

VALUE AND INCOME TRUST PLC

ANNUAL REPORT 2002



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COMPANY SUMMARY

AIMS OF THE TRUST

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

HIGHLIGHTS OF THE YEAR

- * Net asset value rose by 4.4% and share price by 11.7% (FTSE All-Share Index: -5.7%).
- * Net asset value total return +7.6% and share price total return +15.8% (FTSE All-Share Index: -3.2%).
- * Net dividend up 3.7% – 15th consecutive increase above inflation.

PRICE QUOTATIONS

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

LONG TERM RECORD

	30 Sept 1986	31 Mar 1987	31 Mar 1992	31 Mar 1993	31 Mar 1994	31 Mar 1995	31 Mar 1996	31 Mar 1997	31 Mar 1998	31 Mar 1999	31 Mar 2000	31 Mar 2001	31 Mar 2002
Net asset value per share (p)	44.0	55.1	70.6	92.5	111.7	110.0	127.4	143.6	169.6	167.0	173.3	177.4	185.3
Ordinary share price (p)	42.0	52.0	61.0	89.5	113.5	116.5	129.0	150.0	159.8	116.5	131.0	136.5	152.5
Dividend per share (p)	n/a	1.25	3.24	3.6	4.0	4.2	4.4	4.6	4.8	5.0	5.2	5.4	5.6
Portfolio total (£m)	17.4	24.8	49.4	59.0	68.4	69.0	82.4	90.0	112.9	111.7	114.6	116.4	120.0

CHAIRMAN'S STATEMENT

As you will see from the Investment Directors' report, Value and Income Trust has had another good year. Both the equity and the property portfolio performed well: the net asset value per share rose by 4.4% over the twelve months to 31 March 2002, whilst the FTSE All-Share Index fell by 5.7%. The proposed final dividend gives a total return of 7.6% for the year.

VIT has also performed well over the last three years with the consequence that OLIM has earned a performance fee. The fee is based on the total return to shareholders, that is taking the share price and dividends together, and requires the managers to beat the FTSE All-Share Index by ten percentage points over a three year period. This is not an easy target and has the advantage of being sufficiently ambitious to discourage the construction of a portfolio that resembles the FTSE All-Share Index.

We have been asked on a number of occasions about VIT's policy on borrowing. The coupons on our debenture stocks, details of which are shown on page 30, could lead potential investors to assume at first sight that VIT is an expensively and highly geared trust. As we have noted in previous Annual Reports, it is our belief that our gearing should be seen as providing long term finance for the property portfolio which has produced a high and growing yield and real capital growth for many years. Some of those who are enthusiastic about this method of investment in property have suggested that VIT should do more of it. This issue, the correct balance for the capital structure of VIT, is one of our primary

James Ferguson

concerns: our view is that it is about right in the present circumstances. We also believe that the balance between equities and property is broadly correct.

In general, the UK equity market is fairly valued, however, the attractive yields that are available for the sort of equities and properties in which VIT invests, will appeal to investors as they adjust to a new era. In these changed times the returns from equities will be much lower and the importance of the income part of the total return will be re-established. VIT is well positioned to benefit from this trend.

We expect to pay a total net dividend of 5.8p for the current year. This represents an increase of 3.6%.

James Ferguson

Chairman

3 May 2002

DIRECTORS AND ADVISERS

James Ferguson

*Chairman – non-executive**

James Ferguson, aged 54, is a former Chairman of Stewart Ivory. He is a graduate in economics and political science from Trinity College, Dublin. He joined Stewart Ivory in 1970 and became a director in 1975 and chairman in 1989, retiring in July 2000. He is also a director of The Independent Investment Trust and former Deputy Chairman of the Association of Investment Trust Companies.

David Back

*Non-executive director**

David Back, aged 62, has worked within the investment sector since 1960 with a leading London based stockbroker. He retired from SBC Warburg in 1998.

Angela Lascelles

Joint Investment Director

Angela Lascelles, aged 54, has been professionally engaged in investment business since graduating in philosophy from London University. She spent four years in stockbroking before becoming a fund manager, first of an investment trust, then at the Associated British Foods Pension Fund and at Courtaulds Pension Fund from 1979 until 1986. She has been an executive director of OLIM since 1986.

*Member of the Audit Committee

John Kay

*Non-executive director**

John Kay, aged 53, is an economist specialising in the application of economics to business issues. He has been chairman of London Economics, a director of several other companies, has held classes at the London Business School and Oxford University and is currently a visiting Professor of Economics at the London School of Economics.

Matthew Oakeshott

Joint Investment Director

Matthew Oakeshott, aged 55, after studying economics at Oxford University and a period as special adviser to Mr Roy Jenkins as Home Secretary, joined S.G. Warburg & Co Ltd in 1976 and became a director of Warburg Investment Management Ltd in 1978. He was Investment Manager of Courtaulds Pension Fund from 1981 to 1985. He has been an executive director of OLIM since 1986. He is a Life Peer.

Investment Manager

OLIM Limited

Pollen House,

10/12 Cork Street

London W1S 3NP

Tel: 020 7439 4400

Secretary and

Registered Office

Edinburgh Fund Managers plc

Donaldson House

97 Haymarket Terrace

Edinburgh EH12 5HD

Tel: 0131 313 1000

Registrars and Transfer Office

Computershare Services PLC

PO Box 435, Owen House

8 Bankhead Crossway North

Edinburgh EH11 4BR

Tel: 0131 556 8555

Auditors

Chiene & Tait CA

61 Dublin Street

Edinburgh EH3 6NL

Property Managers

Workman & Partners

Marble Arch House

66/68 Seymour Street

London W1H 6EP

INVESTMENT DIRECTORS' REPORT

EQUITY PORTFOLIO

MARKET BACKGROUND

UK equities fell by 5.7% in the twelve months to end March 2002, measured by the FTSE All-Share Index. This was the second successive year that the Index fell, making a fall of 17.8% over the last two years. The FTSE All-Share Index is the broadest measure of our equity market but it is heavily weighted by the largest 100 companies which account for 84% of the total universe of 718 companies. Medium sized companies, the next 250 largest companies, make up the next 13% of the FTSE All-Share Index and small companies, with capitalisations of under £300m and numbering 368, are just 3%. The Mid 250 Index rose by 1.3% during the year and the SmallCap Index fell by 11.6%.

VIT's equity portfolio is heavily concentrated in medium and small sized companies and it rose by 4.1%. In the last two years it has risen by 5.8%, a capital outperformance of 23.6 percentage points compared with the FTSE All-Share Index.

This two year period has seen an extraordinary outperformance by high yielding medium sized companies, following the distorted valuations of technology related companies that built up in 1999 and early in 2000. The unwinding of this distortion has caused severe weakness in the market as a whole but not in the sensibly valued companies which are contained in our portfolio.

