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VALUE AND INCOME TRUST PLC

ANNUAL REPORT 2003



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COMPANY SUMMARY

AIMS OF THE TRUST

Value and Income Trust (VIT) is a specialist United Kingdom investment trust designed for both institutional and private investors. It invests in higher-yielding, less fashionable areas of the UK commercial property and quoted equity markets, particularly in medium and smaller sized companies. Its aim is long term real growth in dividends and capital values without undue risk.

THE YEAR

- Net asset value total return -22.9% and share price total return -22.2% (FTSE All-Share Index: -29.8%).
- VIT's UK equities returned -24% and property +12%.
- Net dividend up 3.6% – 16th consecutive increase above inflation.

PRICE QUOTATIONS

The share price and the estimated net asset value are quoted daily under 'Investment Trusts' in The Daily Telegraph and Financial Times. The Herald, Independent, Scotsman and Times also quote the share price.

Long Term Record (Compound Annual Growth Rate(%))

LONG TERM RECORD

	30 Sept 1986	31 Mar 1987	31 Mar 1994	31 Mar 1995	31 Mar 1996	31 Mar 1997	31 Mar 1998	31 Mar 1999	31 Mar 2000	31 Mar 2001	31 Mar 2002	31 Mar 2003
Net asset value* per share (p)	44.0	55.1	111.7	110.0	127.4	143.6	169.6	167.0	173.3	177.4	185.3	138.8
Ordinary share price (p)	42.0	52.0	113.5	116.5	129.0	150.0	159.8	116.5	131.0	136.5	152.5	114.0
Dividend per share (p)	n/a	1.25	4.0	4.2	4.4	4.6	4.8	5.0	5.2	5.4	5.6	5.8
Portfolio total (£m)	17.4	24.8	68.4	69.0	82.4	90.0	112.9	111.7	114.6	116.4	120.0	98.8

*See note 13 on page 33.

In a very difficult year for equity investors, Value and Income Trust's net asset value per share fell by 25.1% in the twelve months to 31 March 2003. This is a relatively good performance compared to the FTSE All-Share Index, which fell by 32.1%, and made VIT the best performing trust in its Association of Investment Trusts' sector over the year. The equity portfolio was 5.6 percentage points ahead of the All-Share Index over the year, but we had not expected the market to suffer as heavy a fall as this. Since the end of March equities have rallied strongly; VIT's net asset value per share has risen from 138.8p to 149.1p at the end of April. Our property portfolio had a good year.

The longer term record of VIT remains good: over three years the share price total return is -2.2% which compares with the FTSE All-Share figure of -39.3%. Despite this, you will see from the accounts that no performance fee is payable to our managers this year; the target is not an easy one to beat. VIT has the best net asset value total return in its sector over five and ten years. Also the record of growth of VIT's dividend at a rate above inflation over many years is an important feature of the trust.

Turning to the outlook, we think that the prospects for UK equities are more encouraging than for most other equity markets. There is an interesting table in the Investment Directors' report on page 10 showing the yields on various types of

James Ferguson

investment at 31 March 2003. The yield gaps still seem to us to make a convincing investment case for a carefully chosen property portfolio such as VIT's, although it certainly does not mean that in the present uncertain conditions all property investments will do well. At the year end our equity and property portfolios were yielding 5.7% net and 7.6% respectively. VIT is nearly fully invested at present.

We expect to pay a total net dividend of 6.0p for the current year. This would represent an increase of 3.4%.

We hope to see as many shareholders as possible at the Annual General Meeting, which is to be held in Edinburgh on Friday 4 July 2003.

James Ferguson

Chairman

9 May 2003

DIRECTORS AND ADVISERS

James Ferguson

*Chairman – non-executive**

James Ferguson, aged 55, is a former chairman of Stewart Ivory. He is a graduate in economics and political science from Trinity College, Dublin. He joined Stewart Ivory in 1970 and became a director in 1975 and chairman in 1989, retiring in July 2000. He is also a director of The Independent Investment Trust and former Deputy Chairman of the Association of Investment Trust Companies.

David Back

*Non-executive director**

David Back, aged 63, has worked within the investment sector since 1960 with a leading London based stockbroker. He retired from SBC Warburg in 1998.

Angela Lascelles

Joint Investment Director

Angela Lascelles, aged 55, has been professionally engaged in investment business since graduating in philosophy from London University. She spent four years in stockbroking before becoming a fund manager, first of an investment trust, then at the Associated British Foods Pension Fund and at Courtaulds Pension Fund from 1979 until 1986. She has been an executive director of OLIM since 1986.

*Member of the Audit Committee

John Kay

*Non-executive director**

John Kay, aged 54, is an economist specialising in the application of economics to business issues. He has been chairman of London Economics, a director of several other companies, has held chairs at the London Business School and Oxford University and is currently a visiting Professor of Economics at the London School of Economics.

Matthew Oakeshott

Joint Investment Director

Matthew Oakeshott, aged 56, after studying economics at Oxford University and a period as special adviser to Mr Roy Jenkins as Home Secretary, joined S.G. Warburg & Co in 1976 and became a director of Warburg Investment Management in 1978. He was Investment Manager of Courtaulds Pension Fund from 1981 to 1985. He has been an executive director of OLIM since 1986. He is a Life Peer.

Investment Manager

OLIM Limited
Pollen House
10/12 Cork Street
London W1S 3NP
Tel: 020 7439 4400

Secretary and

Registered Office

Edinburgh Fund Managers plc
Donaldson House
97 Haymarket Terrace
Edinburgh EH12 5HD
Tel: 0131 313 1000

Registrars and Transfer Office

Computershare Investor
Services PLC
PO Box 435
Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR
Tel: 0870 702 0010

Auditors

Chiene & Tait CA
61 Dublin Street
Edinburgh EH3 6NL

Property Managers

Workman & Partners
Marble Arch House
66/68 Seymour Street
London W1H 6EP

EQUITY PORTFOLIO

MARKET BACKGROUND

UK equities fell by nearly a third in the twelve months to 31 March 2003 – the FTSE All-Share Index ended the period 32.1% below the level of end March 2002. In the six months to end September the Index fell in each successive month. There was a modest recovery in October and November but there was another sharp fall in the last four months of our year. World equity markets fell by a similar amount but long gilts rose by 8%. The pound sterling rose nearly 11% against the dollar but fell by 11% against the euro.

In the early summer of 2002 US equities were hit hard by financial scandals revealed in some leading American companies. These scandals, which ranged from outright fraud to misrepresentation of company profits, undermined confidence in reporting standards across America. The falls in America were mirrored in Europe and the UK was further hit by selling for technical reasons: insurance companies became forced sellers to protect their solvency ratios and some pension funds also were compelled to switch into bonds as equities weakened.

As we moved into Autumn and passed the first anniversary of the terrorist atrocities in New York, the market became more fearful of the growing international tensions. The brief rally in October and November abruptly reversed in the winter months amidst the gathering gloom of impending war. Worries about the slowing economic background, deteriorating government finances and some high profile companies reporting difficult trading conditions were also major concerns to investors.

Matthew Oakeshott and Angela Lascelles

After outperforming handsomely in the previous two years, the FTSE 250 Index of midcap companies and the FTSE Smallcap indices both fell by more than 35%, a little worse than the largest companies.

PERFORMANCE

VIT's equity portfolio is heavily concentrated in high yielding medium and small sized companies and has performed very well in the three years since the peak of the boom in technology related shares. In the last year, however, the outperformance has been less marked. VIT's equity portfolio gave a total return of -24.2% compared with the Index return of -29.8% by the All-Share. After *holding its value magnificently to the end of* May last year, our relatively defensive portfolio suffered in the wave of forced selling by the pension funds and insurance companies.

SUMMARY OF PORTFOLIO

	31 March 2003		31 March 2002	
	£m	%	£m	%
UK equities	54.3	55	72.6	61
UK property	41.2	42	38.8	32
Cash	3.3	3	8.6	7
	98.8	100	120.0	100

INVESTMENT DIRECTORS' REPORT

INVESTMENT POLICY

Early in VIT's year we invested £3.1m in short dated corporate bonds but later sold them to invest in the falling equity market. In the first half of our year we invested £5.5m net but in the second half of our year we were net sellers of £1.5m shares – over the year as a whole we increased the investment in the portfolio by £4.0m. Innogy and T & S Stores were taken over during the year; we received cash for Innogy and Tesco shares for T & S Stores. During the year we sold the complete holdings in United Utilities, Northern Foods, De Vere, Dawson, Safeway and Britannic. We bought new holdings in Elementis, Six Continents, Severn Trent, Legal and General, Aviva, Cadbury Schweppes and James Fisher. Our strategy in our changes was to maintain the yield on the portfolio while improving the quality of the companies in changing trading

circumstances. At the end of March we held thirty-eight companies in our portfolio, giving an overall net yield of 5.7%.

