Coy No: 111955

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 all accounting periods up to and including 30 September 2001 and has since continued to conduct its affairs so as to enable it to retain such approved status. It is a member of the Association of Investment Trust Companies. The Company is an investment company within the meaning of Section 266 of the Companies Act 1985. So far as the Directors are aware, the close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

Results and Dividends

The financial statements for the year ended 30 September 2002 appear on pages 19 to 31.

A final dividend of 1.76p per share is proposed which, together with the interim dividends already paid or declared, takes the total dividends for the year to 4.85p per share (2001 – 4.7p).

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 12. All held office throughout the year. Norman L. Murray 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 2002 in the ordinary shares of 25p each in the Company, all of which were beneficial, were as follows:

	30 September 2002	30 September 2001
R. G. Hanna	19,318	18,172
I. M. Boyd	30,000	30,000
N. L. Murray	15,366	14,476

R. G. Hanna holds all of his beneficial holding through The Glasgow PEP. As a result of a standing arrangement to acquire shares in the Company by reinvestment of dividends, his beneficial holding has increased by 33 shares during the period 1 October 2002 to 6 November 2002.

There have been no other changes in the Directors' interests between 1 October 2002 and 6 November 2002.

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. Biographies of the Directors appear on page 12.

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

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

The Audit Committee comprises all of the Directors of the Company and meets at least twice per year. 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.

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access which every Director has to the advice of GIM as secretaries of the Company.

Relations with Shareholders

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

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

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

Internal Control

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

Under the Combined Code, it is a requirement that the Board reviews the effectiveness of the Company's system of internal controls, extending the existing requirements in respect of internal financial controls to cover all controls including financial, operational, compliance and risk management. The Board has therefore established regular review procedures for the identification, evaluation and management of significant risks to the Company, to enable full compliance with guidance issued in September 1999 by the Turnbull Committee.

Report of the Directors
(Continued)

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

Compliance with the Provisions of the Combined Code
Subject to the special circumstances of the Company as an investment trust, the Company has complied with the provisions set out in Section 1 of the Combined Code throughout the year.

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

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 2002 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	6,835,464	18.5%

Authority to Allot Shares
At the Annual General Meeting of the Company held on 13 December 2001, shareholders gave Directors the authority under Section 80 of the Companies Act 1985 ("the Act") to allot shares in the Company. Although that authority does not expire until December 2006, it is considered that it would be prudent to renew it at the forthcoming Annual General Meeting for a five year period, as permitted by the Act. Accordingly, Resolution 5 will be proposed as an ordinary resolution giving the Directors general authority to allot shares in the Company to the extent of one third of the Company's present issued ordinary share capital.

Authority to Disapply Statutory Pre-emption Rights
The power given to Directors at the last Annual General Meeting to allot shares for cash otherwise than in accordance with statutory pre-emption rights expires on the date of the forthcoming Annual General Meeting. Since in certain circumstances it may be in the best interests of the Company to issue shares for cash otherwise than *pro rata* to existing shareholders, the Directors consider that it is appropriate for this power to be renewed at the forthcoming Annual General Meeting. Accordingly, Resolution 6 will be proposed as a special resolution giving the Directors power to allot for cash, as if section 89(1) of the Act did not apply, equity securities in connection with a rights issue and, provided the shares are issued at a price not less than their underlying fully diluted net asset value, in other cases up to an aggregate nominal

Report of the Directors

(Continued)

amount of £1,850,755, which is equivalent to approximately 20% of the present issued ordinary share capital of the Company. This power will require to be renewed at the Annual General Meeting in 2003. New shares will be issued only in compliance with the policies of the UK Listing Authority concerning the issuing of new shares for cash.

Authority to Buy Back Shares

The resolution passed at the last Annual General Meeting to authorise the Company to make market purchases of up to 14.99% of its own ordinary shares expires on the date of the forthcoming Annual General Meeting. Accordingly, Resolution 7 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

Glasgow Investment Managers Limited
Secretaries

13 November 2002

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 ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the Group's system of internal control, for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report to the Members of Glasgow Income Trust plc

We have audited the financial statements of Glasgow Income Trust plc for the year ended 30 September 2002 which comprise the Consolidated Statement of Total Return, the Balance Sheets, the Consolidated Cash Flow Statement, and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

As described in the Statement of Directors' Responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, and the Listing Rules of the Financial Services Authority.