During this time the UK economy overall has performed steadily. Last year the rate of growth in GDP slowed to under 2% affected by much weaker growth overseas. Manufacturing sectors were particularly hit by

Matthew Oakeshott and Angela Lascelles

the uncompetitive exchange rate compared to the euro. Inflation has remained very low by post war standards and the political scene has been stable. Following the tragic events of September 11th, there was widespread fear of a recession in America, spreading to Europe, but confidence steadily returned and by Christmas consumer spending was buoyant. Our year closed with upgraded forecasts for economic growth both in America and here.

INVESTMENT POLICY

As the economy slowed in the middle of our year we weeded out the weaker companies and sold complete holdings of Corporate Services convertible preference, Chubb, Kidde, Nationwide Accident Repair and Express Dairies. We sold Whitbread due to its reduced dividend. We switched holdings in the utility

SUMMARY OF PORTFOLIO

	31 March 2002		31 March 2001	
	£m	%	£m	%
UK equities	72.6	61	72.6	62
UK property	38.8	32	39.8	34
Cash	8.6	7	4.0	4
	120.0	100	116.4	100

INVESTMENT DIRECTORS' REPORT

sectors and reduced Glaxosmithkline. In the second half we sold complete holdings of Cable & Wireless, Mucklow and Woolworths. We bought Haslemere early in the year and then sold it after it received a takeover approach. During the year we also bought new holdings in Kelda, Homestyle, T&S Stores, British Vita, Wolverhampton & Dudley Breweries, Scottish & Newcastle, Cookson convertible bond and Trinity Mirror. The new holdings were all acquired on yields of 4% net or above. We made net sales of £2.4m over the year as a whole. The strategy behind these changes was to upgrade the quality of the holdings and improve the yield on the portfolio.

PERFORMANCE

VIT's equity portfolio gave a total return, including income, of +8.7% last year compared with -3.2% by the FTSE All-Share Index. In the last two years VIT's return has been +15.7%

compared with a return of -13.7% by the Index.

OUTLOOK

Our view of UK equities remains modestly optimistic in the next few months. Profits forecasts have been upgraded in recent weeks, and the downside risk to forecasts has much diminished. The recent rise in bond yields, however, has made the valuation of the market overall quite demanding. We are disturbed at the growing trend for some companies to cut dividend payments and fear that this trend could undermine the equity market if it becomes widespread. We think the best returns will continue to come from higher yielding mid sized companies.

3 May 2002

INVESTMENT DIRECTORS' REPORT

List of Equity Holdings as at 31 March 2002

Holding	Description	Market Value (£)
308,000	Vosper Thornycroft. Traditionally a manufacturer of minesweepers and other warships, more than half its business is now in non defence marine activities, and activities 'contracted out' by the MOD and other institutions.	4,535,300
600,000	Scottish & Southern Energy. The merged Scottish Hydro-Electric (supplying electricity in Northern Scotland) and Southern Electricity (supplying south central England).	4,080,000
1,030,000	Kelda Group. The main water supplier in North East England, it is also acquiring water businesses in the eastern states of the USA.	4,011,850
750,000	Shell Transport & Trading. It has a 40% holding in one of the largest integrated oil and gas groups in the world. It has vigorously restructured and cut costs in recent years.	3,922,500
500,000	United Utilities. The combined NorthWest Water and Norweb electricity undertaking.	3,055,000
1,750,000	Northern Foods. The leading food manufacturer and supplier of prepared and convenience foods to supermarkets.	3,053,750
400,000	HBOS. A leading Scottish bank, its activities are also extending steadily into England. Recently merged with the Halifax.	3,034,000
722,431	AMEC. An international engineering, construction and development group, a growing proportion of its revenues arise from contracted out services.	2,976,416
730,000	Johnson Service Group. Its largest business is textile rentals and it has a chain of dry cleaning shops.	2,774,000
1,000,000	Innogy Holdings. It holds the de-merged UK electricity generating interests of National Power and Yorkshire Electricity. It has just received a takeover bid at 275p per share.	2,700,000
400,000	BP. The leading international oil company.	2,500,000
300,000	Britannic. An old-established life insurance company with asset management and specialist insurance subsidiaries.	2,148,000
200,000	Abbey National. The bank and former building society.	1,992,000
750,000	Reckitt & Colman 9.5% Conv. Bond. The manufacturer of leading brands of household goods.	1,820,625
750,000	Heywood Williams. The principal activities are the manufacture and distribution of component products for the building industry.	1,762,500
1,850,000	Dawson Holdings. Its main activity is as the third largest UK newspaper and magazine wholesaler.	1,702,000
100,000	GlaxoSmithKline. The UK's largest pharmaceutical company.	1,654,000
409,090	Kingfisher. A retail company, it owns B&Q and Comet in the UK, and Castorama and Darty in France.	1,583,178

Holding	Description	Market Value (£)
500,000	T & S Stores. A food retailer specialising in convenience stores.	1,560,000
400,000	Rotork. The world's leading manufacturer of actuators serving particularly the oil and gas industries.	1,534,000
500,000	Safeway. The eponymous supermarket chain.	1,468,750
309,000	Compass Group. De-merged from Granada Compass, the company operates hotels and catering business.	1,452,300
200,000	Lloyds TSB Group. The UK banking group.	1,442,000
291,000	W H Smith. A major UK retailing company, it has acquired publishing companies and established a successful book selling business on the Internet.	1,402,620
750,000	BAE Systems 7.75% Conv. Preference. An aircraft manufacturer, the company acquired Marconi Electronic Systems.	1,344,375
250,000	Mersey Docks & Harbour. Operates the Port of Liverpool.	1,327,500
225,000	Scottish & Newcastle. The UK's largest brewing company, it also owns pubs.	1,260,000
432,000	Marshalls. The company is a manufacturer of concrete blocks and a quarry owner.	1,231,200
250,000	Trinity Mirror. The company publishes the Mirror Group's national newspapers and several regional newspapers.	1,221,250
1,200,000	Laing (John) 6.4% Conv. Preference. The company has interests in construction and house building.	1,200,000
172,881	Wolverhampton & Dudley Breweries. The regional brewer and pub operator.	1,175,591
400,000	Homestyle. A retailer of furniture, beds and soft furnishings.	1,098,000
445,000	British Vita. A chemical company operating mainly in the UK and USA.	1,030,175
1,000,000	Body Shop International. A retailer with shops in Europe, America and the Far East.	965,000
360,000	Volex Group. Manufactures a wide range of electrical and electronic interconnect products and has operations in Europe, the Americas and South East Asia.	756,000
750,000	Cookson Group. The main business supplies material and services to assemblers of printed circuit boards. They also supply ceramics to the steel industry and have a precious metals business.	731,250
750,000	Cookson Group 7% Conv. Bond. (see above)	695,625
166,666	De Vere Group. Owns De Vere Hotels. It was formerly Greenalls Group until it sold its pubs and restaurants.	591,664
195,000	British Telecommunications. The former public utility supplying wireline telephony.	546,000
Total Holdings		73,338,419

INVESTMENT DIRECTORS' REPORT

PROPERTY PORTFOLIO

THE MARKET

Institutional property portfolios have produced an average total return of 7% over the past year, as measured by the Investment Property Databank (IPD). Capital values were broadly stable, with an average rise of 3.5% in underlying rental values offset by rising valuation yields. Rental growth tapered off over the year and average property rents are now flat.