OUTLOOK

UK equities rallied sharply in the middle of March just ahead of the start of the war against Iraq but then slid back as the month closed. Since the start of April there has been another rally of over 5%, as the war has resulted in the overthrow of Saddam Hussein. From an economic point of view the war is likely to affect the balance of activity rather than the overall rate of growth in GDP. Government finances, already strained by higher public spending and reduced tax revenues, will go into a higher deficit, but the higher rate of public expenditure will go back into the private sector via defence spending and the outsourced public services in health,

Growth in Net Asset Value per share (end March 1987 = 100)

INVESTMENT DIRECTORS' REPORT

education and public transport. The consumers, however, are moderating spending and the weakness in house prices is spreading from London to the country generally.

Looking at the valuation of the equity market, we continue to think it represents an outstanding opportunity to buy high yielding assets with good prospects for growth in both capital and income. We recognise that confidence in equities has been seriously undermined by the volatile conditions of the last five years and that funds with long-term liabilities may find it necessary to take a more cautious view of equities in their asset allocation in future. We believe overall that the concerns of war, economics and technical influences are now fully reflected in the valuation of the market and we intend to stay fully invested at current levels.

9 May 2003

DISTRIBUTION OF SECURITIES

AT 31 MARCH

	2003 %	2002 %
■ Cyclical services	19.97	20.85
■ Utilities	19.89	18.88
■ Financials	13.20	11.75
■ General industries	12.98	13.09
■ Basic industries	12.28	11.18
■ Non-cyclical consumer goods	10.93	10.62
■ Resources	8.45	8.76
■ Non-cyclical services	2.30	4.87
	100.00	100.00

INVESTMENT DIRECTORS' REPORT

List of Equity Holdings as at 31 March 2003

Holding	Description	Market Value (£)
1,030,000	Kelda Group. The main water supplier in North East England, it is also acquiring water businesses in the eastern states of the USA.	4,217,850
500,000	Severn Trent. The main water supplier for much of Eastern England.	3,580,000
500,000	Scottish & Southern Energy. The merged Scottish Hydro-Electric (supplying electricity in Northern Scotland) and Southern Electricity (supplying south central England).	3,180,000
1,540,000	VT Group. Traditionally a manufacturer of minesweepers and other warships, more than half its business is now in non defence marine activities, and activities 'contracted out' by the MOD and other institutions.	3,095,400
800,000	Shell Transport & Trading. It has a 40% holding in one of the largest integrated oil and gas groups in the world. It has vigorously restructured and cut costs in recent years.	3,060,000
400,000	HBOS. A leading Scottish bank, its activities are also extending steadily into England. Recently merged with the Halifax.	2,598,000
730,000	Johnson Service Group. Its largest business is textile rentals and it has a chain of dry cleaning shops.	2,164,450
3,000,000	Legal & General Group. A leading UK life insurance company with a dominant position in index fund management.	2,085,000
600,000	Cadbury Schweppes. Following the recent acquisition of Adams, a chewing gum manufacturer, Cadbury-Schweppes is now the largest confectionery company and the third largest beverages manufacturer in the world.	2,010,000
750,000	British Vita. A chemical company operating mainly in the UK and USA.	1,676,250
600,000	Rotork. The world's leading manufacturer of actuators serving particularly the oil and gas industries.	1,659,000
750,000	Reckitt & Colman 9.5% Conv. Bond. The manufacturer of leading brands of household goods.	1,616,250
400,000	BP. The leading international oil company.	1,605,000
722,431	AMEC. An international engineering, construction and development group, a growing proportion of its revenues arise from contracted out services.	1,406,934
125,000	GlaxoSmithKline. The UK's largest pharmaceutical company.	1,391,250
350,000	Trinity Mirror. The company publishes the Mirror Group's national newspapers and several regional newspapers.	1,331,750
500,000	Kingfisher. A retail company, it owns B&Q and Comet in the UK, and Castorama and Darty in France.	1,150,000
250,000	Mersey Docks & Harbour. Owns and operates the Port of Liverpool and Sheerness.	1,128,750

INVESTMENT DIRECTORS' REPORT

List of Equity Holdings as at 31 March 2003

Holding	Description	Market Value (£)
1,200,000	Laing (John) 6.4% Conv. Preference. The company has interests in construction and invests in PFI projects.	1,110,000
300,000	Aviva. A leading UK life insurance company with substantial overseas interests, especially in France. Commercial Union, Norwich Union and General Accident merged to form it.	1,056,000
1,000,000	BAE Systems 7.75p Pref. Has a wide spread of defence manufacturing and commercial aircraft.	1,040,000
300,000	Scottish & Newcastle. The UK's largest brewing company, it also owns pubs.	1,016,250
458,500	Marshalls. The company is a manufacturer of concrete blocks and a quarry owner.	1,013,285
172,881	Wolverhampton & Dudley Breweries. The regional brewer and pub operator.	1,002,710
275,000	Lloyds TSB Group. The UK banking group.	885,500
1,000,000	Cookson Group 7% Conv. Bonds. The business supplies material and services to assemblers of printed circuit boards. They also supply ceramics to the steel industry and have a precious metals business.	868,125
309,000	Compass Group. The company operates catering businesses.	835,073
321,000	W H Smith. A major UK retailing company, it has acquired publishing companies and established a successful book selling business on the internet.	824,970
1,000,000	Body Shop International. A retailer with shops in Europe, America and the Far East.	800,000
448,280	Tesco. The leading UK food retailer.	799,059
750,000	Heywood Williams. The principal activities are the manufacture and distribution of component products for the building industry.	791,250
3,400,000	Elementis. Comprises the speciality chemicals operations of the former Harrison & Crosfield. Its major business is the production of chromium chemicals.	782,000
650,000	Homestyle. A retailer of furniture, beds and soft furnishings.	708,500
200,000	Abbey National. The bank and former building society.	658,000
100,000	Six Continents. The company recently split into International hotels and Mitchell & Butlers pubs and retailers.	602,500
315,000	James Fisher and Sons. A shipowner which supplies oil companies and cable laying companies.	480,375
300,000	BT Group. The former public utility supplying wireline telephony.	471,000
1,950,000	Cookson Group. (see above)	346,125
315,000	Volex Group. Manufactures a wide range of electrical and electronic interconnect products and has operations in Europe, the Americas and South East Asia.	160,650
Total Holdings		55,207,256

INVESTMENT DIRECTORS' REPORT

PROPERTY PORTFOLIO

THE MARKET

Commercial property showed an average total return of 9.5% in 2002, as measured by the Investment Property Databank (IPD) All Funds Universe. On top of the income yield of 6.7%, average capital values rose by 2.9%.

Underlying rental values fell by 0.7%. Despite falling demand from tenants, buying pressure from investors rose for property let on long leases to strong covenants.

The performance of the different property sectors diverged markedly over the year. Retail property outperformed, with rental values up by 3% and capital values up 7%. Industrial

and warehouse property performed steadily (rental + 1% and capital values + 3%). Office rental (-6%) and capital (-4%) values fell at an accelerating rate through the year.

Retail rental values should edge ahead in 2003, both in and out of town, since consumer spending is still growing, and planning constraints on retail property development remain tight. Vacancy rates are rising for industrial and warehouse property and average rental values in this sector are flat. Oversupply and downward pressure on rental values of London and South Eastern offices may well prove worse than in the previous property crash in the early 1990's, office rental values may decline by about 12% on average this year and by about 20% in London and the Thames Valley, with further falls probable in 2004. The average decline in rental values for all property in IPD in 2003 may be about 5%, but actual rental income received should be just ahead, with the protection of upward only rent review clauses in leases. Average capital values in IPD may also fall in 2003, with retail and industrial property gaining in value but offices very weak.

COMPARATIVE ANNUAL TOTAL RETURNS PER ANNUM TO MARCH 2003

	UK Property	UK Equities	UK Long Gilts	R.P.I.
1 Year	10.6	-29.8	12.4	2.9
3 Years	9.0	-15.4	7.6	2.2
5 Years	10.6	-6.6	7.3	2.2
10 Years	11.5	5.5	9.9	2.5
20 Years	10.1	12.4	10.5	4.0

Table 1: Source: IPD

EQUIVALENT YIELDS

Equivalent yields	end March 03	end Dec 02	end Dec 99	end Dec 92
Retail	7.1	7.5	7.3	9.0
Office	8.5	8.9	8.7	10.8
Industrial	8.9	9.0	9.1	12.0
All Property	7.9	8.3	8.1	10.3
UK Equities	3.9	3.6	2.1	4.4
Gilts	4.5	4.4	4.8	8.6
R.P.I. (Annual Rate)	3.1	2.9	1.8	2.6
Yield Gaps: Property - Gilts	3.4	3.9	3.3	1.7
Property - Equities	4.0	4.7	6.0	5.9

Table 2: Source: IPD

The high quality of property income, ranking before interest and dividend payments by companies, remains attractive since income is likely to represent a high proportion of total returns earned on most investments over the next few years. Property has delivered high real returns over the past twenty years, and good relative performance also against equities and gilts over shorter periods up to ten years.

