reports or their equivalent from the Custodian;
- The performance of the Manager and the fees charged;
- The analysis of other expenses; and
- The committee's terms of reference.

The committee has reviewed, and is satisfied with, the Manager's Anti-Fraud, Bribery and Corruption Strategy and Policy and with the "whistleblowing" policy that has been put in place by the Manager under which its staff may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. The necessary arrangements are in place for proportionate and independent investigation of such matters and for appropriate follow-up action.

As part of the review of auditor independence and effectiveness, PwC have confirmed that they are independent of the Company and have complied with relevant auditing standards. In evaluating PwC, the committee has recognised the necessity for the Manager and the Company to use different audit firms and taken into consideration the standing, skills and experience of the firm and the audit team. The appointment was put out to tender during the year. A formal selection process concluded that PwC's appointment should continue. Following professional guidelines, the partner rotates after five years and this is the third year for the current partner. On the basis of this assessment, the committee has recommended the continuing appointment of PwC to the Board. Their performance will continue to be reviewed annually taking into account all relevant guidance and best practice. Fees for audit services amounted to £25,700 for the year under review.

The committee has also reviewed the provision of non-audit services, which cost £10,000 in the year under review, and considers them to be cost effective and not to compromise the independence of PwC. Non-audit services, totalling £5,000, were in relation to taxation advice and £5,000 were in connection with the ongoing liquidation of the F&C Income Growth Investment Trust PLC, with additional information given in note 10 on the accounts. The Chairman of the committee is advised of non-audit work required and a decision to authorise is taken on a case-by-case basis. Further information can be found in note 5 on the accounts.

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, 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, performance of the third party administrators of the F&C plans and other management issues. The Manager's internal audit department prepares a control report that provides details of any significant internal control failure. A key risk summary is also produced to help identify 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 pages 21 and 22, with additional information given in note 23 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 2011 ("**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 internal audit 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. No significant failings or weaknesses in respect of the Company were identified in the year under review or to the date of this report.

Relations with shareholders

Shareholder communication is given a high priority. In addition to the annual and half-yearly reports that are available to shareholders, monthly fact sheets and general information are also available on the www.fandccit.com website.

All beneficial shareholders in the F&C 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.

At annual general meetings, all investors have the opportunity to question and meet the Chairman, the Board and the Fund Manager.

A regular dialogue is maintained with the Company's institutional shareholders and private client asset managers through the Manager. Regular reports are made to the Board on any such contact and the views and attitudes of shareholders and the level and nature of any complaints received from investors. The Chairman and the Senior Independent Director are available to meet with major shareholders, although no meetings were held in the year under review.

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 16.

By order of the Board
F&C Management Limited
Secretary
28 November 2012

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, Directors' Remuneration Report and financial statements which give a true and fair view of the state of affairs of the Company as at 30 September 2012 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 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 generally accepted 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 development and performance of the Company and the important events that have occurred during the financial year and their impact on the financial statements;
- 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
Steven Bates
Chairman
28 November 2012

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 2012 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 34, 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 Chapter 3 of Part 16 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.

In addition, we read all the financial and non-financial information in the report and accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2012 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; 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.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 18, in relation to going concern;
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Alex Bertolotti (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants & Statutory Auditors
London
28 November 2012

Income Statement

Revenue notes	Capital notes	for the year ended 30 September	2012 Revenue £'000s	2012 Capital £'000s	2012 Total £'000s	2011 Revenue £'000s	2011 Capital £'000s	2011 Total £'000s
	10	Gains/(losses) on investments and derivatives	–	23,037	23,037	–	(11,582)	(11,582)
	19	Foreign exchange (losses)/gains	(10)	(178)	(188)	–	12	12
3	19	Income	9,940	–	9,940	9,671	–	9,671
4	19	Management fee	(392)	(392)	(784)	(397)	(397)	(794)
5	19	Other expenses	(692)	(9)	(701)	(714)	(14)	(728)
		Net return before finance costs and taxation	8,846	22,458	31,304	8,560	(11,981)	(3,421)
6	19	Finance costs	(82)	(82)	(164)	(178)	(178)	(356)
		Net return on ordinary activities before taxation	8,764	22,376	31,140	8,382	(12,159)	(3,777)
7		Taxation on ordinary activities	(49)	–	(49)	(41)	–	(41)
		Net return attributable to shareholders	8,715	22,376	31,091	8,341	(12,159)	(3,818)
8	8	**Return per share – pence**	10.01	25.69	35.70	9.75	(14.21)	(4.46)

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 2012	Share capital £'000s	Share premium account £'000s	Capital redemption reserve £'000s	Special reserve £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total share-holders' funds £'000s
	Balance at 30 September 2011	**21,452**	**88,374**	**4,146**	**4,434**	**42,413**	**6,471**	**167,290**
	Movements during the year ended 30 September 2012							
9	Dividends paid	**–**	**–**	**–**	**–**	**–**	**(7,664)**	**(7,664)**
	Ordinary shares issued	**519**	**3,876**	**–**	**–**	**–**	**–**	**4,395**
	Net return attributable to shareholders	**–**	**–**	**–**	**–**	**22,376**	**8,715**	**31,091**
	Balance at 30 September 2012	**21,971**	**92,250**	**4,146**	**4,434**	**64,789**	**7,522**	**195,112**

Notes	for the year ended 30 September 2011	Share capital £'000s	Share premium account £'000s	Capital redemption reserve £'000s	Special reserve £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total share-holders' funds £'000s
	Balance at 30 September 2010	21,336	87,452	4,146	4,434	54,572	5,487	177,427
	Movements during the year ended 30 September 2011							
9	Dividends paid	–	–	–	–	–	(7,357)	(7,357)
	Ordinary shares issued	116	922	–	–	–	–	1,038
	Net return attributable to shareholders	–	–	–	–	(12,159)	8,341	(3,818)
	Balance at 30 September 2011	21,452	88,374	4,146	4,434	42,413	6,471	167,290

Balance Sheet

Notes	at 30 September	£'000s	2012 £'000s	£'000s	2011 £'000s
	Fixed assets				
10	Investments		**197,312**		182,317
	Current assets				
11	Debtors	**580**		996	
	Cash at bank and short-term deposits	**5,587**		134	
		6,167		1,130	
	Creditors: amounts falling due within one year				
12	Loans	**(7,967)**		(15,000)	
13	Other	**(400)**		(1,129)	
10	Derivative financial instruments	**–**		(28)	
		(8,367)		(16,157)	
	Net current liabilities		**(2,200)**		(15,027)
	Net assets		**195,112**		167,290
	Capital and reserves				
15	Share capital		**21,971**		21,452
16	Share premium account		**92,250**		88,374
17	Capital redemption reserve		**4,146**		4,146
18	Special reserve		**4,434**		4,434
19	Capital reserves		**64,789**		42,413
19	Revenue reserve		**7,522**		6,471
	Total shareholders' funds		**195,112**		167,290
20	**Net asset value per ordinary share – pence**		**222.01**		194.96

