

111955

GLASGOW INCOME TRUST plc
EXTRACTS FROM ANNUAL REPORT TO SEPTEMBER 2000
FOR FILING AT COMPANIES HOUSE



df

Directors and Corporate Information

Directors

Ronald G. Hanna (Chairman)

Age 58. Joined the Board in 1995. Chief Executive of Bett Brothers plc and a non-executive Director of Edinburgh High Income Trust plc. Formerly joint group Managing Director of CALA plc.

Ian M. Boyd

Age 56. Joined the Board in 1990. Group Finance Director of The Weir Group PLC since 1981 and a non-executive Director of Inveresk PLC since 1993. He was a Council Member of The Institute of Chartered Accountants of Scotland from 1987 to 1993.

Norman L. Murray

Age 52. Joined the Board in 1999. Chairman of British Linen Advisers Limited and The AiM VCT plc. Non-executive Director of Murray tmt PLC and Cairn Energy plc. Formerly Chairman of Morgan Grenfell Private Equity Limited and Chairman of the British Venture Capital Association 1997-98.

Managers, Secretaries and Registered Office

Glasgow Investment Managers Limited
Sutherland House
149 St Vincent Street
Glasgow G2 5DR
(Regulated by IMRO)

Auditors

Deloitte & Touche

Solicitors

Maclay Murray & Spens

Stockbrokers

HSBC Securities

Bankers

HSBC Bank plc

Registrars and Transfer Office

Lloyds TSB Registrars Scotland
117 Dundas Street
Edinburgh EH3 5ED
Telephone 0870 601 5366

Company Registration Number 111955 (Scotland)

Report of the Directors

Status of the Company

The Company, which was incorporated in 1988, has received approval as an investment trust by the Inland Revenue for the year ended 30 September 1998. Following the introduction of Corporation Tax Self Assessment, the Inland Revenue has stated that it cannot grant approval as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988 ("ICTA 88"). The Directors therefore confirm that since 30 September 1998, the Company has conducted its affairs so as to enable it to retain investment trust 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 ICTA88 do not apply to the Company.

Results and Dividends

The financial statements for the year ended 30 September 2000 appear on pages 18 to 29.

A final dividend of 1.55p per share is proposed which, together with the interim dividends already paid or declared, takes the total dividends for the year to 3.7p per share (1999 – 3.0p).

Activities

The Company is an authorised investment trust. Its subsidiary undertaking, G.I.T. Securities Limited, operates as an investment dealing company.

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 11. All held office throughout the year. A. J. Struthers, having attained the age of 70, retired on 16 December 1999. R. G. Hanna retires by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

The interests of the Directors in office at 30 September 2000 in the ordinary shares of 25p each in the Company, all of which were beneficial, were as follows:

	30 September 2000	30 September 1999
R. G. Hanna	17,179	16,432
I. M. Boyd	30,000	30,000
N. L. Murray	13,688	12,981

There have been no changes in the Directors' interests between the year end and 6 November 2000.

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

Report of the Directors

(Continued)

Corporate Governance

The Board has put 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 three non-executive Directors who are independent of the Managers.

The Board has appointed Glasgow Investment Managers Limited ("GIM") to manage the Company's investment portfolio within guidelines set by the Board and to provide it with accounting and secretarial services. The Managers provide the Board with monthly reports on the Company's activities. The Board has a formal schedule of matters specifically reserved to it for decision.

The Audit Committee comprises all of the Directors of the Company. The principal role of the Audit Committee is to review the annual and interim financial statements, the accounting policies applied therein and to ensure compliance with financial and regulatory reporting requirements. The external auditors attend at least one meeting of the Audit Committee per year.

Appointments of new Directors are considered by the Board as a whole. Under the Articles of Association new Directors are subject to re-election at the first Annual General Meeting after their appointment. Thereafter, Directors are required to submit themselves for re-election every three years.

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 intends to announce 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.

The Combined Code introduced a requirement that the Directors review the effectiveness of the Company's system of internal controls. This extends the existing requirements in respect of internal financial controls to cover all controls including financial, operational, compliance and risk management.

Internal Control: Guidance for Directors on the Combined Code (the "Turnbull guidance") was published in September 1999. However, under the London Stock Exchange's transitional arrangements, the Directors have continued to review and report upon the internal financial controls in accordance with the ICAEW's 1994 guidance *Internal Control and Financial Reporting*. In this connection the Directors confirm that they have reviewed the system of financial control that has been in operation during the year.

