



DEPARTMENT OF ENTERPRISE
TRADE AND INVESTMENT

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COMPANIES REGISTRY

CAPITAL GEARING TRUST plc

Annual Report and Accounts

For the year ended 5 April 2007

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Chairman's Statement

Overview

In the year ended 5 April 2007, I can report that Capital Gearing Trust's net asset value per share increased from 1,937.0p to 2,024.2p or by 4.5%. This follows a 14.5% increase in 2006 and a 13.6% increase in 2005.

For the 23rd consecutive year, our stated objective of achieving capital growth in absolute terms has been met, albeit this year by a relatively modest amount. This has been achieved during a period when the FTSE Equity Investment Instruments Index rose by 6.8%, the FTSE All Share Index by 8.0% and the FTSE Government All Stock Index fell by 4.8%.

During the year, we have continued to adopt a risk averse investment strategy and there has been little change in the overall asset mix shown on page 3. At the year end, fixed interest, index linked securities and cash accounted for 40.8% of total assets with a further 17.6% held in zero dividend preference shares and 6.5% in endowment funds. Equity exposure was virtually unchanged at 35.1%.

Earnings per share for the period amounted to 18.7p compared to 17.9p in 2006.

Dividend

Last year, a total distribution of 13.5p was paid, made up of 11.5p plus a special dividend of 2p. Subject to shareholder approval at the Annual General Meeting ('AGM'), this year the Board recommends a total distribution of 14p made up of 12p plus a special dividend of 2p. The special dividend continues to reflect the income generated from the high bond content of the portfolio that might at some stage be switched into lower yielding capital growth securities.

Continuation of the Trust

It is the Board's intention to offer shareholders the opportunity to realise their investment in the Company, at a price that fairly reflects the underlying net asset value in the Autumn of 2008. Closer to this time, shareholders will receive a letter detailing the mechanisms through which this will be effected. However, I can assure investors that providing that there is sufficient support, the Company will continue in its present form thereafter.

Board matters

In the course of the year, the company providing us with corporate secretarial and accounting services was sold to new owners. The Board are satisfied that this change of ownership will not impact upon the quality of service it currently receives. Also, Smith & Williamson Investment Management Limited was appointed to provide certain portfolio administration services supplied previously by Gerrard Limited.

Your Board acknowledges its responsibility to ensure that there are proper systems in place to safeguard your investment. There is an ongoing process for identifying, evaluating and reviewing these systems and the performance of our service providers, and we consider that there are effective controls in place.

The Board has for some time operated an informal discount/premium control mechanism whereby market supply and demand imbalances have been satisfied by either the issuance of shares at a premium to net asset value or buying back shares at a discount. At the last AGM shareholders approved the necessary resolutions to enable these policies to be renewed and although no change in the issued capital took place during our last financial year, similar resolutions will again be put forward at this year's AGM.

This year, the AGM will be held in Belfast on Tuesday 14 August 2007 at 12.30pm. The Notice convening the forty-fourth AGM of the Company is set out at the end of this document. Mr R P A Spiller, Mr J C Morton and I will all retire at the AGM, and being eligible, will each offer himself for re-election. Your Board would like to invite you to attend the AGM and I look forward to welcoming you to the meeting.

Outlook

Turning to the outlook, I commented in last year's report that it is always impossible to predict with any accuracy when market bubbles might burst. Many of the concerns that we identified then as major risks to the stability of world financial markets remain. These include the weakness in the US housing market, high levels of consumer debt, the excessive leverage of many financial institutions, rising energy and commodity prices and the prospect of further tightening in monetary policy by the central banks. I also alluded to some of the short-term drivers of equity prices including the withdrawal of equity through debt financed private equity takeovers which have in 2007 continued apace. For the moment, and apart from some short lived setbacks in world markets between April and June 2006 and at the end of February 2007, investors appear willing to ignore the prevailing risks in the pursuit of higher investment yields. At some stage, this enthusiasm for risk taking will no doubt abate leading to increased market volatility. We are well placed to take advantage of the opportunities that might present themselves if this should happen.

Our investment policy is, as always, geared as much to the preservation of shareholders' wealth as it is to achieving long-term capital growth. We believe that two decades of producing uninterrupted asset growth is testament to its effectiveness and is a policy that will continue to serve investors well in the future.

Finally, I am pleased to note the recent judgement of the European Court of Justice ('ECJ') with regard to VAT on management expenses. The ECJ's ruling that listed investment companies should have the same tax rules on their management fees as unit trusts and open-ended investment companies, which have been VAT exempt since 1990, is welcomed. Your Board will continue to monitor closely developments in this case and the practical implications this will have for the Company.



Mr T R Pattison
Chairman
2 July 2007

Investment Manager's Report and Portfolio Analysis

Review

During the year, the net asset value per share rose by 4.5%. The FTSE All Share index did better, with a rise of 8.0%, but the strength of Sterling meant that the FTSE World index rose only by 1.2%. The equity portfolio did better than the All-Share, but our other investments, notably in overseas conventional and index-linked bonds did less well, showing modest capital losses in Sterling terms. In general, the zero dividend preference shares performed as expected, though yields rose a little; the endowment funds actually outperformed the equity market and with far less risk. The property returns, largely through TR Property, were excellent. The only major change in allocation was to reduce the weighting to private equity/venture capital. Although the environment remains favourable for realising investments made in prior years, new investments are being made at high prices with extraordinary leverage and the return made on current acquisitions may turn out to be modest at best. Small additions were made to the two currencies that suffered from the 'carry trade', the Swiss Franc and the Japanese Yen.

The portfolio benefited from corporate reconstructions/liquidations in Acorn Income Fund, Advance UK, Falcon, Hedgefirst, F & C Private Equity 'A', Invesco English & International, Man Alternative Investments, Platinum and Resources Investment Trust. Eurovestech was noteworthy in the venture capital sector; the holding was reduced as the price rose by over 30%.

Overall, this was a year when our fears for the consequences of global imbalances were not realised; indeed, the 'dash to trash' continued unabated as appetite for risk increased. At least, the hopes underlying the construction of the portfolio appeared to be justified when the equity markets wobbled on fears for sub-prime mortgages in the early spring of 2007. With good appreciation from the bonds, both conventional and index-linked, and from currencies, the overall value of the portfolio barely moved during the equity setback.

Outlook

Financial markets in general are at a most interesting stage. After a long period of low inflation under the influence of globalisation on wages and ever cheaper imports from China in particular, the threat of accelerating increases in prices has emerged. Wages, of course, seem under reasonable control in the major economies, but with the cost of goods leaving China now rising instead of falling, the output gap closing and food prices rising as agricultural production switches to energy, the upward pressure on labour incomes is growing. In the UK, the Bank of England has continuously had to raise the level of interest rates that it forecasts are required to keep inflation on target; there must be a fear that its current projection of 5.75% as a peak will once again prove optimistic.

These rises in interest rates have pushed Sterling to levels that look rich relative to all currencies with respect to purchasing power parity. However, so long as rates keep rising and the financial services industry, the UK's major sector, remains buoyant, there is no reason to expect a reversal any time soon. Certainly the expanding current account deficit seems to be ignored in foreign exchange markets. However, once interest rates rise enough to slow the economy or cause a significant setback in the housing market or indeed a correction in financial markets, Sterling can be expected to fall significantly.

Interest rises have already been sufficient to bring to an end the compression in capitalisation rates that have driven commercial property values. Indeed, it would be no surprise to see some

reversal. Rents are increasing for offices in London and the South East, but prospects elsewhere look poor. However, the discounts to NAV mean that the sector remains interesting and the possibility of further consolidation or private equity acquisition remains.

Furthermore, property returns in Europe, especially in Germany, are improving. Only in Spain is there the danger of a large correction.

The portfolio's reduced exposure to private equity reflects a belief that the higher gearing and lower quality of current deals may lead to problems in the event of a downturn in the economy.

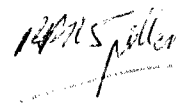
Such a downturn is not currently evident outside the US. Even there, the slowdown can be attributed directly to reduced rates of residential investment. Surprisingly, consumption has not yet been affected and the savings ratio remained negative in the first quarter, financed in part by credit card borrowing rather than mortgage equity withdrawal. Markets had until recently been assuming that the next change in Federal Funds rate would be a cut, but with inflation looking likely to be above the Fed's 'comfort zone' for the rest of 2007 this now looks unlikely. Moreover, the lagged effect of past rate increases suggests that the economy may not recover in 2008 in the way that the consensus expects.

If that is so, the rapid increase in credit that has supported the economy throughout this expansion could go into reverse; that is, the savings ratio could rise quite rapidly and thus turn a minor downturn into a recession. Against that background, the portfolio maintains its exposure to both conventional and index-linked high quality bonds. They may indeed suffer a little in the short term if growth continues, but should produce excellent returns in a downturn. Meanwhile, valuations look fair, with real returns between 2% and 2.5% in different markets. Returns on these instruments are likely to be enhanced if the wildly over leveraged financial sector struggles to deal with a recession and central banks feel forced to be very accommodative to preserve the integrity of the financial system.

