

INVESTMENT ADVISER

CAPITAL GROWTH MANAGEMENT
LIMITED PARTNERSHIP
Boston, Massachusetts 02110

TRANSFER AND DIVIDEND PAYING AGENT AND CUSTODIAN OF ASSETS

STATE STREET BANK AND TRUST COMPANY
Boston, Massachusetts 02111

SHAREHOLDER SERVICING AGENT FOR STATE STREET BANK AND TRUST COMPANY

BOSTON FINANCIAL DATA SERVICES, INC.
P.O. Box 8511
Boston, Massachusetts 02266-8511

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CGM Capital Development Fund

47th Annual Report
December 31, 2007

A No-Load Fund

This report has been prepared for the shareholders of the Fund and is not authorized for distribution to current or prospective investors in the Fund unless it is accompanied or preceded by a prospectus.

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Printed in U.S.A.



Investment Adviser
Capital Growth Management
Limited Partnership

To Our Shareholders:

CGM Capital Development Fund returned -2.8% during the fourth quarter of 2007 compared to the unmanaged Standard and Poor's 500 Index which returned -3.3% over the same period. For the year just ended, CGM Capital Development Fund returned 28.3% and the S&P 500 Index, 5.5%.

The Year in Review and Economic Outlook

November marked the sixth anniversary of the U.S. economic expansion. Indeed, the longevity of the current economic cycle as well as the bull market in common stocks is testing historical records. Now, however, there are signs of slowdown on the business horizon as damage precipitated by past excesses in the housing market along with years of easy credit availability is corrected. Cheap money rates and the marketing of subprime mortgage loans mixed in with high-grade paper (packaged and sold as prime credits) have led to payment defaults on the consumer level and huge institutional losses. Home buyers were wooed with mortgages they couldn't afford, wrong-headedly assuming that rising home prices would bail them out. Instead home prices declined, loans went south and the financial institutions and investors who purchased mortgage-backed securities took the hit. Billions in assets have been and continue to be written off as worthless while many banks and other financial entities scramble to raise capital to shore up balance sheets. Well-publicized losses have already cost top jobs at both Citigroup and Merrill Lynch and still the full extent of the devastation is unclear since no one really knows the value of many of these esoteric packages of now delinquent mortgages. The Federal Reserve Board has taken several steps to encourage borrowing and inject liquidity into the market which we hope will stabilize the credit markets. For the moment though, the uncertainty has spawned a flight to quality in the bond market driving yields on the 10-year government bond from 5.04% in June to 4.03% at year end.

In addition to the credit crisis, a second troubling sign emerged today with the release of the Institute for Supply Management's index of manufacturing which dropped to 47.7 in December from 50.8 the month before, thereby confirming a slowdown. And, yet another uncertainty in the economic landscape is the enormous rise in the price of crude oil. The year began with crude at \$50 a barrel and ended with it at \$98. In the past, rising oil prices have acted like a large tax resulting in a pull back in consumer spending. This time around, the consumer appears to be a bit more resilient and so far, despite some spending cuts, the dire consequences of past predictions have yet to materialize.

The credit crisis is serious and has wreaked havoc on many financial institutions. Manufacturing may well be

slowing and the price of oil remains high. However, there are many sectors of the economy prospering at the same time. The annual GDP growth rate in the third quarter of 2007 was a hefty 4.9%. Businesses that supply global markets, rapidly developing countries like China, Brazil, Russia and India in particular, are faring well. The U.S. agricultural sector is booming and heavy capital industries, including aerospace and defense, are strong. The unemployment rate remains low, the S&P 500 Index closed the year off just 6% from its all-time high in October despite ongoing credit travails and the Fed continues to reduce short-term interest rates. We are hopeful the economy can weather current turbulence and resume a more measured growth pattern later in the new year.

Portfolio Strategy

CGM Capital Development Fund remained fully invested throughout 2007 reflecting our expectation of continued global economic growth. The most significant industry position in the Fund's portfolio was energy which we increased during the year from 11% of the portfolio on December 31, 2006 to 24% of the portfolio at year end 2007. The Fund owned a selection of foreign and domestic small and mid-cap companies which benefited from the strength in the global economy.

The Fund's three largest gains occurred in Cameron International Corporation, a manufacturer of equipment for offshore oil producing, Deckers Outdoor Corporation, a producer of UGG brand footwear, and Priceline.com Incorporated, a leading provider of online travel services.

The portfolio's two largest price declines were experienced by the Men's Wearhouse, Inc., a men's clothing retailer, and IHOP Corp., the owner of the International House of Pancakes restaurant chain.