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

We read the Directors' Report and the other information contained in the Annual Report for the above year as described in the contents section and 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 judgments 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 2002 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.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Glasgow

13 November 2002

Consolidated Statement of Total Return

(incorporating the Revenue Account*)

for the year ended 30 September 2002

	Notes	2002 Revenue £000	2002 Capital £000	2002 Total £000	2001 Revenue £000	2001 Capital £000	2001 Total £000
Losses on investments	11	–	(5,694)	(5,694)	–	(2,244)	(2,244)
Income	2	2,238	–	2,238	2,092	–	2,092
Investment management fee	3	108	108	216	102	102	204
Other administrative expenses	4	170	–	170	211	–	211
NET RETURN BEFORE FINANCE COSTS AND TAXATION		1,960	(5,802)	(3,842)	1,779	(2,346)	(567)
Finance costs of borrowings	6	71	71	142	53	53	106
RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION		1,889	(5,873)	(3,984)	1,726	(2,399)	(673)
Taxation	7	207	(104)	103	162	(162)	–
RETURN ON ORDINARY *ACTIVITIES AFTER TAXATION* FOR THE FINANCIAL YEAR	8	1,682	(5,769)	(4,087)	1,564	(2,237)	(673)
Dividends on equity shares	9	1,777	–	1,777	1,504	–	1,504
TRANSFER (FROM)/TO RESERVES	21	(95)	(5,769)	(5,864)	60	(2,237)	(2,177)
Return per share	10	4.92p	(16.88)p	(11.96)p	5.00p	(7.14)p	(2.14)p
Dividends per share	9	4.85p			4.70p		

*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.

Balance Sheets

as at 30 September 2002

	Notes	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
FIXED ASSETS					
Listed investments	11	34,793	36,716	34,793	36,716
Subsidiary undertaking	12	–	–	5	5
		34,793	36,716	34,798	36,721
CURRENT ASSETS					
Debtors	13	1,949	547	2,089	547
Investments of dealing subsidiary undertaking	14	128	–	–	–
		2,077	547	2,089	547
CREDITORS					
Amounts falling due within one year	15	5,208	3,606	5,208	3,614
NET CURRENT LIABILITIES		(3,131)	(3,059)	(3,119)	(3,067)
TOTAL ASSETS LESS CURRENT LIABILITIES		31,662	33,657	31,679	33,654
CREDITORS					
Amounts falling due after more than one year	16	12,525	11,579	12,525	11,579
NET ASSETS		19,137	22,078	19,154	22,075
CAPITAL AND RESERVES					
Called up share capital	17	9,254	8,166	9,254	8,166
Share premium account	18	4,837	3,002	4,837	3,002
Special reserve	19	5,000	5,000	5,000	5,000
Realised capital reserve	20	6,604	7,406	6,604	7,406
Unrealised capital reserve	20	(7,473)	(2,506)	(7,473)	(2,506)
Revenue reserve	21	915	1,010	932	1,007
EQUITY SHAREHOLDERS' FUNDS		19,137	22,078	19,154	22,075
Net asset value per share	10	51.70p	67.59p		

Approved by the Board of Directors on 13 November 2002 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 2002

	Notes	2002 £000	2002 £000	2001 £000	2001 £000
OPERATING ACTIVITIES					
Dividends and interest received from investments			1,925		1,955
Income tax recovered/(paid)			65		(25)
Deposit interest received			13		10
Dealing subsidiary receipts			120		16
Other cash received			300		112
Administrative expenses paid			(387)		(356)
Payments to and on behalf of Directors			(32)		(31)
Dealing subsidiary payments			(277)		(15)
NET CASH INFLOW FROM OPERATING ACTIVITIES	22		1,727		1,666
SERVICING OF FINANCE					
Interest paid			(121)		(101)
TAXATION					
Corporation tax paid			–		(10)
CAPITAL EXPENDITURE					
Purchases of investments		(19,045)		(23,763)	
Sales of investments		16,100		20,383	
NET CASH OUTFLOW FROM INVESTING ACTIVITIES			(2,945)		(3,380)
EQUITY DIVIDENDS PAID			(1,626)		(1,382)
			(2,965)		(3,207)
FINANCING					
Issues of shares		1,496		1,346	
Debt due within one year – increase in short-term borrowings		2,000		1,000	
			3,496		2,346
INCREASE/(DECREASE) IN CASH	23		531		(861)

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.

The Company enters into option contracts (hedging instruments) to limit its exposure to volatility in the stockmarket. Gains and losses on these contracts are recognised in the period to which the gains and losses of the underlying ordinary share portfolio relate.

(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.

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.

(f) Taxation

The Company has adopted Financial Reporting Standard 19, "Deferred Tax". Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date at rates expected to apply when they crystallise, based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted. The implementation of this standard has had no effect on the results of the current or prior periods.

