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COMPANIES HOUSE

# F&C Capital and Income Investment Trust PLC

Company Registration Number 2732011

Section 838 of the Companies Act 2006 - Interim Accounts for the six months to 31 March 2008  
(Unaudited)

# Unaudited Income Statement

for the six months to 31 March 2008 and the year ended 30 September 2007

| Revenue<br>Notes | Capital<br>Notes | 6 months to 31 March 2008                                |                   |                 | Year ended 30 September 2007 |                   |                 |               |
|------------------|------------------|--|-------------------|-----------------|------------------------------|-------------------|-----------------|---------------|
|                  |                  | Revenue<br>£'000s  | Capital<br>£'000s | Total<br>£'000s | Revenue<br>£'000s            | Capital<br>£'000s | Total<br>£'000s |               |
|                  | 11               | (Losses)/gains on investments                            | -                 | (22,995)        | (22,995)                     | -                 | 8,734           | 8,734         |
|                  | 18               | Exchange gains on currency balances                      | 1                 | 17              | 18                           | -                 | 1               | 1             |
| 3                |                  | Income   | 3,745             | -               | 3,745                        | 7,947             | -               | 7,947         |
| 4                |                  | Management fee   | (180)             | (180)           | (360)                        | (513)             | (513)           | (1,026)       |
| 5                | 18               | Other expenses   | (284)             | (6)             | (290)                        | (508)             | (4)             | (512)         |
|                  |                  | <b>Net return before finance costs and taxation</b>      | <b>3,282</b>      | <b>(23,164)</b> | <b>(19,882)</b>              | <b>6,926</b>      | <b>8,218</b>    | <b>15,144</b> |
| 7                | 18               | Interest payable and similar charges                     | (113)             | (113)           | (226)                        | (285)             | (285)           | (570)         |
|                  |                  | <b>Net return on ordinary activities before taxation</b> | <b>3,169</b>      | <b>(23,277)</b> | <b>(20,108)</b>              | <b>6,641</b>      | <b>7,933</b>    | <b>14,574</b> |
| 8                |                  | Taxation on ordinary activities                          | (1)               | -               | (1)                          | (37)              | -               | (37)          |
|                  |                  | <b>Net return attributable to equity shareholders</b>    | <b>3,168</b>      | <b>(23,277)</b> | <b>(20,109)</b>              | <b>6,604</b>      | <b>7,933</b>    | <b>14,537</b> |
| 9                | 9                | <b>Return per share – pence</b>                          | <b>4 04</b>       | <b>(29 68)</b>  | <b>(25 64)</b>               | <b>8 25</b>       | <b>9 92</b>     | <b>18 17</b>  |

The total column of this statement is the profit and loss account of the Company

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

A statement of total recognised gains and losses is not required as all gains and losses of the Company have been reflected in the above statement

## Unaudited Reconciliation of Movements in Shareholders' Funds

| Notes                               | Share capital<br>£'000s                                    | Share premium account<br>£'000s | Capital redemption reserve<br>£'000s | Special reserve<br>£'000s | Capital reserves<br>£'000s | Revenue reserve<br>£'000s | Total shareholders' funds<br>£'000s |
|-------------------------------------|--|---------------------------------|--------------------------------------|---------------------------|----------------------------|---------------------------|-------------------------------------|
| <b>Six months to 31 March 2008</b>  |  |                                 |                                      |                           |                            |                           |                                     |
|                                     | 20,548   | 76,334                          | 3,154                                | 6,034                     | 93,581                     | 4,480                     | 204,131                             |
|                                     | <b>Movements during the six months ended 31 March 2008</b> |                                 |                                      |                           |                            |                           |                                     |
| 10                                  | -  | -                               | -                                    | -                         | -                          | (3,285)                   | (3,285)                             |
| 14                                  | -  | -                               | -                                    | (1,600)                   | -                          | -                         | (1,600)                             |
| 14                                  | (992)  | -                               | 992                                  | -                         | -                          | -                         | -                                   |
|                                     | -  | -                               | -                                    | -                         | (23,277)                   | 3,168                     | (20,109)                            |
|                                     | <b>19,556</b>  | <b>76,334</b>                   | <b>4,146</b>                         | <b>4,434</b>              | <b>70,304</b>              | <b>4,363</b>              | <b>179,137</b>                      |
| <b>Year ended 30 September 2007</b> |  |                                 |                                      |                           |                            |                           |                                     |
|                                     | 20,548   | 76,334                          | 3,154                                | 10,313                    | 85,648                     | 4,758                     | 200,755                             |
|                                     | <b>Movements during the year ended 30 September 2007</b>   |                                 |                                      |                           |                            |                           |                                     |
|                                     | -  | -                               | -                                    | -                         | -                          | (6,882)                   | (6,882)                             |
|                                     | -  | -                               | -                                    | (4,279)                   | -                          | -                         | (4,279)                             |
|                                     | -  | -                               | -                                    | -                         | 7,933                      | 6,604                     | 14,537                              |
|                                     | <b>20,548</b>  | <b>76,334</b>                   | <b>3,154</b>                         | <b>6,034</b>              | <b>93,581</b>              | <b>4,480</b>              | <b>204,131</b>                      |

