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CAPITAL GEARING TRUST p.l.c

Annual Report and Accounts

For the year ended 5 April 2008

Company Summary

- **Investment Objective**
To achieve capital growth in absolute terms principally through investment in quoted closed ended and other collective investment vehicles, invested in equities or property, with a willingness to hold cash, bonds, index linked securities and commodities when appropriate.

- **Continuation of the Company**
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 or around October 2008 and again in 2015.

- **Capital Structure and Voting Rights**
The share capital comprises Ordinary Shares of 25 pence each. As at 5 April 2008 2,794,906 shares were in issue (5 April 2007: 2,794,906). Each Ordinary Share has one vote.

- **Investment and Portfolio Management**
Investment management is carried out by CG Asset Management Limited under an agreement dated 27 April 2001. Portfolio administration is carried out by Smith & Williamson Investment Management Limited under an agreement dated 13 June 2006.

- **Administration**
Company secretarial and accounting services are provided by TMF Corporate Secretarial Services Limited and TMF Management (UK) Limited, respectively.

- **Annual General Meeting**
The Annual General Meeting of the Company will be held at the offices of PricewaterhouseCoopers LLP, 1 Embankment Place, London WC2N 6RH at 12:30pm on Friday, 11 July 2008.

- **ISA**
The Company manages its affairs so as to be a fully qualifying investment trust under the Individual Savings Account (ISA) rules. The maximum amount that can be invested in an ISA for the 2008/09 tax year is £7,200.

The Company is a member of the Association of Investment Companies.

Contents

Financial Highlights

	5 April 2008	5 April 2007	% Change
Share Price	2,135.0p	2,060.0p	+3.6
Net Asset Value per Share	2,126.4p	2,024.2p	+5.0
Premium/(Discount)	0.4%	1.8%	–
Shareholders' Funds	£59.4m	£56.6m	+5.0
Market Capitalisation	£59.7m	£57.6m	+3.6
Total Expense Ratio*	1.5%	1.5%	–
Dividend per Share	16.5p	14.0p	+17.9

* Operating Expenses divided by Total Assets less Current Liabilities

Performance Graph

The graph below shows the Company's Net Asset Value per Share and Share Price against the FTSE Equity Investment Instruments Index.

Performance over 10 Years

All figures are rebased to 100 at 5 April 1998

Directors and Managers

Directors

Mr T R Pattison FSI (57) Chairman
Appointed a Director in 1985 and Chairman with effect from 1 January 2005. Mr 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 (69)
Appointed a Director in 1998. Mr Morton is the Chairman of the Company's Audit Committee and the Senior Independent Director. Mr Morton was a partner in Price Waterhouse, subsequently PricewaterhouseCoopers, until September 1998.

Mr R P A Spiller MA (Oxon), FSI (60)
Appointed a Director in 1986. Mr 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 (61)
Appointed a Director in 2004, Mr Meek is also a member of the Company's Audit Committee. Mr Meek 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.

Managers:

Investment Manager

CG Asset Management Limited
Established in 2001. The company currently has three clients: Capital Gearing Trust p.l.c, the CG Portfolio Fund Limited and the CG Portfolio Fund plc Real Return Fund, with total funds under management of £475 million. The portfolios are run on a long only basis with a low risk style focusing on achieving absolute returns.

Portfolio Manager

Smith & Williamson Investment Management Limited
Appointed by the Investment Manager in 2006 to provide dealing, custody and treasury services for the portfolio. Founded in 1881, Smith & Williamson are a leading independent provider of investment management, accountancy, tax, corporate and financial advisory services to private clients, corporate bodies, professional practices and non-profit organisations.

Company Secretary

TMF Nominees Limited
Appointed as Company Secretary in 2007. TMF Nominees Limited is part of the TMF Group which provide company secretarial and accounting services. TMF Group is a global management and accounting outsourcing firm, with over 2,500 professionals working from 77 offices in 60 countries around the world.

Chairman's Statement

Overview

I am pleased to report that the Company's objective of achieving capital growth in absolute terms has once again been met.

Against a background of turbulent world financial markets, I can confirm that in the year to 5 April 2008, net asset value per share increased by 5% from 2,024.2p to 2,126.4p. Although this represents a relatively modest increase, it has been achieved during a period when the FTSE Equity Investment Instruments Index and the FTSE All-Share Index fell by 4.4% and 8.9% respectively and the FTSE Government All Stock Index rose by only 1.9%. Shareholders may be be interested to note that since 1982, the share price has increased a hundred fold reflecting the uninterrupted annual growth in assets since that date.

Shareholders will know from previous reports that our Investment Manager has for some time adopted a cautious investment strategy and this is reflected in the overall asset mix shown on page 6. At the year end, fixed interest, index linked securities and cash accounted for 60.1% of total assets with a further 11.4% held in zero dividend preference shares and 7.3% in endowment funds. Equity exposure was reduced during the year from 35.1% to 21.2%, reflecting a reduction in private equity and property investment trust weightings, and the exposure to index linked securities was increased from 18.7% to 30.5%.

Earnings per share for the period amounted to 21.3p compared to 18.7p in 2007.

Dividend

Last year, a total distribution of 14.0p was paid, made up of 12.0p plus a special dividend of 2.0p. Subject to shareholder approval at the Annual General Meeting ('AGM'), this year the Board recommend a total distribution of 16.5p made up of 13.0p plus a special dividend of 3.5p. 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 Company

As noted in my statement to you last year, the Board will honour its long standing commitment to shareholders by offering them the opportunity to realise their investment in the Company in or around October this year and intend to do so again in 2015. Shareholders will, in due course, receive documentation detailing a Share Sale and Purchase Facility. Following notification by shareholders of required actions, the Company's appointed broker will match sale and purchase trades and, providing there is sufficient support, the Company will continue in its present form thereafter. Should sufficient support for continuation not be evident, the Board will make further proposals to the shareholders in relation to the future of the Company.

The Board acknowledge however that shareholders have the ability to realise their investment at any time and, due to the premium at which the shares trade in the market, also acknowledge that such realisation may be at prices which are higher than that offered within the Share Sale and Purchase Facility.

Annual General Meeting

This year, the AGM will be held in London on Friday 11 July 2008 at 12.30pm. The Notice convening the forty-fifth AGM of the Company is set out at the end of this document. Your Board would like to invite you to attend the AGM and I look forward to welcoming you to the meeting. After the formal business of the meeting has concluded, our Investment Manager will be pleased to present his views on the market in general and the Company's investments in particular.

Issuance and Repurchase of Shares

The Board operates an informal discount/premium control mechanism whereby major market supply and demand imbalances are 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.

The Board

In accordance with good corporate governance practice, all Directors will retire at the AGM and, being so eligible, offer themselves for re-election. Mr Spiller will retire in accordance with the AIC Code of Corporate Governance ('AIC Code') as he is not independent; Mr Morton and myself retire in accordance with the AIC Code as we have each served on the Board for nine years or more. Mr Meek retires by rotation in accordance with the Articles of Association, having been the longest standing Director since last appointment. Further details in respect of each Directors' retirement, performance evaluation and re-election can be found on page 11.

A resolution to increase the aggregate limit on Directors' fees shall be proposed to the AGM. Further details in respect of the reasoning for the increase are given in the Report of the Directors on page 13.

Regulatory Changes

Over the course of the last two years, various changes have been made to the regulations which govern your Company. In order to ensure compliance with the revised regulations and in particular implementation of the Companies Act 2006, our advisers, in conjunction with the Board, have carried out a thorough review of the Company's current practice and constitutional documents. In line with such, we have reviewed the Articles of Association and a revised version will be proposed for approval at the forthcoming AGM, details of which can be found on pages 37 and 38. A further revised version of the Articles is likely to be proposed for approval at a later General Meeting to reflect additional changes due to be implemented in October 2009.

VAT on Management Fees

I am pleased to note that the European Court of Justice ('ECJ') has ruled on the period for which reclaims of VAT paid on management expenses may be based. VAT claims may now include the period from 1 January 1990. In September 2006, CG Asset Management ('CGAM') submitted a protective claim to HM Revenue & Customs ('HMRC') on behalf of the Company. Following the ruling by the ECJ in favour of JP Morgan Claverhouse Investment Trust Plc, CGAM in January 2008 made a further claim on behalf of the Company to HMRC. CGAM continue to monitor the situation in respect of fulfilment of the claims by HMRC; however it is expected that it may be some time before this occurs and that any recovery, although welcomed, will not be material to the financial results of the Company.

Chairman's Statement (continued)

Outlook
In my interim report, I highlighted some of the major risks to financial markets caused by the continuing weakness in the US housing market, high levels of consumer debt and the excessive leverage of many financial institutions. Markets are now experiencing the painful consequences of the unwinding of these past excesses and investors' already fragile appetite for risk is giving way to fear. Leading financial institutions are being forced to write-off billions of US$ losses linked to US sub prime lending and other structured credit and leveraged loans and in many cases are now having to raise additional capital to bolster much weakened balance sheets. Central Banks have taken action to try to unfreeze credit markets by introducing fresh liquidity in the US and to a lesser extent the UK, by aggressively cutting interest rates leading to pronounced weakness in the US Dollar and the British Pound against the Euro and Yen. It is, however, unlikely that the steps taken by the Central Banks will in isolation be enough to prevent a downturn in world economic growth, particularly as emerging economies such as China and India are now showing signs of over-heating. Meanwhile, consumers are being squeezed by the combination of rising food and energy prices and the more circumspect lending policies now being adopted by banks and building societies.

In summary, we see no immediate reversal in the de-leveraging process that is now beginning to take place. It is our intention therefore to continue to maintain the cautious investment stance which during difficult market conditions has enabled the Company to maintain its enviable record of producing over two decades of uninterrupted asset growth.

Mr T R Pattison
Chairman
22 May 2008

Investment Manager's Report

Review

The net asset value ('NAV') per Share rose by 5.0% in the year, modest in itself but perhaps acceptable in a year when the FTSE All-Share Index fell by 8.9%. Given our concerns over the imbalances in the real and the financial world economy, the portfolio allocation remained defensive throughout, with equity exposure balanced with government bonds, both conventional and index linked. Most of the latter were in Europe and Canada and proved, as hoped, to be negatively correlated with equities. As a result the volatility of the asset value was very low.

The major changes in allocation were to reduce exposure to property and to venture capital. The holdings in the former area are now mainly in residential in Japan and development in India. In the latter, all bar one of the private equity investments are now in liquidating funds – the environment for reinvestment is assessed as being poor. In any case, the total exposure to this area was reduced from about 7% to 2%. Some investment was made in infrastructure at a discount, though profits have been taken since the year end. But the largest change was to build up sizeable holdings in Swiss Franc and Japanese Yen bonds. Both these currencies move in inverse relation to equity markets because they are used in the carry trade; more importantly, both are good value.

