116th
Report & Accounts 2003

The Scottish Investment Trust PLC

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Company Data as at 31 October 2003

TOTAL ASSETS	STOCKHOLDERS' FUNDS	MARKET CAPITALISATION
£942.1 million	£719.5 million	£591.0 million

Objectives

- *The Scottish Investment Trust (SIT) aims to provide investors with above average returns through a diversified portfolio of international equities; and*
- *To achieve, over the long term, asset growth in excess of the company's stated benchmark and dividend growth ahead of UK inflation.*

Risk

SIT's portfolio is invested over a range of industries and is diversified on a geographical basis so that risk is lowered. It regularly employs borrowed money to invest in equities with the objective of improving overall returns. The use of borrowings magnifies market movements both up and down.

Benchmark

The company's benchmark is made up of 50% FTSE Actuaries UK All-Share Index™ and 50% FTSE World ex UK Index Series.™

Management

The company is managed by its own employees led by the manager who is responsible to the directors for all aspects of the day to day management of the company. No other funds are managed leaving the management free to concentrate exclusively on the company's affairs.

Capital Structure

At 31 October 2003 the company had in issue 210,304,399 ordinary stock units and long term debt amounted to £222.6m with an average annual interest cost of 6.9%.

Management Expenses

The total expenses of managing the company's business during the year were £4,129,000 equivalent to 0.59% of average stockholders' funds. The company aims to keep this percentage low in comparison to competing investment products.

ISA/PEP

The ordinary units are fully eligible for both ISAs and PEPs. Details of the schemes run by the company are on page 23.

AITC

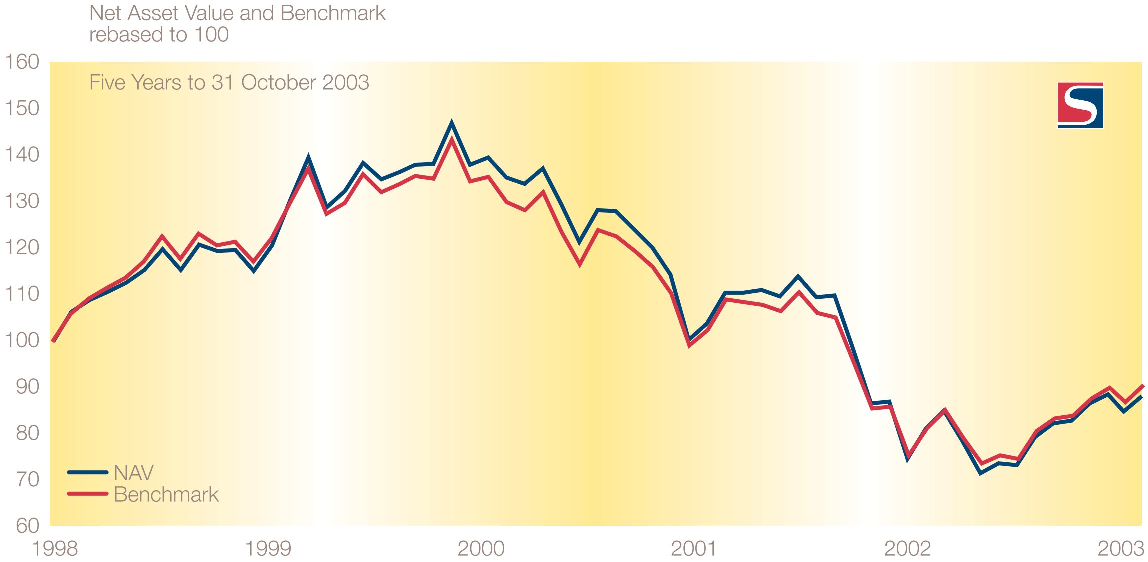
The company is a member of The Association of Investment Trust Companies.

Ten Year Record

Year to 31 October	Earnings per ordinary unit net (p)[1]	Dividend per ordinary unit net (p)[2]	Total expenses £'000	Total expense ratio	Total assets £'000	Stock-holders' funds £'000	NAV per ordinary unit (p)[3]	Market price per ordinary unit (p)	Discount %	NAV Total return %
1993	5.48	4.90	2,100	0.33	776,960	712,767	266.2	224.5	15.7	31.2
1994	5.49	5.15	2,276	0.33	783,096	671,873	250.3	215.5	13.9	–4.0
1995	5.84	5.67	2,602	0.35	913,287	801,040	282.6	242.5	14.2	15.2
1996	6.16	5.95	2,932	0.34	1,023,847	912,583	322.0	274.5	14.8	16.0
1997	6.29	6.25	3,310	0.34	1,101,239	1,020,680	360.1	306.0	15.0	13.8
1998	6.41	6.50	3,751	0.35	1,176,244	1,095,685	386.6	344.0	11.0	9.4
1999	8.34	6.65	4,467	0.37	1,364,145	1,287,086	466.4	393.5	15.6	22.4
2000	7.93	6.90	4,568	0.35	1,578,998	1,356,861	538.9	457.0	15.2	17.0
2001	9.33	7.05	4,821	0.43	1,130,370	908,066	402.1	359.0	10.7	–23.9
2002	8.24	7.50	4,558	0.58	893,915	671,443	314.8	259.0	17.7	–19.8
2003	9.28	7.80	4,129	0.59	942,154	719,515	342.1	281.0	17.9	11.1

1. From 1 November 1999 the company has charged two-thirds of eligible expenses and finance costs to realised capital reserves.
2. Excluding special dividends of 0.75p in 1998 and 1.00p in 2001.
3. NAV at 31 October 1995 has been adjusted to reflect the adoption of the Statement of Recommended Practice for investment trusts. NAV prior to 1995 has been adjusted to reflect the exercise in February 1995 of warrants to subscribe for ordinary units in SIT.

Five Year Performance



Financial Highlights

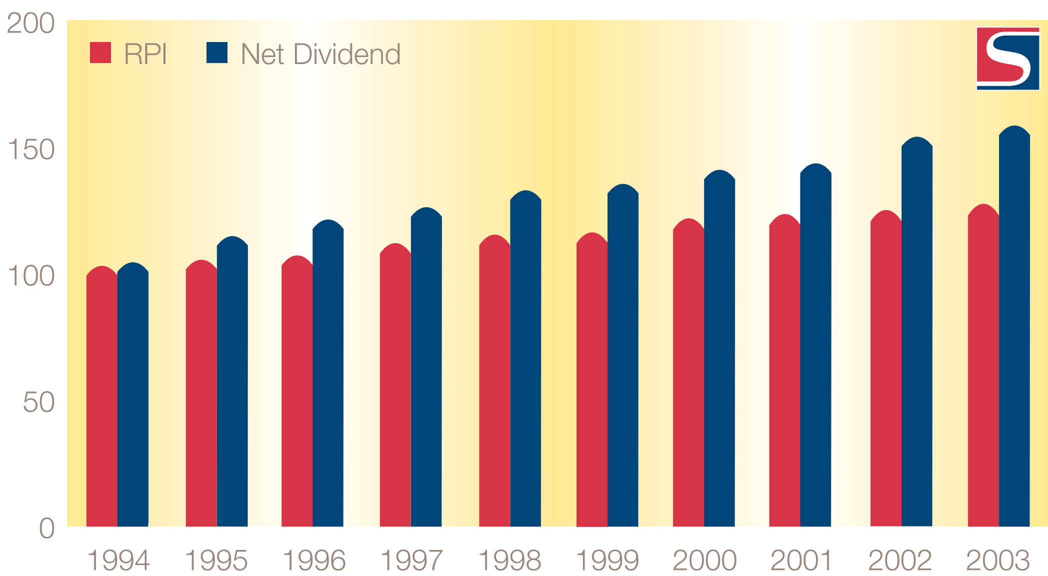
		2003	2002	% change
CAPITAL	Equity investments	£834.4m	£791.0m	+5.5
	Net current assets	£107.7m	£102.9m	
	Total assets	£942.1m	£893.9m	+5.4
	Less: borrowings	£222.6m	£222.5m	
	Equity stockholders' funds	£719.5m	£671.4m	+7.2
	Net asset value per ordinary unit†	342.1p	314.8p	+8.7
	Market price per ordinary unit	281.0p	259.0p	+8.5
	Discount	17.9%	17.7%	
	Benchmark index			+11.5
INCOME	Total income	£27.6m	£28.1m	–1.8
	Earnings per ordinary unit	9.28p	8.24p	*
	Dividend per ordinary unit	7.80p	7.50p	+4.0
	Retail price index (RPI)			+2.6

YEAR'S HIGH & LOW		Year to 31 October 2003		Year to 31 October 2002	
		High	Low	High	Low
	NAV	350.1p	274.5p	443.0p	290.3p
	Closing market price	288.0p	213.3p	399.5p	240.0p
	Discount	19.8%	15.2%	18.0%	9.0%

† Valuing the long term borrowings at market value would reduce the NAV by 2.0% to 335.4p.

* Earnings per ordinary stock unit for 2003 have been increased by 0.90p due to an accounting change relating to the allocation of tax relief on interest and expenses between revenue and capital required by the revised Statement of Recommended Practice: Financial Statements of Investment Trust Companies.

Dividend Growth



CAPITAL

Over the year to 31 October 2003, net asset value per ordinary unit rose by 8.7%. Though this was a welcome change of direction after two years of sharp declines in equity markets, it was a disappointing outcome in relation to our benchmark, which rose by 11.5%. Over the first half of the year our invested assets performed broadly in line with the benchmark. We aim to run well diversified portfolios biased towards stable businesses which demonstrate good returns on capital and whose shares are reasonably valued. In recent years our stock selection has been good but, towards the end of our year, we did not fully participate in the sharp price rises in many cyclical recovery shares. This phase in the market may now have run its course and we see good relative value in many high quality companies whose shares have lagged in the recovery. For a detailed account of developments over the year see the management and portfolio reviews on pages 8 to 19.

INCOME

We had a satisfactory income result last year. However, the stated rise in our earnings from 8.24p to 9.28p was exaggerated by an accounting change in respect of tax relief attributable to interest and expenses charged to capital. This added 0.90p (10.9%) to earnings. Without this change earnings would have risen by 0.14p (1.7%).

The board is recommending an increase of 4.0% in the dividend for the year which compares with UK inflation of 2.6%. We have increased our regular dividend in each of the last twenty years and the objective of the board is that the dividend should rise by more than the rate of inflation in the UK.

After 5 April next year the ability of charities and PEP and ISA holders to reclaim tax on UK company dividends will come to an end. In order that these investors may make a final reclaim it is the intention of the board to declare and pay the interim dividend for the year to 31 October 2004 before 5 April 2004.

BORROWINGS

Over the year we had on average approximately £114m of our long term borrowings of £222.6m invested in equities. The effect of our gearing on performance was slightly positive, after taking account of interest costs, having been negative in our two prior years. The weighted average cost of our borrowings is 6.9% and the directors believe that, over the long term, equities can produce a combined return of dividends and capital growth which will exceed this cost.

SHARE BUYBACKS

During the year we took the opportunity to buy back 3.0m shares at a discount to NAV. This has added an estimated 0.54p to the closing NAV per ordinary unit. The company will continue to buy in ordinary stock when the board considers that this serves the interest of continuing investors, and a resolution to renew the buyback authority will be put to stockholders at the annual general meeting.

MARKETING

Through our subsidiary company, SIT Savings, we continue to promote our STOCKPLAN savings scheme and The SIT ISA. Given the market background, last year was a difficult one. However, our investing for children product, STOCKPLAN: A Flying Start, is continuing to attract new investors. We believe saving for children will be given a significant boost by the new child trust fund being promoted by the government.

DISCOUNT

For many years the discount of SIT's share price to NAV remained within a relatively stable band. It is disappointing that the discount rose towards 18% in October 2002 and that it has remained around this level over the last year. The directors recognise the importance for the discount of NAV performance and are reviewing the approach to the management of the portfolio in order to improve this.

DIRECTORS AND MANAGEMENT

Stockholders will be aware that Sir Angus Grossart retired as chairman of SIT on 6 October 2003 and the board extends its thanks to him for his commitment and leadership over many years. I am pleased that Mr Hamish Buchan was appointed to the board on 17 November 2003. Mr Buchan has had a long and distinguished career in the investment trust industry and I commend him to you for election at the forthcoming annual general meeting.

I am also pleased to announce the appointment of a new manager, John Kennedy, who is presently head of investment. Ian McLeish will retire as manager with effect from 31 December 2003. Ian joined SIT in 1973 and has been joint manager or manager for 17 years. I thank him for his contribution to the company over this long period.

OUTLOOK

Led by the USA, the major world economies appear to have turned the corner and growth in 2004 is expected to accelerate to levels higher than were being forecast a few months ago. Companies have cut costs and restructured so that improving sales are flowing through strongly to profits.

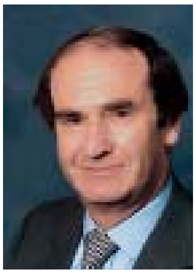
However, risks are being taken with the US economy. The budget and the current account deficits are at record levels, which has led to a loss of confidence in the US dollar. It may be difficult for the US authorities to restore the appropriate balance in the economy without a further decline in the value of the currency. Furthermore, US personal borrowing is still very high and further growth in consumer spending is dependent on a continuation of low interest rates and further tax rebates.

2004 is an election year in the USA and the continued growth of the economy will remain a priority of the Bush administration. This, and China's continued growth, should help to promote expansion globally. Meanwhile, the shares of many strong companies are selling at reasonable valuations by past standards. We are therefore prepared to continue with our present level of gearing despite the imbalances in the world's leading economy.

Douglas McDougall

10 December 2003

Board of Directors



***†Douglas McDougall OBE (59)**
was appointed to the board in September 1998 and made chairman in October 2003. He is chairman of The Law Debenture Corporation, The Independent Investment Trust and Foreign and Colonial Eurotrust. He is a former senior partner of Baillie Gifford & Co and former chairman of IMRO and of the Association of Investment Trust Companies.

†Hamish Leslie Melville (59)
was appointed to the board in November 1996. He is a managing director of Credit Suisse First Boston (Europe). He is chairman of Northern Recruitment Group, Old Mutual South Africa Trust, Mithras Investment Trust, The Fleming Mercantile Investment Trust and a director of Persimmon. He is chairman of the remuneration committee.