By 1 October 2000, the Directors had introduced procedures to enable the Turnbull guidance to be implemented throughout the financial year to 30 September 2001. These include identification of the Company's objectives and risks and establishing controls for each significant risk.

The Board has delegated certain of its functions. The main service providers are GIM, the managers and secretaries, HSBC Bank plc, the custodians, and Lloyds TSB Registrars Scotland, the registrars. GIM

Report of the Directors

(Continued)

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.

Going Concern

The Directors consider that the Company 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.

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 6 November 2000 the Company had received notification of the following interests in its ordinary shares:

	Number of shares	% of total
Glasgow Investment Managers Limited as manager of The Glasgow TrustPlan and Plan Manager of The Glasgow PEP	5,219,346	16.8

Share Capital

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 5 will be proposed as a special resolution giving the Directors power to allot for cash 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 £776,055 (being 10% of the Company's existing ordinary capital) as if Section 89(1) of the Companies Act 1985 did not apply. This authority will require to be renewed at the Annual General Meeting in 2001.

Report of the Directors

(Continued)

Authority to Purchase the Company's Own 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 6 will be proposed as a special resolution to renew this authority for a further year.

Auditors

A resolution re-appointing Deloitte & Touche 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

14 November 2000

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; and
- state whether applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for the Group's system of internal financial control, for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Auditors, Deloitte & Touche, to the Members of Glasgow Income Trust plc

We have audited the financial statements on pages 18 to 29 which have been prepared under the accounting policies set out on pages 21 and 22.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report, including, as described on page 16, the preparation of the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent Auditors, are established by statute, the Auditing Practices Board, the UK Listing 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 are 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 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 statement on pages 13 and 14 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the UK Listing 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 risks and control procedures.

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

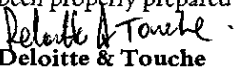
Basis of Audit Opinion

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 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.

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 30 September 2000 and of the total return of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Deloitte & Touche

Chartered Accountants and Registered Auditors
Lomond House, 9 George Square, Glasgow G2 1QQ

14 November 2000

Consolidated Statement of Total Return

(incorporating the Revenue Account*)

for the year ended 30 September 2000

	Notes	Revenue £000	2000 Capital £000	Total £000	Revenue £000	1999 Capital £000	Total £000
(Losses)/Gains on investments	11	–	(970)	(970)	–	3,359	3,359
Income	2	1,630	–	1,630	1,314	–	1,314
Investment management fee	3	80	80	160	72	72	144
Other administrative expenses	4	158	–	158	171	17	188
NET RETURN BEFORE							
FINANCE COSTS AND TAXATION							
		1,392	(1,050)	342	1,071	3,270	4,341
Finance costs of borrowings	6	102	102	204	74	74	148
RETURN ON ORDINARY							
ACTIVITIES BEFORE TAXATION							
		1,290	(1,152)	138	997	3,196	4,193
Taxation	7	10	–	10	–	–	–
RETURN ON ORDINARY							
ACTIVITIES AFTER TAXATION							
FOR THE FINANCIAL YEAR							
		1,280	(1,152)	128	997	3,196	4,193
Dividends on equity shares	9	1,148	–	1,148	931	–	931
TRANSFER TO RESERVES							
		132	(1,152)	(1,020)	66	3,196	3,262
Return per ordinary share	10	4.12p	(3.71)p	0.41p	3.21p	10.30p	13.51p
Dividends per ordinary share	9	3.70p			3.00p		

*The revenue column of this statement is the consolidated revenue 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 in the year.

There were no movements in shareholders' funds other than the amounts shown above as transfers to reserves.