Property's income yield advantage over gilts still remains high as Table 2 to the left shows.

INVESTMENT DIRECTORS' REPORT

TOP 10 TENANTS - % OF TOTAL RENT

	%
■ Sainsburys	18
■ Woolworths	12
■ Sytner Group	9
■ W H Smith	8
■ Leisure Group GB	7
■ Lloyds TSB	5
■ Clydesdale Bank	3
■ Burger King	3
■ Superdrug	2
■ Signet	2
	69

There has been no further increase in Stamp Duty on property purchases in the Budget, which included a commitment to consider separate stamp duty rates for commercial and residential property purchases. The Budget also abolished Stamp Duty on all property purchases in 2000 "Disadvantaged Areas" of the United Kingdom, including much of Central London and the shopping centres of most provincial cities.

Having lent too freely at the top of this property cycle, banks are growing more cautious as tenant demand deteriorates and are now cutting the proportion of a property's purchase price which they are prepared to lend. Private buyers are still very aggressive for properties up to about £1 million, and more attractive yields can be found on lot sizes over £2-£3 million.

VIT'S PROPERTY RECORD

31 March	Rental income	Capital value	Yield on valuation	Capital growth	Total Return	
	£000	£000	%	%	VIT %	IPD %
1987	1,155	11,375	10.2	N.A.	N.A.	N.A.
1988	1,329	14,939	8.9	15	24	26
1989	1,915	23,475	8.2	22	30	30
1990	2,050	24,390	8.4	7	15	15
1991	2,331	23,800	9.8	-8	2	-8
1992	2,709	25,880	10.5	0	10	-3
1993	2,773	26,415	10.5	1	12	-2
1994	2,806	29,835	9.4	13	23	20
1995	2,948	31,125	9.5	0	10	12
1996	2,840	29,440	9.6	0	9	4
1997	3,111	32,805	9.5	0	10	10
1998	3,141	34,800	9.0	6	15	17
1999	3,410	41,055	8.3	17	25	12
2000	3,054	39,800	7.7	7	15	15
2001	3,117	39,825	7.8	2	10	10
2002	3,013	38,800	7.8	5	13	7
2003	3,089	40,550	7.6	4	12	10

THE VIT PORTFOLIO

VIT's property portfolio produced a total return of 12% over the year to March, compared with the IPD Index return of 10%. Capital growth was 4% plus an 8% income return.

Three properties were sold during or immediately after the year for £2.8 million, against a valuation total of £3.3 million. Woolworths at Airdrie sold above valuation, but pubs at Highclere and Stratford were sold to owner-occupiers after the tenant, Old Monk, went into administration. A parade of shops at Galashiels, let to Woolworths, W H Smith and the Co-op was bought for £2.9 million at a net initial yield of 8.4%. It was valued at £3 million at the year-end.

Rent reviews produced a rise in rental income of £100,000 (+11% over five years). Capital

gains were mainly due to a further favourable shift in valuation yield on properties in our specialist niche, particularly smaller shops in prosperous towns where private and debt-driven investors have been keen buyers.

We focus on long, strong income streams to meet the fixed interest payments on our long term debt. Three-quarters of the total rent is from quoted companies, mainly national multiple retailers. The weighted average unexpired lease length is 18 years. All properties are fully let on full repairing and insuring leases, with upward only rent reviews. 98% of income is reviewed five yearly.

High Street, Godalming

RESULTS OF INDEPENDENT REVALUATION

The VIT property portfolio, including properties held within our subsidiary Audax Properties plc, was subject to an independent professional revaluation by Messrs King Sturge and Co. at 31 March 2003.

South Street, St. Andrews

The revaluation showed a value of £40,550,000; properties within VIT were valued at £18,000,000 while Audax properties totalled £22,550,000, excluding the property at Highclere which was valued at 31 March 2003 for £615,000 and was subsequently sold in April 2003 – see note 20 on page 35. We intend to commission an independent revaluation of properties at 31 March each year.

Dumbarton Road, Glasgow

All 26 properties owned at 31 March were freehold or the Scottish equivalent. The average property value is now £1,560,000 compared with £1,385,000 last year and £580,000 five years ago.

9 May 2003

INVESTMENT DIRECTORS' REPORT

PROPERTY PORTFOLIO

BY TYPE

	2003 %	2002 %
■ Shops	56	51
■ Other Retail	31	31
■ Leisure	13	18
	100	100

BY REGION

2003

2002

INVESTMENT DIRECTORS' REPORT

List of Properties as at 31 March 2003

Address	Tenant
Shops	
Aberdeen - 221-7 Union Street	Burger King, Jaeger, Unichem.
Ayr - 83 High Street	First Sport.
Dundee - 261 Brook Street, Broughty Ferry	Mackays and Superdrug.
Edinburgh - 30 North Bridge	Clydesdale Bank.
Elgin - 163 High Street	Woolworths.
Galashiels - 15-37 Channel Street	Woolworths, WH Smith & Co-op.
Glasgow - 412-418 Dumbarton Road, Partick	Woolworths.
Gloucester - 18-20 Northgate Street	Signet.
Godalming - 80-82 High Street	W H Smith.
Haddington - 54-56 Court Street	Clydesdale Bank and solicitors.
Kelso - 8-16 Horsemarket	Mackays and W H Smith.
Lymington - 78-80 High Street	Woolworths.
Melton Mowbray - 29-29B Market Place	W H Smith.
Oban - 42 George Street	Edinburgh Woollen Mill.
Selby - 36 Gowthorpe	Halifax.
Sevenoaks - 87-93 High Street	Abbey National, Oxfam and QS Holdings.
St Andrews - 76 South Street	Clydesdale Bank.
St. Anne's-on-Sea - The Burlington Centre, St Anne's Road West	Superdrug, Iceland, Thomas Cook, New Look, Signet, Stead and Simpson and Kerena Fashions.
Worcester - 4 The Cross	Lloyds TSB.
Other Retail	
Belfast - Longwood Road, Newtownabbey	Sainsburys.
Hereford - Harrow Road	Magnet.
Oxford - 171/173 Cumnor Hill	Sytners.
Leisure	
Derby - 17/18 Cornmarket	Kentucky Fried Chicken.
Dover - St Margarets Holiday Park, Reach Road	Leisure Group GB.
Sherborne - The Cross Keys, 88 Cheap Street	Eldridge Pope.
Whitstable - Chestfield Barn	Shepherd Neame.

DIRECTORS' REPORT

The directors have pleasure in submitting their report and the consolidated accounts for the year ended 31 March 2003.

A review of the business is to be found in the Chairman's Review on page 3 and the Investment Directors' Report on pages 5 to 15.

	2003 £000	2002 £000
Income available for ordinary shareholders	2,617	2,589
Dividends – Interim of 2.9p paid 3 January 2003	1,321	1,276
Recommended final of 2.9p payable 8 July 2003	1,321	1,275
Transfer (from)/to Revenue Reserve	(25)	38

Table 1 Results

PRINCIPAL ACTIVITY AND STATUS

The principal activity of the Group is an investment trust company specialising in UK equities and properties.

The Company is an investment company within the meaning of the Companies Act 1985. The Inland Revenue has approved the Company's status as an investment trust for the purposes of the Income and Corporation Taxes Act 1988 for the year ended 31 March 2002. In the opinion of the directors, the Company has subsequently conducted its affairs so as to enable it to continue to meet the conditions for such approval.

	31 March 2003	31 March 2002
J G D Ferguson	315,000	315,000
J G D Ferguson – Family	166,000	166,000
D H Back	25,000	15,000
J A Kay	104,110	104,110
J A Kay – as Trustee	52,330	52,330
Mrs A M Lascelles	350,000	350,000
Mrs A M Lascelles – Family	250,000	250,000
Mrs A M Lascelles – as Trustee	12,000	12,000
M A Oakeshott	1,129,500	1,129,500
M A Oakeshott – Family	1,517,914	1,517,914

Table 2 Directors and their interests in the Company

DIRECTORS

The directors who served during the year had interests in the ordinary share capital of the Company as listed in Table 2.

