# Directors' Report

## Status of the Company

The Company, which was incorporated in 1929, has received approval as an investment trust by the Inland Revenue for all accounting periods up to and including 31 March 2002 and has since conducted its affairs so as to enable it to retain such approved status. It is a member of the Association of Investment Trust Companies. The Company is an investment company within the meaning of Section 266 of the Companies Act 1985. So far as the Directors are aware the close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

## Results and Dividends

The financial statements for the year ended 31 March 2003 appear on pages 25 to 42.

A final dividend of 6.05p per ordinary share is proposed which, together with the interim dividends already paid, takes the total dividends per ordinary share for the year to 19.25p (2002 – 19.25p).

## Activities

The Company is an investment trust. Its subsidiary undertaking, Wiston Investment Company Limited, operates as an investment dealing company.

The Company also has a 49.9% interest in its managers and secretaries, Glasgow Investment Managers Limited ("GIM"), an unlisted company, and a 28.7% interest in Shires Smaller Companies plc, a listed investment trust.

## Review of the Business

A review of the business is given in the Chairman's Statement and the Investment Managers' Review.

## Directors

The Directors are shown on page 8. All held office throughout the year. In accordance with the Articles of Association and the Combined Code on Corporate Governance, J. R. Davidson and J. Stubbs retire from office by rotation and offer themselves for re-election.

A. J. R. Izat, having attained the age of 70, retires at the Annual General Meeting and is not available for re-election.

## Directors' Interests in Shares

The interests of the Directors in office at 31 March 2003 in the ordinary 50p shares in the Company were as follows:

| | Beneficial interests | | Non-beneficial interests | |
|---|---|---|---|---|
| | 31 March 2003 | 31 March 2002 | 31 March 2003 | 31 March 2002 |
| H. N. Buchan | 12,000 | 12,000 | – | – |
| J. R. Davidson | 4,000 | 4,000 | – | – |
| J. M. Haldane | 6,800 | 2,000 | 720 | 720 |
| A. J. R. Izat | 27,709 | 23,709 | 6,100 | 6,100 |
| J. Stubbs | – | – | – | – |

No Director had an interest in the 3.5% cumulative preference share capital at any time during the year.

There have been no changes in the Directors' interests between 1 April 2003 and 16 May 2003.

## Corporate Governance

The Board has in place Corporate Governance arrangements which it believes are appropriate for an investment trust company and enable the Company to comply with the relevant Principles of Good Governance and Code of Best Practice ("the Combined Code") published by the Committee on Corporate Governance in June 1998.

## The Board

The Board currently consists of five non-executive Directors. A. J. R. Izat and J. Stubbs are deemed to be connected with the Company's Managers, GIM, in which the Company has a substantial minority interest. A. J. R. Izat is a non-executive Director of GIM Holdings Limited, the immediate parent company of GIM and J. Stubbs is Chairman of Shires Smaller Companies plc which is also managed by GIM. Biographies of the Directors appear on page 8.

The Board considers that the post of chief executive officer is not relevant in the context of an investment trust as this role has effectively been delegated to GIM. Similarly, the Board does not believe that there is a need for a senior independent director, in addition to the separate roles of Chairman and Chairman of the Audit Committee.

The Board has appointed GIM to manage the Company's investment portfolio within the guidelines set by the Board and to provide it with accounting and secretarial services. GIM provides the Board with monthly reports on the Company's activities. The Board has a formal schedule of matters specifically reserved to it for decision including an annual review of the managers and management agreement. There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access which every Director has to the advice of GIM as secretaries of the Company.

## Audit Committee

The Audit Committee, comprising all of the Directors of the Company except the Chairman, meets at least twice per year to coincide with the annual and interim reporting and audit cycle. The Chairman is H. N. Buchan. The principal role of the Audit Committee is to review the annual and interim financial statements, the accounting policies applied therein and ensure compliance with financial and regulatory reporting requirements. The external auditors attend at least one meeting of the Audit Committee per year.

## Nominations Committee

The Nominations Committee, which comprises all of the Directors, considers appointments of new Directors. Under the Articles of Association, (i) new Directors are subject to re-election at the first Annual General Meeting after their appointment, and (ii) a Director who has reached the age of seventy must retire at the end of the next Annual General Meeting. Directors do not have a service contract or fixed term in office, but they are required to submit themselves for re-election every three years. As the composition of the Board is expected to reflect a breadth of commercial, professional and industrial experience, new Directors are provided with sufficient guidance and instruction to enable them to understand the economic environment in which investment trusts operate and carry out an effective and objective evaluation of the Company's performance therein.

## Relations with Shareholders

All shareholders have the opportunity to attend and vote at Annual General Meetings at which Directors and Managers are available to discuss key issues affecting the Company.

As recommended by the Combined Code, the Company announces the proxy votes cast at general meetings.

At least twenty working days' notice is given of the Annual General Meeting.

### Internal Control

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

Under the Combined Code, it is a requirement that the Board reviews the effectiveness of the Company's system of internal controls, comprising all controls including financial, operational, compliance and risk management. To achieve this, the Board has in place regular review procedures for the identification, evaluation and management of significant risks to the Company, to enable full compliance with guidance issued in September 1999 by the Turnbull Committee.

The Board has delegated certain functions. The main service providers are GIM, the managers and secretaries, HSBC Bank plc, the custodian, and Lloyds TSB Registrars Scotland, the registrars. GIM provides the Board with monthly reports, which cover investment activities and financial matters, and with periodic reports on its control procedures and its system of internal financial control. An independent custodian, HSBC Bank plc, is appointed to safeguard the Company's investments, which are registered in the name of the custodian's nominee company. In view of the controls that are in place, the Directors do not consider that there is any need for an internal audit function.

### Compliance with the Provisions of the Combined Code

Subject to the special circumstances of the Company as an investment trust, the Company has complied with the provisions set out in Section 1 of the Combined Code throughout the year and has continued to comply with them up to the date of this report.

### Going Concern

The Board considers that the Group has adequate financial resources to continue in operational existence for the foreseeable future. For this reason they continue to apply the going concern basis in preparing the financial statements.

### Responsibilities as an Institutional Shareholder

In October 2002, The Institutional Shareholders' Committee, of which the AITC is a member, published a statement of Principles setting out best practice guidelines designed to enable institutional shareholders to derive the best possible value out of the companies in which they invest. The following General Policy is a statement of the procedures and policies followed by the Board in discharging its responsibilities over all investee companies excluding Shires Smaller Companies plc, a special situation in view of the direct representation which Shires Income plc has on that company's board and the fact that it is also managed by GIM.

### General Policy

The Board delegates to the Managers, GIM, responsibility for selecting the portfolio of investments, within investment guidelines established by the Board after discussion with GIM, and for monitoring the performance and activities of investee companies. GIM carries out detailed research of investee companies and possible future investee companies by a combination of broker and internally generated research, assisted by independent research consultants. The research on a company comprises an evaluation of fundamental details such as financial strength, quality of management, market position and product differentiation, plus an appraisal of issues relevant to it including environmental matters.