This steady performance and substantial real return, in a year when equities and bonds were both volatile and disappointing, illustrates the attractions of property as a defensive asset class

in a period of low inflation. As Table 1 shows property has substantially outperformed UK equities and long gilts over 1, 3 and 5 years and is slightly behind equities and gilts over 10 years.

The overall return on commercial property over the next twelve months may be similar to the last twelve, with average capital values little changed and a high running yield. Different sectors and regions will, however show a marked divergence. Offices in London and South East England are suffering weak tenant demand and falling rental and capital values, but the outlook for retail property is much better. Consumer spending is holding up well, especially away from London, retailers are taking new space steadily both in and out of town, and rents are edging ahead. Capital values are also rising as institutional investors recover their nerve after their crisis of confidence in retail property over the past two years and private buyers remain very active. Values in the industrial/warehouse sector may be flat.

Property's yield advantage over equities and gilts remains high, and particularly attractive in an environment where income rather than rapid capital gains is likely to be the key to success in most forms of investment over the next few years.

COMPARATIVE TOTAL RETURNS PER ANNUM TO MARCH 2002

	UK Property	UK Equities	UK Long Gilts
1 Year	7.2	-3.2	1.8
3 Years	10.5	-1.7	3.4
5 Years	11.6	6.7	8.4
10 Years	10.4	11.9	10.6

Table 1: Source: IPD

EQUIVALENT YIELDS

Equivalent yields	end March 02	end Dec 00	end Dec 98	end Dec 96	end Dec 91
Retail	7.9	7.5	7.4	8.0	8.9
Office	9.2	8.9	8.9	9.2	10.0
Industrial	9.1	8.9	9.6	10.6	11.3
All Property	8.6	8.3	8.2	8.8	9.8
UK Equities	2.7	2.2	2.9	3.7	5.0
Gilts	5.2	4.7	4.5	7.7	9.5
R.P.I. (Annual Rate)	1.3	3.2	2.8	2.5	4.5
Yield Gaps: Property – Gilts	3.4	3.6	3.7	1.1	0.3
Property – Equities	5.9	6.1	5.3	5.1	4.8

Table 2: Source: IPD

INVESTMENT DIRECTORS' REPORT

TOP 10 TENANTS - % OF TOTAL RENT

	%
Sainsburys	18
Woolworths	12
Old Monk	8
Sytner Group	8
Leisure Group GB	7
W H Smith	6
Lloyds TSB	4
Clydesdale Bank	3
Diageo	3
Superdrug	2
	71

VIT'S PROPERTY RECORD

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

THE VIT PORTFOLIO

VIT's property portfolio produced a total return of 13% over the year to March, compared with the IPD Index return of 7%. Capital growth was 5% plus an 8% income return.

Nine properties were sold during the year for £6.9m (11% over valuation and at a 6.5% net yield). Most were small shops, sold into the strong auction market; the pub/restaurant at Solihull was also profitably sold for redevelopment as a retail warehouse. Two retail properties, at Ayr and St. Anne's-on-Sea, were bought for £3.7m at a net initial yield of 8.7%. Their valuation showed a 13% uplift over their purchase prices excluding costs (+8% including costs). We intend to reinvest the year's net property sale proceeds of £3.2m in similar larger properties with higher yields and better growth prospects than the small properties we have sold.

Rental values rose by 2% on properties held throughout the year. Capital gains were mainly due to a favourable shift in valuation yield on properties in our specialist niche, particularly smaller well-let shops and banks in prosperous towns where new private and debt-driven buyers have been driving yields down.

We focus on long, strong income streams to meet the fixed interest payments on our long term debt. Over 83% of the total rent is from quoted companies, mainly national multiple retailers. The weighted average unexpired lease length is 20 years. All leases are on full repairing and insuring terms, with upward only rent reviews. 97% of income is reviewed five yearly and 41% of rental income is subject to guaranteed minimum increases. The portfolio has been fully let for the past seven years.

RESULTS OF INDEPENDENT REVALUATION

The VIT property portfolio, including properties held within our subsidiary Audax Properties plc, was subject to an independent professional revaluation by Messrs King Sturge and Co. at 31 March 2002.

The revaluation showed a value of £38,800,000; properties within VIT were valued at £16,925,000 while Audax properties totalled £21,875,000. We intend to commission an independent revaluation of properties at 31 March each year.

All 28 properties owned at 31 March were freehold or the Scottish equivalent. The average property value is now £1,385,000 compared with £1,138,000 last year and £673,000 three years ago.

INVESTMENT DIRECTORS' REPORT

List of Properties as at 31 March 2002

Address	Tenant
Shops	
Aberdeen - 221-227 Union Street	Diageo, Jaeger, Unichem
Airdrie - 20-26 Graham Street	Woolworths
Ayr - 83 High Street	Blacks Leisure
Dundee - 261 Brook Street, Broughty Ferry	Mackays and Superdrug
Edinburgh - 30 North Bridge	Clydesdale Bank
Elgin - 163 High Street	Woolworths
Glasgow - 412-418 Dumbarton Road, Partick	Woolworths
Gloucester - 18-20 Northgate Street	Signet
Godalming - 80-82 High Street	WH Smith
Haddington - 54-56 Court Street	Clydesdale Bank
Kelso - 8-16 Horsemarket	Mackays and WH Smith
Lymington - 78-80 High Street	Woolworths
Melton Mowbray - 29-29B Market Place	W H Smith
Oban - 42 George Street	Edinburgh Woollen Mill
Selby - 36 Gowthorpe	Halifax
Sevenoaks - 87-93 High Street	Abbey National, Oxfam and QS Holdings
St. Andrews - 76 South Street	Clydesdale Bank
St. Anne's-on-Sea - Units 1-7, Burlington Centre	New Look, Stead & Simpson, Signet, Thomas Cook,
St. Anne's Road West	Superdrug, Iceland and Benetton
Worcester - 4 The Cross	Lloyds TSB
Other retail	
Belfast - Longwood Road, Newtownabbey	Sainsburys
Hereford - Harrow Road	Magnet
Oxford - 171/173 Cumnor Hill	Sytner Group
Leisure	
Derby - 17/18 Cornmarket	Kentucky Fried Chicken
Dover - St. Margarets Holdiay Park, Reach Road	Leisure Group GB
Highclere - The Yew Tree, Andover Road	Old Monk
Sherborne - The Cross Keys, 88 Cheap Street	Eldridge Pope
Stratford-on-Avon - 1 Guild Street (Bar Humbug)	Old Monk
Whitstable - Chestfield Barn	Old Monk

DIRECTORS' REPORT

The directors have pleasure in submitting their report and the consolidated accounts for the year ended 31 March 2002.