It was a poor year for the investment trust market. Not only did discounts widen generally, but a large number of companies with specific commitments to limit the discount on their shares failed to keep their word. Astonishingly, there were even new companies issued with such assurances that were not adhered to in the event. Quite apart from consideration of the integrity of the boards involved, this development is unhelpful to the future of the investment company movement. Growth can only be based on trust.

Nevertheless, there were some opportunities. Resources Trust, for instance, was in liquidation and tendered for 90% of its shares at c.95% of asset value. The Company tendered no shares, because the asset value rose as a result of the tender. The shares are now suspended, but the Company should receive cash from the liquidator that is roughly 30% greater than the tender offer.

Outlook

The severity of the hangover is proportionate to the length of the party, and, notwithstanding the encouraging rally in equities at the time of writing, the imbalances in the world economy built up over the last 15 years have not been corrected. What is credible is that the problems associated specifically with the sub-prime mortgage market in the US are now solved, at least in the banking system, by the large amount of equity raised; for hedge funds, whose accounting is less rigorous, there may still be problems yet to be disclosed.

That, however, does not address either the negligible savings rate and excessive debt of the household sector in both the US and the UK or the fragility of the financial system. Even after the new equity has been raised; leverage is still at dangerous levels, particularly through the US$500 trillion derivative market.

To deal with the household sector first, the inevitable move for private consumption from close to 72% of US GDP to a more sustainable 66% or 67% of GDP will clearly depress growth over the period when it adjusts. The credit tourniquet suggests that the adjustment should start soon, but the speed of adjustment remains unclear. If it can be spread over an extended time, the financial markets may be able to muddle through without great pain. On the other hand, if the adjustment in the real economy is rapid, as seems on balance more likely, then the strain on corporate profits and on the stability of the financial system may be severe. In the latter case, more of the extreme monetary measures recently undertaken by Central Banks can be expected.

Against that background, the current asset allocation, with only modest exposure to equities balanced by conventional and index linked bonds and low risk growth from the portfolio of zero coupon preference shares and funds of endowment policies, seems appropriate. Opportunities in the investment trust market are better than those of a year ago and there can be some confidence of outperforming the underlying assets.

Despite a number of fund raisings in the property world, commercial real estate still looks firmly in the grip of a bear market, with significant downward pressure on rents still not fully reflected in valuations. Opportunities look better abroad.

Indeed, Sterling may well come under further pressure; in part, because of house price weakness leading to poor retail sales, rising unemployment (though this has yet to be seen) and consequently lower interest rates; in part, because Sterling is now observably tied to the fortunes of financial services. If troubles in the latter causes weakness in the Pound, then both the Swiss Franc and the Japanese Yen should be the major beneficiaries.

Mr R P A Spiller
22 May 2008

Portfolio Analysis

Distribution of investment funds of £58,939,000 (2007: £56,200,000)

	UK %	North America %	Europe %	Elsewhere %	**2008 Total %**	2007 Total %
Investment Trust assets:						
Ordinary shares	12.9	3.7	1.0	3.6	**21.2**	35.1
Endowment funds	7.3	–	–	–	**7.3**	6.5
Zero dividend preference shares	11.4	–	–	–	**11.4**	17.6
Other assets:						
Fixed interest	2.3	–	17.7	2.7	**22.7**	16.0
Index linked	9.6	4.4	16.5	–	**30.5**	18.7
Cash	6.9	–	–	–	**6.9**	6.1
	50.4	8.1	35.2	6.3	**100**	100

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

	2008 £'000	2007 £'000
Investment Trust Ordinary Shares and Endowment Funds:		
Life Offices Opportunities Trust	**2,414**	1,966
North Atlantic Smaller Companies	**1,306**	1,481
Allianz Dresdner 2nd Endowment Policy Trust 2009	**1,253**	744
Oryx International Growth Fund Limited	**830**	1,035
London & St Lawrence Investment Company	**807**	868
Resources Investment Trust	**730**	426
Active Capital Trust	**706**	951
Japan Residential Investment Company	**600**	–
Barclays Global Investors Endowment Fund II Limited	**582**	806
Mithras Investment Trust	**523**	291
Gresham House	**513**	618
TR Property Investment Trust	**392**	2,341
Rutland Trust	**–**	982
Advance Developing Markets Trust	**281**	839
Advance UK Trust	**–**	810
Utilico Emerging Markets Utilities Limited	**–**	781
Henderson Smaller Companies	**250**	676
Other: 33 investments (2007: 37 investments)	**5,606**	7,718
	16,793	23,333

	2008 £'000	2007 £'000
Investment Trust Zero Dividend Preference Shares:		
Utilico Investment Trust	**1,442**	1,361
Premier Utilities Trust	**1,173**	1,350
EPIC Securities	**864**	338
M & G Income Investment Company	**786**	638
JZ Equity Partners	**678**	641
Edinburgh New Income Trust	**521**	501
New Fulcrum Securities	**–**	1,136
European Utilities Trust	**–**	1,131
JP Morgan Fleming Income & Capital	**–**	1,019
Aberdeen Development Capital 2010	**468**	842
Aberdeen Development Capital 2012	**445**	842
Other: 1 investment (2007: 1 investment)	**355**	93
	6,732	9,892

Portfolio Analysis (continued)

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

	2008 £'000	2007 £'000
Index Linked Securities and Fixed Interest:		
Sweden (Kingdom of) 3.5% Index Linked Bonds 2028	**3,788**	3,230
Switzerland (Govt of) 2% Index Linked Bonds 2014	**3,101**	1,595
France (Govt of) 5.5% OAT 2029	**2,632**	2,366
Treasury 2.5% Index Linked 2013	**2,501**	–
Switzerland (Govt of) 3% Bonds 2018	**2,482**	850
Germany (Federal Republic) 4.75% Bonds 2028	**2,424**	2,159
Canada (Govt of) 4% Index Linked 2031	**1,773**	1,527
Germany (Federal Republic) 4% Bonds 2029	**1,581**	1,361
France (Govt of) 3.15% OATEI 2032	**1,531**	411
Treasury 2.5% Index Linked 2011	**1,176**	1,082
Treasury 1.25% Index Linked 2017	**1,099**	–
Treasury 4.25% 2011	**1,006**	–
Germany (Federal Republic) 4.75% Bonds 2034	**889**	797
Sweden (Kingdom of) 1% Index Linked Bonds 2012	**871**	720
Treasury 2.5% Index Linked 2016	**849**	768
USA Treasury NTS 3.625% Index Linked Bonds 2028	**844**	768
Oesterreichische Kontrollbank 1.8% 2010	**754**	–
Bank Nederlandse 0.8% Bonds 2008	**740**	642
Austria (Republic of) 3% 2009	**504**	422
Other investments: 4 investments (2007: 4 investments)	**781**	798
	31,326	19,496
Total investments	**54,851**	52,721
Amounts due from brokers, on deposit	**4,088**	3,479
Total investment funds	**58,939**	56,200

A full portfolio listing as at 5 April 2008 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 2008

5 April	Net assets £'000	NAV per 25p Share p	Appreciation on previous year %	FTSE Equity Investment Instruments Index: Index	FTSE Equity Investment Instruments Index: Change on previous year %
1999	21,133	906.6	3	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	15	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
2008	59,432	2,126.4	5	5,765.2	(4)

The net assets and net asset value ('NAV') per Share for 1999 to 2005 have been restated for the changes in accounting policy in 2006.

Portfolio Analysis (continued)

Performance 1982 to 2008
Rebasing each of the NAV per Share of the Company and the FTSE Equity Investment Instruments Index to 100 in 1982, the subsequent performance of the Company's NAV per Share and the FTSE Equity Investment Instruments Index compare as follows:

Report of the Directors incorporating the Business Review

The Directors present their Report, Business Review and the Audited Financial Statements of the Company for the year ended 5 April 2008.

Status

The Company operates as an investment trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988 ('ICT Act'). 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. A breach of Section 842 could lead to the Company being subject to capital gains tax on its investments. HM Revenue and Customs approval of the Company's status as an investment trust has been received for the year to 5 April 2007, this is however subject to review should there be any enquiry under Corporation Tax Self Assessment. The Directors are of the opinion that the Company has met the conditions set out in Section 842 of the ICT Act and continues to conduct its affairs in a manner which will enable it to continue to meet these conditions. The Board in conjunction with the Investment Manager reviews compliance with Section 842 of the ICT Act in addition to other financial and regulatory requirements.

Business Review and Principal Risks

A review of the year's activities and an indication of future policy are given in the Chairman's Statement and Investment Manager's Report. The principal risks and uncertainties facing the Company are detailed below and in the Notes to the Financial Statements. The very nature of forward looking statements involves uncertainty as events beyond the control of the Company may affect actual results. Performance and results may therefore differ from the plans and objectives of the Company; neither the Directors, nor the Company take responsibility for matters outside of its control.

Investment Objective

The investment objective and policy are monitored to ensure continued investor interest and for consideration of continuation of the Company in its present form. Investment performance is monitored and the Investment Manager presents a report to each Board meeting for consideration and discussion.

Premium/Discount Level

The Board regularly review the level of premium/discount and, in the event of prolonged trading at a discount, consideration is given to enhancement strategies for the share price. The Board operates an informal discount control mechanism and will buy in shares as and when necessary to manage the discount at an appropriate level.

Stock Price

Uncertainty of future stock prices presents a risk in relation to potential losses on market positions held. The Board, with the Investment Manager, consider asset allocation on a regular basis to minimise potential risks where possible.

Shareholder Register

The Board review all large transactions and periodically consider a full shareholder analysis. In the event of activist shareholders being attracted onto the Register, the Board would be able to consider quickly whether any action was required.

Other Risks

Risks associated with the Company's financial instruments include Market Price, Interest Rate, Credit and Foreign Currency; information relating to such risks is given in note 20 to the financial statements on pages 30 to 33.

Social, Community and Environmental Matters

The Company does not have any employees. The Company invests primarily in closed ended and other collective investment vehicles with the objective of achieving capital growth. The Board is of the opinion that the underlying investee companies have policies to act with due regard to community, welfare and environmental factors and do not therefore intervene in these areas.

Political and Charitable Contributions

No contributions were made during the year for political or charitable purposes (2007: nil).

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 ('NAV') per Share for the year to 5 April 2008 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 NAV per Share compared with the FTSE Equity Investment Instruments Index over the period from 1982 is shown on page 8. 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 18.

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 1.8% compared with 0.4% 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%.

Investment Policy

Policy & Risk

The Company's objective is to achieve capital growth in absolute terms rather than relative to a particular stock market index. The preservation of shareholders' wealth is an important consideration in fulfilling this objective and has a strong underlying influence on the Company's investment policy.