In accordance with the Company's Articles of Association, James Ferguson and John Kay will retire from office at the Annual General Meeting and will be proposed for re-election.

In addition Angela Lascelles and Matthew Oakeshott had a beneficial interest in the 229,736 ordinary shares (2002–229,736) held by The OLIM Limited Retirement and Death Benefit Scheme at 31 March 2003.

There were no changes to these holdings between 31 March and 9 May 2003.

The directors had no interest in either the 9.375% Debenture Stock 2026 issued by Value & Income Trust plc or the 11% First Mortgage Debenture Stock 2021 issued by Audax Properties plc.

Directors are interested in contracts entered into by the Company and Group as follows:

Angela Lascelles and Matthew Oakeshott are directors and shareholders of OLIM, which received a total fee of £714,000 (2002–£1,492,000) in respect of investment management services for the year. Details of the investment management agreement are given on page 17.

The Company has no service contracts with its directors and has not entered into any other contract in which a director has an interest.

MANAGEMENT

OLIM is employed as investment manager under a contract which may be terminated by either party on giving one year's notice. OLIM receives a half-yearly fee of $\frac{1}{3}\%$ of the VIT Group of Companies' total assets less current liabilities. An additional fee is payable to Edinburgh Fund Managers plc for secretarial services.

OLIM is also entitled to a performance fee, if the total positive returns to shareholders from their investment in VIT exceed the total return on the FTSE All-Share Index by more than 10 percentage points in any three year period. The objective of the performance bonus is to give the management company 10% of the additional value generated for shareholders by such outperformance. No performance fee was payable this year (2002-£758,000).

SUBSTANTIAL SHAREHOLDERS

In addition to the directors' interests indicated in Table 2 at 9 May 2003, the Company was aware of the following interest exceeding 3% of the issued ordinary shares: The Scottish American Investment Company plc holding 2,236,450 ordinary shares (4.9%).

SAVINGS SCHEME

As at 31 March 2003, there were 1,950,021 shares held on behalf of the participants in the VIT Savings Scheme.

INDIVIDUAL SAVINGS ACCOUNTS

An Individual Savings Account (ISA) is a tax-efficient investment product which was introduced on 6 April 1999 to replace PEPs. Like the PEP, any capital returns or income received within an ISA Scheme are free from all taxation.

The VIT ISA is a Maxi ISA offering the stocks and shares element only. The Government has guaranteed that ISAs will continue in existence at least until 2006. Investors can choose between lump sum investment, minimum £1,000, and regular monthly savings, minimum £50.

DIRECTORS' LIABILITY INSURANCE

The Company maintains insurance in respect of directors' and officers' liabilities in relation to their acts on behalf of the Company.

CREDITOR PAYMENT POLICY

The Company's payment policy is to agree terms of payment before business is transacted, to ensure suppliers are aware of these terms and to settle bills in accordance with them.

FINANCE RISK MANAGEMENT

The Company's financial instruments comprise long-term borrowings, investments, cash and bank deposits and other short-term debtors and creditors. The Board considers that the main risks arising from the Company's financial instruments are interest rate risk, market price and liquidity risk. Interest rate risk is described in Note 13. Market price and liquidity risk are minimised by the Company's prudent closed-end financial structure and long-term borrowings, thus avoiding the need for forced

DIRECTORS' REPORT

sales of investments at low prices. Liquidity awaiting long-term investment is held in UK clearing banks or short-dated gilt-edged stock.

CORPORATE GOVERNANCE

The Board confirms that the Company has complied with all material aspects of the Combined Code on Corporate Governance relevant to an investment trust throughout the year. The Company's Articles of Association require that one-third of the directors retire by rotation each year and seek re-election at the Annual General Meeting. In addition, all directors are required to submit themselves for re-election at least every three years. If required, directors are able to take professional advice at the Company's expense. A majority of the Board is independent of the Management Company and matters concerning the appointment and remuneration of directors are dealt with by the Board rather than by Committees of the Board.

The executive directors do not receive any remuneration directly from the Company, and accordingly no additional report on executive directors' remuneration is required. They are remunerated by OLIM which received investment management fees from the Company as noted on page 16.

The directors are responsible for the internal controls of the Group which aim to ensure good governance and that proper accounting records are maintained, the assets are safeguarded and the financial information used within the business and for publication is reliable.

The Board has a number of procedures in place which follow the principles set out in the Combined Code. It has delegated by contract the management of the investment portfolio, custody, which includes the safeguarding of the assets, accounting and company secretarial services. The Board monitors the quality and cost of the services provided. The non-executive directors of the Board review the terms and conditions of the Manager's appointment on a regular basis. The Company's Audit Committee assesses the quality and effectiveness of the accounting records and management information maintained on behalf of the Group.

In addition, operational and reporting systems are in place to identify, evaluate and monitor the operational risks potentially faced by the Group and to ensure that effective internal controls have been maintained throughout the period and up to the date of the approval of these accounts. These include reports at regular Board Meetings of all security and property transactions effected on the Group's behalf. A full review of all internal controls is undertaken annually. These systems can, however, only provide reasonable and not absolute assurance against material misstatement or loss.

On the basis of these procedures, the directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

AUDITORS

A resolution to re-appoint Chiene & Tait, C.A., as auditors of the Company will be proposed at the Annual General Meeting.

ANNUAL GENERAL MEETING

- SPECIAL BUSINESS

The following item of special business will be proposed at the forthcoming Annual General Meeting:

REPURCHASE OF THE COMPANY'S OWN SHARES

Special resolution 8 will be proposed to authorise the Company to make market purchases of its own shares. This authority, if conferred, will only be exercised if to do so would enhance the net asset value and is in the best interests of shareholders generally.

By order of the Board,



Edinburgh Fund Managers plc

Secretary

Edinburgh, 9 May 2003

DIRECTORS' REMUNERATION REPORT

The Board has prepared this report, in accordance with the requirements of Schedule 7A to the Companies Act 1985, which applies for the first time for this financial year. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires your Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on pages 37 and 38.

REMUNERATION COMMITTEE

The Company has three non-executive and two executive directors. The Board as a whole fulfils the function of a Remuneration Committee.

POLICY ON DIRECTORS' FEES

The Board's policy is that the remuneration of non-executive directors should reflect the experience of the Board as a whole, be fair and comparable with that of other investment trusts that are similar in size, have a similar

capital structure and have a similar investment objective. It is intended that this policy will continue for the year ended March 2004 and subsequent years.

The fees for the non-executive directors are determined within the limits set out in the Company's Articles of Association, and they are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits. The level of directors' fees has remained unchanged since May 2001 and the next review will be in 2004.

DIRECTORS' SERVICE CONTRACTS

It is the Board's policy that none of the directors has a service contract. The terms of their appointment provide that a director shall retire and be subject to re-election at the first Annual General Meeting after their appointment, and at least every three years after that. The terms also provide that a director may be removed without notice and that compensation will not be due on leaving office.

YOUR COMPANY'S PERFORMANCE

The graph opposite compares the NAV total return (assuming all dividends are reinvested) to ordinary shareholders compared to the total return from the FTSE All-Share Index. This index was chosen for comparison purposes, as it is a benchmark used for investment performance measurement purposes.

DIRECTORS' EMOLUMENTS FOR THE YEAR (AUDITED)

The directors who served in the year received emoluments in the form of fees, as described in Table 1 on page 21.

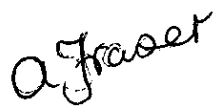
Total cumulative NAV return for the five year period to 31 March 2003

DIRECTORS' REMUNERATION REPORT

APPROVAL

The Directors' Remuneration Report on pages 20 to 21 was approved by the Board of directors on 9 May 2003 and signed on its behalf by:

By order of the Board,



Edinburgh Fund Managers plc

Secretary

Edinburgh, 9 May 2003

	2003 £	2002 £
J G D Ferguson (Chairman)	12,000	12,000
D H Back	8,000	8,000
J A Kay	8,000	8,000
M A Oakeshott	—	—
Mrs A M Lascelles	—	—
	28,000	28,000

Table 1 Directors' fees

Angela Lascelles and Matthew Oakeshott are directors and shareholders of OLIM, which received a fee of £714,000 (2002-£1,492,000) in respect of investment management services for the year.