On December 31, 2007, CGM Capital Development Fund held important positions in the oil service, metals and mining, and housing and building materials industries. The Fund's three largest stock holdings at year end were Cameron International Corporation, Deckers Outdoor Corporation and Priceline.com Incorporated.

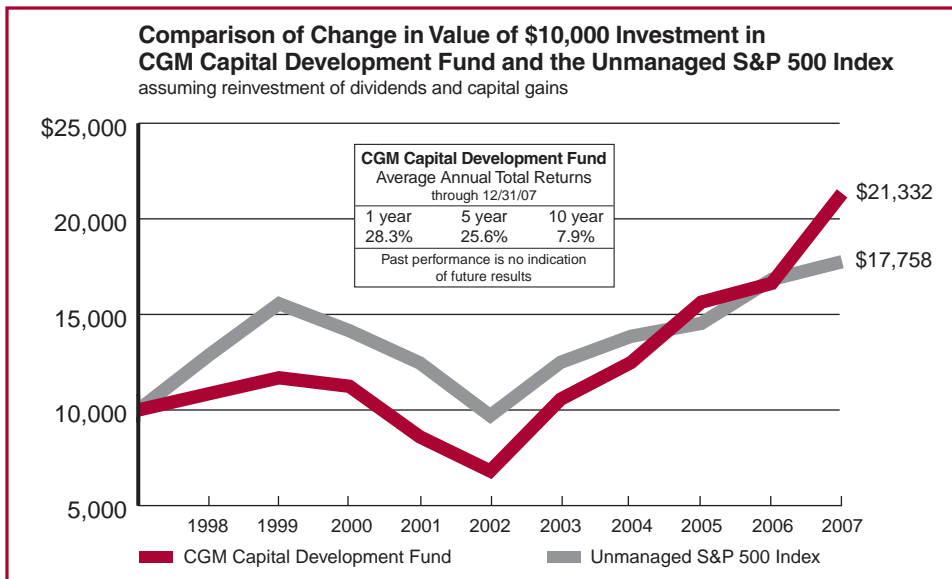


Robert L. Kemp
President



G. Kenneth Heebner
Portfolio Manager

January 2, 2008



CGM CAPITAL DEVELOPMENT FUND Portfolio Manager

G. Kenneth Heebner has managed CGM Capital Development Fund since 1976. In 1990, Mr. Heebner founded Capital Growth Management Limited Partnership with Robert L. Kemp. Prior to establishing the new company, Mr. Heebner was at Loomis, Sayles and Company where he managed the Fund, then known as Loomis-Sayles Capital Development Fund. In addition to CGM Capital Development Fund, Mr. Heebner currently manages CGM Mutual Fund, CGM Realty Fund and CGM Focus Fund.

See the Schedule of Investments on pages 3 and 4 for the percentage of net assets of the Fund invested in particular industries or securities as of December 31, 2007.

INVESTMENT PERFORMANCE

(unaudited)

Cumulative Total Return for Periods Ended
December 31, 2007

	CGM Capital Development Fund
10 Years	+113.3%
5 Years	+213.0
1 Year	+ 28.3
3 Months	- 2.8

The performance data contained in the report represent past performance, which is no guarantee of future results. The graph and table above do not reflect the deduction of taxes a shareholder would pay on Fund distributions or the redemption of Fund shares and assume the reinvestment of all Fund distributions. The investment return and the principal value of an investment in the Fund will fluctuate so that investors' shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted.

CGM CAPITAL DEVELOPMENT FUND

INVESTMENTS as of December 31, 2007

COMMON STOCKS — 98.9% OF TOTAL NET ASSETS

	<u>Shares</u>	<u>Value(a)</u>
Food – Package and Miscellaneous — 6.0%		
Wimm-Bill-Dann Foods OJSC ADR (b)	245,300	\$ <u>32,144,112</u>
Housing and Building Materials — 11.3%		
Desarrolladora Homex, S.A.B. de C.V. ADR (b)(c)	550,000	27,197,500
NVR, Inc. (c)	64,000	<u>33,536,000</u>
		<u>60,733,500</u>
Light Capital Goods — 5.4%		
The Middleby Corporation (c)	375,000	<u>28,732,500</u>
Metals and Mining — 16.9%		
Alpha Natural Resources, Inc. (c)	520,000	16,889,600
Foundation Coal Holdings, Inc.	575,000	30,187,500
Massey Energy Company	500,000	17,875,000
Patriot Coal Corporation (c)	620,000	<u>25,878,800</u>
		<u>90,830,900</u>
Miscellaneous — 4.9%		
Sotheby's	690,000	<u>26,289,000</u>
Offshore Drilling — 2.1%		
Atwood Oceanics, Inc. (c)	110,000	<u>11,026,400</u>
Oil – Independent Production — 3.4%		
Berry Petroleum Company	415,000	<u>18,446,750</u>
Oil Service — 18.5%		
Cameron International Corporation (c)	820,000	39,466,600
Dril-Quip, Inc. (c)	485,000	26,995,100
Oceaneering International, Inc. (c)	490,000	<u>33,001,500</u>
		<u>99,463,200</u>
On-line Services — 7.1%		
Priceline.com Incorporated (c)	330,000	<u>37,903,800</u>
Peripherals — 5.6%		
Western Digital Corporation (c)	1,000,000	<u>30,210,000</u>
Retail — 5.4%		
The Pantry, Inc. (c)	1,100,000	<u>28,743,000</u>