Report of the Directors incorporating the Business Review (continued)

To meet its objective, the Company's investment policy is to invest primarily in quoted closed ended and other collective investment vehicles, invested in equities or property, with a willingness to hold cash, bonds, index linked securities and commodities when appropriate.

Recognising the diverse attributes of most closed ended investment companies and collective investment instruments, as well as the lower risk characteristics attached to the other principal asset classes in which the Company invests, a flexible approach to asset allocation is adopted.

Asset Allocation
A maximum (100%) exposure to each of the asset categories mentioned above is allowable, provided that such exposure is deemed to be in the best interests of shareholders in achieving the Company's objective. Such extreme positions are however unlikely and subject to Board approval. It is anticipated that under most market conditions a broad mix of assets is likely to continue to be maintained and a maximum 80% exposure to either equity or fixed interest securities, including index linked and cash, may be held before requiring Board consideration and approval.

The maximum proportion of the Company's gross assets that can be held in other UK listed investment companies, which do not have a stated investment policy to invest no more than 15% of their gross assets in other UK investment companies, is 10%.

The Manager has the authority to invest in any geographical region and has no set limits on industry sector or country exposure. However, the Company will not invest more than 15% of its investment portfolio in any single investment on acquisition without prior Board approval.

Gearing
The gearing range of the Company at any one time shall be between 0% and 20% of NAV at the time of acquisition. Gearing in excess of the maximum range will be subject to prior Board approval.

Additional Elements
The Board from time to time will consider investments in relation to derivatives such as guarantees, options and currency. Such investments may only be made for the purpose of efficient portfolio management and are subject to prior approval from the Board, which will only be given following an in-depth review of the investment, the potential return for shareholders and the regulatory impact to the Company. Additionally, investments in CG Asset Management Limited ('CGAM') managed funds or associates of CGAM will be considered by the Board on a case by case basis and are subject to prior Board approval.

Net Asset Value
At 5 April 2008 the net assets per 25p Ordinary Share of the Company amounted to 2,126.4p, as compared with a figure of 2,024.2p as at 5 April 2007.

Results and Dividend
The revenue return for the financial year was £596,000 (2007: £522,000).

The Directors recommend the payment of a dividend of 16.5p per Ordinary Share for the year ended 5 April 2008, made up of 13.0p plus a special dividend of 3.5p (2007: a total of 14.0p, made up of 12.0p plus a special dividend of 2.0p) amounting to £461,000 (2007: £391,000) for approval by the shareholders at the forthcoming Annual General Meeting. The dividend will be payable on 14 July 2008 to shareholders on the Register of Members on 13 June 2008, the associated ex-dividend date being 11 June 2008. Under FRS21 final dividends should not be accrued in the financial statements unless they have been approved by shareholders before the Balance Sheet date. As such, the amount recognised in the 2008 financial statements comprises the 2007 final dividend.

Directors
Directors and their Interests
The Directors in office throughout the year under review and the number of Shares over which they held an interest in the Company are listed below. Biographical details of each Director can be found on page 2.

	Ordinary shares of 25p each	
	5 April 2008	5 April 2007
Mr T R Pattison Non-Executive Chairman	**2,430**	2,430
Mr J C Morton Senior Independent Non-Executive Director	**4,000**	3,000
Mr R P A Spiller Non-Executive Director and Investment Manager	**305,671**	287,690
Mr E G Meek Non-Executive Director	**7,500**	2,500

There were no changes in the Directors' interests in the Shares of the Company during the period 6 April 2008 to 22 May 2008. No Director was granted options over any shares in the Company. No Director has a service contract with the Company.

Independence
Guidelines in respect of how the Board should determine whether a Director is deemed to be independent are detailed in the Combined Code on Corporate Governance, revised in June 2006. The Association of Investment Companies ('AIC') Code of Corporate Governance (the 'AIC Code') however, supports the Board having flexibility in determining appropriate limits on length of service whilst recognising the need to renew the level of skills and enthusiasm on the Board. The full corporate governance report of the Company is set out on pages 14 to 17.

Report of the Directors incorporating the Business Review (continued)

With the exception of Mr R P A Spiller, all Directors are considered to be independent of the Investment Manager and independent in both character and judgement. The Board do not adhere to the theory that length of service prevents a Director from remaining independent and acting independently of others, which is in line with the AIC Code which allows a Director, who has served in excess of nine years, to continue to be classed as independent. As part of the annual evaluation system, all Directors (with the exception of Mr R P A Spiller) complete an independence questionnaire. In line with good corporate governance practice, all directors who have served for nine years or more will stand for re-election annually.

Board Evaluation
On an annual basis each Director completes a full evaluation questionnaire covering the actions of the Audit Committee, individual Directors, the Board as a whole and, in general, the actions of the Board in conjunction with its advisers. Additionally, all independent Directors complete an evaluation of the Investment Manager. Within the evaluation process each Director has the opportunity to raise concerns for the Board to take action on.

Following completion and summarising by the Company Secretary, the Board as a whole consider the evaluation results and discuss areas for improvement or change.

Retirement and Re-election
All Directors will retire at the forthcoming AGM, and, being eligible, will be proposed for re-election.

Messrs Pattison and Morton offer themselves for re-election in accordance with Principle 3 of the AIC Code as each has served as a Director for more than nine years.

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 ('CGAM').

Mr E G Meek offers himself for re-election in accordance with the Articles of Association rotation provisions.

Subject to annual re-election and the need to refresh its membership from time to time, the Board is of the opinion that the term of office of individual Directors should be determined by the Board's judgement of their continuing effectiveness and performance.

After due consideration of the results of the 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 believe that the re-election of the above named Directors is in the best interests of the Company and its shareholders.

Directors' Remuneration
The Directors' Remuneration Report is set out on page 18.

Meeting Attendance
The number of meetings held during the year from 6 April 2007 to 5 April 2008 and the Directors' attendance is detailed below:

	Board Meeting (4)	Sub-Committee of the Board* (2)	Audit Committee (2)
Mr T R Pattison	4	2	–
Mr J C Morton	4	2	2
Mr R P A Spiller	4	–	–
Mr E G Meek	4	2	2

*The sub-committee meetings were held to approve the annual and interim financial statements of the Company.

All Directors attended the Annual General Meeting held in 2007.

Management and Contracts

Investment Manager
The Company's investments are managed by CG Asset Management Limited ('CGAM') under an agreement dated 27 April 2001, which is terminable on 12 months notice. Under this agreement, CGAM 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, as detailed in note 3 to the financial statements on page 26. In the event of termination of the agreement otherwise than at the end of a quarter, the Company shall pay to the Investment 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.

The Investment Manager operates under an investment policy and guidelines drawn up by the Board as detailed above. Any proposed deviation from the policy 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 policy during the preceding quarter and outlining any instances where approval for investment decisions was sought from either the Board or the Chairman.

Report of the Directors incorporating the Business Review (continued)

The performance of the Investment Manager during the year and the contractual arrangements with the Investment Manager were discussed at a Board meeting in May 2008 along with a formal evaluation completed by all independent Directors. Mr Spiller, as representative of the Investment Manager, was not present during the course of the discussion.

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;
- performance comparison to a selected peer group; and
- compliance and administration competence.

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

Portfolio Manager
Under an agreement with the Company, Smith & Williamson Investment Management Limited ('S&W') were appointed in 2006 to provide custodial and administrative services in relation to the portfolio. Under this agreement, S&W receives an annual portfolio management fee of 0.1% based on quarterly portfolio valuations. Additionally S&W receive an administration fee of £12.50 per trade (£50.00 for overseas stocks) plus 0.125% commission on the full consideration. Full details of the fees paid to S&W are given in note 4 to the financial statements on page 26. Termination of the agreement requires 3 months written notice.

Administration and Company Secretary
TMF Corporate Secretarial Services Limited and TMF Management (UK) Limited (collectively 'TMF') were appointed by the Company in 2007 to provide company secretarial and accounting services. Under this agreement, which may be terminated on 3 months written notice, TMF receives an annual compliance fee inclusive of VAT of £41,125* for company secretarial services and £25,263* for accounting services. Further fees may be payable for additional work undertaken during the year. Full details are given in note 4 to the financial statements on page 26.

*The annual compliance fee, inclusive of VAT, for company secretarial services was increased with effect from 1 January 2008 to £49,350 and the annual compliance fee, inclusive of VAT, for accounting services was increased with effect from 1 July 2007 to £30,844.

Creditor Payment Policy
Whilst following no formal code, it is the Company's policy to settle all its investment transactions within the time frames indicated 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 22 May 2008, the following interests in voting rights had been notified to the Company in accordance with the provisions of the Disclosure and Transparency Rules of the Finanical Services Authority:

	Number of Ordinary Shares	Percentage held
Suffolk Life Annuities Limited	251,695	9.0%
Smith & Williamson Investment Management Limited	231,125	8.3%
Mr R P A Spiller	207,431	7.4%
Cazenove Capital Management	168,791	6.0%
Mrs V H I Maunder-Taylor*	141,531	5.1%
Mrs D Spiller	98,240	3.5%
Rensburg Sheppards Investment Management Limited	89,040	3.2%

*Following a sale of 14,500 shares on 30 May 2008, Mrs V H I Maunder-Taylor's holding reduced to 127,031 Shares (4.5%).

Annual General Meeting ('AGM')
The AGM of the Company will be held on Friday, 11 July 2008 at 12.30pm at the offices of PricewaterhouseCoopers LLP, 1 Embankment Place, London WC2N 6RH. The formal notice of such is set out on pages 34 to 36. At this meeting the Company will seek to renew the following powers which were granted at the AGM in 2007:

i. to allot up to 1,205,094 Ordinary Shares, in aggregate a nominal value of £301,273.50, being the remaining unissued share capital of the Company at the date of this report;

ii. to buy back up to 418,956 (14.99%) of the issued share capital for cancellation or holding up to 10% in treasury, for resale into the market during more favourable conditions at values equal or at a premium to NAV; and

iii. to disapply pre-emption rights in respect of the allotment of up to 10% of the issued share capital and the allotment of up to 10% of the issued share capital which has been bought back for holding as treasury shares. 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% in each instance since it feels this will give added flexibility, and will be more cost effective.

Report of the Directors incorporating the Business Review (continued)

The powers granted during 2007 will expire at this AGM. If approved, the renewed powers as detailed above and in the formal notice will in turn expire at the 2009 AGM unless previously renewed, varied or revoked by the Company in general meeting. The powers vested from the above resolutions will only be exercised if the Board is of the opinion that it would result in an enhancement to the NAV per share of the Company and therefore have a positive effect on shareholder funds. The Company does not currently hold any Shares in treasury (2007: nil).