Company has subsequently conducted its affairs so as to enable it to continue to meet the conditions for such approval.

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

	2002 £000	2001 £000
Income available for ordinary shareholders	2,589	2,295
Dividends – Interim of 2.8p paid 3 January 2002	1,276	1,230
Recommended final of 2.8p payable 8 July 2002	1,275	1,230
Transfer to/(from) Revenue Reserve	38	(165)

Table 1 Results

PRINCIPAL ACTIVITY AND STATUS

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

The Company is an investment company within the meaning of the Companies Act 1985. The Inland Revenue has approved the Company's status as an investment trust for the purposes of the Income and Corporation Taxes Act 1988 for the year ended 31 March 2001. In the opinion of the directors, the

DIRECTORS

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

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

In addition Angela Lascelles and Matthew Oakeshott had a beneficial interest in the 229,736 ordinary shares (2001–229,736) held by The OLIM Limited Retirement and Death Benefit Scheme at 31 March 2002.

There were no changes to these holdings between 31 March and 3 May 2002.

	31 March 2002	31 March 2001
J G D Ferguson	315,000	315,000
J G D Ferguson – Family	166,000	166,000
D H Back	15,000	5,000
J A Kay	104,110	104,110
J A Kay – as Trustee	52,330	52,330
Mrs A M Lascelles	350,000	350,000
Mrs A M Lascelles – Family	250,000	250,000
Mrs A M Lascelles – as Trustee	12,000	12,000
M A Oakeshott	1,129,500	1,129,500
M A Oakeshott – Family	1,517,914	1,428,500

Table 2 Directors and their interests in the company

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

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

Angela Lascelles and Matthew Oakeshott are directors and shareholders of OLIM Limited, which received a fee of £1,492,000 (2001–£781,000) in respect of investment management services for the year. Details of the investment management agreement are given opposite.

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

MANAGEMENT

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

OLIM is also entitled to a performance fee, if the total returns to shareholders from their investment in VIT exceed the total return on the FTSE All-Share Index by more than 10 percentage points in any three year period. The objective of the performance bonus is to give the management company 10% of the additional value generated for shareholders by such outperformance. A performance fee of £758,049 was payable this year and has been charged wholly to capital (2001-£nil).

SUBSTANTIAL SHAREHOLDERS

In addition to the directors' interests indicated in Table 2 at 3 May 2002, the Company was aware of the following interest exceeding 3% of the issued ordinary shares: The Scottish American Investment Company plc holding 3,150,000 ordinary shares (6.9%).

SAVINGS SCHEME

As at 31 March 2002, there were 1,404,658 shares held on behalf of the participants in the VIT Savings Scheme.

INDIVIDUAL SAVINGS ACCOUNTS

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

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

CREDITOR PAYMENT POLICY

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

FINANCE RISK MANAGEMENT

The Company's financial instruments comprise long-term borrowings, investments, cash and bank deposits and other short-term debtors and creditors. The Board considers that the main risks arising from the Company's financial instruments are interest rate risk, market price and liquidity risk. Interest rate risk is described in Note 13. Market price and liquidity risk are minimised by the Company's prudent closed-end financial structure and long-term borrowings, thus avoiding the need for forced sales of investments at low prices. Liquidity awaiting long-term investment is held in UK clearing banks or short-dated gilt-edged stock.

DIRECTORS' REPORT

CORPORATE GOVERNANCE

The Board confirms that the Company has (with the following exception) complied with all material aspects of the Combined Code on Corporate Governance relevant to an investment trust throughout the year, the exception is that there is no separate Remuneration Committee. In view of the composition of the Board and other relevant circumstances, the Board considers these matters to be satisfactory. The Company's Articles of Association require that one-third of the directors retire by rotation each year and seek re-election at the annual general meeting. In addition, all directors are required to submit themselves for re-election at least every three years. If required, directors are able to take professional advice at the Company's expense. A majority of the Board is independent of the Management Company and matters concerning the *appointment and remuneration of directors* are dealt with by the Board rather than by Committees of the Board.

The executive directors do not receive any remuneration directly from the Company, and accordingly no additional report on executive directors' remuneration is required. They are remunerated by OLIM Limited which received investment management fees from the Company as noted on page 17.

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

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

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

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

DIRECTORS' REPORT

AUDITORS

A resolution to re-appoint Chiene & Tait, C.A., as auditors of the Company will be proposed at the annual general meeting.

ANNUAL GENERAL MEETING

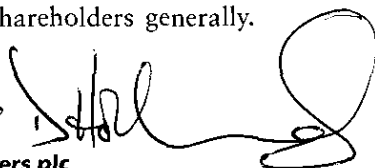
– SPECIAL BUSINESS

The following item of special business will be proposed at the forthcoming annual general meeting:

REPURCHASE OF THE COMPANY'S OWN SHARES

Special resolution 6 will be proposed to authorise the Company to make market purchases of its own shares. This authority, if conferred, will only be exercised if to do so would enhance the net asset value and is in the best interests of shareholders generally.

By order of the board,



Edinburgh Fund Managers plc

Secretary

Edinburgh, 3 May 2002

CONSOLIDATED STATEMENT OF TOTAL RETURN

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

	Notes	Revenue £000	2002 Capital £000	Total £000	Revenue £000	2001 (restated) Capital £000	Total £000
INCOME							
<i>Securities:</i>	2						
Dividends from UK companies		3,212	—	3,212	3,051	—	3,051
Interest from UK companies		185	—	185	151	—	151
<i>Properties:</i>							
Rents		3,357	—	3,357	3,051	—	3,051
Interest on deposits		174	—	174	334	—	334
Underwriting commission		4	—	4	8	—	8
Other income		17	—	17	13	—	13
		<u>6,949</u>	<u>—</u>	<u>6,949</u>	<u>6,608</u>	<u>—</u>	<u>6,608</u>
EXPENSES							
Investment management fee	3	(417)	(1,273)	(1,690)	(435)	(435)	(870)
Administration expenses	4	(339)	—	(339)	(377)	—	(377)
		<u>6,193</u>	<u>(1,273)</u>	<u>4,920</u>	<u>5,796</u>	<u>(435)</u>	<u>5,361</u>
CAPITAL PROFITS/(LOSSES)							
Net realised gains on investments in the year		—	23	23	—	4,567	4,567
Movement in unrealised appreciation in the year		—	4,683	4,683	—	(2,087)	(2,087)
		<u>—</u>	<u>4,706</u>	<u>4,706</u>	<u>—</u>	<u>2,480</u>	<u>2,480</u>
NET RETURN BEFORE INTEREST PAYMENT AND TAX							
Interest payable	5	(3,501)	—	(3,501)	(3,501)	—	(3,501)
		<u>6,193</u>	<u>3,433</u>	<u>9,626</u>	<u>5,796</u>	<u>2,045</u>	<u>7,841</u>
RETURN ON ORDINARY ACTIVITIES BEFORE TAX							
Tax on ordinary activities	6	(103)	103	—	—	—	—
		<u>2,692</u>	<u>3,433</u>	<u>6,125</u>	<u>2,295</u>	<u>2,045</u>	<u>4,340</u>
RETURN ATTRIBUTABLE TO EQUITY SHAREHOLDERS							
Dividends in respect of ordinary shares	7	(2,551)	—	(2,551)	(2,460)	—	(2,460)
		<u>38</u>	<u>3,536</u>	<u>3,574</u>	<u>(165)</u>	<u>2,045</u>	<u>1,880</u>
TRANSFER TO/(FROM) RESERVES							
		<u>38</u>	<u>3,536</u>	<u>3,574</u>	<u>(165)</u>	<u>2,045</u>	<u>1,880</u>
RETURN PER ORDINARY SHARE							
	8	<u>5.68p</u>	<u>7.76p</u>	<u>13.44p</u>	<u>5.04p</u>	<u>4.49p</u>	<u>9.53p</u>
DIVIDEND PER ORDINARY SHARE							
		<u>5.60p</u>			<u>5.40p</u>		