The Financial Statements were approved by the Board on 28 November 2012 and signed on its behalf by

Steven Bates, Chairman

Cash Flow Statement

Notes	for the year ended 30 September	2012 £'000s	2012 £'000s	2011 £'000s	2011 £'000s
	Operating activities				
	Investment income received	**9,455**		8,809	
	Interest received	**15**		5	
	Other revenue	**54**		40	
	Premium from option writing	**399**		875	
	Fee paid to management company	**(762)**		(802)	
	Fees paid to Directors	**(100)**		(100)	
	Other payments	**(586)**		(589)	
21	**Net cash inflow from operating activities**		**8,475**		8,238
	Servicing of finance				
	Interest paid	**(180)**		(359)	
	Net cash outflow from the servicing of finance		**(180)**		(359)
	Financial investment				
	Purchases of investments and derivatives	**(33,567)**		(52,110)	
	Sales of investments and derivatives	**41,937**		46,065	
	Other capital charges	**(10)**		(11)	
	Net cash inflow/(outflow) from financial investment		**8,360**		(6,056)
	Equity dividends paid		**(7,664)**		(7,357)
	Net cash inflow/(outflow) before use of liquid resources and financing		**8,991**		(5,534)
	Management of liquid resources				
22	(Increase)/decrease in short-term deposits		**(5,326)**		2,075
	Financing				
	Loans (repaid)/raised	**(6,909)**		1,000	
	Shares issued	**4,409**		1,786	
	Net cash (outflow)/inflow from financing		**(2,500)**		2,786
22	**Net Increase/(decrease) in cash**		**1,165**		(673)

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 02732011 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 1158 of the Corporation Tax Act 2010 ("CTA"). The Company has complied with the conditions set out in section 1159 of the CTA and has therefore qualified as an investment trust under section 1158 in respect of all relevant years up to and including the year ended 30 September 2011. Such approval exempts the Company from UK corporation tax on gains realised in the relevant year on its portfolio of fixed asset investments and derivatives.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Going concern

As referred to in the Chairman's Statement on page 5, and the Directors' Report and Business review at page 18, resolution 12 proposing the continuation of the Company, will be put to the shareholders at the forthcoming Annual General Meeting on Wednesday, 13 February 2013. The Directors are recommending that shareholders vote "for" this resolution. The Directors therefore believe that it is appropriate for the accounts to be prepared on a going concern basis.

(b) Basis of accounting

The accounts of the Company have been prepared on a going concern basis under the historical cost convention, modified to include fixed asset investments and derivative financial instruments 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 2012.

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 (insofar as the expenses and tax are not allocated to capital, as described in note 2(c) below). Net revenue returns are allocated via the revenue account to the revenue reserve, out of which interim and final dividend payments are made. Capital returns include, but are not limited to, profits and losses on fixed asset investments and derivatives 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 paid to equity shareholders are shown in the Reconciliation of Movements in Shareholders' Funds.

(c) Principal accounting policies

The policies set out below have been applied consistently throughout the year.

(i) Financial instruments

Financial instruments include fixed asset investments, derivative assets and liabilities, cash and short-term deposits, debtors and creditors. Accounting standards recognise a hierarchy of fair value measurements for financial instruments which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The classification of financial instruments depends on the lowest significant applicable input, as follows:

Level 1 – Unadjusted, fully accessible and current quoted prices in active markets for identical assets or liabilities. Included within this category are investments listed on any recognised stock exchange or quoted on AIM in the UK.

Level 2 – Quoted prices for similar assets or liabilities, or other directly or indirectly observable inputs which exist for the duration of the period of investment. Examples of such instruments would be those for which the quoted price has been suspended, forward exchange contracts and certain other derivative instruments. The Company held no such securities during the year under review.

Level 3 – External inputs are unobservable. Value is the Directors' best estimate, based on advice from relevant knowledgeable experts, use of recognised valuation techniques and on assumptions as to what inputs other market participants would apply in pricing the same or similar instrument. Included within this category are unquoted investments.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Fixed asset investments and derivative financial instruments

As an investment trust, the Company measures its fixed asset investments at fair value through profit or loss and treats all transactions on the realisation and revaluation of investments held as fixed assets, 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.

Derivative financial instruments comprising forward exchange contracts and options are classified as held for trading and are accounted for as financial assets or liabilities. Where it can be demonstrated that the derivative is connected to the maintenance or enhancement of the Company's investments, the change in fair value is recognised as capital and shown in the Capital column of the Income Statement. Where an option is written in the expectation that it will not be exercised, or that any losses on exercise will be outweighed by the value of premiums received, the premiums are recognised in the Revenue column of the Income Statement. The value of the premium is usually the option's initial fair value and is recognised evenly over the life of the option. Subsequent changes to fair value are adjusted in the Capital column of the Income Statement such that the total amounts recognised within Revenue and Capital represent the change in fair value of the option.

(iii) Debt instruments

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 (vi) below for allocation of finance charges within the Income Statement.

(iv) 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.

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.

(v) 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.

Underwriting commission is recognised when the Company's right to receive payment is established. Deposit interest is accounted for on an accruals basis.

Notes on the Accounts (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(vi) 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.

(vii) 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.

(viii) 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.

(ix) 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.

(x) 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 and derivatives;
- settled 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 and derivatives held at the year end; and
- foreign exchange valuation differences of a capital nature.

3. INCOME

	2012 £'000s	2011 £'000s
Income from investments		
UK dividends	8,591	8,068
Bond interest	318	306
Overseas dividends	563	442
	9,472	8,816
Interest on cash and short-term deposits	15	5
Underwriting commission	54	25
Derivative income	399	825
	468	855
Total income	9,940	9,671
Total income comprises		
Dividends	9,154	8,511
Other income	786	1,160
	9,940	9,671
Income from investments		
Quoted UK	8,909	8,216
Quoted overseas	563	600
	9,472	8,816

As at 30 September 2012 there were no outstanding underwriting contracts (2011: none outstanding).

As described in note 2(c)(ii), derivative income has been derived from premiums received on put and call options written on securities held in the portfolio of investments.