For equities, the classic signs of a bear market are already in place; rising short and long term interest rates; decelerating though still positive growth in corporate profits; valuations that are rich on cyclically adjusted earnings; and even on current earnings, an environment where experienced fund managers have difficulty in finding attractive investments. However, liquidity is still powerfully supportive and the availability of high risk debt finance on generous terms both in interest rates and covenants is still enabling private equity funds to acquire companies at even higher valuations. With all companies looking over their shoulder, capital expenditure has disappointed, but companies are re-leveraging their balance sheets to buy in their shares or distribute cash to shareholders. So long, therefore, as the 'bubble' in the availability of cheap finance continues, equity markets could make further progress. We have confidence that our equities can continue to outperform the market and therefore continue to maintain over exposure at about 25% (excluding property and private equity), which seems about right for an absolute return fund, bearing in mind the potential extent of a downdraft.

Meanwhile, prospective returns on the zero dividend preference shares have risen to attractive levels and prospective returns on the endowment funds still look satisfactory.

Mr R P A Spiller
2 July 2007



Distribution of investment funds of £56,200,000 (2006: £53,702,000)

	UK %	North America %	Europe %	Elsewhere %	2007 Total %	2006 Total %
Investment trust assets:						
Ordinary shares	23.6	2.9	1.8	6.8	35.1	35.0
Endowment funds	6.5	–	–	–	6.5	8.0
Zero dividend preference shares	17.6	–	–	–	17.6	17.7
Other assets:						
Fixed interest	0.7	–	15.3	–	16.0	16.6
Index linked	3.3	4.1	11.3	–	18.7	21.4
Cash	6.1	–	–	–	6.1	1.3
	57.8	7.0	28.4	6.8	100	100

Investments of the Company – market value greater than £500,000

	2007 £000	2006 £000
Investment trust ordinary shares and endowment funds:		
TR Property Investment Trust	2,341	2,028
Life Offices Opportunities Trust	1,966	1,502
North Atlantic Smaller Companies	1,481	960
Allianz Dresdner Endowment Policy Trust 2006	–	1,305
Eurovestech	–	1,221
Oryx International Growth Fund Limited	1,035	–
Rutland Trust	982	1,838
Active Capital Trust	951	1,586
London & St Lawrence Investment Company	868	711
Henderson Euro Trust	–	855
Advance Developing Markets Trust	839	–
Advance UK Trust	810	–
Barclays Global Investors Endowment Fund II Limited	806	810
Utilico Emerging Markets Utilities Limited	781	–
Allianz Dresdner Endowment Policy Trust 2009	744	670
American Opportunities Trust	–	686
Henderson Smaller Companies	676	–
HedgeFirst Limited	–	672
Gresham House	618	–
Falcon Investment Trust	–	616
Platinum Investment Trust	–	594
Resources Investment Trust	–	594
F & C Private Equity 'A'	–	566
Tribune UK Tracker	–	561
Invesco English & International	–	503
Other: 39 investments (2006: 33 investments)	8,435	4,820
	23,333	23,098

Investment trust zero dividend preference shares:

Aberdeen Development Capital	–	1,726
Utilico Investment Trust	1,361	1,288
Premier Utilities Trust	1,350	1,000
Premium Trust	–	1,216
New Fulcrum Securities	1,136	1,072
European Utilities Trust	1,131	1,066
JP Morgan Fleming Income & Capital	1,019	623
Aberdeen Development Capital 2010	842	–
Aberdeen Development Capital 2012	842	–
JZ Equity Partners	641	–
M & G Income Investment Company	638	–
Edinburgh New Income Trust	501	–
Other: 2 investments (2006: 6 investments)	431	1,529
	9,892	9,520

Investment Manager's Report and Portfolio Analysis continued

Investments of the Company – market value greater than £500,000 continued

	2007 £000	2006 £000
Index-linked securities and fixed interest:		
Sweden (Kingdom of) 3.5% Index Linked Bonds 2028	3,230	3,193
France (Government of) 5.5% OAT 2029	2,366	2,528
Germany (Federal Republic) 4.75% Bonds 2028	2,159	2,299
Switzerland (Government of) 2% Index Linked Bonds 2014	1,595	–
Canada (Government of) 4% Index Linked 2031	1,527	1,747
Germany (Federal Republic) 4% Bonds 2029	1,361	1,424
Treasury 2.5% Index Linked 2011	1,082	1,070
Switzerland (Government of) 3% Bonds 2018	850	921
Germany (Federal Republic) 4.75% Bonds 2034	797	854
USA Treasury NTS 3.625% Index Linked Bonds 2028	768	863
Treasury 2.5% Index Linked 2016	768	771
Sweden (Kingdom of) 1% Bonds 2012	720	723
Bank Nederlandse 0.8% Bonds 2008	642	–
Treasury 2.5% Index Linked 2013	–	2,284
Other investments: 6 investments (2006: 6 investments)	1,631	1,713
	19,496	20,390
Cash	3,479	694
Total investment funds	56,200	53,702

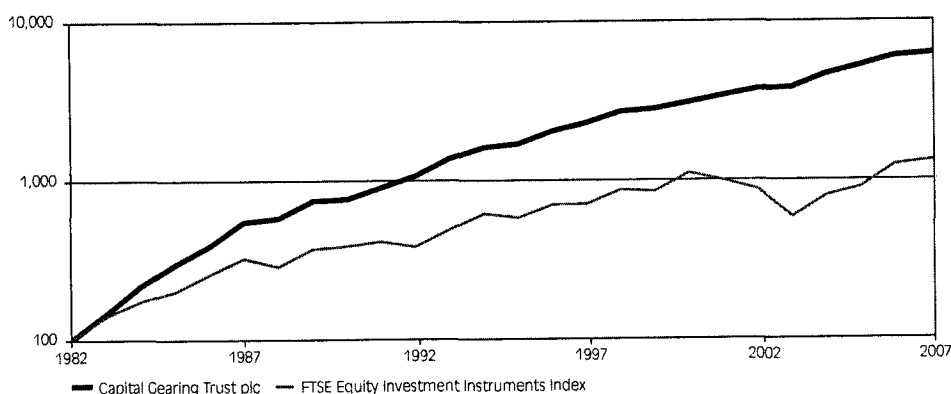
A full portfolio listing as at 5 April 2007 can be found on the Company's website at www.capitalgearingtrust.com.

Historical record of the capital growth of the Company in the 10 years to 2007

	Net assets £000	NAV per 25p shares p	Appreciation on previous year %	FTSE Equity Investment Instruments Index	Change on previous year %
5 April				Index	
1998	19,427	876.8	18	3,948.9	23
1999	21,133	906.6	4	3,848.7	(3)
2000	23,150	993.2	10	5,041.1	31
2001	24,777	1,093.5	10	4,504.4	(11)
2002	27,863	1,200.5	10	3,947.4	(12)
2003	31,368	1,232.1	3	2,640.5	(33)
2004	40,656	1,475.8	20	3,588.5	36
2005	46,612	1,692.0	14	4,052.0	13
2006	54,136	1,937.0	14	5,651.1	39
2007	56,576	2,024.2	5	6,032.7	7

The net assets and net asset value ('NAV') per share for 1998 to 2005 have been restated for the changes in accounting policy in 2006.

Rebasing each of the net asset value of the Trust and the FTSE Equity Investment Instruments Index to 100 in 1982, the subsequent performance of the Trust net asset value and the FTSE Equity Investment Instruments Index compare as follows:



Directors and Directory of Advisors

Directors

Mr T R Pattison FSI (56) Chairman

Appointed a Director in 1984 and Chairman with effect from 1 January 2005. Mr T R Pattison has over 30 years experience in managing both private client and institutional investment portfolios and is currently an executive director and chairman of Fieldings Investment Management Limited.

Mr J C Morton FCA, DL (68)

Appointed a Director in 1998. Mr J C Morton is the Chairman of the Company's Audit Committee and the Senior Independent Director. Mr J C Morton was a partner in Price Waterhouse, subsequently PricewaterhouseCoopers, until September 1998.

Mr R P A Spiller MA (Oxon), FSI (58)

Appointed a Director in 1986. Mr R P A Spiller was a partner in Cazenove & Co until 30 April 2001. He is now a director and chief executive of CG Asset Management Limited and CG Portfolio Fund Limited.

Mr E G Meek MSc (60)

Appointed a Director in 2004. Mr E G Meek is also a member of the Company's Audit Committee. He is a former investment banker and stockbroker and was previously an executive director of Smith New Court plc. He is currently chairman of SPI Lasers plc and a non-executive director of Filtronic plc.

