

Glasgow Income Trust plc



INTERIM REPORT
31 MARCH 2004

MANAGED BY

GLASGOW
INVESTMENT MANAGERS

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Objective

The principal objective of the Company is to provide shareholders with a high level of income and to obtain growth in both income and capital over the longer term.

Financial Highlights

| | As at 31 March 2004 | As at 30 September 2003 | % |
|---|---------------------------|-------------------------------|--------|
| | | | change |
| Total assets less current liabilities | £49.67m | £34.25m | +45.0 |
| Shareholders' funds | £32.05m | £21.16m | +51.5 |
| Net asset value per share | 65.43p | 57.17p | +14.4 |
| Share price | 65.00p | 63.75p | +2.0 |
| (Discount)/Premium (share price to net asset value) | (0.7)% | 11.5% | – |
| Dividends per share | 2.06p | 2.06p* | – |

* Half year to 31 March 2003.

Performance

(periods to 31 March 2004)

| | 6 months % | 1 year % | 3 years % | 5 years % |
|-----------------------------------|---------------|-------------|--------------|--------------|
| Glasgow Income Trust plc | | | | |
| – Share price total return | 5.2▲ | 42.5† | 5.4† | 20.9† |
| – Net asset value total return | 18.1▲ | 49.0† | 4.1† | 14.1† |
| FTSE All-Share Index (Benchmark)‡ | 10.1 | 31.0 | –11.0 | –12.7 |

| | As at 31 March 2004 | As at 30 September 2003 |
|-----------------------------------|---------------------------|-------------------------------|
| Net dividend yield | | |
| Glasgow Income Trust plc▲ | 7.5%● | 7.6%● |
| FTSE All-Share Index (Benchmark)‡ | 3.1% | 3.4% |

▲ Source: Glasgow Investment Managers Limited.

† Source: Fundamental Data for the Association of Investment Trust Companies.

‡ Source: Datastream.

● Based on share price and last four quarterly net dividends.

Chairman's Statement

Financial Highlights

The first half of the Company's financial year witnessed continuing progress. Net assets rose by almost £11 million, due partly to the proceeds of the issue of new shares and partly to a rise in the value of the Company's investments. The net asset value per share rose by 14.4% and the yield on the ordinary shares was 7.5% on a share price of 65p as at 31 March 2004, with dividends paid and declared to date at the same level as last year.

Background

These results were achieved against the background of a recovering stockmarket, as forecasts of UK economic growth were raised. Rising consumption expenditure made a major contribution to the expansion of aggregate output as low interest rates and low unemployment together with higher house prices and higher employee earnings were reflected in improving consumer confidence.

Investment Returns

The total return on net assets was 18.1%, which compares favourably with a return of 10.1% on the FTSE All-Share Index, the Company's benchmark.

The total return to shareholders, at 5.2%, was lower than the return on net assets, reflecting the fact that the premium of 11.5% at which the share price stood to net asset value per share at 30 September 2003 gave way to a small discount of 0.7% at 31 March 2004.

New Share Issue

In the 2003 Annual Report, I stated that the Board was reviewing the possibility of enlarging the Company through a new share issue. On 17 December 2003 almost 12 million new shares were issued at a price of 62p, representing a 4% premium to net asset value per share and a discount of 1.6% to the closing middle market price of 63p per share. After the expenses of the issue net proceeds were £7.15 million.

Dividends

On 6 April 2004 the Board declared a second interim dividend of 1.03p per share to be paid on 30 April 2004 to shareholders on the register at close of business on 16 April 2004. A first interim dividend of 1.03p per share was paid on 30 January 2004. The 11,959,162 new shares issued in December 2003 did not qualify for the first interim dividend. Dividends paid and declared to date in 2004 therefore total 2.06p per share, the same level as paid last year.

Chairman's Statement

(Continued)

Portfolio Profile and Gearing

In order to maintain the Company's gearing following the share issue, £4.1 million of additional zero coupon finance was raised in January 2004 with a maturity value of £5.4 million repayable in December 2008. This equates to a financing cost of 5.7% per annum to be charged wholly to capital.

The 2008 repayment date of the additional zero coupon finance assists the Board's objective of spreading the maturity dates of the Company's borrowings, as the original zero coupon finance falls due for repayment in May 2005.

The proceeds from the share issue and the zero coupon finance were used to increase the size of the Company's existing equity investments and raise the number of holdings in the corporate bond portfolio.

