The Scottish Investment Trust PLC

117th Report & Accounts 2004

Contents

The Company

Company Data as at 31 October 2004

TOTAL ASSETS	STOCKHOLDERS' FUNDS (with borrowings at par)	MARKET CAPITALISATION
£881.3 million	£733.5 million	£624.1 million

Objectives of The Scottish Investment Trust PLC (SIT)

- *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 2004 the company had in issue 208,910,518 ordinary stock units and long term borrowings at par amounted to £147.8m with an average annual interest cost of 5.9%.

Management Expenses

The total expenses of managing the company's business during the year were £4,108,000 equivalent to 0.57% 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 20.

AITC

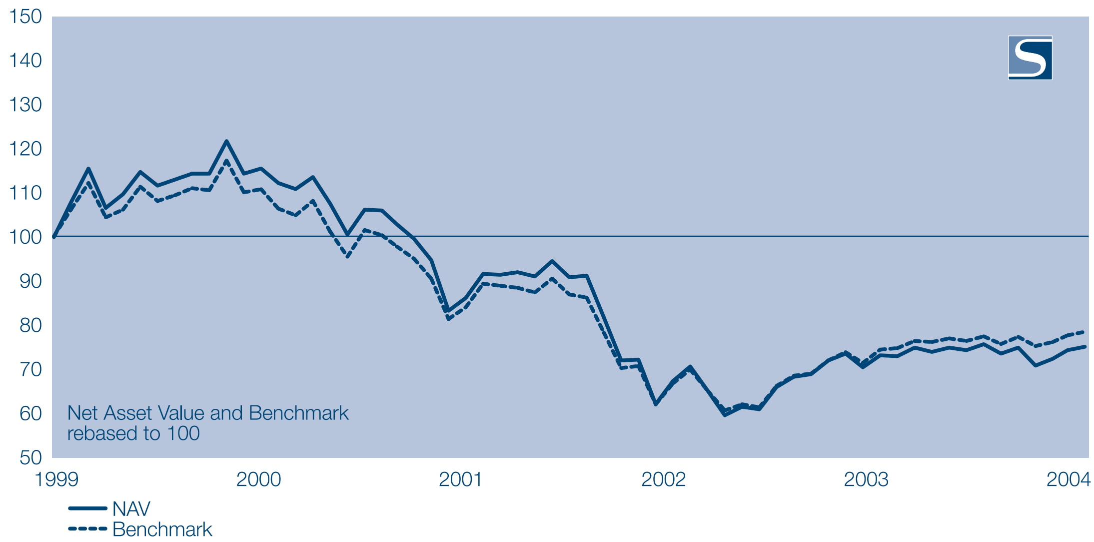
The company is a member of The Association of Investment Trust Companies.

Ten Year Record (with borrowings at par)

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 %
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**
2004[4]	**9.29**	**8.10**	**4,108**	**0.57**	**881,273**	**733,468**	**351.1**	**298.8**	**14.9**	**5.0**

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.
4. 2004 figures, including NAV per ordinary stock unit, impacted by early repayment of debenture stocks.

Five Year Performance (with borrowings at par)