Further items of special business to be proposed at the AGM include:

i. approval of the revised Articles of Association of the Company. Full details of the resolution are provided in the formal notice and a summary of the proposed changes to the Articles is given on pages 37 and 38; and

ii. approval of an increase in the aggregate limit on Directors' fees detailed within the Articles of Association. This increase will allow flexibility to the Board should there be an increase in the number of appointed directors or a change in remuneration of the Directors be deemed appropriate based on the scope and nature of their responsibilities.

The Board consider all the resolutions detailed in the formal notice to be in the best interests of shareholders and for the Company as a whole and therefore unanimously recommend to shareholders that they vote in favour of each resolution to be proposed at the AGM.

Auditors and Audit Information

Resolutions to reappoint PricewaterhouseCoopers LLP as Auditors to the Company and authorise the Directors to determine their remuneration will also be proposed at the forthcoming AGM. The Directors in office at the date of this report each confirm 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 financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the return of the Company for that period and do not contain any untrue or misleading statements. In preparing such financial statements, 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 financial statements; and
- prepare the financial statements 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 these 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 financial statements comply with the Companies (Northern Ireland) Order 1986.

The Directors are aware that they will be liable if:

i. they knew any statement to be untrue or misleading or were reckless as to whether any statement was untrue or misleading; or

ii. they knew any omission from the financial statements was dishonest concealment of a material fact.

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

The financial statements are published on the Company's website, 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. The work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

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.

By Order of the Board

K. H.

TMF Nominees Limited
Secretary
22 May 2008

Corporate Governance Report

The Board has considered the principles and recommendations of the AIC Code of Corporate Governance ('AIC Code'), which was endorsed by the Financial Reporting Council in February 2006, 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 consider 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 table demonstrates how the principles of the AIC Code have been applied and explains those recommendations 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 consider that these provisions are not relevant to the position of the Company as an externally managed investment company with no employees and has therefore not reported further in respect of these provisions.

Principle	Company Compliance
The Board	
1. The chairman should be independent.	Mr T R Pattison is the Chairman of the Board. The results of the annual performance and independence evaluation of the Chairman were discussed at a meeting of the Board in May 2008. The Chairman was not present during the course of this discussion. The Board consider 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 act with independent judgement and to represent the interests of shareholders as a whole. 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.
2. A majority of the board should be independent of the manager.	The Board is composed of four Non-Executive Directors and, with the exception of Mr R P A Spiller, all of the Directors are considered to be independent of the Company's Investment Manager. Independence questionnaires 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 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.
3. Directors should be elected for a fixed term of no more than three years. Nomination for re-election should not be assumed but be based on disclosed procedures.	Directors are initially appointed for a three-year term following which they are subject to re-election by shareholders at the intervals specified in the Company's Articles of Association and in accordance with good corporate governance practice. Board support for re-election is not assumed but is based on the outcome of an annual performance evaluation. The performance and nominations for re-election are discussed by the Board as a whole in the absence of the Director in question. Directors (including the Chairman) who have served for more than nine years are subject to annual re-election.
4. The board should have a policy on tenure, which is disclosed in the annual report.	No limit is placed on the age or length of service of the Directors by the Board or by the Articles of Association of the Company. The Board does not consider that age or tenure should prevent a Director from being regarded as independent from the Investment Manager.
5. There should be full disclosure of information about the board.	The Directors' biographies can be found on page 2 and further details can be found in the Report of the Directors on pages 10 and 11. The Board has established an Audit Committee but due to the small size of the Board does not feel it necessary to establish separate Remuneration, Nomination or Management Engagement Committees; the functions of the latter three are carried out by the Board as a whole.
6. The board should aim to have a balance of skills, experience, ages and length of service.	The independence, contribution and performance of each member of the Board is evaluated annually and the process incorporates discussion on the composition and balance of the Board. The Directors believe that the Board displays the necessary balance of skills and experience.
7. The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.	A formal performance evaluation of each Director, the Board and the Audit Committee was carried out in April 2008. This took the form of a questionnaire completed by all Directors, the results of which were then considered by the Chairman and Senior Independent Director, who in turn reported back to the Board.

Principle	Company Compliance
8. Director remuneration should reflect their duties, responsibilities and the value of their time spent.	The Board as a whole review the Directors' remuneration every two years. A peer group comparison and consideration of activity during the period is used to benchmark remuneration.
9. The independent directors should take the lead in the appointment of new directors and the process should be disclosed in the annual report.	As the Board is small there is no formal Nomination Committee and appointments of new Directors are considered and voted on by the Board as a whole. When appropriate, the Directors are invited to submit nominations and external advisors may be used to help identify potential candidates for consideration by the Board.
10. Directors should be offered relevant training and induction.	On appointment, each Director is provided with a summary of the responsibilities and duties of Directors, together with relevant background information on the Company and appropriate training is arranged 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 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.
11. The chairman (and the board) should be brought into the process of structuring a new launch at an early stage.	Not applicable to the Company at present.

Board Meetings and the relationship with the Manager

Principle	Company Compliance
12. Boards and managers should operate in a supportive, co-operative and open environment.	The Board meet at least quarterly and as additionally necessary 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 Investment Manager and Company Secretary at each meeting which enables the Directors to monitor the investment performance of the Company.
13. The primary focus at regular board meetings should be a review of investment performance and associated matters such as gearing, asset allocation, marketing/ investor relations, peer group information and industry issues.	At each Board meeting the Investment Manager presents an update on the investment performance of the Company and a report detailing compliance with the investment policy and guidelines during the preceding period and outlining any instances where approval for investment decisions was sought from either the Board or the Chairman. The Directors review the Company's activity over the period to ensure it adheres to its investment policy or, if it is considered appropriate, to authorise any change in policy. The Company Secretary and other advisors as appropriate, assist the Chairman in his responsibility for ensuring the Directors receive accurate, timely and clear information including updates on investor relations, industry related issues and the activities of the Company's peer group. The Company Secretary attends all Board and Committee meetings and advises the Board, through the Chairman, on all matters relating to Board procedures and corporate governance.
14. Boards should give sufficient attention to overall strategy.	The Board discusses the performance and position of the Company at every Board meeting. Investment strategy and policy and the continuation of the Company are regularly discussed. Significant changes in the shareholder register are also reviewed at each Board meeting to ensure the Company's position and performance remain in the interests of the shareholders.
15. The board should regularly review the performance of, and contractual arrangements with, the manager (or executives of a self-managed company).	The Board has not established a Management Engagement Committee. The performance of and contractual arrangements with the Investment Manager are considered annually and discussed by the Board as a whole. Mr Spiller, as representative of the Investment Manager, is not present during the discussions. Details of the items considered in the evaluation of the Investment Manager and the rationale for the continuance of the contract can be found in the Report of the Directors on page 12.

Corporate Governance Report (continued)

Principle	Company Compliance
16. The board should agree policies with the manager covering key operational issues.	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. 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. The Investment Manager reports at every Board meeting on the performance of the Company and submits a statement of compliance with the investment policy. The Board monitor the Investment Manager's performance and adherence to the policy, and regularly discusses the investment strategy of the Company. Unless specifically directed by the Board, the Investment Manager has the authority to vote the shares held in investee companies in the best interests of the Company and will bring to the attention of the Board any matters requiring direction or of a contentious nature.
17. Boards should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it.	The Board consider the performance of the Company's Shares and the portfolio at every Board meeting and consider any actions required to improve these.
18. The board should monitor and evaluate other service providers.	The Board has engaged external firms to undertake the secretarial, accounting, registration and custodial activities of the Company, and has delegated authority to them. The Board considered fully the services offered and the internal control system of each provider prior to entering into the contracts. The Board as a whole evaluates annually the external firms to ensure that services delegated are being performed satisfactorily, effectively and competitively.

Shareholder Communications

19. The board should regularly monitor the shareholder profile of the company and put in place a system for canvassing shareholder views and for communicating the board's views to shareholders.	The Board review large transactions within the shareholder register at every Board meeting. All shareholders have the opportunity to attend and vote at the Annual General Meeting during which the Investment Manager makes a presentation and the Directors 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. Shareholders and others may contact the Company and/or it's service providers via the Company's website, www.capitalgearingtrust.com. Separate resolutions are proposed at general meetings for each item of business and the proxy card allows for shareholders to withhold their vote. The results of the proxy votes received in respect of each resolution proposed are announced at the meeting and published on the Company's website after the meeting.
20. The board should normally take responsibility for, and have a direct involvement in, the content of communications regarding major corporate issues even if the manager is asked to act as spokesman.	When appropriate, the Board is directly involved in and responsible for communications on major corporate issues.
21. The board should ensure that shareholders are provided with sufficient information for them to understand the risk:reward balance to which they are exposed by holding the shares.	The Annual and Interim Report and Accounts are posted to all shareholders and are also available to view on the Company's website along with the Interim Management Statements and the full portfolio list at each year end. The Annual Report and Accounts set out the responsibilities reserved for the Board and those delegated to the Investment Manager. The Board has decided to continue to publish via a regulatory information service a monthly portfolio update as it is considered to be a useful update for shareholders and others taking an interest in the Company.

Other Governance

The Company has neither Executive Directors nor any employees. A formal whistleblowing policy has therefore 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. The Company has adequate Directors' and Officers' Liability Insurance in place for all Directors which is reviewed and renewed annually.

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 has 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 its 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.

Matters Reserved for the Board

There is a formal schedule of matters reserved for the Board which includes inter alia specific duties in relation to the final approval of the annual and interim financial statements and other statutory requirements; performance evaluation of Directors and service providers, matters of a stock exchange or internal control nature and areas of investment strategy, performance and management.

Audit Committee

The Company has a separate Audit Committee consisting of Mr J C Morton (Chairman) and Mr E G Meek. The Board consider that Mr Morton has sufficient and relevant financial experience and that both Mr Meek and Mr Morton meet the independence requirements. 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 financial statements 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 Auditors' 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.

Nominee Share Code

The Company will arrange for copies of shareholder documents to be made available on request to interested parties and operators of nominee accounts.

Compliance with the recommendations of the AIC Code and Combined Code

Subject to the exceptions explained in the foregoing table and 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.H.L.

TMF Nominees Limited
Secretary
22 May 2008

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 certain information contained within this report. The Auditors' opinion is included within the Auditors' report set out on page 19. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting ('AGM').

Directors' emoluments for the year (audited)

The Directors who served during the year received remuneration as detailed below and in note 5 to the financial statements on page 26. The remuneration of the Directors will be increased for the year ending 5 April 2009, subject to Resolution 14 being passed at the forthcoming AGM, to: Chairman £20,000, Audit Committee Chairman and Senior Independent Director £15,000 and other Directors £13,000.