***†Sir George Mathewson CBE LLD FRSE (63)**
joined the board in 1981. He was chief executive of the Scottish Development Agency until 1987. He then joined the board of The Royal Bank of Scotland Group and was appointed chief executive in January 1992. Following the Group's acquisition of NatWest, Sir George was appointed executive deputy chairman in March 2000 and in April 2001 became chairman of the Group. Sir George is also a director of Santander Central Hispano, is on the board of directors of the Institute of International Finance and in April 2002 became President of the British Bankers' Association.

***Sir Paul Nicholson (65)**
joined the board in September 1998. He is Lord-Lieutenant of County Durham. He was chairman of Vaux Group plc and the Tyne and Wear Development Corporation. He is a former chairman of Northern Investors, the Northern Region of the CBI and former president of the North East Chamber of Commerce. He is chairman of the audit committee.

Francis Finlay (60)
joined the board in November 1996. He is chairman of the New York based international fund management firm Clay Finlay, which he co-founded in 1982. Previously he held senior investment management positions with Lazard Frères and Morgan Guaranty in Paris and New York. He is also a director of a number of international investment companies and charitable organisations.

Hamish Buchan (59)
was appointed to the board on 17 November 2003. He is a deputy chairman of the Association of Investment Trust Companies and was formerly chairman of NatWest Securities in Scotland. He is chairman of JP Morgan Fleming American Investment Trust and a director of Aberforth Smaller Companies Trust, Collective Assets Trust, Personal Assets Trust, Shires Income and Standard Life European Private Equity Trust.

* Member of audit committee
† Member of remuneration committee

Management Team

John Kennedy (seated) and Ian McLeish

Manager

Ian McLeish CA

Retires as manager on 31 December 2003.

Head of Investment

John Kennedy MA (Hons) ACIB MBA ASIP

Manager with effect from 1 January 2004.

Senior Investment Managers

Ian Anderson

Michael Dick ACIB

Investment Managers

James Kinghorn BSc MBA CFA

Howard Kippax MA (Hons) ASIP

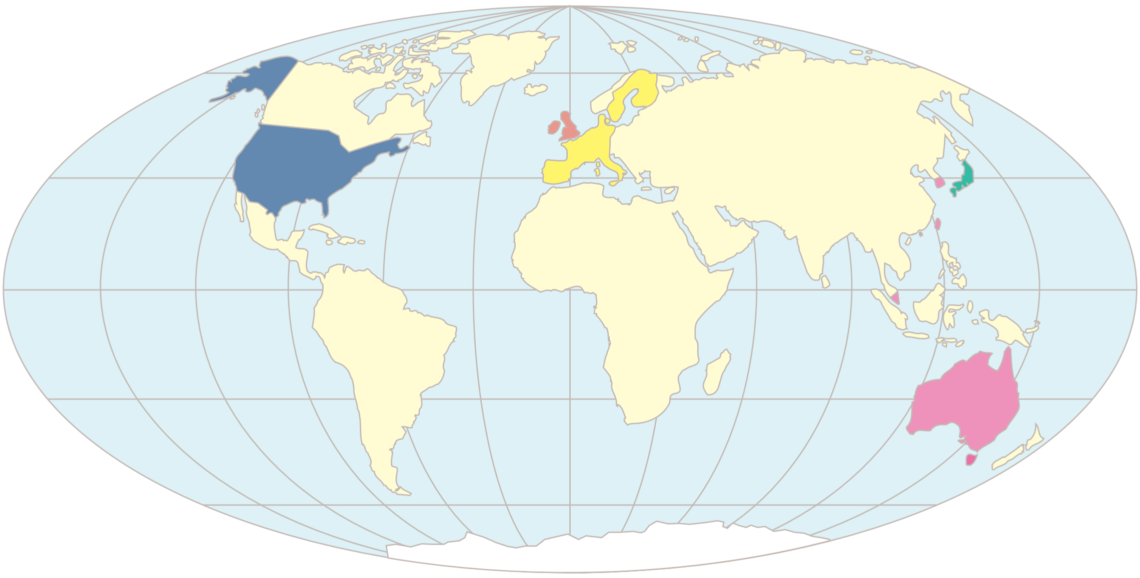
Mari Yamamoto BA ASIP

Secretary

Iain Harding FCMA FCIS

Assistant Secretary

Steven Hay ACIS



Investment Philosophy

- *To pursue a flexible investment policy avoiding any permanent specialisation.*
- *To focus on fundamental value and move funds into those areas offering the most attractive returns.*
- *To invest in well managed companies in established stockmarkets around the world.*
- *To enhance performance in rising markets by prudent use of borrowed money.*
- *To provide simple low cost savings products for investors.*

Market Performances

Year to 31 October 2003

	Currency Adjusted %	In Local Terms %
UK	+9.6	+9.6
Continental Europe	+15.2	+7.6
USA	+9.2	+18.4
Japan	+22.4	+19.1
Pacific (ex Japan)	+21.2	+18.1
Benchmark	+11.5	

Performance Attribution Analysis

Year to 31 October 2003

	%
Increase in NAV	+8.7
Increase in benchmark index	+11.5
Contribution	–2.8
Asset allocation	–0.4
Stock selection	–3.0
Gearing	+2.0
Interest and expenses charged to capital less retained earnings	–1.4
Buybacks	+0.2
Residual	–0.2
Contribution	–2.8

The attribution analysis shows how the overall performance of the company's NAV relative to the benchmark has been achieved. These figures refer to capital performance only and make no allowance for income.

Performance Attribution

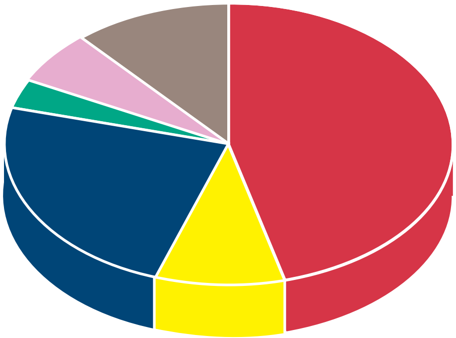
Last year world equity markets in currency adjusted terms were led by the Far Eastern markets and by commodity based countries and emerging areas. The US market also performed very well in local terms but this was significantly diluted by the weakness of the dollar. We benefited relative to our benchmark from being overweight in the Pacific region and light in the US. This was more than offset by the strong performances of commodity based and emerging areas and the effect of a weaker dollar on a significant portion of our unlisted portfolio.

Over the years our stock selection has been consistently strong in most areas other than in the US during the technology bubble period. It is thus a concern that except for the Pacific (ex Japan) we failed to match the regional indices last year. In our portfolios we emphasise companies which are soundly financed and which are capable of generating improving cash flows and strong returns on capital employed in order that they can provide growing dividends for shareholders. Such companies tend to be less affected by swings in the economic cycle. As profit expectations turned there was an exceptional outperformance by depressed recovery situations which included many companies with weak balance sheets many of which had passed or cut their dividends. There are signs that this short term outperformance of lower quality stocks has run its course and we are starting to see good relative value developing among stronger companies whose share prices have recently been left behind.

Last year our borrowings worked slightly to our advantage after taking account of interest costs.

Distribution of Total Assets

At 31 October 2003



	2003	2002
UK	45.7	45.8
Continental Europe	9.6	10.1
USA	23.9	24.7
Japan	3.3	3.2
Pacific (ex Japan)	6.1	4.7
Net current assets	11.4	11.5
Total assets	100.0	100.0

Changes in Distribution

We made net sales of investments of £21.9m to maintain net gearing levels after buybacks of £7.9m and interest and expenses charged to capital of £12.5m. Sales were mainly from our UK and Continental Europe portfolios. Having increased our exposure to the Pacific (ex Japan) in our previous year we added a further £3.7m last year increasing the percentage of our assets there to 6.1%.

At the year end effective gearing was 116.0% (2002 – 117.8%) of stockholders' funds. The potential gearing ratio if we were to invest all borrowings in equities would be 130.9%. The average interest cost of borrowings, all of which are fixed rate and long term, is 6.9%. We have net current assets of £107.7m.

Changes in Asset Distribution

Year to 31 October 2003

	Opening Valuation £m	Net Purchases (Sales) £m	Appreciation (Depreciation) £m	Closing Valuation £m
UK	384.2	(11.5)	29.6	402.3
Continental Europe	90.3	(7.0)	7.0	90.3
USA	202.9	(2.8)	8.5	208.6
Japan	28.8	(1.6)	3.9	31.1
Pacific (ex Japan)	41.9	3.7	12.0	57.6
Unlisted portfolio	42.9	(2.7)	4.3	44.5[1]
Total equities	791.0	(21.9)	65.3	834.4
Net current assets	102.9	1.5	3.3[2]	107.7
Total assets	893.9	(20.4)	68.6	942.1
Borrowings	(222.5)	–	(0.1)	(222.6)
Equity stockholders' funds	671.4	(20.4)[3]	68.5	719.5

[1] includes £6.0m of investments which are now listed
[2] retained earnings
[3] ordinary stock units repurchased and interest and expenses charged to capital

Unlisted Portfolio and Largest Unlisted Investment

The unlisted portfolio appreciated in value by 10.0%. The largest unlisted investment is Aberforth Limited Partnership 1B which holds stakes in small listed UK companies. At 31 December 2002, the date to which the last audited partnership accounts were prepared, the net assets attributable to our investment were £11.0m. At 31 October 2003 the cost of our 27.1% interest was £12.6m and the valuation was £14.9m. The partnership does not compute earnings per share or pay a dividend.

We did not enter into any new partnerships during the year. At year end our commitments to invest in partnerships were £12.0m (2002 – £17.7m) and we anticipate that these will be met from distributions from existing holdings.

The unlisted portfolio is valued at a total of £44.5m which is equivalent to 6.2% (2002 – 6.4%) of stockholders' funds. Included in this figure is £5.8m which is invested in listed funds which specialise in unlisted investments.

Largest Unlisted Holdings

At 31 October 2003

		£m
Aberforth Limited Partnership 1B	Investment in small UK listed companies	14.9
Boston Ventures limited partnerships	Venture capital, US	7.2
HG Capital Trust (Listed)	Private equity, UK	4.4
Sprout Group limited partnerships	Venture capital, US	3.7
1818 Fund	Growth capital, US	3.6
		33.8

Holdings in Listed Funds

Our holdings include investments in listed investment funds of £16.1m (2002 – £19.9m). These are held mainly to provide exposure to smaller companies in the UK and Japan. In addition, £5.8m (2002 – £6.1m) of listed funds which specialise in unlisted investments are included in the unlisted portfolio valuation of £44.5m (2002 – £42.9m).

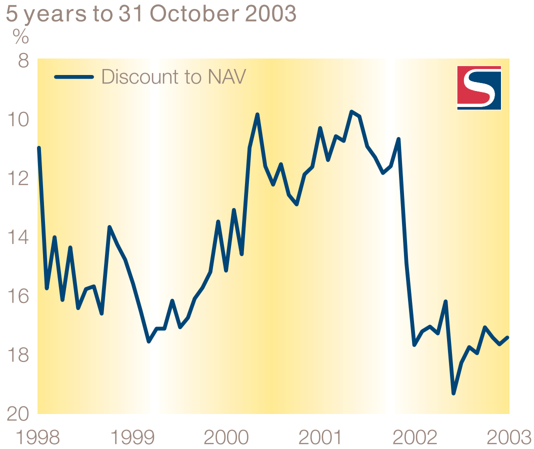
The board has a policy not to invest more than 15% of gross assets in other UK listed investment companies.

Portfolio Turnover

Total purchases of investments amounted to £154.7m (2002 – £241.2m) and sales were £176.6m (2002 – £291.0m). Investment sales were 19.2% (2002 – 28.8%) of average total assets. No use was made of investment derivatives or currency hedges during the year. Commission paid to brokers on purchases and sales during the year was £659,000 (2002 – £1,090,000).

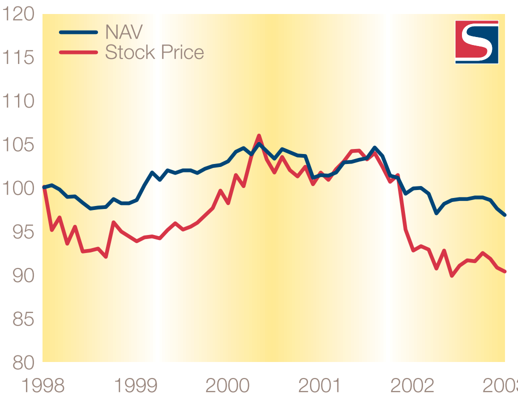
Discount to NAV

5 years to 31 October 2003



NAV and Stock Price relative to Benchmark

5 years to 31 October 2003



Analysis of Stock Register

At 31 October 2003

Category of holder	Number	Ordinary Capital %
Individuals	34,778	54.8
Insurance companies	26	19.8
Pension funds	46	7.9
Other	235	17.5
Total	35,085	100.0

Services to Investors

Sales of our savings products fell last year in line with industry experience. However over the last five years we have increased the number of investors by 17.7% to over 35,000. Individuals now hold 54.8% of SIT's stock including 13.9% held in SIT Savings' products.

Our STOCKPLAN savings scheme, ISA and PEP have very low costs and we believe it is important for investors to be able to invest in SIT on economic terms. We are promoting our investing for children product STOCKPLAN: A Flying Start and are very encouraged by the response.

Our website **www.sit.co.uk** is being continually developed. It provides regularly updated information on the company and is a simple way of obtaining application forms for SIT products.

Future Strategy

After three years of bad news the background for equities has finally turned more favourable. The prospect of deflation in the US and some Eurozone economies has receded. The US economy is now growing more strongly than was anticipated a few months ago. China is growing very rapidly and these two economies are pulling up some of the slower growing areas such as Japan and the Eurozone. Company profits in the US and elsewhere started to grow again towards the end of 2002 and are now accelerating. In many areas companies have cut their borrowings and costs and are now benefiting significantly from a modest improvement in turnover.

Against this background we intend to maintain our present level of gearing. Many good quality equities have lagged markets recently and we are seeing some attractive opportunities.

Nevertheless we remain aware of the many risks which may impede market progress, including further dollar weakness, terrorism and the likelihood of rising interest rates.

We are overweight in the Pacific (ex Japan) where we see companies benefiting from growth in China and the US. We have recently added to Europe where economies are starting to catch up and where there is scope for further profits recovery.

Glossary

Total assets means total assets less current liabilities.

NAV is net asset value per ordinary unit after deducting borrowings at book value.