# Unaudited Balance Sheet

at 31 March 2008 and 30 September 2007

| Notes  | 31 March 2008 |                | 30 September 2007 |                |
|--|---------------|----------------|-------------------|----------------|
|  | £'000s        | £'000s         | £'000s            | £'000s         |
| <b>Fixed assets</b>                                  |               |                |                   |                |
| 11 Investments                                       |               | 181,034        |                   | 213,328        |
| <b>Current assets</b>                                |               |                |                   |                |
| 12 Debtors   | 1,717         |                | 875               |                |
| Cash at bank and short-term deposits                 | 707           |                | 346               |                |
|  | 2,424         |                | 1,221             |                |
| <b>Creditors amounts falling due within one year</b> |               |                |                   |                |
| Short-term loans                                     | (4,000)       |                | (10,000)          |                |
| 13 Other   | (321)         |                | (418)             |                |
|  | (4,321)       |                | (10,418)          |                |
| <b>Net current liabilities</b>                       |               | <b>(1,897)</b> |                   | <b>(9,197)</b> |
| <b>Net assets</b>                                    |               | <b>179,137</b> |                   | <b>204,131</b> |
| <b>Capital and reserves</b>                          |               |                |                   |                |
| 14 Share capital                                     |               | 19,556         |                   | 20,548         |
| 15 Share premium account                             |               | 76,334         |                   | 76,334         |
| 16 Capital redemption reserve                        |               | 4,146          |                   | 3,154          |
| 17 Special reserve                                   |               | 4,434          |                   | 6,034          |
| 18 Capital reserves                                  |               | 70,304         |                   | 93,581         |
| 18 Revenue reserve                                   |               | 4,363          |                   | 4,480          |
| <b>Total equity shareholders' funds</b>              |               | <b>179,137</b> |                   | <b>204,131</b> |
| <b>Net asset value per share - pence</b>             |               | <b>229 00</b>  |                   | <b>258 76</b>  |

Approved by the Board on 12 May 2008 and signed on its behalf by



Pen Kent  
Chairman

# Notes on the Accounts (Unaudited)

## 1 ACCOUNTING PERIOD

The results for the six months to 31 March 2008, which are unaudited, constitute non-statutory accounts within the meaning of Section 434 of the Companies Act 2006. The latest published accounts which have been delivered to the Registrar of Companies are for the year ended 30 September 2007. The report of the auditors thereon was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

## 2 ACCOUNTING POLICIES

### (a) Basis of accounting

The accounts of the Company have been prepared under the historical cost convention, modified to include fixed assets investments at fair value, and in accordance with the Companies Act 1985, Accounting Standards applicable in the United Kingdom and with the Revised Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (SORP) issued in December 2005.

The functional and reporting currency of the Company is pounds sterling because that is the currency of the primary economic environment in which the Company operates.

### (b) Principal accounting policies

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

#### (i) Fixed assets investments

As an investment trust, the Company measures its fixed asset investments at "fair value through profit or loss" and treats all transactions on the realisation and revaluation of investments held as fixed assets, as transactions on the capital account. Purchases are recognised on the relevant trade date, inclusive of expenses which are incidental to their acquisition. Sales are also recognised on the trade date, after deducting expenses incidental to the sales.

Quoted investments are valued at bid value at the close of business on the relevant date on the exchange on which the investment is quoted.