The distribution of assets shows that 106.3% of net assets was invested in equities compared with 114.8% the previous year. The investment in fixed interest and convertible securities amounted to 43.3% of net assets down from 49.5%.

Continuation Vote

I am pleased to inform you that the resolution that the Company continue as an investment trust for a further five years was passed unanimously at the Company's Annual General Meeting on 16 December 2003. Proxy voting in favour of the resolution was 99%.

Outlook

High personal indebtedness, the upward pressure on interest rates and the expected declining impact of public spending are likely to restrain the growth of personal consumption and aggregate output in the UK over the next one to two years. The outlook for inflation, however, remains benign and so significant rises in interest rates are not expected. This is likely to provide an environment of stable but unspectacular economic growth and a return of investor confidence. Companies with sound balance sheets and healthy cash flows offer the best prospect of higher dividends and good investment returns.



R G Hanna
Chairman

Consolidated Statement of Total Return

(incorporating the Revenue Account)
for the half year ended 31 March 2004

| | Half year to 31 March 2004 (unaudited) | | |
|--|---|-----------------|---------------|
| | Revenue £000 | Capital £000 | Total £000 |
| Gains/(Losses) on investments | – | 3,772 | 3,772 |
| Dividends and interest receivable | 1,166 | – | 1,166 |
| Profits less losses of dealing subsidiary | – | – | – |
| Traded option premiums | 31 | – | 31 |
| Investment management fee | (60) | (60) | (120) |
| Other administrative expenses | (129) | – | (129) |
| Net return before finance costs and taxation | 1,008 | 3,712 | 4,720 |
| Finance costs of borrowings | (1) | (1) | (2) |
| Return on ordinary activities before taxation | 1,007 | 3,711 | 4,718 |
| Taxation | (114) | 22 | (92) |
| Return on ordinary activities after taxation for the period | 893 | 3,733 | 4,626 |
| Dividends on equity shares | (886) | – | (886) |
| Transfer to/(from) reserves | 7 | 3,733 | 3,740 |
| Return per share | 2.21p | 9.23p | 11.44p |
| Dividends per share | 2.06p | | |

Note: These are not statutory accounts under section 240 of the Companies Act 1985 and are unaudited. The information relating to the group balance sheet as at 30 September 2003 is an extract from the latest audited accounts which have been delivered to the Registrar of Companies; the report of the auditors on these accounts was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

Consolidated Statement of Total Return

(Continued)

| Half year to 31 March 2003 (unaudited) | | | Year to 30 September 2003 (audited) | | |
|---|-----------------|----------------|--|-----------------|----------------|
| Revenue £000 | Capital £000 | Total £000 | Revenue £000 | Capital £000 | Total £000 |
| – | (1,148) | (1,148) | – | 2,098 | 2,098 |
| 887 | – | 887 | 2,076 | – | 2,076 |
| (9) | – | (9) | 50 | – | 50 |
| 27 | – | 27 | 138 | – | 138 |
| (43) | (43) | (86) | (89) | (89) | (178) |
| <u>(100)</u> | <u>–</u> | <u>(100)</u> | <u>(171)</u> | <u>–</u> | <u>(171)</u> |
| 762 | (1,191) | (429) | 2,004 | 2,009 | 4,013 |
| <u>(17)</u> | <u>(17)</u> | <u>(34)</u> | <u>(17)</u> | <u>(17)</u> | <u>(34)</u> |
| 745 | (1,208) | (463) | 1,987 | 1,992 | 3,979 |
| <u>(107)</u> | <u>15</u> | <u>(92)</u> | <u>(191)</u> | <u>32</u> | <u>(159)</u> |
| 638 | (1,193) | (555) | 1,796 | 2,024 | 3,820 |
| <u>(763)</u> | <u>–</u> | <u>(763)</u> | <u>(1,795)</u> | <u>–</u> | <u>(1,795)</u> |
| <u>(125)</u> | <u>(1,193)</u> | <u>(1,318)</u> | <u>1</u> | <u>2,024</u> | <u>2,025</u> |
| 1.72p | (3.22)p | (1.50)p | 4.85p | 5.47p | 10.32p |
| 2.06p | | | 4.85p | | |