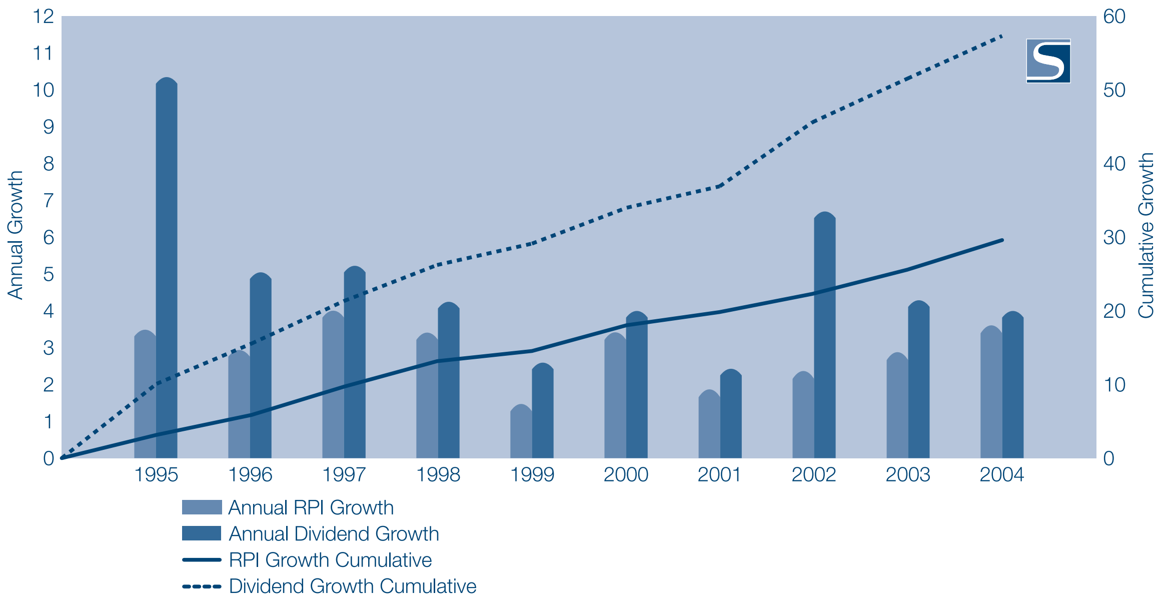


Financial Highlights

		2004	2003	% change
CAPITAL	Equity investments	£781.6m	£834.4m	–6.3
	Net current assets	£99.7m	£107.7m	
	Total assets	£881.3m	£942.1m	–6.5
	Less: borrowings at par	£147.8m	£222.6m	
	Equity stockholders' funds	£733.5m	£719.5m	+1.9
	Net asset value per ordinary unit with borrowings at fair value	350.1p	335.4p	+4.4
	Net asset value per ordinary unit with borrowings at par	351.1p	342.1p	+2.6
	Change in net asset value per ordinary unit with borrowings at par, excluding debt repayment premium			+5.7
	Market price per ordinary unit	298.8p	281.0p	+6.3
	Discount with borrowings at fair value	14.7%	16.2%	
	Benchmark index			+5.6
INCOME	Total income	£26.9m	£27.6m	–2.5
	Earnings per ordinary unit	9.29p	9.28p	+0.1
	Dividend per ordinary unit	8.10p	7.80p	+3.8
	Retail price index (RPI)			+3.3

YEAR'S HIGH & LOW	Year to 31 October 2004		Year to 31 October 2003	
	High	Low	High	Low
NAV with borrowings at par	362.4p	322.2p	350.1p	274.5p
Closing market price	307.5p	258.8p	288.0p	213.3p
Discount with borrowings at par	22.4%	13.3%	19.8%	15.2%

Dividend Growth (%)



CAPITAL

Over the year to 31 October 2004 net asset value per ordinary unit rose by 2.6%, or by 5.7% excluding the cost of the repayment of borrowings in July 2004. The adjusted return was slightly ahead of the 5.6% benchmark return and reflects a strong investment performance since January when significant changes were made to the portfolio and investment approach.

The global equity portfolio outperformed over the year by 0.8% and by 2.0% from end January. Stock selection has been strong since January with all regions outperforming with the exception of Japan which narrowly underperformed.

Excluding debt repayment costs, the NAV outperformed by 1.5% between end January and 31 October 2004. The share price rose by 6.3% over the year.

In last year's statement I observed that the strong rebound phase from the equity market lows of March 2003 had run its course and that we saw good relative value in higher quality companies which had lagged. This relative value was realised over 2004 to the benefit of our portfolio with performance enhanced by a more focused approach to stock selection following restructuring in January.

In local currency terms, regional returns across the world were broadly similar at 7–9% with the exception of Japan which returned only 4%. However, the weakness of the US dollar meant that only the UK and Europe produced meaningful returns in sterling (rising 8.1% and 11.2% respectively).

Global markets rose steadily over the first half of our year to leave our benchmark 4.1% ahead. However, concerns over high oil prices, softer growth from the US, indications that the global interest rate cycle had bottomed and fears over a sudden sharp slowdown in China prompted a setback in markets in May and July. The US Federal Reserve Bank joined the UK authorities in raising interest rates, in the case of the US from abnormally low levels. Since August, global equities have been firm, reflecting moderating interest rate expectations and an easing in oil prices which had risen by almost 80% over the course of our year. The management review on page 8 provides a more detailed account of developments over the year.

INCOME

Despite the impact of a weak US dollar on the material proportion of our total dividend income which is received in dollars, earnings per ordinary stock unit were almost unchanged at 9.29p (9.28p).

The board is recommending an increase of 3.8% in the dividend for the year to 8.10p per stock unit, which compares with UK RPI inflation of 3.3%. We have increased our annual dividend in each of the last 21 years and it is a stated objective of the company to increase the dividend ahead of the UK rate of inflation.