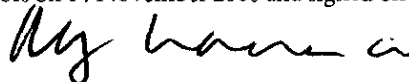
Balance Sheets

as at 30 September 2000

	Notes	Group		Company	
		2000 £000	1999 £000	2000 £000	1999 £000
FIXED ASSETS					
Investments	11	34,299	28,891	34,299	28,891
Subsidiary undertaking	12	—	—	5	5
		<u>34,299</u>	<u>28,891</u>	<u>34,304</u>	<u>28,896</u>
CURRENT ASSETS					
Debtors	13	1,417	309	1,417	329
Cash on short-term deposit		200	200	200	200
Investments of dealing subsidiary undertaking	14	—	102	—	—
		<u>1,617</u>	<u>611</u>	<u>1,617</u>	<u>529</u>
CREDITORS					
Amounts falling due within one year	15	<u>2,675</u>	<u>5,573</u>	<u>2,682</u>	<u>5,573</u>
NET CURRENT LIABILITIES		<u>(1,058)</u>	<u>(4,962)</u>	<u>(1,065)</u>	<u>(5,044)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>33,241</u>	<u>23,929</u>	<u>33,239</u>	<u>23,852</u>
CREDITORS					
Amounts falling due after more than one year	16	<u>10,332</u>	<u>—</u>	<u>10,332</u>	<u>—</u>
NET ASSETS		<u>22,909</u>	<u>23,929</u>	<u>22,907</u>	<u>23,852</u>
CAPITAL AND RESERVES					
Called up share capital	17	7,761	7,761	7,761	7,761
Share premium account	18	2,061	2,061	2,061	2,061
Special reserve	19	5,000	5,000	5,000	5,000
Realised capital reserve	20	5,622	5,049	5,622	5,049
Unrealised capital reserve	20	1,515	3,240	1,515	3,240
Revenue reserve	21	950	818	948	741
EQUITY SHAREHOLDERS' FUNDS		<u>22,909</u>	<u>23,929</u>	<u>22,907</u>	<u>23,852</u>
Net asset value per ordinary share	10	73.80p	77.09p		

Approved by the Board of Directors on 14 November 2000 and signed on its behalf.

R G Hanna, Chairman



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

Consolidated Cash Flow Statement

for the year ended 30 September 2000

	Notes	2000		1999	
		£000	£000	£000	£000
OPERATING ACTIVITIES					
Dividends and interest received					
from investments			1,226		1,034
Income tax recovered			(29)		-
Deposit interest received			21		9
Dealing subsidiary receipts			808		-
Other cash received			81		229
Administrative expenses paid			(280)		(278)
Payments to and on behalf of Directors			(34)		(35)
Dealing subsidiary payments			(656)		-
			<u> </u>		<u> </u>
NET CASH INFLOW FROM					
OPERATING ACTIVITIES	22		1,137		959
SERVICING OF FINANCE					
Interest paid			(217)		(146)
CAPITAL EXPENDITURE					
Purchases of investments		(20,110)		(10,942)	
Sales of investments		14,241		9,396	
			<u> </u>		<u> </u>
			(5,869)		(1,546)
EQUITY DIVIDENDS PAID					
			(931)		(915)
			<u> </u>		<u> </u>
			(5,880)		(1,648)
FINANCING					
Zero coupon finance		9,881		-	
Debt due within one year					
- (decrease)/increase in short-term borrowings		(3,004)		1,497	
			<u> </u>		<u> </u>
			6,877		1,497
INCREASE/(DECREASE) IN CASH	24		<u>997</u>		<u>(151)</u>

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 of the Group have been prepared in accordance with applicable accounting standards and the Statement of Recommended Practice (SORP) issued by the Association of Investment Trust Companies in 1995. 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 undertaking 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

Listed investments of the Company are valued at middle market prices ruling on the balance sheet date. Unlisted investments are shown at the Directors' valuation on the basis of the latest available information.

(d) Gains and losses on investment transactions

Company

Gains and losses arising on sales of investments are taken to realised capital reserve. Unrealised appreciation or depreciation of investments held is taken to unrealised capital reserve.

Investment dealing subsidiary undertaking

Investments held are shown as current assets at the lower of cost and market value. Gains and losses arising on the sale of these investments are dealt with in the revenue account.

(e) Income and expenditure

Dividends are credited to revenue on the date when the investment is first quoted ex-dividend at the amount receivable without any attributable tax credit. This is a change in accounting policy to comply with Financial Reporting Standard 16 "Current Tax" which has replaced Statement of Standard Accounting Practice 8. Under the latter Standard, dividends (other than foreign income dividends) were recognised inclusive of an attributable tax credit which also formed part of the tax charge.

The effect of this change is that Revenue Return on Ordinary Activities before Taxation is £116,000 lower (1999 - £125,000 lower). However there is no effect on Revenue Return on Ordinary Activities after Taxation (1999 - £nil) or on Equity Shareholders' Funds (1999 - £nil).

Premiums on traded option contracts are recognised as income whenever the options expire or are exercised.

Interest from debt securities is included on an accruals basis which is not materially different from the effective yield basis recommended by the SORP. Amounts receivable at the balance sheet date are included in current assets as accrued income.