Group Balance Sheet

as at 31 March 2004

| | 31 March 2004 (unaudited) £000 | 30 September 2003 (audited) £000 | 31 March 2003 (unaudited) £000 |
|--|---|---|---|
| Fixed assets | | | |
| Listed investments | | | |
| Ordinary shares | 34,064 | 24,288 | 18,612 |
| Convertibles | 1,231 | 1,484 | 1,419 |
| Corporate bonds | <u>12,633</u> | <u>9,010</u> | <u>8,814</u> |
| | 47,928 | 34,782 | 28,845 |
| Current assets | | | |
| Debtors | 830 | 613 | 454 |
| Investments of dealing subsidiary | 118 | – | 119 |
| Cash at bank and in hand | <u>1,525</u> | <u>339</u> | <u>2,383</u> |
| | 2,473 | 952 | 2,956 |
| Creditors: amounts falling due within one year | <u>(731)</u> | <u>(1,487)</u> | <u>(1,052)</u> |
| Net current assets/(liabilities) | <u>1,742</u> | <u>(535)</u> | <u>1,904</u> |
| Total assets less current liabilities | 49,670 | 34,247 | 30,749 |
| Creditors: amounts falling due after more than one year | | | |
| Zero coupon finance | <u>(17,624)</u> | <u>(13,085)</u> | <u>(12,930)</u> |
| Net assets | <u>32,046</u> | <u>21,162</u> | <u>17,819</u> |
| Capital and reserves | | | |
| Called up share capital | 12,244 | 9,254 | 9,254 |
| Share premium account | 8,992 | 4,837 | 4,837 |
| Special reserve | 5,000 | 5,000 | 5,000 |
| Realised capital reserve | 4,055 | 4,085 | 4,300 |
| Unrealised capital reserve | 832 | (2,930) | (6,362) |
| Revenue reserve | <u>923</u> | <u>916</u> | <u>790</u> |
| Equity shareholders' funds | <u>32,046</u> | <u>21,162</u> | <u>17,819</u> |
| Net asset value per share | 65.43p | 57.17p | 48.14p |

Consolidated Cash Flow Statement

for the half year ended 31 March 2004

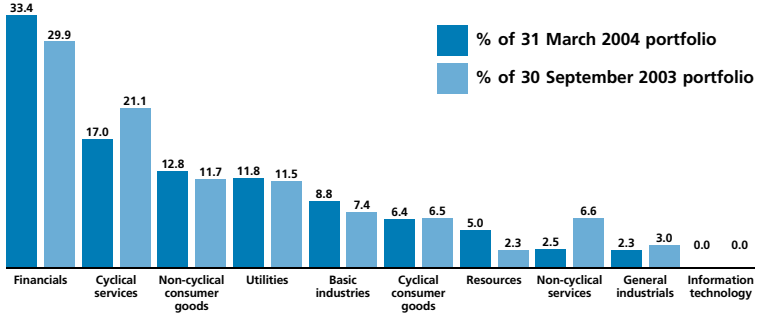
| | Half year to 31 March 2004 (unaudited) £000 | Half year to 31 March 2003 (unaudited) £000 | Year to 30 September 2003 (audited) £000 |
|---|---|---|--|
| Net cash inflow from operating activities | 660 | 770 | 1,923 |
| Servicing of Finance | | | |
| Interest paid | (3) | (62) | (61) |
| Taxation | | | |
| Corporation tax paid | (73) | – | (201) |
| Investing Activities | | | |
| Purchases of investments | (17,960) | (2,392) | (10,178) |
| Sales of investments | 9,024 | 7,596 | 12,847 |
| | (8,936) | 5,204 | 2,669 |
| Equity dividends paid | (1,415) | (1,033) | (1,795) |
| Net cash (outflow)/inflow before financing | (9,767) | 4,879 | 2,535 |
| Financing | | | |
| Issues of shares | 7,145 | 1,427 | 1,427 |
| Zero coupon finance | 4,108 | – | – |
| Debt due within one year – decrease in short-term borrowings | (300) | (3,000) | (2,700) |
| | 10,953 | (1,573) | (1,273) |
| Increase in cash | 1,186 | 3,306 | 1,262 |

Analysis of Changes in Net Debt

| | At 30 September 2003 £000 | Cash flows £000 | Other non- cash changes £000 | At 31 March 2004 £000 |
|--------------------------|------------------------------------|-----------------------|------------------------------------|--------------------------------|
| Cash at bank and in hand | 339 | 1,186 | – | 1,525 |
| Short-term borrowings | (300) | 300 | – | – |
| Zero coupon finance | (13,085) | (4,108) | (431) | (17,624) |
| | (13,046) | (2,622) | (431) | (16,099) |

Analysis of Equity Portfolio

(based on value of Ordinary Shares below)



The equity portfolio is wholly invested in the United Kingdom.