	2008 **£'000**	2007 £'000
Mr T R Pattison (Chairman of the Board)	**12**	12
Mr J C Morton (Chairman of the Audit Committee)	**9**	9
Mr R P A Spiller	**7**	7
Mr E G Meek	**7**	7
	35	35

Consideration of matters relating to Directors' remuneration

As the Board is small, it is considered unnecessarily burdensome to establish a separate Remuneration Committee; the functions of such are therefore carried out by the Board as a whole. 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

It is the Board's policy that none of the Directors has a service contract. The fees payable to the 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 from time to time. A resolution to increase the aggregate total of Directors' fees to £100,000 will be proposed at the AGM. Such increase will allow the Board flexibility should there be an increase in the number of appointed directors or a change in remuneration of the Directors be deemed appropriate based on the scope and nature of their responsibilities.

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 travel, hotel and other expenses properly incurred by him in or about the performance of his duties as a Director, including any expenses incurred in attending meetings of the Board, any committee of the Board and any 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 8. A comparison of the Company's share price total return (assuming all dividends are reinvested) to shareholders 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

TMF Nominees Limited
Secretary
22 May 2008

Independent Auditors' Report to the Members of Capital Gearing Trust p.l.c

We have audited the financial statements of Capital Gearing Trust for the year ended 5 April 2008, 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 (2006) 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, Financial Highlights and Performance Graph, Chairman's Statement, Investment Manager's Report, Portfolio Analysis, Report of the Directors incorporating the Business Review, Corporate Governance Report 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 2008 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

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Belfast
22 May 2008

Income Statement

for the year ended 5 April 2008

	Note	Revenue £'000	Capital £'000	2008 Total £'000	Revenue £'000	Capital £'000	2007 Total £'000
Net (losses)/gains on investments	9	–	(14)	(14)	–	3,417	3,417
Exchange gains/(losses)	9	–	3,008	3,008	–	(717)	(717)
Investment income	2	1,123	–	1,123	990	–	990
Gross Return		1,123	2,994	4,117	990	2,700	3,690
Investment management fee	3	(159)	(370)	(529)	(164)	(383)	(547)
Transaction costs		–	(68)	(68)	–	(76)	(76)
Other expenses	4	(273)	–	(273)	(250)	–	(250)
Net return on ordinary activities before tax		691	2,556	3,247	576	2,241	2,817
Tax on ordinary activities	6	(95)	95	–	(54)	54	–
Net return attributable to equity shareholders	16	596	2,651	3,247	522	2,295	2,817
Return per Ordinary Share	8	21.32p	94.85p	116.17p	18.68p	82.11p	100.79p

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.

Statement of Total Recognised Gains and Losses

for the year ended 5 April 2008

	2008 £'000	2007 £'000
Net return attributable to equity shareholders	3,247	2,817
Total gains and losses recognised for the year	3,247	2,817

The notes on pages 24 to 33 form an integral part of these financial statements.

Reconciliation of Movements in Shareholders' Funds

for the year ended 5 April 2008

	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 2006	699	8,114	16	10,707	33,571	1,029	54,136
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
Balance at 6 April 2007	699	8,114	16	8,692	37,881	1,174	56,576
Exchange gains on investments	–	–	–	3,008	–	–	3,008
Net gains on realisation of investments	–	–	–	–	601	–	601
Net decrease in unrealised appreciation	–	–	–	(615)	–	–	(615)
Transfer on disposal of investments	–	–	–	(3,028)	3,028	–	–
Transaction costs	–	–	–	(48)	(20)	–	(68)
Costs charged to capital	–	–	–	–	(370)	–	(370)
Tax on costs charged to capital	–	–	–	–	95	–	95
Net revenue for the year	–	–	–	–	–	596	596
Total	699	8,114	16	8,009	41,215	1,770	59,823
Dividends	–	–	–	–	–	(391)	(391)
Balance at 5 April 2008	699	8,114	16	8,009	41,215	1,379	59,432

The notes on pages 24 to 33 form an integral part of these financial statements.

Balance Sheet

at 5 April 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Investments:			
Listed investments	9	**54,851**	52,721
Current assets			
Debtors	10	**4,558**	3,857
Cash at bank		**239**	228
		4,797	4,085
Creditors: amounts falling due within one year	11	**(216)**	(230)
Net current assets		**4,581**	3,855
Net assets		**59,432**	56,576
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	**8,009**	8,692
Capital reserve – realised	13	**41,215**	37,881
Revenue reserve	13	**1,379**	1,174
Total shareholders' funds – equity	16	**59,432**	56,576
Net asset value per Ordinary Share	14	**2,126.4p**	2,024.2p

Approved by the Board on 22 May 2008

T R Patt

Mr T R Pattison
Chairman

The notes on pages 24 to 33 form an integral part of these financial statements.

Cash Flow Statement

for the year ended 5 April 2008

	Note	2008 £'000	2007 £'000
Net cash inflow from operating activities	17	**215**	334
Capital expenditure and financial investment			
Payments to acquire investments		**(15,030)**	(14,037)
Receipts from sale of investments		**15,826**	16,948
		796	2,911
Equity dividends paid		**(391)**	(377)
Management of liquid resources			
Cash paid to brokers awaiting investment		**(609)**	(2,785)
Increase in cash	19	**11**	83

The notes on pages 24 to 33 form an integral part of these financial statements.

Notes to the Financial Statements

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 initially recognised at fair value. After initial recognition these continue to be measured at fair value, which for listed investments is at bid price. 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.

Transaction costs are recognised as capital and are included in the capital column of the Income Statement. Transaction costs on purchases of investments are included in capital reserve – unrealised and transaction costs on disposals of investments are included in capital reserve – realised. On disposal of investments denominated in foreign currencies, the exchange differences previously taken to capital reserve – unrealised are transferred to capital reserve – realised.

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) below.

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

Under FRS 21 final dividends should not be accrued in the financial statements unless they have been approved by shareholders before the Balance Sheet date. Interim dividends should not be accrued in the financial statements unless they have been paid. Dividends payable to equity shareholders are recognised in the Reconciliation of Movements in Shareholders' Funds when they have been approved by shareholders in the case of a final dividend, or paid in the case of an interim dividend and become a liability of the Company.

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 £231,000 (2007: £163,000).

Other income is accounted for on an accruals basis.

e) Expenses

All expenses are accounted for on an accruals basis and, with the exception of the investment management fees, are inclusive of value added tax ('VAT'). The payment of VAT on management fees was suspended by HM Revenue and Customs from October 2007. 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.

1 Accounting policies continued

f) Taxation continued

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.

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 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 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.

i) Financial Instrument Disclosures

FRS 29, Financial Instrument Disclosures, has been adopted by the Company in 2008. FRS 29 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and/or valuation of the Company's financial instruments. The additional disclosures provided in accordance with the requirements of the standard are set out in note 20 to the financial statements.

2 Investment Income

	2008 £'000	2007 £'000
Income from investments:		
Income from UK bonds	**127**	97
Income from UK equity and non-equity investments	**214**	290
Overseas interest	**606**	539
	947	926
Deposit interest	**176**	64
Total income	**1,123**	990

	2008 £'000	2007 £'000
Total income comprises:		
Dividends	**214**	290
Interest	**909**	700
	1,123	990
Income from investments comprises:		
Listed in the UK	**341**	387
Listed overseas	**606**	539
	947	926

3 Investment management fee

	Revenue £'000	Capital £'000	2008 Total £'000	Revenue £'000	Capital £'000	2007 Total £'000
Management fee	**159**	**370**	**529**	164	383	547

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 2008 £124,812 (2007: £139,198) was payable. All costs until October 2007 were inclusive of VAT. The payment of VAT on management fees was suspended by HM Revenue and Customs from October 2007.

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

4 Other expenses

	2008 £'000	2007 £'000
Administrative expenses:		
Portfolio administration	**67**	65
Auditors' remuneration:		
Statutory audit	**16**	16
Taxation services		
-Compliance	**14**	16
-Other Advisory	**3**	5
Directors' remuneration (note 5)	**35**	35
Company secretarial and accountancy services	**88**	77
General expenses	**50**	36
	273	250

The above expenses include irrecoverable VAT where appropriate.

5 Directors' fees

	2008 Total £'000	2007 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 (2007: £nil) in respect of Directors and no pension benefits are accruing to any Director (2007: £nil).

Mr R P A Spiller received remuneration totalling £43,021 (2007: £58,300) from CG Asset Management Limited ('CGAM') in respect of services provided by CGAM to the Company.

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.

Notes to the Financial Statements (continued)

6 Tax on ordinary activities

	Revenue £'000	Capital £'000	2008 Total £'000	Revenue £'000	Capital £'000	2007 Total £'000
Tax attributable to management expenses charged to revenue	**(95)**	**95**	**–**	(54)	54	–

The current tax charge is reconciled to the standard rate of Corporation Tax of 30% (2007: 30%) by the following factors:

	Revenue £'000	Capital £'000	2008 Total £'000	Revenue £'000	Capital £'000	2007 Total £'000
Return on ordinary activities before taxation	**691**	**2,556**	**3,247**	576	2,241	2,817
Return on ordinary activities at the standard rate of UK Corporation Tax	**207**	**767**	**974**	173	672	845
UK franked dividends*	**(64)**	**–**	**(64)**	(87)	–	(87)
Capital returns*	**–**	**(862)**	**(862)**	–	(726)	(726)
Adjustment for reduced rate of tax	**(48)**	**–**	**(48)**	(32)	–	(32)
Current tax charge for the year	**95**	**(95)**	**–**	54	(54)	–

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

Potential deferred tax assets in respect of unrelieved management charges of £36,000 and £48,000 at 5 April 2008 and 2007 respectively have not been recognised as the prospect for their recovery against future taxation liabilities is uncertain.

7 Dividends

	2008 Total £'000	2007 Total £'000
Ordinary Shares		
2007 dividend paid 17 August 2007 (14.0p per Share)	**391**	–
2006 dividend paid 28 July 2006 (13.5p per Share)	**–**	377

The Directors have recommended to shareholders a final dividend of 16.5 pence per Share for the year ended 5 April 2008. If approved, this dividend will be paid to shareholders on 14 July 2008. 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 £461,000.

	2008 Total £'000	2007 Total £'000
Revenue available for distribution per Share by way of dividend for the year	**596**	522
Proposed final dividend of 16.5p per Share for the year ended 5 April 2008	**(461)**	(391)
Undistributed revenue for section 842 Income and Corporate Taxes Act 1988 purposes*	**135**	131

* Undistributed revenue comprises approximately 14.3% (2007:14.1%) of income from investments of £947,000 (2007: £926,000).

8 Return per Ordinary Share

Revenue return per Ordinary Share of 21.32p (2007: 18.68p) is based on the net revenue return on ordinary activities after taxation of £596,000 (2007: £522,000) and on 2,794,906 (2007: 2,794,906) Ordinary Shares, being the weighted average number of Ordinary Shares in issue in each year.

