27320

F&C Capital and Income Investment Trust PLC

Report and Accounts 2004

About your Company

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

F&C Capital and Income believes in diminishing the risk of stockmarket investment by spreading the investment over a number of stocks. The low cost savings schemes available through F&C Management allow us to offer investment opportunities to as many people as possible.

WHY AN INVESTMENT TRUST?

F&C Capital and Income Investment Trust offers a number of advantages over other kinds of savings. For example:

- The freedom to borrow money to invest for our shareholders.
- The ability to take a long-term view, and ride out difficult conditions.
- The ability to enhance net asset value per share by buying back our own shares.
- Low charges to investors, typically well below those for comparable unit trusts.
- No capital gains tax is charged on transactions within the portfolio.
- Unlike unit trusts, we are not subject to unpredictable redemptions and subscriptions, which complicate the management of a portfolio of investments.

Contents

SUMMARY OF RESULTS

Attributable to equity shareholders	30 Sept 2004	30 Sept 2003	% change
Net assets	**£84.30m**	£79.47m	+6.1
Net assets per share	**177.62p**	158.46p	+12.1
Net Revenue after tax	**£2.60m**	£2.63m	-1.1
Earnings per share	**5.38p**	5.28p	+1.9
Dividends per share	**5.45p**	5.35p	+1.9
Share price	**173.50p**	159.00p	+9.1

Company Registration Number: 2732011

FINANCIAL CALENDAR

Annual General Meeting	31 January 2005
Final dividend payable	4 February 2005
Interim results for 2004/2005 announced	April 2005
Interim dividend payable	May 2005
Final results for 2004/2005 announced	November 2005

Chairman's Statement

DEAR SHAREHOLDER

Over the year to 30 September 2004, the 12.1% rise in net asset value (NAV) per share of your Company was slightly ahead of the 12.0% increase in the FTSE All-Share index. The share price rose by a little less, increasing by 9.1%.

The directors are recommending a final dividend of 2.725 pence per share to give a total for the year of 5.45 pence per share, an increase of 1.9% on the previous year.

CAPITAL PERFORMANCE

Following two years of heavy falls, the UK stock market and your Company have now had two years of recovery. The second half of the year under review saw a much more muted recovery than the first half when the FTSE All-Share rose 8.4%. Amongst the factors behind the more subdued conditions were the five increases in interest rates from the Bank of England taking rates from 3.5% at the start of the year to 4.75% at the end, and the rise in the price of oil.

Over the last two years, performance has been in line with or slightly ahead of its benchmark, the FTSE All-Share index, but prior to this your Company's results were considerably more resilient when the index was falling in the bear market. The result is that your Company's record over the medium and long-term remains well ahead of the FTSE All-Share benchmark index.

The Manager's Report examines more thoroughly the performance of the UK and European stock markets and your Company's holdings. There is further commentary and weightings by industry classifications in the review of the Investment Portfolio by Sector.

REVENUE AND DIVIDEND

The revenue account of your Company has seen a number of changes over the year. Income increased by 3% as a result of dividend increases from the underlying portfolio and an increase in the size of the portfolio funded by borrowing; after the cost of borrowing and a higher management fee (to reflect the increase in asset value) are taken into consideration, the revenue return before tax fell by 1%. Despite this, the earnings per share increased by 1.9% as the number of shares in issue fell following a series of share buy-backs.

As was foreshadowed in the interim report there has been a re-balancing between the interim dividend and the recommended final dividend. Earlier in the year, the Directors brought forward and made a large increase in the interim dividend, in order to allow shareholders who hold their shares in a PEP or ISA wrapper to reclaim a tax credit that would not have been available if the dividend were paid after 5 April. The re-balancing between the interim and final dividends will continue in the future.

Although the proposed final dividend is 17% lower than last year, total dividends for the year have increased by 1.9%. This rate is in line with the increase in earnings per share and is also in line with the underlying rate of inflation (RPI-X) in the year to September. This dividend would give the twelfth successive annual increase with the total for the year being more than 55% greater than the dividend for the year to September 1994, which was the Company's first full year of existence.

GEARING

The level of gearing was increased over the year from nil at the start to £6m at the year end as interesting investment opportunities appeared. As interest costs have remained low and the portfolio has risen in value by more than the interest cost, the use of gearing has been advantageous for shareholders.

SHARE BUY-BACKS/NEW ISSUES

Since its commitment made in September 2002, the Board has been active to ensure, so far as is possible, that the Company's shares should not stand at any material discount to NAV. This has been done through an active share buy-back programme which purchased 3.2m shares during the course of the year. The policy has been successful as, over the last year, the average discount was 3.2%. There was a period of about one week during the year when the discount temporarily widened to more than 10%. This was entirely due to some index-tracking funds selling their holdings as the Company was removed from the FTSE All-Share index; this occurred because its average level of trading is fairly low. Whilst this is true, it is a positive sign that most of our shareholders are solid long-term investors. Soon after these shares had been bought back, the discount narrowed again back towards its average level for the year.

As well as buying shares when there has been excess supply in the market and the discount widened, the Board has also issued shares when they have traded at a premium to NAV and there has been demand. In total over the year, 523,000 shares were issued to satisfy investor demand through the F&C PEP and ISA scheme.

Since having received permission from shareholders, the Company has been keeping purchased shares in Treasury, rather than cancelling them as in the past. Treasury shares can be re-issued, but the Board has committed to re-issue them only when the shares are trading at a premium to NAV. There is very little difference in this process to what the Company was doing in the past, but it is considerably cheaper to re-issue Treasury shares than to issue new shares.

SHARE PRICE PERFORMANCE

Although the share price saw a reasonable increase last year, it did not track the rise in NAV per share as the shares moved from a small premium to NAV at the start of the year to trade at a discount of 2.3% at the end of the year.

PROSPECTS

Much of the economic background is relatively positive. Inflation is at a low level, and although interest rates have increased, they are unlikely to increase much further from current levels. Unemployment is low and forecast economic growth is reasonable at about 3.4% for this year, but slowing towards 2.5% for next. This should provide a reasonable environment in which companies can grow sales and profits. The concerns are more structural in nature: £1,000bn of personal debt in the UK, doubts about the sustainability of house prices together with the government's fiscal and current account deficits are all reasons to moderate enthusiasm. Other more international factors to consider are the price of oil, currently below $50 / barrel, but still much higher than a year ago, continued fighting in Iraq and the possibility of another major terrorist attack.

Overall, valuations for the UK market are reasonably attractive. The current price / earnings multiple of 15 times historic earnings is broadly in line with the average of the last decade so this together with the potential to add extra value through stock selection and the appropriate use of gearing should enable your Company to continue to perform well.

Graham Ross Russell CHAIRMAN

November 2004

Manager's Review

REVIEW OF THE STOCKMARKET AND ECONOMY

After two years of falls, investors have now experienced two years of rising markets. The falls have, however, been greater than the rises, leaving the FTSE All-Share index 25% lower at the end of September 2004 than it was four years previously; this is despite a rise of 26% over the last two years. The rise of 12% over the last year has been driven by continued recovery in investors' confidence and by a stable economic background with reasonable rates of economic growth, allowing generally good progression in company earnings. Further strength in the market was undoubtedly held back by five interest rate increases from the Bank of England as rates rose from a low level of 3.5% designed to stimulate economic activity, through to a more neutral level of 4.75%.

There have been a number of geopolitical features worthy of note over the year. Iraq and the Middle East remain unsettled, but thankfully there has been no major terrorist attack in the West. While the direct impact on the economy has been reasonably limited, the cost of military operations is considerable. The indirect impact has been on the price of oil as over the year, Brent crude increased from $28 to $46 per barrel. Although Western economies are less dependent on oil than in previous decades, an increase of this magnitude obviously serves to reduce the rate of growth. The final theme has been the extremely rapid growth and industrialisation of China; the consequent increase in demand for all commodities, including oil, has forced prices higher. Unlike previous periods of commodity price increases, there is no real sign as yet that this is coming through in general inflation.

In contrast to the previous year, there was not a very wide disparity in returns between the constituent parts of the UK index, or the European market. The Small Cap index, having been the strongest riser the previous year (+32%) was the weakest performer last year (+9%), but this was not so far adrift of the increase of 12% in the FTSE 100 or 15% in the FTSE mid 250 indices. The strongest performing area to which your Company has exposure was Europe, with the FTSE European index (adjusted to sterling) rising by 15%. The strength in oil and metal prices caused many oil exploration and mining companies to be amongst the best performers in the market over the year, whilst despite better economic growth Information Technology continued to languish. The Utilities and the Tobacco sector, both generally seen as very defensive, rose by more than 20%, while the Pharmaceuticals sector fell 5%.

There may have been quite considerable volatility within the market, but the underlying UK economy has been more stable, with the real growth rate for calendar 2004 expected to be about 3.4%. As in recent years, growth has been underpinned by the strength of consumer spending, which has only been possible through an enormous increase in unsecured and mortgage debt. Personal debt in the UK has now exceeded £1,000bn. Government expenditure has also grown rapidly over the year, again funded by a large increase in debt. Debt is a way of bringing forward future spending to the present, so to the extent that debt needs to be repaid, more debt now means less spending and less growth later. Recent increases in interest rates appear to have had the desired effect of calming the housing market, but if house prices fall significantly or consumer confidence is hit too hard, the chances of a slow-down increase.

INVESTMENT PORTFOLIO

A commentary on the portfolio is next to the list of investments and the description of the twenty largest holdings. There were slightly more changes to the portfolio than in recent years to take advantage of the investment opportunities available. The only two additions over £1m were William Morrison Supermarkets and Marks & Spencer. The average purchase price for Morrisons was 232p per share , which was rather above the share price at the end of September as short-term trading of the new Safeway stores was poor. The purchase of Marks & Spencer at an average price of 294p per share has been more profitable; following the approach from Philip Green and the introduction of a new management team, the shares were at 343p at the end of September.

INVESTMENT STRATEGY

As in previous years, the core investment strategy with which the investment portfolio is managed remains fundamentally unchanged. We aim to invest in companies which have good long-term prospects, but whose share prices are depressed by adverse short-term sentiment, either because of current difficulties, or simply because they are unfashionable. Marks & Spencer would be a good example of this. We were able to start a new holding in the company in January at 277p per share on the back of weak trading. The subsequent bid by Philip Green at 400p confirmed that there was considerable potential value not widely recognised at the start of the year. Many of the stocks we purchase have a higher than average dividend yield, and this in turn allows the Company to pay a relatively high dividend to its shareholders.

As a result of our detailed company research, we derive a value for each company we analyse. When the share price is well below this value, we look to buy, and when it rises above, we look to sell. Stock market valuations are much more volatile than changes in the underlying worth of a company and this mis-match creates investment opportunities. We do believe, however, that over the long-term share prices must reflect the intrinsic worth as the value of the company's cash-flow, earnings, dividends or assets are realised. This approach can result in periods of underperformance when market values are substantially out of line with underlying worth, such as during the speculative bubble in the telecommunication and technology sectors at the end of the 1990s, but over the longer-term this process is showing that it can generate superior results.