BORROWINGS

Over the year, gearing employed in equities averaged £90.7m, giving an average effective gearing ratio (with debt valued at par) of 112.6%. We started the year with effective gearing of 116.0%, and maintained a range of 112–117% for the first half. Effective gearing was lowered subsequently to end the year at 106.6%.

During the year, the company adopted the new AITC standard of carrying debt at fair value rather than at par value in its published NAV.

In July, we arranged for the repayment of two unlisted debentures with total nominal value of £75m – £50m nominal of 7.75% debenture stock 2013 and £25m nominal of 10.875% debenture stock 2019. The repayment cost of £97.4m was at a premium to the estimated fair value of the debentures of £89.1m. Consequently, the premium paid reduced the fair value NAV per share by approximately 1.2%. Historic NAV performance data is still computed using debt at par value and on that basis the impact on NAV per stock unit was more significant at –3.2%. This explains the underperformance of our NAV return with borrowings at par.

As a result of the repayments, potential gearing fell from 132% to 122% (with debt valued at par). Due to the company's accounting policy of charging interest and expenses partially to capital, there will be a positive future impact on the capital account because of the absence of interest charges on the debt repaid. The company's cash flow will also benefit.

In taking the decision to incur the premium to repay the higher coupon debentures, the board recognised that the company's potential gearing was too high and was hindering the efficient management of the company. In view of the board's stated strategic ceiling for effective gearing of 120%, the company's available capital is now more closely aligned with its expected needs. Moreover, with an average weighted cost of borrowings of 5.9%, the company is well placed to employ this debt to the benefit of shareholders over the long term.

SHARE BUYBACKS

During the year, we repurchased 1.4m shares at an average discount (with debt valued at par) of 20.5%, which added slightly to NAV performance. The company will continue to buy in ordinary stock when the board considers that this serves the interests of continuing shareholders. A resolution to renew the buyback authority will be put to shareholders at the annual general meeting.

DISCOUNT

The company's share price discount to NAV (with debt at fair value) narrowed over the year, with a peak in February at almost 20%, to end the year at 14.7%. The board recognises the importance of a sustained improvement in investment performance in tightening discounts.

MARKETING

Through our subsidiary company, SIT Savings Ltd, we launched a new version of our investing for children product STOCKPLAN: A Flying Start. This now allows investors to invest on behalf of a child in one of two ways, as a designated plan or, more formally, as a bare trust. Investing for children continues as a strong theme among our investors.

DIRECTORS AND MANAGEMENT

As reported in last year's statement, Mr Hamish Buchan joined the board in November 2003 bringing with him the experience of a long career in the investment trust industry. He was duly elected at the 2004 AGM. Sir Paul Nicholson retires by rotation at the AGM and is not seeking re-election. I thank him for his contribution to the company since he joined the board in 1998, especially for his rigorous chairing of the audit committee.

At the beginning of January, John Kennedy replaced Ian McLeish who retired after 30 years service of which 17 were as manager or joint manager. Two long-serving investment managers, Ian Anderson and Michael Dick, also retired during the year and I thank them for their service to the company. In their place, we have recruited two experienced fund managers, Hugh Duff and Martin Robertson, who have been appointed joint assistant managers.

Following a review of strategy by the board, we took advantage of the change in manager and personnel to implement some fundamental changes in the approach to management of the portfolio. Beginning in January 2004, the manager restructured the investment portfolio, reducing the number of holdings and merging the regional portfolios into one global portfolio. While our stock selection has been good in recent years, these changes have been made to improve NAV performance by giving more emphasis to our best stock selection ideas from around the world. The reduced burden from interest charges should also help to improve NAV performance. The investment team remains organised on a geographical basis and is using a consistent analytical approach. While the new structure has yielded some early positive results, work continues to refine the global portfolio and further reduce the number of holdings.

OUTLOOK

By the end of October 2004, the UK FTSE All-Share Index had rallied over 40% from the lows of March 2003. This advance was echoed in markets worldwide as extraordinary monetary and fiscal stimulus in the US fuelled an economic recovery which is now in its third year. 2004 appears likely to be the peak year of growth for this cycle and corporate profits have recovered sharply to stand at levels some way above normal cyclical highs.