Capital return per Ordinary Share of 94.85p (2007: 82.11p) is based on the net capital return for the financial year of £2,651,000 (2007: £2,295,000) and on 2,794,906 (2007: 2,794,906) Ordinary Shares, being the weighted average number of Ordinary Shares in issue in each year.

9 Listed investments

	2008 £'000	2007 £'000
Investments comprise –		
Listed investment companies:		
Incorporated in the United Kingdom	**18,654**	26,789
Incorporated overseas	**2,774**	2,629
Listed United Kingdom government bonds	**6,630**	1,850
Listed United Kingdom non-government bonds	**370**	408
Listed overseas government bonds	**22,831**	16,597
Listed overseas non-government bonds	**1,494**	642
Miscellaneous international equities	**2,098**	3,806
	54,851	52,721
Cost of investments held at 6 April	**44,029**	42,301
Unrealised appreciation at 6 April	**8,692**	10,707
Fair value of investments held at 6 April	**52,721**	53,008
Additions at cost	**15,030**	14,037
Disposals proceeds	**(15,826)**	(16,948)
Transaction costs	**(68)**	(76)
Exchange gains/(losses)	**3,008**	(717)
Disposals – realised gains	**601**	1,087
(Decrease)/increase in unrealised appreciation	**(615)**	2,330
Fair value of investments held at 5 April	**54,851**	52,721
Book cost at 5 April	**46,842**	44,029
Unrealised appreciation at 5 April	**8,009**	8,692
	54,851	52,721
Exchange gains/(losses)	**3,008**	(717)
Disposals – realised gains	**601**	1,087
(Decrease)/increase in unrealised appreciation	**(615)**	2,330
(Losses)/gains on investments	**(14)**	3,417

The geographical spread of investments is shown on page 6.

10 Debtors: amounts falling due within one year

	2008 £'000	2007 £'000
Amounts due from brokers, on deposit	**4,088**	3,479
Prepayments and accrued income	**470**	378
	4,558	3,857

11 Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Accruals and deferred income	**216**	230

12 Called up share capital

	2008 £'000	2007 £'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 (2007: 2,794,906)	**699**	699
At the end of the year: 2,794,906 Ordinary Shares (2007: 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 2007	8,114	16	8,692	37,881	1,174
Exchange gains on investments	–	–	3,008	–	–
Net gains on realisation of investments	–	–	–	601	–
Net decrease in unrealised appreciation	–	–	(615)	–	–
Transfer on disposal of investments	–	–	(3,028)	3,028	–
Transaction costs	–	–	(48)	(20)	–
Costs charged to capital	–	–	–	(370)	–
Tax on costs charged to capital	–	–	–	95	–
Net revenue for the year	–	–	–	–	596
Dividends	–	–	–	–	(391)
Balance at 5 April 2008	8,114	16	8,009	41,215	1,379

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

Under the terms of the Company's Articles of Association, sums standing to the credit of capital reserves are available for distribution only by way of redemption or purchase of any of the Company's own Shares. The Company may only distribute accumulated realised profits. The Institute of Accountants in England and Wales has issued guidance (TECH01/08), stating that profits arising out of a change in fair value of assets, recognised in accordance with Accounting Standards, may be distributed, provided the relevant assets can be readily converted into cash. Securities listed on a recognised stock exchange are generally regarded as being readily convertible into cash and hence unrealised profits amounting to £8,009,000 in respect of such securities, currently included within the capital reserve – unrealised, may be regarded as distributable under Company Law.

14 Net Asset Value per Share

The net asset value per Share and the net asset values attributable to each class of share at the year end calculated in accordance with the Articles of Association were as follows:

Net Asset Value per Share attributable to

	2008 £'000	2007 £'000
Ordinary Shares (basic)	**2,126.4p**	2,024.2p

Net Asset Value attributable to

	2008 £'000	2007 £'000
Ordinary Shares (basic)	**59,432**	56,576

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 2007	56,576
Total recognised gains for year	3,247
Dividends appropriated in the year	(391)
Total net assets attributable at 5 April 2008	59,432

Net asset value per Ordinary Share is based on the net assets, as shown above, and on 2,794,906 (2007: 2,794,906) Ordinary Shares, being the number of Ordinary Shares in issue at the year end.

Notes to the Financial Statements (continued)

15 Contingent Assets
The Association of Investment Companies and JP Morgan Claverhouse Investment Trust lodged a joint appeal in 2004 for the payment of management fees by investment trusts to be treated as exempt from VAT. In June 2007 the European Court of Justice ('ECJ') found in favour of the appellants, deciding that investment trusts should be treated as special investment funds and thus exempt from VAT on management fees. HM Revenue and Customs subsequently announced that it will not appeal against the ECJ decision. The likelihood of the Company realising some benefit is highly probable, but the amount of the benefit and timing of any receipt is uncertain. Accordingly, no amount relating to a VAT repayment has been recognised as an asset within these accounts.

16 Reconciliation of movements in shareholders' funds

	2008 £'000	2007 £'000
Opening equity shareholders' funds	**56,576**	54,136
Total recognised gains for the year	**3,247**	2,817
Dividends	**(391)**	(377)
Closing equity shareholders' funds	**59,432**	56,576

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

	2008 £'000	2007 £'000
Net revenue before finance costs and taxation	**691**	576
Investment management fee and other expenses charged to capital	**(370)**	(383)
(Increase)/decrease in accrued income	**(101)**	133
(Decrease)/increase in creditors	**(14)**	20
Decrease/(increase) in debtors	**9**	(12)
Net cash inflow from operating activities	**215**	334

18 Analysis of net funds

	2008 £'000	2007 £'000
Cash at bank	**239**	228

19 Reconciliation of net cash flow to movement in net funds

	2008 £'000	2007 £'000
Net funds at beginning of the year	**228**	145
Increase in cash for the year	**11**	83
Net funds at end of the year	**239**	228

20 Financial instruments
The Company's financial instruments comprise:

- Investment Trust Ordinary Shares, Investment Trust Capital Shares, Investment Trust Zero Dividend Preference Shares, Commodity Funds and Real Estate, 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; and
- Debtors and creditors.

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 review and agree 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.

20 Financial instruments continued

Market price risks continued

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 6 and 7. All investments are stated at bid value, which in the Directors' opinion is equal to fair value.

Price risk sensitivity

The following table illustrates the sensitivity of the net return after taxation for the year and the net assets and net asset value per Share to an increase or decrease of 5% in market prices. This level of change is considered to be reasonably possible based on an observation of current market conditions. The sensitivity analysis is based on the Company's investments at the balance sheet date with all other variables held constant.

	2008 5% increase in market prices £'000	**2008 5% decrease in market prices £'000**	2007 5% increase in market prices £'000	2007 5% decrease in market prices £'000
Income statement – net return after taxation				
Revenue return	**(7)**	**7**	(7)	7
Capital return	**2,723**	**(2,723)**	2,618	(2,618)
Total return after taxation	**2,716**	**(2,716)**	2,611	(2,611)
Net assets	**2,716**	**(2,716)**	2,611	(2,611)
Net Asset Value per Share	**97.18p**	**(97.18)p**	93.42p	(93.42)p

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.

Interest rate sensitivity

The following table illustrates the sensitivity of the net return after taxation for the year and the net assets and net asset value per Share to an increase or decrease of 1% in regard to the Company's monetary financial assets and financial liabilities. The financial assets affected by interest rates are funds held by brokers on deposit. There are no financial liabilities affected by interest rates. This level of change is considered to be reasonably possible based on an observation of current market conditions. The sensitivity analysis is based on the Company's monetary financial instruments at the balance sheet date with all other variables held constant.

	2008 1% increase in market rates £'000	**2008 1% decrease in market rates £'000**	2007 1% increase in market rates £'000	2007 1% decrease in market rates £'000
Income statement – net return after taxation				
Revenue return	**41**	**(41)**	35	(35)
Capital return	**–**	**–**	–	–
Total return after taxation	**41**	**(41)**	35	(35)
Net assets	**41**	**(41)**	35	(35)
Net asset value per share	**1.47p**	**(1.47)p**	1.25p	(1.25)p

Notes to the Financial Statements (continued)

20 Financial instruments continued

The interest rate profile of the Company's assets at 5 April 2008 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	21,428	–	–	–	21,428	–	–
UK government bonds – Index linked	5,625	–	5,625	–	–	2.1	5.7
UK government bonds	1,005	–	–	1,005	–	3.1	2.2
UK non-government bonds	370	–	–	370	–	1.8	4.2
Overseas government bonds – Index linked	12,318	–	12,318	–	–	2.5	19.1
Overseas government bonds	10,513	–	–	10,513	–	3.4	11.5
Overseas non-government bonds	1,494	–	–	1,494	–	0.1	0.1
Other equities	2,098	–	–	–	2,098	–	–
Brokers' deposits	4,088	4,058	–	–	30	–	–
Invested Funds	58,939	4,058	17,943	13,382	23,556	–	–
Cash at bank	239	–	–	–	239	–	–
Other debtors	470	–	–	–	470	–	–
Liabilities							
Creditors	(216)	–	–	–	(216)	–	–
Total net assets	59,432	4,058	17,943	13,382	24,049	–	–

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 government bonds – Index linked	1,850	–	1,850	–	–	2.5	6.4
UK non-government bonds	408	–	–	408	–	6.1	16.3
Overseas government bonds – Index linked	8,641	–	8,641	–	–	2.4	17.6
Overseas government bonds	7,956	–	–	7,956	–	3.6	14.1
Overseas non-government bonds	642	–	–	642	–	0.1	0.1
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	–	–

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.

A further credit risk is the failure of a counterparty to a transaction to discharge its obligations under that transaction which could result in a loss to the Company. The following table shows the maximum credit risk exposure.

20 Financial instruments continued

Credit risk exposure

Compared to the balance sheet the maximum credit risk exposure is:

	2008 Balance sheet £'000	2008 Maximum exposure £'000	2007 Balance sheet £'000	2007 Maximum exposure £'000
Fixed assets – listed investments at fair value through profit and loss	**54,851**	**31,325**	52,721	19,497
Debtors – amounts due from brokers, dividends and interest receivable	**4,550**	**4,550**	3,842	3,842
Cash at bank	**239**	**239**	228	228
	59,640	**36,114**	56,791	23,567

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 movements in order to mitigate this risk. The Company's investments denominated in foreign currencies are:

	2008 £'000	2007 £'000
Canadian Dollar	**1,773**	1,527
Euro	**9,057**	7,128
US Dollar	**1,196**	768
Swedish Krona	**5,070**	4,307
Swiss Franc	**6,087**	2,867
Japanese Yen	**1,494**	642
	24,677	17,239

Foreign currency sensitivity

The following table illustrates the sensitivity of the net return after taxation for the year and the net assets and net asset value per Share to an increase or decrease of 5% in the rates of exchange of foreign currencies relative to Sterling. This level of change is considered to be reasonably possible based on an observation of current market conditions. The sensitivity analysis is based on the Company's foreign currency investments at the balance sheet date with all other variables held constant.