4. MANAGEMENT FEE

	2012 £'000s	2011 £'000s
Management fee	784	794
Less: allocated to capital reserve arising on investments sold (see note 19)	(392)	(397)
	392	397

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. The Company may terminate this agreement upon 60 days' written notice to the Manager if there is a change of control of the Manager, provided such notice is served within six months of the said change of control.

Notes on the Accounts (continued)

5. OTHER EXPENSES

	2012 £'000s	2011 £'000s
Auditors' remuneration:[1]		
– for audit services	31	31
– for other services	6	2
Directors' fees for services to the Company[2]	100	100
Directors' and Officers' liability insurance	10	11
Loan commitment fee	54	36
Marketing	64	77
Professional fees	6	30
Printing and postage	46	56
Registrars' fees	30	22
Savings plan expenses	278	247
Subscriptions and listing fees	37	44
Sundry expenses	30	58
	692	714

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

1. Auditors' remuneration for audit services, exclusive of VAT, amounts to £25,700 (2011: £26,800). Total Auditors' remuneration for other services amounts to £10,000 (2011: £16,000) of which £5,000 is recognised in the revenue account, for advice on UK taxation (2011: £2,000) and £5,000 in the capital account in connection with the liquidation of F&C Income Growth Investment Trust plc ("FIGIT") (2011: £14,000).
2. See the Directors' Remuneration Report on page 28.

6. FINANCE COSTS

	2012 £'000s	2011 £'000s
Interest payable on bank loans and overdrafts	164	356
Less: allocated to capital return (see note 19)	(82)	(178)
	82	178

7. TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of tax charge for the year

	Revenue £'000s	Capital £'000s	2012 Total £'000s	Revenue £'000s	Capital £'000s	2011 Total £'000s
Overseas taxation	49	–	49	41	–	41
Current tax charge on ordinary activities (see note 7(b))	49	–	49	41	–	41

The tax assessed for the year is lower (2011: lower) than the standard rate of corporation tax in the UK (25%) (2011: 27%). Factors affecting the taxation charge are set out below.

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

	Revenue £'000s	Capital £'000s	2012 Total £'000s	Revenue £'000s	Capital £'000s	2011 Total £'000s
Return on ordinary activities before tax	8,764	22,376	31,140	8,382	(12,159)	(3,777)
Return on ordinary activities multiplied by the effective rate of corporation tax of 25% (2011: 27%)	2,191	5,594	7,785	2,263	(3,283)	(1,020)
Effects of:						
UK dividends*	(2,148)	–	(2,148)	(2,178)	–	(2,178)
Overseas dividends*	(141)	–	(141)	(119)	–	(119)
Expenses not utilised in the year	58	118	176	2	–	2
Expenses not deductible for tax purposes	40	2	42	32	–	32
Overseas taxation not relieved	49	–	49	41	–	41
Capital returns*	–	(5,714)	(5,714)	–	3,283	3,283
Total current taxation (see note 7(a))	49	–	49	41	–	41

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

The potential deferred tax asset of £2.6 million in respect of unutilised expenses and unrelieved overseas taxation at 30 September 2012 (2011: £2.9 million) has not been recognised as it is unlikely that these expenses will be utilised.

8. RETURN PER ORDINARY SHARE

Revenue return

The revenue return per share of 10.01p (2011: 9.75p) is based on the revenue return attributable to shareholders of £8,715,000 profit (2011: £8,341,000 profit).

Capital return

The capital return per share of 25.69p (2011:(14.21)p) is based on the capital return attributable to shareholders of £22,376,000 profit (2011: £12,159,000 loss).

Total return

The total return per share of 35.70p (2011: (4.46)p) is based on the total return attributable to shareholders of £31,091,000 (2011: £3,818,000 loss).

Weighted average ordinary shares in issue

Both the revenue and capital returns per share are based on a weighted average of 87,096,700 (2011: 85,560,145) ordinary shares in issue during the year.

Notes on the Accounts (continued)

9. DIVIDENDS

Dividends on ordinary shares	Register date	Payment date	2012 £'000s	2011 £'000s
Fourth of four interims for the year ended 30 September 2010 of 2.60 pence per share	10 Dec 10	31 Dec 10	–	2,219
First of four interims for the year ended 30 September 2011 of 2.00 pence per share	25 Feb 11	31 Mar 11	–	1,711
Second of four interims for the year ended 30 September 2011 of 2.00 pence per share	10 Jun 11	30 Jun 11	–	1,711
Third of four interims for the year ended 30 September 2011 of 2.00 pence per share	26 Aug 11	30 Sep 11	–	1,716
Fourth of four interims for the year ended 30 September 2011 of 2.65 pence per share	2 Dec 11	30 Dec 11	**2,289**	–
First of four interims for the year ended 30 September 2012 of 2.05 pence per share	22 Feb 12	30 Mar 12	**1,781**	–
Second of four interims for the year ended 30 September 2012 of 2.05 pence per share	1 Jun 12	29 Jun 12	**1,792**	–
Third of four interims for the year ended 30 September 2012 of 2.05 pence per share	24 Aug 12	28 Sep 12	**1,802**	–
			7,664	7,357

The Directors have declared a fourth interim dividend in respect of the year ended 30 September 2012 of 2.85 pence per share, payable on 31 December 2012 to all shareholders on the register at close of business on 7 December 2012. 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 2012, which form the basis of the retention test for section 1159 of the Corporation Tax Act 2010, are set out below:

	2012 £'000s
Net revenue return attributable to shareholders	**8,715**
First interim for the year ended 30 September 2012 of 2.05 pence per share	**(1,781)**
Second interim for the year ended 30 September 2012 of 2.05 pence per share	**(1,792)**
Third interim for the year ended 30 September 2012 of 2.05 pence per share	**(1,802)**
Fourth interim dividend for the year ended 30 September 2012 of 2.85 pence per share[(1)]	**(2,505)**
Transferred to revenue reserve	**835**

1. Based on 87,884,268 shares in issue and entitled to dividend at 27 November 2012.

10. INVESTMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS

	Level 1* £'000s	Level 2* £'000s	Level 3* £'000s	2012 Total £'000s	Level 1* £'000s	Level 2* £'000s	Level 3* £'000s	2011 Total £'000s
Cost brought forward	165,971	–	1,785	167,756	152,380	–	1,785	154,165
Gains/(losses) brought forward	15,305	–	(772)	14,533	34,680	–	–	34,680
Valuation of investments and derivatives brought forward	181,276	–	1,013	182,289	187,060	–	1,785	188,845
Purchases at cost	33,506	–	10	33,516	51,470	–	–	51,470
Sales proceeds	(41,530)	–	–	(41,530)	(46,444)	–	–	(46,444)
Gains/(losses) on derivatives sold in year	228	–	–	228	(786)	–	–	(786)
Gains(losses) on investments sold in year	2,471	–	–	2,471	9,351	–	–	9,351
Gains/(losses) on derivatives held at year end	–	–	–	–	22	–	–	22
Gains/(losses) on investments held at year end	21,219	–	(881)	20,338	(19,397)	–	(772)	(20,169)
Valuation of investments and derivatives carried forward	197,170	–	142	197,312	181,276	–	1,013	182,289
Cost at 30 September	160,646	–	1,795	162,441	165,971		1,785	167,756
Gains/(losses) at 30 September	36,524	–	(1,653)	34,871	15,305		(772)	14,533
Valuation of investments and derivatives at 30 September	197,170	–	142	197,312	181,276	–	1,013	182,289

*Level 1 includes investments and derivatives listed on any recognised stock exchange or quoted on AIM in the UK.
Level 2 includes investments for which the quoted price has been suspended.
Level 3 includes any unquoted investments.