Julian Cane MANAGER
November 2004

Twenty Largest Equity Holdings

at 30 September 2004

This Year	Last Year	Company / Description	Value £'000s	% of total investments
1	(2)	**BP** This is the largest integrated oil company in the world, benefiting from the strength of the oil price.	**5,802**	**6.4**
2	(1)	**GlaxoSmithKline** One of the world's leading pharmaceutical companies.	**5,204**	**5.7**
3	(4)	**Vodafone Group** The world's leading mobile telephone provider with a strong international network.	**3,967**	**4.4**
4	(3)	**HSBC Holdings** Broadly diversified international bank operating in many developed and emerging markets around the world.	**3,946**	**4.3**
5	(6)	**Barclays Bank** Retail and commercial bank with a strong franchise.	**3,444**	**3.8**
6	(7)	**Royal Bank of Scotland Group** Following the successful integration of NatWest there is potential for further growth.	**2,856**	**3.1**
7	(11)	**Lloyds TSB Group** High street bank with a very attractive dividend yield.	**2,459**	**2.7**
8	(8)	**Abbey National** Value has been realised from this investment with the agreed take-over by Banco Santander.	**2,379**	**2.6**
9	(10)	**Scottish & Southern Energy** A well-managed multi-utility group with an attractive and growing dividend.	**2,337**	**2.6**
10	(5)	**Shell Transport & Trading** Leading international oil exploration, production and marketing group.	**2,271**	**2.5**
11	(14)	**Liberty International** The owner of many of the leading out-of-town shopping centres in the UK.	**1,819**	**2.0**
12	(9)	**AstraZeneca** International pharmaceutical company with prospects underpinned by its new product pipeline.	**1,699**	**1.9**
13	(–)	**United Utilities** Attractively valued multi-utility group with an interesting outsourcing operation.	**1,667**	**1.8**
14	(15)	**Allied Domecq** The company has refocused on its core spirits and wine operations which generate the vast majority of profit.	**1,642**	**1.8**
15	(17)	**Johnson Matthey** The company has strong positions in auto catalysts, precious metal processing and the development of fuel cell technology.	**1,624**	**1.8**
16	(13)	**Diageo** The group has concentrated on its drinks operations, which include spirits as well as Guinness.	**1,615**	**1.8**
17	(16)	**British American Tobacco** A leading international manufacturer and distributor of cigarettes.	**1,602**	**1.8**
18	(–)	**Rio Tinto** A leading international mining company, benefiting from strong commodity prices.	**1,575**	**1.7**
19	(–)	**Marks and Spencer** We expect the new management team to improve sales and margins, starting in 2005. The bid from Philip Green highlights the value in the company.	**1,269**	**1.4**
20	(20)	**Land Securities Group** The largest property company in the UK, providing a diversified exposure to the sector.	**1,232**	**1.3**

The value of the twenty largest equity holdings represents 55.4% (2003 – 53.4%) of the Company's total investments.

The figures in brackets denote the position at the previous year end and the percentage is the percentage of the Company's total investments.

Investment Portfolio by Sector

	% of Portfolio	% of FTSE All-Share Index
Financials This sector represents a large part of the UK equity market. There were relatively few changes, with the most significant being an increase in the investment in Lloyds TSB Group, and the sale of Derwent Valley Holdings, a property company that has performed well.	**28.8**	**28.6**
Non-Cyclical Consumer Goods The largest holdings in this sector are the UK and European pharmaceutical companies, the drinks companies, Allied Domecq and Diageo and British American Tobacco. Amersham was taken over by GE during the year, while Scottish & Newcastle, Cadbury Schweppes and Unilever were all sold.	**15.9**	**16.9**
Cyclical Services This diverse sector covers industries from media to transport, support services to hotels and general retailers. There were a number of changes within this part of the portfolio, with the largest being the new purchases of Marks & Spencer (in January, before the bid from Philip Green), British Sky Broadcasting and Yell. In total 14 companies, many of them small holdings, were sold. The most significant reductions were in William Hill and Rexam after both had performed well.	**15.8**	**14.5**
Resources The largest holdings in this sector by some way, continue to be BP and Shell Transport & Trading. The holding in Shell Transport & Trading was reduced following the shock announcement that the company had been mis-classifying its reserves. In recognition of the continued strength of metal prices as a result of increased demand from China, a new holding was started in BHP Billiton and the holding in Rio Tinto was increased.	**12.7**	**17.3**
Non-Cyclical Services Telecommunications and food retailers are the constituents of this sector. A new holding was started in William Morrison Supermarkets as we believe the recovery potential in the recently-purchased Safeway store portfolio is underestimated. Much of this was financed by the reduction of the Tesco holding. MM02 was sold and the proceeds invested in Vodafone.	**9.6**	**11.1**
Utilities A new investment was made in East Surrey Holdings, which as well as its water interests is able to generate a very attractive return on its Northern Irish gas operations. AWG (formerly Anglian Water) was sold and the proceeds, together with the sale of United Utilities 'A' shares invested in United Utilities ordinary shares.	**6.8**	**4.1**
Basic Industrials The most substantial changes were the addition of Morgan Sindall, the construction company, and a further increase in the holding of Johnson Matthey. There was a further reduction in the investment in Bellway, the housebuilder, after strong performance and on concerns about the impact of interest rates increases on the housing market.	**6.2**	**3.7**
General Industrials Metalrax, the engineering specialist, was a new addition during the year. Cookson and Tomkins were both sold completely, while the rights issue from Invensys, which is not held, was profitably underwritten.	**1.6**	**2.4**
Information Technology Although in profile and sentiment terms this sector appears important, it is a small part of the UK stock market. A new holding was started in Marconi after its financial reconstruction.	**1.5**	**1.0**
Cyclical Consumer Goods This is a small sector, much of which is exposed to the car market, accounting for just over 1% of investments. GKN was a new addition following its disposal of Augusta Westland.	**1.1**	**0.4**

List of Investments

Listed Investments	Holding (30 September 2004)	Value £'000s (30 September 2004)
UNITED KINGDOM – EQUITIES		
Abbey National	425,000	2,379
Alea Group Holdings	250,000	533
Alliance & Leicester	70,001	613
Alliance Unichem	120,000	800
Allied Domecq	350,000	1,642
Alpha Airports Group	333,000	288
Associated British Ports	100,000	441
AstraZeneca	75,000	1,699
Autologic	89,808	234
Aviva	120,000	657
BAA	170,000	941
Barclays Bank	650,000	3,444
Bellway	115,000	840
BG Group	176,222	654
BHP Billiton	80,000	465
Blacks Leisure	85,413	370
BP	1,100,000	5,802
Brit Insurance Holdings	570,000	413
British American Tobacco	200,000	1,602
British Sky Broadcasting	150,000	719
BSS	38,000	295
BT Group	335,000	602
Bunzl	100,000	416
Cable & Wireless	120,000	117
Close Brothers Group	40,000	277
Compass Group	280,000	617
Computacenter	194,055	655
Cranswick	58,300	224
CRC Group	27,000	44
Dawson Holdings	190,000	287
De Vere Group	73,900	319
Diageo	234,000	1,615
East Surrey Holdings	113,986	380
Emap	75,000	565
First Choice Holidays	89,000	118
FKI	220,000	264
Friends Provident	230,888	322
GKN	160,000	344
GlaxoSmithKline	437,000	5,204
GUS	90,000	810
HSBC Holdings	450,000	3,946
Imperial Tobacco	45,017	542
Infast Group	1,240,000	220
International Power	690,270	999
Intertek	150,000	900
Invox	80,000	244
Johnson Matthey	170,000	1,624
Kingfisher	123,295	380
Lambert Howarth	135,000	363
Land Securities Group	105,000	1,232
Legal & General Group	756,000	750
Liberty International	220,000	1,819

Listed Investments	Holding (30 September 2004)	Value £'000s (30 September 2004)
Liontrust Asset Management	63,674	170
Lloyds TSB Group	570,000	2,459
Luminar	140,000	641
MacLellan Group	444,062	293
Marconi Corp	60,000	349
Marks and Spencer	370,000	1,269
Metalrax Group	400,000	306
Morgan Sindall	98,000	449
Morrison WM Supermarkets	525,000	1,011
National Grid	107,000	499
Novar	700,000	812
Office 2 Office	87,500	188
Provident Financial	72,000	406
Prudential	140,000	631
Punch Taverns	93,276	470
Reed Elsevier	60,000	291
Restaurant Group	500,000	488
Rio Tinto	106,000	1,575
RMC Group	98,000	833
Royal Bank of Scotland Group	179,000	2,856
Sainsbury (J)	236,250	602
Scottish & Southern Energy	300,000	2,337
Shanks Group	275,000	311
Shell Transport & Trading	560,000	2,271
Signet Group	380,000	435
Singer & Friedlander Group	96,111	272
Somerfield	320,000	402
Sondex	95,000	210
Spectris	90,000	356
Standard Chartered	86,400	820
Tesco	333,000	950
United Utilities	300,000	1,667
Vodafone Group	3,000,000	3,967
William Hill	66,000	352
Wolverhampton & Dudley	89,000	790
Yell Group	230,000	811
Total United Kingdom		**83,579**

CONTINENTAL EUROPE – EQUITIES

EIRE		
CRH	6,770	89
Total Eire		**89**
FINLAND		
Nokia	25,800	196
Stora	5,470	41
Total Finland		**237**

Listed Investments	30 September 2004 Holding	Value £'000s
FRANCE		
Accor	1,400	30
Arcelor	13,500	138
Aventis	1,790	72
AXA	18,500	207
BNP Paribas	6,814	243
Compagnie de Saint-Gobain	2,350	67
Danone	1,380	60
France Telecom	11,405	157
Lafarge	2,836	137
L'Oréal	1,200	43
Lagardère Sca	1,560	53
Peugeot	1,800	61
Schneider Electric	2,600	93
Société Générale	4,122	202
Sodexo Alliance	2,400	35
Television Française	5,160	81
Total	3,688	415
Veolia Environment	6,400	102
Total France		**2,196**
GERMANY		
Allianz	2,690	149
BMW	6,280	143
Commerzbank	11,400	117
Daimler Chrysler	2,800	64
Deutsche Bank	3,430	136
Deutsche Post	8,200	88
Deutsche Telekom	23,622	242
E.ON	2,542	103
Henkel	2210	90
Linde	1200	38
SAP	860	74
Siemens	4,970	201
Total Germany		**1,445**
ITALY		
Banca Intesa	47,300	99
Enel	15,300	69
ENI	3,900	48
Telecom Italia	45,400	135
Total Italy		**351**
NETHERLANDS		
ABN Amro	18,000	226
Ahold	29,700	105
ASML	5,300	38
DSM	2,200	63
ING	13,330	186
Philips Electronics	4,360	55

Listed Investments	30 September 2004 Holding	Value £'000s
Reed Elsevier	16,100	115
Royal Dutch Petroleum	4,900	139
VNU	3,690	52
Total Netherlands		**979**
SPAIN		
Banco Santander	16,560	89
Telefónica	34,926	289
Total Spain		**378**
SWEDEN		
Ericsson	27,800	48
Nordea	19,100	86
Sandvik	2,900	55
Svenska Cellulosa	4,320	93
Total Sweden		**282**
SWITZERLAND		
Adecco	2,600	71
Credit Suisse Group	8,150	144
Nestle	1,082	137
Novartis	15,727	406
Richemont	4	89
Serono	210	72
Swiss Reinsurance	4,170	133
Syngenta	1,880	99
UBS	8,360	325
Total Switzerland		**1,476**
TOTAL CONTINENTAL EUROPE		**7,433**
TOTAL INVESTMENTS		**91,012**

The total number of companies in the portfolio is 150 (2003: 152). There are no convertible securities in the portfolio (2003: nil).