The revenue column of this statement represents the revenue account of the company.
All revenue and capital items in the above statement derive from continuing operations.
The notes on pages 25 to 32 form part of these accounts.

COMPANY STATEMENT OF TOTAL RETURN

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

	Notes	Revenue £000	2002 Capital £000	Total £000	Revenue £000	2001 Capital £000	Total £000
INCOME							
<i>Securities:</i>	2						
Dividends from UK companies		3,212	—	3,212	3,051	—	3,051
Interest from UK companies		185	—	185	151	—	151
<i>Properties:</i>							
Rents		1,366	—	1,366	1,183	—	1,183
Interest on deposits		126	—	126	228	—	228
Other income		4	—	4	3	—	3
		<u>4,893</u>	<u>—</u>	<u>4,893</u>	<u>4,616</u>	<u>—</u>	<u>4,616</u>
EXPENSES							
Investment management fee	3	(295)	(1,150)	(1,445)	(302)	(302)	(604)
Administration expenses	4	(234)	—	(234)	(272)	—	(272)
		<u>4,364</u>	<u>(1,150)</u>	<u>3,214</u>	<u>4,042</u>	<u>(302)</u>	<u>3,740</u>
CAPITAL PROFITS/(LOSSES)							
Net realised (losses)/gains on investments in the year		—	(1,337)	(1,337)	—	4,558	4,558
Movement in unrealised appreciation in the year		—	4,506	4,506	—	(2,511)	(2,511)
		<u>—</u>	<u>4,506</u>	<u>4,506</u>	<u>—</u>	<u>(2,511)</u>	<u>(2,511)</u>
NET RETURN BEFORE INTEREST PAYMENT AND TAX							
Interest payable	5	(1,851)	—	(1,851)	(1,851)	—	(1,851)
		<u>4,364</u>	<u>2,019</u>	<u>6,383</u>	<u>4,042</u>	<u>1,745</u>	<u>5,787</u>
RETURN ON ORDINARY ACTIVITIES BEFORE TAX							
Tax on ordinary activities	6	211	103	314	—	—	—
		<u>2,513</u>	<u>2,019</u>	<u>4,532</u>	<u>2,191</u>	<u>1,745</u>	<u>3,936</u>
RETURN ATTRIBUTABLE TO EQUITY SHAREHOLDERS							
Dividends in respect of ordinary shares	7	(2,551)	—	(2,551)	(2,460)	—	(2,460)
		<u>173</u>	<u>2,122</u>	<u>2,295</u>	<u>(269)</u>	<u>1,745</u>	<u>1,476</u>
TRANSFER TO/(FROM) RESERVES							
		<u>173</u>	<u>2,122</u>	<u>2,295</u>	<u>(269)</u>	<u>1,745</u>	<u>1,476</u>
RETURN PER ORDINARY SHARE							
	8	<u>5.98p</u>	<u>4.66p</u>	<u>10.64p</u>	<u>4.81p</u>	<u>3.83p</u>	<u>8.64p</u>
DIVIDEND PER ORDINARY SHARE							
		<u>5.60p</u>			<u>5.40p</u>		

The revenue column of this statement represents the revenue account of the company.
 All revenue and capital items in the above statement derive from continuing operations.
 The notes on pages 25 to 32 form part of these accounts.

CONSOLIDATED BALANCE SHEET

at 31 March

	Notes	2002 £000	2001 (restated) £000
INVESTMENTS	9		
Listed in UK		73,339	74,382
Investment properties		38,800	39,825
		<u>112,139</u>	<u>114,207</u>
CURRENT ASSETS			
Debtors	10	451	2,352
Cash and short term deposits		11,095	2,547
		<u>11,546</u>	<u>4,899</u>
CURRENT LIABILITIES:			
DUE WITHIN ONE YEAR			
Creditors	11	2,432	1,448
Dividend payable	12	1,275	1,230
		<u>3,707</u>	<u>2,678</u>
NET CURRENT ASSETS		<u>7,839</u>	<u>2,221</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>119,978</u>	<u>116,428</u>
CREDITORS: DUE AFTER ONE YEAR	13	35,587	35,611
		<u>84,391</u>	<u>80,817</u>
CAPITAL AND RESERVES			
SHARE CAPITAL – ORDINARY	14	4,555	4,555
RESERVES	15		
Share premium account		18,446	18,446
Capital reserve – realised		33,351	34,498
Capital reserve – unrealised		15,198	10,823
Revaluation reserve		11,553	11,245
Revenue reserve		<u>1,288</u>	<u>1,250</u>
		<u>79,836</u>	<u>76,262</u>
EQUITY SHAREHOLDERS' FUNDS	16	<u>84,391</u>	<u>80,817</u>
NET ASSET VALUE PER ORDINARY SHARE	17	<u>185.27p</u>	<u>177.43p</u>

These accounts were approved by the Board on 3 May 2002 and were signed on its behalf by:

JAMES FERGUSON, Director

MATTHEW OAKESHOTT, Director

The notes on pages 25 to 32 form part of these accounts.