Secretary

TMF Nominees Limited
400 Capability Green, Luton, Bedfordshire, LU1 3AE

Registered Office

Waterfront Plaza, 8 Laganbank Road, Belfast, BT1 3LR

Registered Number

NI 5574

Registrars

Capita IRG plc
The Registry
34 Beckenham Road, Beckenham, Kent, BR3 4TU

Investment Management Services

CG Asset Management Limited
25 Moorgate, London, EC2R 6AY

Portfolio Management Services

Smith & Williamson Investment Management Limited
25 Moorgate, London, EC2R 6AY

Bankers

Northern Bank Limited
Donegall Square North, Belfast, BT1 6LT

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Waterfront Plaza
8 Laganbank Road, Belfast, BT1 3LR

Stockbrokers

JP Morgan Cazenove
20 Moorgate, London, EC2R 6DA

Report of the Directors

The Directors present their Report and the Audited Financial Statements of the Company for the year ended 5 April 2007.

Status

The Company operates as an Investment Trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988. This legislation provides conditions that the Company must meet in respect of each accounting period that it seeks to be classed as an Investment Trust. The Directors are of the opinion that the Company meets the conditions set out in Section 842 of the Income and Corporation Taxes Act 1988 and has conducted its affairs in a manner which will enable it to continue to meet these conditions.

Business review and principal risks and uncertainties

A review of the year's activities and an indication of future policy are given in the Chairman's Statement and the Investment Manager's Report. The principal risks and uncertainties facing the Company are given in the Chairman's Statement, the Investment Manager's Report and note 19 to the financial statements.

Key Performance Indicators ('KPIs')

The Board monitors numerous KPI indices and ratios for the purpose of assessing and reporting investment performance. The Chairman, in his Statement, has summarised performance of the Company's net asset value from 2005 to date and has compared this year's capital growth (in absolute terms) against the FTSE Equity Investment Instruments Index, the FTSE All Share Index and the FTSE Government All Stock Index. He also describes the earnings per share and dividends paid for the year.

A graph showing the Company's net asset value compared with the FTSE Equity Investment Instruments Index over the period from 1982 is shown on page 4. A comparison of the Company's share price total return over the last five years, compared with the FTSE Equity Investment Instruments Index, which reflects the performance of similar companies, is shown on page 10.

In addition, the Board monitors the following additional KPIs:

- Share price premium 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 (if discount to NAV is high) or issued (if share price is at a premium to NAV). At the start of the year under review the premium to NAV was 6.0% compared with 1.8% at the year end.
- Expense ratios, which enable the Board to measure the control of costs and help in meeting the dividend payment objective. The ratio of operating expenses to net assets continues to remain relatively stable at 1.5%.

Net asset value

At 5 April 2007 the net assets per 25p Ordinary Share of the Company amounted to 2,024.2p, as compared with a figure of 1,937.0p for 2006.

Results and dividend

The revenue return for the financial year was £522,000 (2006: £497,000).

The Directors recommend the payment of a dividend of 14p per Ordinary Share for the year ended 5 April 2007, made up of 12p plus a special dividend of 2p (2006: a total of 13.5p, made up of 11.5p plus a special dividend of 2p) amounting to £391,000 (2006: £377,000) for approval by the shareholders at the forthcoming Annual General Meeting. The dividend will be payable on 17 August 2007 to shareholders on the Register of Members on 20 July 2007, the associated ex-dividend date being 18 July 2007. In accordance with the requirements of FRS 21 dividends are recognised in the financial statements in the year in which they are paid, such that the amount recognised in the 2007 statements comprises the 2006 final dividend.

Going concern

After making enquiries, the Directors consider that the Company has adequate resources, an appropriate financial structure and suitable arrangements in place to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Political and charitable contributions

No contributions were made during the year for political or charitable purposes (2006: nil).

Directors and their interests

The Directors during the year ended 5 April 2007 and their interests in the shares of the Company were:

	Ordinary Shares of 25p each in Capital Gearing Trust plc	
	5 April 2007	5 April 2006
Mr T R Pattison		
Non-Executive Chairman	2,430	2,430
Mr J C Morton		
Senior independent Non-Executive Director	3,000	3,000
Mr R P A Spiller		
Non-Executive Director and Investment Manager	287,690	287,690
Mr E G Meek		
Non-Executive Director	2,500	2,500

There have been no changes in the Directors' interests in the shares of the Company during the period 6 April 2007 to 2 July 2007.

Retiring Directors

Mr T R Pattison, Mr J C Morton and Mr R P A Spiller will retire at the forthcoming AGM, and, being eligible, will be proposed for re-election.

Mr T R Pattison offers himself for re-election in accordance with Principle 3 of the AIC Code of Corporate Governance (the 'AIC Code') as he has served as a Director for more than nine years.

Mr J C Morton offers himself for re-election in accordance with Article 89.1 of the Company's Articles of Association. Mr Morton will have served as a Director for more than nine years by the time the AGM in 2008 is held, and will consequently offer himself for re-election under Principle 3 of the AIC Code at that AGM and annually thereafter.

Mr R P A Spiller offers himself for re-election in accordance with Principle 2 of the AIC Code as he is an employee of the Investment Manager, CG Asset Management Limited.

After due consideration of the results of a performance evaluation, the Chairman and the Board confirm that they are content that the performance of the Directors seeking re-election continues to be effective and demonstrates commitment to the role, including the necessary commitment of time for Board and Committee meetings and other duties as are required. The Board believes that the re-election of the above named Directors is in the best interests of the Company and its shareholders.

Subject to annual re-election and the need to refresh its membership from time to time, the Board are of the opinion that the term of office of individual Directors should not necessarily be restricted to any particular number of years, but rather should be determined by the Board's judgement of their continuing effectiveness and performance.

Contracts

The Company's investments are managed by CG Asset Management Limited under an agreement dated 27 April 2001, which is terminable on 12 months' notice. Mr R P A Spiller, a Director of the

Company, is a shareholder in, and is Chief Executive of, CG Asset Management Limited (see note 3 to the accounts). There were no other contracts existing either during the year or at the end of the year in which any of the Directors are or were materially interested.

Creditor payment policy

Whilst following no formal code, it is the Company's policy to settle all its investment transactions within the time frames operating in the markets in which it operates, generally within one week of the transaction. Other expenses are paid on a timely basis in the normal course of business.

Substantial shareholders

At 2 July 2007, the following major interests in the ordinary issued shares of 25p each in the Company had been reported to the Company in accordance with articles 206 to 216 of the Companies (Northern Ireland) Order 1986:

	Ordinary Shares held	Percentage held
Suffolk Life Annuities Limited	251,695	9.0
Smith & Williamson Investment Management Limited	231,125	8.3
R P A Spiller	199,350	7.1
Cazenove Capital Management	168,791	6.0
Mrs V H I Maunder-Taylor	164,573	5.9
Rensburg Sheppards Investment Management Limited	89,040	3.2
Mrs D Spiller	88,340	3.2

Annual General Meeting

The AGM of the Company will be held on 14 August 2007 at 12.30pm at the offices of PricewaterhouseCoopers LLP, Waterfront Plaza, 8 Laganbank Road, Belfast, BT1 3LR. At this meeting the Company will seek to renew its powers to buy back up to 418,956 (14.99%) of the issued share capital and to issue up to 10% of the issued share capital on a non pre-emptive basis. Whilst recognising that Institutional Investor Guidelines recommend non pre-emptive issues be not more than 5% of issued share capital, the Board recommends a maximum of 10% since it feels this will give added flexibility, and will be more cost effective. The powers granted during 2006 will expire at this AGM (the forty-fourth AGM). If approved, they will in turn expire at the 2008 AGM unless previously varied or renewed, and will only be exercised if this will result in an enhancement to the net asset value per share.

Full details of the business to be transacted at the meeting are set out in the Notice of the AGM on pages 24 and 25.

Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as Auditors to the Company and authorise the Directors to determine their remuneration will be proposed at the forthcoming AGM.

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 5. Having made enquiries of fellow Directors and of the Company's Auditors, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's Auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's Auditors are aware of that information.

Statement of Directors' responsibilities

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period and do not contain any untrue or misleading statements. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies (Northern Ireland) Order 1986.

The Directors are aware that they will be liable if:

- they knew any statement to be untrue or misleading or were reckless as to whether any statement was untrue or misleading; or
- they knew any omission from the accounts was a dishonest concealment of a material fact.

The Directors are further responsible for ensuring that no omissions are made from the accounts which could be construed as concealment of a material fact. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

These accounts are published on www.capitalgearingtrust.com, which is a website maintained by TMF Corporate Secretarial Services Limited. The Directors are responsible for the maintenance and integrity of the Company's corporate and financial information included within the above website. Legislation in the United Kingdom governing the preparation and dissemination of the accounts may differ from legislation in other jurisdictions.

By Order of the Board



TMF Nominees Limited
Secretary
2 July 2007

Corporate Governance Report

The Board has considered the principles and recommendations of the AIC Code of Corporate Governance ('AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies ('AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Combined Code), will provide better information to shareholders.