See accompanying notes to financial statements.

CGM CAPITAL DEVELOPMENT FUND

INVESTMENTS as of December 31, 2007 (continued)

COMMON STOCKS (continued)

	<u>Shares</u>	<u>Value(a)</u>
Steel — 5.1%		
Commercial Metals Company	920,000	<u>\$ 27,094,000</u>
Textile and Apparel — 7.2%		
Deckers Outdoor Corporation (c)	250,000	<u>38,765,000</u>
TOTAL COMMON STOCKS (Identified cost \$454,928,969)		<u>530,382,162</u>
SHORT-TERM INVESTMENT — 2.2% OF TOTAL NET ASSETS		
American Express Credit Corporation, 3.80%, 01/02/08 (Cost \$11,595,000)	\$11,595,000	<u>11,595,000</u>
TOTAL INVESTMENTS — 101.1% (Identified cost \$466,523,969)		541,977,162
Cash and receivables		3,750,868
Liabilities		<u>(9,624,199)</u>
TOTAL NET ASSETS — 100.0%		<u><u>\$536,103,831</u></u>

(a) See Note 1A.

(b) An American Depositary Receipt (ADR) is a certificate issued by a U.S. bank representing the right to receive securities of the foreign issuer described. The values of ADRs are significantly influenced by trading on exchanges not located in the United States or Canada.

(c) Non-income producing security.

See accompanying notes to financial statements.

CGM CAPITAL DEVELOPMENT FUND

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2007

Assets		
Investments at value (Identified cost — \$466,523,969)		\$541,977,162
Cash		3,956
Receivable for:		
Securities sold	\$3,674,087	
Shares of the Fund sold	25,401	
Dividends and interest	47,424	3,746,912
Total assets		<u>545,728,030</u>
Liabilities		
Payable for:		
Securities purchased	8,635,874	
Shares of the Fund redeemed	444,578	9,080,452
Accrued expenses:		
Management fees	466,254	
Trustees' fees	10,694	
Accounting, administration and compliance expenses	8,536	
Transfer agent fees	18,444	
Other expenses	39,819	543,747
Total liabilities		<u>9,624,199</u>
Net Assets		<u><u>\$536,103,831</u></u>
Net Assets consist of:		
Capital paid-in		\$460,715,579
Accumulated net realized losses on investments		(64,941)
Net unrealized appreciation on investments		75,453,193
Net Assets		<u><u>\$536,103,831</u></u>
Shares of beneficial interest outstanding, no par value		<u>19,022,637</u>
Net asset value per share*		<u><u>\$28.18</u></u>

*Shares of the Fund are sold and redeemed at net asset value ($\$536,103,831 \div 19,022,637$).

See accompanying notes to financial statements.

CGM CAPITAL DEVELOPMENT FUND

STATEMENT OF OPERATIONS

Year Ended December 31, 2007

Investment Income

Income:

Dividends (net of withholding tax of \$602,706)	\$ 2,875,021
Interest	244,131
	<u>3,119,152</u>

Expenses:

Management fees	5,307,240
Trustees' fees	43,435
Accounting, administration and compliance expenses	102,432
Custodian fees and expenses	106,910
Transfer agent fees	125,931
Audit and tax services	38,300
Legal	15,557
Printing	37,028
Registration fees	26,331
Miscellaneous expenses	1,512
	<u>5,804,676</u>
Net investment loss	<u>(2,685,524)</u>

Realized and Unrealized Gain (Loss) on Investments

Net realized gains on investments (including net realized loss of \$12,908 on sales of investments in non-controlled affiliated issuers)	92,358,558
Net unrealized appreciation	<u>36,733,226</u>
Net realized and unrealized gains on investments	<u>129,091,784</u>

Change in Net Assets from Operations

	<u><u>\$126,406,260</u></u>
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See accompanying notes to financial statements.