COMPANY BALANCE SHEET

at 31 March

	Notes	2002 £000	2001 (restated) £000
INVESTMENTS	9		
Listed in UK		73,339	74,382
Subsidiaries		25	25
		<u>73,364</u>	<u>74,407</u>
Investment properties		16,925	14,900
		<u>90,289</u>	<u>89,307</u>
CURRENT ASSETS			
Debtors	10	741	2,494
Cash and short term deposits		5,497	1,638
		<u>6,238</u>	<u>4,132</u>
CURRENT LIABILITIES:			
DUE WITHIN ONE YEAR			
Creditors	11	1,599	827
Dividend payable	12	1,275	1,230
		<u>2,874</u>	<u>2,057</u>
NET CURRENT ASSETS		<u>3,364</u>	<u>2,075</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>93,653</u>	<u>91,382</u>
CREDITORS: DUE AFTER ONE YEAR	13	20,587	20,611
		<u>73,066</u>	<u>70,771</u>
CAPITAL AND RESERVES			
SHARE CAPITAL – ORDINARY	14	4,555	4,555
RESERVES	15		
Share premium account		18,446	18,446
Capital reserve – realised		28,690	31,074
Capital reserve – unrealised		15,197	10,823
Revaluation reserve		4,788	4,656
Revenue reserve		1,390	1,217
		<u>68,511</u>	<u>66,216</u>
EQUITY SHAREHOLDERS' FUNDS	16	<u>73,066</u>	<u>70,771</u>

These accounts were approved by the Board on 3 May 2002 and were signed on its behalf by:

JAMES FERGUSON, Director

MATTHEW OAKESHOTT, Director

The notes on pages 25 to 32 form part of these accounts

J.Ferguson
M.Oakeshott

CONSOLIDATED CASHFLOW STATEMENT

for the year ended 31 March

	Notes	2002 £000	2001 £000
OPERATING ACTIVITIES			
Dividends received from investments		3,442	3,195
Rental income		3,366	3,020
Interest received		173	333
Other income		21	21
<i>Investment management fees paid</i>		(1,755)	(881)
Administration fees paid		(88)	(115)
Directors' fees paid		(24)	(25)
Other cash payments		(202)	(121)
NET CASH INFLOW			
FROM OPERATING ACTIVITIES	18	4,933	5,427
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
<i>Interest paid</i>		(3,525)	(3,526)
TAXATION			
Tax paid		(133)	(34)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Purchase of investments		(23,358)	(34,630)
Sale of investments		33,136	33,182
NET CASH INFLOW/(OUTFLOW) FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		9,778	(1,448)
Equity dividends paid		(2,505)	(2,414)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING		8,548	(1,995)
INCREASE/(DECREASE) IN CASH	18	8,548	(1,995)

The notes on pages 25 to 32 form part of these accounts.

NOTES TO THE ACCOUNTS

1 Accounting policies

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

(b) **Basis of consolidation**—The Group accounts consolidate the accounts of Value and Income Trust plc and its wholly-owned subsidiaries made up to 31 March 2002. Audax Properties plc and VIT Securities Limited, both subsidiaries of the company, charge expenses wholly to income. On consolidation, however, an adjustment has been made to charge 50% of the investment management fee paid by Audax Properties plc to capital. A prior year adjustment of £133,000 has been made to the 2001 figures to reflect the effect of this change on a consistent basis. Had the accounting policy remained unchanged for the year ended 31 March 2002, the revenue and capital returns on ordinary activities after tax would have been £2,466,000 and £3,659,000 respectively. The allocation has no effect on the total return of the Company or the Group.

(c) **Income and expenses** –

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

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

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

- (d) **Deferred Tax**—Following FRS 19, provision is made for deferred taxation on all timing differences. In accordance with the standard no deferred taxation is provided on timing differences arising from the revaluation of properties where there is no commitment to sell. The Group has an unrecognised deferred tax asset of £1,214,000. This has arisen from deductible expenses exceeding taxable income. *As this situation exists year on year, there are*

NOTES TO THE ACCOUNTS

1 Accounting policies—contd

no foreseeable circumstances in which this asset will be utilised.

(e) Investments –

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

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

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

Interest payable on borrowings is charged in full to income.

	2002		2001 (restated)	
	Group £000	Company £000	Group £000	Company £000
2 Income from securities				
Listed in UK	<u>3,397</u>	<u>3,397</u>	<u>3,202</u>	<u>3,202</u>
3 Investment management fee				
Investment management fee (including irrecoverable VAT)	835	590	870	604
Performance fee (including irrecoverable VAT)	<u>855</u>	<u>855</u>	<u>—</u>	<u>—</u>
	1,690	1,445	870	604
Performance fee charged against capital reserve – realised	(855)	(855)	—	—
Charged against capital reserve – realised (see note 1(c)(iv))	<u>(418)</u>	<u>(295)</u>	<u>(435)</u>	<u>(302)</u>
	<u>417</u>	<u>295</u>	<u>435</u>	<u>302</u>

NOTES TO THE ACCOUNTS

	2002		2001	
	Group £000	Company £000	Group £000	Company £000
4 Administrative expenses				
Auditors' remuneration				
– audit	8	5	8	5
– non audit (including taxation)	4	4	3	3
– out of pocket expenses	2	2	—	—
Directors' fees	28	28	22	22
Fees for secretarial services	105	70	106	70
Property management, irrecoverable				
VAT and other expenses	192	125	238	172
	<u>339</u>	<u>234</u>	<u>377</u>	<u>272</u>

Non-executive directors' fees comprise the chairman's fee of £12,000 (2001–£11,000) per annum and £8,000 (2001–£5,000) per annum to each other non-executive director.

Neither executive director received any emoluments directly from the Company (2001–nil). The executive directors are shareholders and directors of OLIM Limited which received an investment management fee of £734,000 (2001–£781,000) and a performance fee of £758,000 (2001–nil), the bases of calculation of which are given on page 17.

5 Interest payable

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

	2002			2001		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
6 Taxation						
Group						
Corporation tax	(103)	103	—	—	—	—
Company						
Corporation tax	(211)	(103)	(314)	—	—	—

The Company has excess management expenses available for Group relief. In the year to 31 March 2002, a proportion of these has been used to offset the tax charge of the subsidiaries, giving rise to the above corporation tax credit.

NOTES TO THE ACCOUNTS

	2002 £000	2001 £000
7 Ordinary dividends		
Interim dividend of 2.8p (2001–2.7p) paid 3 January 2002	1,276	1,230
Final dividend of 2.8p (2001–2.7p) payable 8 July 2002	1,275	1,230
	<u>2,551</u>	<u>2,460</u>

8 Return per ordinary share
Income return per ordinary share is based on the net income on ordinary activities after taxation and on 45,549,975 (2001–45,549,975) ordinary shares, being the weighted average number of ordinary shares in issue during the year. Capital return per ordinary share is based on net capital gains for the financial year and on 45,549,975 (2001–45,549,975) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

	Equities £000	Other securities with equity element £000	Bonds £000	Investment Properties £000	Total £000
9 Investments					
Group					
Cost at 31 March 2001	55,817	5,979	1,763	28,581	92,140
Unrealised appreciation	8,076	2,746	1	11,244	22,067
Valuation at 31 March 2001	63,893	8,725	1,764	39,825	114,207
Purchases	18,692	253	1,442	3,670	24,057
Sales proceeds	(17,792)	(3,598)	(2,509)	(6,932)	(30,831)
Realised (losses)/gains on sales	(1,902)	(1)	(2)	1,928	23
Movement in unrealised appreciation in year	5,387	(1,014)	1	309	4,683
Valuation at 31 March 2002	68,278	4,365	696	38,800	112,139
Cost at 31 March 2002	54,815	2,633	694	27,247	85,389
Company					
Cost at 31 March 2001	55,842	5,979	1,763	10,244	73,828
Unrealised appreciation	8,076	2,746	1	4,656	15,479
Valuation at 31 March 2001	63,918	8,725	1,764	14,900	89,307
Purchases	18,692	253	1,442	2,835	23,222
Sales proceeds	(17,792)	(3,598)	(2,509)	(1,510)	(25,409)
Realised (losses)/gains on sales	(1,902)	(1)	(2)	568	(1,337)
Movement in unrealised appreciation in year	5,387	(1,014)	1	132	4,506
Valuation at 31 March 2002	68,303	4,365	696	16,925	90,289
Cost at 31 March 2002	54,840	2,633	694	12,137	70,304

The weighted average rate of interest from other securities with an equity element amounted to 7.6% (2001–7.2%). Fixed interest securities, including convertible preference shares, with a market value

NOTES TO THE ACCOUNTS

9 Investments—contd

of £2,516,000 (2001—£3,718,000), have a weighted average period for which the rate is fixed for 2 years and a weighted average rate of interest of 7.0% (2001—7.1%).