The Company's voting rights in respect of investee companies are delegated to the Managers, who do not automatically exercise these votes in pursuit of a fixed policy, but consider each case on its merits. The primary aim of the use of voting rights is to ensure a satisfactory return from investments. GIM's monthly reports to the Board include details of the performance of investee companies.

### Shires Smaller Companies plc

The Company has a 28.7% interest in the share capital of this listed investment trust which is also managed by GIM in the same manner as stated in the above General Policy. The Chairman of this company, J. Stubbs, is also a Director of Shires Income plc. A. J. R. Izat, a Director of Shires Income plc and of GIM Holdings Limited which owns 100% of GIM, was a Director of Shires Smaller Companies plc until 21 March 2003. There are three other directors on the Board of Shires Smaller Companies plc, all of whom are independent of Shires Income plc. GIM has no control over the management of the interest in Shires Smaller Companies plc and does not charge any management fee in respect of the amount of Shires Income plc's net assets attributable to this holding.

## Payment Policy

The Company's policy, in relation to all of its suppliers, is to settle the terms of payment when agreeing the terms of the transaction and to abide by those terms. The Company does not have trade creditors.

## Substantial Interests

As at 16 May 2003 the Company had received notification of the following interests in its ordinary shares:

| | Number of Shares | % of total |
|---|---|---|
| Sun Life and Provincial Holdings plc, a subsidiary of AXA S.A. | 3,005,512 | 10.1 |
| Barclays Bank PLC, a subsidiary of Barclays PLC | 1,188,767 | 4.0 |
| Glasgow Investment Managers Limited as Plan Manager of The Glasgow TrustPlan | 1,018,082 | 3.4 |
| Glasgow Investment Managers Limited as Managers of The Glasgow PEP | 969,732 | 3.3 |

## Directors' Remuneration Report

This Annual Report contains for the first time a new report in accordance with the Directors' Remuneration Report Regulations 2002. Under these Regulations, the report, which appears on page 21, must be approved by the Directors and laid before the Members of the Company at the same time as the audited financial statements and be the subject of a separate resolution as part of the Ordinary Business at the Annual General Meeting. Accordingly, Resolution 2 will be proposed as an ordinary resolution to enable Members either to show that they approve of the contents of the Directors' Remuneration Report by voting "For" the resolution, or to show their disapproval by voting "Against" the resolution.

### Authority to Disapply Statutory Pre-emption Rights

The power given to Directors at the last Annual General Meeting to allot shares for cash otherwise than in accordance with statutory pre-emption rights expires on the date of the forthcoming Annual General Meeting. Since in certain circumstances it may be in the best interests of the Company to issue shares for cash otherwise than pro rata to existing shareholders, the Directors consider that it is appropriate for this power to be renewed at the forthcoming Annual General Meeting. Accordingly Resolution 7 will be proposed as a special resolution giving the Directors power to allot for cash, as if section 89(1) of the Companies Act 1985 did not apply, equity securities in connection with a rights issue and, provided the shares are issued at a price not less than their underlying fully diluted net asset value, in other cases up to an aggregate nominal amount of £741,924, which is equivalent to approximately 5% of the present ordinary share capital of the Company. This power will require to be renewed at the Annual General Meeting in 2003. New shares will be issued only in compliance with the policies of the UK Listing Authority concerning the issuing of new shares for cash.

### Authority to buy back shares

The resolution passed at the last Annual General Meeting to authorise the Company to make market purchases of up to 14.99% of its own ordinary shares expires on the date of the forthcoming Annual General Meeting. Accordingly, Resolution 8 will be proposed as a special resolution to renew this authority for a further year.

### Auditors

A resolution re-appointing KPMG Audit Plc as auditors and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting.

By Order of the Board

for Glasgow Investment Managers Limited

Secretaries

21 May 2003

# Directors' Remuneration Report

## Policy

The Board as a whole reviews and sets the rates of remuneration payable to each Director with effect from the annual review date of 1 April each year. The Board is aware that these should be comparable to market rates in order to attract and retain directors of the appropriate calibre and reflect the time spent and responsibilities borne by Directors in exercising the stewardship required of this Company. In setting these rates, the Board acts principally on advice from the Managers, Glasgow Investment Managers Limited ("GIM"), who monitor rates of directors' remuneration in companies of comparable size and activities and carry out any other relevant research requested by the Board. No separate remuneration committee has been constituted in view of the level of work delegated to GIM. Further details of the services provided by GIM are contained in note 3 to the financial statements.

The Board considers that the present policy to remunerate Directors exclusively by fixed fees in cash is appropriate and adequate for the Company in its present and foreseeable circumstances and there are no plans to introduce additional or alternative remuneration schemes.

No Director has a service contract with the Company or its subsidiary undertaking.

## Directors' Remuneration Rates

The annual rates of remuneration with effect from 1 April 2002 were £16,500 for the Chairman and £11,000 for each other Director. The rates for the forthcoming year commencing 1 April 2003 are unchanged.

The Articles of Association of the Company set a maximum aggregate limit within a financial year for non-executive directors' remuneration. This limit, which was last adjusted by special resolution at the Annual General Meeting of the Company held on 30 June 2000, is £70,000 per annum, subject to annual upward adjustment on 1 April each year in line with the change in the Retail Price Index from March 2000. The limit for the year ended 31 March 2003 was therefore £74,780.

The total fee payable to each Director who served during the present and previous financial years of the Company is shown in the following table (audited):

| | Group and Company | |
|---|---|---|
| | 2003 | 2002 |
| | £ | £ |
| J. M. Haldane (Chairman from 1 January 2003) | 12,375 | 10,240 |
| H. N. Buchan | 11,000 | 7,680 |
| J. R. Davidson | 11,000 | 10,240 |
| A. J. R. Izat (Chairman until 31 December 2002) | 15,125 | 15,360 |
| J. A. D. Harrison (died 11 July 2001) | – | 2,863 |
| J. Stubbs | 11,000 | 10,240 |
| | £60,500 | £56,623 |

There is no performance related remuneration scheme such as an annual bonus, or a long-term incentive scheme such as the granting of share options. The Company does not operate a pension scheme for the Directors and no Director received any form of remuneration during the present or preceding financial years other than the fees shown above (audited).

## Performance

The Absolute Performance graph on page 5 of this Annual Report shows the total return to an investor in the Company as measured both on a share price and net asset value basis, both with dividends reinvested, during the five years ended 31 March 2003, together with the performance over the same period of the FTSE All-Share Index (Total Return), the benchmark index most appropriate to this Company.

Approved by the Board of Directors on 21 May 2003 and signed on its behalf.