Discount is the difference between the market price and the NAV expressed as a percentage of the NAV.

Gearing is the percentage of stockholders' funds invested in equities. 100% represents an ungeared position.

GDP references are to gross domestic product in real terms.

The index quoted for UK performance comparisons is the FTSE Actuaries UK All-Share Index. For all other markets the constituents of the FTSE World Index Series have been used. Unless otherwise stated, SIT and index performance figures have been adjusted for currency movements.

Ordinary stock performance figures, unless otherwise stated, are based on mid price to mid price before expenses of purchase and sale.

United Kingdom

Listed Equities	**£408.1m**

Principal Holdings	**£'000**

BP **28,180**
One of the world's major oil groups, BP has recently added a significant investment in Russia to an attractive range of energy assets.

GLAXOSMITHKLINE **27,575**
New drug pipeline provides long-term potential whilst more mature products are adapted for new uses through the consumer healthcare division.

VODAFONE **25,926**
New "Live!" brand garnered 3m subscribers in first countries where offered. This enhanced mobile phone service, a stepping stone to 3G, will be introduced gradually across the extensive global network.

ROYAL BANK OF SCOTLAND **24,265**
Offers a wide range of banking, insurance and financial services. Recently acquired Churchill Insurance to augment strong Direct Line brand. Citizens Financial continues to grow organically and by contiguous acquisitions in New England.

HSBC HOLDINGS **16,771**
Global banking operations have been supplemented by purchase of leading US consumer credit company, Household, whose model will be used to develop similar operations in other countries.

HBOS **16,352**
Largest provider of mortgages in the UK. Successful integration of Halifax and Bank of Scotland is delivering greater cost savings than targeted.

SHELL TRANSPORT & TRADING **13,506**
Anglo-Dutch based global energy group. Drive for greater efficiency in all oil and gas operations has led to the disposal of some under-performing assets which will improve future returns.

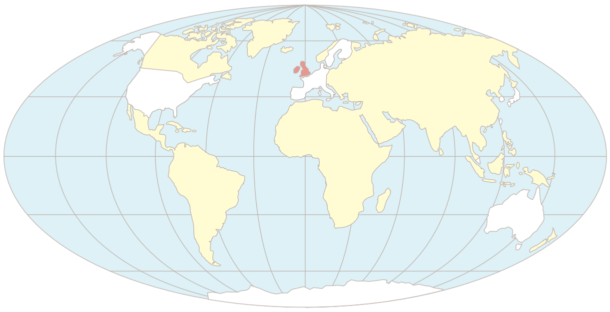
BARCLAYS **11,903**
Barclaycard franchise continues to expand internationally. Active corporate lending operation will benefit from greater economic activity.

ANGLO AMERICAN **11,517**
International mining group geared to economic recovery. Prominent in African diamonds, platinum and in gold where their subsidiary is to be merged into a joint venture with Ashanti mines in Ghana.

LLOYDS TSB **10,456**
New CEO is reorganising bank's portfolio of brands including Scottish Widows and Cheltenham & Gloucester. Recent disposal of New Zealand interests releases capital for growth and will support the attractive yield.

The outlook for 2004 profits is positive.

Over the twelve months to September 2003 the UK economy grew by 2.0%. Although this was only a modest improvement on the prior twelve months and still below the long-term trend, the UK has produced a more stable performance than most other developed economies. Recently, a greater contribution from the corporate sector has reduced an imbalance that had seen GDP growth driven primarily by government spending and increasingly indebted consumers.



United Kingdom **45.7**%

The UK base rate was further reduced to 3.5% in July 2003, the lowest level for over forty years. Subsequently, in November the Bank of England added 0.25%, the first increase since 2000, and it seems likely that further increases will follow. We anticipate that these will be introduced gradually with a view to controlling the unsustainable rate of house price appreciation and the build up in household borrowing seen in recent years.

Although economic growth has been reasonable it has not matched the Treasury's original expectations and so the gap between tax receipts and increased government spending has widened leading to a rising budget deficit. The recovery underway in corporate profits will ameliorate this situation but there are fears that the Chancellor will try to close the gap through increasing business or consumer taxes which may dilute growth prospects.

In June ten year gilt yields reached 3.9%, their lowest levels for over 40 years, on fears that deflation was taking hold in the major western economies as it had already done in Japan.

United Kingdom

However, as it became evident that economic growth both in the UK and US was starting to recover, gilt yields began to rise reaching 5.0% at year end. With a growing budget deficit likely to lead to increased gilt issuance, and with base rates rising, gilt yields are likely to continue to move upwards.

The outlook for company profits in 2004 is positive and continues to improve. After costly restructuring by many companies, increased economic activity should have a beneficial geared effect on profits. Shareholders should be rewarded with a resumption of dividend growth and share buy-backs.

Equity prices continued to fall in the first five months of our current year but since March the FTSE All-Share index has risen steadily to stand 9.6% higher over twelve months. Our portfolio was ahead of the index for most of the period but was overtaken towards the year end by short term underperformances from a small number of our larger holdings and finished 8.0% up.

Our overweight position in the building sector performed well, despite a sharp fall in the housebuilders in the last few days of our year on interest rate concerns. However, these shares remain undervalued in the light of a continuing shortage of new homes. A revival in two mid-cap stocks BBA (aviation services) and First Group (bus & rail operator) rewarded our faith in the transport sector where a new investment in Peninsular & Oriental (container ports) post the cruise-ship demerger was also added.

Three sectors – banks, oils and pharmaceuticals – comprise over 40% of the market. Oil share price volatility rose during the Iraq conflict but none of these sectors, which primarily comprise large blue-chips, performed well with market attention focused on more speculative recovery situations. Of our bank holdings Lloyds TSB was particularly weak. Technology shares bounced back, including our holdings in software companies LogicaCMG and Xansa, and a new investment in Sage (accounting software) performed strongly.

In general, middle-sized and smaller companies outperformed their larger counterparts resulting in a strong relative performance from our portfolio of small company specialist investment trusts. Towards the end of the period we took some profits in this area and increased our exposure to larger companies.

The number of individual holdings in the portfolio has been reduced. ICI and BAE whose disappointing results were further depressed by pension fund deficits, Shire Pharmaceuticals whose principal drug came under generic pressure and Britannic Assurance which stopped paying a dividend were all sold.

Energetic members at a David Lloyd Leisure Club, a division of Whitbread. (Our holding valued at £6.0m).

Good performances from retailers GUS, Next and JJB Sports were partly offset by Dixons' poor share price performance due to an investigation into its warranty sales and this prompted us to take a loss on the holding.

As deflation fears have dissipated and corporate earnings recover, bond yields and equity prices have both risen from historically low levels. The re-rating of shares from a dividend yield above 4% to around 3.2% has brought many to fair value and further upward movement will require sustained profit growth. With economic improvement evident in the US and anticipated in Europe, our two major trading partners, companies should benefit from renewed expansion. Domestically, greater corporate profits should sustain record levels of employment and offset any loss in consumer confidence following further modest increases in interest rates from the current historically low level.

Portfolio Review

Continental Europe

Listed Equities	**£90.3m**
Principal Holdings	**£'000**

UBS (Switzerland) 4,212
World's largest asset manager now experiencing strong new money inflows with investment banking and wealth management exceeding expectations.

NOVARTIS (Switzerland) 3,893
Gaining market share from its current pharmaceuticals portfolio with important new launches ahead and capitalising on strong position in burgeoning generic drugs.

TELEFONICA (Spain) 3,854
Reversing prior diversification to focus on core domestic fixed and mobile telephone operations, complemented by Latin American recovery and strengthening cash flows.

TOTAL (France) 3,803
Delivering superior upstream growth from an immature oil and gas production base, while divesting non-core downstream operations.

BNP PARIBAS (France) 3,741
Expansion of domestic retail banking and successful western US operations are allied with asset management and private banking strength.

SANTANDER CENTRAL HISPANO (Spain) 3,538
Significant upside recovery potential from important Latam operations and sustained domestic banking volume growth demonstrate high asset quality.

AXA (France) 3,532
Global multi-line insurer growing through selective acquisitions and taking advantage of improved pricing and cost reductions in life assurance.

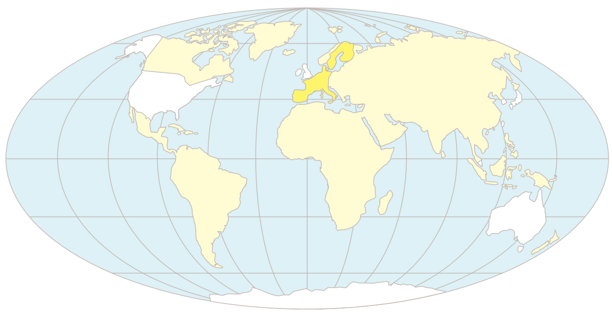
ENI (Italy) 3,265
Leveraged to the growing European gas market with an expanding upstream oil and gas portfolio.

SOCIETE GENERALE (France) 3,007
Profitable central and eastern Europe expansion, improving corporate and investment banking, allied with cost reduction, will generate rising returns.

UNICREDITO (Italy) 2,700
Italy's most profitable bank is focusing on the small to medium corporate sector, consumer credit and Eastern European initiatives.

2004 is the year of EU enlargement from 15 to 25 countries.

The majority of the Eurozone moved into recession during 2003 hampered by structural rigidities and the need to reduce budget overspends by France and Germany. This prompted three successive interest rate cuts by the European Central Bank from 3.25% to 2%. The 14.8% rise in the euro against the US dollar created a headwind for exporters among European companies which as a whole derive over 25% of profits from dollar-related revenues.



Continental Europe **9.6%**

After a brief autumn rally European stockmarkets fell by 23.3% in local currency terms to mid-March against a background of looming Middle-East conflict, rising oil prices, deteriorating economic data and the SARS epidemic. Analysts' forecasts of corporate profits were cut back while cost reductions and balance sheet repair, notably in the financial sector, followed the ravages of the longest bear market in a generation. This was particularly apparent in Germany where major concerns over the economy and the banking system saw the DAX Index fall by 30.1% between October and March.

The subsequent cessation of outright hostilities in Iraq, the stabilisation of energy prices and lower interest rates produced a powerful market rally. This was led spectacularly by twenty or so troubled companies which had suffered severely during the 2001/2 downturn. Often with fragile balance sheets and poor cash flows many of these had previously reduced or passed their dividends. Examples included ABB, France Telecom, Alcatel, Commerzbank, Ericsson and

Continental Europe

Swiss Life all of which outperformed the European index by 70% or more during the year. Our portfolio, which emphasised balance sheet and cash flow quality, allied with well covered dividends, did not match the 15.2% index rise, advancing by 8.7%.

Despite the uncertain background, investors increasingly anticipated economic recovery, encouraged by improving world business expectations and demonstrated by six successive months of rising German IFO business sentiment surveys. Companies geared to a cyclical upturn, particularly in the technology sectors, outperformed their more defensive counterparts, and this trend gathered pace amongst perceived "recovery" stocks. We continued to increase our exposure to more economically sensitive companies, concentrating on strength of franchise, financial quality and positive profits growth rather than companies clawing back from the brink of bankruptcy.

During the year we purchased a new holding in the German tyre manufacturer, Continental, which is now also a leader in auto-electronics. We also took new holdings in the employment agency Adecco to benefit from rising demand for temporary staff, and in the recovering French based global insurance company, AXA. These new purchases have been well rewarded. We benefited from a bid for major aluminium processor, Pechiney, by Canadian Alcan while the information technology operator Atos Origin took advantage of the opportunity to make a further judicious acquisition. An overweight position in autos saw Renault gain through the turnaround in the fortunes of its major Japanese associate, Nissan, while Banco Santander outperformed due to recovery in Latin America and strong domestic growth in Spain. Although our bank holdings outperformed the index they failed to match the 31% sector improvement. This was led by German banks where spectacular share price recoveries followed serious concerns over rising bad debts, cut dividends and credit rating downgrades. Less successful were holdings in the defensive areas of pharmaceuticals and food while energy also underperformed, despite a consistently high oil price and above average dividend yields.

Recent months have seen some gratifying signs of restructuring across the European Union. Pension reform in France, Germany and Italy is underway, helping to address the excessive social security burden that hampers entrepreneurial endeavour and consumes an inordinate share of resources. Allied with signs of US-led economic recovery, a revival of Government share placings and increasing merger and acquisition activity, prospects for European economies are improving with GDP growth of 2.0% possible for 2004 against 0.4% for the current year. Real recovery is still dependent on private consumption.

Photograph from Continental showing the colossal braking power needed to bring a car to a hard stop from a high speed. (Our holding valued at £2.4m).

Recent quarterly corporate profits have improved and largely matched expectations, albeit with few signs as yet of revenue growth or pricing power. However, modest inflation, the lowest interest rates for a generation and equity valuations at reasonable levels provide a background from which stockmarkets can continue to recover and broaden to embrace a range of quality companies which recently have underperformed significantly. We are actively pursuing opportunities in this area, together with additions to more cyclical companies, bearing in mind the impact of potential further euro strength on profits. With 2004 the year of EU enlargement from 15 to 25 countries, the faster growth and younger populations of certain new members may provide positive longer-term potential for a less than dynamic and currently underperforming Eurozone.

USA

Listed Equities	£208.8m

Principal Holdings	£'000

CITIGROUP 10,670
The world's largest financial services company; international operations will drive growth and the economic recovery will benefit the investment banking business.

BANK OF AMERICA 7,462
The company's consumer business has performed well, led by mortgage banking, and management will look to cut costs further after the recent FleetBoston Financial acquisition.

JOHNSON & JOHNSON 7,355
New medical technology products and the recent biotechnology acquisition should help drive sales for this diversified health care company.

LOWE'S COMPANIES 7,241
Home improvement retailer which has successfully gained market share through new store openings, better service and more product offerings.

MICROSOFT 7,147
The software company has been investing heavily in R&D and several major new product launches are expected over the next few years.

PFIZER 6,995
The world's largest drug company has been able to make significant cost savings as a result of its two recent large acquisitions and has promising new drugs coming to market.

PEPSICO 6,855
The maker of Pepsi-Cola, Gatorade, Tropicana, Walkers Crisps and Frito Lay's has been enjoying good growth as a result of its snack food business and international operations.