Directors

GRAHAM ROSS RUSSELL, CHAIRMAN
Appointed to the Board in January 1993 and became Chairman in June 1993. Mr Ross Russell is Chairman of Foresight Technology 3 plc and UK Business Incubation Limited and a director of UK Select Trust Limited and Bamboo Investments plc. He is a trustee of NESTA (National Endowment for Science, Technology and the Arts). He was formerly Chairman of The Securities Institute and of EMAP plc. *Aged 71.*

PETER HARDY, *SENIOR INDEPENDENT DIRECTOR*
Mr Hardy is a non-executive director of Howard de Walden Estates Limited and Chairman of the Kent Community Foundation. He was formerly a managing director, Investment Banking, of SG Warburg Group plc and a non-executive director of Kingfisher plc, Land Securities plc and Barnardos. He was appointed to the Board in 1992. *Aged 65.*

PEN KENT
Appointed to the Board on 22 July 2003. Mr Kent worked for the Bank of England for over 30 years, culminating in his appointment as one of four Executive Directors between 1993 and 1997. He is chairman of the Euroclear UK Markets Advisory Committee and is a non-executive director of Schroder & Co Limited and the Strategic Rail Authority. *Aged 67.*

PROFESSOR JAMES (JIM) NORTON
Appointed to the Board in July 2001. He is a non-executive director of Zetex PLC and 3i European Technology Trust PLC. In addition, he is an external board member of the Parliamentary Office of Science & Technology, together with the Foundation for Information Policy Research, and a Senior Policy Adviser for the Institute of Directors (IoD). Professor Norton holds the IoD Diploma in Company Direction. *Aged 51.*

HUGH PRIESTLEY
Appointed to the Board in February 2000. He is an investment director of Rathbone Investment Management Limited and Chairman of Jupiter European Opportunities Trust PLC. Mr Priestley is also a non-executive director of Perpetual Japanese Investment Trust PLC and the Société Générale Romania Fund. *Aged 62.*

MEMBERS OF THE AUDIT COMMITTEE
Peter Hardy, CHAIRMAN
Pen Kent
Professor James Norton
Hugh Priestley
Graham Ross Russell

Management and Advisers

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Authorised and regulated in the UK by the Financial Services Authority. Registered in England.

AUDITORS:

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London SE1 9SY

BANKERS:

JPMorgan Chase
60 Victoria Embankment
6th Floor
London EC4Y 0JP

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REGISTRARS:

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PO Box 82, The Pavilions
Bridgewater Road
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Telephone:	0870 702 0130
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Authorised and regulated in the UK by the Financial Services Authority.

Member of The Association of Investment Trust Companies

Report of the Directors

STATUS OF COMPANY

The Company carries on the business of an investment trust and has conducted its affairs during the year under review, and subsequently, so as to continue to qualify as such under the provisions of Section 842 of the Income and Corporation Taxes Act 1988.

The last accounting period for which the Company has received approval from the Inland Revenue was for the year ended 30 September 2003. The approval is subject to there being no subsequent enquiry under Corporate Tax Self-Assessment. In the opinion of the Directors, the Company has subsequently conducted its affairs so as to enable it to continue to obtain Section 842 approval.

The Company is an investment company as defined by Section 266 of the Companies Act 1985 (the "Companies Act").

The Company's shares are eligible for inclusion in an Individual Savings Account ("ISA") and as an investment for Personal Equity Plan ("PEP") transfers. Investors are also able to acquire shares in the Company via the F&C Private Investor Plan ("PIP") or Pension Savings Plan ("PSP"). Further details on how to invest in the Company may be found on page 42.

Note 1 on the accounts contains full details of the accounting policies adopted.

REVIEW OF THE BUSINESS

A review of the Company's activities is given in the Chairman's Statement on page 2 to 4 and in the Manager's Review on pages 5 and 6.

INVESTMENT POLICY

The Company's investment objective is to secure for shareholders long-term capital and income growth from a portfolio consisting mainly of FTSE All-Share companies and leading European companies.

While the Company may from time to time hold shares in other listed investment companies (including investment trusts) where this is consistent with the Company's objectives, it is the Company's policy to invest no more than 15% of its gross assets in other UK listed investment companies (including investment trusts).

In accordance with the Listing Rules issued by the Financial Services Authority, listed companies are prohibited from holding more than 10% in aggregate of the value of their gross assets in other UK listed investment companies, except that this restriction does not apply to investments in investment companies which themselves have stated that they will not invest more than 15% of their gross assets in other UK listed investment companies.

CAPITAL

During the year under review a total of 2,467,850 ordinary shares were purchased for cancellation under the authorities given at the Annual General Meetings in January 2003 and January 2004. The prices paid for these shares ranged from 155.0 pence to 162.0 pence per share and the total cost amounted to £3,924,372.

During the year under review a total of 743,289 ordinary shares, with a nominal value of £185,822, were purchased by the Company and held in treasury under the authority given at the Annual General Meetings in January 2004. The prices paid for these shares ranged from 160.0 pence to 172.0 pence per share and the total cost amounted to £1,244,334. Since the year-end the Company has bought back a further 425,000 shares for treasury using the authority given at the Annual General Meeting on 27 January 2004 at prices of between 175.0 pence and 183.0 pence per share. As at 22 November 2004, the total number of shares held in treasury is 1,168,289 which represents 2.4% of the ordinary shares in issue

Pursuant to the authority to allot equity securities given to the Directors at the Annual General Meeting held on 27 January 2004, the Company issued 523,000 ordinary shares for cash at a price of 181.0p per share. The issue price represented a premium to net asset value per share on the issue date.

RESULTS AND DIVIDENDS

		£'000s
Net revenue available for distribution		2,597
Dividends paid or payable:		
Interim of 2.725p per share paid on 2 April 2004	(1,277)	
Proposed final of 2.725p per share payable on 4 February 2005 to shareholders registered at the close of business on 7 January 2005	(1,293)	
		(2,570)
Amount transferred to revenue reserve		27

SUBSTANTIAL SHARE INTERESTS

As at 22 November 2004 the Company had received notification of the following holding of more than 3% of its ordinary share capital:

	Ordinary shares	%
F&C Asset Management plc (held on behalf of non-discretionary participants in the F&C PEP and ISA Schemes, F&C Personal Investor Plan and F&C Pension Savings Plan)	43,197,281	91.7

DIRECTORS

All of the Directors of the Company listed on page 11 held office throughout the year under review.

In accordance with the Articles of Association, Professor Norton retires at the Annual General Meeting and, being eligible, stands for election. By the date of the Annual General Meeting Mr G Ross Russell will be 72 and, in accordance with the Combined Code on Corporate Governance ("Combined Code"), is required to stand for re-election annually. Mr Hardy also stands for re-election as a Director in accordance with the Combined Code, having served as a Director since 1992.

The Board has reviewed the performance of Messrs Ross Russell, Hardy and Norton, and continue to believe that they provide a valuable contribution and bring knowledge and experience to the Board and accordingly recommend their re-election.

No other Directors are standing for re-election and no Director has a service contract with the Company.

DIRECTORS' REMUNERATION

The Directors' Remuneration Report, which can be found on page 20, and note 5 on the accounts, provides detailed information on the remuneration arrangements for Directors of the Company. Shareholders will be asked to approve the Directors' Remuneration Report at the Annual General Meeting. This is now a requirement of Company Law, introduced by the Directors' Remuneration Report Regulations 2002. The Directors' remuneration is not conditional on Resolution 2 being passed.

MANAGEMENT

The Company has a management agreement with F&C Management Limited (the "Manager"). The Manager provides investment management, marketing, company secretarial, financial and general administrative services to the Company for a quarterly management fee payable in arrears equal to 0.1% of the funds under management. Either party may terminate the management agreement upon 1 years' notice.

The Board and Audit and Management Engagement Committee review the activities and performance of the Manager, together with the terms of the management agreement, on an ongoing basis. In monitoring the performance of the Manager the Directors consider the investment record of the Company over short and longer term periods, taking into account both its performance against the benchmark index and peer group investment trusts and absolute performance. The Directors also review the management processes, risk control mechanisms and marketing activities of the Manager. It is the Board's opinion that the continuing appointment of F&C Management Limited as manager on the terms agreed is in the best interests of shareholders as a whole.

POLICY ON PAYMENTS TO SUPPLIERS

The Company's principal supplier is the Manager which is paid in the month following the end of each calendar quarter, in accordance with the terms and conditions of the Management Agreement. Other suppliers are paid in accordance with the individual payment terms agreed with each supplier.

At 30 September 2004 the Company had no outstanding trade creditors (2003: nil).

DURATION OF THE COMPANY

At the Annual General Meeting held on 28 January 2003, a resolution committing the Board to propose a continuation vote to shareholders was defeated. Under the Articles of Association a continuation vote must be proposed at every fifth Annual General Meeting. The next such vote will occur at the Annual General Meeting to be held in 2008.

SPECIAL BUSINESS AT THE ANNUAL GENERAL MEETING

Shareholders will find on pages 39 and 40 the notice of the forthcoming Annual General Meeting of the Company to be held at Exchange House, Primrose Street, London EC2 on Monday, 31 January 2005. In addition to the ordinary business of the Meeting, 2 resolutions (numbered 8 to 9) are proposed as special business.

AUTHORITY TO ALLOT SHARES (RESOLUTION 8)

Resolution 8 is similar to the authority and power given to the Directors at previous annual general meetings. By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders. In addition, directors require specific authority from shareholders before allotting new shares (or granting rights over shares) for cash without first offering them to existing shareholders in proportion to their holdings. Resolution 8 gives the Directors the necessary authority to either allot securities, or sell shares held in treasury, up to an aggregate nominal amount of £587,934 (which is equivalent to 5% of the issued ordinary share capital of the Company, excluding treasury shares, at the date of this report), and empowers the Directors to allot such securities for cash otherwise than to existing shareholders on a pro-rata basis. Such authority expires at the conclusion of the Annual General Meeting in 2006 and provides the Directors with a degree of flexibility to increase the assets of the Company by the issue of new shares, should any favourable opportunities arise to the advantage of shareholders. The Directors can, if necessary, use this authority to satisfy demand from participants in the F&C Private Investor and Pension Savings Plans and from holders of F&C Individual Savings Accounts when they believe it is advantageous to such participants and the Company's shareholders to do so.

Under no circumstances would the Directors use the authority and power to issue shares, or sell shares held in treasury, at a price which would result in a dilution of net asset value per ordinary share.