The investment portfolio is set out on pages 14 and 15

Valuation of investments and derivatives	2012 £'000s	2011 £'000s
Valuation of investments at 30 September	197,170	182,317
Valuation of derivatives at 30 September	–	(28)
Total valuation of investments and derivatives at 30 September	197,170	182,289

Gains/(losses) on investments and derivatives held at fair value	2012 £'000s	2011 £'000s
Gains/(losses) on investments sold in year	2,471	9,351
Gains/(losses) on investments held at year end	20,338	(20,169)
Gains/(losses) on derivatives sold in year	228	(786)
Gains/(losses) on derivatives held at year end	–	22
Total gains/(losses) on investments and derivatives	23,037	(11,582)

Investment in subsidiary

The Company holds 100% of the issued share capital of F&C Income Growth Investment Trust plc (in liquidation) ("FIGIT") valued at £nil (2011: £nil). 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. FIGIT is held in liquidation pending the resolution of a case brought against HM Revenue and Customs, seeking to recover VAT paid on management fees in the period 1997 to 2000. The timing and outcome of the case remain uncertain.

Notes on the Accounts (continued)

11. DEBTORS

	2012 £'000s	2011 £'000s
Prepayments and accrued income	556	583
Investment debtors	–	407
UK taxation recoverable	24	6
	580	996

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR – LOANS

Loans	2012 £'000s	2011 £'000s
€10m repaid October 2012	(7,967)	–
£15m repaid October 2011	–	(15,000)

At 27 November 2012, short-term borrowings were £8 million. The maximum unsecured loan facility is £20 million. The Company has a credit facility allowing the Company access on demand to a maximum of £20 million of bank loans. Interest rate margins on amounts drawn down are variable and dependent on agreed commercial terms. Commitment commission is payable on undrawn amounts at commercial rates.

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR – OTHER

	2012 £'000s	2011 £'000s
Bank overdraft	–	736
Investment creditors	–	–
Management fee	203	182
Accruals	197	211
	400	1,129

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

%	UK	Europe ex UK	2012 Total	2011 Total
Equity investments				
Financials	19.8	–	**19.8**	21.6
Oil & gas	12.4	2.0	**14.4**	15.6
Consumer goods	8.2	1.9	**10.1**	10.6
Utilities	6.9	–	**6.9**	8.0
Telecommunications	9.2	–	**9.2**	11.3
Health care	8.0	–	**8.0**	9.2
Consumer services	7.7	0.6	**8.3**	10.8
Industrials	13.2	0.3	**13.5**	10.2
Basic materials	5.9	0.6	**6.5**	7.0
Technology	0.6	0.8	**1.4**	2.3
Fixed interest investments				
Basic materials	0.6	1.4	**2.0**	2.4
Utilities	1.0	–	**1.0**	–
Total investments	93.5	7.6	**101.1**	109.0
Net current liabilities	2.9	(4.0)	**(1.1)**	(9.0)
Total assets less current liabilities	**96.4**	**3.6**	**100.0**	
2011 totals	91.6	8.4		100.0

15. SHARE CAPITAL

	2012 Issued and fully paid number	2012 Issued and fully paid £'000s	2011 Issued and fully paid number	2011 Issued and fully paid £'000s
Ordinary shares of 25 pence each				
Balance at 30 September 2011	**85,809,268**	**21,452**	85,344,268	21,336
Ordinary shares issued	**2,075,000**	**519**	465,000	116
Balance at 30 September 2012	**87,884,268**	**21,971**	85,809,268	21,452

16. SHARE PREMIUM ACCOUNT

	2012 £'000s	2011 £'000s
Balance brought forward	**88,374**	87,452
Premium on issue of shares	**3,876**	922
Balance carried forward	**92,250**	88,374

17. CAPITAL REDEMPTION RESERVE

	2012 £'000s	2011 £'000s
Balance brought forward and carried forward	**4,146**	4,146

Notes on the Accounts (continued)

18. SPECIAL RESERVE

	2012 £'000s	2011 £'000s
Balance brought forward and carried forward	**4,434**	4,434

19. OTHER RESERVES

	Capital reserve arising on investments sold £'000s	Capital reserve arising on investments held £'000s	Capital reserves total £'000s	Revenue reserve £'000s
Movements in the year				
Gains on investments sold in year	2,471	–	2,471	–
Gains on investments held at year end	–	20,338	20,338	–
Gains on derivatives sold in year	228	–	228	–
Management fees (see note 4)	(392)	–	(392)	–
Foreign exchange gains	(178)	–	(178)	–
Interest expense (see note 6)	(82)	–	(82)	–
Other expenses	(9)	–	(9)	–
Revenue return	–	–	–	8,715
Return attributable to shareholders	2,038	20,338	22,376	8,715
Dividends paid	–	–	–	(7,664)
Balance at 30 September 2011	27,880	14,533	42,413	6,471
Balance at 30 September 2012	**29,918**	**34,871**	**64,789**	**7,522**

Included within the capital reserve movement for the year are £89,000 of transaction costs on purchases of investments (2011: £55,000) and £51,000 of transaction costs on sales of investments (2011: £54,000). There were no dividends recognised as capital (2011: £nil).

20. NET ASSET VALUE PER ORDINARY SHARE

Net asset value ("**NAV**") per ordinary share is based on total net assets of £195,112,000 (2011: £167,290,000) and on 87,884,268 (2011: 85,809,268) ordinary shares in issue at the year end.