CONSOLIDATED STATEMENT OF TOTAL RETURN

for the year ended 31 March (incorporating the income account)

	Notes	Revenue £000	2003 Capital £000	Total £000	Revenue £000	2002 Capital £000	Total £000
INCOME							
<i>Securities:</i>							
Dividends from UK companies	2	3,269	—	3,269	3,212	—	3,212
Interest from UK companies	2	189	—	189	185	—	185
<i>Properties:</i>							
Rental income		3,155	—	3,155	3,357	—	3,357
Interest on deposits		224	—	224	174	—	174
Underwriting commission		16	—	16	4	—	4
Other income		10	—	10	17	—	17
		<u>6,863</u>	<u>—</u>	<u>6,863</u>	<u>6,949</u>	<u>—</u>	<u>6,949</u>
EXPENSES							
Investment management fee	3	(401)	(401)	(802)	(417)	(1,273)	(1,690)
Administration expenses	4	(344)	—	(344)	(339)	—	(339)
		<u>6,118</u>	<u>(401)</u>	<u>5,717</u>	<u>6,193</u>	<u>(1,273)</u>	<u>4,920</u>
CAPITAL (LOSSES)/PROFITS							
Net realised (losses)/gains on investments		—	(1,250)	(1,250)	—	23	23
Movement in unrealised appreciation		—	(19,478)	(19,478)	—	4,683	4,683
		<u>—</u>	<u>(19,478)</u>	<u>(19,478)</u>	<u>—</u>	<u>4,683</u>	<u>4,683</u>
NET RETURN BEFORE FINANCE COSTS AND TAXATION							
Interest payable and similar charges	5	(3,501)	—	(3,501)	(3,501)	—	(3,501)
		<u>6,118</u>	<u>(21,129)</u>	<u>(15,011)</u>	<u>6,193</u>	<u>3,433</u>	<u>9,626</u>
RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION							
Taxation	6	—	—	—	(103)	103	—
		<u>2,617</u>	<u>(21,129)</u>	<u>(18,512)</u>	<u>2,692</u>	<u>3,433</u>	<u>6,125</u>
RETURN ATTRIBUTABLE TO EQUITY SHAREHOLDERS							
Dividends in respect of ordinary shares	7	(2,642)	—	(2,642)	(2,551)	—	(2,551)
		<u>(2,642)</u>	<u>—</u>	<u>(2,642)</u>	<u>(2,551)</u>	<u>—</u>	<u>(2,551)</u>
TRANSFER (FROM)/TO RESERVES							
		<u>(25)</u>	<u>(21,129)</u>	<u>(21,154)</u>	<u>38</u>	<u>3,536</u>	<u>3,574</u>
RETURN PER ORDINARY SHARE							
	8	<u>5.74p</u>	<u>(46.39p)</u>	<u>(40.65p)</u>	<u>5.68p</u>	<u>7.76p</u>	<u>13.44p</u>
DIVIDEND PER ORDINARY SHARE							
		<u>5.80p</u>			<u>5.60p</u>		

The revenue column of this statement represents the revenue account of the Group. All revenue and capital items in the above statement derive from continuing operations. The notes on pages 27 to 35 form part of these accounts.

COMPANY STATEMENT OF TOTAL RETURN

for the year ended 31 March (incorporating the income account)

	Notes	Revenue £000	2003 Capital £000	Total £000	Revenue £000	2002 Capital £000	Total £000
INCOME							
<i>Securities:</i>							
Dividends from UK companies	2	3,279	—	3,279	3,212	—	3,212
Interest from UK companies	2	189	—	189	185	—	185
<i>Properties:</i>							
Rental income		1,327	—	1,327	1,366	—	1,366
Interest on deposits		99	—	99	126	—	126
Other income		—	—	—	4	—	4
		<u>4,894</u>	<u>—</u>	<u>4,894</u>	<u>4,893</u>	<u>—</u>	<u>4,893</u>
EXPENSES							
Investment management fee	3	(282)	(282)	(564)	(295)	(1,150)	(1,445)
Administration expenses	4	(228)	—	(228)	(234)	—	(234)
		<u>4,384</u>	<u>(282)</u>	<u>4,102</u>	<u>4,364</u>	<u>(1,150)</u>	<u>3,214</u>
CAPITAL (LOSSES)/PROFITS							
Net realised (losses)/gains on investments		—	(1,137)	(1,137)	—	(1,337)	(1,337)
Movement in unrealised appreciation		—	(19,948)	(19,948)	—	4,506	4,506
		<u>—</u>	<u>(19,948)</u>	<u>(19,948)</u>	<u>—</u>	<u>4,506</u>	<u>4,506</u>
NET RETURN BEFORE FINANCE COSTS AND TAXATION							
Interest payable and similar charges	5	(1,851)	—	(1,851)	(1,851)	—	(1,851)
		<u>4,384</u>	<u>(21,367)</u>	<u>(16,983)</u>	<u>4,364</u>	<u>2,019</u>	<u>6,383</u>
RETURN ON ORDINARY ACTIVITIES BEFORE TAX							
Taxation	6	3	—	3	211	103	314
		<u>2,533</u>	<u>(21,367)</u>	<u>(18,834)</u>	<u>2,513</u>	<u>2,019</u>	<u>4,532</u>
RETURN ATTRIBUTABLE TO EQUITY SHAREHOLDERS							
Dividends in respect of ordinary shares	7	(2,642)	—	(2,642)	(2,551)	—	(2,551)
		<u>(106)</u>	<u>(21,367)</u>	<u>(21,473)</u>	<u>173</u>	<u>2,122</u>	<u>2,295</u>
TRANSFER (FROM)/TO RESERVES							
		<u>5.57p</u>	<u>(46.91p)</u>	<u>(41.34p)</u>	<u>5.98p</u>	<u>4.66p</u>	<u>10.64p</u>
RETURN PER ORDINARY SHARE							
		<u>5.80p</u>			<u>5.60p</u>		
DIVIDEND PER ORDINARY SHARE							

The revenue column of this statement represents the revenue account of the Company.
All revenue and capital items in the above statement derive from continuing operations.
The notes on pages 27 to 35 form part of these accounts.

CONSOLIDATED BALANCE SHEET

at 31 March

	Notes	2003		2002	
		£000	£000	£000	£000
INVESTMENTS	9				
Listed in UK			55,207		73,339
Investment properties			41,165		38,800
			<u>96,372</u>		<u>112,139</u>
CURRENT ASSETS					
Debtors	10	554		451	
Cash and short term deposits		4,534		11,095	
		<u>5,088</u>		<u>11,546</u>	
CURRENT LIABILITIES:					
DUE WITHIN ONE YEAR					
Creditors	11	1,339		2,432	
Dividend payable	12	1,321		1,275	
		<u>2,660</u>		<u>3,707</u>	
NET CURRENT ASSETS			2,428		7,839
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>98,800</u>		<u>119,978</u>
CREDITORS: DUE AFTER ONE YEAR	13		35,563		35,587
TOTAL NET ASSETS			<u>63,237</u>		<u>84,391</u>
CAPITAL AND RESERVES					
SHARE CAPITAL – ORDINARY	14		4,555		4,555
RESERVES	15				
Share premium		18,446		18,446	
Capital reserve – realised		31,700		33,351	
Capital reserve – unrealised		(5,824)		15,198	
Revaluation reserve		13,097		11,553	
Revenue reserve		1,263		1,288	
			<u>58,682</u>		<u>79,836</u>
EQUITY SHAREHOLDERS' FUNDS	16		<u>63,237</u>		<u>84,391</u>
NET ASSET VALUE PER ORDINARY SHARE	17		<u>138.82p</u>		<u>185.27p</u>

These accounts were approved by the Board on 9 May 2003 and were signed on its behalf by:

JAMES FERGUSON, Director

MATTHEW OAKESHOTT, Director

J.Ferguson
Matthew Oakeshott

The notes on pages 27 to 35 form part of these accounts.

COMPANY BALANCE SHEET

at 31 March

	Notes	2003		2002	
		£000	£000	£000	£000
INVESTMENTS	9				
Listed in UK			55,207		73,339
Subsidiaries			25		25
			<u>55,232</u>		<u>73,364</u>
Investment properties			18,000		16,925
			<u>73,232</u>		<u>90,289</u>
CURRENT ASSETS					
Debtors	10	533		741	
Cash and short term deposits		2,042		5,497	
		<u>2,575</u>		<u>6,238</u>	
CURRENT LIABILITIES:					
DUE WITHIN ONE YEAR					
Creditors	11	2,330		1,599	
Dividend payable	12	1,321		1,275	
		<u>3,651</u>		<u>2,874</u>	
NET CURRENT (LIABILITIES)/ASSETS			(1,076)		3,364
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>72,156</u>		<u>93,653</u>
CREDITORS: DUE AFTER ONE YEAR	13		20,563		20,587
TOTAL NET ASSETS			<u>51,593</u>		<u>73,066</u>
CAPITAL AND RESERVES					
SHARE CAPITAL – ORDINARY	14		4,555		4,555
RESERVES	15				
Share premium		18,446		18,446	
Capital reserve – realised		27,271		28,690	
Capital reserve – unrealised		(5,824)		15,197	
Revaluation reserve		5,861		4,788	
Revenue reserve		1,284		1,390	
		<u>47,038</u>		<u>68,511</u>	
EQUITY SHAREHOLDERS' FUNDS	16		<u>51,593</u>		<u>73,066</u>

These accounts were approved by the Board on 9 May 2003 and were signed on its behalf by:

JAMES FERGUSON, Director

MATTHEW OAKESHOTT, Director

J.F. Ferguson
Matthew Oakeshott

The notes on pages 27 to 35 form part of these accounts.