CGM CAPITAL DEVELOPMENT FUND

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2007	2006
From Operations		
Net investment loss	\$ (2,685,524)	\$ (3,081,298)
Net realized gains from investments	92,358,558	67,208,466
Unrealized appreciation (depreciation)	36,733,226	(34,882,718)
Change in net assets from operations	126,406,260	29,244,450
From Distributions to Shareholders		
Net short-term realized capital gains on investments	(64,853,777)	(51,867,597)
Net long-term realized capital gains on investments	(23,069,672)	(13,096,951)
	(87,923,449)	(64,964,548)
From Capital Share Transactions		
Proceeds from sale of shares	6,820,907	3,675,833
Net asset value of shares issued in connection with reinvestment of:		
Distributions from net short-term realized capital gains on investments	56,416,804	44,224,486
Distributions from net long-term realized capital gains on investments	20,070,906	11,167,178
	83,308,617	59,067,497
Cost of shares redeemed	(39,202,879)	(30,658,918)
Change in net assets derived from capital share transactions	44,105,738	28,408,579
Total change in net assets	82,588,549	(7,311,519)
Net Assets		
Beginning of period	453,515,282	460,826,801
End of period	\$536,103,831	\$453,515,282
Number of Shares of the Fund:		
Issued from sale of shares	218,643	120,293
Issued in connection with reinvestment of:		
Distributions from net short-term realized capital gains on investments	1,969,173	1,681,551
Distributions from net long-term realized capital gains on investments	700,555	424,614
	2,888,371	2,226,458
Redeemed	(1,247,975)	(1,006,308)
Net change	1,640,396	1,220,150

See accompanying notes to financial statements.

CGM CAPITAL DEVELOPMENT FUND

FINANCIAL HIGHLIGHTS

	Year Ended December 31,				
	2007	2006	2005	2004	2003
For a share of the Fund outstanding throughout each period:					
Net asset value at beginning of period	<u>\$26.09</u>	<u>\$28.51</u>	<u>\$27.89</u>	<u>\$23.60</u>	<u>\$15.22</u>
Net investment loss (a)	(0.16)	(0.19)	(0.16)	(0.01)	(0.10)
Net realized and unrealized gains on investments and foreign currency transactions	<u>7.62</u>	<u>2.02</u>	<u>7.23</u>	<u>4.30</u>	<u>8.48</u>
Total from investment operations	<u>7.46</u>	<u>1.83</u>	<u>7.07</u>	<u>4.29</u>	<u>8.38</u>
Distribution from net short-term realized gains	(3.96)	(3.39)	(4.27)	—	—
Distribution from net long-term realized gains	<u>(1.41)</u>	<u>(0.86)</u>	<u>(2.18)</u>	—	—
Total distributions	<u>(5.37)</u>	<u>(4.25)</u>	<u>(6.45)</u>	—	—
Net increase (decrease) in net asset value	<u>2.09</u>	<u>(2.42)</u>	<u>0.62</u>	<u>4.29</u>	<u>8.38</u>
Net asset value at end of period	<u>\$28.18</u>	<u>\$26.09</u>	<u>\$28.51</u>	<u>\$27.89</u>	<u>\$23.60</u>
Total return (%)	28.3	6.3	25.3	18.2	55.1
Ratios:					
Operating expenses to average net assets (%)	1.09	1.11	1.12	1.14	1.17
Net investment loss to average net assets (%)	(0.50)	(0.65)	(0.52)	(0.06)	(0.56)
Portfolio turnover (%)	232	300	211	263	305
Net assets at end of period (in thousands) (\$)	536,104	453,515	460,827	400,349	369,021

(a) Per share net investment loss has been calculated using the average shares outstanding during the period.

See accompanying notes to financial statements.

CGM CAPITAL DEVELOPMENT FUND

NOTES TO FINANCIAL STATEMENTS — December 31, 2007

1. The Fund is organized as a Massachusetts business trust under the laws of Massachusetts pursuant to an Agreement and Declaration of Trust. The Fund is registered under the Investment Company Act of 1940 as a diversified, open-end management investment company. Along with three other funds in a separate Massachusetts business trust, there are four CGM Funds. The Fund commenced operations on August 14, 1961. The Fund's objective is long-term capital appreciation. The Fund seeks to attain its objective by investing in the equity securities of a relatively small but diverse group of companies and industries.