The following paragraphs demonstrate how the principles of the AIC Code have been applied and detail recommendations of the AIC Code which were not complied with during the year.

The Combined Code includes provisions relating to the role of the chief executive and executive directors' remuneration. For the reasons set out in the AIC Guide, and in the preamble to the Combined Code, the Board considers that these provisions are not relevant to the position of the Company as an externally managed investment company and has therefore not reported further in respect of these provisions.

The Board of Directors

As at 2 July 2007 the Board of Directors comprises four Non-Executive Directors. With the exception of Mr R P A Spiller, all of the Directors are independent of the Company's Investment Manager. This assessment is based on independence questionnaires which are completed annually by each of the Directors, other than Mr R P A Spiller, and reviewed by the Chairman and then the Board as a whole. The Board also considers that the Chairman remains independent of the Investment Manager despite the fact that he has served on the Board for more than nine years as he continues to represent the interests of shareholders as a whole. The Company supports Principle 2 of the AIC Code which recommends that long serving directors, including the Chairman, should not be prevented from forming part of an independent majority. The terms and conditions of appointment of all the Directors are available for inspection at the Registered Office and will be made available for inspection at the AGM.

The Company has no Executive Directors nor any employees. The Board has engaged external firms to undertake the investment management, secretarial, accounting, registration and custodial activities of the Company, and has delegated authority to them. The investment strategy and all other matters are reserved for the approval of the Board. The Board meets quarterly to review the overall business of the Company and to consider the matters specifically reserved for it to decide on. Detailed information is provided by the Manager and Secretary for these meetings which enables the Directors to monitor the investment performance of the Company. The Directors review the Company's activity over the quarter to ensure it adheres to its investment policy or, if it is considered appropriate, to authorise any change in policy.

Mr J C Morton is the Senior Independent Director and is available to shareholders if they have concerns which contact through the normal channel of Chairman has failed to resolve or for which such contact is inappropriate. As the Board is small there is no formal Nomination Committee and appointments of new Directors are considered by the Board as a whole. Directors are subject to re-election by shareholders at the intervals specified in the Company's Articles of Association and the Directors consider that this meets the requirement of the AIC Code that Directors are appointed for specific periods and that their re-appointment should not be automatic. Further, in accordance with Principle 3 of the AIC Code, Directors (including the Chairman) who have served for more than nine years are subject to annual re-election.

The following were Directors of the Company for the year ended 5 April 2007. Attendance at the four scheduled meetings during the year were as follows:

Director		Attendance
Mr T R Pattison	Non-Executive Chairman	4
Mr J C Morton	Senior Independent Non-Executive Director	3
Mr R P A Spiller	Non-Executive Director and Investment Manager	4
Mr E G Meek	Non-Executive Director	4

The Board has an established procedure whereby Directors, in the furtherance of their duties, may seek independent professional advice at the Company's expense. All Directors have access to the advice and services of the Company Secretary.

On appointment, each Director is provided with a summary of the responsibilities and duties of Directors, together with relevant background information on the Company. Consistent with the recommendation of the AIC Code, appropriate training is arranged for new Directors where this is considered necessary. In addition, each of the Directors is encouraged to seek ongoing training opportunities, both in relation to their office with the Company and otherwise. The Secretary attends all Board and Committee meetings and advises the Board, through the Chairman, on all matters relating to board procedures and corporate governance.

A formal performance evaluation of the Board and the Audit Committee was carried out in June 2007. This took the form of individual self assessment, the results of which were then considered by the Chairman and Senior Independent Director, who in turn reported back to the Board. The Board intends to continue to carry out this review on an annual basis. The performance of the Chairman was discussed at a meeting of the Board in June 2007. The Chairman was not present during the course of this assessment. Although there is currently no individual assessment of Mr J C Morton and Mr E G Meek as Directors, the Board is of the opinion that an assessment of their performance is adequately covered by the evaluation of the Board as a whole and of the Audit Committee, of which they are both members.

During the year, the Company renewed its cover for its Directors under a directors' and company liability policy. As the Company has no employees, a formal whistleblowing policy has not been adopted. However, the Board has agreed a procedure through which any of the Directors or employees of external service providers can bring to the attention of the Chairman or Senior Independent Director matters of concern to them.

Audit Committee

The Company has a separate Audit Committee consisting of Mr J C Morton (Chairman) and Mr E G Meek. The composition of the Audit Committee reflects the requirements of the AIC Code. The Board considers that Mr J C Morton has sufficient and relevant financial experience. The Terms of Reference of the Committee are available on request from the Company Secretary and are also available on the Company's website at www.capitalgearingtrust.com. The Committee meets with the Auditors to consider any matters arising from the accounts or the audit and meets at least once a year with the Company's Auditors without the presence of the Investment Manager. The main duties of the Audit Committee that have been delegated by the Board are:

- reviewing the integrity of the financial statements and related announcements;
- reviewing the Company's internal control and risk management systems; and
- reviewing the appointment and remuneration of the Auditors, together with the Auditor's objectivity and independence including the provision by them of any non-audit services.

The non-audit services provided by the Auditors relate to tax services that do not, in the opinion of the Board, compromise the independence of the Audit team. The proposed provision of any other non-audit services would be considered on a case by case basis by the Audit Committee.

The Audit Committee met twice during the year ended 5 April 2007. Attendance at these meetings was as set out below:

Director	Attendance
Mr J C Morton	2
Mr E G Meek	2

Investment Manager

The Company's investments are managed by CG Asset Management Limited under an agreement dated 27 April 2001, which is terminable on 12 months' notice. Under this agreement, CG Asset Management Limited receives an annual investment management fee of 0.85% of the gross assets of the Company based on quarterly valuations and payable quarterly in arrears. In the event of termination of the agreement otherwise than at the end of a quarter, the Company shall pay to the manager a due proportion (pro-rated based on the time remaining in the period) of the fee for the period ended on the termination of the agreement, calculated by reference to the gross assets of the Company as at the date of termination. No other compensation would be payable in the event of termination of the agreement.

The Investment Manager operates under an investment policy and guidelines drawn up by the Board. These guidelines set out parameters under which the Investment Manager operates, including the overall investment strategy, the level of borrowing, the types of investment that may be made and the proportion of the Company's assets that can be held in other UK listed investment companies. Any proposed deviation from these guidelines is required to be discussed with and agreed by the Board, or by the Chairman where authority is required between Board meetings. In addition, the Investment Manager presents a report at each Board meeting detailing compliance with the investment policy and guidelines during the preceding quarter and outlining any instances where approval for investment decisions was sought from either the Board or the Chairman.

The performance of the Investment Manager during the year and the contractual arrangements with the investment Manager were discussed at a Board meeting in June 2007. Mr R P A Spiller, as representative of the Investment Manager, was not present during the course of this assessment.

In reviewing the Investment Manager's performance, the Directors take the following into consideration:

- adherence to the pre-agreed investment policy and guidelines as prescribed by the Board;
- whether the strategy adopted by the Investment Manager has been and continues to be consistent with the aim of providing growth in net asset value in absolute terms;
- the asset value performance achieved in the year under review as well as over the longer term and whether this has satisfied the investment objectives as communicated to shareholders; and
- compliance and administration competence.

Based on investment performance over the year, the Board concluded that the continuing appointment of the Investment Manager on the existing terms was in the best interests of the shareholders as a whole.

Relations with shareholders

All shareholders have the opportunity to attend and vote at the Annual General Meeting during which the Directors, including the Chairman and Chairman of the Audit Committee, are available to discuss key issues affecting the Company. It is the intention of the

Board to continue to alternate the holding of AGMs between London and Belfast in recognition of the geographic spread of its shareholders. Informal communications with major shareholders continue to be maintained by the Chairman and/or Investment Manager in order that the Board has an understanding of their views on the Company. In addition, each of the Directors, including the Investment Manager, is always available to discuss issues of concern raised by any of the shareholders.

Internal control

The Directors acknowledge that they are responsible for ensuring that the Company's activities are subject to a system of internal control and for reviewing its effectiveness. 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. Whilst acknowledging this responsibility they also recognise that the existence of a system of internal control can provide only reasonable and not absolute assurance against material misstatement or loss.

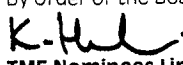
The Board has established procedures necessary to implement the requirements of the Combined Code relating to internal control as reflected in the October 2005 guidance 'Internal Control: Revised guidance for Directors on the Combined Code' (the 'Turnbull guidance (2005)'). The Board has established a continuous process for identifying, calculating and managing significant risks faced by the Company. This process has been in place for the year under review and up to the date of approval of the annual report and is subject to an annual review by the Board in accordance with the Turnbull guidance (2005). This process includes written agreements with service providers and is regularly reviewed by the Board, which includes a review of internal controls by the Audit Committee.