**J. Martin Haldane, Chairman** J. Martin Haldane

# *Directors' Responsibilities in relation to the preparation of the Financial Statements*

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the total return of the Group for the year then ended. In preparing those financial statements, the Directors are required to:

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

The Directors confirm that the financial statements comply with these requirements.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial positions of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

# *Independent Auditors' Report to the Members of Shires Income plc*

We have audited the financial statements on pages 25 to 42. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual report and the Directors' Remuneration Report. As described on page 22, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent Auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, 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 with the Group is not disclosed.

We review whether the statement on pages 17 and 18 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement and the unaudited part of the Directors' Remuneration Report, and consider whether it is consistent with the audited financial statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

**Basis of 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 financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

**Opinion**

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2003 and of the total return of the Group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Glasgow
21 May 2003

KPMG Audit Plc

# Consolidated Statement of Total Return

(incorporating the Revenue Account*)
for the year ended 31 March 2003

| | Notes | 2003 Revenue £000 | 2003 Capital £000 | 2003 Total £000 | 2002 Revenue £000 | 2002 Capital £000 | 2002 Total £000 |
|---|---|---|---|---|---|---|---|
| Losses on investments | 11 | – | (55,173) | (55,173) | – | (16,046) | (16,046) |
| Income | 2 | 7,542 | – | 7,542 | 8,246 | – | 8,246 |
| Management and administrative expenses | 4 | (591) | (236) | (827) | (618) | (309) | (927) |
| NET RETURN BEFORE FINANCE COSTS AND TAXATION | | 6,951 | (55,409) | (48,458) | 7,628 | (16,355) | (8,727) |
| Finance costs of borrowings | 6 | (1,202) | (2,367) | (3,569) | (1,975) | (937) | (2,912) |
| RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION | | 5,749 | (57,776) | (52,027) | 5,653 | (17,292) | (11,639) |
| Taxation | 7 | 106 | – | 106 | 88 | – | 88 |
| RETURN ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR | 8 | 5,855 | (57,776) | (51,291) | 5,741 | (17,292) | (11,551) |
| Preference dividend | 9 | (2) | – | (2) | (2) | – | (2) |
| RETURN ATTRIBUTABLE TO EQUITY SHAREHOLDERS | | 5,853 | (57,776) | (51,923) | 5,739 | (17,292) | (11,553) |
| Dividends on equity shares | 9 | (5,713) | – | (5,713) | (5,713) | – | (5,713) |
| TRANSFER TO/(FROM) RESERVES | 21 | 140 | (57,776) | (57,636) | 26 | (17,292) | (17,266) |
| Return per ordinary share | 10 | 19.72p | (194.68)p | (174.96)p | 19.35p | (58.29)p | (38.94)p |
| Dividends per ordinary share | 9 | 19.25p | | | 19.25p | | |

*The revenue column of this statement is the consolidated profit and loss account of the Group.

The accompanying notes are an integral part of this statement.

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

No operations were acquired or discontinued during the year.

# Balance Sheets

as at 31 March 2003

| | Notes | Group 2003 £000 | Group 2002 £000 | Company 2003 £000 | Company 2002 £000 |
|---|---|---|---|---|---|
| FIXED ASSETS | | | | | |
| Investments | 11 | 77,081 | 156,565 | 77,081 | 156,565 |
| Subsidiary undertakings | 12 | - | - | - | - |
| | | 77,081 | 156,565 | 77,081 | 156,565 |
| CURRENT ASSETS | | | | | |
| Debtors | 13 | 2,063 | 3,692 | 2,615 | 4,422 |
| Dealing investments held by subsidiary undertakings | 14 | 323 | 473 | - | - |
| Cash at bank and in hand | | 45 | 1,038 | 45 | 1,038 |
| | | 2,431 | 5,203 | 2,660 | 5,460 |
| CREDITORS | | | | | |
| Amounts falling due within one year | 15 | (4,106) | (13,626) | (4,116) | (13,636) |
| NET CURRENT LIABILITIES | | (1,675) | (8,423) | (1,456) | (8,176) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 75,406 | 148,142 | 75,625 | 148,389 |
| CREDITORS | | | | | |
| Amounts falling due after more than one year | 16 | (24,110) | (39,210) | (24,110) | (39,210) |
| NET ASSETS | | 51,296 | 108,932 | 51,515 | 109,179 |
| CAPITAL AND RESERVES | | | | | |
| Called up share capital | 17 | 14,888 | 14,888 | 14,888 | 14,888 |
| Share premium account | 18 | 19,091 | 20,317 | 19,091 | 20,317 |
| Other capital reserves | 19 | | | | |
| Realised | | 35,368 | 71,895 | 35,489 | 72,516 |
| Unrealised | | (22,049) | (2,026) | (22,179) | (2,657) |
| Revenue reserves | 20 | | | | |
| Realised | | 3,722 | 3,582 | 4,226 | 4,115 |
| Unrealised | | 276 | 276 | - | - |
| SHAREHOLDERS' FUNDS (including non-equity) | 21 | 51,296 | 108,932 | 51,515 | 109,179 |
| Net asset value per ordinary share | 10 | 172.7p | 366.9p | | |

Approved by the Board of Directors on 21 May 2003 and signed on its behalf.

J. Martin Haldane, Chairman

The accompanying notes are an integral part of these balance sheets.

# Consolidated Cash Flow Statement

for the year ended 31 March 2003

| | Notes | 2003 £000 | 2003 £000 | 2002 £000 | 2002 £000 |
|---|---|---|---|---|---|
| OPERATING ACTIVITIES | | | | | |
| Dividends and interest received from investments | | | 7,434 | | 7,569 |
| Income tax recovered | | | – | | 50 |
| Deposit interest received | | | 182 | | 47 |
| Dealing subsidiary receipts | | | 472 | | 147 |
| Other cash received | | | 98 | | 595 |
| Other payments | | | (250) | | – |
| Administrative expenses | | | (831) | | (531) |
| Payments to and on behalf of Directors | | | (73) | | (59) |
| Dealing subsidiary payments | | | (8) | | (458) |
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 22 | | 7,024 | | 7,360 |
| SERVICING OF FINANCE | | | | | |
| Interest paid | | (1,802) | | (2,211) | |
| Payments of income tax | | – | | (172) | |
| Preference dividends paid | | (2) | | (2) | |
| | | | (1,804) | | (2,385) |
| TAXATION | | | | | |
| Consortium relief | | 97 | | 129 | |
| | | | 97 | | 129 |
| INVESTING ACTIVITIES | | | | | |
| Purchases of investments | | (49,537) | | (58,289) | |
| Sales of investments | | 83,653 | | 56,023 | |
| Hedge instrument payments | | (24,396) | | (12,963) | |
| Hedge instrument receipts | | 15,826 | | 12,740 | |
| NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES | | | 25,546 | | (2,489) |
| EQUITY DIVIDENDS PAID | | | (5,713) | | (5,666) |
| NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING | | | 25,150 | | (3,051) |
| FINANCING | | | | | |
| Issues of shares | | – | | 117 | |
| Repayment of 3.4375% Index-Linked Debenture | | (16,891) | | – | |
| Debt due within one year – (decrease)/increase in short-term borrowings | | (9,500) | | 5,500 | |
| | | | (26,391) | | 5,617 |
| (DECREASE)/INCREASE IN CASH | 24 | | (1,241) | | 2,566 |

The accompanying notes are an integral part of this statement.