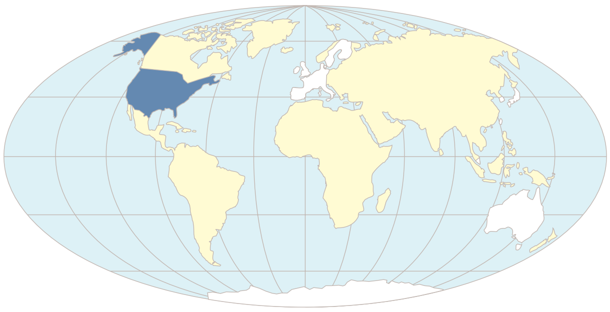
INTEL 6,806
Demand for Intel's microprocessors has increased significantly as the US economy recovers from recession, and new products offer further growth potential.

EXXON MOBIL 6,338
The oil giant's earnings have benefited from higher energy prices over the past year and it maintains attractive assets in regions across the world.

CONOCOPHILLIPS 6,119
Returns at the third largest US energy company should increase as it generates productivity gains from recent acquisitions, sells off assets and pays down debt.

2004 is an election year.

Recent economic news in the US has improved significantly and GDP growth for the third quarter of 2003 accelerated to its fastest rate in nineteen years. As stimulative fiscal and monetary policies have taken effect, US consumer spending has remained surprisingly robust and business investment has now started to pick up. Earlier in the year there was considerable uncertainty about the direction of the economy and real concerns about the risk of deflation which caused the Federal Reserve to reduce interest rates twice from October to June down to just 1%, the lowest level since the 1940s.



USA **23.9**%

After almost three years of decline the US stock market recovered by 18.4% (in dollar terms) last year. While much of this was lost due to the weakening US dollar, the US index still rose by a respectable 9.2% in sterling terms. The catalyst for the rise has been the improving macroeconomic news which is now being reflected in improved corporate profitability. The primary beneficiaries of this rebound have been the more cyclical industries, particularly technology. Our portfolio was positioned more defensively and did not participate as aggressively in the rally rising 4.5% in sterling terms.

The market reached its low in March, showing concern over the Iraqi conflict, and has since rebounded by 30.8% (in dollar terms); the technology sector has led the recent market rise, up by 41.6% (in dollar terms) over the year. Our technology holdings are concentrated in larger, less speculative companies and appreciated by 37.6% (in dollar terms) over the year with Intel, Adobe Systems and Cisco Systems performing particularly well. Investors have shown that their willingness to bear risk has not been diminished by the bursting of the technology bubble and smaller capitalised companies with high operating leverage have outperformed significantly as a result.

Outside technology our performance was affected by disappointing returns from four stocks: Sara Lee, which failed to deliver expected benefits after a significant restructuring; Cardinal Health and Automatic Data Processing which have both seen a slowdown in their core businesses, drug distribution and payroll processing respectively; and Marsh & McLennan whose strong insurance broking performance was undermined by a Federal investigation into its asset management subsidiary. More positively our holding in United Technologies, a diversified capital goods company, and three of our retail stocks: Family Dollar, Lowe's and Target performed very well, as did our large position in Citigroup, the diversified financial services company. During the year we increased our exposure to cyclical industries by taking a position in Ingersoll-Rand, a machinery manufacturer. We also took new positions in two high quality names that have underperformed the market while the cyclical rally has been in progress namely Harley-Davidson, the motorcycle manufacturer, and Moody's the credit rating agency.

The year 2004 is an election year and so the Bush Administration will do all it can to keep the current economic recovery on course. Growth in the US should again exceed other developed countries. However, the Administration will have to deal with the poor state of federal and state finances, the cost of the war on terrorism and the rebuilding of Iraq and Afghanistan, and the potential for further domestic terrorist attacks. The growing current account deficit is also a problem and it seems probable that this will continue to have an adverse effect on the dollar.

Following the recovery in share prices, valuations in many sectors are starting to look full, particularly in technology. However, in the short term, valuations tend to be overlooked while profits are rising and the news remains positive. During the downturn many companies undertook significant restructuring and their balance sheets are now healthier. They are now generating significant free cash flows which they are starting to use to increase capital expenditure. Corporate activity has picked up considerably in the last quarter, generally a sign that companies are seeing better growth prospects and opportunities. Another positive sign for US investors has been the increase in the number and size of dividends being paid largely as a result of tax changes.

Harley Davidson has created an iconic motorcycle brand that has significant potential for overseas expansion. The firm celebrated its centenary in 2003. (Our holding valued at £4.9m).

Japan

Listed Equities	£31.1m
Principal Holdings	**£'000**

JP MORGAN FLEMING JAPANESE SMALLER COMPANIES INVESTMENT TRUST **2,168**
Exposure to cyclical services within the trust has been increased to benefit from the turnaround in the economy.

DAITO TRUST CONSTRUCTION **1,968**
The company specialises in building flats for letting, offering a range of services to landowners from mortgage advice through to letting administration.

HONDA MOTOR **1,908**
Strong Chinese joint venture and improving European business are offsetting subdued domestic and US demand.

RICOH **1,900**
The company is benefiting from rising demand for digital and colour multi-functional printers which have higher profit margins.

DAIKIN INDUSTRIES **1,659**
Leading manufacturer of air conditioners taking advantage of growth in overseas markets.

The current recovery in Japan appears to be more sustainable than its predecessors.

The Japanese economy has grown faster than expected and has now expanded for six consecutive quarters. Growth has been led by exports to Asia which, in turn, have stimulated domestic capital expenditure. While consumer spending has remained sluggish it has not deteriorated further. Employment has slowly started to improve and there are some signs that the deflation which has dogged Japan for the last four years is gradually dissipating.

Ten year bond yields fell below 0.5% in June but have since risen sharply to the current level of 1.5%. The equity market hit a nineteen year low in April since when it has rebounded by 40.0% in sterling terms. Over the full year the market rose by 22.4%.

The first half of the year was marked by numerous political and economic concerns such as the war in Iraq, the potential threat from North Korea and the SARS epidemic in the Asian region. Domestically there were poor results from some leading companies such as Sony and there was heavy selling of equities from bank cross-shareholdings and, for technical reasons, from pension funds.

Investor sentiment turned when the Government rescued the weakest of the large banks through a quasi nationalisation after it was revealed that the bank was significantly under-capitalised. Subsequently, the other major banks have been able to take some action on non-performing loans and the credit risk rating agencies have become less negative on the outlook. The cyclical economic recovery also became more evident encouraging overseas investors to adjust their low exposure to Japanese equities.

Our portfolio rose by 14.6% which was behind the index. The yen was very strong against the US dollar in the last quarter of our year and a number of our holdings, such as autos, were adversely affected by this. In addition, having sold all of our bank holdings some two years ago, we did not participate in their recent sharp price recovery.

Early in the year we sold our holding in Nomura Research Institute, an IT software company, due to falling orders. We also sold Skylark, a restaurant chain experiencing pricing pressures, and Acom, a consumer finance company, which we believed would suffer from rising personal bankruptcies. We increased our position in Fuji Photo to benefit from the growth in digital cameras and photo minilabs and established a new position in Mabuchi Motor which makes miniature electric motors increasingly used in audio visual equipment and autos.

The current recovery in Japan appears to be more sustainable than its predecessors. It is being driven by the private sector which is benefiting from growth in the Asian region and there should be some further impetus from the revival in the US economy. In addition, the bank sector is in a better condition than it has been for several years. Provided the yen and the oil price do not rise sharply from current levels the momentum of company profits should remain positive. This should be beneficial for Japanese shares which now offer better value in relation to other world markets than has been the case for many years.

Portfolio Review

Pacific (ex Japan)

Listed Equities **£57.6m**

Principal Holdings **£'000**

SAMSUNG ELECTRONICS (Korea) **4,180**
World's largest manufacturer of memory chips also achieving strong growth in mobile handsets and consumer electronics.

BHP BILLITON (Australia) **3,677**
Major diversified resources company with industry leading positions in alumina, iron ore and coal along with growing oil interests.

NATIONAL AUSTRALIA BANK **3,301**
Largest bank in Australia benefiting from consistent growth in the Australian economy.

ANZ BANK (Australia) **2,964**
Australia's fourth largest bank. Increasing New Zealand presence through acquisition of National Bank of New Zealand from Lloyds TSB.

HUANENG POWER (China) **2,571**
Eastern Chinese power station operator benefiting from growing demand for electricity in the People's Republic.

Valuations in most of the region's markets are still attractive.

The year started with weak economic data from much of the region and the uncertainty was increased by the outbreak of SARS in the spring. Fortunately this was contained and cuts in official interest rates, a quick resumption of trade and continued strong growth in the Chinese economy led to an improving outlook by our year end.

After falling in the first half of the year, the regional index recovered and finished the year 21.2% higher in sterling terms. All the constituent markets contributed to the increase although Chinese-related stocks were particularly strong. The performance of our Hong Kong listed Chinese stocks including Huaneng Power, Sinopec and Beijing Capital International Airport was particularly satisfying and helped our portfolio rise by 28.7% over the year.

From the low point in March the regional index rallied by 37.5% led by economically sensitive stocks and the technology hardware sector. Both foreign and local investors have participated, notably in Taiwan where there was also a loosening of the controls on foreign investors. We have started investing in Taiwan through a holding in Hon Hai Precision, an electronics outsourcing business.

During the year we added £3.7m to the region to supplement our overweight position. New purchases included Venture in Singapore, an electronics outsourcing business and KT&G, the dominant tobacco company in Korea. We added to BHP Billiton which is benefiting from rising demand for raw materials; to Samsung Electronics for its leading international position in memory chips and mobile phones; and to Hite Brewery, the leading Korean brewer. We made complete sales of Mayne (private healthcare) and AMP (insurance) because of their disappointing trading.

Esprit Holdings continues to expand its international presence in apparel through wholesale and retail distribution. (Our holding valued at £1.5m).

The outlook for the region remains positive with valuations in most markets still attractive. We expect an improving economic outlook to be accompanied by rising profits growth. Increasing dividends are also evident and indicative of the greater attention being paid to shareholders' needs in these markets. Interest rates remain low across the region and there are signs that deflation may be coming to an end in Hong Kong after five years. The rapid growth in the Chinese economy is expected to moderate but still provide investment and growth opportunities for the region's companies.

United Kingdom

Holding	£'000
BP	28,180*
GlaxoSmithKline	27,575*
Vodafone	25,926*
Royal Bank of Scotland	24,265*
HSBC Holdings	16,771*
HBOS	16,352*
Shell Transport & Trading	13,506*
Barclays	11,903*
Anglo American	11,517*
Lloyds TSB	10,456
Persimmon	10,312
Standard Chartered	9,425
AstraZeneca	8,941
Diageo	8,330
John Wood Group	7,904
National Grid Transco	7,901
Meggitt	7,686
BT	7,086
GUS	6,955
Close Brothers	6,936
P & O	6,705
ScottishPower	6,387
Whitbread	6,008
Tesco	5,942
Scottish & Newcastle	5,601
Next	5,534
Rio Tinto	5,430
Taylor Nelson Sofres	5,334
BBA	5,325
FirstGroup	5,302
Hanson	4,978
Aviva	4,835
UK Balanced Property Trust	4,773
HG Capital Trust	4,368
Serco	4,136
Gallaher	3,953
Pearson	3,899
Northern Foods	3,865
Wolseley	3,828
Fleming Mercantile	3,822
Throgmorton Trust	3,538
Wimpey (George)	3,410
AWG	3,340
United Utilities	3,255
EMAP	3,162
BG Group	3,064
Legal & General	2,912
Aegis	2,908
FKI	2,887
Sage	2,704
Compass	2,378
LogicaCMG	1,688
Thomson Clive Investments	1,474
3i Smaller Quoted Companies Trust	1,230
Yell	1,148
Xansa	1,071
Total UK Investments	**408,121**

Continental Europe

Holding	£'000
FINLAND	
Nokia	2,431
FRANCE	
Total	3,803
BNP Paribas	3,741
AXA	3,532
Société Générale	3,007
Atos Origin	2,521
Accor	2,490
Schneider Electric	1,989
Lafarge	1,970
Renault	1,929
Vinci	1,860
Autoroutes du Sud de la France	1,814
TF1	1,667
Havas	1,644
Hermès International	1,120
Penauille Polyservices	1,069
Aventis	807
GERMANY	
Continental	2,436
BMW	2,230
Adidas-Salomon	2,085
Schering	1,932
E.On	1,540
ITALY	
ENI	3,265
Unicredito	2,700
Alleanza	1,999
Telecom Italia Mobile	1,411
Saipem	1,222
NETHERLANDS	
Unilever	2,650
VNU	2,017
ING Groep	1,499
SPAIN	
Telefónica	3,854
Santander Central Hispano	3,538
Banco Popular Español	1,949
Grupo Dragados	1,749
SWEDEN	
Teliasonera	1,954
Assa Abloy	1,563
SWITZERLAND	
UBS	4,212
Novartis	3,893
Adecco	1,807
Converium Holding	1,465
Total Europe Investments	**90,364**

Unlisted Holdings

Holding	£'000
UNITED KINGDOM	
Aberforth LP	14,893*
Apax Europe V	2,265
Close Investment 1997 Fund	1,561
Close Investment 1994 Fund	1,312
Heritable Property & Loans	1,283
Apax UK VI	670
Others (under £0.5m)	400

Unlisted Holdings (continued)

Holding	£'000
UNITED STATES	
Boston Ventures VI	4,522
1818 Fund III	3,627
Boston Ventures V	2,221
Sprout Capital VII	1,892
Sprout Capital VIII	1,594
Cahill Warnock Strategic	1,402
Others (under £0.5m)	824
Total Unlisted Investments	**38,466**

*Denotes ten largest holdings with an aggregate market value of £190,888,000.