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

- A. Security valuation** — Equity securities are valued on the basis of valuations furnished by a pricing service authorized by the Board of Trustees. The pricing service provides the last reported sale price for securities listed on a national securities exchange or, in the case of the NASDAQ national market system, the NASDAQ official closing price. For securities with no sale reported and in the case of over-the-counter securities not so listed, the last reported bid price is used. Short-term investments having a maturity of sixty days or less are stated at amortized cost, which approximates value. Other assets and securities which are not readily marketable will be valued in good faith at fair value using methods determined by the Board of Trustees.
- B. Security transactions and related investment income** — Security transactions are accounted for on the trade date (date the order to buy or sell is executed) and dividend income is recorded on the ex-dividend date net of applicable foreign taxes. Interest income is recorded on the accrual basis. Net gain or loss on securities sold is determined on the identified cost basis.
- C. Federal income taxes** — It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies, and to distribute to its shareholders all of its taxable income and net realized capital gains, within the prescribed time period. Accordingly, no provision for federal income tax has been made. At December 31, 2007, there were no capital loss carryovers available to offset future realized gains.

As of December 31, 2007, the components of distributable earnings on a tax basis were as follows:

<u>Undistributed Ordinary Income</u>	<u>Undistributed Long-term Capital Gains</u>	<u>Net Unrealized Appreciation/(Depreciation)</u>
\$ —	\$ —	\$75,388,252

The identified cost of investments in securities owned by the Fund for federal income tax purposes, and their respective gross unrealized appreciation and depreciation at December 31, 2007 was as follows:

<u>Identified Cost</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized Depreciation</u>	<u>Net Unrealized Appreciation</u>
\$466,588,910	\$80,231,246	\$(4,842,994)	\$75,388,252

- D. Dividends and distributions to shareholders** — Dividends and distributions are recorded by the Fund on the ex-dividend date. The classification of income and capital gains distributions is determined in accordance with income tax regulations. Distributions from net investment income and short-term capital gains are treated as ordinary income for income tax purposes. Permanent book and tax differences relating to shareholder distributions may result in reclassifications to paid-in capital or accumulated

CGM CAPITAL DEVELOPMENT FUND

NOTES TO FINANCIAL STATEMENTS (continued)

realized gain/loss. These differences are primarily related to netting net operating loss with net short-term gains. The Fund also utilized earnings and profits distributed to shareholders on redemption of shares as a part of the dividend deduction for income tax purposes. Undistributed net investment income or accumulated net investment loss may include temporary book and tax differences such as tax deferral of losses on wash sales, which will reverse in a subsequent period. Any taxable income or gain remaining at fiscal year end is distributed in the following year.

The tax character of distributions paid during the years ended December 31, 2007 and 2006, were as follows:

<u>Year</u>	<u>Ordinary Income</u>	<u>Long-term Capital Gains</u>	<u>Total</u>
2007	\$64,853,777	\$23,069,672	\$87,923,449
2006	\$51,867,597	\$13,096,951	\$64,964,548

- E. Foreign currency translation** — All assets and liabilities initially expressed in terms of foreign currencies are translated into U.S. dollars. Transactions affecting statement of operations accounts and net realized gain/(loss) on investments are translated at the rates prevailing at the dates of the transactions. The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments. Reported net realized foreign exchange gains or losses arise from sales of foreign currency, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains or losses arise from changes in the value of assets and liabilities other than investments in securities at the end of the period, resulting from changes in the exchange rate.
- F. Indemnities** — In the normal course of business, CGM Capital Development Fund may enter into contracts that provide indemnities to third parties for various potential losses and claims. CGM Capital Development Fund's maximum exposure under these arrangements is unknown as this would depend on future claims that may be made against CGM Capital Development Fund. The risk of material loss from such claims is considered remote.
- 2. Foreign investment risk** — There are certain additional risks involved in investing in foreign securities that are not inherent in investments in domestic securities. These risks may involve adverse political and economic developments and the possible imposition of currency exchange blockages or other foreign governmental laws or restrictions. In addition, the securities of some foreign companies and foreign securities markets are less liquid and at times more volatile than securities of comparable U.S. companies and U.S. securities markets.
- 3. Diversification** — The Fund, although diversified, takes a focused approach to investing within a single industry, sector of the economy or fewer individual holdings than more diversified funds. Therefore, the Fund may be subject to greater price volatility or be adversely affected by the performance of particular industries, sectors, or individual holdings compared to the performance of a more diversified fund.
- 4. Purchases and sales of securities** — For the period ended December 31, 2007, purchases and sales of securities other than United States government obligations and short-term investments aggregated

CGM CAPITAL DEVELOPMENT FUND

NOTES TO FINANCIAL STATEMENTS (continued)

\$1,222,303,762 and \$1,271,341,802, respectively. There were no purchases or sales of United States government obligations.