AUTHORITY FOR THE COMPANY TO PURCHASE ITS OWN SHARES (RESOLUTION 9)

Resolution 9 authorises the Company, until the conclusion of the Annual General Meeting in 2006 or, if earlier, the expiry of 18 months from the date of the passing of such resolution, to purchase in the market up to a maximum of 7,050,509 ordinary shares (equivalent to approximately 14.99% of the issued share capital, excluding treasury shares, at the date of this report) at a minimum price of 25 pence per share and a maximum price per share of not more than 5% above the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately before the date of purchase.

The Directors would use this authority with the objective of enhancing shareholder value. Purchases would only be made, within guidelines established from time to time by the Board, through the market for cash at prices below the prevailing net asset value per ordinary share, which would have the effect of increasing net asset value per ordinary share for the remaining shareholders. In accordance with the resolution passed at the 2004 Annual General Meeting, any shares which are purchased will be either placed into Treasury, or, failing that, cancelled.

The Directors consider that it would be advantageous to shareholders for the Company to have the authority to make such purchases as and when it considers the timing to be favourable. However, use of this authority, if given, will depend upon market conditions and the Board's judgement of its likely effectiveness in increasing net asset value per share and/or reducing the discount.

It is proposed that any purchase of shares would be financed out of realised revenue reserves and/or realised capital reserves (including the reserve which arose on the reduction of the Company's share premium account) and funded from the Company's own cash resources or, if appropriate, from short-term borrowings.

The authority to purchase ordinary shares will continue until the conclusion of the Annual General Meeting in 2006 or, if earlier, the expiry of 18 months from the date of the passing of such resolution. The Board intends to seek a renewal of such authority at subsequent annual general meetings.

By order of the Board
F&C Management Limited
Secretary
22 November 2004

For and on behalf of
F & C MANAGEMENT LIMITED
.................................SECRETARY

Corporate Governance

The Company is committed to high standards of corporate governance. The Board has considered the principles set out in the Combined Code on Corporate Governance issued by the UK Listing Authority (the "Code") in 1998 and believes that the Company's current practice, given the special circumstances of an investment trust company, is in all material respects consistent with the principles of the Code. The Company had complied throughout the year under review with the provisions set out in Section 1 of the Code.

The Board notes the publication of the revised Combined Code on Corporate Governance issued by the Financial Reporting Council (the "revised Code") published in July 2003. Although the revised Code is only effective for financial years starting on or after 1 November 2003, the Board has given the revised Code full consideration. It is considered that the Company's current practice, given the special circumstances of an investment trust, is consistent in all material respects with the principles of the revised Code, save that the Company does not have in place its own internal audit function (for the reasons explained on page 18).

The Board has also reviewed the AITC Code of Corporate Governance (the "AITC Code") issued in July 2003 and adheres to its recommendations in all material respects.

THE BOARD

The Board is currently comprised of five non-executive Directors. There is no Chief Executive position within the Company as day-to-day management of the Company's affairs has been delegated to the Manager.

All of the Directors of the Company are resident in the UK. Their biographical details, which are on page 11, demonstrate the wide range of skills and experience that they bring to the Board. Each Director has signed a letter of appointment to formalise in writing the terms of their engagement as non-executive Directors. Copies of these letters are available for inspection at the Company's registered office during normal business hours and will also be available at the Annual General Meeting (the "AGM").

The Board regularly reviews the independence of its members, having due regard to the definitions and current guidelines on independence. Mr Ross Russell has been a Director for 11 years and Mr Hardy has been a Director for 12 years. The Board is of the view that length of service does not necessarily compromise the independence or contribution of directors of an investment trust, where continuity and experience can add significantly to the strength of the Board; this is in accordance with the views expressed in the AITC Code. In accordance with the recommendations of the revised Code and the AITC Code, Directors who have served for 9 years or more are subject to annual re-election. Directors who are over 70 will also be subject to annual re-election.

Notwithstanding the requirement of the Company's articles of association that one third of the Board is subject to retirement by rotation each year, the Board complies with the provision contained in the revised Code that all Directors should be required to submit themselves for re-election at least every three years.

The revised Code provides that the Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. In order to review the effectiveness of the Board, the Board carries out a process of formal self-appraisal. In addition, the Senior Independent Director and other non-executive Directors review the performance of the Chairman. Such reviews were carried out during the year and will be conducted on an annual basis going forward. Given the nature of a Board of non-executive Directors, it is not felt appropriate for an external appraisal to take place as this would be unlikely to produce meaningful results, although this will be kept under review.

It is the responsibility of the Board to ensure that there is effective stewardship of the Company's affairs. Strategic issues and all operational matters of a material nature are determined by the Board. A formal schedule of matters reserved for the decision of the Board has been adopted. In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information. The Board meets at least quarterly and at each meeting reviews management, investment and marketing performance as well as other high level management information including financial reports and other reports of a strategic nature. It monitors compliance with the Company's objectives and is directly responsible for approving the asset allocation, investment and gearing ranges within which the Manager is given discretion to act. Key representatives of the Manager attend each Board Meeting. Board or Committee meetings are also held on an ad-hoc basis to consider particular issues as they arise.

The quorum for any Board meeting is two Directors; however, attendance by all Directors at each meeting is strongly encouraged. During the year under review, a total of 9 meetings were held. Messrs Ross Russell, Kent and Norton each attended 9 meetings, Mr Priestley attended 8 meetings, whilst Mr Hardy attended 7 meetings.

The Board has established a procedure whereby Directors, wishing to do so in the furtherance of their duties, may take independent professional advice or training at the Company's expense.

The Board has direct access to the advice and services of the Company Secretary, F&C Management Limited, which is responsible for ensuring that Board and Committee procedures are followed and applicable regulations are complied with.

During the year, the Board has maintained appropriate insurance cover in respect of legal action against the Directors.

AUDIT AND MANAGEMENT ENGAGEMENT COMMITTEE

The Board has appointed an Audit and Management Engagement Committee (the "Audit Committee"). The Audit Committee operates within written terms of reference clearly setting out its authority and duties. These terms of reference were reviewed and updated during the year. Copies of the terms of reference are available on request and can also be found on the F&C website at www.fandc.com.

The Audit Committee is comprised of the entire Board. It is considered that a number of Directors have recent and relevant financial experience. Two meetings were held during the year under review, each of which was attended by all members.

The primary role of the Audit Committee is to review the Company's accounting policies, the contents of the financial statements, the adequacy and scope of the external audit and compliance with regulatory and financial reporting requirements. In addition it also reviews the provision of non-audit services by the external auditor, the risks to which the Company is exposed and the controls in place to mitigate those risks. The Audit Committee also reviews, on an annual basis, the performance and fee paid to the Manager for the services provided under the management agreement, together with the terms of the agreement.

The Audit Committee reviews, from time to time, the "whistle-blowing" policy that has been put in place by the Manager under which its staff may, in confidence, raise concerns about any possible improprieties in matters of financial reporting or other matters insofar as they may affect the Company.

The Audit Committee has access to the compliance and internal audit directors of the Manager and to the Manager's group audit committee, and reports its findings to the Board. The Board retains ultimate responsibility for all aspects relating to the annual and interim accounts and other significant published financial information.

AUDITORS

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

The Audit Committee, together with the Manager, has reviewed the work carried out by PricewaterhouseCoopers LLP for the audit of the annual financial statements. On the basis of this and their experience in auditing the affairs of the Company, the Audit Committee has assessed the effectiveness of the external audit. The Audit Committee has taken into account the standing, experience and tenure of the audit partner, the nature and level of services provided and confirmation that they have complied with all relevant UK and professional regulatory and independence standards. The Audit Committee considers PricewaterhouseCoopers LLP to be independent both of the Company and the Manager in all respects.

The Audit Committee has also reviewed the provision of non-audit services by the Auditors. In the year under review, non-audit fees amounted to £3,150 and were in relation to taxation services and the review of corporate governance matters. It is considered that the non-audit fees are non-material and that the services provided are cost effective and in no way impede the independence of the Auditors.

INVESTMENT MANAGEMENT

The Board has contractually delegated the management of the investment portfolio and the provision of accounting, company secretarial and marketing services to the Manager. Details of the terms of its agreement with the Manager, are set out in note 3 on the accounts.

INTERNAL CONTROLS AND MANAGEMENT OF RISK

The Board has overall responsibility for the Company's systems of internal controls and for reviewing their effectiveness and ensuring that the risk management and control processes are embedded in day-to-day operations. These controls aim to ensure that assets of the Company are safeguarded, proper accounting records are maintained and the financial information used within the business and for publication is reliable. Typical areas of risk material to investment trusts in general, and which have been identified and are monitored as part of the control process, include excessive gearing, inappropriate long-term investment strategy, asset allocation, loss of management personnel and potential loss of section 842 status under the provisions of the Income and Corporation Taxes Act 1988.

Control of the risks identified, covering financial, operational, compliance and overall risk management, is exercised by the Board through reports provided by the Manager on investment performance, performance attribution and other management issues. The Board has agreed with the Manager the investment policy and restrictions under which the Manager operates and the Manager reports on compliance with this at every meeting. The Board also receives a quarterly control report from the Manager that provides details of any known internal control failures. This report incorporates a key risk table that identifies the risks to which the Company is exposed and the controls in place to mitigate them, including those risks that are not directly the responsibility of the Manager.

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

In common with most investment trusts, the Company does not have an internal audit function. All of the Company's management functions are delegated to the Manager, which has its own internal audit and risk department and whose controls are monitored by the Board. It is therefore felt that there is no need for the Company to have its own internal audit function. However, this need will be reviewed periodically by the Audit Committee.

The Board has carried out a risk and control assessment including a review of the Manager's risk management infrastructure.

A key element of this assessment was the Statement of Internal Corporate Governance for the year to 31 December 2003 (the "Statement") prepared by the Manager for its investment trust clients to the standards of the Financial Reporting and Auditing Group Technical Release 21/94 (FRAG21) issued by the Institute of Chartered Accountants in England and Wales. Containing a report from independent external accountants, the Statement sets out the Manager's control policies and procedures with respect to the management of its clients' investments. The effectiveness of these controls is monitored by the Manager's group audit committee, which receives regular reports from the Manager's compliance and audit and risk departments. The Audit Committee has received and reviewed the Statement, together with a report from the Manager's group audit committee on the effectiveness of the internal controls maintained on behalf of the Company, and an annual compliance report from the Manager's Head of Compliance.

NOMINATIONS COMMITTEE

Having regard to the small size of the Board, the Directors have concluded that it is appropriate for the whole Board to fulfill the responsibilities normally carried out by a Nominations Committee. Accordingly the Board has not appointed a Nominations Committee. Appointments of new Directors will be made on a formalised basis, with the Board agreeing the selection criteria and the method of selection, recruitment and appointment. New appointees will be given a briefing on the workings and processes of the Company, including the receipt of key documentation, by the Chairman, the Manager, the Secretary and other key persons. All appointments are submitted for re-election by shareholders.

REMUNERATION COMMITTEE

The Company has no executive Directors and no employees, and consequently does not have a remuneration committee. The Directors' Remuneration Report, which can be found on page 20, and note 5 on the accounts provide detailed information on the remuneration arrangements for the Directors of the Company.