CONSOLIDATED CASHFLOW STATEMENT

for the year ended 31 March

	Notes	2003	2002
		£000	£000
OPERATING ACTIVITIES			
Income received from investments		3,341	3,442
Rental received		3,223	3,366
Interest received		224	173
Other income		26	21
Investment management fees paid		(803)	(1,755)
Administration fees paid		(161)	(88)
Directors' fees paid		(32)	(24)
Other cash payments		(120)	(202)
NET CASH INFLOW			
FROM OPERATING ACTIVITIES	18	5,698	4,933
SERVICING OF FINANCE			
Interest paid		(3,525)	(3,525)
NET CASH OUTFLOW FROM			
SERVICING OF FINANCE		(3,525)	(3,525)
TAXATION			
UK tax repaid/(paid)		13	(133)
CAPITAL EXPENDITURE			
AND FINANCIAL INVESTMENT			
Purchase of investments		(27,654)	(23,358)
Sale of investments		21,503	33,136
NET CASH (OUTFLOW)/INFLOW			
FROM CAPITAL EXPENDITURE			
AND FINANCIAL INVESTMENT		(6,151)	9,778
Ordinary dividends paid		(2,596)	(2,505)
NET CASH (OUTFLOW)/INFLOW			
BEFORE FINANCING		(6,561)	8,548
(DECREASE)/INCREASE IN CASH	18	(6,561)	8,548

The notes on pages 27 to 35 form part of these accounts.

NOTES TO THE ACCOUNTS

1 Accounting policies

(a) Basis of preparation—These accounts have been prepared in accordance with applicable accounting standards, under the historical cost convention modified to include the revaluation of investments and the 2003 Investment Trust Statement of Recommended Practice (SORP), except that investment properties, as indicated in Note 9, are not depreciated and finance costs have not been allocated between revenue and capital in the same proportion as the investment management fee (see 1(c) (iv) below).

(b) Basis of consolidation—The Group accounts consolidate the accounts of Value and Income Trust plc and its wholly-owned subsidiaries made up to 31 March 2003. Audax Properties plc and VIT Securities Limited, both subsidiaries of the Company, charge expenses wholly to income. On consolidation, however, an adjustment has been made to charge 50% of the investment management fee paid by Audax Properties plc to capital. The allocation has no effect on the total return of the Company or the Group.

(c) Income and expenses –

- (i) Dividends are brought into account on the date on which the shares are quoted ‘ex-dividend’ on the Stock Exchange. Interest on securities has been accounted for gross and on a time apportioned basis, as recommended by the SORP.
- (ii) Dividends are included without the notional tax credit.
- (iii) Rents from investment properties and interest receivable are dealt with on an accruals basis.
- (iv) 50% of the investment management fee paid by the Company has been charged to capital in line with the Board’s expected long-term split of returns from investments.

The SORP states that finance costs should be allocated to capital on the same basis as the investment management fee allocation. However, as the Company has a significant exposure to property, and property companies do not charge finance costs to capital, the directors consider it inappropriate to allocate finance costs to capital.

- (v) Distributions which are deemed to be of a capital nature are included in the Capital Reserve.
- (vi) Performance fees, payable to the Investment Managers in accordance with the Investment Management Agreement, are charged to Capital Reserve—realised (less appropriate tax relief).
- (vii) Interest payable and administration expenses are dealt with on an accruals basis and are charged in full to income.

(d) Deferred tax—Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less, tax in the future, with the following exceptions:

- Due to the Company’s status as an investment trust, and the intention to continue to meet the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation of investments. In relation to the subsidiary companies, provision is made for gains on revalued fixed assets only where there is a commitment at the balance sheet date to dispose of the revalued assets and the attributable gain can neither be rolled over nor eliminated by capital losses.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

NOTES TO THE ACCOUNTS

1 Accounting policies—contd

(e) Investments –

- (i) Listed investments are valued on the basis of middle market prices. Unlisted investments are valued by the directors on the basis of market prices, or other independent information. These valuations also represent the fair value of the investments. Unrealised gains and losses are included in Capital Reserve—unrealised.
- (ii) Investment properties are revalued annually by independent surveyors, and the surplus or deficit transferred to Revaluation Reserve. No depreciation or amortisation is provided on investment properties.
- (iii) Realised gains and losses on the sale of investments and investment properties are transferred to Capital Reserve—realised.
- (iv) Subsidiary companies are included at cost.

(f) Borrowings—The Audax Properties 11% First Mortgage Debenture Stock 2021 and the initial £5,000,000 of the Company's 9.375% Debenture Stock 2026 are stated in the Balance Sheet at repayment value on maturity.

The 9.375% Debenture Stock 2026 is shown in the Balance Sheet inclusive of the premium received on issue, and after deduction of issue expenses. The premium, less expenses, is offset against the interest payable over the life of the stock.

Interest payable on borrowings is charged in full to income.

	Group £000	2003 Company £000	Group £000	2002 Company £000
2 Income from securities				
Listed in UK	3,458	3,458	3,397	3,397
Unlisted subsidiary	—	10	—	—
	<u>3,458</u>	<u>3,468</u>	<u>3,397</u>	<u>3,397</u>
3 Investment management fee				
Investment management fee (including irrecoverable VAT)	802	564	835	590
Performance fee (including irrecoverable VAT)	—	—	855	855
	<u>802</u>	<u>564</u>	<u>1,690</u>	<u>1,445</u>
Performance fee charged against capital reserve – realised	—	—	(855)	(855)
Charged against capital reserve – realised (see note 1(c)(iv))	(401)	(282)	(418)	(295)
	<u>401</u>	<u>282</u>	<u>417</u>	<u>295</u>

NOTES TO THE ACCOUNTS

	2003		2002	
	Group £000	Company £000	Group £000	Company £000
4 Administrative expenses				
Auditors' remuneration				
– audit	9	6	8	5
– non audit (including taxation)	2	2	4	4
– out of pocket expenses	1	1	2	2
Directors' fees	28	28	28	28
Fees for secretarial services	108	72	105	70
Property management, irrecoverable VAT and other expenses	196	119	192	125
	<u>344</u>	<u>228</u>	<u>339</u>	<u>234</u>

Non-executive directors' fees comprise the Chairman's fee of £12,000 (2002–£12,000) per annum and £8,000 (2002–£8,000) per annum to each other non-executive director.

Neither executive director received any emoluments directly from the Company (2002–nil). The executive directors are shareholders and directors of OLIM which received an investment management fee of £714,000 (2002–£734,000) and a performance fee of nil (2002–£758,000), the bases of calculation of which are given on page 17.

5 Interest payable and similar charges

11% First Mortgage Debenture Stock 2021	1,650	—	1,650	—
9.375% Debenture Stock 2026*	1,851	1,851	1,851	1,851
	<u>3,501</u>	<u>1,851</u>	<u>3,501</u>	<u>1,851</u>

* Net of amortised premium and expenses of issue – see note 13.

6 Taxation

a) Analysis of tax charge in the period

Current tax

UK corporation tax on profits of the period	—	(3)	—	(211)
Management expenses charged to capital utilised for group relief	—	—	—	(103)

Deferred tax

Origination and reversal of timing differences	—	—	—	—
Tax on return on ordinary activities	—	(3)	—	(314)

NOTES TO THE ACCOUNTS

6 Taxation—contd

b) Factors affecting tax charge for the period

The Group has no liability to corporation tax for the year (2002—nil).

The Group's revenue return on ordinary activities before taxation amounted to £2,617,000. Under normal circumstances the Group's tax charge for the year would be based on this figure. The tax rules are such that dividends received from UK companies (amounting to £3,307,000) do not fall within the corporation tax regime. In addition, for tax purposes, the £401,000 of the investment managers' fee that has been charged against the capital reserve is also deductible from the Group's revenue return in arriving at the taxable profits for the year. Furthermore, adjustments for tax purposes regarding property disposals give rise to additional tax relief of £169,000.