#### (ii) Borrowings

Loans and overdrafts are recorded at the proceeds received, net of issue costs, irrespective of the duration of the instrument.

Finance charges, including interest, are accrued using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period. See (v) below for allocation of finance charges within the Income Statement.

#### (iii) 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, dividend income, interest income and expenses are translated at the rates of exchange prevailing at the respective dates of such transactions. Exchange profits and losses on fixed assets investments are included within the changes in fair value in the capital account. Exchange profits and losses on other currency balances are separately credited or charged to the capital account except where they relate to revenue items.

#### (iv) Income

Income from equity shares is brought into the revenue account (except where, in the opinion of the Directors, its nature indicates it should be recognised as within the capital account) on the ex-dividend date or, where no ex-dividend date is quoted, when the Company's right to receive payment is established. Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis so as to reflect the effective yield on the investment.

Dividends are accounted for in accordance with Financial Reporting Standard 16 "Current Taxation" (FRS16) on the basis of 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 (scrip dividends), the amount of the cash dividend foregone is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised in capital reserve.

#### (v) Expenses, including finance charges

Expenses are charged to the Revenue Account of the Income Statement, except as noted below.

- expenses incidental to the acquisition or disposal of fixed assets investments are included within the cost of the investments or deducted from the disposal proceeds of investments and are thus charged to capital reserve realised via the capital account,

## Notes on the Accounts (Unaudited) (continued)

### (v) Expenses, including finance charges (continued)

- 50% of other management fees, including related irrecoverable VAT, and 50% of finance costs (both net of applicable tax relief) which are allocated to capital reserve realised via the capital account, in accordance with the Board's long-term expected split of returns from the investment portfolio of the Company
- All expenses are accounted for on an accruals basis

### (vi) Taxation

Deferred tax is provided in accordance with FRS19 on all timing differences that have originated but not reversed by the Balance Sheet date. Deferred tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of timing differences can be deducted. In line with the recommendations of the SORP, the allocation method used to calculate the tax relief on expenses charged to capital is the "marginal" basis. Under this basis, if taxable income is capable of being offset entirely by expenses charged through the revenue account, then no tax relief is transferred to the capital account.

### (vii) Capital redemption reserve

The nominal value of Ordinary share capital repurchased for cancellation is transferred out of share capital and into the capital redemption reserve.

### (viii) Special reserve

The following are accounted for in this reserve:

- costs of purchasing ordinary share capital for cancellation
- costs of purchasing or selling ordinary share capital to be held in, or sold out of treasury

### (viii) Capital reserves

The following are accounted for in these reserves:

- gains and losses on the realisation of fixed asset investments,
- realised exchange differences of a capital nature,
- costs of professional advice, including related irrecoverable VAT, relating to the capital structure of the Company,
- other capital charges and credits charged or credited to this account in accordance with the above policies
- increases and decreases in the valuation of fixed asset investments held at the year end, and
- unrealised exchange differences of a capital nature

## 3 INCOME

|  | 6 months to<br>31 March 2008<br>£'000s | Year ended<br>30 September 2007<br>£'000s |
|--|--|---|
| <b>Income from investments</b>           |  |   |
| UK dividends                             | 3,657                                  | 7,544                                     |
| Overseas dividends                       | 6                                      | 335                                       |
|  | <b>3,663</b>                           | <b>7,879</b>                              |
| <b>Other income</b>                      |  |   |
| Interest on cash and short-term deposits | 62                                     | 58  |
| Underwriting commission                  | 20                                     | 10  |
|  | <b>82</b>                              | <b>68</b>                                 |
| <b>Total income</b>                      | <b>3,745</b>                           | <b>7,947</b>                              |
| <b>Total income comprises</b>            |  |   |
| Dividends                                | 3,663                                  | 7,879                                     |
| Other income                             | 82                                     | 68  |
|  | <b>3,745</b>                           | <b>7,947</b>                              |
| <b>Income from investments</b>           |  |   |
| Listed UK                                | 3,657                                  | 7,544                                     |
| Listed overseas                          | 6                                      | 335                                       |
|  | <b>3,663</b>                           | <b>7,879</b>                              |