In common with the majority of investment trusts, the Board have decided that the most effective way to manage the Company is for the Directors to determine investment strategy and for the day to day administration, detailed investment decisions and custodial functions to be delegated to organisations which are specialists in these areas and which can provide, because of their size and specialisation, economies of scale, segregation of duties and all that is required to provide proper systems of internal control, within a regulated environment. These organisations maintain their own systems of internal control. The Board has undertaken an annual review of the Company's system of internal controls and has received from relevant service providers a report on their internal controls, control policies and procedures in operation. For this reason and because the Company itself has no employees, it does not have an internal audit function. The Board will continue to monitor the effectiveness of the system of internal control on an annual basis in order to provide assurance that it operates as intended and the Audit Committee will review annually whether an internal audit function is required. The system of internal control was in place throughout the year and up to the date of approval of this Report. The Board confirms that all necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from the annual review of the effectiveness of internal controls.

Compliance with the recommendations of the AIC Code and Combined Code

Subject to the exceptions explained in the foregoing paragraphs, during the financial year the Company has complied with the recommendations of the AIC Code and the relevant provisions of Section 1 of the Combined Code.

By Order of the Board


K. Hill
TMF Nominees Limited
Secretary
 2 July 2007

Directors' Remuneration Report

This report is prepared in accordance with Schedule 7A of the Companies (Northern Ireland) Order 1986. The Company's Auditors are required to report on the information contained within the following paragraph of this report. The Auditors' opinion is included within the Auditors' report set out on page 11.

Amount of each Director's remuneration (audited)

The Directors who served during the year received emoluments as detailed in note 5 to the accounts on page 18.

Consideration of matters relating to Directors' remuneration

As the Board is small, it is considered unnecessarily burdensome to establish a separate remuneration committee and the Board as a whole fulfils this function. Mr R P A Spiller leaves the meeting when issues relating to the fees of the Investment Manager are discussed. The level of Directors' fees is reviewed every alternate year relative to the work involved as well as the fees of the directors of comparable companies.

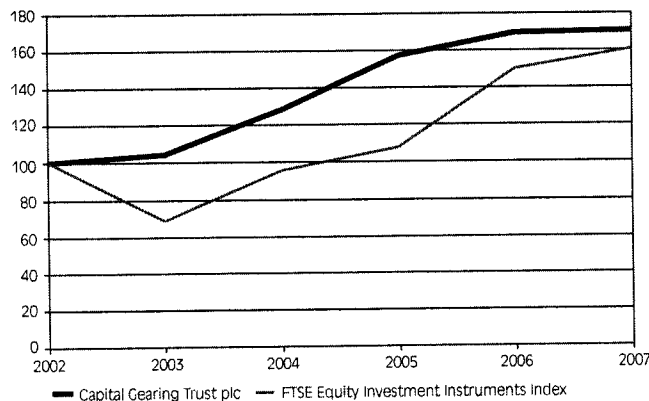
Statement of the Company's policy on Directors' remuneration

No Director has a contract of service with the Company. The fees payable to the Board of Directors are limited to a total of £50,000 per annum, divided among the Directors in such proportions and in such manner as the Board may determine.

The Company does not operate any type of incentive or pension scheme and therefore no Directors receive bonus payments or pension contributions from the Company or hold options to acquire shares in the Company. Directors are not paid compensation for loss of office. Each Director is entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by him in or about the performance of his duties as Director, including any expenses incurred in attending meetings of the Board or any committee of the Board or general meetings of the Company.

Performance graph

A graph showing the Company's net asset value compared with the FTSE Equity Investment Instruments Index over the period from 1982 to date is shown on page 4. A comparison of the Company's share price total return over the last five years, compared with the FTSE Equity Investment Instruments Index, which reflects the performance of similar companies, is shown below:



By Order of the Board

K. Hill

TMF Nominees Limited
Secretary
2 July 2007

Independent Auditors' Report to the Members of Capital Gearing Trust plc

We have audited the financial statements of Capital Gearing Trust plc for the year ended 5 April 2007 which comprise the Income Statement, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 243 of the Companies (Northern Ireland) Order 1986 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code (2003) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Company

Summary, the Chairman's Statement, the Investment Manager's Report and Portfolio Analysis, Report of the Directors and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 5 April 2007 and of its net return and cash flows for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986; and
- the information given in the Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Belfast
3 July 2007

Income Statement

for the year ended 5 April 2007

	Note	Revenue £000	Capital £000	2007 Total £000	Revenue £000	Capital £000	2006 Total £000
Gains on investments	9	–	3,417	3,417	–	6,471	6,471
Exchange (losses)/gains	9	–	(717)	(717)	–	455	455
Investment income	2	990	–	990	948	–	948
Gross return		990	2,700	3,690	948	6,926	7,874
Investment management fee	3	(164)	(383)	(547)	(152)	(354)	(506)
Transaction costs		–	(76)	(76)	–	(74)	(74)
Other expenses	4	(250)	–	(250)	(240)	–	(240)
Net return on ordinary activities before tax		576	2,241	2,817	556	6,498	7,054
Tax on ordinary activities	6	(54)	54	–	(59)	59	–
Net return attributable to equity shareholders	15	522	2,295	2,817	497	6,557	7,054
Return per Ordinary Share	8	18.68p	82.11p	100.79p	17.89p	236.03p	253.92p

The total column of this statement is the Income Statement of the Company. The revenue return and capital return columns are supplementary to this and are prepared under guidance issued by the Association of Investment Companies.

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

The notes on pages 16 to 23 form an integral part of these financial statements.

Statement of Total Recognised Gains and Losses

for the year ended 5 April 2007

	2007 £000	2006 £000
Total recognised gains and losses relating to the year	2,817	7,054
Prior year adjustments – FRS 21	–	358
– FRS 26	–	(351)
Total gains and losses recognised	2,817	7,061

Reconciliation of Movements in Shareholders' Funds

for the year ended 5 April 2007

	Called up share capital £000	Share premium reserve £000	Capital redemption reserve £000	Capital reserve – unrealised £000	Capital reserve – realised £000	Revenue reserve £000	Total £000
Balance at 6 April 2005	689	7,296	16	7,643	30,078	890	46,612
Issue of shares	10	-	-	-	-	-	10
Premium on issue of shares	-	818	-	-	-	-	818
Exchange gains on investments	-	-	-	444	11	-	455
Net gains on realisation of investments	-	-	-	-	1,139	-	1,139
Net increase in unrealised appreciation	-	-	-	5,332	-	-	5,332
Transfer on disposal of investments	-	-	-	(2,649)	2,649	-	-
Transaction costs	-	-	-	(63)	(11)	-	(74)
Costs charged to capital	-	-	-	-	(354)	-	(354)
Tax on costs charged to capital	-	-	-	-	59	-	59
Net revenue for the year	-	-	-	-	-	497	497
Total	699	8,114	16	10,707	33,571	1,387	54,494
Dividends	-	-	-	-	-	(358)	(358)
Balance at 5 April 2006	699	8,114	16	10,707	33,571	1,029	54,136
Balance at 6 April 2006	699	8,114	16	10,707	33,571	1,029	54,136
Issue of shares	-	-	-	-	-	-	-
Premium on issue of shares	-	-	-	-	-	-	-
Exchange losses on investments	-	-	-	(717)	-	-	(717)
Net gains on realisation of investments	-	-	-	-	1,087	-	1,087
Net increase in unrealised appreciation	-	-	-	2,330	-	-	2,330
Transfer on disposal of investments	-	-	-	(3,564)	3,564	-	-
Transaction costs	-	-	-	(64)	(12)	-	(76)
Costs charged to capital	-	-	-	-	(383)	-	(383)
Tax on costs charged to capital	-	-	-	-	54	-	54
Net revenue for the year	-	-	-	-	-	522	522
Total	699	8,114	16	8,692	37,881	1,551	56,953
Dividends	-	-	-	-	-	(377)	(377)
Balance at 5 April 2007	699	8,114	16	8,692	37,881	1,174	56,576

The notes on pages 16 to 23 form an integral part of these financial statements.

Balance Sheet

at 5 April 2007

	Note	2007 £000	2006 £000
Fixed assets			
Investments:			
Listed investments	9	52,721	53,008
Current assets			
Debtors	10	3,857	1,193
Cash at bank		228	145
		4,085	1,338
Creditors: amounts falling due within one year	11	230	210
Net current assets		3,855	1,128
Net assets		56,576	54,136
Capital and Reserves			
Called up share capital	12	699	699
Share premium account	13	8,114	8,114
Capital redemption reserve	13	16	16
Capital reserve – unrealised	13	8,692	10,707
Capital reserve – realised	13	37,881	33,571
Revenue reserve	13	1,174	1,029
Total shareholders' funds – equity	15	56,576	54,136
Net asset value per Ordinary Share	14	2,024.2p	1,937.0p

Approved by the Board on 2 July 2007



Mr T R Pattison
Chairman

The notes on pages 16 to 23 form an integral part of these financial statements.