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

	2012 £'000s	2011 £'000s
Net return before finance costs and taxation	**31,304**	(3,421)
Adjust for returns from non–operating activities:		
– (Gains)/losses on investments and derivatives	**(23,037)**	11,582
– Exchange losses/(gains) of a capital nature	**178**	(12)
Non-operating expenses of a capital nature	**9**	14
Return from operating activities	**8,454**	8,163
Adjust for non-cash flow items:		
Exchange losses of a revenue nature	**10**	–
Decrease in debtors	**28**	64
Increase in creditors	**30**	50
Overseas taxation	**(47)**	(39)
Net cash inflow from operating activities	**8,475**	8,238

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

	2012 £'000s	2011 £'000s
Increase/(decrease) in cash	**1,165**	(673)
Increase/(decrease) in short-term deposits	**5,326**	(2,075)
Decrease/(increase) in short-term loans	**6,909**	(1,000)
Change in net debt resulting from cash flows	**13,400**	(3,748)
Exchange movement on currency balances	**(178)**	–
Movement in net debt during the period	**13,222**	(3,748)
Balance at 30 September 2011	**(15,602)**	(11,854)
Balance at 30 September 2012	**(2,380)**	(15,602)

Represented by:	Balance at 30 September 2011 £'000s	Cash flow £'000s	Foreign exchange movement £'000s	Balance at 30 September 2012 £'000s
(Bank overdraft)/cash	(736)	1,165	(302)	**127**
Short-term deposits	134	5,326	–	**5,460**
	(602)	6,491	(302)	**5,587**
Loans – short-term	(15,000)	6,909	124	**(7,967)**
	(15,602)	13,400	(178)	**(2,380)**

Notes on the Accounts (continued)

23. 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 1158 of the CTA. 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 including derivatives 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 euros, 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.

A description of derivative positions, which are also exposed to market price changes, together with the Manager's and Board's strategies for using these positions for efficient portfolio management, is contained in this note, under "Other market risk exposures", in the Manager's Report and in the Directors' Report and Business Review. The exposure on the Company's positions at 30 September 2012 amounted to £nil (30 September 2011 – £4,771,000).

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.

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency exposure

The principal foreign currency to which the Company was exposed during the year was the euro. As stated above, the exposure to investments listed in 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:

	2012 At 30 September	2012 Average for the year	2011 At 30 September	2011 Average for the year
Euro	**1.255**	**1.218**	1.161	1.150

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:

Weakening of sterling by 10% against the euro	2012 £'000s	2011 £'000s
Net revenue return attributable to shareholders	**38**	66
Net capital return attributable to shareholders	**863**	1,772
Net total return attributable to shareholders	**901**	1,838
NAV per share – pence	**1.03**	2.14

Strengthening of sterling by 10% against the euro	2012 £'000s	2011 £'000s
Net revenue return attributable to shareholders	**(67)**	(65)
Net capital return attributable to shareholders	**(668)**	(1,450)
Net total return attributable to shareholders	**(735)**	(1,515)
NAV per share – pence	**(0.84)**	(1.76)

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 (except derivatives at gross exposure value) at 30 September by currency are shown below:

2012	Short-term debtors £'000s	Cash at bank £'000s	Short-term creditors – loans £'000s	Short-term creditors – other £'000s	Derivative instruments £'000s	Net monetary assets/ (liabilities) £'000s	Investments £'000s	Net exposure £'000s
Sterling	426	5,537	–	(393)	–	**5,570**	182,219	**187,789**
Other	154	50	(7,967)	(7)	–	**(7,770)**	15,093	**7,323**
Total	**580**	**5,587**	**(7,967)**	**(400)**	**–**	**(2,200)**	**197,312**	**195,112**

2011	Short-term debtors £'000s	Cash at bank £'000s	Short-term creditors – loans £'000s	Short-term creditors – other £'000s	Derivative instruments £'000s	Net monetary assets/ (liabilities) £'000s	Investments £'000s	Net exposure £'000s
Sterling	938	134	(15,000)	(1,117)	(4,771)	(19,816)	166,357	146,541
Other	58	–	–	(12)	–	46	15,960	16,006
Total	996	134	(15,000)	(1,129)	(4,771)	(19,770)	182,317	162,547

Notes on the Accounts (continued)

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate exposure

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

	2012 Within one year £'000s	2011 Within one year £'000s
Exposure to floating rates		
– Cash	**5,587**	134
– Overdrafts	**–**	(736)
– Borrowings	**(7,967)**	(15,000)
Exposure to fixed rates		
– Fixed interest securities	**5,704**	4,123
Net exposure	**3,324**	(11,479)
Minimum net exposure during the year	**5,654**	(4,570)
Maximum net exposure during the year	**(6,696)**	(11,479)

Exposures vary throughout the year as a consequence of changes in the composition 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:

	2012			2011		
	£'000s	**Weighted average interest rate**	**Average duration until maturity**	£'000s	Weighted average interest rate	Average duration until maturity
Fixed interest securities	**5,704**	**5.00%**	**2.8 years**	4,123	6.22%	2.2 years

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

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

	2012		2011	
	Increase in rate £'000s	**Decrease in rate £'000s**	Increase in rate £'000s	Decrease in rate £'000s
Revenue return	**32**	**(32)**	(165)	165
Capital return	**(80)**	**80**	(150)	150
Total return	**(48)**	**48**	(315)	315
NAV per share – pence	**(0.05)**	**0.05**	(0.37)	0.37

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

Other market risk exposures

The portfolio of investments, valued at £197,312,000 at 30 September 2012 (2011: £182,317,000) is 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 14 on the accounts. Derivative contracts entered into during the year comprise options written in the expectation that they will not be exercised.

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:

	2012 Increase in value £'000s	2012 Decrease in value £'000s	2011 Increase in value £'000s	2011 Decrease in value £'000s
Capital return	39,462	(39,462)	36,463	(36,463)
NAV per share – pence	44.90	(44.90)	42.49	(42.49)

(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 (78 at 30 September 2012 and 82 at 30 September 2011); the liquid nature of the portfolio of investments; the industrial and geographical diversity of the portfolio (see note 14); and the existence of an ongoing loan and overdraft facility agreement. Cash balances are held with approved banks, usually on overnight deposit. The Manager reviews liquidity at the time of making each investment decision. The Board reviews liquidity exposure at each meeting.

The Company has a credit facility with Scotiabank (Ireland) Limited of £20 million.

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:

	2012 Three months or less £'000s	2011 Three months or less £'000s
Current liabilities – loans	7,967	15,000
Current liabilities – other	400	1,129
	8,367	16,129

Notes on the Accounts (continued)

23. 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.