USA

Holding	£'000
Citigroup	10,670
Bank of America	7,462
Johnson & Johnson	7,355
Lowe's Companies	7,241
Microsoft	7,147
Pfizer	6,995
Pepsico	6,855
Intel	6,806
Exxon Mobil	6,338
ConocoPhillips	6,119
US Bancorp	5,855
American International Group	5,775
Marsh & McLennan	5,729
Gannett	5,056
Omnicom	5,013
General Electric	4,927
Harley-Davidson	4,889
Liz Claiborne	4,783
Wyeth	4,773
United Technologies	4,691
Equity Residential Properties Trust	4,465
Carnival	4,145
Fannie Mae	4,064
Alltel	4,034
Medtronic	3,840
American Express	3,808
Ingersoll-Rand	3,630
Dell Computer	3,463
Family Dollar Stores	3,225
SBC Communications	3,199
Cardinal Health	3,197
Ecolab	3,169
SunGard Data Systems	3,108
Mattel	3,046
Adobe Systems	2,991
Bristol-Myers Squibb	2,945
Target	2,880
Clorox	2,723
Illinois Tool Works	2,536
Lexmark International	2,473
Cisco Systems	2,467
International Paper	2,342
Kerr-McGee	2,250
Moody's	2,045
Anheuser-Busch	1,974
Electronic Arts	1,516
Walgreen	1,390
Sysco	1,277
EMC	1,134
Time Warner	775
Others (under £0.5m)	167
Total USA Investments	**208,757**

Pacific (ex Japan)

Holding	£'000
AUSTRALIA	
BHP Billiton	3,677
National Australia Bank	3,301
ANZ Bank	2,964
Insurance Australia Group	2,000
Rinker	1,806
Amcor	1,629
Santos	1,507
Telstra	1,479
HONG KONG	
Huaneng Power	2,571
China Petroleum	2,325
Swire Pacific	1,978
Petrochina	1,929
Sun Hung Kai Properties	1,582
Esprit Holdings	1,454
Bank of East Asia	1,430
Cheung Kong Holdings	1,425
China Mobile	1,305
Hutchison Whampoa	1,280
Cheung Kong Infrastructure	1,221
Beijing Capital International Airport	935
Wharf Holdings	682
SOUTH KOREA	
Samsung Electronics	4,180
Hite Brewery	1,902
KT & G	1,703
Hyundai Motor	1,485
Kookmin Bank	1,439
KT Corp	703
SINGAPORE	
Oversea-Chinese Banking Corp	1,753
Venture Corporation	1,407
ST Engineering	1,104
Singapore Press Holdings	874
United Overseas Bank	773
TAIWAN	
Hon Hai Precision Industries	1,780
Total Pacific (ex Japan) Investments	**57,583**

Japan

Holding	£'000
JP Morgan Fleming Japanese Smaller Companies Investment Trust	2,168
Daito Trust Construction	1,968
Honda Motor	1,908
Ricoh	1,900
Daikin Industries	1,659
Kao	1,623
Nomura Holdings	1,589
Nissan Motor	1,539
Suzuki Motor	1,526
Fast Retailing	1,525
Chugai Pharmaceutical	1,228
NTT	1,195

Japan (continued)

Holding	£'000
Shin-Etsu Chemical	1,168
Fanuc	1,102
Rohm	1,044
Kyocera	905
Takeda Chemical Industries	878
Sumitomo Bakelite	865
Nippon Television Network	852
Murata Manufacturing	819
Fuji Photo Film	729
NTT DoCoMo	717
Advantest	593
Nintendo	550
Invesco GT Japan Enterprise Fund	549
Mabuchi Motor	517
Total Japan Investments	**31,116**

Distribution of Assets
by Sector

Based on total assets at 31 October 2003 of £942.1m

	United Kingdom %	Continental Europe %	USA %	Pacific Region %	October 2003 Total %	October 2002 Total %
Resources	**7.4**	**0.9**	**1.5**	**1.0**	**10.8**	**11.0**
Mining	1.8	0.0	0.0	0.4	2.2	1.6
Oil & Gas	5.6	0.9	1.5	0.6	8.6	9.4
Basic Industries	**2.4**	**0.6**	**0.6**	**0.7**	**4.3**	**4.3**
Chemicals	0.0	0.0	0.4	0.2	0.6	0.9
Construction & Building Materials	2.4	0.6	0.0	0.5	3.5	3.0
Forestry & Paper	0.0	0.0	0.2	0.0	0.2	0.3
Steel & Other Metals	0.0	0.0	0.0	0.0	0.0	0.1
General Industrials	**1.1**	**0.4**	**1.7**	**2.0**	**5.2**	**4.7**
Aerospace & Defence	0.8	0.0	0.5	0.1	1.4	2.3
Diversified Industrials	0.0	0.0	0.5	0.4	0.9	0.9
Electronic & Electrical Equipment	0.0	0.2	0.0	1.3	1.5	0.9
Engineering & Machinery	0.3	0.2	0.7	0.2	1.4	0.6
Cyclical Consumer Goods	**0.0**	**1.0**	**1.4**	**0.7**	**3.1**	**2.7**
Automobiles & Parts	0.0	0.7	0.5	0.7	1.9	1.3
Household Goods & Textiles	0.0	0.3	0.9	0.0	1.2	1.4
Non-Cyclical Consumer Goods	**6.2**	**1.0**	**4.4**	**0.8**	**12.4**	**15.3**
Beverages	1.5	0.0	0.9	0.2	2.6	2.5
Food Producers & Processors	0.4	0.3	0.1	0.0	0.8	2.3
Health	0.0	0.0	0.8	0.0	0.8	1.1
Personal Care & Household Products	0.0	0.0	0.3	0.2	0.5	0.4
Pharmaceuticals & Biotechnology	3.9	0.7	2.3	0.2	7.1	7.6
Tobacco	0.4	0.0	0.0	0.2	0.6	1.4
Cyclical Services	**6.2**	**1.3**	**3.0**	**0.9**	**11.4**	**10.4**
Retailers – General	1.4	0.0	1.4	0.3	3.1	3.4
Leisure & Hotels	0.6	0.3	0.4	0.0	1.3	1.3
Media & Entertainment	1.7	0.5	1.2	0.3	3.7	3.0
Support Services	0.7	0.3	0.0	0.2	1.2	1.9
Transport	1.8	0.2	0.0	0.1	2.1	0.8
Non-Cyclical Services	**4.1**	**0.8**	**0.9**	**0.6**	**6.4**	**6.9**
Food & Drug Retailers	0.6	0.0	0.2	0.0	0.8	1.5
Telecommunication Services	3.5	0.8	0.7	0.6	5.6	5.4
Utilities	**2.2**	**0.2**	**0.0**	**0.3**	**2.7**	**2.5**
Electricity	0.7	0.0	0.0	0.3	1.0	1.0
Utilities – Other	1.5	0.2	0.0	0.0	1.7	1.5
Financials	**15.5**	**2.9**	**7.0**	**2.2**	**27.6**	**26.9**
Banks	9.5	2.0	2.6	1.2	15.3	13.3
Insurance	0.0	0.7	1.2	0.2	2.1	1.8
Life Assurance	0.8	0.2	0.0	0.0	1.0	1.7
Investment Companies	4.3	0.0	1.7	0.3	6.3	6.8
Real Estate	0.0	0.0	0.5	0.3	0.8	1.6
Speciality & Other Finance	0.9	0.0	1.0	0.2	2.1	1.7
Information Technology	**0.6**	**0.5**	**3.4**	**0.2**	**4.7**	**3.8**
Information Technology Hardware	0.0	0.2	1.8	0.2	2.2	2.3
Software & Computer Services	0.6	0.3	1.6	0.0	2.5	1.5
Total Equities	**45.7**	**9.6**	**23.9**	**9.4**	**88.6**	**88.5**
Net Current Assets	**10.8**	**0.0**	**0.4**	**0.2**	**11.4**	**11.5**
Total Assets	**56.5**	**9.6**	**24.3**	**9.6**	**100.0**	**100.0**

As at 31 October 2003 the company held no convertibles (2002 – Nil).

Marketing

The Scottish Investment Trust (SIT), through its subsidiary SIT Savings, encourages investment into its products through its integrated marketing strategy which combines advertising, PR, direct mail, the internet, AITC roadshows and ongoing development of communications to improve clarity and ease of access.

The Scottish Investment Trust

The independence of The Scottish Investment Trust enables its team of experienced managers to follow a focused approach. SIT's global investment strategy spreads risk and promotes a wide search for long term investment opportunities. As one of the largest diversified investment trusts in the UK, SIT has weathered market ups and downs and is well placed to take advantage of opportunities as they become available.

How to Invest

You can buy SIT stock using the simple, low cost investment products outlined below.

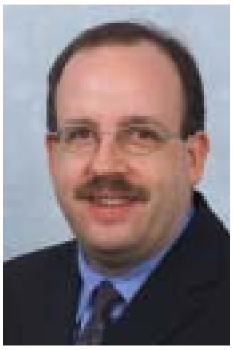
STOCKPLAN – SIT's savings scheme – is one of the lowest charging investment trust savings schemes available. There is considerable flexibility built into the scheme, allowing minimum regular investments from only £25 per month and/or lump sum investments from £250. There is no maximum investment limit and you can stop and start at any time.

STOCKPLAN: A Flying Start, is SIT's Investing for Children plan. Based on the STOCKPLAN scheme it has the same low charges and flexibility of investment. A Flying Start enables family and friends to invest on behalf of a child with a view to providing a nest egg for the future.

The SIT ISA is one of the most competitively priced ISAs on offer. Other than stamp duty, there is no initial, exit or withdrawal plan charge. The annual management fee is 0.6% capped at £30 + vat regardless of how much your ISA investment grows or how many years ISA allowances you invest with SIT.

The SIT PEP also has one of the lowest charging structures around, with an annual fee of only £30 + vat, again regardless of the number of SIT PEPs held or the value of the investment.

SIT stock can also be bought directly on the stockmarket through a stockbroker or a bank, lawyer, accountant or other professional adviser.



Alan Jamieson

Investor Relations Manager
SIT Savings

Sherry-Ann Sweeting

Marketing Manager
SIT Savings

Investment Schemes

All of SIT's schemes provide automatic reinvestment of dividends, but also allow for dividends to be taken as income if required. Stockholders whose names are on our stock register can have their dividends reinvested by joining our dividend reinvestment plan. Details are available from Computershare, our Registrar, on 0870 702 0010.

Investors in The SIT ISA and The SIT PEP who do not wish to receive contract notes for every transaction on their account should contact the ISA/PEP Administrator – Halifax Share Dealing – on 0870 600 9966. All investors will continue to receive six monthly statements on their ISA/PEP accounts.

From 6 April 2004 the tax credit attached to UK dividends will cease to be reclaimable by PEP and ISA managers on behalf of their investors. However investment in ISAs and PEPs will continue to be free from any capital gains tax and higher rate tax payers will not be required to pay any additional tax on the dividend, nor does it need to be included in a tax return.

How Can I Monitor My Investment?

SIT's stock price together with performance information and product details can be found on SIT's website: **www.sit.co.uk**

The price of ordinary stock units is published daily in most quality newspapers and is also available on Ceefax and Teletext, listed as Scot.IT. In addition, a number of financial websites, such as the FT website, **www.ft.com** and Trustnet, **www.trustnet.com** carry stock price information.

The Scottish Investment Trust publishes a weekly NAV and a monthly statement on its website. An interim report is issued in June of each year, with the annual report being distributed to all investors in late December.

STOCKPLAN, A Flying Start, PEP and ISA investors receive twice yearly statements of their holdings and SIT's investor newsletter is issued twice yearly.

SIT's ISA and PEP investors may view their accounts online through the links in the ISA and PEP sections of our website or by visiting **www.halifax-online.co.uk**. Please note you will need your Share Dealing Personal Reference Number (PRN) and Personal Identification Number (PIN) to access this service. If you do not have either of these, please contact the PEP and ISA administrator, Halifax Share Dealing, on 0870 600 9966.

Investors who hold ordinary stock in their own name on SIT's stock register can check their holdings on our Registrar's website **www.computershare.com** or through the link on our web site. Please note that to access this facility investors will need to quote the reference number shown on their stock certificate.

Stockholders' Meetings

Investors whose names appear on the main stock register are entitled to attend and vote at the AGM and other general meetings. Notices of meetings and proxy cards are sent to their registered addresses. STOCKPLAN, A Flying Start, PEP and ISA investors are also entitled to attend and vote by completing the form of direction enclosed with this report and returning it to the address shown on the form to arrive no later than seven working days before the meeting. The AGM will be held at the Roxburghe Hotel, Charlotte Square, Edinburgh on 30 January 2004 at 11.00 am.

Personal Taxation

Income Tax

Currently, all UK dividends are paid to stockholders net of a tax credit of 10%. Changes to the tax regime mean that from April 1999 non tax payers are no longer able to reclaim the tax credit. It is currently only reclaimable by PEP and ISA managers on behalf of their investors on dividends paid before 6 April 2004.

However, please note that SIT will pay its 2004 interim dividend on 31 March 2004 to ensure that the tax credit can be reclaimed where appropriate.

Non PEP and ISA stockholders liable to higher rates of tax will be assessed for any additional tax through their annual tax return.

Capital Gains Tax (CGT)

Investment trusts currently pay no CGT on gains made within the portfolio. When investors sell all or part of their holdings, they may be liable to CGT. Currently, the first £7,900 pa of such gains from all sources is exempt.

Up to 5 April 1998 the cost of investments for CGT purposes was adjusted to allow for inflation. However from 6 April 1998 this indexation was replaced by a taper relief and from this date chargeable gains will be reduced in line with the length of time the investment has been held.

For investors who purchased stock prior to 31 March 1982 the cost for CGT purposes may be based on the price on that date of 41.472p.

Investors who are in any doubt as to their liability for CGT should seek professional advice.

PEP and ISA investments will continue to remain exempt from CGT.

Risk Warning

Past performance is no guarantee of future returns and the capital value of ordinary stock units (and the income from them) may fall as well as rise and is not guaranteed. An investor may not get back the amount originally invested. From time to time the company will make use of borrowings which will magnify stockmarket movements both up and down. Investment in SIT is intended as a long term investment. Taxation levels, bases and reliefs are subject to change and may depend on individual circumstances.

Further Details

For further information and brochures of any SIT products please visit our website: **www.sit.co.uk** or contact:

SIT Investor Relations
SIT Savings Limited
Freepost EH882
Edinburgh EH2 0BR
Telephone: 0800 42 44 22
Fax: 0131 226 3663
Email: heather@sit.co.uk

Please remember that we are unable to offer individual investment or taxation advice. If you require such advice, you should consult your professional adviser. SIT Savings Limited is authorised and regulated by the Financial Services Authority (FSA).

Dividend

The directors recommend a final dividend of 5.20p per ordinary stock unit payable on 10 February 2004 which, with the interim dividend of 2.60p already paid, makes a total of 7.80p for the year. The total dividend absorbs £16,259,000 leaving £3,278,000 to be transferred to revenue reserve.

Business and Tax Status

The business of the company is that of a self-managed investment trust and it is registered as an investment company within the meaning of the Companies Act 1985. A review of the company's business during the year is given in the chairman's statement on page 4 and the management review on page 8.