# Notes to the Financial Statements

## 1. ACCOUNTING POLICIES

The financial statements of the Company and the Group have been prepared in accordance with applicable accounting standards and, except as referred to in paragraph (e) below, in accordance with the Statement of Recommended Practice (SORP) issued by the Association of Investment Trust Companies in January 2003. The effects on capital and income of the items involving departures from the SORP are set out under Income in note 2. The principal accounting policies are as follows:

### (a) Accounting convention

The financial statements are prepared under the historical cost convention as modified to include the revaluation of fixed asset investments and on the assumption that approval as an investment trust will continue to be granted.

### (b) Consolidation

The Group financial statements consolidate the results of the Company and its subsidiary undertakings under the acquisition method of accounting.

The Company has availed itself of the relief from showing a revenue account for the parent company granted under Section 230 of the Companies Act 1985.

### (c) Investments

All investments form part of the investment portfolio and are held at market value or Directors' valuation including those over which the Company has significant influence.

Listed investments are valued at middle market prices ruling on the balance sheet date.

The Company's interest in Glasgow Investment Managers ("GIM") is held at Directors' valuation. In making that valuation the Directors consider amongst other factors, funds under management, earnings and dividend yields. Other unlisted investments are valued by the Directors on the basis of the latest available information.

Investments held by investment dealing subsidiaries are shown as current assets at the lower of cost and market value.

### (d) Gains and losses on investment transactions

Gains and losses arising on sales of investments of the Company are taken to realised capital reserve. Unrealised appreciation or depreciation of investments and the potential net gain or liability of associated hedge instruments held by the Company is taken to unrealised capital reserve.

### (e) Income and expenditure

Dividends from listed investments are credited to revenue on the date when the investment is first quoted ex-dividend at the amount receivable without any attributable tax credit. Interest from listed securities, interest from deposits, interest payable and expenses of management are dealt with on an accruals basis. Dividends and interest from unlisted investments are accounted for when they are received or when their receipt is virtually certain.

The SORP requires that income from preference shares be recognised on an effective yield basis. The Directors consider that this is not appropriate for a high-yielding investment trust because the effective yield basis does not recognise the fact that the dividend declared and paid on a preference share is in fact an appropriation of, and not a charge against, profit.

Traded option contracts are restricted to writing out-of-the-money options with a view to generating income. Premiums received on traded option contracts are recognised as income evenly over the period from the date they are written to the date when they expire or are exercised or assigned. Gains and losses on the underlying shares acquired or disposed of as a result of options exercised are included in the capital account. Provision is made at the year end for unexpired options where the capital write-down would exceed the premiums received.

The investment management fee and finance costs of borrowings are charged 50% to capital and 50% to revenue, net of any tax relief, being the expected long-term split of returns in the form of capital gains and income from the Company's entire investment portfolio (see note (h) below). The cost of premiums on redemptions of Debenture Stocks are charged wholly to capital. All other expenses of management are charged wholly to revenue. Expenses which are incidental to the purchase or sale of an investment are included within the cost or deducted from the sale proceeds of the investment.

# Notes to the Financial Statements
(continued)

**(f) Taxation**
Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date at rates expected to apply when they crystallise, based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

**(g) Foreign currency**
Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date.

Foreign income is translated at the rate ruling at the date of receipt.

Realised and unrealised differences on exchange or translation are taken to realised and unrealised capital reserves respectively.

**(h) Index-Linked Debenture Stocks**
The Index-Linked adjustments to the redemption value of the Index-Linked Debenture stocks, the amortisation of discounts and expenses of issue and the interest payable on the Debentures are aggregated. The total is then charged 50% to capital and 50% to revenue.

This allocation between capital and revenue reflects the expected long-term split of returns as mentioned in note (e).

# Notes to the Financial Statements
(continued)

## 2. INCOME

| | 2003 £000 | 2002 £000 |
|---|---|---|
| **Income from listed investments** | | |
| Dividend income | 6,838 | 7,101 |
| UK unfranked investment income | 173 | 224 |
| | 7,011 | 7,325 |
| **Income from unlisted investments** | | |
| Dividend income from GIM | – | 254 |
| Other unlisted dividend income | 7 | 7 |
| Interest received from GIM | 60 | 60 |
| | 67 | 321 |
| **Other income from investment activity** | | |
| Deposit interest | 202 | 36 |
| Traded option premiums | 247 | 572 |
| Underwriting commission | – | 9 |
| Profits less losses of dealing subsidiary | 15 | (17) |
| | 464 | 600 |
| | 7,542 | 8,246 |
| **Total income comprises:** | | |
| Dividends and interest from investments | 7,078 | 7,646 |
| Deposit interest | 202 | 36 |
| Other income from investment activity | 262 | 564 |
| TOTAL INCOME | 7,542 | 8,246 |

Listed dividend income includes special dividends totalling £nil (2002 – £300,000).
UK dividend income includes £696,000 (2002 – £nil) i.e. 9.2% of total income, raised from the purchase of securities which were subsequently sold within one month. The net capital losses on these transactions amounted to £832,000.

All dividend income was received from UK companies.

## 3. MANAGEMENT AND SECRETARIAL FEE

GIM acts as investment managers and secretaries to the Company under a contract terminable by one year's notice on either side. The fee payable is based on shareholders' funds plus long-term indebtedness. The annual fee rate since 1 April 1993 has been fixed at 0.45% for funds up to £100 million and 0.40% for funds over £100 million. The fee is subject to proportionate reductions to reflect the Company's investments in Shires Smaller Companies plc, which is also managed by GIM, and in GIM itself.

The Company has a substantial minority interest in GIM and its holding company (see note 11).

The fee for the year ended 31 March 2003 was £426,000 (2002 – £578,000) exclusive of VAT. £25,000 (plus VAT) of the annual total fee is in respect of secretarial services and is allocated to revenue. The remainder of the fee is in respect of investment management and is allocated 50% to capital and 50% to revenue. The Company also pays GIM an annual fee of £12,000 (plus VAT) for services in relation to the Company's participation in The Glasgow PEP.