INVESTOR RELATIONS

Communication with shareholders is given a high priority. The Company's Annual Report, containing a detailed review of performance and the investment portfolio, is sent to all shareholders. At the half-year stage, an interim report, containing updated information in a more abbreviated form, is also sent to all shareholders. Updated information on the Company, including a monthly fact sheet, also available on the F&C website at www.fandc.com.

The Company has a predominately retail ownership with private investors holding over 90% of the issued share capital. Shareholders wishing to communicate with the Chairman, the Senior Independent Director or other members of the Board may do so by writing to the Company at the registered office address on page 12.

All shareholders are encouraged to attend the Annual General Meeting, when a presentation is made by the Manager and where they are given an opportunity to question the Chairman, the Board and the Manager. Proxy voting figures are announced to shareholders at the Meeting.

Prior to the continuation vote held at the 2003 Annual General Meeting, the Company sent a questionnaire to shareholders seeking their views on a number of issues, including the future of the Company. The Board has determined that there will be no material change to investment policy without prior shareholder approval.

CORPORATE GOVERNANCE, VOTING POLICY AND SOCIALLY RESPONSIBLE INVESTMENT

The Manager has developed and published a policy on Corporate Governance, Voting Policy and Socially Responsible Investment ("SRI"). The policy reflects the Statement of Principles on the Responsibilities of Institutional Shareholders and Agents drawn up in 2002 by the Institutional Shareholders' Committee. The Manager believes that the interests of its clients are served by investing in companies that adopt best practice in corporate governance.

The Manager seeks to encourage companies to be socially responsible and is attracted to invest in those that are. The approach to SRI is designed to contribute to maintaining and improving standards of social responsibility in the corporate sector as it believes that social responsibility in companies makes for good investment returns over the long term. It also aims to avoid investing in any company that does not meet generally accepted standards of social responsibility unless there is a reasonable prospect of improvements that would raise that company's standards up to an adequate level. Should the Manager become aware of occurrences of social irresponsibility at a company in which its clients are invested, it will state its dissatisfaction to the management with the objective of achieving desirable changes. If this approach fails to achieve the desired objective, then the Manager will attempt to change or further influence the management concerned or, alternatively, consider selling the investment in the company concerned.

The Manager's current policy, which is available on the F&C website, has been reviewed and endorsed by the Board which encourages and supports the Manager on its voting policy and its stance towards SRI, and shareholder activism.

Directors' Remuneration Report

REMUNERATION COMMITTEE

As the Board of Directors is comprised solely of non-executive directors, it is exempt under the Listing Rules from appointing a remuneration committee. The determination of the Directors' fees is a matter dealt with by the whole Board.

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £80,000 per annum. Subject to this overall limit, it is the Company's policy to determine the level of Directors' fees having regard to the level of fees payable to non-executive directors in the industry generally, the role that individual Directors fulfil in respect of Board and Committee responsibilities, and the time committed to the Company's affairs.

The Chairman receives a fee of £15,000 per annum (2003: £15,000), whilst the remaining Directors receive a fee of £10,000 per annum (2003: £10,000).

No element of the Directors' remuneration is performance related.

No Director has a service contract with the Company.

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

Directors' and Officers' liability insurance cover is maintained by the Company on behalf of the Directors.

TOTAL SHAREHOLDER RETURN OVER 5 YEARS

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

REMUNERATION FOR QUALIFYING SERVICES

Director	**2004 Fees for services to the Company £'000s**	2003 Fees for services to the Company £'000s
Graham Ross Russell (Chairman and highest paid Director)	**15**	15
Peter Hardy	**10**	10
Pen Kent *	**10**	2
Professor James Norton	**10**	10
Hugh Priestley	**10**	10
Oliver Dawson +	–	3
Totals	**55**	50

* Appointed 22 July 2003
+ Resigned 28 January 2003

The amounts paid by the Company to the Directors were for services as non-executive Directors. The level of Directors fees was last reviewed in November 2000.

The information in the above table has been audited (see the Independent Auditors' Report on page 22).

By order of the Board
F&C Management Limited, Secretary
22 November 2004

Potential investors are reminded that past performance will not necessarily be repeated. The value of investments and the income from them may go down as well as up and investors may not receive back the full amount invested.

Directors' Statement of Responsibilities

As required by company law, the Directors are responsible for the preparation of the accounts which give a true and fair view of the state of affairs of the Company at 30 September 2004 and of the results for the year then ended. In preparing the accounts, suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made. The accounts are prepared in accordance with applicable accounting standards and on a going concern basis. The Directors are also responsible for ensuring that adequate accounting records are maintained and have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The accounts are published on the www.fandc.com website, which is a website maintained by F&C Management Limited ("F&C"). The maintenance and integrity of the website maintained by F&C or any of its subsidiaries is, so far as it relates to the Company, the responsibility of F&C. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and accordingly, the auditors accept no responsibility for any changes that have occurred to the accounts since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the accounts may differ from legislation in their jurisdiction.

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF F&C CAPITAL AND INCOME INVESTMENT TRUST PLC

We have audited the accounts, which comprise the statement of total return, the balance sheet, the cash flow statement and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report ("the auditable part").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the annual report and accounts in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities. The Directors are also responsible for the preparation of the Directors' Remuneration Report.

Our responsibility is to audit the accounts and the auditable part of the Directors' Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 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 accounts give a true and fair view and whether the accounts and the auditable part of the Directors' Remuneration Report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the accounts, if 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 transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. The other information comprises only the Chairman's Statement, the Manager's Review, the Report of the Directors, the unaudited part of the Directors' Remuneration Report and the Corporate Governance Statement.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code issued in June 1998 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 to form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the auditable part of the Directors' Remuneration Report. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, 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 accounts and the auditable part of the Directors' Remuneration Report 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 accounts.

OPINION

In our opinion:

- the accounts give a true and fair view of the state of affairs of the Company at 30 September 2004 and of its total return and cash flows for the year then ended;
- the accounts have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London,
22 November 2004

Statement of Total Return

Revenue Notes	Capital Notes	(incorporating the Revenue Account)* for the year ended 30 September	2004 Revenue £'000s	2004 Capital £'000s	2004 Total £'000s	2003 Revenue £'000s	2003 Capital £'000s	2003 Total £'000s
	9	Gains on investments	-	**9,384**	**9,384**	–	8,945	8,945
	19	Exchange gains/(losses) on currency balances	**1**	**(4)**	**(3)**	2	12	14
2		Income	**3,145**	-	**3,145**	3,047	–	3,047
3	19	Management fee	**(211)**	**(211)**	**(422)**	(175)	(175)	(350)
4	19	Other expenses	**(196)**	**(22)**	**(218)**	(208)	(12)	(220)
		Net return before finance costs and taxation	**2,739**	**9,147**	**11,886**	2,666	8,770	11,436
6	19	Interest payable and similar charges	**(120)**	**(120)**	**(240)**	(18)	(18)	(36)
		Return on ordinary activities before taxation	**2,619**	**9,027**	**11,646**	2,648	8,752	11,400
7		Taxation on ordinary activities	**(22)**	-	**(22)**	(19)	–	(19)
		Return attributable to equity shareholders	**2,597**	**9,027**	**11,624**	2,629	8,752	11,381
		Dividends on ordinary shares (equity):						
		Interim dividend of 2.725p (2003: 2.05p)	**(1,277)**	-	**(1,277)**	(1,011)	–	(1,011)
		Proposed final dividend of 2.725p (2003: 3.30p)	**(1,293)**	-	**(1,293)**	(1,655)	–	(1,655)
			(2,570)	-	**(2,570)**	(2,666)	–	(2,666)
19	19	**Amount transferred to/(from) reserves**	**27**	**9,027**	**9,054**	(37)	8,752	8,715
8	8	**Return per ordinary share - pence**	**5.38**	**18.70**	**24.08**	5.28	17.57	22.85

* The revenue column of the statement is the profit and loss account of the Company.

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

Balance Sheet

at 30 September

Notes		2004 £'000s	2004 £'000s	2003 £'000s	2003 £'000s
	Fixed assets				
9	**Investments**				
9	Listed in the United Kingdom		**83,579**		74,525
9	Listed outside the United Kingdom		**7,433**		6,859
			91,012		81,384
	Current assets				
10	Debtors	**596**		1,112	
11	Taxation recoverable	**13**		19	
	Cash at bank	**743**		15	
		1,352		1,146	
	Current liabilities				
	Creditors: amounts falling due within one year:				
12	Loans	**(6,000)**		–	
13	Other	**(2,065)**		(3,064)	
		(8,065)		(3,064)	
	Net current liabilities		**(6,713)**		(1,918)
	Net assets		**84,299**		79,466
	Capital and reserves				
15	Called up share capital		**12,051**		12,537
16	Capital redemption reserve	**3,154**		2,537	
17	Share premium account	**18,771**		17,955	
18	Special reserve	**12,348**		17,516	
19	Capital reserves	**36,970**		27,943	
19	Revenue reserve	**1,005**		978	
			72,248		66,929
20	**Total equity shareholders' funds**		**84,299**		79,466
21	**Net asset value per ordinary share - pence**		**177.62**		158.46

Approved by the Board on 22 November 2004 and signed on its behalf by:

Graham Ross Russell
Chairman

Cash Flow Statement

for the year ended 30 September

Notes		2004 £'000s	2004 £'000s	2003 £'000s	2003 £'000s
	Operating activities				
	Investment income received	**3,159**		2,891	
	Interest received	**22**		22	
	Other revenue	**7**		–	
	Fee paid to management company	**(349)**		(288)	
	Cash paid to and on behalf of Directors	**(63)**		(43)	
	Other cash payments	**(193)**		(215)	
22	**Net cash inflow from operating activities**		**2,583**		2,367
	Servicing of finance				
	Interest paid	**(213)**		(36)	
	Net cash outflow from the servicing of finance		**(213)**		(36)
	Taxation				
	Overseas tax paid	**(18)**		(25)	
	Total tax paid		***(18)***		*(25)*
	Financial investment				
	Purchases of equities and other investments	**(20,202)**		(13,544)	
	Sales of equities and other investments	**20,194**		11,672	
	Other expenses	**(22)**		(12)	
	Net cash outflow from financial investment		**(30)**		(1,884)
	Equity dividends paid		**(2,931)**		(2,626)
	Net cash outflow before use of liquid resources and financing		**(609)**		(2,204)
	Management of liquid resources				
	Decrease in short-term deposits		**-**		600
	Financing				
	Sterling loans/overdrafts raised	**5,510**		477	
	Purchase of ordinary shares	**(5,118)**		(1,066)	
	Proceeds from share issues	**947**		1,878	
	Net cash inflow from financing		**1,339**		1,289
23	**Increase/(decrease) in cash**		**730**		(315)

Notes on the Accounts

1 ACCOUNTING POLICIES

(a) Basis of accounting

The accounts have been prepared on the historical cost basis of accounting, modified to include fixed asset investments at valuation and in accordance with accounting standards applicable in the United Kingdom and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (SORP), issued in January 2003.

The principal accounting policies are set out below.

(b) Valuation of Investments

As an investment trust, the Company treats all transactions on the realisation and the revaluation of investments held as fixed assets as transactions on capital account. These items, whether profits or losses, are not part of and are not reflected in the revenue account but are charged or credited to capital reserves. Listed investments are shown at middle market value.