The Inland Revenue has approved the company as an investment trust for the purposes of S842, Income and Corporation Taxes Act 1988, up to the accounting period ending 31 October 2002. The company has subsequently continued to satisfy the conditions for such approval. The "close company" provisions of the 1988 Act do not apply to the company.

Directors

Sir Angus Grossart retired as a director on 6 October 2003 and was succeeded as chairman by Mr Douglas McDougall. Mr Hamish Buchan was appointed a director on 17 November 2003.

Mr Francis Finlay and Mr Douglas McDougall retire by rotation from the board of directors at the annual general meeting and are eligible for re-election. As recommended by the Combined Code on Corporate Governance, Sir George Mathewson retires as he has been a director for more than nine years; he offers himself for re-election. As a newly appointed director, Mr Hamish Buchan also retires at the AGM and offers himself for election.

Biographical details of all directors are given on page 6.

Mr Francis Finlay and Mr Hamish Leslie Melville were appointed directors for fixed terms of three years in November 1996 which were renewed in November 1999 and November 2002 for a further three years. Mr Douglas McDougall and Sir Paul Nicholson were appointed for fixed terms of three years in September 1998 which were renewed in September 2001 for a further three years.

No compensation is payable to a director who leaves the board before the expiry of his term of office. No director has a service contract with the company. All directors are subject to re-election in rotation by stockholders at intervals of no more than three years. No contract or arrangement entered into by the company in which any director is interested has subsisted during the year.

The company maintained liability insurance for its directors and officers throughout the year.

Directors' Interests

The interests of the directors and their families in the company's capital are as follows:

	Ordinary stock units of 25p	
Beneficial interests	31 October 2003	1 November 2002
D C P McDougall	60,000	10,000
Sir George Mathewson	18,383	376
F Finlay	60,000	10,000
I H Leslie Melville	60,000	60,000
Sir Paul Nicholson	10,000	10,000

Hamish Buchan, who was appointed a director on 17 November 2003, bought 20,000 ordinary stock units of 25p on 18 November 2003.

Sir Paul Nicholson bought 10,000 ordinary stock units of 25p on 3 December 2003.

Share Buybacks

During the year 3,000,000 ordinary stock units, representing 1.4% of the issued ordinary stock at 31 October 2002, were repurchased at a cost of £7,949,000.

Corporate Governance

The Committee on Corporate Governance published its report on the principles of good governance and code of best practice entitled "The Combined Code" in June 1998 and this was incorporated into the Listing Rules of The UK Listing Authority in January 1999. The 1998 Combined Code has been revised in the light of the recommendations of the Higgs and Smith reports and the new "Combined Code on Corporate Governance" applies to reporting periods commencing on or after

1 November 2003. This directors' report, therefore, is written with reference to the 1998 Combined Code ("The Combined Code").

The company has complied with the provisions of the Combined Code except that non-executive directors appointed prior to 1996 have not been appointed for specific terms and there is no senior independent director. The directors consider that, where all directors are independent and non-executive, there is no compelling case for having a senior independent director.

The board has considered the principles set out in the Combined Code and believes that the way the company is governed is consistent with those principles.

The Principles of Good Governance

Directors
The board meets monthly throughout the year and deals with important aspects of the company's affairs including setting and monitoring strategy, reviewing performance, reviewing major investments for the control of risk and ensuring adequate financial reporting.

All six members of the current board are non-executive and are independent of the company's management. Day to day management, including the selection of investments, is delegated to the company's executive management which reports directly to the board.

All directors appointed after 1995 are appointed for fixed terms of three years. All directors are required to retire by rotation at their first AGM and at intervals of not more than three years thereafter.

Prior to each board meeting directors are provided with a comprehensive set of papers giving detailed information on the company's transactions, financial position and performance. There is a procedure for directors to seek independent professional advice at the expense of the company and training is available to directors as required.

There is a nomination committee comprising the whole board for the purpose of selecting and appointing new directors. It has written terms of reference which are shown on the company's website.

Remuneration
The board has appointed a remuneration committee to recommend pay and conditions for the board and employees. It has written terms of reference which are shown on the company's website.

Directors' fees are set with a view to attracting individuals of appropriate calibre and experience, taking into account the time commitment required and level of fees paid by similar investment trusts. No other benefits are provided to directors. Fees recommended by the remuneration committee are subject to approval by the board and stockholders.

Since all directors are non-executive the company is not required to comply with principles B1, 2 and 3 of the Combined Code which relate to executive directors.

With regard to the company's employees, the company aims to provide levels of remuneration in line with similar organisations and to reward responsibility and achievement. Basic salaries are compared annually with those of equivalent employees in a group of comparable fund management organisations operating in Scotland. Remuneration consists of basic salary, a performance-related bonus and benefits including a contributory pension scheme.

Relations with stockholders
The company recognises the value of good communications with its stockholders. The management meets regularly with private client stockbrokers and the company's major institutional stockholders. Newsletters are sent to stockholders during the year. All attendees at the AGM have an opportunity to ask questions of the board and management. Proxy voting figures for each resolution are announced to the meeting after voting on a show of hands. Separate items of business are proposed as separate resolutions including the receipt of the report and accounts and the approval of the directors' remuneration report. The annual report is sent to stockholders at least 20 working days before the AGM.

Accountability and audit
The respective responsibilities of the directors and the auditors in respect of the financial statements are given on pages 28 and 31.

The audit committee, which meets three times per year, has written terms of reference which are shown on the company's website. Its duties include risk assessment, reviewing internal controls, the company's accounting policies, financial statements prior to their release and the company's procedures on whistleblowing. The committee is also responsible for all aspects of the company's relationship with its external auditors including reviewing the scope and effectiveness of the annual audit, the auditor's remuneration and terms of engagement and non-audit work, if any, carried out by the auditor. The committee will also ensure that the level of non-audit work does not compromise the auditor's independence.

The company does not have an internal audit department as the audit committee believes that the company's straightforward structure and small number of employees do not warrant such a function. This is reviewed by the committee every year.

The directors continue to believe that the financial statements should be prepared on a going concern basis as the assets of the company consist mainly of readily realisable securities.

The board is responsible for ensuring that the company has in place an effective system of internal controls designed to maintain the integrity of accounting records and safeguard the company's assets.

The board has applied Principle D.2 of the Combined Code by establishing a continuous process for identifying, evaluating and managing the significant risks the company faces. This process, which has been in place throughout the year up to and including the date of approval of this report is in accordance with Internal Control: Guidance for Directors on the Combined Code published in September 1999 (The Turnbull Guidance).

In compliance with Provision D.2 of the Combined Code, the board regularly reviews the effectiveness of the group's system of internal control. The board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The audit committee assists the board in discharging its review responsibilities.

Detailed procedures are in place to ensure that:

- all transactions are accounted for accurately and reported fully to the board;
- the management observes the authorisation limits set by the board;
- there is a clear segregation of duties so that no investment transaction can be completed by one person;
- control activities are regularly checked;
- compliance procedures are in place for legal and regulatory obligations.

The board recognises that such systems can only provide reasonable, not guaranteed, assurance against material misstatement or loss. The effectiveness of the company's internal controls is reviewed by the audit committee every six months.

Directors' responsibilities

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 of the revenue and cash flows for that year. 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;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Substantial Stockholdings

At 10 December 2003 the company had been notified of the following holdings in excess of 3% of its ordinary stock.

	Ordinary stock units	% of issue
AXA Group	18,919,515	9.0
Britel Fund Trustees	14,953,216	7.1*
Legal & General	6,537,872	3.1
D C Thomson & Co	6,336,040	3.0

* includes a 4.4% interest notified by Devon County Council.

Annual General Meeting

A resolution relating to the following item of special business will be proposed at the forthcoming annual general meeting:

Repurchase of the company's own ordinary stock
At the annual general meeting of the company held on 28 February 2003 stockholders passed a resolution giving the company authority to make purchases of up to 31,524,629 ordinary stock units, being 14.99% of the then issued ordinary stock of the company. The authority is due to expire on 27 August 2004.

Resolution number 7 set out in the notice of annual general meeting seeks to renew the authority to repurchase ordinary stock until 29 July 2005. The principal reasons for such repurchases are to enhance the net asset value of the ordinary stock by repurchasing ordinary stock at prices which, after allowing for costs, represent a discount to the prevailing net asset value and also to address any imbalance between the supply of and demand for ordinary stock.

Under the Listing Rules of the UK Listing Authority, the maximum price that may be paid on the exercise of the authority must not exceed 105% of the average of the middle market quotations for the ordinary stock over the five business days immediately preceding the date of purchase. The minimum price which may be paid is 25p per ordinary stock unit. Purchases of ordinary stock will be made within guidelines established from time to time by the directors.

The directors consider that it is in the best interests of the company to renew the authority to repurchase ordinary stock and recommend that stockholders vote in favour of resolution number 7.

Socially Responsible Investing

When investments are made, the primary objective is to achieve the best investment return while allowing for an acceptable degree of risk. In pursuing this objective, various factors that may impact on performance are considered and these will include socially responsible investment issues. If it is considered that a company's social, environmental or ethical record will adversely affect financial performance and result in poor returns, then an investment will not be made in the company.

Auditors

On 1 August 2003 Deloitte & Touche, the company's auditors, transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the company's auditors, and to authorise the directors to fix their remuneration, will be proposed at the forthcoming annual general meeting.

Payment of Creditors

It is the company's policy to agree in advance the terms of business with suppliers and then to abide by those terms.

As the company has no trade creditors, no disclosure can be made of creditor days at the year end.

Donations

No charitable or political donations were made during the year.

By order of the board

I M Harding

I M Harding
Secretary
10 December 2003

This report has been prepared in accordance with the requirements of Schedule 7A to the Companies Act 1985 incorporating the Directors' Remuneration Report Regulations 2002 which apply to the company for the first time this year. An ordinary resolution for the approval of the report will be put to stockholders at the AGM on 30 January 2004.

Remuneration Committee

The company has a remuneration committee whose terms of reference include setting the fees of the directors. The full terms of reference are posted on the company's website. The committee is chaired by Mr Hamish Leslie Melville and other members are Sir George Mathewson and Mr Douglas McDougall.

The remuneration committee met on 28 November 2003 and considered a report prepared by consultants MacDonald Kinnaird on the level of directors' fees within the investment trust industry. The report noted that recent changes in corporate governance and regulation have imposed increased duties and responsibilities on directors of public companies. Based on this report the committee recommended to the board that directors' fees, with effect from 1 November 2003, should be £35,000 p.a. for the chairman and £20,000 p.a. for other directors. The proposed fees are materially below those recommended in the external report. The present level of directors' fees has remained unchanged since 31October 2000.

Policy on Directors' Fees

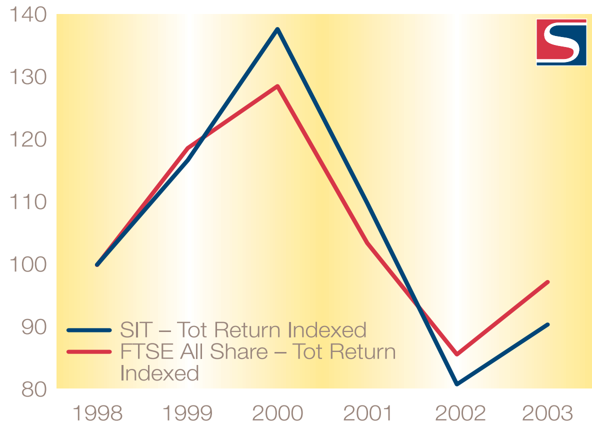
At the year end the board consisted of five directors, all of whom are non-executive. Sir Angus Grossart was a non-executive director during the year until his retirement on 6 October 2003. Directors' fees are set with a view to attracting individuals of appropriate calibre and experience, taking into account the time commitment required and the level of fees paid by similar investment trusts. It is intended that this policy shall apply for the year to 31 October 2004 and to subsequent years. The directors do not receive bonuses, share options, long-term incentives, pension or other benefits.

Service Contracts

The directors do not have service contracts as such. Directors appointed since 1995 have letters of appointment for fixed terms of three years which can be renewed but there is no notice period and no compensation is payable on early termination. All directors are subject to retirement by rotation at intervals of not more than three years.

Company Performance

The graph below shows the company's five year total return compared to the notional return on the FTSE All-Share Index over the same period. This index has been chosen as it is a common performance comparator for companies like SIT.



Directors' Emoluments for the Year to 31 October 2003 (audited)

Fees	2003 £	2002 £
Sir Angus Grossart	26,564	28,500
Douglas McDougall	18,045	17,250
Sir George Mathewson	17,250	17,250
Francis Finlay	17,250	17,250
Hamish Leslie Melville	17,250	17,250
Sir Paul Nicholson	17,250	17,250
	113,609	114,750

Fees in respect of Sir Angus Grossart and Mr Hamish Leslie Melville were paid to Noble Grossart Limited and Credit Suisse First Boston respectively. The other directors receive their fees personally.

Approval

The directors' remuneration report was approved by the board on 28 November 2003 and signed on its behalf by the chairman of the remuneration committee.

Hamish Leslie Melville

10 December 2003

To The Members of The Scottish Investment Trust PLC

We have audited the financial statements of The Scottish Investment Trust PLC for the year ended 31 October 2003 which comprise the Statement of Total Return, the Balance Sheet, the Cash Flow Statement, the accounting policies and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As described in the paragraph headed directors' responsibilities in the Corporate Governance section of the Directors' Report, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the Directors' Remuneration Report. Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report described as having been audited 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 whether the financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the 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 is not disclosed.