	2008 5% appreciation of Sterling £'000	2008 5% depreciation of Sterling £'000	2007 5% appreciation of Sterling £'000	2007 5% depreciation of Sterling £'000
Income statement – net return after taxation				
Revenue return	**–**	**–**	–	–
Capital return	**(1,216)**	**1,216**	(862)	862
Total return after taxation	**(1,216)**	**1,216**	(862)	862
Net assets	**(1,216)**	**1,216**	(862)	862
Net asset value per Share	**(43.51)p**	**43.51p**	(30.84)p	30.84p

21 Related Party Transactions

Related party transactions with Mr R P A Spiller, a Director of the Company, are disclosed in note 5 to the Financial Statements. There were no other related party transactions.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Forty Fifth Annual General Meeting (the 'Meeting') will be held at the offices of PricewaterhouseCoopers LLP, 1 Embankment Place, London WC2N 6RH on Friday, 11 July 2008 at 12.30pm for the following purposes:

Ordinary business

1. To receive and consider the Report and Accounts for the year ended 5 April 2008.
2. To approve the Directors' Remuneration Report for the year ended 5 April 2008.
3. To declare a final dividend for the year ended 5 April 2008.
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-elect Mr E G Meek as a Director of the Company.
8. To re-appoint PricewaterhouseCoopers LLP as Auditors to the Company, to hold office until the conclusion of the next general meeting at which financial statements are laid before the Members.
9. To authorise the Directors to determine the Auditors' remuneration.

Special business

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

Ordinary Resolution

Authority to Allot Shares

10. THAT in substitution of all existing authorities the Directors be and are hereby generally and unconditionally authorised for the purposes of Article 90 of the Companies (Northern Ireland) Order 1986 (the 'Order') to exercise all powers of the Company to allot relevant securities (as defined by Article 90 of the Order), up to a maximum aggregate nominal amount of £301,273.50 being the remaining unissued share capital of the Company at 22 May 2008 and representing 1,205,094 Ordinary Shares of 25p each provided that such authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2009, unless previously revoked, varied or renewed by the Company in general meeting and provided that the Company shall be entitled to make, prior to the expiry of such authority, an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities pursuant to such offer or agreement as if the authority conferred hereby had not expired.

Special Resolutions

Authority to Repurchase Shares

11. 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 aggregate number of Ordinary Shares to be purchased shall be 418,956 or, if less, the number representing 14.99% of the issued share capital at the date of the Meeting at which this resolution is proposed;

    b) the minimum price which may be paid for an Ordinary Share shall be 25p;

    c) the maximum price, excluding expenses, which may be paid for an Ordinary Share shall be an amount equal to the higher of (i) 105% of the average of the middle market quotations for an Ordinary Share as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which such purchase is made and (ii) the higher of the last independent trade and the highest current independent bid relating to an Ordinary share on the trading venue where the purchase is carried out;

    d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2009 unless such authority is renewed prior to such time; and

    e) the Company may enter into a contract to purchase Ordinary Shares under this authority prior to the expiry of such which will or may be completed or executed wholly or partly after the expiration of such authority.

Disapplication of Pre-Emption Rights

12. THAT in substitution of all existing powers the Directors be and 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) for cash pursuant to the authority conferred on them by resolution 10 above or otherwise as if Article 99 (1) of the Order did not apply to any such allotment and to sell relevant shares (within the meaning of Article 172D of the Order) if, immediately before the sale, such shares are held by the Company as treasury shares (as defined in Article 172A of the Order ('treasury shares')), for cash as if Article 99 (1) of the Order did not apply to any such sale provided that this power shall be limited to the allotment of equity securities and the sale of treasury shares, pursuant to:

Notice of Annual General Meeting (continued)

Disapplication of Pre-Emption Rights continued

a) an offer of equity securities open for acceptance for a period fixed by the Board where the equity securities respectively attributable to the interests of holders of Ordinary shares of 25p each in the Company ('Ordinary Shares') are proportionate (as nearly as may be) to the respective numbers of Ordinary Shares held by them but subject to such exclusions or other arrangements in connection with the issue as the Board may consider necessary, appropriate or expedient to deal with equity securities representing fractional entitlements or to deal with legal or practical problems arising in any overseas territory, the requirements of any regulatory body or stock exchange, or any other matter whatsoever; and

b) (otherwise than pursuant to sub-paragraph a) above) up to an aggregate nominal value of £69,872 or, if less, the number representing 10% of the issued share capital at the date of the Meeting at which this resolution is passed; and

this power shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2009, unless previously renewed, varied or revoked by the Company in general meeting and provided that the Company shall be entitled to make, prior to the expiry of such authority, an offer or agreement which would or might require equity securities to be allotted or treasury shares to be sold after such expiry and the Board may allot equity securities or sell treasury shares pursuant to such offer or agreement as if the power conferred hereby had not expired.

Articles of Association

13. THAT the regulations contained in the printed document produced to the Meeting and marked 'A' (and for the purposes of identification initialled by the Chairman), be hereby approved and adopted as the Articles of Association of the Company in substitution for and to the exclusion of all existing Articles of Association. Article 102 (Directors' Fees) being subject to resolution 14 being approved.

Directors' Fees

14. THAT the aggregate annual limit of Directors' fees payable, as detailed in the Articles of Association, be increased from £50,000 to £100,000.

By Order of the Board

TMF Nominees Limited
Company Secretary
Waterfront Plaza, 8 Laganbank Road
Belfast, BT1 3LR
22 May 2008

Location of Annual General Meeting

1 Embankment Place London WC2N 6RH.	at 12.30pm on Friday, 11 July 2008
Nearest National Rail Stations:	Charing Cross Waterloo International
Nearest London Underground:	Charing Cross – Bakerloo, Jubilee and Northern Lines Embankment – Bakerloo, Circle, District and Northern Lines Leicester Square – Northern and Piccadilly Lines

Notice of Annual General Meeting (continued)

Notes

1. A member entitled to attend, speak and vote at the Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of him/her. The proxy need not be a member of the Company. A member may appoint more than one proxy in relation to a meeting, provided that each proxy is appointed to exercise the rights attached to different shares of that member.
2. A form of proxy is enclosed with this notice. Completion and return of such form of proxy will not prevent a member from subsequently attending the Meeting and voting in person if they so wish.
3. To be valid, the proxy form and any power of attorney or other authority under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the offices of the Company's Registrar, Capita Registrars, The Registry (Proxies), PO Box 25, 34 Beckenham Road, Beckenham, Kent, BR3 4BR not later than 5.30pm on 9 July 2008 (the 'specified time'), or in the case of a poll taken more than 48 hours after it is demanded, not less than 24 hours before the time appointed for the taking of the poll at which the proxy is to be used. No account shall be taken of any part of any day that is not a working day.
4. A person who is not a member of the Company, but has been nominated by a member of the Company (the 'relevant member') under section 146 of the Companies Act 2006 to enjoy information rights (the 'nominated person'), does not have a right to appoint any proxies under note 1 above. A nominated person may have a right under an agreement with the relevant member to be appointed or to have somebody else appointed as a proxy for the meeting. If a nominated person does not have such a right, or has such a right and does not wish to exercise it, he may have a right under an agreement with the relevant member to give instructions as to the exercise of voting rights. It is important to remember that a nominated person's main contact in terms of their investment remains as the relevant member (or perhaps the custodian or broker who administers the investment) and a nominated person should continue to contact them (and not the Company) regarding any changes or queries relating to their personal details and holding (including any administration thereof). The only exception to this is where the Company writes to a nominated person directly for a response.
5. In the case of joint holders the vote of the senior who tenders the vote shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the Register of Members.
6. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those members detailed in the Register of Members at the specified time shall be entitled to attend and vote at the aforesaid 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 such 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, that time will also apply for the purpose of determining the entitlement of members to attend and vote. 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 the time which is 48 hours prior to the time fixed for such adjourned meeting.
7. In order to facilitate voting by corporate representatives at the Meeting, arrangements will be put in place at the Meeting so that: (i) if a corporate shareholder has appointed the Chairman of the Meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the Meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the Meeting but the corporate shareholder has not appointed the Chairman of the Meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (http://www.icsa.org.uk/) for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.
8. Biographical details of the Directors seeking re-election can be found on page 2.
9. Copies of the letters of appointment for the Non-executive Directors and the Articles of Association (marked to show the proposed amendments) will be available for inspection at the Company's registered office and the office of the Company Secretary during usual business hours on any weekday (public holidays excluded) from the date of this notice until the close of the Meeting and will also be available for inspection at the Meeting.

Summary of Proposed Changes to the Articles of Association

In accordance with Resolutions 13 and 14 as detailed in the Notice of Annual General Meeting, below is a summary of the main changes being proposed for inclusion in the revised Articles of Association.

A full copy of both the revised and original Articles of Association will be available for inspection at the Annual General Meeting.

1. Articles which duplicate statutory provisions
Provisions in the current Articles of Association (the 'current Articles') which replicate requirements of The Companies Acts (Northern Ireland) 1960 to 1983 and The Companies (Northern Ireland) Order 1986 (as amended) (the 'Order') have been amended in the proposed new Articles of Association (the 'new Articles') to bring them in line with the relevant provisions of the Companies Act 2006 ('CA 2006'). The main changes made to reflect this approach are detailed below.

2. Uncertificated Holdings (Article 13)
A new provision has been included within the new Articles permitting the Board of Directors the power to make arrangements for any class of shares to be a 'participating security' subject to the Uncertificated Securities Regulations 2001. The new Articles defines a 'participating security' as a share, class of share, right of allotment of a share or other security, title to units of which is permitted to be transferred by means of a relevant system (being a computer-based system which enables title to units of a security to be evidenced and transferred without a written instrument) in accordance with the Uncertificated Securities Regulations 2001.

3. Convening general meetings (Article 52 – 54)
The provisions in the current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being amended to conform to new provisions in the CA 2006. In particular references to 'extraordinary' general meetings have been deleted on the basis that meetings of the members (and also resolutions of the members) are no longer required to be defined as 'extraordinary'. Additionally, the new Articles reflect the new position that a general meeting to consider a special resolution can be convened on 14 days notice whereas previously 21 days notice was required.

4. Special business (Article 56)
In accordance with the CA 2006, transactions that constitute special business at a general meeting, unless determined at an annual general meeting, have been amended to include approving the Directors' Remuneration Report.