5. **A. Management fees** — During the period ended December 31, 2007, the Fund incurred management fees of \$5,307,240, paid or payable to the Fund's investment adviser, Capital Growth Management Limited Partnership (CGM), certain officers and directors of which are also officers and trustees of the Fund. The management agreement provides for a fee at the annual rate of 1.00% on the first \$500 million of the Fund's average daily net assets, 0.95% of the next \$500 million and 0.80% of such assets in excess of \$1 billion.
- B. Other expenses** — CGM performs certain administrative, accounting, compliance and other services for the Fund. The expenses of those services, which are paid to CGM by the Fund, include the following: (i) expenses for personnel performing bookkeeping, accounting, and financial reporting functions and clerical functions relating to the Fund; (ii) expenses for services required in connection with the preparation of registration statements and prospectuses, shareholder reports and notices, proxy solicitation material furnished to shareholders of the Fund or regulatory authorities and reports and questionnaires for SEC compliance; (iii) registration, filing and other fees in connection with requirements of regulatory authorities; and (iv) compliance in connection with the Investment Company Act of 1940 and the Sarbanes Oxley Act of 2002. The accounting, administration and compliance expense of \$102,432, for the period ended December 31, 2007, is shown separately in the financial statements. These expenses include the reimbursement of a portion of the compensation expenses incurred by CGM for its employees who provide these administrative, accounting, compliance, and other services to the Fund, some of whom are officers of the Fund. Of the total expense reimbursement, \$79,672 represented reimbursements by the Fund to CGM for a portion of the salaries of CGM employees who are officers of the Fund.
- C. Trustees fees and expenses** — The Fund does not pay any compensation directly to any trustees who are directors, officers or employees of CGM, or any affiliate of CGM (other than registered investment companies). For the period ended December 31, 2007, each disinterested trustee was compensated by the CGM Funds with an annual fee of \$50,000 plus travel expenses for each meeting attended. The disinterested trustees are responsible for the audit committee functions of the CGM Funds and have designated a chairman to oversee these functions who receives an additional \$30,000 annually. Of these amounts, each of the CGM Funds is responsible for \$7,000 per trustee annually, plus an annual variable fee calculated based on the proportion of each of the CGM Funds' average net assets relative to the aggregate average net assets of the CGM Funds.

6. **Affiliated issuers** — Affiliated issuers, as defined under the Investment Company Act of 1940, are those in which the Fund's holdings of an issuer represent 5% or more of the outstanding voting securities of the issuer. The following summarizes transactions with affiliates of the Fund during the period ended December 31, 2007

<u>Name of Issuer</u>	<u>Number of Shares Held December 31, 2006</u>	<u>Gross Purchases</u>	<u>Gross Sales</u>	<u>Number of Shares Held December 31, 2007</u>	<u>Dividend Income</u>	<u>Market Value December 31, 2007</u>
The Pantry, Inc.†*	—	1,150,000	(50,000)	1,100,000	\$ —	\$28,743,000

† Non-income producing security.

* No longer considered an affiliated issuer.

CGM CAPITAL DEVELOPMENT FUND

NOTES TO FINANCIAL STATEMENTS (continued)

7. New accounting pronouncements — The Fund adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement 109 (“FIN 48”), on January 1, 2007. FIN 48 prescribes a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. The implementation of FIN 48 did not result in any unrecognized tax benefits in the accompanying financial statements. The Fund’s federal tax returns for the prior three fiscal years remain subject to examination by the Internal Revenue Service.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, (FAS 157) “Fair Value Measurements”. FAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosure about fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007. Management is currently evaluating the impact of adopting FAS 157.

8. Subsequent event — On January 31, 2008, the Trustees of CGM Capital Development Fund approved an agreement and plan of reorganization pursuant to which all of the assets and liabilities of CGM Capital Development Fund will be acquired by CGM Focus Fund as part of a tax-free reorganization. This transaction is subject to CGM Capital Development Fund shareholder approval. Proxy materials regarding the reorganization of CGM Capital Development Fund into CGM Focus Fund will be distributed to CGM Capital Development shareholders in mid March 2008.

CGM CAPITAL DEVELOPMENT FUND

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees and Shareholders of CGM Capital Development Fund:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of CGM Capital Development Fund (the "Fund") at December 31, 2007, the results of its operations, the changes in its net assets and the financial highlights for the periods indicated, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2007 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

As noted in Note 8, the Board of Trustees have approved an agreement and plan of reorganization pursuant to which all of the assets and liabilities of the Fund will be acquired by CGM Focus Fund, subject to the Fund's shareholder approval.

PricewaterhouseCoopers LLP
Boston, Massachusetts
February 15, 2008

CGM CAPITAL DEVELOPMENT FUND

ADDITIONAL INFORMATION

(unaudited)

Availability of proxy voting information:

Proxy voting policies and information regarding how the Fund voted proxies relating to portfolio securities during the twelve month period ended June 30, 2007 are available without charge, upon request by calling 1-800-345-3048. The policies also appear in the Fund's Statement of Additional Information, which can be found on the SEC's website, <http://www.sec.gov>. The voting records can also be found on the SEC's website on the N-PX filing.