We review whether the Corporate Governance Statements reflect the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if they do 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 company'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 including the unaudited part of the Directors' Remuneration Report 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 and the part of the Directors' Remuneration Report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company, 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 and the part of the Directors' Remuneration Report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report described as having been audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company as at 31 October 2003 and of the total return of the company for the year then ended; and
- the financial statements and part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and
Registered Auditors
Edinburgh
10 December 2003

Statement of Total Return

for the year to 31 October 2003 (incorporating the Revenue Account*)

	Notes	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000
Net gains/(losses) on investments and currencies	15	–	65,236	65,236	–	(183,654)	(183,654)
Income	1	27,587	–	27,587	28,099	–	28,099
Expenses	2	(1,957)	(2,172)	(4,129)	(2,143)	(2,415)	(4,558)
Net Return before Finance Costs and Taxation		25,630	63,064	88,694	25,956	(186,069)	(160,113)
Interest payable	5	(5,160)	(10,321)	(15,481)	(5,160)	(10,320)	(15,480)
Return on Ordinary Activities before Tax		20,470	52,743	73,213	20,796	(196,389)	(175,593)
Tax on ordinary activities	6	(933)	–	(933)	(2,780)	1,691	(1,089)
Return attributable to Equity Stockholders		19,537	52,743	72,280	18,016	(194,698)	(176,682)
Dividends on ordinary stock	7	(16,259)	–	(16,259)	(16,076)	–	(16,076)
Transfer to Reserves	15	3,278	52,743	56,021	1,940	(194,698)	(192,758)
Return per Ordinary Stock Unit		9.28p	25.06p	34.34p	8.24p	(89.04)p	(80.80)p
Weighted average number of Ordinary Stock Units in issue during the year			210,489,029			218,671,178	

*The revenue column of this statement is the profit and loss account of the company.

The accompanying notes are an integral part of this statement.

Balance Sheet

as at 31 October 2003

	Notes	2003 £'000	2002 £'000
Fixed Assets			
Equity investments	8	834,407	791,029
Current Assets			
Debtors	11	4,397	6,014
Cash and deposits	8	116,240	115,366
		120,637	121,380
Creditors: amounts falling due within one year	12	(12,890)	(18,494)
Net Current Assets		107,747	102,886
Total Assets less Current Liabilities		942,154	893,915
Creditors: amounts falling due after more than one year			
Long term borrowings	13	(222,639)	(222,472)
Net Assets		719,515	671,443
Capital and Reserves			
Called-up share capital	14	52,576	53,326
Share premium account	15	39,922	39,922
Other reserves	15		
Capital redemption reserve		18,285	17,535
Capital reserve – realised		532,169	575,827
Capital reserve – unrealised		46,907	(41,545)
Revenue reserve		29,656	26,378
Equity Stockholders' Funds	16	719,515	671,443
Net Asset Value per Ordinary Stock Unit	17	342.1p	314.8p
Number of Ordinary Stock Units in issue at year end	14	210,304,399	213,304,399

The financial statements on pages 32 to 43 were approved by the board of directors on 28 November 2003 and were signed on its behalf by:

Douglas McDougall.

Douglas McDougall

Director

The accompanying notes are an integral part of this balance sheet.

Cash Flow Statement

for the year to 31 October 2003

	Notes	2003 £'000	2002 £'000
Net Cash Inflow from Operating Activities		20,480	21,270
Servicing of Finance			
Interest paid		(15,314)	(15,313)
Taxation			
Overseas tax recovered		546	160
Net cash inflow from taxation		546	160
Investing Activities			
Purchases of investments		(159,588)	(235,898)
Disposals of investments		178,652	298,591
Net cash inflow from investing activities		19,064	62,693
Equity dividends paid		(15,988)	(18,282)
Net cash inflow before use of liquid resources and financing		8,788	50,528
Management of Liquid Resources			
Decrease/(increase) in short term deposits	18	1,500	(13,415)
Financing			
Share buybacks	14	(7,949)	(43,865)
Net cash outflow from financing		(7,949)	(43,865)
Increase/(decrease) in Cash	18	2,339	(6,752)
Reconciliation of Net Revenue before Finance Costs and Taxation to Net Cash Inflow from Operating Activities			
Net revenue before finance costs and taxation		25,630	25,956
Expenses charged to capital		(2,172)	(2,415)
Scrip dividends		(439)	(428)
Decrease in accrued income		57	396
(Decrease)/increase in other creditors		(626)	104
Increase in other debtors		(647)	(572)
Tax on investment income		(1,323)	(1,771)
Net Cash Inflow from Operating Activities		20,480	21,270

The accompanying notes are an integral part of this statement.

A summary of the principal accounting policies is set out in paragraphs (a) to (i) below. All have been applied consistently throughout the current and the preceding year:

(a) Basis of Accounting

The financial statements are prepared under the historical cost convention, modified to include the revaluation of investments and in accordance with applicable United Kingdom accounting standards. The company's accounting policies comply with the Statement of Recommended Practice (SORP) ''Financial Statements of Investment Trust Companies''.

(b) Valuation of Investments

Listed investments are valued at closing or last traded prices according to the recognised convention of the markets on which they are quoted. Where trading in the securities of an investee company is suspended, the investment is valued at the board's estimate of its net realisable value. Where appropriate the directors have adopted the guidelines issued by the British Venture Capital Association for the valuation of unlisted investments. Heritable property is included at a professional valuation. Depreciation is not charged on heritable property as it is not material.

Realised surpluses or deficits on the disposal of investments and permanent impairments in the value of investments are taken to capital reserve – realised, and unrealised surpluses and deficits on the revaluation of investments are taken to capital reserve – unrealised as explained in note (h) below.

Year end exchange rates are used to translate the value of investments which are denominated in foreign currencies.

(c) Income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date. Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the company's right to receive payment is established.

Fixed returns on non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield on the shares. Other returns on non-equity shares are recognised when the right to the return is established. The fixed return on a debt security is recognised on a time apportionment basis so as to reflect the effective yield on the debt security.

Where the company receives dividends in the form of additional shares rather than in cash, the amount of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash is recognised in capital reserves.

(d) Expenses

All expenses are accounted for on an accruals basis.

Eligible investment expenses are charged one-third to revenue, two-thirds to realised capital reserves in line with the directors' expectations of the nature of long term future returns from the company's investments. The treatment of tax relief applicable to those charges has been changed to comply with the revised SORP issued in 2003 and this is now allocated between revenue and capital using the marginal basis.

Expenses which are incidental to the acquisition of an investment are included within the cost of the investment.

Expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.

(e) Finance Costs

Finance costs, including dividends and other finance costs of non-equity shares, are accounted for on an accruals basis, and in accordance with the provisions of FRS 4 ''Capital Instruments''.

Interest payable is charged one-third to revenue, two-thirds to realised capital reserves in line with the directors' expectations of long term future returns from the company's investments. The treatment of tax relief applicable to those charges has been changed to comply with the revised SORP issued in 2003 and this is now allocated between revenue and capital using the marginal basis.

The discount and expenses of issue on the secured bonds due 17/4/2030 have been included in the financing costs of the issue which are being amortised over the life of the bonds.

(f) Taxation

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 the 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 the 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.

(g) Foreign Currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as at the date of the transaction or, where appropriate, at the rate of exchange in a related forward contract. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in capital reserve or in the revenue account depending on whether the gain or loss is of a capital or revenue nature respectively.

(h) Capital Reserves

Capital Reserve – Realised

The following are accounted for in this reserve:

– gains and losses on the realisation of investments

– realised exchange differences of a capital nature

– realised gains and losses and related income on transactions undertaken to hedge an exposure of a capital nature

– the funding of ordinary stock repurchases

– expenses and interest charged to capital.

Capital Reserve – Unrealised

The following are accounted for in this reserve:

– increases and decreases in the valuation of investments held at the year end

– unrealised exchange differences of a capital nature

– unrealised gains and losses and related income on transactions undertaken to hedge an exposure of a capital nature.

(i) Pensions

The expected cost of providing pensions, as calculated periodically by professionally qualified actuaries, is charged to the profit and loss account so as to spread the cost over the service lives of employees in the scheme, in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll.

Additional contributions, representing variations from regular cost, are recorded within prepayments and amortised over the estimated average remaining service life of scheme members.

The company has adopted the transitional rules under FRS 17 – Retirement Benefits and has included the appropriate disclosures in Note 4.

1. INCOME

	2003 £'000	2002 £'000
Income from investments:		
UK franked investment income	14,118	15,171
Overseas dividends	8,336	8,825
Scrip dividends	439	428
Other	430	206
	23,323	24,630
Other income:		
Deposit interest	4,259	3,459
Underwriting commission	5	10
	4,264	3,469
Total income	27,587	28,099
Total income comprises:		
Dividends including special dividends of £262,000 (2002 – £445,000)	23,316	24,620
Interest	4,266	3,469
Other income	5	10
	27,587	28,099
Income from investments:		
Listed UK	14,871	15,755
Listed overseas	8,336	8,825
Unlisted	116	50
	23,323	24,630

2. EXPENSES

	2003 £'000	2002 £'000
Staff costs (Note 3)	2,129	2,338
Auditors' remuneration for audit	23	20
Other expenses	1,977	2,200
	4,129	4,558

Since 1 November 1999 eligible expenses have been charged one-third to revenue and two-thirds to capital. Auditors' remuneration for non-audit services totalled £Nil (2002 – £10,000).

3. STAFF COSTS

	2003 £'000	2002 £'000
Salaries	1,435	1,635
Social security costs	156	181
Pensions and post-retirement benefits	538	522
	2,129	2,338

The average monthly number of persons employed during the year was:

	2003 Number	2002 Number
Investment	10	10
Administration	13	14
	23	24

Directors' remuneration:		
Fees for services as directors	£113,609	£114,750

4. PENSION SCHEME

The company's defined benefit pension scheme based on final salary is now closed to new entrants. The assets of the scheme are held separately from those of the company. The fund is under the control of trustees and is administered by a life assurance company. A defined contribution scheme is being introduced for new employees.

The pension cost charge for the period was £522,000 (2002 – £506,000). The pension cost charge is determined by a qualified actuary on the basis of triennial valuations. The charge for 2003 is based on a triennial valuation as at 1 August 2002. The attained age method was used. The most significant assumptions were that for past service the rate of return on investments would be 8.2% in the period up to retirement and 5.2% once the pension was in payment. The rate of increase of salaries would be 4.3%. The equivalent assumptions for future service were 7.4%, 5.2% and 4.4% respectively. The actuarial value of the assets at 1 August 2002 represented 80% of the actuarial value of the accrued benefits. The accrued benefits include all benefits for pensioners and former members as well as benefits based on service completed to date for active members allowing for future salary rises. The market value of the scheme assets at 1 August 2002 was £4,720,000. The pension charge for 2003 was 38% of pensionable earnings, including an allowance of 12% in respect of the amortisation of the deficit, which is being recognised over eleven years, the remaining service lifetime of the current employees.

While the pension charge has been established in line with SSAP 24, additional disclosures regarding the company's pension scheme are required under the transitional provisions of FRS 17 ''Retirement benefits'' and these are set out below.

An actuarial valuation has been calculated at 31 October 2003 by a qualified actuary using assumptions that are consistent with the requirements of FRS 17. Investments have been valued, for this purpose, at fair value.

The major assumptions used for the actuarial valuation were:	2003 %	2002 %
Rate of increase in salaries	2.5 and 4.5	4.2
Rate of increase in pensions in payment	2.5	2.2
Discount rate	5.4	5.4
Inflation assumption	2.5	2.2

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at the balance sheet date were:

	Expected rate of return		Fair value	
	2003 %	2002 %	2003 £'000	2002 £'000
Equities	8.2	8.5	3,470	3,142
Bonds	4.8	4.8	907	681
Other	4.8	4.4	2,529	1,260
Total fair value of assets			6,906	5,083
Present value of scheme liabilities			8,080	7,202
Net pension liability			1,174	2,119

The net pension liability arises mainly because future liabilities are discounted at a rate based on the yield on AA corporate bonds which is lower than the expected rate of return from equities in which the fund is largely invested.

4. PENSION SCHEME (continued)

The following figures for the year to 31 October 2003 are given by way of note. They will be incorporated into the revenue account on full implementation of FRS 17 if it is implemented at the end of transition in 2005. Had FRS 17 been adopted early, the revenue reserve would be £29,265,000 (2002 – £25,672,000).

Analysis of amount chargeable to operating profit during the year:	2003 £'000	2002 £'000
Current service cost	435	400
Past service cost	–	–
Settlement/curtailments	–	–
Total operating charge	435	400
Employee contribution to be set off	(58)	(48)
Analysis of amount credited to other finance income:		
Expected return on assets	426	420
Interest on liabilities	(389)	(529)
Net return	37	(109)
Movement in deficit during year:		
Deficit at beginning of year	(2,119)	(1,973)
Movement in year:		
Current service cost	(435)	(400)
Contributions for year	496	439
Contributions prepaid	620	458
Settlements/curtailments	–	–
Past service costs	–	–
Net return from other finance income	37	(109)
Actuarial gain/(loss) in statement of total return	227	(534)
Deficit at end of year	(1,174)	(2,119)
Analysis of amount recognised in statement of total return:		
Actual return less expected return on assets	285	(924)
Experience (losses)/gains on liabilities	(142)	476
Change in assumptions	84	(86)
Actuarial gain/(loss) recognised in statement of total return	227	(534)

History of experience gains and losses	%	£'000	%	£'000
Difference between actual and expected return on assets	4	285	21	(924)
Experience (losses)/gains on liabilities	2	(142)	7	476
Total amount recognised in statement of total return	3	227	7	(534)

5. INTEREST PAYABLE

	2003 £'000	2002 £'000
On debentures, bank loans, overdrafts and other loans	15,314	15,313
Amortisation of secured bond issue expenses	167	167
	15,481	15,480

Interest has been charged one-third to revenue and two-thirds to capital.

6. TAX ON ORDINARY ACTIVITIES

	2003 £'000	2002 £'000
Tax on ordinary activities		
Overseas tax	922	1,092
Deferred tax	11	(3)
	933	1,089
Tax relief credited to capital	–	1,691
	933	2,780
The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK of 30% (2002 – 30%)		
The differences are explained below:		
Profit on ordinary activities before tax	7,977	8,061
Tax at 30% thereon	(2,393)	(2,418)
Effects of:		
UK dividend income	4,235	4,551
Stock dividends	132	129
Foreign tax charge	(933)	(1,089)
Surplus management expenses	(1,963)	(2,265)
	(922)	(1,092)

There are surplus interest and management expenses at 31 October 2003 of £25,678,000 (2002 – £19,068,000) but the related deferred tax asset at 30% has not been recognised. This is because the company is not expected to generate taxable income in a future period in excess of the deductible expenses of that future period and, accordingly, it is unlikely that the company will be able to reduce future tax liabilities through the use of existing surplus expenses.