With economic indicators now implying a moderation in economic growth, the best of the recovery in corporate profits is probably behind us. Interest rate expectations are easing as 2005 looks like being a year of reasonable economic growth with subdued inflation. Recent high oil prices will act as a brake on growth. At current levels, stock markets are vulnerable to the persistent imbalances in the global economy, the most pressing of which relate to the US economy and the outlook for the US dollar. A sharp slowdown in China, further instability in the Middle East and renewed strength in oil prices are risks which will have to be weathered. If there is no dramatic financial or political shock to markets, further modest advances in line with corporate profits growth are achievable next year, supported by a good level of dividend growth around the world.

Douglas McDougall.

Douglas McDougall

13 December 2004

Board of Directors

***†Douglas McDougall OBE (60)** was appointed to the board in September 1998 and became chairman in October 2003. He is chairman of The Law Debenture Corporation, The Independent Investment Trust, Foreign and Colonial Eurotrust and 3i Bioscience Investment Trust and a director of The Monks Investment Trust, Pacific Horizon Investment Trust and Herald Investment Trust. 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 (60) was appointed to the board in November 1996. He is a managing director of Credit Suisse First Boston (Europe). He is chairman of 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 (64)** 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, he was appointed executive deputy chairman in March 2000 and in April 2001 became chairman of the Group. He is on the board of directors of the Institute of International Finance and in June 2004 was appointed Vice President of the International Monetary Conference.

***Sir Paul Nicholson (66)** joined the board in September 1998. He is Lord-Lieutenant of County Durham. He was chairman of Vaux Group 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 (61) 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, and a director of SVG Capital. 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 (60) was appointed to the board in 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

Manager

John Kennedy MA (Hons) ACIB MBA ASIP

Assistant Managers

Hugh Duff BSc (Hons) ASIP

Martin Robertson BSc (Hons) MBA ASIP

Investment Managers

James Kinghorn BSc MBA CFA

Howard Kippax MA (Hons) ASIP

Alasdair McKinnon MA (Hons) MSc ASIP CFA

Andrew Mathewson BSc (Hons)

Sarah Monaco BA DipM MBA

Secretary

Iain Harding FCMA FCIS

Assistant Secretary

Steven Hay ACIS

Investor Relations and Compliance Manager

Alan Jamieson BA (Hons)

Marketing Manager – SIT Savings

Sherry-Ann Sweeting BA (Hons) MBA DipCIM

Head of Statistics and Information Technology

Neill Wood

Investment Philosophy

- *To pursue a flexible investment policy avoiding any permanent specialisation.*
- *To focus on fundamental value and employ a disciplined investment approach.*
- *To invest in well-managed companies in established stock markets around the world.*
- *To enhance performance in rising markets by prudent use of borrowed money.*
- *To provide simple, low cost investment and savings products for investors.*

Market Performances

Year to 31 October 2004

	Currency Adjusted %	In Local Terms %
UK	+8.1	+8.1
Europe (ex UK)	+11.2	+9.3
USA	−0.3	+7.7
Japan	−0.2	+4.0
Pacific (ex Japan)	+3.4	+7.6
Benchmark	+5.6	

Performance Attribution Analysis

Year to 31 October 2004

	%
Increase in NAV (excl. debt repayment)	+5.75
Debt repayment	−3.13
Increase in NAV	+2.62
Increase in benchmark index	+5.56
Relative performance	−2.94
Asset allocation	−0.20
Stock selection	+0.91
Gearing	+0.59
Interest and expenses charged to capital less retained earnings	−1.20
Buybacks	+0.14
Residual	−0.05
Relative performance (excl. debt repayment)	+0.19
Debt repayment	−3.13
Relative performance	−2.94

The attribution analysis shows how the overall performance of the company's NAV (with borrowings at par) relative to the benchmark has been achieved.

Performance Attribution

Last year, world equity market returns in the main regions were similar in local terms at 7% to 9% with the exception of Japan which rose by only 4%. Commodity-based countries also did well including South Africa and Canada.

The weakness of the US dollar was a significant factor for sterling investors. Sterling returns for the US and Pacific (ex Japan) markets were similar in local terms but reduced to −0.3% and +3.4% respectively when translated back into sterling. Sterling's strength against the Japanese yen also reduced sterling returns to almost zero here. The strongest sterling returns of the major regions came from Europe (ex UK) followed by the UK.

Our asset allocation result benefited from being overweight in Europe (ex UK) and underweight in the US although this was offset by being overweight in Pacific (ex Japan) and underweight in the UK and some of the smaller commodity-related markets.