Notes to the Financial Statements

(Continued)

2. INCOME

	2002 £000	2001 £000
Income from investments		
UK dividend income	1,199	1,132
UK unfranked investment income	600	582
Overseas interest	158	256
	1,957	1,970
Other income		
Deposit interest	10	9
Underwriting commission	3	2
Profits less losses of dealing subsidiary undertaking	(29)	1
Traded option premiums	297	110
	281	122
TOTAL INCOME	2,238	2,092

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 short and medium-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

	2002 Revenue £000	2002 Capital £000	2002 Total £000	2001 Revenue £000	2001 Capital £000	2001 Total £000
Directors' remuneration – fees	32	–	32	31	–	31
Auditors remuneration	10	–	10	9	–	9
Fees payable to auditors for other services	1	–	1	1	–	1
Other expenses	127	–	127	170	–	170
	170	–	170	211	–	211

5. DIRECTORS' REMUNERATION

The aggregate emoluments of Directors was £31,750 (2001 – £31,322).

The highest paid Director received a total of £12,750 (2001 – £12,000).

Notes to the Financial Statements

(Continued)

6. FINANCE COSTS OF BORROWINGS

	2002 Revenue £000	2002 Capital £000	2002 Total £000	2001 Revenue £000	2001 Capital £000	2001 Total £000
Bank loans and overdrafts repayable within five years	71	71	142	53	53	106

7. TAXATION

	2002 Revenue £000	2002 Capital £000	2002 Total £000	2001 Revenue £000	2001 Capital £000	2001 Total £000
Parent undertaking:						
Notional corporation tax at 30%	104	(104)	–	162	(162)	–
Corporation tax at 30%	103	–	103	–	–	–
	207	(104)	103	162	(162)	–

All management expenses arising on Revenue items brought forward from previous years and arising this year were relieved against taxable revenue. By relieving £348,000 of surplus management expenses arising on Capital items against the remaining taxable revenue, the Company reduced its corporation tax charge. However, an amount equal to 30% of £348,000, i.e. £104,000, has been credited to Capital and charged to Revenue as a notional corporation tax item to prevent the distribution of capital equal to this amount.

At 30 September 2002, the Company had no surplus management expenses (2001 – surplus management expenses, all arising in Capital, with a tax value of £51,000) to carry forward. No deferred tax has been recognised in the current or prior periods.

The following table is a reconciliation of the current taxation charge/(credit) to the charges or credits which would arise if all ordinary activities were taxed at the standard UK corporation tax rate of 30% (2001 – 30%):

	2002 Revenue £000	2002 Capital £000	2002 Total £000	2001 Revenue £000	2001 Capital £000	2001 Total £000
Return on Ordinary Activities before Taxation	1,889	(5,873)	(3,984)	1,726	(2,399)	(673)
Taxation of Return on Ordinary Activities at the standard rate of corporation tax	567	(1,762)	(1,195)	518	(720)	(202)
Effects of:						
UK dividend income not liable to further tax	(360)	–	(360)	(340)	–	(340)
Capital losses not liable to capital gains tax	–	1,709	1,709	–	673	673
Utilisation of surplus management expenses brought forward from previous years	–	(51)	(51)	(16)	(115)	(131)
Current taxation charge/(credit) for the year	207	(104)	103	162	(162)	–

8. REVENUE AFTER TAXATION FOR THE FINANCIAL YEAR

The revenue after taxation for the financial year includes £1,702,000 (2001 – £1,563,000) which has been dealt with in the Company's financial statements.

Notes to the Financial Statements

(Continued)

9. DIVIDENDS ON EQUITY SHARES

	2002 p	2001 p	2002 £000	2001 £000
Interims paid	2.06	2.00	712	622
Interim payable	1.03	1.00	381	327
Proposed final	1.76	1.70	652	555
	4.85	4.70	1,745	1,504
Final dividend of 1.70p for the year ended 30 September 2001 payable on 1,900,000 new shares issued during the year ended 30 September 2002			32	–
			1,777	1,504

10. RETURN AND NET ASSET VALUE PER SHARE

The returns per share are based on the following figures:

	2002	2001
Revenue return	£1,682,000	£1,564,000
Capital return	£(5,769,000)	£(2,237,000)
Weighted average number of shares	34,173,605	31,314,027

Net asset value per share is based on net assets attributable to shareholders of £19,137,000 (2001 – £22,078,000) and on the 37,015,112 (2001 – 32,665,112) shares in issue at 30 September 2002.