Portfolio of Investments

as at 31 March 2004

| | Market value £000 | % of total assets | | Market value £000 | % of total assets |
|---|----------------------|----------------------|--|----------------------|----------------------|
| Ordinary shares | | | | | |
| Pendragon | 2,197 | 4.4 | | | |
| Intermediate Capital | 1,879 | 3.8 | | | |
| EMI | 1,318 | 2.7 | | | |
| Liberty International | 1,282 | 2.6 | | | |
| Lloyds TSB | 1,244 | 2.5 | | | |
| Gallaher | 1,236 | 2.5 | | | |
| Bradford & Bingley | 1,183 | 2.4 | | | |
| Severn Trent | 1,181 | 2.4 | | | |
| RAC | 1,136 | 2.3 | | | |
| HSBC Holdings | 1,133 | 2.3 | | | |
| Holidaybreak | 1,132 | 2.3 | | | |
| United Utilities | 1,110 | 2.2 | | | |
| Tate & Lyle | 1,061 | 2.1 | | | |
| Aviva | 1,059 | 2.1 | | | |
| McCarthy & Stone | 1,002 | 2.0 | | | |
| Provident Financial | 977 | 2.0 | | | |
| BG | 968 | 2.0 | | | |
| Viridian | 959 | 1.9 | | | |
| Wolverhampton & Dudley Breweries | 954 | 1.9 | | | |
| Countrywide Assured | 930 | 1.9 | | | |
| British Sky Broadcasting | 907 | 1.8 | | | |
| Balfour Beatty | 867 | 1.7 | | | |
| Vodafone | 860 | 1.7 | | | |
| FKI | 777 | 1.6 | | | |
| Northern Foods | 764 | 1.5 | | | |
| Dairy Crest | 745 | 1.5 | | | |
| Consolidated Minerals | 735 | 1.5 | | | |
| Persimmon | 693 | 1.4 | | | |
| Scottish & Southern Energy | 687 | 1.4 | | | |
| Man Group | 656 | 1.3 | | | |
| Scottish & Newcastle | 555 | 1.1 | | | |
| City Natural Resources High Yield Trust | 523 | 1.1 | | | |
| Other (6) | 1,354 | 2.7 | | | |
| | <u>34,064</u> | <u>68.6</u> | | | |
| Convertibles | | | | | |
| Balfour Beatty 10.75p pref | 655 | 1.3 | | | |
| Northern Foods 6.75% 2008 | 294 | 0.6 | | | |
| Carlton Communications 6.5p | 282 | 0.6 | | | |
| | <u>1,231</u> | <u>2.5</u> | | | |
| Corporate bonds | | | | | |
| Bank of Scotland 8.117% 2010 | 1,477 | 3.0 | | | |
| Anglian Water Services Financing 6.7525% 2037 | 1,102 | 2.2 | | | |
| BOC Group 6.5% 2016 | 1,063 | 2.1 | | | |
| Hilton Group Finance 7.25% 2008 | 1,053 | 2.1 | | | |
| Woolworths Group 8.75% 2006 | 1,050 | 2.1 | | | |
| Northumbrian Water Finance 6% 2017 | 1,019 | 2.1 | | | |
| Compass Group 6.375% 2012 | 779 | 1.6 | | | |
| Household Finance 6.125% 2010 | 773 | 1.6 | | | |
| BT 7.5% 2016 | 575 | 1.2 | | | |
| GKN 7.0% 2012 | 529 | 1.1 | | | |
| Sainsbury 5.25% 2007 | 521 | 1.0 | | | |
| Scottish Mutual 7.25% 2021 | 515 | 1.0 | | | |
| Land Securities 5.875% 2013 | 505 | 1.0 | | | |
| VNU 5.625% 2010 | 497 | 1.0 | | | |
| National Westminster 7.625% 2010 | 443 | 0.9 | | | |
| Luxfer 10.125% 2004/09 | 410 | 0.8 | | | |
| Big Food Group 9.75% 2012 | 322 | 0.6 | | | |
| | <u>12,633</u> | <u>25.4</u> | | | |
| | <u>47,928</u> | <u>96.5</u> | | | |
| Net current assets | 1,742 | 3.5 | | | |
| Total assets | <u>49,670</u> | <u>100.0</u> | | | |