7. DIVIDENDS AND OTHER APPROPRIATIONS

	2003 £'000	2002 £'000
Dividends on ordinary stock:		
– interim paid of 2.60p per unit (2002 – 2.50p)	5,468	5,411
– final declared of 5.20p per unit (2002 – second interim 5.00p)	10,936	10,665
– dividends on stock repurchased	(145)	–
	16,259	16,076

8. INVESTMENTS

	2003 £'000	2002 £'000
Investments listed on a recognised investment exchange	795,941	754,271
Unlisted investments	38,363	36,655
Subsidiary undertakings (Note 9)	103	103
	834,407	791,029

8. INVESTMENTS continued

A geographical analysis of the investment portfolio (page 9), a full list of investments by market value (pages 20 and 21), and an analysis of the investment portfolio by broad industrial or commercial sector (page 22), are contained within the annual report.

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total 2003 £'000
Opening book cost	390,446	404,694	37,434	832,574
Opening unrealised appreciation/(depreciation)	228	(41,097)	(676)	(41,545)
Opening valuation	390,674	363,597	36,758	791,029
Movements in the year:				
Purchases at cost	76,213	72,630	5,846	154,689
Sales – proceeds	(88,467)	(81,171)	(7,015)	(176,653)
– realised (losses)/gains on sales	(16,903)	(7,334)	1,127	(23,110)
Increase in unrealised appreciation	48,771	37,931	1,750	88,452
Closing valuation	410,288	385,653	38,466	834,407
Closing book cost	361,289	388,819	37,392	787,500
Closing unrealised appreciation/(depreciation)	48,999	(3,166)	1,074	46,907
	410,288	385,653	38,466	834,407

	2003 £'000	2002 £'000
Realised losses on sales	(23,110)	(29,010)
Increase/(decrease) in unrealised appreciation	88,452	(154,602)
Gains/(losses) on investments	65,342	(183,612)

Unlisted investments include the following:

(a) Heritable property valued at £1,100,000 (2002 – £700,000). The property was valued on an open market basis by Ryden, chartered surveyors, on 16 October 2003.

(b) A property loan of £50,000 in respect of Iain Harding who forms part of the key management of the company. A standard security is held by the company.

(c) An investment in Aberforth Limited Partnership 1B, an investment fund. Relevant disclosures are shown on page 10.

Financial assets	2003			2002		
	Fixed £'000	Floating £'000	Total £'000	Fixed £'000	Floating £'000	Total £'000
Sterling	99,000	10,564	109,564	110,000	4,663	114,663
Euro	–	912	912	–	–	–
US dollar	–	4,161	4,161	–	498	498
Other	–	1,603	1,603	–	205	205
	99,000	17,240	116,240	110,000	5,366	115,366

The maximum fixed period for deposits outstanding at the year end was 112 days. The weighted average fixed interest rate at the year end was 3.53%. Floating interest rates vary in relation to short term rates in the currencies in which deposits are held.

9. SUBSIDIARY UNDERTAKINGS

The company has investments in the following subsidiary undertakings:

Name of undertaking	Principal activity activity	Country of incorporation and operation	Description of shares held	Proportion of nominal value of issued shares and voting rights held
Hurtree Limited	Investment	UK	Ordinary	100%
SIT Savings Limited	Investment products	UK	Ordinary	100%

The accounts of these subsidiaries have not been consolidated with those of the parent company as, in the opinion of the directors, the amounts involved are not material. The directors are satisfied that the valuation of the subsidiaries reflects and does not exceed the value of the underlying assets.

10. SIGNIFICANT INTERESTS

Details of investments, other than subsidiaries, in which the company has an interest of 20% or more of the nominal value of the allotted shares of any class, or of the net assets, are as follows:

Name of undertaking	Country of incorporation and operation	Description of shares held	Percentage held	Aggregate capital and reserves £'000	Loss after tax for year £'000
Sprout Growth Limited	Inc Cayman Islands operating in USA	ord shares of US$1	49.7	397	(15)
		part red pref shares of US$0.01	49.7		

11. DEBTORS

	2003 £'000	2002 £'000
Amounts due from brokers	257	2,309
Overseas tax recoverable	1,146	1,303
Prepayments and accrued income	2,994	2,402
	4,397	6,014

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003 £'000	2002 £'000
Amounts due to brokers	604	5,888
Dividends	10,936	10,665
Other creditors	1,294	1,920
Bank overdraft	56	21
	12,890	18,494

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

	2003		2002	
	Book value £'000	Market value £'000	Book value £'000	Market value £'000
4% perpetual debenture stock	350	252	350	271
4¼% perpetual debenture stock	700	535	700	577
5% perpetual debenture stock	1,009	921	1,009	983
10⅞% debenture stock 30/4/2019	25,000	35,678	25,000	35,868
7¾% debenture stock 25/9/2013	50,000	55,084	50,000	56,985
5¾% secured bonds due 17/4/2030	145,580	144,277	145,413	144,533
	222,639	236,747	222,472	239,217

The debenture stocks and secured bonds are secured by a floating charge over the assets of the company. The secured bonds have a redemption value in 2030 of £150m.

The company's long term borrowings are denominated in sterling and carry interest at fixed rates. The secured bond and two debentures with fixed maturities have a weighted average life of 21.5 years (2002 – 22.5 years) and a weighted average interest rate of 6.9%. They are stated in the balance sheet at book value. Restating them at estimated market value of £236.7m (2002 – £239.2m) would have the effect of reducing the year end NAV per ordinary stock unit from 342.1p to 335.4p (2002 – 314.8p to 306.9p). Based on the market price of 281.0p (2002 – 259.0p) the discount to NAV at the year end would be reduced from 17.9% to 16.2% (2002 – 17.7% to 15.6%).

14. CALLED-UP SHARE CAPITAL

	Authorised 2003 £'000	Authorised 2002 £'000	Issued 2003 £'000	Issued 2002 £'000
Ordinary stock units of 25p	85,500	85,500	52,576	53,326
Number of ordinary stock units in issue			210,304,399	213,304,399

3,000,000 ordinary stock units were repurchased for cash in the stockmarket during the year to 31 October 2003 at a total cost of £7,949,000. No further stock units were repurchased between 31 October 2003 and 10 December 2003.

15. RESERVES

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
Beginning of year	39,922	17,535	575,827	(41,545)	26,378
Exchange difference	–	–	(106)	–	–
Net loss on realisation of investments	–	–	(23,110)	–	–
Increase in unrealised appreciation	–	–	–	88,452	–
Ordinary stock repurchased	–	750	(7,949)	–	–
Interest and expenses charged to capital in current year	–	–	(12,493)	–	–
Transfer to reserves	–	–	–	–	3,278
End of year	39,922	18,285	532,169	46,907	29,656

16. RECONCILIATION OF MOVEMENTS IN STOCKHOLDERS' FUNDS

	2003 £'000	2002 £'000
Opening equity stockholders' funds	671,443	908,066
Total recognised gains/(losses)	72,280	(176,682)
Dividend payments	(16,259)	(16,076)
Ordinary stock repurchases	(7,949)	(43,865)
Closing equity stockholders' funds	719,515	671,443

17. NET ASSET VALUE PER ORDINARY STOCK UNIT

Basic net asset value per ordinary stock unit is based on net assets after deducting long term borrowings at book value and on the number of ordinary stock units in issue at the year end.

Reconciliation of movement in NAV per ordinary stock unit:	p
Opening NAV	314.78
Total return per ordinary unit	34.34
Dividend per ordinary unit	(7.80)
Adjustment for change in issued ordinary stock during year	0.81
Closing NAV	342.13

18. ANALYSIS OF CHANGES IN NET DEBT DURING THE YEAR

	1 November 2002 £'000	Cash flows £'000	Non-cash movements £'000	31 October 2003 £'000
Cash at bank	4,366	2,374	–	6,740
Bank overdraft	(21)	(35)	–	(56)
Short term deposits	111,000	(1,500)	–	109,500
Debt due after one year	(222,472)	–	(167)	(222,639)
	(107,127)	839	(167)	(106,455)

19. CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS	2003 £'000	2002 £'000
Contingencies, guarantees and financial commitments of the company at the year end, which have not been accrued, are as follows:		
Commitments to provide additional funds to investees	12,039	17,663

20. FINANCIAL INSTRUMENTS

In pursuing its investment policy the company holds certain financial instruments, comprising equity and non-equity shares, fixed income securities, interests in limited liability partnerships, cash and liquid resources. These are financed through stockholders' funds and long and short term borrowings.

The risks faced by the company and the strategies for managing them are identified below.

- Investment risk and market price risk. The holding of securities and investing activities involve certain inherent risks. Events may occur within the underlying investments which affect their value and they are also sensitive to movements in market levels. The company holds a portfolio which is well diversified across industrial and geographical areas to help minimise these risks. It may also use derivatives. Trading in derivatives is not within the normal activities of an investment trust nor is it the company's policy to trade in such instruments. However, from time to time the company may wish to use such instruments in order to protect against a specific risk or to facilitate a change in investment policy such as the movement of funds from one area to another. No such transaction may take place without the prior authorisation of the board and no such transaction took place during the year.
- Interest rate risk. The company finances its operations through a combination of investment realisations, retained revenue reserves, bank credit facilities, debenture stocks and secured bonds. All of the existing debenture stocks and secured bonds are at fixed rates. The company has undrawn short term multicurrency line of credit facilities which can be drawn at variable rates of interest. Details of interest rates on financial assets are included in note 8 and details of interest rates on financial liabilities are included in note 13.
- Liquidity risk. The majority of the company's assets comprise listed securities which represent a ready source of funds. In addition the company has access to short term borrowing facilities. The liquidity profile of the company's borrowings is included in notes 12 and 13.
- Foreign currency risk. Approximately half of the company's assets are invested overseas which gives rise to a currency risk. This risk is monitored by the managers on a daily basis and by the board monthly. From time to time specific hedging transactions are undertaken although none was in place at the year end. The company's overseas income stream is subject to currency movements which are not hedged. The currency profile of the company's assets is set out on page 9 and the currency profile of the company's monetary assets and liabilities is set out in notes 8 and 13. In accordance with FRS 13, short term debtors and creditors have been excluded from the disclosures.
- All financial assets are carried at their market value, which in the opinion of the directors, approximates their fair value. The estimated market values of the company's borrowings are set out in note 13.

Financial Calendar 2004

Dividend and Interest Payments

Ordinary stock final 2002/2003	10 February 2004
Ordinary stock interim 2003/2004	31 March 2004
Secured bonds	17 April, 17 October
Debenture stocks	30 April, 31 October

Announcement of Results

NAV	Weekly
NAV & Monthly Statement	Monthly
Interim figures	May
Preliminary final figures	November
Annual report & accounts	December
Annual general meeting (AGM)	30 January 2004

Useful Addresses

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Saltire Court,
20 Castle Terrace,
Edinburgh
EH1 2DB

Bankers
The Royal Bank of Scotland plc
The Bank of New York
Brown Brothers Harriman & Co

Association of Investment Trust Companies
SIT is a member of the Association of Investment Trust Companies (AITC) which publishes a number of useful free booklets and explanatory leaflets for investors interested in investment trusts. Their address is: AITC, 3rd Floor, Durrant House, 8–13 Chiswell Street, London EC1Y 4YY
Telephone 020 7282 5555
website **www.aitc.co.uk**

For valuations and other details of your investment or to notify a change of address please contact the following:

Registrar
Computershare Investor Services PLC,
PO Box 82,
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Bristol
BS99 7NH
Helpline 0870 702 0010
website **www.computershare.com**

PEP and ISA Administrator
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STOCKPLAN and STOCKPLAN: A Flying Start Administrator
SIT STOCKPLAN,
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Investment Trust Administration Unit,
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EH7 5ZR
Helpline 0131 525 9839

Notice of Meeting

Notice is hereby given that the one hundred and sixteenth annual general meeting of The Scottish Investment Trust PLC will be held at the Roxburghe Hotel, Charlotte Square, Edinburgh, on 30 January 2004 at 11.00 am, for the purpose of transacting the following:

As Ordinary Business:

1. To receive and consider the directors' report and statement of accounts for the year to 31 October 2003.
2. To approve the directors' remuneration report for the year to 31 October 2003.
3. To declare a final dividend of 5.20p per ordinary stock unit.
4. To set the directors' fees at £35,000 p.a. for the chairman and £20,000 p.a. for other directors.
5. (a) To re-elect Sir George Mathewson as a director.

   (b) To re-elect Mr Francis Finlay as a director.

   (c) To re-elect Mr Douglas McDougall as a director.

   (d) To elect Mr Hamish Buchan as a director.
6. To re-appoint Deloitte & Touche LLP as auditors and to authorise the directors to fix their remuneration.

As Special Business:

7. To authorise the Company, in accordance with section 166 of the Companies Act 1985 (the "Act") and in substitution for any pre-existing such authority, to make market purchases (within the meaning of section 163(3) of the Act) of ordinary stock units of 25p each ("ordinary stock units"), provided that:

(a) the maximum number of ordinary stock units hereby authorised to be purchased shall be 14.99% of the issued ordinary stock on the date this resolution is passed;

(b) the minimum price which may be paid for an ordinary stock unit shall be 25p;

(c) the maximum price (exclusive of expenses) which may be paid for an ordinary stock unit shall be 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the ordinary stock units for the five business days immediately preceding the date of purchase; and

(d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 29 July 2005, save that the Company may, prior to such expiry, enter into a contract to purchase ordinary stock units under such authority which will or might be executed wholly or partly after the expiration of such authority and may make a purchase of ordinary stock pursuant to any such contract.

All resolutions are ordinary resolutions except number 7 which is a special resolution.

By order of the board

I M Harding

I M Harding
Secretary
18 December 2003

Notes

Arrangements have been put in place to enable all investors to attend and vote at the annual general meeting.

Registered stockholders whose names appear on the company's register of members at 11.00 am on 28 January 2004 are entitled to attend and vote at the meeting in respect of ordinary stock registered in their names at that time. Changes to entries on the register of members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, on a poll, to vote on his or her behalf. Such proxy need not be a member of the company. Proxy forms must be lodged with the company's registrars not less than 48 hours before the meeting.

STOCKPLAN, A Flying Start, PEP and ISA investors are welcome to attend and may vote on a poll by completing the Form of Direction enclosed with this report. This must be returned to the company's registrars no later than 23 January 2004. Other investors whose holdings are in nominee names and who wish to attend and vote are advised to contact their nominee before 23 January 2004.

The final dividend, if approved, will be paid on 10 February 2004 to stockholders registered at the close of business on 9 January 2004.

This report is sent to the address at present registered for communications. Any change of address should be notified to the company's registrar or the appropriate savings scheme administrator.

The register of directors' interests, maintained by the company as required by the Companies Act 1985, will be available for inspection at the meeting.