# Notes on the Accounts (Unaudited) (continued)

## 4 MANAGEMENT FEE

|  | 6 months to<br>31 March 2008<br>£'000s | Year ended<br>30 September 2007<br>£'000s |
|--|--|---|
| Management fee including VAT (see note 19)               | 360                                    | 1,026                                     |
| Less allocated to Capital reserve realised (see note 18) | (180)                                  | (513)                                     |
|  | 180                                    | 513                                       |

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

## 5 Other expenses

|  | 6 months to<br>31 March 2008<br>£'000s | Year ended<br>30 September 2007<br>£'000s |
|--|--|---|
| Auditors' remuneration                                   |  |   |
| for audit services                                       | 14                                     | 28  |
| for other services                                       | 1                                      | 3   |
| Directors' emoluments – fees for services to the Company | 40                                     | 80  |
| Other expenses   | 229                                    | 397                                       |
|  | 284                                    | 508                                       |

All expenses are stated gross of irrecoverable VAT where applicable

## 6 DIRECTORS' REMUNERATION AND CONTRACTS

### a) Remuneration

The Company had no employees during the period

The amounts paid by the Company to the Directors of the Company were as follows

|                     | 6 months to<br>31 March 2008<br>£ | Year ended<br>30 September 2007<br>£ |
|---------------------|-----------------------------------|--------------------------------------|
| Pen Kent (Chairman) | 10,000                            | 20,000                               |
| Neil Dunford        | 7,500                             | 15,000                               |
| John Emly           | 7,500                             | 15,000                               |
| James Norton        | 7,500                             | 15,000                               |
| Hugh Priestley      | 7,500                             | 15,000                               |
|                     | 40,000                            | 80,000                               |

### b) Directors' interests in shares and warrants

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

|                     | 31 March 2008<br>Ordinary shares | 30 September 2007<br>Ordinary shares |
|---------------------|----------------------------------|--------------------------------------|
| Pen Kent (Chairman) | -                                | -                                    |
| Neil Dunford        | 7,588                            | 7,588                                |
| John Emly           | 4,110                            | 4,064                                |
| James Norton        | -                                | -                                    |
| Hugh Priestley      | 15,000                           | 15,000                               |

There have been no other changes in the Directors' holdings detailed above since 31 March 2008

### 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 period

## Notes on the Accounts (Unaudited) (continued)

### 7 INTEREST PAYABLE AND SIMILAR CHARGES

|   | 6 months to<br>31 March 2008<br>£'000s | Year ended<br>30 September 2007<br>£'000s |
|---|--|---|
| On bank loans and overdrafts repayable within five years, not by installments | 226                                    | 570                                       |
| Less allocated to capital reserve realised (see note 18)                      | (113)                                  | (285)                                     |
|   | 113                                    | 285                                       |

### 8 TAXATION ON ORDINARY ACTIVITIES

#### a) Analysis of tax charge for the period

|   | 6 months to 31 March 2008 |                   |                 | Year ended 30 September 2007 |                   |                 |
|---|---------------------------|-------------------|-----------------|------------------------------|-------------------|-----------------|
|   | Revenue<br>£'000s         | Capital<br>£'000s | Total<br>£'000s | Revenue<br>£'000s            | Capital<br>£'000s | Total<br>£'000s |
| Current tax charge on ordinary activities (overseas taxation) | 1                         | -                 | 1               | 37                           | -                 | 37              |

### 9 RETURN PER SHARE

Return per share attributable to ordinary shareholders reflects the overall performance of the Company in the period

|  | 6 months to<br>31 March<br>2008<br>£'000s | Year ended<br>30 Sep 2007<br>£'000s |
|--|---|-------------------------------------|
| Revenue return                             | 3,168                                     | 6,604                               |
| Capital return                             | (23,277)                                  | 7,933                               |
| Total return                               | (20,109)                                  | 14,537                              |
|  | Number                                    | Number                              |
| Weighted average ordinary shares in issue* | 78,440,022                                | 80,004,514                          |

\*Excludes shares held in treasury (at 31 March 2008 nil, 30 September 2007 3,302,011)