# Notes to the Financial Statements
(continued)

### 4. MANAGEMENT AND ADMINISTRATIVE EXPENSES

| | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | Revenue £000 | Capital £000 | Total £000 | Revenue £000 | Capital £000 | Total £000 |
| Directors remuneration – fees as directors | 61 | – | 61 | 57 | – | 57 |
| Investment management fee | 236 | 236 | 472 | 309 | 309 | 618 |
| Secretarial fee | 29 | – | 29 | 28 | – | 28 |
| Fees payable to auditors and associates | | | | | | |
| – as auditors | 17 | – | 17 | 10 | – | 10 |
| – for other services | 10 | – | 10 | 3 | – | 3 |
| Other management expenses | 238 | – | 238 | 211 | – | 211 |
| | 591 | 236 | 827 | 618 | 309 | 927 |

### 5. DIRECTORS' REMUNERATION

The Company had no employees during the year (2002 – Nil). No pension contributions were paid for Directors (2002 – £Nil).

### 6. FINANCE COST OF BORROWINGS

| | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | Revenue £000 | Capital £000 | Total £000 | Revenue £000 | Capital £000 | Total £000 |
| Bank loans and overdrafts repayable within five years | 57 | 57 | 114 | 244 | 244 | 488 |
| 5% Index-Linked Debenture | | | | | | |
| – Due in 2 – 5 years | 56 | 56 | 112 | – | – | – |
| – Due in over 5 years | 779 | 779 | 1,558 | 1,194 | 428 | 1,622 |
| 3.4375% Index-Linked Debenture Stock 2017/2019 | 310 | 309 | 619 | 537 | 265 | 802 |
| Premium on redemption of 3.4375% stock | – | 1,166 | 1,166 | – | – | – |
| | 1,202 | 2,367 | 3,569 | 1,975 | 937 | 2,912 |

As described in note 1(h) all Index-Linked Debenture finance costs are aggregated and split 50:50 between capital and revenue in accordance with the provisions of the SORP. Previously the interest cost was charged to revenue and the cost of the indexation adjustment was charged to capital. Under the previous allocation method the Index-Linked costs would have been £1,664,000 to revenue and £625,000 to capital (excluding the premium).

# Notes to the Financial Statements
(continued)

## 7. TAXATION

| | 2003 Revenue £000 | 2003 Capital £000 | 2003 Total £000 | 2002 Revenue £000 | 2002 Capital £000 | 2002 Total £000 |
|---|---|---|---|---|---|---|
| Consortium relief | 106 | – | 106 | 88 | – | 88 |

Management expenses arising on revenue items this year were relieved against taxable revenue.

Consortium relief is receivable from GIM for the use of surplus management expenses.

At 31 March 2003 the Company had surplus management expenses with a tax value of £3,105,000 (2002 – £2,792,000) to carry forward. No deferred tax asset has been recognised in the current or prior periods as there is no immediate prospect of utilising these surplus management expenses.

The following table is a reconciliation of the current taxation credit/(charge) to the charges or credits which would arise if all ordinary activities were taxed at the standard UK corporation tax rate of 30% (2002 – 30%).

| | 2003 Revenue £000 | 2003 Capital £000 | 2003 Total £000 | 2002 Revenue £000 | 2002 Capital £000 | 2002 Total £000 |
|---|---|---|---|---|---|---|
| Return on Ordinary Activities before Taxation | 5,749 | (57,776) | (52,027) | 5,653 | (17,292) | (11,639) |
| Taxation of Return on Ordinary Activities at the standard rate of corporation tax | 1,725 | (17,333) | (15,608) | 1,696 | (5,188) | (3,492) |
| Effects of: | | | | | | |
| UK dividend income not liable to further tax | (2,054) | – | (2,054) | (2,209) | – | (2,209) |
| Capital losses not liable to capital gains tax | – | 16,552 | 16,552 | – | 4,814 | 4,814 |
| Utilisation of surplus management expenses | 329 | 781 | 1,110 | 513 | 374 | 887 |
| Receipt for consortium relief surrender of losses | 106 | – | 106 | 88 | – | 88 |
| Current taxation credit/(charge) for the year | 106 | – | 106 | 88 | – | 88 |

## 8. REVENUE AFTER TAXATION FOR THE FINANCIAL YEAR

*The revenue after taxation for the financial year includes £5,826,000 (2002 – £5,744,000) which has been dealt with in the Company's* financial statements.

# Notes to the Financial Statements
(continued)

## 9. DIVIDENDS

| | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| | p | p | p | p |
| Ordinary shares | | | | |
| Interims paid | 8.80 | 8.80 | 2,612 | 2,612 |
| Interim payable | 4.40 | 4.40 | 1,306 | 1,306 |
| Proposed final | 6.05 | 6.05 | 1,795 | 1,795 |
| | 19.25 | 19.25 | 5,713 | 5,713 |
| Cumulative preference shares | | | 2 | 2 |

## 10. RETURN AND NET ASSET VALUE PER ORDINARY SHARE

| | 2003 | 2002 |
|---|---|---|
| Revenue return | £5,853,000 | £5,739,000 |
| Capital return | £(57,776,000) | £(17,292,000) |
| Weighted average number of ordinary shares | 29,676,982 | 29,666,302 |

Net asset value per ordinary share is based on net assets attributable to ordinary shareholders of £51,246,000 (2002 – £108,882,000) and on the 29,676,982 (2002 – 29,676,982) ordinary shares in issue at 31 March 2003.

# Notes to the Financial Statements
(continued)

## 11. INVESTMENTS

| | Group and Company 2003 £000 | Group and Company 2002 £000 |
|---|---|---|
| Listed on recognised stock exchanges: | | |
| In the United Kingdom | 72,947 | 153,147 |
| Overseas | 52 | 96 |
| Hedge instruments | 923 | (3,448) |
| | 73,922 | 149,795 |
| Unlisted | 3,159 | 6,770 |
| | 77,081 | 156,565 |

| | Group Listed investments £000 | Group Unlisted investments £000 | Group Total £000 | Company Listed investments £000 | Company Unlisted investments £000 | Company Total £000 |
|---|---|---|---|---|---|---|
| Cost at 31 March 2002 | 157,063 | 1,516 | 158,579 | 157,328 | 1,881 | 159,209 |
| Unrealised (depreciation)/appreciation at 31 March 2002 | (7,268) | 5,254 | (2,014) | (7,533) | 4,889 | (2,644) |
| Valuation at 31 March 2002 | 149,795 | 6,770 | 156,565 | 149,795 | 6,770 | 156,565 |
| Purchases | 73,933 | – | 73,933 | 73,933 | – | 73,933 |
| Sales – proceeds | (97,729) | (503) | (98,232) | (97,729) | (503) | (98,232) |
| – net (losses)/gains on sales | (35,653) | 503 | (35,150) | (35,653) | 3 | (35,650) |
| Movement in unrealised depreciation during the year | (16,424) | (3,611) | (20,035) | (16,424) | (3,111) | (19,535) |
| Valuation at 31 March 2003 | 73,922 | 3,159 | 77,081 | 73,922 | 3,159 | 77,081 |
| Cost at 31 March 2003 | 97,614 | 1,516 | 99,130 | 97,879 | 1,381 | 99,260 |
| Unrealised (depreciation)/appreciation at 31 March 2003 | (23,692) | 1,643 | (22,049) | (23,957) | 1,778 | (22,179) |
| Valuation at 31 March 2003 | 73,922 | 3,159 | 77,081 | 73,922 | 3,159 | 77,081 |

Gains/(Losses) on investments

| | Group 2003 £000 | Group 2002 £000 |
|---|---|---|
| Net realised (losses)/gains on sales of investments | (35,150) | 3,648 |
| Movement in unrealised depreciation of investments | (20,035) | (19,145) |
| Exercising call options | – | (573) |
| Movement in unrealised depreciation of traded options | 12 | 24 |
| | (55,173) | (16,046) |

# Notes to the Financial Statements
(continued)

### 11. INVESTMENTS (continued)

The cost of the exercising of call options and the assigning of put options is the difference between the market price of the underlying shares and the strike price of the options. The premiums earned on options expired, exercised or assigned of £247,000 (2002 – £572,000) have been dealt with in the revenue account.