11. FIXED ASSET INVESTMENTS

	Group and Company 2002 £000	Group and Company 2001 £000
Listed on recognised stock exchanges:		
In the United Kingdom	34,073	34,863
Overseas	720	1,853
	34,793	36,716

	Group and Company £000
Cost at 30 September 2001	37,523
Unrealised depreciation at 30 September 2001	(807)
Valuation at 30 September 2001	36,716
Purchases	18,925
Sales - proceeds	(16,100)
- net realised losses on sales	(727)
Movement in unrealised depreciation during the year	(4,021)
Valuation at 30 September 2002	34,793

Notes to the Financial Statements

(Continued)

11. FIXED ASSET INVESTMENTS (continued)

Cost at 30 September 2002	39,621
Unrealised depreciation at 30 September 2002	(4,828)
Valuation at 30 September 2002	34,793

For an analysis of investments between equity and fixed interest securities and for detailed interest rates see page 10.

(Losses)/Gains on investments

	Group and Company	
	2002 £000	2001 £000
Net realised (losses)/gains on sales of investments	(727)	1,777
Movement in unrealised appreciation of investments	(4,021)	(2,774)
Cost of zero coupon finance during the year (note 16)	(946)	(1,247)
	(5,694)	(2,244)

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

	Company	
	2002 £000	2001 £000
Call options exercised	(2)	–
Put options assigned	(217)	(62)
	(219)	(62)

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 £297,000 (2001 – £110,000) have been dealt with in the revenue account.

12. SUBSIDIARY UNDERTAKING

	Company	
	2002 £000	2001 £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.

13. DEBTORS

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Amounts falling due within one year:				
Unpaid share capital (note 17)	1,427	–	1,427	–
Taxation recoverable	–	65	–	65
Accrued income	505	476	505	476
Due by subsidiary undertaking	–	–	140	–
Other debtors	17	6	17	6
	1,949	547	2,089	547

Notes to the Financial Statements

(Continued)

14. INVESTMENTS OF DEALING SUBSIDIARY UNDERTAKING

	Group 2002 £000	Group 2001 £000
At lower of cost and market value:		
Listed in the United Kingdom	128	–

The market value of the investments held at 30 September 2002 was £128,000 (2001 – £Nil).

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Bank loans and overdrafts	3,923	2,454	3,923	2,454
Investment purchases	–	120	–	120
Corporation tax	103	–	103	–
Dividends payable	1,033	882	1,033	882
Due to subsidiary undertaking	–	–	–	8
Other creditors	149	150	149	150
	5,208	3,606	5,208	3,614

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

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

	Group and Company 2002 £000	Group and Company 2001 £000
Zero coupon finance	12,525	11,579

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 total amount of the market values as at 30 September 2002 of each of the constituent FTSE 100 Index options. The change in net total 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 life of the options, which expire in May 2005. As a result of market conditions, the charge allocated to the present accounting period was 8.2% (2001: 12.1%). 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:

	At 30 September 2002 £000	At 30 September 2001 £000	Charged to capital (note 20) £000
Written options	26,853	19,735	7,118
Purchased options	(14,328)	(8,156)	(6,172)
	12,525	11,579	946

Notes to the Financial Statements

(Continued)

17. CALLED UP SHARE CAPITAL

	Ordinary shares of 25 pence each Number	£000
Authorised		
At 30 September 2001 and 30 September 2002	50,000,000	12,500
Allotted, called up and fully paid		
At 30 September 2001	32,665,112	8,166
Issues in year (see below)	4,350,000	1,088
At 30 September 2002	37,015,112	9,254

During the year, 4,350,000 new ordinary shares were issued to investors on the London Stock Exchange through placings. The new ordinary shares were issued for cash at their market price when this stood at a premium to the underlying fully diluted net asset value per share. The issues were made at various prices between 58.25p and 80p per share and raised a total of £2,923,000, net of expenses. The proceeds of an issue made on 26 September 2002 were not received until 2 October 2002 and are therefore included in debtors at 30 September 2002 (note 13).

18. SHARE PREMIUM ACCOUNT

	£000
At 30 September 2001	3,002
Placings of new ordinary shares	1,835
At 30 September 2002	4,837

19. SPECIAL RESERVE

	£000
At 30 September 2001 and 30 September 2002	5,000

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

20. OTHER CAPITAL RESERVES

	Group and Company £000
Realised capital reserve	
At 30 September 2001	7,406
Net losses on sales of investments during the year	(727)
Tax credit allocated to capital	104
Finance costs of borrowings	(71)
Investment management fee	(108)
At 30 September 2002	6,604
Unrealised capital reserve	
At 30 September 2001	(2,506)
Movements during the year:	
Fixed asset investments	(4,021)
Zero coupon finance (note 16)	(946)
At 30 September 2002	(7,473)

The capital reserves are not distributable.