Our record of good stock selection, which suffered a poor year in 2003, was restored. Stock selection added almost 1% to NAV performance due to the outperformance by the global portfolio. There were strong performances in Europe (ex UK) and the Pacific (ex Japan) and a good recovery over the year in the US which also outperformed. The UK portfolio recovered from a bad start to the year and underperformed by a narrow margin. Japan also underperformed modestly.

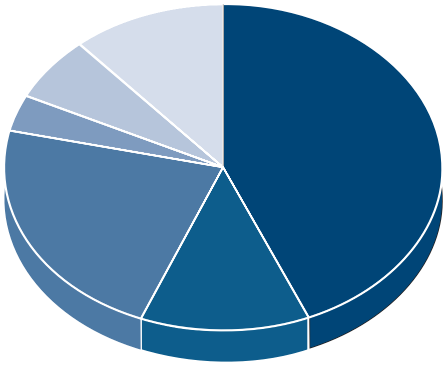
Over the nine months since the portfolio was restructured, stock selection has been strong in all regions with the exception of Japan, allowing the global portfolio to rise 5.1% between end January and end October compared with the benchmark rise of 3.1%.

The market recovery of 2003 was driven by a strong performance from cyclical and technology stocks which offered most leverage to the recovering economy. By the start of the year, these stocks were looking relatively expensive and thereafter, our own holdings began to outperform. The contribution from stock selection was sharpened by the disposal of a material number of holdings, some of which subsequently underperformed significantly.

With world markets only rising 3.5% in sterling, and our benchmark by 5.6%, the benefit of our borrowings employed was wholly negated by interest and expenses charged to capital which left a net cost to NAV relative performance of 1.0%. The cost of repaying two of our long term higher coupon fixed rate debentures had a material impact on the NAV performance with borrowings valued at par, reducing it by 3.1%.

Distribution of Total Assets

At 31 October 2004



	2004 %	2003 %
UK	43.6	45.7
Europe (ex UK)	12.6	9.6
North America	22.5	23.9
Japan	3.5	3.3
Pacific (ex Japan)	6.5	6.1
Net current assets	11.3	11.4
Total assets	100.0	100.0

Changes in Asset Distribution

Year to 31 October 2004

	Opening Valuation £m	Net Purchases (Sales) £m	Appreciation (Depreciation) £m	Closing Valuation £m
UK	402.3	(73.2)	26.9	356.0
Europe (ex UK)	90.3	7.3	13.7	111.3
North America	208.6	(24.0)	0.2	184.8
Japan	31.1	0.4	(0.5)	31.0
Pacific (ex Japan)	57.6	(3.0)	3.3	57.9
Unlisted portfolio	44.5	(9.5)	5.6	40.6[1]
Total equities	834.4	(102.0)	49.2	781.6
Net current assets	107.7	(10.7)	2.7[2]	99.7
Total assets	942.1	(112.7)	51.9	881.3
Borrowings	(222.6)	75.0	(0.2)	(147.8)
Stockholders' funds	719.5	(37.7)[3]	51.7	733.5

[1] Includes £6.7m of investments which are listed.
[2] Includes retained earnings.
[3] Ordinary stock units repurchased, interest and expenses apportioned to capital and premium on repayment of debentures.

Changes in Distribution

Having maintained effective gearing at relatively high levels as the market bottomed in early 2003, effective gearing was lowered in 2004 from 116.0% at the start of the year to 106.6% after the market recovery of 2003/4. The potential gearing ratio if we were to invest all borrowings in equities would be 120.2% (2003 – 130.9%). The average interest cost of borrowings, all of which are fixed rate and long term, is 5.9% (2003 – 6.9%). We have net current assets of £99.7m or 11.3% of total assets (2003 – 11.4%).

We made net sales of £102.0m in order to lower gearing and to fund buybacks of £3.9m and the repayment in July of £75m nominal of long term debentures at a repayment cost of £97.4m. Sales were mainly from our UK and North America regions while we added £7.3m to Europe (ex UK). We ended the year with proportionately higher asset allocations to Europe (ex UK) and the Pacific (ex Japan), two regions where we are already overweight. We remain underweight in North America and have moved underweight in the UK.

Unlisted Portfolio and Largest Unlisted Investment

The unlisted portfolio appreciated in value by 14.1%. The largest unlisted investment is Aberforth Limited Partnership 1B which holds stakes in small listed UK companies. At 31 December 2003, the date to which the last audited partnership accounts were prepared, the net assets attributable to our investment were £14.7m. At 31 October 2004, the cost of our 27.1% interest was £7.8m and the valuation was £13.3m. 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 £8.1m (2003 – £12.0m) and we anticipate that these will be met in large part from distributions from existing holdings.