In summary, compared to the amounts included in the balance sheet, the maximum exposure to credit risk was as follows:

Current liabilities	Balance sheet £'000s	2012 Maximum exposure £'000s	Balance sheet £'000s	2011 Maximum exposure £'000s
Derivative financial instruments	–	7,361	28	10,330

None of the Company's financial liabilities is past its 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 and overdraft facilities are short-term in nature and hence do not have a value materially different from their capital repayment amount.

(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 15 on the accounts. Dividend payments are set out in note 9 on the accounts. Details of any loans are set out in note 12 on the accounts.

24. 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 28 and as set out in note 5 on the accounts; and the beneficial interests of the Directors in the ordinary shares of the Company as disclosed on page 23 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 13.

25. POST BALANCE SHEET MOVEMENTS IN NET ASSETS

The NAV per share as at close of business on 27 November 2012 was 223.91 pence (30 September 2012: 222.01 pence).

Ten Year Record

Assets

at 30 September (£'000s)	2002	2003	2004	2005*	2006	2007	2008	2009	2010	2011	2012
Total assets	70,061	79,466	91,509	187,846	208,755	214,131	158,201	180,684	191,427	182,290	**203,079**
Loans	–	–	6,000	8,500	8,000	10,000	–	14,000	14,000	15,000	**7,967**
Net assets	70,061	79,466	85,509	179,346	200,755	204,131	158,201	166,684	177,427	167,290	**195,112**

Net asset value ("NAV")

at 30 September	2002	2003	2004	2005*	2006	2007	2008	2009	2010	2011	2012
NAV per share – pence	141.0	158.5	180.2	220.4	249.0	258.8	200.4	199.3	207.9	195.0	**222.0**
NAV total return on 100p – 5 years (per Datastream)											**105.2**
NAV total return on 100p – 10 years (per Datastream)											**223.9**

Share price

at 30 September	2002	2003	2004	2005*	2006	2007	2008	2009	2010	2011	2012
Middle market price per share – pence	135.5	159	173.5	211.3	233.5	243.3	196.5	199.0	214.3	206.0	**225.5**
Discount/(premium) to NAV – %	3.9	(0.3)	3.7	4.2	6.2	6.0	2.0	0.1	(3.1)	(5.2)	**(1.6)**
Share price high – pence	195.0	169.0	177.0	211.3	240.0	258.0	249.0	202.5	221.3	232.0	**227.0**
Share price low – pence	119.0	122.0	155.5	174.0	196.0	222.5	188.5	140.0	181.0	199.0	**195.0**
Share price total return on 100p – 5 years (per Datastream)											**114.4**
Share price total return on 100p – 10 years (per Datastream)											**241.7**

Revenue

for the year ended 30 September	2002	2003	2004	2005*	2006	2007	2008	2009	2010	2011	2012
Available for ordinary shares (£'000s)	2,460	2,629	2,597	4,046	5,879	6,604	7,608	7,210	6,755	8,341	**8,715**
Earnings per share – pence	4.93	5.28	5.38	6.56	7.25	8.25	9.69	8.85	8.02	9.75	**10.01**
Dividends per share – pence	5.25	5.35	5.45	5.80	6.50	7.40	8.40†	8.65†	8.45	8.65	**9.00**

Performance

(rebased to 100 at 30 September 2002)

	2002	2003	2004	2005*	2006	2007	2008	2009	2010	2011	2012
NAV per share	100.0	112.4	127.8	156.3	176.6	183.5	142.1	141.3	147.4	138.3	**157.5**
Mid-market price per share	100.0	117.3	128.0	155.9	172.3	179.6	145.0	146.9	158.1	152.0	**166.4**
Revenue return per share	100.0	107.1	109.1	133.1	147.1	167.3	196.6	179.5	162.7	197.8	**203.0**
Dividends per share	100.0	101.9	103.8	110.5	123.8	141.0	160.0	164.8	161.0	164.8	**171.4**
FTSE All-Share Index	100.0	112.6	126.1	152.4	169.3	184.1	137.9	146.3	159.2	147.3	**166.5**
RPI	100.0	102.8	105.9	108.7	112.7	117.1	123.0	121.2	126.9	134.0	**137.5**

* Restated to reflect changes in accounting policies.

† Includes special dividends of 0.40p in 2008 and 2009.

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.
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)

Cost of running the Company (TER/ongoing charges)

for the year ended 30 September	2002	2003	2004	2005*	2006	2007	2008	2009	2010	2011	2012
Expressed as a percentage of average net assets:											
TER	0.67	0.75	0.74	0.69	0.74	0.73	0.70†	0.88†	0.88	0.83	**0.79**
Ongoing charges	–	–	–	–	–	–	–	–	–	0.82	**0.80**

Gearing

at 30 September	2002	2003	2004	2005*	2006	2007	2008	2009	2010	2011	2012
Net gearing/(net liquidity) – %	(1.30)	(0.60)	6.23	2.94	1.81	4.74	0.24	7.60	7.05	9.08	**1.22**

* Restated to reflect changes in accounting policies.

Definitions

Operating costs	All costs charged to revenue and capital, other than interest costs, taxation, the costs of purchase of share capital and the costs of buying and selling investments and derivatives.
Average net assets	The average of net assets at the end of each quarter.
Net gearing	Loans, less cash (adjusted for settlements), as a percentage of net assets.
TER	Total Expenses Ratio including costs charged to revenue and capital, excluding related tax relief, interest costs, taxation, the costs of purchase of share capital and the costs of buying and selling investments.
Ongoing charges	All operational, recurring costs that are payable by the Company or suffered within underlying investee funds, in the absence of any purchases or sales of investment (per AIC guidelines issued May 2012).

Notice of Annual General Meeting

Notice is hereby given that the twentieth annual general meeting of the Company will be held at Exchange House, Primrose Street, London EC2A 2NY on Wednesday 13 February 2013 at 11.30 a.m. for the following purposes:

Ordinary business

To consider and, if thought fit, pass the following resolutions 1 to 6 as ordinary resolutions:

1. To receive and adopt the Directors' report and accounts for the year ended 30 September 2012.
2. To approve the Directors' Remuneration Report.
3. To elect Clare Dobie as a Director.
4. To re-elect Professor Jim Norton as a Director.
5. To re-appoint PricewaterhouseCoopers LLP as auditors to the Company.
6. To authorise the Directors to determine the remuneration of the auditors.