Notes to the Financial Statements

(Continued)

21. REVENUE RESERVE

	Group £000	Company £000
At 30 September 2001	1,010	1,007
Transfer to revenue account	(95)	(75)
At 30 September 2002	915	932

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

	2002 £000	2001 £000
Net revenue before finance costs and taxation	1,960	1,779
Investment management fee charged to capital	(108)	(102)
Increase in accrued income	(29)	(14)
Increase in other debtors	(11)	(2)
(Decrease)/Increase in creditors	(22)	30
Increase in dealing investments	(128)	–
Decrease/(Increase) in taxation recoverable	65	(25)
Net cash inflow from operating activities	1,727	1,666

23. ANALYSIS OF CHANGES IN NET DEBT

	At 30 September 2001 £000	Cash flows £000	Other non-cash changes £000	At 30 September 2002 £000
Bank overdrafts	(1,454)	531	–	(923)
Short-term borrowings	(1,000)	(2,000)	–	(3,000)
Zero coupon finance	(11,579)	–	(946)	(12,525)
	(14,033)	(1,469)	(946)	(16,448)

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

	2002 £000	2001 £000
Decrease/(Increase) in bank overdrafts	531	(661)
Decrease in short-term deposits	–	(200)
	531	(861)
Increase in short-term borrowings	(2,000)	(1,000)
Change in net debt resulting from cash flows	(1,469)	(1,861)
Cost of zero coupon finance (note 16)	(946)	(1,247)
Change in net debt	(2,415)	(3,108)
Net debt at 30 September 2001	(14,033)	(10,925)
Net debt at 30 September 2002	(16,448)	(14,033)

Notes to the Financial Statements

(Continued)

25. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2002 £000	2001 £000
Total revenue returns	1,682	1,564
Dividends	(1,777)	(1,504)
Transfer (from)/to distributable reserves	(95)	60
Total capital returns	(5,769)	(2,237)
Issues of ordinary shares	2,923	1,346
Net reduction in shareholders' funds	(2,941)	(831)
Shareholders' funds at 30 September 2001	22,078	22,909
Shareholders' funds at 30 September 2002	19,137	22,078

26. RISK MANAGEMENT, FINANCIAL ASSETS AND LIABILITIES

The following information is given in accordance with Financial Reporting Standard 13, "Derivatives and Other Financial Instruments: disclosures" ("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 to augment the income available for distribution to shareholders. The costs of these funds are fixed when they are raised.

The impact of security price volatility is reduced by diversification and by hedging instruments 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.

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.

Notes to the Financial Statements

(Continued)

26. RISK MANAGEMENT, FINANCIAL ASSETS AND LIABILITIES (continued)

Financial Assets and Liabilities

The Group's financial assets include investments, cash at bank and short-term debtors. Financial liabilities consist of bank loans and overdrafts, 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. 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 and 16). For all other short-term debtors and creditors, their book values approximate to fair values because of their short-term maturity.

The average number years to redemption of the corporate bond portfolio is 6.5 years (2001: 7.6 years) and the average rate of interest earned from this portfolio is 7.6% (2001: 7.7%).

Portfolio Hedging Instruments

During part of the year, the Company maintained low cost partial hedging of the ordinary share portfolio to limit any possible major rise in gearing – and attendant erosion of assets – which could result from significant weakness of ordinary share prices on the UK stockmarket. These hedge positions were closed by February 2002, realising net losses of £1,181,000. These losses were incurred as part of the overall hedging strategy (2001: realised gains on hedge positions £944,000).

27. COMMITMENTS AND CONTINGENCIES

At 30 September 2002 the Company and Group had no contingent liabilities in respect of uncalled capital or outstanding underwriting commitments (2001: £Nil).

Company Administration

Managers, Secretaries and Registered Office
Glasgow Investment Managers Limited
Sutherland House
149 St Vincent Street
Glasgow G2 5DR
(Regulated by the FSA)

Auditors
Deloitte & Touche

Solicitors
Maclay Murray & Spens

Stockbrokers
HSBC Securities

Bankers
HSBC Bank plc

Registrars and Transfer Office
Lloyds TSB Registrars Scotland
PO Box 28448
Finance House
Orchard Brae
Edinburgh EH4 1WQ
Telephone 0870 601 5366

Company Registration Number 111955 (Scotland)