The unlisted portfolio was valued at a total of £40.6m which is equivalent to 5.5% (2003 – 6.2%) of stockholders' funds. Included in this figure is £6.7m which is invested in listed funds which specialise in unlisted investments.

Holdings in Listed Funds

Our holdings include investments in listed investment funds of £28.4m (2003 – £16.1m). These are held to provide exposure to smaller companies in the UK and Japan and also the UK property sector. In addition, £6.7m (2003 – £5.8m) of listed funds which specialise in unlisted investments are included in the unlisted portfolio valuation of £40.6m (2003 – £44.5m).

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 £288.1m (2003 – £154.7m) and sales were £390.1m (2003 – £176.6m). Investment sales were 42.8% (2003 – 19.2%) of average total assets. Turnover levels were unusually high during the year due to the restructuring of the regional portfolios into a smaller number of holdings within a single global portfolio and also due to the degearing. Dealing expenses during the restructuring process were minimised by using low-cost dealing programmes. Commission paid to brokers on purchases and sales during the year was £1,125,000 (2003 – £659,000).

No use was made of investment derivatives or currency hedges during the year.

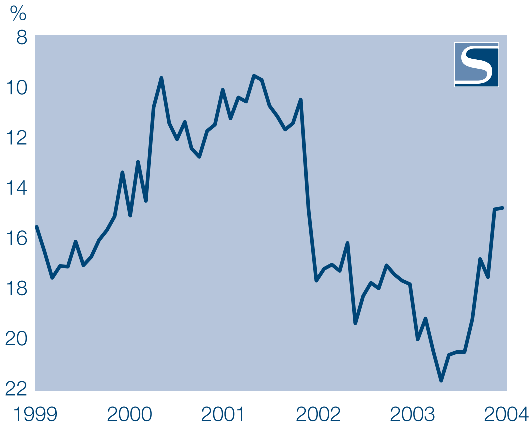
Largest Unlisted Holdings

At 31 October 2004

		£m
Aberforth LP 1B	Investment in small UK listed companies	13.3
Boston Ventures Funds	Venture capital, US	7.3
HG Capital Trust (Listed)	Venture capital, UK	6.0
Apax Europe V	Venture capital, Europe	3.4
Sprout Group Funds	Venture capital, US	3.0
		33.0

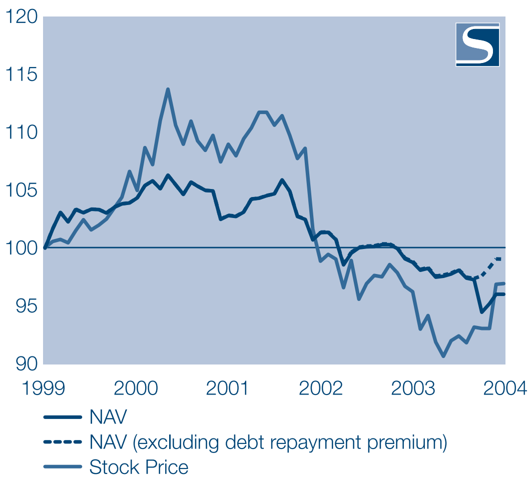
Discount to NAV with borrowings at par

5 years to 31 October 2004



NAV* and Stock Price relative to Benchmark

5 years to 31 October 2004



*with borrowings at par

Analysis of Stock Register

At 31 October 2004

Category of holder	Number	Ordinary Capital %
Individuals	30,984	51.6
Investment companies	75	20.0
Insurance companies	21	17.1
Pension funds	36	6.3
Other	157	5.0
Total	31,273	100.0

Services to Investors

Sales of our savings plan rose encouragingly this year, with our investing for children product the driving force behind positive figures. The tax efficient products fared less well following the demise of the tax credit on dividend income. Individuals hold 51.6% of SIT's stock, including 13.7% held in SIT Savings' products.

Our savings and investment schemes allow quick and easy access to SIT stock. Simple to use, they are low cost, transparent and flexible. The schemes are appropriate for the long term investor.

Our website **www.sit.co.uk** has been redesigned to improve ease of access and navigation. It provides a wide range of regularly updated information on the company and is a quick and easy way of obtaining information on and application forms for SIT's products. It is also the gateway for certificated stockholders and for PEP and ISA investors to obtain current valuations of their holdings online.