Cash Flow Statement

for the year ended 5 April 2007

	Note	2007 £000	2006 £000
Net cash inflow from operating activities	16	334	103
Capital expenditure and financial investment			
Payments to acquire investments		(14,037)	(16,595)
Receipts from sale of investments		16,948	15,697
		2,911	(898)
Equity dividends paid		(377)	(358)
Management of liquid resources			
Cash paid to brokers awaiting investment		(2,785)	319
Financing			
Issue of new shares	12	-	828
Increase/(decrease) in cash	18	83	(6)

The notes on pages 16 to 23 form an integral part of these financial statements.

Notes to the Financial Statements

5 April 2007

1 Accounting policies

a) Accounting convention

The financial statements are prepared under the historical cost convention, modified to include the revaluation of investments. The financial statements have been prepared on the going concern basis in accordance with the Companies (Northern Ireland) Order 1986 and applicable accounting standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies', revised December 2005 (the 'SORP').

The Directors consider that the Company has adequate resources, an appropriate financial structure and suitable arrangements in place to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

b) Valuation of investments

Listed investments, which in accordance with FRS 26 are classified as fair value through profit or loss, are valued at bid prices. Where trading in the securities of an investee company is suspended, the investment is valued at the Board's estimate of its net realisable value.

Realised surpluses or deficits on the disposal of investments and permanent impairments in the value of investments are taken to capital reserve – realised, and unrealised surpluses and deficits on the revaluation of investments are taken to capital reserve – unrealised as explained in note 1 h) on page 17.

Year end exchange rates are used to translate the value of investments which are denominated in foreign currencies. Exchange differences arising from re-translation of the opening net investments are taken to capital reserve.

c) Dividends

In accordance with FRS 21, 'Events after the Balance Sheet Date', dividends to shareholders are not accrued in the accounts unless they have been declared before the balance sheet date. Dividends are shown in the reconciliation of movements in shareholders' funds (note 15) in the period in which they are declared and paid.

Special dividends receivable have been taken to capital as recommended by the SORP where relevant circumstances indicate that the dividends are capital in nature.

d) Income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date, and the return on zero dividend preference shares is recognised as a capital return.

Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the Company's right to receive payment is established.

Income from fixed interest securities is recognised as revenue on a time apportionment basis so as to reflect their effective yield.

Income from securities where the return is linked to an inflation index is recognised on a time apportionment basis so as to reflect their effective yield, including the anticipated inflationary increase in their redemption value. The element of the total effective yield that relates to the inflationary increase in their redemption value is considered to represent a capital return, and is included in the income statement as such in accordance with the SORP. The amount recognised as a capital return on index linked securities in the year was £163,000 (2006: £223,000).

Other income is accounted for on an accruals basis.

e) Expenses

All expenses are accounted for on an accruals basis and are inclusive of value added tax. Expenses are charged through the revenue account except when expenses are charged to capital reserve – realised where a connection with the maintenance or enhancement of the value of the investments can be demonstrated. In this respect the investment management fees have been allocated 70% to capital reserve – realised and 30% to revenue, in line with the Board's expected long term split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company.

f) Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date. Due to the Company's investment trust status, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, it has not provided any deferred tax on capital gains or losses arising on the revaluation of investments.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The tax effect of the allocation of expenditure between capital and revenue is reflected in the financial statements using the Company's effective rate of tax for the year.

1 Accounting policies *continued*

g) Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end.

The results and financial position of the Company are expressed in pounds sterling, which is the functional and presentational currency of the Company. The Directors, having regard to the currency of the Company's share capital and the predominant currency in which the Company operates, have determined the functional currency to be pounds sterling.

h) Capital reserves

Capital reserve – realised

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- realised exchange differences of a capital nature; and
- expenses and finance costs, together with the related taxation effect, charged to this reserve in accordance with the above policies.

Capital reserve – unrealised

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year end; and
- unrealised exchange differences of a capital nature.

2 Investment income

	2007 £000	2006 £000
Income from investments:		
Income from UK bonds	97	130
Income from UK equity and non-equity investments	290	246
Overseas interest	539	521
	926	897
Deposit interest	64	51
Total income	990	948

	2007 £000	2006 £000
Total income comprises:		
Dividends	290	246
Interest	700	702
	990	948
Income from investments comprises:		
Listed in the UK	387	376
Listed overseas	539	521
	926	897

3 Investment management fee

	Revenue £000	Capital £000	2007 Total £000	Revenue £000	Capital £000	2006 Total £000
Management fee	164	383	547	152	354	506

The Company's Investment Manager, CG Asset Management Limited, received an annual management fee equal to 0.85% of the gross assets of the Company. At 5 April 2007 £139,198 (2006: £130,000) was payable. All costs are inclusive of irrecoverable VAT.

70% of the total investment management fee and connected costs are allocated to the capital reserve – realised.

Notes to the Financial Statements continued

5 April 2007

4 Other expenses

	2007 £000	2006 £000
Administrative expenses:		
Portfolio administration	65	58
Auditors' remuneration:		
Statutory audit	16	13
Taxation services	21	18
Directors' remuneration (note 5)	35	35
Company secretarial and accountancy services	77	77
General expenses	36	39
	250	240

The above expenses include irrecoverable VAT where appropriate.

5 Directors' fees

	2007 Total £000	2006 Total £000
The fees payable to the Directors were as follows:		
Mr T R Pattison	12	12
Mr J C Morton	9	9
Mr R P A Spiller	7	7
Mr E G Meek	7	7
	35	35

Mr R P A Spiller's fees are paid directly to his employer and VAT is an additional cost thereon. The Company made no pension contributions (2006: £nil) in respect of Directors and no pension benefits are accruing to any Director (2006: £nil).

Mr R P A Spiller received remuneration totalling £58,300 (2006: £52,000) from CG Asset Management Limited in respect of services provided by that company to Capital Gearing Trust plc.

Details of transactions with CG Asset Management Limited, of which Mr R P A Spiller is a director, are disclosed in note 3. There were no other transactions with Directors during the year.

6 Tax on ordinary activities

	Revenue £000	Capital £000	2007 Total £000	Revenue £000	Capital £000	2006 Total £000
Tax attributable to management expenses charged to revenue	(54)	54	-	(59)	59	-

The current tax charge is reconciled to the standard rate of Corporation Tax of 30% (2006: 30%) by the following factors:

	Revenue £000	Capital £000	2007 Total £000	Revenue £000	Capital £000	2006 Total £000
Return on ordinary activities before taxation	576	2,241	2,817	556	6,498	7,054
Return on ordinary activities at the standard rate of UK Corporation Tax	173	672	845	167	1,949	2,116
UK franked dividends*	(87)	-	(87)	(74)	-	(74)
Capital returns*	-	(726)	(726)	-	(2,008)	(2,008)
Adjustment for reduced rate of tax	(32)	-	(32)	(34)	-	(34)
Current tax charge for the year	54	(54)	-	59	(59)	-

* These items are not subject to Corporation Tax within an investment trust company.

Potential deferred tax assets in respect of unrelieved management charges of £48,000 and £76,000 at 5 April 2007 and 2006 respectively have not been recognised as the prospect for their recovery against future taxation liabilities is uncertain.

7 Dividends

	2007 £000	2006 £000
Ordinary Shares		
2006 dividend paid 28 July 2006 (13.5p per share)	377	–
2005 dividend paid 8 July 2005 (13.0p per share)	–	358

The Directors have recommended to shareholders a final dividend of 14p per share for the year ended 5 April 2007. If approved, this dividend will be paid to shareholders on 17 August 2007. This dividend is subject to approval by shareholders at the Annual General Meeting and, therefore, in accordance with FRS 21, it has not been included as a liability in these financial statements. The total estimated dividend to be paid is £391,000.

	2007 £000	2006 £000
Revenue available for distribution by way of dividend for the year	522	497
Proposed final dividend of 14p for the year ended 5 April 2007	(391)	(377)
Undistributed revenue for Section 842 Income and Corporate Taxes Act 1988 purposes*	131	120

* Undistributed revenue comprises approximately 14.1% (2006: 13.4%) of income from investments of £926,000 (2006: £897,000).

8 Return per Ordinary Share

Revenue return per Ordinary Share of 18.68p (2006: 17.89p) is based on the net revenue return on ordinary activities after taxation of £522,000 (2006: £497,000) and on 2,794,906 (2006: 2,778,009) Ordinary Shares, being the weighted average number of Ordinary Shares in issue in each year.

Capital return per Ordinary Share of 82.11p (2006: 236.03p) is based on the net capital return for the financial year of £2,295,000 (2006: £6,557,000) and on 2,794,906 (2006: 2,778,009) Ordinary Shares, being the weighted average of the number of Ordinary Shares in issue in each year.