The movement in the provision for traded options has been calculated in accordance with the accounting policy stated in note 1(e) and has been charged to the unrealised capital reserve.

At 31 March 2003 the Company held the following investments comprising more than 10% of the class of share capital held:

| Company | Country of incorporation | Number and class of shares held | Percentage of class held |
|---|---|---|---|
| GIM Holdings Limited | Scotland | 42,336 A ordinary | 49.9% |
| R.E.A. Holdings plc | England | 654,000 9% cum pref | 11.5% |
| Shires Smaller Companies plc | Scotland | 6,286,808 ordinary | 28.7% |
| Sierra Monitor Corporation | USA | 1,549,134 shares of common stock | 14.1% |
| Submersible Television Surveys Limited | Scotland | 186,490 8% cum rd pref | 40.8% |

Glasgow Investment Managers, the Company's managers and secretaries, whose business is the management of investments, is a wholly owned subsidiary undertaking of GIM Holdings Limited ("GIM Group"). GIM Group was one of the 10 largest investments held by the Company as at 31 March 2003. This unlisted equity investment, which cost £304,000, was valued at £2,709,000 (2002 – £4,936,000) as at that date in accordance with accounting policy note 1(c). Additionally, the Company held £250,000 (2002 – £750,000) of 8% unsecured redeemable loan stock issued by GIM Holdings Limited, valued at par.

Audited pre-tax profits of GIM Group were £1,361,000 for the year to 31 March 2002 (2001 – £1,777,000) on a turnover of £4,825,000 (2001 – £4,931,000). Net assets of the GIM Group at that date were £991,000 (2001 – £389,000). The earnings per share of GIM Group for the year to 31 March 2002 were £12.33 (2001 – £17.16). Dividends and interest received from GIM Holdings Limited are disclosed in note 2.

### 12. SUBSIDIARY UNDERTAKINGS

As at 31 March 2003, the Company owned the whole of the issued ordinary share capitals of its two subsidiary undertakings, Topshire Limited and Wiston Investment Company Limited, both of which are investment dealing companies registered in England. Topshire Limited has been dormant since 1989.

In the opinion of the Directors, the values of its investments in these subsidiary undertakings are not less than cost.

### 13. DEBTORS

| | Group | | Company | |
|---|---|---|---|---|
| | 2003 £000 | 2002 £000 | 2003 £000 | 2002 £000 |
| Amounts falling due within one year: | | | | |
| Accrued income | 1,704 | 2,049 | 1,700 | 2,044 |
| Investment sales | – | 1,546 | – | 1,247 |
| Due from subsidiary undertakings | – | – | 556 | 1,034 |
| Other debtors | 359 | 97 | 359 | 97 |
| | 2,063 | 3,692 | 2,615 | 4,422 |
| Included above are the following amounts owed by GIM, the managers and secretaries and GIM Holdings: | | | | |
| Other debtors | 348 | 88 | 348 | 88 |

# Notes to the Financial Statements
(continued)

## 14. DEALING INVESTMENTS HELD BY SUBSIDIARY UNDERTAKINGS

| | Group | |
|---|---|---|
| | 2003 £000 | 2002 £000 |
| At lower of cost and market value: | | |
| Listed on stock exchanges: | | |
| In the United Kingdom | 301 | 444 |
| Overseas | 22 | 29 |
| | 323 | 473 |

The market value of the listed investments held at 31 March 2003 was £582,000 (2002 – £769,000).

## 15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Group | | Company | |
|---|---|---|---|---|
| | 2003 £000 | 2002 £000 | 2003 £000 | 2002 £000 |
| Bank loans and overdrafts | 748 | 10,000 | 748 | 10,000 |
| Dividends payable and proposed | 3,101 | 3,101 | 3,101 | 3,101 |
| Due to subsidiary undertakings | – | – | 10 | 10 |
| Traded options – deferred premiums | – | 158 | – | 158 |
| – provision for unexpired options | – | 12 | – | 12 |
| Other creditors | 257 | 355 | 257 | 355 |
| | 4,106 | 13,626 | 4,116 | 13,636 |

Included above are the following amounts owed to GIM, the managers and secretaries:

| | | | | |
|---|---|---|---|---|
| Other creditors | 85 | 160 | 85 | 160 |

Interest on short-term bank loans and overdrafts is at floating rates related to LIBOR and UK base rates respectively.

The following table shows the book values and fair values of traded options at 31 March 2003:

| | Group and Company | | | |
|---|---|---|---|---|
| | 2003 Book value £000 | 2003 Fair value £000 | 2002 Book value £000 | 2002 Fair value £000 |
| Call options | – | – | 170 | 170 |

# Notes to the Financial Statements
(continued)

## 16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | Group and Company | |
|---|---|---|
| | 2003 | 2002 |
| | £000 | £000 |
| 5% Index-Linked Debenture Stock 2008/2010 | 24,110 | 23,651 |
| 3.4375% Index-Linked Debenture Stock 2017/2019 | – | 15,559 |
| | 24,110 | 39,210 |

**5% Index-Linked Debenture Stock 2008/2010**
*This Stock is unlisted and is secured by a floating charge over the whole of the assets of the Company and its dealing subsidiary* undertakings.

The Directors' opinion of the total fair value of this Stock at 31 March 2003, determined with reference to the current interest profile of similar instruments, was £30,128,000 (2002 – £28,565,000). As there is no intention of redeeming this stock before maturity, this value will not be realised but is given for FRS 13 disclosure purposes only.

Interest on the 5% Stock is paid on 6 March and 6 September each year at an annual rate of 5% as adjusted by the movement in the UK General Index of Retail Prices (RPI) over the period from July 1989 to the month eight months prior to the month in which interest is paid.

The capital amount to be repaid on the 5% Stock on 6 March in each of the years 2008 to 2010 will be one third of the nominal amount as adjusted by the movement in the RPI over the period from July 1989 to the month eight months prior to the month in which repayment is made.