GLOBAL ECONOMIC BACKDROP

The outlook for global economic growth improved steadily over 2004 which now looks like being the peak year of growth in an economic cycle which turned upward in 2002.

There have been two principal drivers behind the acceleration in global economic activity. The first was the monetary and fiscal stimulus to the US economy which saw short term US interest rates reduced to as low as 1% between mid-2003 and mid-2004. This action allowed US consumption spending to remain robust. The second factor was the growth of the Chinese economy from late 2001 onwards. Industrial production growth in China has been running at 15–20% during 2003/4 and through trade linkages with the rest of Asia, commodity-producing nations and the export sectors of the developed world, China has been an important lever of economic growth.

Chinese demand accounts for a rapidly increasing share of exports from around the World, with Japan, Korea and Taiwan among the most affected. Germany is also seeing a material impact on its exports.

The recovery in economic growth and burgeoning demand from China were two factors in the dramatic rise in the oil price which rose by over 75% during our year to over $50 per barrel in October. Continued supply uncertainties and ongoing security concerns in the Middle East introduced a speculative element to oil prices.

With inflation remaining subdued, global interest rates bottomed in 2004 as central banks in the US, UK and elsewhere raised rates from cyclical lows. US rates have been increased four times during 2004 to stand at 2.0% at end October. With the European recovery still a fragile one, the European Central Bank (ECB) left rates unchanged. China increased its interest rates in October, bolstering other measures which were taken to control economic growth.

The US economy, which fuelled so much of world growth throughout the 1995-2002 period, has rebounded strongly with 2004 growth likely to exceed 4%. However, this growth has been achieved by means of very low short term interest rates and a return to a federal budget deficit.

US consumer confidence indicators are now weakening which may reflect the fact that the recovery to date has not been accompanied by a typical level of increase in employment. Consumption growth has been financed by increased indebtedness and a further erosion of personal savings.

Continued strong consumption in the US also ensured a further deterioration in the US trade deficit. Despite continued external buying of US treasury bonds, the US dollar has remained persistently weak.

For most of the year, UK GDP growth was above-trend with consumer spending underpinned by a strong housing market. Consumer price inflation remained well below the Bank of England's target of 2%. Concerns that the strength of the housing market might push inflation above this level prompted an increase in UK base rates of 0.25% in November 2003 and on four more occasions subsequently to 4.75%. By October, the rate increases were taking effect and the housing market was showing signs of slowing.

Europe was again the laggard among the major regions. Growth was modest over the year with 2004 growth expectations being steadily ratcheted down. Growth was driven by export demand, with Germany in particular achieving nearly all of its growth through exports to more buoyant parts of the world. France, Spain and Italy experienced stronger domestic economies.

Asian countries recovered quickly from the effects of SARS in 2003 with the Chinese economy in particular resuming its very strong growth in trade, both with Asia and the rest of the world. The Chinese economy has produced reported real GDP growth close to 10% through 2003 and 2004 although this could be an understatement. Concerns surrounding the possible overheating of its economy led the Chinese authorities to implement administrative measures to control growth and avert a sharp slowdown, followed by the decision to raise interest rates in October.

The Korean economy has faltered this year due in part to its reliance upon imported oil and also a weak consumer sector suffering from high debt levels. Australia and New Zealand both enjoyed strong domestic economic conditions and firm housing markets which prompted their respective central banks to be the first in developed economies to raise interest rates.

The sharpest economic recovery over the year was that of Japan where 2004 expectations have improved dramatically. China's growth proved beneficial for Japanese capital equipment exporters. However, this period of relative strength appears to be losing momentum.

GLOBAL EQUITY MARKET BACKDROP

The company's year started with a continuation of the recovery from the bear market of 2000/03. Although the UK FTSE All-Share rallied by over 40% between March 2003 and our half-year in April, it and the other main markets spent much of 2004 within a narrow trading range, weathering concerns over rising interest rates, consumer debt levels, high oil prices and the risk to global growth from a slowdown in China.

Corporate profits continued to recover sharply and analyst earnings forecasts for 2004 and 2005 were increased. Improving economies, low inflation and low interest rates provided ideal conditions for the market recovery of 2003/4.

In October, markets broke out of the trading range on signs of cooling oil prices and an easing of interest rate expectations.

Over the year, the main regions appreciated by 7–9% in local terms. The exception was Japan, which rose only 4%, where we were modestly underweight. The local currency gains of the US and Japanese markets were eliminated in sterling by the relative strength of sterling against the US dollar and yen.