## Notes on the Accounts (Unaudited) (continued)

### 10 DIVIDENDS

| Dividends on ordinary shares                                  | Payment date | 6 months to<br>31 March 2008<br>£'000s | Year ended<br>30 Sep 2007<br>£ 000s |
|---|--------------|--|-------------------------------------|
| Third of three interims for the year ended 30 September 2006  |              |  |                                     |
| 1 50 per share  | 01 Oct 06    | -                                      | 1,210                               |
| Final for the year ended 30 September 2006                    |              |  |                                     |
| 2 10p per share   | 01 Feb 07    | -                                      | 1,690                               |
| First of three interims for the year ended 30 September 2007  |              |  |                                     |
| 1 60 per share  | 29 Mar 07    | -                                      | 1,284                               |
| Second of three interims for the year ended 30 September 2007 |              |  |                                     |
| 1 60 per share  | 29 June 07   | -                                      | 1,275                               |
| Third of three interims for the year ended 30 September 2007  |              |  |                                     |
| 1 80 per share  | 28 Sep 07    | -                                      | 1,423                               |
| Final for the year ended 30 September 2007                    |              |  |                                     |
| 2 40p per share   | 31 Jan 08    | 1,877                                  | -                                   |
| First of three interims for the year ended 30 September 2008  |              |  |                                     |
| 1 80 per share  | 31 Mar 08    | 1,408                                  | -                                   |
|   |              | <b>3,285</b>                           | <b>6,882</b>                        |

The second interim dividend in respect of the year ending 30 September 2008 of 1 80p will be paid on 30 June 2008 to shareholders registered on 23 May 2008. The total cost of this dividend, based on shares in issue and entitled to dividend on 12 May 2008 of 78,224,268, is £1,408,000.

|   | 6 months to<br>31 March 2008<br>£'000s |
|---|--|
| Revenue reserve brought forward   | 4,480                                  |
| Revenue available for distribution by way of dividends for the period   | 3,168                                  |
| Final dividend for the year ended 30 September 2007 of 2 40p per share  | (1,877)                                |
| First of three interim dividends for the year ended 30 September 2008 of 1 80p per share                                | (1,408)                                |
| Undistributed revenue at 31 March 2008, for Section 838 purposes, available for payment of second interim dividend      | 4,363                                  |
| Second interim dividend in respect of the year ending 30 September 2008 of 1 80p payable on 30 June 2008                | (1,408)                                |
| <b>Undistributed revenue at 31 March 2008, for Section 838 purposes, after taking account of third interim dividend</b> | <b>2,955</b>                           |

# Notes on the Accounts (Unaudited) (continued)

## 11 INVESTMENTS

|   | Listed<br>Total<br>£'000s |
|---|---------------------------|
| Cost at 1 October 2007                    | 167,459                   |
| Unrealised appreciation at 1 October 2007 | 45,869                    |
| Valuation at 1 October 2007               | 213,328                   |
| Movements in the period                   |                           |
| Purchases at cost                         | 20,314                    |
| Sales – proceeds                          | (29,613)                  |
| – realised net losses on sales            | (1,718)                   |
| Decrease in unrealised appreciation       | (21,277)                  |
| <b>Valuation at 31 March 2008</b>         | <b>181,034</b>            |
| Cost at 31 March 2008                     | 156,443                   |
| Unrealised appreciation at 31 March 2008  | 24,591                    |
| <b>Valuation at 31 March 2008</b>         | <b>181,034</b>            |

## 12 DEBTORS

|   | 31 March 2008<br>£'000s | 30 September 2007<br>£'000s |
|---|-------------------------|-----------------------------|
| Amounts recoverable from overseas authorities | 3                       | 6                           |
| UK taxation recoverable                       | 11                      | 3                           |
| Prepayments and accrued income                | 1,703                   | 866                         |
|   | <b>1,717</b>            | <b>875</b>                  |

## 13 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

| Other          | 31 March 2008<br>£'000s | 30 September 2007<br>£'000s |
|----------------|-------------------------|-----------------------------|
| Bank Overdraft | 16                      | -                           |
| Management Fee | 183                     | 249                         |
| Accruals       | 122                     | 169                         |
|                | <b>321</b>              | <b>418</b>                  |