Taking account of the above tax adjustments, the Group has losses for tax purposes arising in the year of £1,260,000. These losses are carried forward for offset against the Group's future taxable profits in certain circumstances.

c) Factors affecting future tax charges

Both the Company and Audax Properties plc have deferred tax assets of £1,308,000 and £21,000 respectively at 31 March 2003 relating to total accumulated unrelieved tax losses carried forward. These have not been recognised in the accounts but may be recoverable against future taxable non-trading profits of the Group in certain circumstances.

7 Ordinary dividends

	2003 £000	2002 £000
Interim dividend of 2.9p (2002—2.8p) paid 3 January 2003	1,321	1,276
Final dividend of 2.9p (2002—2.8p) payable 8 July 2003	1,321	1,275
	<u>2,642</u>	<u>2,551</u>

8 Return per ordinary share

Income return per ordinary share is based on the net income on ordinary activities after taxation and on 45,549,975 (2002—45,549,975) ordinary shares, being the weighted average number of ordinary shares in issue during the year. Capital return per ordinary share is based on net capital gains for the financial year and on 45,549,975 (2002—45,549,975) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

NOTES TO THE ACCOUNTS

9 Investments

	Equities £000	Other securities with equity element £000	Bonds £000	Investment Properties £000	Total £000
Group					
Cost at 31 March 2002	54,815	2,633	694	27,247	85,389
Unrealised appreciation	13,463	1,732	2	11,553	26,750
Valuation at 31 March 2002	68,278	4,365	696	38,800	112,139
Purchases	20,307	312	3,303	3,031	26,953
Sales proceeds	(16,760)	—	(3,135)	(2,097)	(21,992)
Realised (losses)/gains on sales	(1,164)	—	27	(113)	(1,250)
Movement in unrealised appreciation in year	(20,088)	(911)	(23)	1,544	(19,478)
Valuation at 31 March 2003	50,573	3,766	868	41,165	96,372
Cost at 31 March 2003	57,198	2,945	889	28,068	89,100
Company					
Cost at 31 March 2002	54,840	2,633	694	12,137	70,304
Unrealised appreciation	13,463	1,732	2	4,788	19,985
Valuation at 31 March 2002	68,303	4,365	696	16,925	90,289
Purchases	20,307	312	3,303	1	23,923
Sales proceeds	(16,760)	—	(3,135)	—	(19,895)
Realised (losses)/gains on sales	(1,164)	—	27	—	(1,137)
Movement in unrealised appreciation in year	(20,088)	(911)	(23)	1,074	(19,948)
Valuation at 31 March 2003	50,598	3,766	868	18,000	73,232
Cost at 31 March 2003	57,223	2,945	889	12,138	73,195

The weighted average rate of interest from other securities with an equity element amounted to 7.6% (2002–7.6%). Fixed interest securities, including convertible preference shares, with a market value of £868,000 (2002–£2,516,000), have a weighted average period for which the rate is fixed for 1 year and a weighted average rate of interest of 7.0% (2002–7.0%).

The Company has the following wholly-owned subsidiary undertakings:

Name	Nature of business	Principal country of operation	Class of shares	% held
Audax Properties plc	Property investment	England & Wales	Ordinary	100.0
VIT Securities Limited	Investment dealing	England & Wales	Ordinary	100.0

Audax Properties plc has a wholly owned subsidiary, Audax Securities Limited which is non-trading and is registered in England & Wales.

NOTES TO THE ACCOUNTS

9 Investments—contd

Investment properties were valued at the year end on an open market basis by King Sturge and Co, Chartered Surveyors and Valuers. No depreciation or amortisation as required by the Companies Act 1985 is provided on these properties. Depreciation or amortisation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified. The directors consider that the policy adopted is necessary in order to show a true and fair view. Freehold investment properties were valued at £41,165,000 with cost £28,068,000 (2002—value of £38,800,000 with cost £27,247,000).

	2003		2002	
	Group £000	Company £000	Group £000	Company £000
10 Debtors				
Amounts due from subsidiaries	—	—	—	311
Prepayments and accrued income	554	533	451	430
	<u>554</u>	<u>533</u>	<u>451</u>	<u>741</u>
11 Creditors: amounts falling due within one year				
Amounts due to brokers	—	—	699	699
Tax payable	184	27	561	21
Amounts due to subsidiaries	—	1,465	—	—
Accruals and other creditors	1,155	838	1,172	879
	<u>1,339</u>	<u>2,330</u>	<u>2,432</u>	<u>1,599</u>
12 Dividend payable				
Ordinary shares—payable 8 July 2003	<u>1,321</u>	<u>1,321</u>	<u>1,275</u>	<u>1,275</u>

NOTES TO THE ACCOUNTS

	2003		2002	
	Group £000	Company £000	Group £000	Company £000
13 Creditors: amounts falling due after one year				
9.375% Debenture Stock 2026	20,000	20,000	20,000	20,000
Add: Balance of premium less issue expenses	587	587	611	611
Less: Credit to income for the year	(24)	(24)	(24)	(24)
	<u>20,563</u>	<u>20,563</u>	<u>20,587</u>	<u>20,587</u>
11% First Mortgage Debenture Stock 2021	15,000	—	15,000	—
	<u>35,563</u>	<u>20,563</u>	<u>35,587</u>	<u>20,587</u>

The weighted average period for which the Group's debentures are fixed is 21 years (2002–22 years). The weighted average interest rate on the Group's debentures is 10.1% (2001–10.1%) and they were issued at an average Gross Redemption Yield of 9.1% (2001–9.1%).

The 11% First Mortgage Debenture Stock 2021, issued by Audax Properties plc, is repayable at par on 31 March 2021 and is secured over specific assets of Audax Properties plc and the Company.

The 9.375% Debenture Stock 2026 issued by Value & Income Trust plc is repayable at par on 30 November 2026 and is secured by a floating charge over the property and assets of the Company.

The Group has a long-standing policy of financing its property portfolio through the issue of long-term fixed interest debentures from time to time when it sees a favourable relationship between long-term interest rates and the yields achievable on safe investment property. Financing long-term and sometimes illiquid investments in property through short-term variable rate debt can prove fatal, as many property companies discovered in the early 1990's.

The Group has no intention of redeeming either of its debenture stocks before their due dates, when each is repayable at par. Gilt edged yields would be used to calculate the price, if the debt were to be repaid earlier. Fluctuations in their market prices therefore have no effect on the Group's cash flows or repayment liabilities. The market prices and market capitalisation at 31 March 2003 are as follows:–

Audax Properties 11% First Mortgage Debenture Stock 2021: £128.75 per £100 (£19.313m). 2002–£128.813 per £100 (£19.322m).

Value & Income Trust 9.375% Debenture Stock 2026: £127.00 per £100 (£25.400m). 2002–£124.563 per £100 (£24.913m).

The net asset value of the Group, adjusted for these borrowings at market value, would be 118.80p (2002–166.34p).

No disclosure is required under FRS13 for short-term debtors and creditors as the Group had no exposure to derivatives and other financial instruments.

NOTES TO THE ACCOUNTS

17 Net asset value per ordinary share

The net asset value per ordinary share is based on net assets attributable of £63,237,000 (2002–£84,391,000) and on 45,549,975 (2002–45,549,975) ordinary shares in issue at the year end.

2003	2002
£000	£000

18 Consolidated cash flow statement

Reconciliation of total income to net cash inflow from operating activities

Income	6,863	6,949
Investment management fee	(802)	(1,690)
Administration expenses	(344)	(339)
(Increase)/decrease in other debtors	(118)	58
Increase/(decrease) in other creditors	99	(45)
Net cash inflow from operating activities	<u>5,698</u>	<u>4,933</u>

	Balance at 31 March 2002 £000	Cash flows £000	Movement in net premium £000	Balance at 31 March 2003 £000
Analysis of changes in net debt				
Cash	11,095	(6,561)	—	4,534
9.375% Debenture Stock 2026	(20,587)	—	24	(20,563)
11% First Mortgage Debenture Stock 2021	(15,000)	—	—	(15,000)
Net debt	<u>(24,492)</u>	<u>(6,561)</u>	<u>24</u>	<u>(31,029)</u>

19 Commitments and contingent liabilities

There were no commitments or contingent liabilities at the year end.

20 Post balance sheet events

On 23 April 2003 Audax Properties completed the sale of a property for £625,000. The property was valued at £615,000 as at the balance sheet date.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for the preparation of accounts which give a true and fair view of the state of affairs of the Company and of the Group at the end of each financial year and of the income surplus or deficit of the Company and of the Group for that year. The directors are also responsible for ensuring that adequate accounting records are maintained, for safeguarding the assets of the Company and of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the accounts and that applicable accounting standards have been followed.