The company has the following wholly-owned subsidiary undertakings:

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

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

Investment properties were valued at the year end on an open market basis by King Sturge and Co, Chartered Surveyors and Valuers. No depreciation or amortisation as required by the Companies Act 1985 is provided on these properties. Depreciation or amortisation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified. The directors consider that the policy adopted is necessary in order to show a true and fair view. Freehold investment properties were valued at £38,800,000—cost £27,247,000 (2001—£39,825,000—cost £28,581,000).

	2002		2001	
	Group £000	Company £000	Group £000	Company £000
10 Debtors				
Sale of investments	—	—	1,815	1,815
Amounts due from subsidiaries	—	311	—	169
Prepayments and accrued income	451	430	537	510
	<u>451</u>	<u>741</u>	<u>2,352</u>	<u>2,494</u>

11 Creditors: amounts falling due within one year

Amounts due to brokers	699	699	—	—
Tax payable	561	21	296	27
Accruals and other creditors	1,172	879	1,152	800
	<u>2,432</u>	<u>1,599</u>	<u>1,448</u>	<u>827</u>

At the year end, the balance owed by the Group to OLIM Limited was nil (2001—£64,500) and the amount owed by the Company was nil (2001—£42,664).

12 Dividend payable

Ordinary shares—payable 8 July 2002	<u>1,275</u>	<u>1,275</u>	<u>1,230</u>	<u>1,230</u>
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NOTES TO THE ACCOUNTS

13 Creditors: amounts falling due after one year

9.375% Debenture Stock 2026	20,000	20,000	20,000	20,000
Add: Balance of premium less issue expenses	611	611	635	635
Less: Credit to income for the year	(24)	(24)	(24)	(24)
	<u>20,587</u>	<u>20,587</u>	<u>20,611</u>	<u>20,611</u>
11% First Mortgage Debenture Stock 2021	15,000	—	15,000	—
	<u>35,587</u>	<u>20,587</u>	<u>35,611</u>	<u>20,611</u>

The weighted average period for which the Group's debentures are fixed is 22 years (2001–23 years). The weighted average interest rate on the Group's debentures is 10.1% (2001–10.1%), they were issued at an average Gross Redemption Yield of 9.1% (2001–9.1%).

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

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

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

The Group has no intention of redeeming either of its debenture stocks before their due dates, when each is repayable at par. Gilt edged yields would be used to calculate the price, if the debt were to be repaid earlier. Fluctuations in their market prices therefore have no effect on the Group's cash flows or repayment liabilities. The market prices and market capitalisation at 31 March 2002 are as follows:—

Audax Properties 11% First Mortgage Debenture Stock 2021: £128.813 per £100 (£19.322m). 2001–£135.5625 per £100 (£20.334m).

Value & Income Trust 9.375% Debenture Stock 2026: £124.563 per £100 (£24.913m). 2001–£136.750 per £100 (£27.350m).

No disclosure is required under FRS13 for short-term debtors and creditors and no disclosure is given.

14 Called up share capital

	2002 £000	2001 £000	Issued and fully paid 2002 £000	2001 £000
Ordinary shares of 10p	5,600	5,600	4,555	4,555
6.25% convertible redeemable preference shares of £1	13,000	13,000	—	—
	<u>18,600</u>	<u>18,600</u>	<u>4,555</u>	<u>4,555</u>

NOTES TO THE ACCOUNTS

Share premium account £000	Capital reserve realised £000	Capital reserve unrealised £000	Revaluation reserve £000	Revenue reserve £000
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15 Reserves

Group

Balance at 31 March 2001	18,446	34,631	10,823	11,245	1,117
Prior year adjustment (see note 1(b))	—	(133)	—	—	133
	<u>18,446</u>	<u>34,498</u>	<u>10,823</u>	<u>11,245</u>	<u>1,250</u>
Realised gains on disposals	—	23	—	—	—
Management fee charged to capital	—	(1,273)	—	—	—
Movement in unrealised appreciation on assets	—	—	4,375	308	—
Taxation	—	103	—	—	—
Transfer for year	—	—	—	—	38
Balance at 31 March 2002	<u>18,446</u>	<u>33,351</u>	<u>15,198</u>	<u>11,553</u>	<u>1,288</u>

Company

Balance at 31 March 2001	18,446	31,074	10,823	4,656	1,217
Realised losses on disposals	—	(1,337)	—	—	—
Management fee charged to capital	—	(1,150)	—	—	—
Movement in unrealised appreciation on assets	—	—	4,374	132	—
Taxation	—	103	—	—	—
Transfer for year	—	—	—	—	173
Balance at 31 March 2002	<u>18,446</u>	<u>28,690</u>	<u>15,197</u>	<u>4,788</u>	<u>1,390</u>

	2002		2001	
Group £000		Company £000		Company £000

16 Reconciliation of movements in shareholders' funds

Total net assets attributable at the beginning of the year	80,817	70,771	78,937	69,295
Total recognised gains and losses in the year	6,125	4,846	4,340	3,936
Dividends paid in the year	<u>(2,551)</u>	<u>(2,551)</u>	<u>(2,460)</u>	<u>(2,460)</u>
Total net assets attributable at the end of the year	<u>84,391</u>	<u>73,066</u>	<u>80,817</u>	<u>70,771</u>

17 Net asset value per ordinary share

The net asset value per ordinary share is based on net assets attributable of £84,391,000 (2001–£80,817,000) and on 45,549,975 (2001–45,549,975) ordinary shares in issue at the year end.