Underwriting commission is taken to revenue, unless any shares underwritten are required to be taken up, in which case the commission received is deducted from the cost of the investment.

The finance costs of borrowings and the investment management fee are charged 50% to capital and 50% to revenue, net of 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.

Notes to the Financial Statements

(Continued)

(f) Taxation

The charge for taxation is allocated between capital and revenue on the same basis as the particular items of income and expenditure to which it relates, using the effective rate of tax for the accounting period. It takes into account taxation deferred due to timing differences in the treatment of certain items for taxation and accounting purposes. Provision for deferred taxation at the appropriate rate is made if there is reasonable evidence that such deferred taxation will become payable in the foreseeable future.

2. INCOME

	2000 £000	1999 £000
<i>Income from investments</i>		
UK dividend income	1,048	943
UK unfranked investment income	342	65
Foreign income dividends	–	52
Scrip dividends	–	7
	<u>1,390</u>	<u>1,067</u>
<i>Other income</i>		
Interest receivable	25	8
Underwriting commission	–	7
Profits less losses of dealing subsidiary undertaking	50	42
Traded option premiums	165	190
	<u>240</u>	<u>247</u>
TOTAL INCOME	<u>1,630</u>	<u>1,314</u>

All dividend income was received from listed UK companies.

3. SECRETARIAL AND MANAGEMENT FEE

Glasgow Investment Managers Limited (“GIM”) acts as investment managers and secretaries to the Company under a contract which is subject to one year’s notice of termination. The fee is at an annual rate of 0.5% of the amount of shareholders’ funds plus medium and long-term funding calculated monthly and paid quarterly. Short-term borrowings of the lower of £6,500,000 and the actual level of borrowings are included in the amount on which the fee is calculated. The value of the Company’s holdings in any company from which GIM already receives a management fee is excluded. £12,500 (plus VAT) of the annual total fee is in respect of secretarial services and is allocated to revenue. The remainder of the fee is allocated 50% to capital and 50% to revenue. The Company also pays GIM an annual fee of £5,000 (plus VAT) for services in relation to the Company’s participation in The Glasgow PEP.

4. OTHER ADMINISTRATIVE EXPENSES

	2000			1999		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Directors’ remuneration – fees	32	–	32	35	–	35
Auditors remuneration	9	–	9	11	–	11
Fees payable to auditors for other services	2	–	2	8	–	8
Other expenses	115	–	115	117	17	134
	<u>158</u>	<u>–</u>	<u>158</u>	<u>171</u>	<u>17</u>	<u>188</u>

Notes to the Financial Statements

(Continued)

5. DIRECTORS' REMUNERATION

The aggregate emoluments of Directors was £32,250 (1999 – £34,644).

The highest paid Director received a total of £12,000 (1999 – £11,000).

6. FINANCE COSTS OF BORROWINGS

	Revenue £000	2000 Capital £000	Total £000	Revenue £000	1999 Capital £000	Total £000
Bank loans and overdrafts repayable within five years	102	102	204	74	74	148

7. TAXATION

Corporation tax at 20%	10	–	10	–	–	–
------------------------	----	---	----	---	---	---

The tax charge for the year arises in the subsidiary company. No taxation is payable by the Company in respect of the year because of surplus management expenses brought forward. At 30 September 2000 the Company had surplus management expenses with a tax value of £182,000 to carry forward.

8. REVENUE AFTER TAXATION FOR THE FINANCIAL YEAR

The revenue after taxation for the financial year includes £1,355,000 (1999 – £968,000) which has been dealt with in the Company's financial statements.

9. DIVIDENDS ON EQUITY SHARES

	2000 p	1999 p	2000 £000	1999 £000
Interims paid	1.250	1.250	388	388
Interim payable	0.900	0.625	279	194
Proposed final	1.550	1.125	481	349
	<u>3.700</u>	<u>3.000</u>	<u>1,148</u>	<u>931</u>

10. RETURN AND NET ASSET VALUE PER SHARE

The returns per share are based on the following figures:

	2000	1999
Revenue return	£1,280,000	£997,000
Capital return	£(1,152,000)	£3,196,000
Weighted average number of shares	31,042,192	31,042,192

Net asset value per ordinary share is based on net assets attributable to ordinary shareholders of £22,909,000 (1999 – £23,929,000) and on 31,042,192 ordinary shares in issue at 30 September 2000 and 30 September 1999.