Portfolio holdings:

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

CGM CAPITAL DEVELOPMENT FUND

FUND EXPENSES

As a shareholder of CGM Capital Development Fund, you incur two types of costs: (1) transaction costs, which could include, among other charges, wire fees and custodial maintenance fees for certain types of accounts and (2) ongoing costs, including management fees and other Fund expenses. This Example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds.

The Example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period July 1, 2007 to December 31, 2007.

Actual return and expenses

The first line of the table below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

Hypothetical example for comparison purposes

The second line of the table below provides information about hypothetical account values and hypothetical expenses based on the Fund's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs such as any wire fees or custodial maintenance fees that may be payable. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

	<i>Beginning Account Value 7/01/07</i>	<i>Ending Account Value 12/31/07</i>	<i>Expenses Paid During Period* 7/01/07 – 12/31/07</i>
Actual	\$1,000.00	\$1,026.10	\$5.52
Hypothetical (5% return before expenses)	\$1,000.00	\$1,019.76	\$5.50

* Expenses are equal to the Fund's annualized expense ratio of 1.08%, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period).

CGM CAPITAL DEVELOPMENT FUND

25 YEAR INVESTMENT RECORD DECEMBER 31, 1982 — DECEMBER 31, 2007 (unaudited)

IF YOU HAD PURCHASED ONE SHARE OF THE FUND ON DECEMBER 31, 1982

On December 31	— AND HAD TAKEN ALL DIVIDENDS AND DISTRIBUTIONS IN CASH			OR — HAD REINVESTED ALL DIVIDENDS AND CAPITAL GAINS DISTRIBUTIONS IN ADDITIONAL SHARES		
	The Net Asset Value of Your Share Would Have Been	During the Year You Would Have Received		The Value of Your Original Investment At Each Year End Would Have Been	Which Would Represent	
		Per Share Capital Gains Distributions of	Per Share Income Distributions of		An Annual Total Return of	A Cumulative Change Expressed As An Index With December 31, 1982 = 100.0
1982	\$24.88					100.0
1983	25.21	\$ 2.50	\$0.47	\$ 28.76	+ 15.6%	115.6
1984	17.28	6.15	0.11	26.40	— 8.2	106.1
1985	25.02	—	0.18	38.60	+ 46.2	155.1
1986	23.12	7.46	0.16	49.56	+ 28.4	199.1
1987	16.56	10.09	0.14	57.44	+ 15.9	230.8
1988	15.87	0.02	0.62	57.27	— 0.3	230.1
1989	18.37	—	0.34	67.52	+ 17.9	271.3
1990	18.53	—	0.10	68.47	+ 1.4	275.1
1991	25.80	11.07*	0.06	136.32	+ 99.1	547.7
1992	27.43	2.68*	0.20	160.18	+ 17.5	643.5
1993	27.71	7.51	0.07	206.15	+ 28.7	828.2
1994	20.58	0.71	0.07	158.94	— 22.9	638.5
1995	27.33	1.68	0.02	224.26	+ 41.1	900.9
1996	29.08	5.87	0.07	287.28	+ 28.1	1154.1
1997	26.96	9.08	—	355.94	+ 23.9	1429.9
1998	24.95	4.19	0.11	386.19	+ 8.5	1551.4
1999	26.20	0.56	0.11	415.93	+ 7.7	1670.9
2000	25.12	—	0.10	400.12	— 3.8	1607.4
2001	19.21	—	—	306.09	— 23.5	1229.7
2002	15.22	—	—	242.42	— 20.8	973.9
2003	23.60	—	—	375.99	+ 55.1	1510.5
2004	27.89	—	—	444.42	+ 18.2	1785.4
2005	28.51	6.45	—	556.86	+ 25.3	2237.1
2006	26.09	4.25	—	591.94	+ 6.3	2378.0
2007	28.18	5.37	—	759.46	+ 28.3	3051.0
Totals		\$85.64	\$2.93		+ 2951.0	

*Includes \$0.02 and \$0.02 per share distributed from paid-in capital.

The performance data contained in this report represent past performance, which is no guarantee of future results. The table above does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. The investment return on, and the principal value of, an investment in the Fund will fluctuate so that investors' shares, when redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance data quoted.

CGM CAPITAL DEVELOPMENT FUND

TAX INFORMATION (unaudited) FOR THE TAX YEAR ENDED 12/31/2007

We are providing this information as required by the Internal Revenue Code. The amounts shown may differ from those elsewhere in this report because of differences between tax and financial reporting requirements. For the year ended December 31, 2007, the Fund designated \$23,180,470 as long-term capital dividends.