5. Proxies (Articles 64, 68 and 75)
A demand for a poll may be withdrawn with the consent of the Chairman of the general meeting. (Article 64.3).

The procedure on demanding a poll has also been amended so that where a poll is taken at a general meeting the Company must publish certain information in connection with it on a website which is maintained by the Company, including the date of the meeting, the text of the resolution (or a description of the subject matter of the poll), the number of votes cast in favour and the number cast against. (Article 68.5).

Additionally, members entitled by section 342 CA 2006 and those to whom rights are given by section 153 CA 2006 may require the Directors of the Company to obtain an independent report on any poll taken, or to be taken, at a general meeting of the Company. (Article 68.6).

The new Articles reflect the fact that, pursuant to the CA 2006, in determining the time for delivery of proxies, no account shall be taken of non-working days. (Article 75.3).

6. Votes of members (Articles 69 and 76)
Under the CA 2006, proxies are entitled to vote on a show of hands as well as a poll and members may appoint a proxy to exercise all or any of their rights to attend, speak and vote at meetings. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share or shares held by the shareholder and multiple corporate representatives may be appointed. The new Articles reflect these new provisions.

In relation to multiple corporate representatives attending a general meeting as representatives of a corporation which is a member of the Company, the new Articles state that the Company will put in place provisions which facilitate giving effect to the voting intentions of such representatives.

7. Disclosure of interests (Article 80)
The provisions relating to the disclosure of interests in shares contained in the Order, including Article 220 of the Order on a company's investigative powers, have been repealed and superseded by section 793 and related sections in Part 22 of the CA 2006. The proposed new Articles reflect the new provisions.

8. Retirement by rotation (Article 89)
The retirement by rotation provision contained within existing Articles is proposed to be amended by stating that at each annual general meeting of the Company any Director who was not appointed or re-appointed at either of the two preceding annual general meetings shall retire from office, together with such additional number of Directors as would when added to the number already retiring equal one-third of the Directors. These changes are proposed in order to bring the Company's procedures in this regard into line with current corporate governance best practice.

9. Directors' fees and expenses (Articles 102 and 103)
The new Articles provide that the Directors are entitled to receive fees for their services as Directors not exceeding in aggregate £100,000 per annum, or such other sum as the Company in a general meeting by ordinary resolution may determine. This increase from the previous limit of £50,000 per annum will give the Board flexibility should additional directors be appointed or a change in the remuneration of existing Directors be deemed appropriate based on the scope and nature of their responsibilities.

In accordance with CA 2006, the Directors are also entitled to be paid reasonable travelling, hotel and other expenses that are properly incurred, or to be incurred, by such director. The new Articles reflect this position.

10. Participation by electronic mail (Article 121)
Directors (or their alternates) may now participate in a meeting of the Board of Directors or a committee of the Board through electronic mail addressed to the Chairman of the meeting.

Summary of Proposed Changes to the Articles of Association (continued)

11. Conflict of Interest Duties (Article 126 – 132)
The CA 2006 codifies directors' general duties. The provisions largely replicate the existing law, but there are some significant changes. Under the CA 2006, with effect from 1 October 2008, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. The requirement is very broad and could apply, in some cases, if a director becomes a director of another company or a trustee of another organisation. The CA 2006 allows directors of public companies to authorise conflicts and potential conflicts where the Articles contain a provision to this effect. The CA 2006 also permits the Articles to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The Articles have been amended in line with the CA 2006. The new Articles give the Directors authority to approve conflict situations including other directorships held by the Company's Directors and include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position. There are safeguards which will apply when Directors decide whether to authorise a conflict or potential conflict. First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

The CA 2006 contains a much wider definition of a director's 'connected persons'. However, the relevant Director and the Company must still take a view each time a matter is being considered as to whether the interests of the Director's connected persons mean that the Director should be treated as interested in the matter being transacted.

12. The seal (Articles 135 – 136)
With effect from 6 April 2008 the CA 2006 enables a company to sign documents by one director executing the documents in the presence of a witness. The new Articles provide for this form of execution of documents.

13. Distribution of realised capital profits (Article 150)
Article 150 has been amended to reflect sections 833(2)(c) and 833(3) of CA 2006.

The current Articles reflect the pre-1999 position on share buy backs. The pre-1999 position was set out, so far as England and Wales and Scotland were concerned, in section 266 of the Companies Act 1985 ('1985 Act') (later amended by section 266(2A) of the 1985 Act) the effect of which was that an investment company could not use its capital reserves to buy back or redeem its shares. This was reflected by Article 274(2)(c) of the Order. As a result of this provision an investment trust that had obtained 'investment company' status under section 266 of the 1985 Act that wanted to buy back shares out of its capital reserves first had to give up its status as an 'investment company' before it could do so and then re-apply for the renewal of its status afterwards. The election to return to the 'investment company' status was not a quick process and during the interim it was possible for a company to be unable to pay dividends to its shareholders. The reason for this was because an investment trust which was not an investment company could not pay dividends to shareholders if the company had capital losses.

The post-1999 position (in section 266(2A) of the 1985 Act, Article 274(2)(c) of the Order and now section 833(2)(c) and 833(3) of the CA 2006) permits a company with 'investment company' status to include within its articles an ability to buy back shares out of its capital reserves. The new Articles include this revision.

14. Notices and other communications (Article 156)
The CA 2006 enables companies to communicate with their members by electronic communication to a greater extent than previously permitted. The new Articles provide the Company with a general power to send or supply any notice, document or information to any member by a variety of methods – in person, by post or in electronic form (such as by email), or by making it available on the Company's website. In addition to any notice, document or information which is specifically required to be sent or supplied under the CA 2006, the Company will also be able to send any other document or information to members using these varieties of method.

The new Articles allow proxies to be sent or supplied in electronic form and, where the Company gives an electronic address in a form of proxy, shareholders may send the appointment of proxy to that electronic address, subject to any conditions or limitations specified in the relevant notice of meeting.

The Company may ask each member for his or her consent to receive communications from the Company via its website. If the member does not respond to the request for consent within 28 days, the Company may take that as consent by the member to receive communications in this way.

If the Company sends or supplies any notice, document or information to members by making it available on the Company's website, it must notify each member who has consented (or is deemed to have consented) to receive documents via the website, either by post or by email (if the member has specifically agreed to receive communications in electronic form), that the notice, document or information has been placed on the website. A member who has consented or is deemed to have consented to receive communications via the website can request a hard copy of any document at any time. Members can also revoke their consent to receive electronic communications at any time.

The new Articles also deal with notices, documents or information sent by the Company to a member which have been returned undelivered on three consecutive occasions. The Directors may resolve to treat such members as having no registered address for service and that member will only be entitled to be sent further communications upon provision of a new postal or electronic address to the Company. This provision now extends to persons given information rights by virtue of section 146 CA 2006.

Further proposed provisions are included to deal with the validation of documents in electronic form by members where required by the Articles. In the case of notices of meetings or proxies, any validation requirements must be specified in the notice.

15. Directors' Indemnities (Article 165)
The new Articles contain provisions which take advantage of changes to the law relating to the Company's ability to give indemnities to the Directors and others. The changes allow the Company to provide its Directors with funds to cover the costs of defending legal proceedings brought against any Director/Directors or the Directors collectively on an 'as incurred' basis. Previously, a company could only fund a Director's defence costs once final judgement in his/her favour had been reached. It is therefore proposed that the Company's Articles be amended so that the Company may fund the defence costs of current or former Directors or other officers if an action were to be brought against them.

Shareholder Information

Annual/Interim Reports	Copies of the Company's Annual and Interim reports may be obtained from the Company Secretary and electronic copies can be accessed on the Company's website www.capitalgearingtrust.com
Contacting the Board	Any shareholders wishing to communicate directly with the Board should do so via the Company Secretary.
Capital Gains Tax	As at 31 March 1982 the adjusted value for Capital Gains Tax purposes of the 25p Ordinary Shares was 21.25p.
Financial Calendar (guide)	Annual General Meeting — July/August Dividend payment date — July/August Annual Results — May/June Half Yearly report — October/November Interim Management Statements — June-August & December-February
Frequency of NAV publication	Monthly
How to invest	Via your bank, stockbroker or other financial adviser.
Sources of further information	Company's Website — www.capitalgearingtrust.com Financial Times — www.ft.com AIC — www.theaic.co.uk
Share identification codes	SEDOL: 0173861 ISIN: GB0001738615 BLOOMBERG: CGT:LN EPIC: CGT FT: CGT:LSE
Substantial Shareholdings	The Disclosure and Transparency Rules require shareholders of the Company 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
Disability Act	Copies of this and other documents issued by the Company can be made available in a variety of formats, including Braille, audio type or larger type as appropriate. You can contact the Registrar to the Company, Capita Registrars, which has installed telephones to allow speech and hearing-impaired people who have their own telephone to contact them directly without the need for an intermediate operator. For this service please call 020 8639 2062. Specially trained operators are available during normal business hours to answer your queries. Alternatively, if you prefer to go through a 'typetalk' operator (provided by the RNID) you should dial 18001 followed by the number you wish to dial.

Directory

Registered Office	Waterfront Plaza, 8 Laganbank Road, Belfast, BT1 3LR
Registered Number	NI 005574
Company Secretary	TMF Nominees Limited 400 Capability Green, Luton LU1 3AE Telephone: 01582 439200 Fax: 01582 439207 E-mail: company.secretary@capitalgearingtrust.com
Registrar	Capita Registrars The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU
Shareholder Services	Capita Registrars Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire, HD8 0LA Telephone: 0871 664 0300* From outside the UK: +44 20 8639 3399 Fax: 020 8639 2342 E-mail: ssd@capitaregistrars.com Website: www.capitaregistrars.com *Calls from BT landlines cost 10p/minute plus network extras, calls from other networks and mobiles may vary
Investment Manager	CG Asset Management Limited 25 Moorgate, London, EC2R 6AY
Portfolio Manager	Smith & Williamson Investment Management Limited 25 Moorgate, London, EC2R 6AY
Bankers	Northern Bank Limited Donegall Square North, Belfast, BT1 6LT
Auditors	PricewaterhouseCoopers LLP Waterfront Plaza, 8 Laganbank Road, Belfast, BT1 3LR
Corporate Stockbrokers	JP Morgan Cazenove 20 Moorgate, London, EC2R 6DA

Shareholder Analysis

As at 5 April:	**2008 Number of Shares**	**2008 % of Issued Capital**	2007 Number of Shares	2007 % of Issued Capital
Nominee Companies	**1,925,071**	**68.9**	1,821,599	65.2
Private Shareholders	**842,930**	**30.1**	917,009	32.8
Banks and Other Companies	**26,905**	**1.0**	56,298	2.0
	2,794,906	**100**	2,794,906	100

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