Notes to the Financial Statements

(Continued)

11. FIXED ASSET INVESTMENTS

	Group and Company £000
Cost at 30 September 1999	25,623
Unrealised appreciation at 30 September 1999	3,268
Valuation at 30 September 1999	28,891
Purchases	21,106
Sales - proceeds	(15,151)
- net gains on sales	755
Decrease in unrealised appreciation during the year	(1,302)
Valuation at 30 September 2000	34,299
Cost at 30 September 2000	32,333
Unrealised appreciation at 30 September 2000	1,966
Valuation at 30 September 2000	34,299

For analysis of investments between equity and fixed interest securities and for detailed interest rates see page 9.

(Losses)/Gains on investments

	Group and Company	
	2000 £000	1999 £000
Net realised gains on sales of investments	755	2,912
Movement in unrealised appreciation of investments	(1,302)	458
Movement in unrealised depreciation of traded options	28	(11)
Cost of zero coupon finance during the year (note 16)	(451)	-
	<u>(970)</u>	<u>3,359</u>

The above table includes the following effects of traded option activity:

Call options exercised	(90)	(32)
Put options assigned	(188)	(31)
	<u>(278)</u>	<u>(63)</u>

The cost of exercising call options and assigning 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 £165,000 (1999 - £190,000) have been dealt with in the revenue account.

The movement in the provision for traded options has been calculated with reference to the market value of the options at 30 September 2000, and has been charged to the unrealised capital reserve.

12. SUBSIDIARY UNDERTAKING

	Company	
	2000 £000	1999 £000
Shares at cost	5	5

The Company owns 100% of the ordinary share capital of its sole subsidiary undertaking, G.I.T. Securities Limited, an investment dealing company registered in Scotland.

Notes to the Financial Statements

(Continued)

13. DEBTORS

	Group		Company	
	2000 £000	1999 £000	2000 £000	1999 £000
<i>Amounts falling due within one year:</i>				
Investment sales	910	–	910	–
Taxation recoverable	40	11	40	11
Accrued income	462	294	462	294
Due from subsidiary undertakings	–	–	–	20
Other debtors	5	4	5	4
	<u>1,417</u>	<u>309</u>	<u>1,417</u>	<u>329</u>

14. INVESTMENTS OF DEALING SUBSIDIARY UNDERTAKING

	Group	
	2000 £000	1999 £000
<i>At lower of cost and market value:</i>		
Listed on the London Stock Exchange	–	102

The market value of the investments held at 30 September 2000 was £nil (1999 – £102,000).

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2000 £000	1999 £000	2000 £000	1999 £000
Bank loans and overdrafts	793	4,794	793	4,794
Investment purchases	996	–	996	–
Corporation tax	10	–	–	–
Dividends payable	760	543	760	543
Due to subsidiary undertaking	–	–	17	–
Traded options – deferred premiums	–	84	–	84
– provisions for unexpired options	–	28	–	28
Other creditors	116	124	116	124
	<u>2,675</u>	<u>5,573</u>	<u>2,682</u>	<u>5,573</u>

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 30 September 2000:

	Group and Company			
	2000 Book value	2000 Fair value	1999 Book value	1999 Fair value
Put options	–	–	65	54
Call options	–	–	47	12
	<u>–</u>	<u>–</u>	<u>112</u>	<u>66</u>

Notes to the Financial Statements

(Continued)

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

	Group and Company	
	2000	1999
	£000	£000
Zero coupon finance	10,332	—

In May 2000, the Company raised £9,881,000 (net of £13,000 expenses of issue) of five year zero coupon finance consisting of purchased and written FTSE 100 put and call options which expire in May 2005. The difference between the net proceeds raised and the financial obligations of the Company when these options expire or are assigned or exercised in 2005 constitutes the effective cost of this finance. The zero coupon finance arrangement comprises a set of financial instruments (FTSE 100 index options), each with its own market value. Accordingly, the amount disclosed above as zero coupon finance represents the net amount of the market values as at 30 September 2000 of each of the constituent FTSE 100 index options. The change in net market value of the options in each accounting period is, therefore, treated as an unrealised loss on investments and charged to capital. The amount so charged to capital will fluctuate from year to year due to stockmarket volatility but will equate to 7.19% per annum over the five year term. As a result of market conditions the charge allocated to the present accounting period was 13.8%. When the options reach their expiry date, the aggregate unrealised depreciation will be transferred to realised capital reserve.