TRUSTEES AND OFFICERS

The Fund is supervised by the board of trustees (the "Board") of the Trust. The Board is responsible for the general oversight of the Fund, including general supervision and review of the Fund's investment activities. The Board, in turn, elects the officers who are responsible for administering the Fund's day-to-day operations.

An asterisk in the table below identifies those trustees and officers who are "interested persons" of the Trust as defined in the Investment Company Act of 1940. Each trustee and officer of the Trust noted as an interested person is interested by virtue of that individual's position with Capital Growth Management Limited Partnership ("CGM"), the Fund's investment adviser, as described in the table below. Each trustee serves during the continued lifetime of the Trust or until he earlier dies, resigns or is removed, or if sooner, until the election and qualification of his successor. Each officer serves until his or her successor is elected or qualified or until the officer sooner dies, resigns, or is removed or becomes disqualified.

The trustees and officers of the Trust, their ages, their principal occupations during the past five years, the number of CGM Funds they oversee, and other directorships they hold are set forth below. Unless otherwise noted below, the address of each interested trustee and officer is One International Place, Boston, Massachusetts 02110. Correspondence intended for the trustees who are not "interested persons" of the Trust may be sent c/o Capital Growth Management, One International Place, Boston, Massachusetts 02110.

The Statement of Additional Information for the Fund includes additional information about Fund trustees and is available, without charge, upon request by calling the CGM Marketing Department, toll free, at 800-345-4048.

<u>Name, Address and Age</u>	<u>Position Held and Length of Time Served</u>	<u>Principal Occupation During Past 5 Years and Other Directorships Held</u>	<u>Number of Funds in the CGM Funds Complex Overseen</u>
Interested Trustees			
G. Kenneth Heebner* age 67	Trustee since 1993	Co-founder and Employee, CGM; Controlling Owner, Kenbob, Inc. (general partner of CGM)	4
Robert L. Kemp* age 75	Trustee since 1990	Co-founder and Employee, CGM; Non-voting Owner, Kenbob, Inc. (general partner of CGM)	4
Disinterested Trustees			
Peter O. Brown age 67	Trustee since 1993	Counsel (formerly, Partner), Harter, Secrest & Emery LLP (law firm); formerly Executive Vice President and Chief Operating Officer, The Glenmeade Trust Company (from 1990 to 1993); formerly Senior Vice President, J.P. Morgan Chase Bank (from 1981 to 1990); Trustee, TT International U.S.A. Master and Feeder Trusts (four mutual funds) from 2000- 2005	4

CGM CAPITAL DEVELOPMENT FUND

<u>Name, Address and Age</u>	<u>Position Held and Length of Time Served</u>	<u>Principal Occupation During Past 5 Years and Other Directorships Held</u>	<u>Number of Funds in the CGM Funds Complex Overseen</u>
Mark W. Holland age 58	Trustee since 2004	President, Wellesley Financial Advisors, LLC; formerly Vice President and Chief Operating Officer, Fixed Income Management, Loomis, Sayles & Company, L.P.; formerly Director, Loomis, Sayles & Company, L.P.	4
James Van Dyke Quereau, Jr. age 59	Trustee since 1993	Managing Partner and Director, Stratton Management Company (investment management); Director and Vice President, Semper Trust Co. until 2006	4
J. Baur Whittlesey age 61	Trustee since 1990	Member, Ledgewood, P.C. (law firm)	4
Officers			
G. Kenneth Heebner* age 67	Vice President since 1990	Co-founder and Employee, CGM; Controlling Owner, Kenbob, Inc. (general partner of CGM)	4
Robert L. Kemp* age 75	President since 1990	Co-founder and Employee, CGM; Non-voting Owner, Kenbob, Inc. (general partner of CGM)	4
David C. Fietze* age 38 address: 38 Newbury Street Boston, Massachusetts 02116	Chief Compliance Officer since 2004	Employee – Legal counsel, CGM; formerly counsel, Bartlett Hackett Feinberg, P.C.	4
Kathleen S. Haughton* age 47 address: 38 Newbury Street Boston, Massachusetts 02116	Vice President since 1992 and Anti-Money Laundering Compliance Officer since 2002	Employee – Investor Services Division, CGM	4
Jem A. Hudgins* age 44	Treasurer since 2004	Employee – CGM	4
Leslie A. Lake* age 62	Vice President and Secretary since 1992	Employee – Office Administrator, CGM	4
Martha I. Maguire* age 52	Vice President since 1994	Employee – Funds Marketing, CGM	4
Mary L. Stone* age 63	Assistant Vice President since 1990	Employee – Portfolio Transactions, CGM	4