(c) Foreign Currency

Foreign currency assets and liabilities are expressed in sterling at rates of exchange ruling at the balance sheet date. Purchases and sales of investment securities, dividends and interest income and expenses are translated at rates of exchange prevailing on the respective dates of such transactions. Exchange profits and losses on currency balances are credited or charged to capital reserves except where they relate to revenue items.

(d) Income

Income from quoted equity shares is brought into the revenue account (except where, in the opinion of the Directors, their nature indicates they should be recognised as capital) on the ex-dividend date or, where no ex-dividend date is quoted, when the Company's right to receive payment is established.

Dividends are accounted for in accordance with FRS16 on the basis of the income actually receivable, without adjustment for the tax credit attaching to the dividends. Dividends from overseas companies continue to be shown gross of withholding tax.

Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of the cash dividend foregone is recognised as income. Any difference in the value of the shares received compared with the amount of the cash dividend foregone is recognised in capital reserves.

(e) Expenses, including Finance Costs

Expenses are charged to the revenue account, other than:

- expenses incidental to the acquisition or disposal of investments which are charged to capital reserve realised; and
- 50% of management fees, including related VAT, and 50% of finance costs (net of applicable tax relief) which are allocated to capital reserve realised, in accordance with the Board's long-term expected split of investment portfolio performance of the Company.

  All expenses are accounted for on an accruals basis.

(f) *Taxation*

Deferred tax is provided on all timing differences that have originated but not reversed by the balance sheet date other than those regarded as permanent. Any liability to deferred tax is provided at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money. Deferred tax assets are only recognised to the extent that they are regarded as recoverable.

(g) 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
- other capital charges and credits charged or credited to this account 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
- unrealised exchange differences of a capital nature.

(h) Special Reserve

The following are accounted for in this reserve:

- costs of purchasing ordinary share capital for cancellation
- costs of purchasing ordinary share capital to be held in treasury.

2 INCOME

	2004 £'000s	2003 £'000s
Income from investments		
UK dividends	**2,930**	2,711
Overseas dividends	**169**	178
Scrip dividends	**14**	136
	3,113	3,025
Other income		
Interest on cash and short-term deposits	**25**	22
Underwriting commission	**7**	-
	32	22
Total income	**3,145**	3,047

Total income comprises:		
Dividends	**3,113**	3,025
Other income	**32**	22
	3,145	3,047

Income from investments		
Listed UK	**2,944**	2,847
Listed overseas	**169**	178
	3,113	3,025

3 MANAGEMENT FEE

	2004 £'000s	2003 £'000s
Management fee	**359**	298
Irrecoverable VAT thereon*	**63**	52
	422	350
Less: allocated to capital reserve realised (see note 19)	**(211)**	(175)
	211	175

* The proportion of VAT that is irrecoverable is determined broadly by the ratio of outputs (mainly proceeds of sales of investments) within European Union member countries to outputs worldwide.

The Manager provides investment management and general administrative services to the Company for a quarterly management fee payable in arrears equal to 0.1% of the funds under management. The management agreement may be terminated upon one year's notice given by either party.

4 OTHER EXPENSES

	2004 **£'000s**	2003 £'000s
Auditors' remuneration:		
for audit services	**15**	14
other services	**3**	3
Custody fees	**4**	4
Directors' emoluments:		
fees for services to the Company (see Directors' Remuneration Report on page 20)	**55**	50
Directors' and Officers' Liability insurance	**15**	12
Irrecoverable VAT	**14**	15
Marketing	**23**	12
Printing and postage	**28**	35
Registrars fees	**6**	8
Sundry expenses	**33**	55
	196	208

5 DIRECTORS' REMUNERATION AND CONTRACTS

(a) Remuneration

The Company had no employees during the year. The amounts paid by the Company to the Directors of the Company which were for services as non-executive Directors and did not include any payments or rights to pensions are detailed in the table in the Directors' Remuneration Report on page 20.

(b) Directors' interests in shares

The beneficial interests of the directors in the ordinary shares of the Company at 30 September were as follows:

	2004 **Beneficial**	2003 Beneficial
Graham Ross Russell (Chairman)	**70,539**	68,824
Peter Hardy	**136,925**	124,366
Hugh Priestley	**1,000**	1,000
James Norton	**–**	–
Pen Kent	**–**	–

There have been no changes in any of the Directors' interests in shares detailed above since the Company's year end. No director held any interest, beneficial or otherwise, in the issued shares of the Company other than stated above.

(c) Directors' interests in contracts

No contract of significance to which the Company is a party and in which a Director is or was materially interested subsisted during the year.

6 INTEREST PAYABLE AND SIMILAR CHARGES

	2004 **£'000s**	2003 £'000s
On bank loans and overdrafts repayable within five years, not by instalments	240	36
Less: allocated to capital reserve realised (see note 19)	(120)	(18)
	120	18

7 TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of tax charge for the year

	Revenue £'000s	Capital £'000s	2004 Total £'000s	Revenue £'000s	Capital £'000s	2003 Total £'000s
Overseas taxation	**25**	**-**	**25**	26	–	26
Precompte/avoir fiscal recovery of tax credits	**(3)**	**-**	**(3)**	(7)	–	(7)
Current tax charge on ordinary activities (see note 7(b))	**22**	**-**	**22**	19	–	19

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

	Revenue £'000s	Capital £'000s	2004 Total £'000s	Revenue £'000s	Capital £'000s	2003 Total £'000s
Return on ordinary activities before tax	**2,619**	**9,027**	**11,646**	2,648	8,752	11,400
Return on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003: 30%)	**786**	**2,708**	**3,494**	794	2,626	3,420
Effects of:						
UK franked dividends*	**(879)**	**-**	**(879)**	(813)	–	(813)
Other income*	**(4)**	**-**	**(4)**	(41)	–	(41)
Excess expenses not utilised	**92**	**99**	**191**	58	58	116
Expenses not deductible for tax purposes	**4**	**-**	**4**	2	–	2
Overseas taxation	**25**	**-**	**25**	26	–	26
Recovery of tax credits	**(2)**	**-**	**(2)**	(7)	–	(7)
Capital returns*	**-**	**(2,807)**	**(2,807)**	–	(2,684)	(2,684)
Total current taxation (see note 7(a))	**22**	**-**	**22**	19	–	19

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

The deferred tax asset of £1.1m (2003: £0.9m) in respect of unutilised expenses at 30 September 2004 has not been recognised as it is unlikely that these expenses will be utilised.

8 RETURN PER ORDINARY SHARE

Revenue return

The revenue return per share is based on the revenue return attributable to equity shareholders of £2,597,000 (2003: £2,629,000).

Capital return

The capital return per share is based on the capital return attributable to equity shareholders of £9,027,000 (2003: £8,752,000).

Both the revenue and capital returns are based on a weighted average of 48,269,777 (2003:49,814,962) ordinary shares in issue during the year. Shares held in treasury have been excluded from the weighted average number of shares in issue with effect from the date of purchase.

9 INVESTMENTS

	Listed UK £'000s	Listed Overseas £'000s	Total £'000s
Cost at 1 October 2003	65,988	6,955	72,943
Unrealised appreciation/(depreciation) at 1 October 2003	8,537	(96)	8,441
Valuation at 1 October 2003	74,525	6,859	81,384
Movements in the year:			
Purchases at cost	16,099	3,871	19,970
Sales – proceeds	(15,799)	(3,927)	(19,726)
– realised (losses)/gains on sales	(489)	1,494	1,005
Increase in unrealised appreciation/(depreciation)	9,243	(864)	8,379
Valuation at 30 September 2004	83,579	7,433	91,012
Cost at 30 September 2004	67,882	7,061	74,943
Unrealised appreciation at 30 September 2004	15,697	372	16,069
	83,579	**7,433**	**91,012**

Gains and losses on investments	2004 £'000s	2003 £'000s
Realised gains/(losses) based on historical cost	**1,756**	(4,768)
Less: amounts recognised as unrealised gains in previous years	**(751)**	(5,992)
Realised gains/(losses) based on carrying value at previous balance sheet date	**1,005**	(10,760)
Increase in unrealised appreciation	**8,379**	19,705
Gains on investments	**9,384**	8,945

10 DEBTORS

	2004 £'000s	2003 £'000s
Investment debtors	**170**	638
Prepayments and accrued income	**426**	474
	596	1,112

11 TAXATION RECOVERABLE

	2004 £'000s	2003 £'000s
Amount recoverable from overseas authorities	**13**	19

12 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Loan	2004 £'000s	2003 £'000s
Sterling loan repayable October 2004	**6,000**	–

At 22 November 2004, short-term borrowings were £6,500,000. The maximum unsecured loan facility is £10,000,000.

13 CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR

Other	2004 £'000s	2003 £'000s
Dividends on ordinary shares	**1,293**	1,655
Investment creditors	**426**	666
Bank overdraft	**-**	490
Accruals	**174**	131
Share buybacks	**172**	122
	2,065	3,064

14 GEOGRAPHICAL AND INDUSTRIAL CLASSIFICATION: TOTAL ASSETS LESS CURRENT LIABILITIES (EXCLUDING LOANS)

	UK %	Europe %	**2004 Total %**	2003 Total %
Assets:				
Equities				
Financials	28.3	2.8	**31.1**	29.6
Cyclical and non-cyclical services	25.6	1.8	**27.4**	24.6
Cyclical and non-cyclical consumer goods	17.0	1.3	**18.3**	20.2
Resources	13.0	0.7	**13.7**	12.3
Utilities	7.0	0.3	**7.3**	5.9
Basic industrials	5.7	1.0	**6.7**	6.2
General industrials	1.1	0.6	**1.7**	2.2
Information technology	1.2	0.4	**1.6**	1.4
Total equities	98.9	8.9	**107.8**	102.4
Net current (liabilities)/assets	(7.9)	0.1	**(7.8)**	(2.4)
Total assets less current liabilities	91.0	9.0	**100.0**	
2003 totals	91.3	8.7		100.0

15 CALLED UP SHARE CAPITAL

	Authorised		Issued and fully paid	
Equity share capital	Number	Nominal £'000s	Number	Nominal £'000s
Ordinary shares of 25p each				
Balance brought forward	100,000,000	25,000	50,147,891	12,537
Issue of Ordinary shares			523,000	131
Purchase of ordinary shares for cancellation			(2,467,850)	(617)
Balance carried forward	**100,000,000**	**25,000**	**48,203,041**	**12,051**
Purchase of ordinary shares not for cancellation, held in treasury			(743,289)	
Total ordinary shares in issue excluding shares held in treasury at 30 September 2004			**47,459,752**	

523,000 ordinary shares were issued during the year with total proceeds of £947,000. 2,467,850 ordinary shares were purchased for cancellation during the year at a total cost of £3,924,000. 743,289 ordinary shares were purchased and held in treasury at a total cost of £1,244,000. Since the year end a further 425,000 ordinary shares have been purchased and held in treasury at a total cost of £750,000. As at 22 November 2004, the total number of shares held in treasury is 1,168,289.

Ordinary shares held in treasury have no entitlement to dividends paid or proposed.