The discount on issue is amortised annually to the share premium account over the life of the Stock.

**3.4375% Index-Linked Debenture Stock 2017/2019**
On 30 January 2003 the 3.4375% Index-Linked Debenture Stock was fully repaid. The capital amounts relating to the repayment are shown below:

| | £000 |
|---|---|
| Capital Outstanding | 15,725 |
| Premium on redemption | 1,100 |
| Expenses of redemption | 66 |
| | 16,891 |

The premium and expenses on redemption have both been charged to the Share Premium account as allowed by section 130 of the Companies Act 1985.

# Notes to the Financial Statements
(continued)

## 16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

| The amounts outstanding at 31 March 2003 comprise: | Group and Company | | |
|---|---|---|---|
| | 5% 2008/10 £000 | 3.4375% 2017/19 £000 | Total £000 |
| Nominal amounts | 16,000 | 15,000 | 31,000 |
| Discounts on issue | (979) | (92) | (1,071) |
| Expenses of issue | – | (110) | (110) |
| Amortisation of discounts and issue expenses | 675 | 34 | 709 |
| | (304) | (168) | (472) |
| Index-linked adjustments | 8,414 | 893 | 9,307 |
| | 24,110 | 15,725 | 39,835 |
| Repaid in year | – | (15,725) | (15,725) |
| | 24,110 | – | 24,110 |
| The movements during the year were as follows: | | | |
| Amounts outstanding at 31 March 2002 | 23,651 | 15,559 | 39,210 |
| Amortisation of discounts (note 18) | 51 | 9 | 60 |
| Index-linked adjustments | 408 | 157 | 565 |
| Repayments | – | (15,725) | (15,725) |
| Amounts outstanding at 31 March 2003 | 24,110 | – | 24,110 |

## 17. CALLED UP SHARE CAPITAL

| | Authorised | | Allotted, called up and fully paid | | | |
|---|---|---|---|---|---|---|
| | 2003 £000 | 2002 £000 | Number | 2003 £000 | Number | 2002 £000 |
| Ordinary shares of 50p each | 19,900 | 19,900 | 29,676,982 | 14,838 | 29,676,982 | 14,838 |
| 3.5% cumulative preference shares of £1 each | 100 | 100 | 50,000 | 50 | 50,000 | 50 |
| | 20,000 | 20,000 | | 14,888 | | 14,888 |

## 18. SHARE PREMIUM ACCOUNT

| | £000 |
|---|---|
| At 31 March 2002 | 20,317 |
| Amortisation of expenses and discounts on issue of Debenture Stocks (note 16) | (60) |
| Premium on repayment of 3.4375% Index-Linked Debenture Stock | (1,166) |
| At 31 March 2003 | 19,091 |

# Notes to the Financial Statements
(continued)

## 19. OTHER CAPITAL RESERVES

Realised capital reserve

| | Group £000 | Company £000 |
|---|---|---|
| At 31 March 2002 | 71,895 | 72,516 |
| Net losses on sales of investments during year | (24,526) | (25,026) |
| Net losses on hedge positions closed during the year | (10,624) | (10,624) |
| Management fee | (236) | (236) |
| Finance costs of borrowings: | | |
| Bank loans and overdrafts repayable within five years | (57) | (57) |
| Index-Linked Debenture costs | (1,084) | (1,084) |
| At 31 March 2003 | 35,368 | 35,489 |

Unrealised capital reserve

| | Group £000 | Company £000 |
|---|---|---|
| At 31 March 2002 | (2,026) | (2,657) |
| Movements during the year: | | |
| Fixed asset investments | (26,460) | (25,959) |
| Hedge instruments | 6,425 | 6,425 |
| Traded options | 12 | 12 |
| At 31 March 2003 | (22,049) | (22,179) |

The capital reserves are not distributable.

## 20. REVENUE RESERVE

| | Group | | Company |
|---|---|---|---|
| | Realised £000 | Unrealised £000 | Realised £000 |
| At 31 March 2002 | 3,582 | 276 | 4,115 |
| Transfer from revenue account | 140 | - | 111 |
| At 31 March 2003 | 3,772 | 276 | 4,226 |

# Notes to the Financial Statements
(continued)

## 21. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | 2003 £000 | 2002 £000 |
|---|---|---|
| Total revenue returns before dividends | 5,855 | 5,741 |
| Dividends (equity and non-equity) | (5,715) | (5,715) |
| Transfer to distributable reserves | 140 | 26 |
| Total capital returns | (57,776) | (17,292) |
| Issue of ordinary shares | - | 117 |
| Net reduction in shareholders' funds | (57,636) | (17,149) |
| Shareholders' funds at 31 March 2002 | 108,932 | 126,081 |
| Shareholders' funds at 31 March 2003 | 51,296 | 108,932 |
| Equity shareholders' funds | 51,246 | 108,882 |
| Non-equity shareholders' funds | 50 | 50 |
| | 51,296 | 108,932 |

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

| | 2003 £000 | 2002 £000 |
|---|---|---|
| Net revenue before finance costs and taxation | 6,951 | 7,628 |
| Investment management fee charged to capital | (236) | (309) |
| Decrease/(Increase) in accrued income | 345 | (67) |
| Decrease in dealing investments | 150 | 5 |
| Decrease/(Increase) in other debtors | 45 | (111) |
| (Decrease)/Increase in other creditors | (231) | 164 |
| Repayment of UK income tax | - | 50 |
| Net cash inflow from operating activities | 7,024 | 7,360 |

## 23. ANALYSIS OF CHANGES IN NET DEBT

| | At 31 March 2002 £000 | Cash flows £000 | Other non-cash changes £000 | At 31 March 2003 £000 |
|---|---|---|---|---|
| Cash at bank and in hand | 1,038 | (993) | - | 45 |
| Bank overdrafts | - | (248) | - | (248) |
| Short-term borrowings | (10,000) | 9,500 | - | (500) |
| 5% Index-Linked Debenture Stock 2008/2010 | (23,651) | - | (459) | (24,110) |
| 3.4375% Index-Linked Debenture Stock 2017/2019 | (15,559) | 15,725 | (166) | - |
| | (48,172) | 23,984 | (625) | 24,813 |

## 24. RECONCILIATION OF NET CASH FLOW TO MOVEMENTS IN NET DEBT

| | 2003 £000 | 2002 £000 |
|---|---|---|
| (Decrease)/Increase in cash at bank and in hand | (993) | 887 |
| (Increase)/Decrease in bank overdrafts | (248) | 1,679 |
| (Decrease)/Increase in cash during the year | (1,241) | 2,566 |
| Decrease/(Increase) in short-term borrowings | 9,500 | (5,500) |
| Change in net debt resulting from cash flows | 8,259 | (2,934) |
| Amortisation of expenses and discount on issue of Debenture Stocks | (60) | (62) |
| Index-linked adjustments to redemption values of Debenture Stocks | (565) | (631) |
| Repayment of 3.4375% Index-Linked Debenture Stock | 15,725 | - |
| Change in net debt | 23,359 | (3,627) |
| Net debt at 31 March 2002 | (48,172) | (44,545) |
| Net debt at 31 March 2003 | (24,813) | (48,172) |

## 25. RISK MANAGEMENT, FINANCIAL ASSETS AND LIABILITIES

The following information is given in accordance with Financial Reporting Standard 13 "Derivatives and Other Financial Instruments' disclosures".