# Notes on the Accounts (Unaudited) (continued)

## 14 SHARE CAPITAL

| Equity share capital  | Shares held in treasury Number | Shares entitled to dividend Number | Total shares in issue Number | Nominal value of shares in issue £'000s |
|---|--------------------------------|------------------------------------|------------------------------|---|
| <b>Ordinary shares of 25p each</b>                          |                                |                                    |                              |   |
| Authorised  |                                |                                    | 100,000,000                  | 25,000                                  |
| <b>Issued</b>   |                                |                                    |                              |   |
| Balance brought forward                                     | 3,302,011                      | 78,889,268                         | 82,191,279                   | 20,548                                  |
| Purchase of ordinary shares held in treasury                | 665,000                        | (665,000)                          | -                            | -                                       |
| Cancellation of ordinary shares previously held in treasury | (3,967,011)                    | -                                  | (3,967,011)                  | (992)                                   |
| <b>Balance carried forward</b>                              | <b>-</b>                       | <b>78,224,268</b>                  | <b>78,224,268</b>            | <b>19,556</b>                           |

During the period from 1 October to 31 December 2007 665,000 ordinary shares were purchased and held in treasury at a total cost of £1,600,000. On 9 January 2008 the Company cancelled the 3,967,011 ordinary shares previously held in treasury. No shares have been purchased since the period end.

## 15 SHARE PREMIUM ACCOUNT

|   | 31 March 2008<br>£'000s | 30 September 2007<br>£'000s |
|---|-------------------------|-----------------------------|
| Balance brought forward and carried forward | 76,334                  | 76,334                      |

## 16 CAPITAL REDEMPTION RESERVE

|   | 31 March 2008<br>£'000s | 30 September 2007<br>£'000s |
|---|-------------------------|-----------------------------|
| Balance brought forward   | 3,154                   | 3,154                       |
| Transfer from equity share capital on cancellation of treasury shares | 992                     | -                           |
| <b>Balance carried forward</b>  | <b>4,146</b>            | <b>3,154</b>                |

## 17 SPECIAL RESERVE

|  | 31 March 2008<br>£'000s | 30 September 2007<br>£'000s |
|--|-------------------------|-----------------------------|
| Balance brought forward                      | 6,034                   | 10,313                      |
| Purchase of ordinary shares held in treasury | (1,600)                 | (4,279)                     |
| <b>Balance carried forward</b>               | <b>4,434</b>            | <b>6,034</b>                |

## Notes on the Accounts (Unaudited) (continued)

### 18 OTHER RESERVES

|  | Capital<br>reserves<br>£'000s | Revenue<br>reserve<br>£'000s |
|--|-------------------------------|------------------------------|
| Movements in the period                            | (1,718)                       | -                            |
| Realised losses on investments                     |                               |                              |
| Management fee (see note 4)                        | (180)                         | -                            |
| Other capital charges and credits                  | (6)                           | -                            |
| Exchange gains on currency balances                | 17                            | -                            |
| Interest expense (see note 7)                      | (113)                         | -                            |
| Movement in unrealised appreciation on investments | (21,277)                      | -                            |
| Revenue return                                     | -                             | 3,168                        |
| Return attributable to equity shareholders         | (23,277)                      | 3,168                        |
| Dividends paid in the period                       | -                             | (3,285)                      |
| Balance brought forward                            | 93,581                        | 4,480                        |
| <b>Balance carried forward</b>                     | <b>70,304</b>                 | <b>4,363</b>                 |

### 19 CONTINGENT ASSET

As detailed in the annual accounts of the Company to 30 September 2007, the European Court of Justice has ruled that investment trusts are exempted from paying VAT on management fees. A separate UK House of Lords decision in January 2008 ruled that the three year capping imposed by HM Revenue and Customs (HMRC) in relation to VAT claims submitted prior to January 1997 was invalid. The two rulings enable the Company's Manager, F&C Management Limited, to enter into negotiations with HMRC to reclaim a proportion of VAT paid on behalf of the Company and its subsidiary, F&C Income and Growth Investment Trust PLC (in liquidation), in the periods between April 1990 and December 1996 and further periods since April 2001. The total amount of VAT suffered by the Company and its subsidiary in these periods was £780,000 and £372,000 respectively.

The Company has reached an agreement with the Manager over the broad principles of repayment of any VAT recovered from HMRC and a proportion of the VAT offset by the Manager over these periods. Nevertheless, although recovery of a proportion of VAT suffered remains highly probable, the quantum and timing of recoveries is largely dependent upon the outcome of the Manager's separate negotiations with HMRC. As a consequence of this on-going uncertainty, no amount relating to VAT recoverable has been recognised as an asset within these accounts.