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

7. Authority to allot shares

   THAT, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Directors be and they are hereby generally and unconditionally authorised, in accordance with section 551 of the Companies Act 2006 (the "**Act**"), to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or convert any security into, shares in the Company (together being "**relevant securities**") up to an aggregate nominal amount of £2,197,000 during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the annual general meeting of the Company in 2014 or on the expiry of 15 months from the passing of this resolution (whichever is earlier), unless previously revoked, varied or extended by the Company in a general meeting (the "**relevant period**"); save that the Company may at any time prior to the expiry of this authority make offers or enter into agreements which would or might require relevant securities to be allotted after the expiry of the relevant period and notwithstanding such expiry the Directors may allot relevant securities in pursuance of such offers or agreements.

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

8. Disapplication of pre-emption rights

   THAT, subject to the passing of Resolution 7 set out above and in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Directors be and they are hereby empowered, pursuant to sections 570 and 573 of the Companies Act 2006 (the "**Act**"), to allot equity securities (within the meaning of section 560 of the Act) pursuant to the authority given by the said Resolution 7 above for cash, and/or to sell equity securities which are held by the Company in treasury, during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the annual general meeting of the Company in 2014 or on the expiry of 15 months from the passing of this resolution (whichever is earlier), unless previously revoked, varied or extended by the Company in a general meeting (the "**relevant period**") up to an aggregate nominal amount of £2,197,000, in each case as if Section 561(1) of the Act did not apply to any such allotment or transfer; save that the Company may at any time prior to the expiry of this authority make offers or enter into agreements which would or might require equity securities to be allotted or transferred after the expiry of the relevant period and notwithstanding such expiry the Directors may allot or transfer equity securities in pursuance of such offers or agreements.

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

9. THAT the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with section 701 of the Companies Act 2006 (the "**Act**"), to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 25 pence each in the capital of the Company ("**ordinary shares**") on such terms and in such manner as the Directors may from time to time determine, provided that:
   (a) the maximum number of ordinary shares hereby authorised to be purchased shall be 13,173,800;

Notice of Annual General Meeting
(continued)

(b) the minimum price which may be paid for an ordinary share shall be 25 pence;

(c) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased;

(d) the minimum and maximum prices per ordinary share referred to in sub-paragraphs (b) and (c) of this resolution are in each case exclusive of any expenses payable by the Company;

(e) the authority hereby conferred shall expire on the date which is 15 months after the passing of this resolution, unless such authority is varied, revoked or renewed prior to such time by the Company in general meeting by special resolution; and

(f) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed or executed wholly or partly after the expiry of such authority.

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

10. THAT the new articles of association produced to the meeting and, for the purposes of identification, initialled by the Chairman of the meeting, be adopted as the articles of association of the Company in substitution for, and to the entire exclusion of, the existing articles of association of the Company.

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

11. THAT the Company be and is hereby generally and unconditionally authorised to hold general meetings (other than annual general meetings) on 14 clear days' notice, such authority to expire at the conclusion of the next annual general meeting of the Company.

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

12. THAT, pursuant to the Company's articles of association, the Company continue as an investment trust.

By order of the Board	Registered office:
F&C Management Limited	Exchange House
Secretary	Primrose Street
28 November 2012	London EC2A 2NY

Location of meeting

Notes:

1. Pursuant to regulation 41(1) of the Uncertificated Securities Regulations 2001 (as amended) and for the purposes of section 360B of the Companies Act 2006 (the "**Act**"), the Company has specified that only those members included on the register of members of the Company at 11 p.m. on 11 February 2013 (the "**specified time**") shall be entitled to attend and vote or be represented at the meeting in respect of the shares registered in their name at that time. Changes to the register of members after the specified time shall be disregarded in determining the rights of any person to attend and vote at the meeting. If the meeting is adjourned to a time not more than 48 hours after the time applicable to the original meeting, the specified time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at 11 p.m. on the day which is two days (excluding non-working days) before the day of the adjourned meeting or, if the Company gives notice of the adjourned meeting, at any time specified in that notice.

2. A member entitled to attend, speak and vote at the meeting may appoint one or more proxies to exercise his/her rights instead of him/her. A proxy need not be a member of the Company but must attend the meeting for the member's vote to be counted. A form of proxy is provided to members which includes details on how to appoint more than one proxy; you may not appoint more than one proxy to exercise rights attached to any one share.

3. To be valid, the form of proxy and any power of attorney or other authority under which it is signed, or a notarially certified copy of such authority, must be deposited with the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY. Alternatively, the form of proxy may be returned by electronic means using the CREST service as detailed below or proxy votes can be submitted electronically at www.eproxyappointment.com by entering the Control Number, Shareholder Reference Number and PIN printed on the form of proxy. Proxy votes must be received not less than 48 hours before the time appointed for holding the meeting (any part of a day which is a non-working day shall not be included in calculating the 48 hour period).

4. To appoint one or more proxies or to give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, CREST messages must be received by the Company's agent (ID number 3RA50) no later than the deadline stated above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp generated by the CREST system) from which the issuer's agent is able to retrieve the message. The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. Instructions on how to vote through CREST can be found on the website www.euroclear.com/CREST.

5. Investors holding shares in the Company through the F&C plans should return forms of direction to Computershare Investor Services PLC or submit their voting directions electronically (for all F&C plans other than the pension savings plan) at www.eproxyappointment.com by entering the Control Number, Shareholder Reference Number and PIN printed on the form of direction. Voting directions must be received not less than 96 hours before the time appointed for holding the meeting (any part of a day which is a non-working day shall not be included in calculating the 96 hour period).

6. Completion and return of a form of proxy or form of direction or the submission of votes electronically will not preclude members/investors from attending and voting at the meeting should they wish to do so. On a vote on a show of hands every member attending in person (or by proxy or corporate representative) is entitled to one vote and, where a poll is called, every member attending in person or by proxy is entitled to have one vote for every share of which he is the holder.

7. If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes the subject of those proxies are cast and the voting rights in respect of those discretionary proxies, when added to the interests in the Company's securities already held by the Chairman, result in the Chairman holding such number of voting rights that he has a notifiable obligation under the Disclosure and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Services Authority. As a result, any person holding 3% or more of the voting rights in the Company who grants the Chairman a discretionary proxy in respect of some or all of those voting rights and so would otherwise have a notification obligation under the Disclosure and Transparency Rules, need not make a separate notification to the Company and the Financial Services Authority. Any such person holding 3% or more of the voting rights in the Company who appoints a person other than the Chairman as his/her proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the Disclosure and Transparency Rules.

8. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with section 146 of the Act ("**Nominated Persons**"). Nominated Persons may have a right under an agreement with the registered shareholder who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if Nominated Persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights. Nominated Persons should also remember that their main point of contact in terms of their investment in the Company remains the member who nominated the Nominated Person to enjoy information rights (or, perhaps, the custodian or broker who administers the investment on their behalf). Nominated Persons should continue to contact that member, custodian or broker (and not the Company) regarding any changes or queries relating to the Company (including any administrative matter). The only exception to this is where the Company expressly requests a response from a Nominated Person.