### Risk Management

The Company's objective is addressed by investing in UK equities to provide growth in capital and income and in fixed income securities to provide a high level of income. Additional income is generated from premiums earned by writing covered out-of-the-money traded options against assets held in the portfolio.

Long and short-term borrowings are employed to augment the portfolio of investments, so that greater returns to shareholders may be generated from the capital stock thus enlarged. The Company has in issue an Index-Linked Debenture on which the interest payable and the capital sums to be repaid on maturity are linked to the Retail Price Index. The Group's short-term borrowings and cash resources carry interest at floating rates. The interest rate profile is managed as part of the overall investment strategy of the Group. The estimated fair value of the Group's debt is given in note 16 to the financial statements.

The value of the portfolio is exposed to the risk of volatility in the prices of its constituent investments and the risk that a capital profit *may be foregone if a traded option position moves "into the money" (i.e. a share price rises above the strike price of a call option or falls* below that of a put option). A measure of the capital profit foregone in respect of traded options exercised in the course of the year is included in note 11 to the financial statements.

The impact of security price volatility is reduced by diversification and by writing covered traded options. Diversification is by type of security – ordinary shares, preference shares and convertibles, corporate fixed interest and gilt-edged securities – and by investment in the stocks and shares of companies in a range of industrial, commercial and financial sectors.

The management of the portfolio is conducted according to investment guidelines, established by the Board after discussion with the Managers, which specify the limits within which the Managers are authorised to act.

# Notes to the Financial Statements
(continued)

### 25. RISK MANAGEMENT, FINANCIAL ASSETS AND LIABILITIES (continued)

#### Financial Assets and Liabilities

The Group's financial assets include investments, cash at bank and short-term debtors. Financial liabilities consist of bank loans and overdrafts, index-linked debenture stocks, preference shares and other short-term creditors.

The book value of cash at bank and bank loans and overdrafts included in these financial statements approximate to fair value because of their short-term maturity. Investments held as dealing investments are valued at the lower of cost and market value. The carrying values of fixed asset investments are stated at their fair values, which have been determined in accordance with accounting policy note 1(c). The estimated total fair value of the Index-Linked Debenture Stocks has been determined with reference to the current interest profile of similar instruments (see note 16). For all other short-term debtors and creditors, their book values approximate to fair value because of their short-term maturity.

#### Portfolio Hedging Instruments

During the year, the Company maintained partial hedging of the whole of the ordinary share portfolio to limit any possible major rise in gearing – and attendant erosion of asset value – which could result from significant weakness of ordinary share prices on the UK stockmarket. Due to the volatility of the market during the year the hedging resulted in net losses of £4,083,000 in the year to 31 March 2003. As at that date there were still two open hedge positions. These FTSE 100 Double Put Spread contracts were opened at a cost of £1,038,000 on 21 February 2003 to protect against further falls in the market. At the year end there was an unrealised loss of £116,000 on these positions which are due to expire on 20 June 2003.

### 26. COMMITMENTS AND CONTINGENCIES

At 31 March 2003 there were no contingent liabilities in respect of outstanding underwriting commitments or uncalled capital (2002 – £Nil).

# *Notice of Annual General Meeting*

NOTICE IS HEREBY GIVEN that the seventy-fifth Annual General Meeting of the Members of the Company will be held at Trinity House, Tower Hill, London EC3N 4DH on Friday 27 June 2003 at 12 noon to transact the following business:

## Ordinary Business

1. To receive and adopt the Directors' Report and audited financial statements for the year ended 31 March 2003.
2. To receive and adopt the Directors' Remuneration Report for the year ended 31 March 2003.
3. To declare a final dividend.
4. To re-elect The Hon. Mrs J. R. Davidson as a Director.
5. To re-elect Mr J. Stubbs as a Director.
6. To re-appoint KPMG Audit Plc as auditors of the Company and to authorise the Directors to determine their remuneration.

## Special Business

To consider and, if thought fit, pass the following resolution which will be proposed as special resolutions:

7. That the Directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 ("the Act") to allot equity securities as if Subsection 89(1) of the Act did not apply to any such allotment; provided that this power shall be limited

   (i) to the allotment of equity securities in connection with a rights issue where it is, in the opinion of the Directors, necessary or expedient to deal with problems under the laws of any overseas territory or the requirements of any regulatory body or any Stock Exchange in any overseas territory or in connection with fractional entitlements; and

   (ii) to the allotment (otherwise than pursuant to (i) above) of ordinary shares up to an aggregate nominal amount of £741,924 at a price per share not less than the fully diluted net asset value of an ordinary share in the Company calculated as at the close of business on the immediately preceding business day

and shall expire at the conclusion of the Annual General Meeting of the Company in 2004 but so that this power shall enable the Company to make offers or agreements before the expiry of this power which would or might require equity securities to be allotted after the expiry and the Directors may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired and for this purpose words and expressions defined in or for the purpose of Part IV of the Act shall bear the same meanings in this resolution.

8. That the Company be and it is hereby generally and unconditionally authorised to make market purchases of any of its own ordinary shares in such manner and upon such terms as the Directors of the Company may from time to time determine, provided that

(i) the maximum aggregate nominal value of the ordinary shares hereby authorised to be acquired shall be limited to £2,224,290, being equal to approximately 14.99% of the ordinary shares in issue;

(ii) the maximum price which may be paid for any ordinary shares shall not exceed an amount equal to 105% of the average of the market values of such ordinary shares, as defined in the Listing Rules of the Financial Services Authority, for the five business days before the purchase is made and the minimum price shall be 50p per ordinary share (in each case exclusive of expenses); and

(iii) the authority hereby conferred shall expire (unless previously revoked or renewed) on 27 June 2004 or at the conclusion of the next Annual General Meeting of the Company held after the passing of this resolution, whichever is the later, provided that the Company may before such expiry make any contract of purchase of ordinary shares which would or might be executed wholly or partly after the expiry of such authority and the Company may make such a purchase in pursuance of such contract as if the authority hereby conferred had not expired.

By Order of the Board

**Glasgow Investment Managers Limited,** Secretaries

21 May 2003

**Note:** A member of the Company entitled to attend and vote at the Meeting may appoint a proxy to attend and, on a poll, vote in place of him. A proxy need not be a member of the Company. A form of proxy is enclosed which, if required, should be completed in accordance with the instructions thereon.

Completion and return of the proxy will not preclude a member from attending and voting in person.