16 CAPITAL REDEMPTION RESERVE

	2004 £'000s	2003 £'000s
Balance brought forward	**2,537**	2,332
Transfer from equity share capital on purchase of ordinary shares for cancellation	**617**	205
Balance carried forward	**3,154**	2,537

17 SHARE PREMIUM ACCOUNT

	2004 £'000s	2003 £'000s
Balance brought forward	**17,955**	16,394
Issue of ordinary shares	**816**	1,561
Balance carried forward	**18,771**	17,955

18 SPECIAL RESERVE

	2004 £'000s	2003 £'000s
Balance brought forward	**17,516**	18,704
Purchase of ordinary shares for cancellation	**(3,924)**	(1,188)
Purchase of ordinary shares held in treasury	**(1,244)**	–
Balance carried forward	**12,348**	17,516

19 OTHER RESERVES

	Capital reserve (realised) £'000s	Capital reserve (unrealised) £'000s	Capital reserves Total £'000s	Revenue reserve £'000s
Realised gains on investments	1,005	–	1,005	–
Transfers on disposal of investments	751	(751)	–	–
Management fees and related VAT (see note 3)	(211)	–	(211)	–
Interest expense (see note 6)	(120)	–	(120)	–
Exchange gains and losses on currency balances	(4)	–	(4)	–
Other expenses	(22)	–	(22)	–
Amount transferred from revenue reserve	–	–	–	27
Increase in unrealised appreciation on investments	–	8,379	8,379	–
	1,399	7,628	9,027	27
Balance brought forward	19,502	8,441	27,943	978
Balance carried forward	**20,901**	**16,069**	**36,970**	**1,005**

Included within the capital reserve movement for the year is £123,000 (2003: £2,000) of dividends recognised as capital.

20 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	2004 £'000s	2003 £'000s
Revenue return on ordinary activities after taxation	**2,597**	2,629
Capital return for the year	**9,027**	8,752
Dividends on ordinary shares	**(2,570)**	(2,666)
Purchase of ordinary shares for cancellation	**(3,924)**	(1,188)
Purchase of ordinary shares held in treasury	**(1,244)**	–
Issue of ordinary shares	**947**	1,878
	4,833	9,405
Equity shareholders' funds brought forward	**79,466**	70,061
Equity shareholders' funds carried forward	**84,299**	79,466

21 NET ASSET VALUE PER ORDINARY SHARE

Net asset value per ordinary share is based on total net assets of £84,299,000 (2003: £79,466,000) and on 47,459,752 (2003: 50,147,891) ordinary shares in issue at the year end, which excludes 743,289 shares held in treasury (2003: nil).

22 RECONCILIATION OF NET REVENUE RETURN BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2004 £'000s	2003 £'000s
Revenue return before finance costs and taxation	**2,739**	2,666
Management fee allocated to capital	**(211)**	(175)
Exchange gains/(losses) of a revenue nature	**1**	(2)
Decrease/(Increase) in accrued income	**52**	(5)
Increase in creditors	**16**	19
Scrip dividends	**(14)**	(136)
Net cash inflow from operating activities	**2,583**	2,367

Included within the £63,000 of cash paid to and on behalf of Directors in 2004 is £8,000 of emoluments accrued at 30 September 2003.

23 RECONCILIATION OF NET CASH MOVEMENT TO MOVEMENT IN NET DEBT

	2004 £'000s	2003 £'000s
Increase/(decrease) in cash	**730**	(315)
Decrease in short-term deposits	**-**	(600)
Decrease/(increase) in overdrafts	**490**	(477)
Increase in loans	**(6,000)**	–
Change in net debt resulting from cash flows	**(4,780)**	(1,392)
Exchange movement on currency balances	**(2)**	13
Movement in net debt during the period	**(4,782)**	(1,379)
Net (debt)/funds brought forward	**(475)**	904
Net debt carried forward	**(5,257)**	(475)

Represented by:	Balance at 1 Oct 2003 £'000s	Cash flow £'000s	Exchange movement £'000s	**Balance at 30 Sep 2004 £'000s**
Cash at bank	15	730	(2)	**743**
Overdrafts	(490)	490	–	**-**
	(475)	1,220	(2)	743
Loans - short term	–	(6,000)	–	**(6,000)**
	(475)	(4,780)	(2)	**(5,257)**

24 FUND RISK PROFILE

The Company conducts its affairs so as to qualify as an investment trust under the provisions of Section 842 of the Income and Corporation Taxes Act 1988.

The Company's investment objective is to secure long-term capital and income growth from a portfolio consisting mainly of FTSE All-Share companies and leading European companies. The portfolio held throughout the year and at the year end is in line with the Company's investment objective. The Company has the power to take out both short and long-term borrowings. No long-term borrowings were entered into during the year.

In pursuing its investment objectives, the Company faces risks to both assets and revenue. These risks, and the Directors' approach to the management of the risks, are as overleaf:

Risk Management

Risk	Management of Risk
Market Price The Company's assets consist principally of quoted equities, the values of which are determined by market forces.	The Board reviews the risks inherent in the Company's portfolio by ensuring full and timely access to relevant information from the Manager. The Board meets regularly and at each meeting reviews investment performance and financial results. It monitors compliance with the Company's objectives and is directly responsible for investment strategy, asset allocation and gearing.
Credit Failure by counterparties to deliver securities which the Company has paid for, or to pay for securities which the Company has delivered.	All transactions are settled on the basis of delivery against payment.
Liquidity Difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments.	The Company's investments are principally quoted equities and are readily realisable. The Company has the power to take out borrowings, both short- and long-term, and in addition has an overdraft facility of £1 million, and a bank facility of £10 million, of which £6 million was drawn-down at 30 September 2004.
Currency Certain of the Company's assets and liabilities are denominated in currencies other than sterling. As a result movements in exchange rates may affect the sterling value of the portfolio, cash, investment purchases and sales and income.	Income denominated in foreign currencies is converted to sterling on receipt.

24 RISK PROFILE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

24 RISK PROFILE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

In the year to 30 September 2004 the Company did not make use of derivatives (2003: nil).

Financial Assets

The interest rate profile of the Company's financial assets (excluding short-term debtors) at 30 September 2004 was:

Currency	**Floating rate financial assets £'000s**	**Fixed rate financial assets £'000s**	**Weighted average interest rate %**	**Weighted average period for which rate is fixed**
Sterling (fixed period)	-	-	-	-
Sterling (undated)	**710**	-	-	-
Euro (undated)	**23**	-	-	-
Swiss francs (undated)	**3**	-	-	-
Swedish krona (undated)	**7**	-	-	-

The floating rate financial assets comprise sterling bank deposits that earn interest based on the six-month London Inter Bank Offer Rate (LIBOR) and foreign currency balances that bear interest on the equivalent benchmark for their respective countries.

The interest rate profile of the Company's financial assets (excluding short-term debtors) at 30 September 2003 was:

Currency	Floating rate financial assets £'000s	Fixed rate financial assets £'000s	Weighted average interest rate %	Weighted average period for which rate is fixed
Sterling (fixed period)	–	–	–	–
Sterling (undated)	15	–	–	–
Euro (undated)	–	–	–	–
Swiss francs (undated)	–	–	–	–
Swedish krona (undated)	–	–	–	–

Financial Liabilities

The interest rate profile of the Company's financial liabilities (including short-term loans but excluding other short-term creditors) at 30 September 2004 was:

Currency	**Floating rate financial liabilities £'000s**	**Fixed rate financial liabilities £'000s**	**Weighted average interest rate %**	**Weighted average period for which rate is fixed**
Sterling	**6,000**	-	-	-

The interest rate profile of the Company's financial liabilities (including short-term loans but excluding other short-term creditors) at 30 September 2003 was:

Currency	Floating rate financial liabilities £'000s	Fixed rate financial liabilities £'000s	Weighted average interest rate %	Weighted average period for which rate is fixed
Sterling (undated)	490	–	–	–

Floating rate financial liabilities generate interest based on competitive bank rates.

24 RISK PROFILE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Currency Exposure

The profile of the Company's net monetary assets/(liabilities) at 30 September 2004, by currency, was:

	Sterling £'000s	Swiss franc £'000s	Euro £'000s	Swedish Krona £000s	Total £'000s
Net monetary assets	**76,803**	**1,482**	**5,725**	**289**	**84,299**

The profile of the Company's net monetary assets/(liabilities) at 30 September 2003, by currency, was:

	Sterling £'000s	Swiss franc £'000s	Euro £'000s	Swedish Krona £000s	Total £'000s
Net monetary assets	*72,587*	*1,069*	*5,540*	*270*	*79,466*

Fair Value

The Directors are of the opinion that there are no material differences between fair value of the financial assets and liabilities and the value as disclosed in the balance sheet.

Ten Year Record

ASSETS

at 30 September £'000s	1994	1995	1996[†]	1997	1998	1999	2000	2001	2002	2003	**2004**
Total assets less current liabilities (excl. loans)	62,731	73,676	84,441	103,070	95,576	101,887	109,714	88,318	70,061	79,466	**90,299**
Prior charges (incl. loans)	–	–	–	–	–	–	5,400	–	–	–	**6,000**
Available for ordinary shares	62,731	73,676	84,441	103,070	95,576	101,887	104,314	88,318	70,061	79,466	**84,299**

NET ASSET VALUE

at 30 September	1994	1995	1996[†]	1997	1998	1999	2000	2001	2002	2003	**2004**
NAV per share	117.6p	129.6p	143.1p	174.6p	161.9p	191.1p	206.0p	175.4p	141.0p	158.5p	**177.6p**
NAV total return on 100p – 5 years (per AITC)											**105.4p**
NAV total return on 100p – 10 years (per AITC)											**196.9p**

SHARE PRICE

at 30 September	1994	1995	1996[†]	1997	1998	1999	2000	2001	2002	2003	**2004**
Mid-market price per share	119.5p	136.5p	146.0p	145.0p	143.0p	171.5p	173.0p	161.5p	135.5p	159.0p	**173.5p**
(Premium)/discount to NAV(%)	(1.60)%	(5.30)%	(2.10)%	17.00%	11.70%	10.30%	16.00%	7.90%	3.90%	(0.30)%	**2.31%**
Share price High in year	144.0p	137.5p	147.0p	149.0p	182.5p	183.5p	192.0p	183.8p	195.0p	169.0p	**177.0p**
Share price Low in year	116.0p	118.0p	132.0p	132.0p	135.5p	136.0p	154.5p	141.5p	119.0p	122.0p	**155.5p**
Share price total return on 100p											
– 5 years (per AITC)											**116.1p**
– 10 years (per AITC)											**192.3p**

REVENUE

for the year ended 30 September	1994	1995	1996[†]	1997	1998	1999[††]	2000	2001	2002	2003	**2004**
Available for ordinary shares (£'000s)	1,837	2,375	2,713	2,704	2,785	2,964	2,546	2,872	2,460	2,629	**2,597**
Earnings per share – pence	3.88p	4.29p	4.67p	4.58p	4.72p	5.19p	4.90p	5.70p	4.93p	5.28p	**5.38p**
Dividends per share – pence	3.50p	3.85p	4.15p	4.50p	4.65p[§]	4.80p	4.95p	5.10p	5.25p	5.35p	**5.45p**

PERFORMANCE

(rebased at 30 September 1994)	1994	1995	1996[†]	1997	1998	1999	2000	2001	2002	2003	**2004**
NAV per share	100.0	110.2	121.7	148.5	137.7	162.5	175.2	149.1	119.9	134.8	**151.0**
Mid-market price per share	100.0	114.2	122.2	121.3	119.7	143.5	144.8	135.1	113.4	133.1	**145.2**
Earnings per share	100.0	110.6	120.4	118.0	121.6	133.8	126.3	146.9	127.1	136.1	**138.7**
Dividends per share	100.0	110.0	118.6	128.6	132.9	137.1	141.4	145.7	150.0	151.4	**155.7**
RPI	100.0	103.9	106.1	109.9	113.4	114.6	118.4	120.4	122.5	125.9	**129.7**

† The accounts for 1996 were restated in accordance with the Investment Trust SORP.