NOTES TO THE ACCOUNTS

		2002 £000	2001 £000	
18 Consolidated cash flow statement				
Reconciliation of total income to net cash inflow from operating activities				
Income		6,949	6,608	
Investment management fee		(1,690)	(870)	
Administration expenses		(339)	(377)	
Decrease in other debtors		58	63	
(Decrease)/increase in other creditors		(45)	3	
Net cash inflow from operating activities		<u>4,933</u>	<u>5,427</u>	
	Balance at 31 March 2001 £000	Cash flows £000	Movement in net premium £000	Balance at 31 March 2002 £000
Analysis of changes in net debt				
Cash	2,547	8,548	—	11,095
9.375% Debenture Stock 2026	(20,611)	—	24	(20,587)
11% First Mortgage Debenture Stock 2021	(15,000)	—	—	(15,000)
Net debt	<u>(33,064)</u>	<u>8,548</u>	<u>24</u>	<u>(24,492)</u>
	Group £000	2002 Company £000	2001 Group £000	2001 Company £000
19 Commitments and contingent liabilities				
Commitments and partly paid investments	—	—	—	25
Underwritings and contingent liabilities	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>25</u>

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

By order of the board,

Edinburgh Fund Managers plc

Secretary

Edinburgh, 3 May 2002

REPORT OF THE AUDITORS

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

We have audited the accounts of Value and Income Trust plc for the year ended 31 March 2002 set out on pages 20 to 32. These accounts have been prepared under the historical cost convention as modified by the revaluation of investments and the accounting policies set out therein.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

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

We read other information contained in the Annual Report and consider whether it is consistent with the

audited accounts. This other information comprises only the Aims of the Trust, the Highlights of the Year, the Long Term Record, the Chairman's Review, the Directors and Advisers, the Investment Directors' Report, and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

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

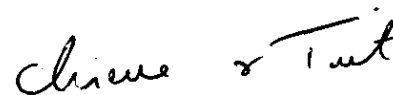
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that *the accounts are free from material misstatement*, whether caused by fraud or other irregularity or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

As noted on page 25, the treatment of finance costs does not comply with the 1995 Statement of Recommended Practice for Investment Trust Companies. Our opinion is not qualified in this respect.

OPINION

In our opinion the accounts give a true and fair view of the state of the Group's and the Company's affairs as at 31 March 2002 and of the Group's and Company's total return for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chiene & Tait CA
Registered Auditor
61 Dublin Street
Edinburgh EH3 6NL



3 May 2002

ANALYSIS OF SHAREHOLDINGS

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

	Number	Holding	%
Individuals	1,884	19,236,219	42.2
Banks & nominees	655	17,303,658	38.0
Investment & unit trusts	16	3,710,718	8.1
Insurance companies	10	2,404,102	5.3
Other companies	128	2,333,917	5.1
Pension funds	7	133,341	0.3
Universities, schools & other corporate bodies	7	428,020	1.0
	2,707	45,549,975	100.0

FINANCIAL DIARY

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

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

July – Annual General Meeting and final dividend paid.

October – Interim results announced.

January – Interim dividend paid.

Interest on the Value and Income plc Debenture is payable on 30 November and 31 May. Interest on the Audax Properties plc Debenture is payable on 30 September and 31 March.

VIT SAVINGS SCHEME AND ISA

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

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

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

You may subscribe any amount as a lump sum from £1,000 up to £7,000 in the tax year 2002/2003.

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

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

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

Edinburgh Fund Managers plc,
(Regulated by the FSA),
Donaldson House,
97 Haymarket Terrace,
Edinburgh EH12 5HD.

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

NOTICE OF MEETING

Notice is hereby given that the thirtieth Annual General Meeting of Value and Income Trust plc will be held in Donaldson House, 97 Haymarket Terrace, Edinburgh on 5 July 2002 at 12.30 pm. The following resolutions will be proposed:

ORDINARY BUSINESS

1. To receive the Report of the Directors and the Accounts for the year ended 31 March 2002;
2. To declare a final dividend;
3. To re-elect Angela Lascelles as a Director of the Company;
4. To re-appoint Chiene & Tait, CA, as auditor of the Company;
5. To authorise the Directors to fix the remuneration of the auditors for the year to 31 March 2003.

SPECIAL BUSINESS

To consider and, if thought fit, to pass Resolution 6 as a special resolution.

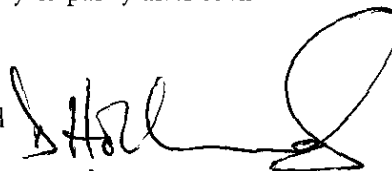
SPECIAL RESOLUTION

6. That, in substitution for any existing authority, the Company be and it is hereby authorised in accordance with section 166 of the Act to make purchases (within the meaning of section 163 of the Act) of ordinary shares of 10p each in the Company ('shares') provided that:

- (a) the maximum number of shares hereby authorised to be purchased is 6,827,941;

- (b) the minimum price which may be paid for a share shall be 10p;
- (c) the maximum price (exclusive of expenses) which may be paid for a share shall not be more than 5% above the average of the middle market quotation (as derived from the Daily Official List of the London Stock Exchange) for the shares for the five business days immediately preceding the date of purchase; and
- (d) unless renewed, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2003 save that the Company may, prior to such expiry, enter into a contract to purchase shares which will or may be completed or executed wholly or partly after such expiry.

By order of the board



Edinburgh Fund Managers plc

Secretary

24 May 2002

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

NOTES:

1. A member who is entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company.

NOTICE OF MEETING

2. A form of proxy for use by shareholders is enclosed with these accounts. Completion and return of the form of proxy will not prevent any shareholder from attending the meeting and voting in person. To be valid, the form of proxy should be lodged, together with any Power of Attorney or other authority (if any) under which it is signed or an extract from the Books of Council and Session or a notarially certified copy of such power or authority at the address stated thereon, so as to be received not less than 48 hours before the time of the meeting.
3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders entered on the register of members of the Company as at 6.00pm on 3 July 2002 or, in the event that the meeting is adjourned, on the register of members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares registered in their name at that time. Changes to the entries on the register of members after 6.00pm on 3 July 2002 or, in the event that the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting, notwithstanding any provisions in any enactment, the articles of association of the Company or other instrument to the contrary.
4. There are special arrangements for holders of shares through The VIT Savings Plan and the VIT ISA/PEP. These are explained in the 'Letter of Direction' which such holders will have received with this report.

FORM OF PROXY

VALUE AND INCOME TRUST PLC

(for use by Ordinary Shareholders only)

I/We _____ BLOCK
CAPITALS
of _____ PLEASE

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

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 5 July 2002 and at any adjournment thereof. My/our proxy is to vote as indicated by an "X" below in respect of the resolutions set out in the notice of Meeting (see note 2):

	For	Against
1. To receive the Report and Accounts for the year ended 31 March 2002		
2. To declare a final dividend		
3. To re-elect Angela Lascelles as a Director		
4. To re-appoint Chiene & Tait as auditors		
5. To authorise the Directors to fix the auditors' remuneration		
6. To authorise the Directors to buy back Ordinary Shares		

Dated this _____ day of _____ 2002

Signature _____

Notes:

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

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BUSINESS REPLY SERVICE
Licence No. SWB 1002

2

COMPUTERSHARE INVESTOR SERVICES PLC

PO BOX 1075

BRISTOL BS99 3ZZ

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Third fold and tuck in