The movements in the book values of this finance consisted of the following:

	Raised in May 2000 £000	At 30 September 2000 £000	Charged to capital £000
Written options	21,339	19,414	(1,925)
Purchased options	(11,445)	(9,082)	2,363
Expenses of issue (all written off immediately)	(13)	—	13
	<u>9,881</u>	<u>10,332</u>	<u>451</u>

17. CALLED UP SHARE CAPITAL

	Ordinary shares of 25 pence each	
	Number	£000
<i>Authorised</i>		
At 30 September 1999 and 30 September 2000	50,000,000	12,500
<i>Allotted, called up and fully paid</i>		
At 30 September 1999 and 30 September 2000	31,042,192	7,761

18. SHARE PREMIUM ACCOUNT

At 30 September 1999 and 30 September 2000	£000
	<u>2,061</u>

19. SPECIAL RESERVE

At 30 September 1999 and 30 September 2000	£000
	<u>5,000</u>

The purpose of this reserve is to fund market purchases by the Company of its own ordinary shares.

Notes to the Financial Statements

(Continued)

20. OTHER CAPITAL RESERVES

	Group and Company £000
<i>Realised capital reserve</i>	
At 30 September 1999	5,049
Net gains on sales of investments during the year	755
Finance costs of borrowings	(102)
Investment management fee	(80)
At 30 September 2000	<u>5,622</u>
<i>Unrealised capital reserve</i>	
At 30 September 1999	3,240
Movement during the year:	
Fixed asset investments	(1,302)
Traded options	28
Zero coupon finance	(451)
At 30 September 2000	<u>1,515</u>

The capital reserves are not distributable.

21. REVENUE RESERVE

	Group £000	Company £000
At 30 September 1999	818	741
Transfer from revenue account	132	207
At 30 September 2000	<u>950</u>	<u>948</u>

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

	2000 £000	1999 £000
Net revenue before finance costs and taxation	1,392	1,071
Investment management fee charged to capital	(80)	(72)
Expenses relating to share buy-backs	-	(17)
Increase in accrued income	(168)	(32)
Increase in other debtors	(1)	(3)
(Decrease)/Increase in creditors	(79)	54
Decrease/(Increase) in dealing investments	102	(42)
Net payment of income tax	(29)	-
Net cash inflow from operating activities	<u>1,137</u>	<u>959</u>

Notes to the Financial Statements

(Continued)

23. ANALYSIS OF CHANGES IN NET DEBT

	At 30 September 1999 £000	Cash flows £000	Other non-cash changes £000	At 30 September 2000 £000
Short-term deposits	200	–	–	200
Bank overdrafts	(1,790)	997	–	(793)
Short-term borrowings	(3,004)	3,004	–	–
Zero coupon finance	–	(9,881)	(451)	(10,332)
	<u>(4,594)</u>	<u>(5,880)</u>	<u>(451)</u>	<u>(10,925)</u>

24. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2000 £000	1999 £000
Decrease/(Increase) in bank overdrafts	997	(151)
Decrease/(Increase) in short-term borrowings	3,004	(1,497)
Proceeds of raising of zero coupon finance	(9,881)	–
Change in net debt resulting from cash flows	<u>(5,880)</u>	<u>(1,648)</u>
Cost of zero coupon finance (note 16)	(451)	–
Net debt at 30 September 1999	<u>(4,594)</u>	<u>(2,946)</u>
Net debt at 30 September 2000	<u>(10,925)</u>	<u>(4,594)</u>

25 RISK MANAGEMENT, FINANCIAL ASSETS AND LIABILITIES

The following information is given in accordance with Financial Reporting Standard 13, "Derivatives and Other Financial Investments" ("FRS 13").

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 revenue is generated from premiums earned by writing covered out-of-the-money traded options against assets held in the portfolio.

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'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 Company.

Zero coupon finance raised in the derivatives market is invested in corporate fixed interest securities and convertibles to augment the income available for distribution to shareholders. The costs of these funds is fixed when they are raised.

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, convertibles, corporate fixed interest and gilt-edged – 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)

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.

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, creditors arising from option contracts and 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 (note 14). The carrying value of fixed asset investments and option contracts are stated at their fair values, which have been determined with reference to quoted market prices (see notes 11, 15 and 16). For all other short-term debtors and creditors, their book values approximate to fair values because of their short-term maturity.

26. COMMITMENTS AND CONTINGENCIES

At 30 September 2000 the Company and Group had no contingent liabilities in respect of uncalled capital or outstanding underwriting commitments (1999 - £nil).