†† Restated for the allocation of management fees and finance costs to capital.

COST OF RUNNING THE COMPANY

for the year-ended 30 September

%	1994	1995	1996†	1997	1998	1999	2000	2001	2002	2003	2004
Operating costs as a percentage of:											
Average net assets	0.58%	0.58%	0.59%	0.57%	0.57%	0.58%	0.61%	0.60%	0.67%	0.75%	**0.74%**
Average total assets	0.58%	0.58%	0.59%	0.57%	0.57%	0.58%	0.59%	0.59%	0.67%	0.75%	**0.69%**

GEARING

at 30 September

%	1994	1995	1996†	1997	1998	1999	2000	2001	2002	2003	2004
Effective gearing/(net liquidity)	(7.50)%	(3.60)%	(1.40)%	(0.50)%	(2.20)%	(1.40)%	4.40%	(0.80)%	(1.30)%	(0.60)%	**6.23%**
Fully invested gearing	0.20%	0.00%	0.00%	0.00%	0.00%	0.00%	5.20%	0.00%	0.00%	0.00%	**7.11%**

† The accounts for 1996 were restated in accordance with the Investment Trust SORP.

Definitions

Prior charges	All preference shares, debentures, loans, overdrafts, etc., used for investment purposes.
Operating costs	All costs charged to revenue and capital, including performance-related management fees but excluding related taxation relief, interest costs, taxation, the costs of purchase of share capital and the costs of buying and selling of investments.
Total assets	Total assets less current liabilities before deducting prior charges.
NAV	Net asset value (assuming prior charges at balance sheet value).
RPI	All-items Retail Price Index.
Average net assets	Average of net assets at end of each quarter.
NAV total return	Return on net assets per share assuming that all dividends paid to shareholders were reinvested.
Share price total return	Return to the investor on mid-market prices assuming that all dividends received were reinvested.
AITC	Association of Investment Trust Companies.
Effective gearing	Prior charges at balance sheet value, less cash and fixed interest stocks, as a percentage of net assets (also termed "Actual Gearing"). Where cash and fixed interest stocks exceed prior charges, the Company has "net liquidity".
Fully invested gearing	Prior charges at balance sheet value as a percentage of net assets (also termed "Potential Gearing").

Notice of Annual General Meeting

Notice is hereby given that the eleventh Annual General Meeting of the Company will be held at the registered office of the Company, Exchange House, Primrose Street, London EC2, on Monday, 31 January 2005 at 10.30 am for the following purposes:

ORDINARY BUSINESS:

1 To receive and adopt the Directors' report and accounts for the year ended 30 September 2004.
2 To approve the Directors' Remuneration Report.
3 To declare a dividend on the ordinary shares.
4 To re-elect Mr G Ross Russell (aged 72) as a Director
5 To re-elect Mr P B Hardy as a Director.
6 To re-elect Professor J Norton as a Director.
7 To re-appoint PricewaterhouseCoopers LLP as auditors and to authorise the Directors to determine their remuneration.

SPECIAL BUSINESS

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

THAT:

(a) the Directors be and they are hereby:

(i) generally and unconditionally authorised, in accordance with Section 80 of the Companies Act 1985 (the "Act"), to exercise all the powers of the Company to allot relevant securities (as defined in that Section) up to an aggregate nominal amount of £587,934 during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the Annual General Meeting of the Company in 2006; and

(ii) empowered, pursuant to Section 95 of the Act, to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the authority referred to in paragraph (a)(i) of this resolution as if Section 89(1) of the Act did not apply to any such allotment,

but so that this authority and power shall enable the Company to make offers or agreements which would or might require relevant securities or equity securities to be allotted after the expiry of this authority and power and notwithstanding such expiry the Directors may allot relevant securities and/or equity securities in pursuance of such offers or agreements; and

(b) all authorities and powers previously conferred under Section 80 or Section 95 of the Act be and they are hereby revoked, provided that such revocation shall not have retrospective effect.

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

THAT the Company be and is hereby and unconditionally authorised in accordance with Section 166 of the Companies Act 1985 (the "Act"), to make market purchases (within the meaning of Section 163 of the Act) of ordinary shares of 25 pence each in the capital of the Company ("ordinary shares") on such terms and in such manner as the Directors may from time to time determine, provided that:

(a) the maximum number of ordinary shares hereby authorised to be purchased is 7,050,509;

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

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

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

(e) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2006 or, if earlier, on the expiry of 18 months from the date of the passing of this resolution, unless such authority is varied, revoked or renewed prior to such time by the Company in general meeting by special resolution; and

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

Dated: 22 November 2004
By order of the Board
F&C Management Limited
Secretary

LOCATION OF MEETING

NOTES:

Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, only shareholders registered on the register of members of the Company at 10.30 pm on 29 January 2005 ("the specified time") shall be entitled to attend and vote or to be represented at the meeting in respect of shares registered in their name at that time. Changes to entries on the register of members after 10:30 pm on 29 January 2005 shall be disregarded in determining the rights of any person to attend and vote at the meeting. If the meeting is adjourned to a time not more than 48 hours after the time applicable to the original meeting the specified time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then, so to be entitled, members must be entered on the Company's register of members at 10:30 pm on the day which falls 48 hours before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at any time specified in that notice.

A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and vote instead of him or her. A proxy need not be a member of the Company.

To be valid, a form of proxy for use at the meeting and the power of attorney or other authority (if any) under which it is signed, or a notarially certified or office copy of such power or authority, must be deposited with the Company's registrars, Computershare Investor Services PLC, PO Box 1075, Bristol BS99 3ZZ not less than 48 hours before the time appointed for holding the meeting. In view of this requirement, investors holding shares in the Company through the F&C Personal Equity Plan, F&C Individual Savings Account, F&C Private Investor Plan or in an F&C Pension Savings Plan should ensure that forms of direction are returned to Computershare Investor Services PLC not later than 96 hours before the time appointed for holding the meeting.

The register of Directors' holdings is available for inspection at the registered office of the Company during normal business hours on any weekday and will be available at the place of the meeting from 15 minutes prior to the commencement of the meeting until the conclusion thereof.

No Director has a contract of service with the Company.

The final dividend in respect of the year ended 30 September 2004 will, if approved, be paid on 4 February 2005 to holders of ordinary shares on the register at the close of business on 7 January 2005.

Information for Shareholders

NET ASSET VALUE AND SHARE PRICE

The Company's Net Asset Value (NAV) is released daily, on the working day following the calculation date, to the London Stock Exchange.

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

PERFORMANCE INFORMATION

Information on the Company's performance is provided in the interim and final reports which are sent to shareholders in April and December respectively.

More up-to-date performance information is available on the Internet at www.fandc.com (select your country, click on "Private Investors", then "Funds & Products", followed by "Investment Trusts"). This website also provides a monthly update on the Company's largest holdings, along with comments from the Fund Manager.

ASSOCIATION OF INVESTMENT TRUST COMPANIES ("AITC")

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

UK CAPITAL GAINS TAX ("CGT")

An approved investment trust does not pay tax on capital gains. UK resident individuals may realise net capital gains of up to £8,200 in the tax year ended 5 April 2005 without incurring any tax liability.

Up to April 1998, the cost of investments for CGT purposes was adjusted to allow for inflation between the month of acquisition and the month of disposal of the investments. For investments held at 6 April 1998 and disposed of after that date, this indexation allowance will be computed for the period from the date of acquisition to April 1998, with taper relief applying after April 1998. For assets acquired on or after 6 April 1998, only taper relief applies. The taper reduces the amount of chargeable gain according to the number of complete years after 5 April 1998 for which the investment has been held.

INCOME TAX

The proposed final dividend is payable in February 2005. Individual UK resident shareholders who are subject to UK income tax at the lower rate or the basic rate have no further tax liability.

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

How to invest

F&C Management Limited, runs a number of savings products which have been set up to provide cost effective and flexible ways to invest (details of these products are listed below). You can also buy F&C Capital and Income Investment Trust PLC shares using a bank or stockbroker or alternatively, directly through an online and telephone dealing service. The F&C website has a link to comdirect, Europe's biggest stockbroker, at www.fandc.com/comdirect.

PRIVATE INVESTOR PLAN ("PIP")

It only costs 0.2% (plus 0.5% Government Stamp Duty) to invest in F&C Capital and Income Investment Trust PLC via this simple savings scheme and there are no ongoing charges. You can invest a lump sum or set up a Direct Debit to make regular monthly payments from just £50 per month.

PENSION SAVINGS PLAN ("PSP")

You can maximise your tax benefits and save for your retirement using this low cost Plan, which includes a Personal Pension and Free Standing AVC. Contributions can be made via a lump sum or by Direct Debit. Now that personal pensions are no longer restricted to those with earnings of their own, almost everyone under the age of 75 is eligible. This means that you can invest on behalf of non-working spouses or partners and children.

INDIVIDUAL SAVINGS ACCOUNT ("ISA")

You can invest up to £7,000 each year in F&C's Maxi ISA, or £3,000 in the Mini ISA, either by completing an application form or investing online. You can make regular monthly payments by Direct Debit or invest a lump sum.

PERSONAL EQUITY PLAN ("PEP")

Although PEPs are no longer available for new subscriptions you can transfer investments from one manager to another, subject to Inland Revenue requirements.

F&C's fixed rate charging structure provides excellent value for money as you pay one fixed annual management fee no matter how many Investment Trust PEPs or ISAs you hold with F&C.

Please note that with effect from 6 April 2004 you are no longer able to reclaim the 10% tax credit on dividends within a stocks and shares ISA and PEPs. Within the ISA and PEP capital gains remain tax-free.

If you have trouble reading smaller print, please let us know. We can provide literature in alternative formats, for example, large print or on audio-tape. Please call 0845 600 3030 for more details.

For further details on the savings schemes and application forms, please contact:

Investor Services on **0845 600 30 30** or
Broker Support on **0845 600 1868**
(UK calls charged at the local rate)
Fax **020 7825 2108**

You can also find more information on the website:
www.fandc.com under Investment Trusts.

If you wish to write, the address is:
Investor Services Team, F&C Management Limited,
Exchange House, Primrose Street, London EC2A 2NY
or contact your Independent Financial Adviser

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

The information on this page has been issued and approved by F&C Management Limited, authorised and regulated in the UK by the Financial Services Authority.

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