9 Listed investments

	2007 £000	2006 £000
Investments comprise –		
Listed investment companies:		
Incorporated in the United Kingdom	29,047	32,596
Incorporated overseas	2,629	4,428
Listed overseas government bonds	17,239	15,848
Miscellaneous ordinary shares (overseas)	3,806	136
	52,721	53,008
Cost of investments held at 6 April 2006	42,301	37,615
Unrealised appreciation at 6 April 2006	10,707	7,643
Fair value of investments held at 6 April 2006	53,008	45,258
Additions at cost	14,037	16,595
Disposals proceeds	(16,948)	(15,697)
Transaction costs	(76)	(74)
Exchange (losses)/gains	(717)	455
Disposals – realised gains	1,087	1,139
Increase in unrealised appreciation	2,330	5,332
Fair value of investments held at 5 April 2007	52,721	53,008
Book cost at 5 April 2007	44,029	42,301
Unrealised appreciation at 5 April 2007	8,692	10,707
	52,721	53,008
Exchange (losses)/gains	(717)	455
Disposals – realised gains	1,087	1,139
Increase in unrealised appreciation	2,330	5,332
Gains on investments	3,417	6,471

The geographical spread of investments is shown on page 3.

Notes to the Financial Statements continued

5 April 2007

10 Debtors: amounts falling due within one year

	2007 £000	2006 £000
Amounts due from brokers, on deposit	3,479	694
Prepayments and accrued income	378	499
	3,857	1,193

11 Creditors: amounts falling due within one year

	2007 £000	2006 £000
Accruals and deferred income	230	210

12 Called up share capital

	2007 £000	2006 £000
Authorised		
4,000,000 Ordinary Shares of 25p each	1,000	1,000
Allotted and fully paid		
At the beginning of the year: 2,794,906 Ordinary Shares (2006: 2,754,906)	699	689
At the end of the year: 2,794,906 Ordinary Shares (2006: 2,794,906)	699	699

13 Reserves

	Share premium reserve £000	Capital redemption reserve £000	Capital reserve – unrealised £000	Capital reserve – realised £000	Revenue reserve £000
Balance at 6 April 2006	8,114	16	10,707	33,571	1,029
On issue of shares	–	–	–	–	–
Exchange losses on investments	–	–	(717)	–	–
Net gains on realisation of investments	–	–	–	1,087	–
Net increase in unrealised appreciation	–	–	2,330	–	–
Transfer on disposal of investments	–	–	(3,564)	3,564	–
Transaction costs	–	–	(64)	(12)	–
Costs charged to capital	–	–	–	(383)	–
Tax on costs charged to capital	–	–	–	54	–
Net revenue for the year	–	–	–	–	522
Dividends	–	–	–	–	(377)
Balance at 5 April 2007	8,114	16	8,692	37,881	1,174

The revenue reserve is the only reserve from which dividends can be paid.

14 Net asset value per share

The net asset value per Ordinary Share and the net asset value attributable to the Ordinary Shares at the year end were as follows:

Net asset value per share attributable to

	2007	2006
Ordinary Shares (basic)	2,024.2p	1,937.0p

Net asset value attributable to

	£000	£000
Ordinary Shares (basic)	56,576	54,136

14 Net asset value per share *continued*

The movements during the year in the assets attributable to the Ordinary Shares were as follows:

	Assets attributable to Ordinary Shares £000
Total net assets attributable at 6 April 2006	54,136
Total recognised gains for the year	2,817
Dividends appropriated in the year	(377)
Total net assets attributable at 5 April 2007	56,576

Net asset value per Ordinary Share is based on the net assets, as shown above, and on 2,794,906 (2006: 2,794,906) Ordinary Shares, being the number of Ordinary Shares in issue at the year end.

There was no dilution of net asset value during the previous year resulting from the issue of ordinary share capital.

15 Reconciliation of movements in shareholders' funds

	2007 £000	2006 £000
Opening equity shareholders' funds	54,136	46,612
Total recognised gains	2,817	7,054
Dividends	(377)	(358)
Issue of shares in the year	-	828
Closing equity shareholders' funds	56,576	54,136

16 Reconciliation of net revenue before finance costs and taxation to net cash inflow from operating activities

	2007 £000	2006 £000
Net revenue before finance costs and taxation	576	556
Investment management fee and other expenses charged to capital	(383)	(354)
Decrease/(increase) in accrued income	133	(141)
Increase in creditors	20	35
(Increase)/decrease in debtors	(12)	7
Net cash inflow from operating activities	334	103

17 Analysis of net funds

	2007 £000	2006 £000
Cash at bank	228	145

18 Reconciliation of net cash flow to movement in net funds

	2007 £000	2006 £000
Net funds at beginning of the year	145	151
Increase/(decrease) in cash for the year	83	(6)
Net funds at end of the year	228	145

Notes to the Financial Statements continued

5 April 2007

19 Financial instruments

The Company's financial instruments comprise:

- Investment Trust Ordinary Shares, Investment Trust Capital Shares, Investment Trust Zero Dividend Preference Shares, and fixed and index linked securities that are held in accordance with the Company's investment objective;
- Cash and liquid resources that arise directly from the Company's operations.

The main risks arising from the Company's financial instruments are market price risk, interest rate risk, credit risk and currency risk. The Board regularly reviews and agrees policies for managing each of these risks and they are summarised below.

Debtors and creditors do not carry any interest and are short term in nature and accordingly are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Market price risks

Market price risk arises mainly from uncertainty about the future prices of financial instruments held. It represents the potential loss the Company might suffer through holding market positions in the face of price movements.

The Company invests in the shares of other investment companies. These companies may use borrowings or other means to gear their balance sheets which may result in returns that are more volatile than the markets in which they invest, and the market value of investment company shares may not reflect their underlying assets.

To mitigate these risks the Board's investment strategy is to select investments for their fundamental value. Stock selection is therefore based on disciplined financial, market and sector analysis, with the emphasis on long term investments. An appropriate spread of investments is held in the portfolio in order to reduce both the systemic risk and the risk arising from factors specific to a country or sector. The Investment Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly in order to consider investment strategy. A list of the main investments held by the Company is shown in the 'Investment Portfolio' table on pages 3 and 4. All investments are stated at bid value, which in the Directors' opinion is equal to fair value.

Interest rate risk

Bond and preference share yields, and as a consequence their prices, are determined by market perception as to the appropriate level of yields given the economic background. Key determinants include economic growth prospects, inflation, the Government's fiscal position, short-term interest rates and international market comparisons. The Investment Manager takes all these factors into account when making any investment decisions as well as considering the financial standing of the potential investee company.

Returns from bond and preference shares are fixed at the time of purchase, as the fixed coupon payments are known, as are the final redemption proceeds. This means that if a bond is held until its redemption date, the total return achieved is unaltered from its purchase date. However, over the life of a bond the market price at any given time will depend on the market environment at that time. Therefore, a bond sold before its redemption date is likely to have a different price to its purchase level and a profit or loss may be incurred.

The interest rate profile of the Company's assets at 5 April 2007 was as follows:

	Total (as per balance sheet) £000	Floating rate £000	Index linked £000	Other fixed rate £000	Financial assets/ (liabilities) on which no interest is paid £000	Weighted average interest rate %	Weighted average period for which rate is fixed (years)
Assets							
Investment Trusts	29,418	-	-	-	29,418		
UK bonds	1,850	-	1,850	-	-	2.5	6.4
UK bonds	408	-	-	408	-	6.1	16.3
Overseas government bonds	8,641	-	8,641	-	-	2.4	17.6
Overseas government bonds	8,598	-	-	8,598	-	3.7	14.2
Other equities	3,806	-	-	-	3,806		
Brokers' deposits	3,479	3,366	-	-	113		
Invested Funds	56,200	3,366	10,491	9,006	33,337		
Cash at bank	228	-	-	-	228		
Other debtors	378	-	-	-	378		
Liabilities							
Creditors	(230)	-	-	-	(230)		
Total net assets	56,576	3,366	10,491	9,006	33,713		

19 Financial instruments *continued*

The interest rate profile of the Company's assets at 5 April 2006 was as follows:

	Total (as per balance sheet) £000	Floating rate £000	Index linked £000	Other fixed rate £000	Financial assets/ (liabilities) on which no interest is paid £000	Weighted average interest rate %	Weighted average period for which rate is fixed (years)
Assets							
Investment Trusts	32,481	-	-	-	32,481		
UK bonds	4,126	-	4,126	-	-	2.4	7.0
UK bonds	417	-	-	417	-	5.8	19.7
Overseas government bonds	7,366	-	7,366	-	-	2.5	20.4
Overseas government bonds	8,482	-	-	8,482	-	4.1	17.6
Other equities	136	-	-	-	136		
Brokers' deposits	694	696	-	-	(2)		
Invested Funds	53,702	696	11,492	8,899	32,615		
Cash at bank	145	-	-	-	145		
Other debtors	499	-	-	-	499		
Liabilities							
Creditors	(210)	-	-	-	(210)		
Total net assets	54,136	696	11,492	8,899	33,049		

All of the Company's assets and liabilities are shown at fair value.