By order of the Board,



Edinburgh Fund Managers plc

Secretary

Edinburgh, 9 May 2003

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF VALUE AND INCOME TRUST PLC

We have audited the accounts of Value and Income Trust plc for the year ended 31 March 2003 set out on pages 22 to 35. These accounts have been prepared under the historical cost convention as modified by the revaluation of investments and the accounting policies set out therein. 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 shareholders, 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 shareholders those matters we are required to state to them in an auditors' 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 shareholders, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the accounts in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the accounts and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts 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 Directors' Report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises only the Aims of the Trust, The Year, the Long Term Record, the Chairman's Review, the Directors and Advisers, the Investment Directors' Report, the Directors' Report (including the Corporate Governance Statement) and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

INDEPENDENT AUDITORS' REPORT

Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts and the 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 accounts and the part of the Directors' Remuneration Report to be audited.

As noted on page 27, the treatment of finance costs does not comply with the 2003 Statement of Recommended Practice for Investment Trust Companies. Our opinion is not qualified in this respect.

OPINION

In our opinion:

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

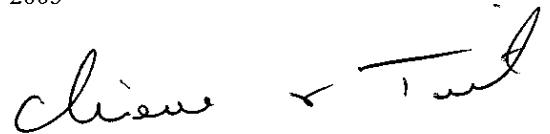
CHIENE & TAIT CA

Registered Auditors

61 Dublin Street

Edinburgh EH3 6NL

9 May 2003



ANALYSIS OF SHAREHOLDINGS

2003

	Number	Holding	%
■ Individuals	1,425	19,447,680	42.7
■ Banks & nominees	752	17,568,424	38.6
■ Investment & unit trusts	9	4,108,836	9.0
■ Other companies	64	2,125,899	4.7
■ Insurance companies	7	1,210,693	2.7
■ Pension funds	8	881,549	1.9
■ Charities	7	206,894	0.4
	2,272	45,549,975	100.0

2002

	Number	Holding	%
■ Individuals	1,822	20,040,679	44.0
■ Banks & nominees	820	17,487,504	38.4
■ Investment & unit trusts	7	4,154,026	9.1
■ Other companies	64	1,823,862	4.0
■ Insurance companies	7	1,215,152	2.7
■ Pension funds	7	586,082	1.3
■ Charities	5	242,670	0.5
	2,732	45,549,975	100.0

FINANCIAL DIARY

The normal timetable for the Company's financial year, which ends on 31 March will be as follows:

May – Final dividend and preliminary results for year announced. Annual report and accounts published.

July – Annual General Meeting and final dividend paid.

October – Interim results announced.

January – Interim dividend paid.

Interest on the Value and Income plc Debenture is payable on 30 November and 31 May.

Interest on the Audax Properties plc Debenture is payable on 30 September and 31 March.

VIT SAVINGS SCHEME AND ISA

The Savings Scheme provides a simple, low cost way for regular savers to invest £30 a month or more in VIT shares.

It can also be used for one-off lump sum investments of at least £250 and offers a dividend reinvestment facility.

The VIT ISA provides the opportunity to invest in VIT shares in a cost effective and tax efficient manner.

You may subscribe any amount as a lump sum from £1,000 up to £7,000 in the tax year 2003/2004.

After your initial lump sum investment, you may make top-up payments of £500 or more.

Alternatively, you can make regular payments of a minimum of £50 per month.

Savings Scheme and ISA brochures and application forms are available from:

Edinburgh Fund Managers plc,
(Authorised and regulated by the Financial Services Authority),
Donaldson House,
97 Haymarket Terrace,
Edinburgh EH12 5HD.

Tel: 0131 313 1000.
e-mail: response@edfd.com
Website: www.edfd.com

Pages from the VIT Savings Scheme

NOTICE OF MEETING

Notice is hereby given that the thirty first Annual General Meeting of Value and Income Trust plc will be held in Donaldson House, 97 Haymarket Terrace, Edinburgh on 4 July 2003 at 12.30 pm. The following resolutions will be proposed:

ORDINARY BUSINESS

1. To receive the reports of the directors and auditors and the accounts for the year to 31 March 2003;
2. To approve the directors' report on remuneration for the year to 31 March 2003;
3. To declare a final dividend;
4. To re-elect James Ferguson as a Director of the Company;
5. To re-elect John Kay as a Director of the Company;
6. To re-appoint Chiene & Tait, CA, as auditor of the Company;
7. To authorise the directors to fix the remuneration of the auditors for the year to 31 March 2004.

SPECIAL BUSINESS

To consider and, if thought fit, to pass Resolution 8 as a special resolution.

SPECIAL RESOLUTION

8. That, in substitution for any existing authority, the Company be and it is hereby authorised in accordance with section 166 of the Act to make purchases (within the

meaning of section 163 of the Act) of ordinary shares of 10p each in the Company ('shares') provided that:

- (a) the maximum number of shares hereby authorised to be purchased is 6,827,941 (14.99% of the issued share capital of the company as at the date of the passing of this resolution);
- (b) the minimum price which may be paid for a share shall be 10p;
- (c) the maximum price (exclusive of expenses) which may be paid for a share shall not be more than 5% above the average of the middle market quotation (as derived from the Daily Official List of the London Stock Exchange) for the shares for the five business days immediately preceding the date of purchase; and
- (d) unless renewed, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2004 save that the Company may, prior to such expiry, enter into a contract to purchase shares which will or may be completed or executed wholly or partly after such expiry.

By order of the Board


Edinburgh Fund Managers plc
Secretary

27 May 2003

Registered office: Donaldson House,
97 Haymarket Terrace, Edinburgh EH12 5HD

NOTICE OF MEETING

NOTES:

1. A member who is entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company.
2. A form of proxy for use by shareholders is enclosed with these accounts. Completion and return of the form of proxy will not prevent any shareholder from attending the meeting and voting in person. To be valid, the form of proxy should be lodged, together with any Power of Attorney or other authority (if any) under which it is signed or an extract from the Books of Council and Session or a notarially certified copy of such power or authority at the address stated thereon, so as to be received not less than 48 hours before the time of the meeting.
3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders entered on the register of members of the Company as at 6.00pm on 2 July 2003 or, in the event that the meeting is adjourned, on the register of members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares registered in their name at that time. Changes to the entries on the register of members after 6.00pm on 2 July 2003 or, in the event that the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting, notwithstanding any provisions in any enactment, the Articles of Association of the Company or other instrument to the contrary.
4. There are special arrangements for holders of shares through The VIT Savings Plan and the VIT ISA/PEP. These are explained in the 'Letter of Direction' which such holders will have received with this report.

FORM OF PROXY

VALUE AND INCOME TRUST PLC

(for use by Ordinary Shareholders only)

I/We _____ BLOCK
CAPITALS
of _____ PLEASE

being (a) member(s) of the above-named Company, hereby appoint the Chairman of the Meeting or (see note 1)

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 4 July 2003 and at any adjournment thereof. My/our proxy is to vote as indicated by an "X" below in respect of the resolutions set out in the Notice of Meeting (see note 2):

	For	Against
1. To receive the reports of the directors and auditors and accounts for the year to 31 March 2003		
2. To approve the directors' report on remuneration for the year to 31 March 2003		
3. To declare a final dividend		
4. To re-elect James Ferguson as a Director		
5. To re-elect John Kay as a Director		
6. To re-appoint Chiene & Tait as auditors		
7. To authorise the directors to fix the auditors' remuneration		
8. To authorise the directors to buy back Ordinary Shares		

Dated this _____ day of _____ 2003

Signature _____

Notes:

- Proxies must be lodged at the address overleaf not less than 48 hours before the time appointed for holding the meeting, together with the power of attorney or other authority (if any) under which it is signed or an extract from the Books of Council and Session or a notarially certified copy of such power of attorney.
- A corporation should execute under its common seal or the hand of a duly authorised officer.
- Members are entitled to appoint a proxy of their own choice. If desired the name of such proxy can be inserted in the space provided. If no name is inserted in such space, the chairman of the meeting will act as proxy.
- Please indicate how you wish your votes to be cast by placing a cross in the appropriate spaces. Unless otherwise indicated the proxy will vote as he thinks fit or will abstain.
- In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders; and for this purpose seniority shall be determined by the order in which the names stand in the register of members.
- Completion of this form of proxy will not prevent members from attending the meeting and voting in person should they so wish.
- A proxy need not be a member of the company.

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BUSINESS REPLY SERVICE
Licence No. SWB 1002

2

COMPUTERSHARE INVESTOR SERVICES PLC
PO BOX 1075
BRISTOL BS99 3ZZ

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Third fold and tuck in