Distribution of Assets

| | Valuation at 30 September 2003 (audited) | | Purchases £000 | Sales £000 | Appreciation/ (Depreciation) £000 | Valuation at 31 March 2004 (unaudited) | |
|--|--|---------------|-------------------|----------------|---|--|---------------|
| | £000 | % | | | | £000 | % |
| Listed investments | | | | | | | |
| Ordinary shares | 24,288 | 114.8 | 14,287 | (8,744) | 4,233 | 34,064 | 106.3 |
| Convertibles | 1,484 | 7.0 | – | (280) | 27 | 1,231 | 3.9 |
| Corporate bonds | 9,010 | 42.5 | 3,673 | – | (50) | 12,633 | 39.4 |
| | <u>34,782</u> | <u>164.3</u> | <u>17,960</u> | <u>(9,024)</u> | <u>4,210</u> | <u>47,928</u> | <u>149.6</u> |
| Net current (liabilities)/ assets | (535) | (2.5) | | | | 1,742 | 5.4 |
| Total assets less current liabilities | 34,247 | 161.8 | | | | 49,670 | 155.0 |
| Zero coupon finance | <u>(13,085)</u> | <u>(61.8)</u> | | | | <u>(17,624)</u> | <u>(55.0)</u> |
| Net assets | <u>21,162</u> | <u>100.0</u> | | | | <u>32,046</u> | <u>100.0</u> |
| Net asset value per share | | 57.2p | | | | 65.4p | |

Glasgow Investment Managers Limited
(Authorised and regulated by the Financial Services Authority)

Glasgow Investment Managers (“*Glasgow*”), the company which manages Glasgow Income Trust plc, is principally owned by its directors and staff with an investment trust (Shires Income plc) holding the remaining interest.

Glasgow also manages two other investment trust companies:

- Shires Income plc
- Shires Smaller Companies plc.

Shares in Glasgow Income Trust plc, Shires Income plc and Shires Smaller Companies plc are also available within The Glasgow Investment Collection as detailed below.

The Glasgow Investment Collection

The Glasgow Investment Collection was launched in January 2004. It offers the opportunity for investors to choose to invest in one or a combination of all of the following three investment trusts: Glasgow Income Trust plc, Shires Income plc and Shires Smaller Companies plc, the investment trusts managed by Glasgow Investment Managers Limited (“*Glasgow*”). These investments can be made through an ISA, TrustPlan, PEP Transfer or a new Children’s Savings Plan.

The Glasgow Investment Collection offers:

- Regular Monthly Savings, from as little as £20 per month;
- Lump Sum Investment from £200;
- PEP or ISA Transfer;
- A Share Exchange Scheme;
- Dividend Reinvestment.

Further information may be obtained from *Glasgow* on FREEFONE 0800 435 797.

This page is issued and approved by Glasgow Investment Managers Limited, authorised and regulated by the Financial Services Authority. Past performance is not indicative of future performance. The price of shares and the income from them may go down as well as up and it is possible that investors may not get back the full amount invested on disposal of the shares.

Changes in the rates of exchange may cause the value of overseas investments to go down or up. High income investments, in order to meet their income objectives, may charge expenses to capital which in turn may erode the capital value of the investment to less than the amount invested. Funds that invest in the securities of smaller companies are likely to carry a higher degree of risk than most funds. In certain circumstances, the Manager may enter into derivatives transactions in order to manage risk in the portfolio and generate income. The market in these instruments can be highly volatile and there is a high risk of loss. Derivatives may only be used subject to the restrictions set out for the Trust.

Investment Trusts have the facility to borrow, which is known as “gearing”. Glasgow Income Trust plc participates in gearing. Normally gearing is measured as a percentage. A gearing percentage of 110% means that an Investment Trust with equity of £100 million has £10 million of borrowing(s). The level of gearing can change quite significantly depending on fluctuations in market levels. When there is a change in value of the Investment Trust’s underlying portfolio the use of gearing may result in exaggerated movements in the Trust’s net asset value. Gearing may also result in Investment Trust price movements being more volatile than the price movements in the Trust’s underlying investment portfolio.

The favourable tax treatment of PEPs and ISAs is subject to government legislation, and as such, may be changed. The value of tax relief will depend upon your individual circumstances.

GLASGOW

INVESTMENT MANAGERS

Authorised and regulated by the Financial Services Authority

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