9. This notice, together with information about the total numbers of shares in the Company in respect of which members are entitled to exercise voting rights at the meeting as at 27 November 2012, being the latest practicable date prior to publication of this document, and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice, will be available at www.fandccit.com .

10. As at 27 November 2012, the latest practicable date prior to publication of this document, the Company had 87,884,268 ordinary shares in issue with a total of 87,884,268 voting rights. No shares are held in treasury.

11. In accordance with section 319A of the Act, the Company must answer any question that a member may ask relating to the business being dealt with at the meeting unless:

    i. answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;

    ii. the answer has already been given on a website in the form of an answer to a question; or

    iii. it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

12. In accordance with section 527 of the Act, members of the Company meeting the qualification criteria set out below may require the Company to publish, on its website (without payment) a statement, which is also passed to the auditors, setting out any matter relating to the audit of the Company's accounts, including the Independent Auditors' Report and the conduct of the audit. The qualification criteria are that the Company has received such requests from either members representing at least 5% of the total

Notice of Annual General Meeting
(continued)

voting rights of all the members who have a relevant right to vote or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state the members' full names and addresses and be sent to the Company's registered office.

13. The fourth interim dividend in respect of the year ended 30 September 2012 will be paid on 31 December 2012 to holders of ordinary shares on the register at the close of business on 7 December 2012.

14. The register of Directors' holdings, Directors' terms of appointment letters and a deed poll in relation to Directors' indemnities are available for inspection at the registered office of the Company during normal business hours on any day (Saturdays, Sundays and public holidays excepted) and will be available at the place of the meeting from 15 minutes prior to the commencement of the meeting until the conclusion thereof. No Director has any contract of service with the Company.

15. You may not use any electronic address provided either in this notice or any related documents (including the form of proxy or form of direction) to communicate with the Company for any purpose other than those expressly stated.

16. Information regarding the meeting, including the information required by section 311A of the Act, is available from www.fandccit.com

Information for Shareholders

Net asset value and share price

The Company's net asset value per share is released to the market daily, on the working day following the calculation date. It is available, with other regulatory information, through the National Storage Mechanism at www.hemscott.com/nsm.do

The current share price of F&C Capital and Income Investment Trust PLC is shown in the investment trust or investment companies section of the stock market page in most leading newspapers, usually under "F&C Capital and Income".

Performance information

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

More up-to-date performance information is available on the internet at www.fandccit.com. This website also provides a monthly update on the Company's largest holdings with comments from the Manager.

UK capital gains tax ("CGT")

An approved investment trust does not pay tax on capital gains. UK resident individuals may realise net capital gains of up to £10,600 in the tax year ending 5 April 2013 without incurring any tax liability.

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

Income tax

The fourth interim dividend is payable in December 2012. Individual UK resident shareholders who are subject to UK income tax at the basic rate have no further tax liability.

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

Association of Investment Companies ("AIC")

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

aic
The Association of Investment Companies

London Stock Exchange
LISTED
PREMIUM

Warning to shareholders – Boiler Room Scams

In recent years, many companies have become aware that their shareholders have been targeted by unauthorised overseas-based brokers selling what turn out to be non-existent or high risk shares, or expressing a wish to buy their shares. If you receive unsolicited investment advice or requests:

- Make sure you get the correct name of the person or organisation
- Check that they are properly authorised by the FSA before getting involved by visiting **www.fsa.gov.uk/pages/register/**
- Report the matter to the FSA by calling **0845 606 1234**
- If the calls persist, hang up.

More detailed information on this can be found on the Money Advice Service's website **www.moneyadviceservice.org.uk**

How to Invest

One of the most convenient ways to invest in F&C Capital and Income Investment Trust PLC is through one of the savings plans run by F&C Management Limited ('F&C').

F&C Private Investor Plan
A flexible, low cost way to invest with a lump sum from £500 or regular savings from £50 a month. You can also make additional lump sum top-ups at any time from £250.

F&C Investment Trust ISA
Use your ISA allowance to make an annual tax-efficient investment (£11,280 for the 2012/13 tax year) with a lump sum from £500 or regular savings from £50 a month. You can also make additional lump sum top-ups at any time from £250 and transfer any existing ISAs to us whilst maintaining all the tax benefits.

F&C Child Trust Fund ("CTF")
The CTF is a long-term tax-free savings account for eligible children born between 1 September 2002 and 2 January 2011, using the government's CTF voucher. If your child has a CTF with another provider, you can switch it to F&C – this is simple and straight forward. The maximum that can be invested annually is £3,600 and you can invest from as little as £25 a month.

F&C Children's Investment Plan
Aimed at children ineligible for a CTF, or if you need access to the funds before the child is 18. This flexible plan can easily be written under trust to help reduce inheritance tax liability. Investments can be made from a £250 lump sum or £25 a month. You can also make additional lump sum top-ups at any time from £100.

F&C Junior ISA ("JISA")
This is a tax-efficient saving plan for children who did not qualify for a CTF. It allows you to invest up to £3,600 each year, with all the tax benefits of the old CTF that it replaces. You can invest from £30 a month, or £500 lump sum, or a combination of both.

Potential investors are reminded that the value of investments and the income from them may go down as well as up and you may not receive back the full amount originally invested. Tax rates and reliefs depend on the circumstances of the individual.

How to invest
You can invest in all our savings plans online, except for the CTF. It's simple to register and invest using your debit card. Alternatively, please contact us for application forms.

New customers:
Contact our Investor Services Team

Call:	**0800 136 420***
Email:	**info@fandc.com**
Investing online:	**www.fandc.com**

*8:30am – 5:30pm, weekdays, call may be recorded.

Existing plan holders:
Contact our Investor Services Team

Call:	**0845 600 3030****
Email:	**investor.enquiries@fandc.com**
By post:	F&C Plan Administration Centre PO Box 11114 Chelmsford CM99 2DG

**9:00am – 5:00pm, weekdays, call may be recorded.

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

The above has been approved by F&C Management Limited which is a member of the F&C Asset Management Group and is authorised and regulated in the UK by the Financial Services Authority.

Registered office:

Exchange House, Primrose Street, London EC2A 2NY

Tel: 020 7628 8000 Fax: 020 7628 8188

www.fandccit.com

info@fandc.com

Registrars:

Computershare Investor Services PLC,

The Pavilions, Bridgwater Road,

Bristol BS99 6ZZ

Tel: 0870 889 4094 Fax: 0870 703 6142

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