Credit risk

In addition to interest rate risk, the Company's investment in bonds is also exposed to credit risk which reflects the ability of a borrower to meet its obligations. Generally, the higher the quality of the issue, the lower the interest rate at which the issuer can borrow money. Issuers of a lower quality will tend to have to pay more to borrow money to compensate the lender for the extra risk taken. The Investment Manager assesses the risk associated with these investments by prior financial analysis of the issuing companies as part of his normal scrutiny of prospective investments.

Foreign currency risk

The Company's investments in foreign currency securities are subject to the risk of currency fluctuations. The Investment Manager monitors current and forward exchange rate movement in order to mitigate this risk. The Company's investments denominated in foreign currencies are:

	2007 £000	2006 £000
Canadian Dollar	1,527	1,747
Euro	7,128	7,574
US Dollar	768	863
Swedish Krona	4,307	4,287
Swiss Franc	2,867	1,377
Japanese Yen	642	-
	17,239	15,848

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Forty Fourth Annual General Meeting will be held at the offices of PricewaterhouseCoopers LLP, at Waterfront Plaza, 8 Laganbank Road, Belfast, BT1 3LR on 14 August 2007 at 12.30pm for the following purposes:

Ordinary business

1. To receive and consider the Report and Accounts for the year ended 5 April 2007.
2. To approve the Directors' Remuneration Report for the year ended 5 April 2007.
3. To declare a final dividend for the year ended 5 April 2007.
4. To re-elect Mr T R Pattison as a Director of the Company.
5. To re-elect Mr R P A Spiller as a Director of the Company.
6. To re-elect Mr J C Morton as a Director of the Company.
7. To re-appoint PricewaterhouseCoopers LLP as Auditors to the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the members and to authorise the Directors to agree their remuneration.

Special business

To consider and, if thought fit, pass the following Resolutions as Ordinary and Special Resolutions respectively.

Ordinary Resolution

8. THAT the Directors be generally and unconditionally authorised for the purposes of Article 90 of the Companies (Northern Ireland) Order 1986 (the 'Order') to allot relevant securities (as defined by that Article), up to a maximum of the amount of the unissued share capital of the Company at the date of this Resolution, being a nominal amount of £301,273.50 representing 1,205,094 Ordinary Shares of 25p each and such authority to expire at the 2008 Annual General Meeting.

Special Resolutions

9. THAT the Company be and is hereby authorised in accordance with Article 176 of the Companies (Northern Ireland) Order 1986 to make market purchases (within the meaning of Article 173 of the Order) of Ordinary Shares, provided that:
 - a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 418,956 being 14.99% of the issued share capital as at 5 April 2007;
 - b) the minimum price which may be paid for an Ordinary Share shall be 25p per share;
 - c) the maximum price which may be paid for an Ordinary Share shall be not more than 5% above the average of the market values of an Ordinary Share on the Official List of the London Stock Exchange for the five business days before the purchase is made; and
 - d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2008 unless such authority is renewed, prior to such time save that prior to such expiry the Company may enter into a contract to purchase Ordinary Shares which will or may be completed or executed wholly or partly after the expiration of such authority.
10. THAT the Directors be and they are hereby empowered, pursuant to Article 105 of the Companies (Northern Ireland) Order 1986 to allot equity securities (as defined in Article 104(2) of the Order) pursuant to the authority previously given under Article 90 of the Order, as if Article 99 (1) of the Order did not apply to any such allotment, provided that:
 - a) this power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £69,872, representing 10% of the issued share capital; and
 - b) this power shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2008, unless previously renewed, varied or revoked by the Company in general meeting, except that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and, notwithstanding such expiry, the Directors may allot equity securities in pursuance of such offers or agreements.

By Order of the Board



TMF Nominees Limited
Secretary

Waterfront Plaza, 8 Laganbank Road
Belfast, BT1 3LR
3 July 2007

Notes

- 1 A member entitled to attend and vote at the Meeting may appoint one or more proxies to attend and (on a poll) vote instead of him. A proxy need not be a member of the Company.
- 2 A form of proxy is enclosed with this notice. Completion and return of such form of proxy will not prevent a member from attending the Meeting and voting in person if they so wish.
- 3 To be valid, a proxy form and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be deposited in hard copy form by post or courier at Capita Registrars, The Registry, Proxies, 34 Beckenham Road, Beckenham, Kent, BR3 4ZB not later than 48 hours before the time for holding the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) for the taking of the poll for which it is to be used. You may also deliver the proxy form by hand at the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU during business hours and in accordance with the timescales outlined above.
- 4 The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 specifies that only those shareholders registered in the Register of Members of the Company as at 12.30 pm on Sunday 12 August 2007, shall be entitled to attend or vote at the aforesaid Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant Register of Members after 12.30 pm on Sunday 12 August 2007 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- 5 Biographical details of the Directors seeking re-election can be found on page 5 of the Report and Accounts. No Director has a contract of service with the Company.

Shareholder Information

Registrar	Shareholder Services Department Capita Registrars Northern House, Woodsome Park, Fenay Bridge Huddersfield, West Yorkshire, HD8 0LA Telephone: 0870 162 3100 Fax: 020 8639 2342 E-mail: ssd@capitaregistrars.com Website: www.capitaregistrars.com										
Annual Reports	Copies of the Company's annual report may be obtained from TMF Corporate Secretarial Services Limited 400 Capability Green Luton, LU1 3AE Telephone: 01582 439 200 Fax: 01582 439 207 E-mail: company.secretary@capitalgearingtrust.com Also, electronic versions can be accessed on the Company website, www.capitalgearingtrust.com .										
Sources of further information	www.capitalgearingtrust.com Financial Times Association of Investment Companies (www.theaic.co.uk)										
Contacting the Board	Any shareholders wishing to communicate directly with the Board should do so via TMF Corporate Secretarial Services Limited, whose contact details are shown above.										
Financial calendar	<table><tr><td>Annual General Meeting</td><td>14 August</td></tr><tr><td>Dividend payment date</td><td>17 August</td></tr><tr><td>Annual results</td><td>July</td></tr><tr><td>Half yearly report</td><td>November</td></tr><tr><td>Interim management statements</td><td>August 2007 and February 2008</td></tr></table>	Annual General Meeting	14 August	Dividend payment date	17 August	Annual results	July	Half yearly report	November	Interim management statements	August 2007 and February 2008
Annual General Meeting	14 August										
Dividend payment date	17 August										
Annual results	July										
Half yearly report	November										
Interim management statements	August 2007 and February 2008										
How to invest	Via your stockbroker/dealer: shares quoted on London Stock Exchange (CGT)										
Frequency of NAV publication	Monthly										
Capital Gains Tax	As at 31 March 1982 the adjusted value for Capital Gains Tax purposes of the 25p Ordinary Shares was 21.25p.										
Substantial shareholdings	The Disclosure and Transparency Rules which came into force on 20 January 2007 require shareholders of Capital Gearing Trust plc to simultaneously inform the Company and the Financial Services Authority (the 'FSA') of changes to major holdings in the Company's shares within two trading days of the change. For further information, please visit the FSA's website: www.fsa.gov.uk/pages/doing/ukla/company/notifications/index.html										

Company Summary

- **Investment Objective**

To achieve capital growth in absolute terms principally through investment in closed ended and other collective investment vehicles with a willingness to hold cash and other bonds when appropriate.

- **Management Company**

Investment management is carried out by CG Asset Management Limited under an agreement dated 27 April 2001 terminable on 12 months' notice.

- **Total Net Assets and Shareholders' Funds**

£56.576m at 5 April 2007.

- **Market Capitalisation**

£57.575m at 5 April 2007.

- **Capital Structure**

The share capital comprises Ordinary Shares of 25p each. As at 5 April 2007 there were 2,794,906 shares in issue.

- **Voting Structure**

Each Ordinary Share has one vote.

- **Continuation of the Trust**

It is intended to offer shareholders the opportunity to realise their investment in the Company, at a price that fairly reflects the underlying net asset value of their investment, in the Autumn of 2008.

- **Management Fees**

The Investment Manager received an annual investment management fee of 0.85% (2006: 0.85%) of the gross assets of the Company based on quarterly valuations.

Smith & Williamson Investment Management Limited received an annual portfolio administration fee of 0.1% of the Company's portfolio based on quarterly valuations.

Smith & Williamson Investment Management Limited replaced Gerrard Limited as the provider of portfolio management services with effect from 13 June 2006.

- **Administration**

Company secretarial and accounting services are provided by TMF Corporate Secretarial Services Limited and TMF Management (UK) Limited, respectively, on an agreed fee basis.

TMF Corporate Secretarial Services Limited and TMF Management (UK) Limited replaced Ernst & Young LLP as the provider of company secretarial and accounting services with effect from 29 June 2006.

- **ISA**

The maximum amount that can be invested in 2007/08 is £7,000.

- **The Association of Investment Companies ('AIC')**

The Company is a member of AIC.

Notes

Capital Gearing Trust plc
Waterfront Plaza
8 Laganbank Road
Belfast, BT1 3LR

www.capitalgearingtrust.com