The strongest sterling returns were earned in Europe (ex UK), where we were overweight, and the UK. Global equity markets returned 3.5% over the year in sterling and our 50/50 benchmark appreciated by 5.6%.

Globally, the best performing area over the year was the Oil & Gas sector, reflecting improved profit expectations following the rise in oil prices. Utilities were strong in the UK due to a demand for safe income backed up by improved regulatory newsflow and also in Europe, where some utility companies have been restructuring.

Sectors like Construction & Building Materials and Steel also benefited from a combination of attractive valuations coupled with strong earnings upgrades. The worst performing area during the year was Information Technology which had performed well last year as economic growth picked up but now faces slowing order growth.

PORTFOLIO ACTIVITY AND PERFORMANCE

After a slow start, the global portfolio outperformed over the year by 0.9%. We had strong outperformance in Europe (ex UK) and Pacific (ex Japan) while the US holdings recovered well to also end up ahead. The UK narrowly underperformed as did our small Japan region.

Following a board level strategy review in 2003, the regional portfolio structure was replaced mid-year by a single global portfolio approach. The company has a good long term record in stock selection and it was decided to raise its emphasis. To increase performance potential, the number of holdings has been reduced substantially. Commencing with an initial restructuring in January, a single global portfolio was created by the integration of the regional portfolios with the total number of listed holdings reduced from over 200 last year to 150.

This has led to a clearer focus on our strongest investment ideas while retaining ample diversification. Work continues to refine the portfolio and we are likely to reduce the number of names further to raise the performance potential of the portfolio.

The improvement in stock selection was helped in part by the number of complete sales of holdings which subsequently underperformed badly. Examples of these sales include Compass, Pearson, Logica CMG and Hanson in the UK; Converium and Nokia in Europe (ex UK); and Marsh & McLennan, Sysco, Cisco Systems and Cardinal Health in the US.

Global outperformance over the year benefited from good sector positioning in Oil & Gas and Construction & Building Materials where we were overweight and also in IT Hardware and Pharmaceuticals where we were underweight.

RESOURCES

Mining/Oil & Gas

Our largest absolute gains were made in the Oil & Gas sector where our holdings appreciated by £16.8m. During the year we added a new name, Suncor Energy, which performed well. Suncor Energy is a Canadian oil company with an excellent long term production outlook due to its reserves in the Athabasca Tar Sands of Canada. We also rearranged our holdings during the year to place more emphasis on the overseas oil majors which we regarded as offering better value. We added to ConocoPhillips (US) and Total (France) funded out of reductions in Shell (UK) and BP (UK) and an outright sale of Exxon Mobil (US). We also made good profits in a US oil refiner, Valero, which we held during the year.

BASIC INDUSTRIES

Chemicals/Construction & Building Materials/Forestry & Paper/Steel & Other Metals

Our main involvement in Basic Industries is in the Construction & Building Materials sector where we were overweight and also selected well. Profits were made through our holdings in UK housebuilder Persimmon and also by RMC (UK) which was the subject of a cash bid by Cemex of Mexico. Fears over the housing market caused our UK housebuilders Wimpey and Persimmon to underperform over the second half of the year despite their attractive valuations. Daito Trust Construction in Japan also performed well as did new holding Fletcher Building, a New Zealand based construction company. The single best performer among our sector holdings was French car-park to construction group, Vinci.

In the Steel sector, we added a new holding in Taiwan-based China Steel.

GENERAL INDUSTRIALS

Aerospace & Defence/Diversified Industrials/Electronic & Electrical Equipment/Engineering & Machinery

Despite the broad economic recovery of 2003/4, General Industrials only performed in line with global markets. We streamlined our holdings here, exiting nine stocks over the year including General Electric (US) and added to Ingersoll-Rand (US) and air conditioning manufacturer Daikin Industries (Japan). We took new holdings in US filtration manufacturer Donaldson and US industrial product supplier MSC Industrial Direct. UK-based aerospace group Meggitt, one of our largest overweight positions, also performed well over the year.

CYCLICAL CONSUMER GOODS

Automobiles & Parts/Household Goods & Textiles

We demonstrated good stock selection in these two small sectors which moved broadly in line with the market. We benefited from a strong performance by German sports goods manufacturer adidas-Salomon to which we made a timely addition in January. In the US we sold Liz Claiborne and Mattel on concerns over US consumption.

Within the Automobiles & Parts sector we had two large selections which performed well – German tyre and braking systems group Continental and US motorcycle manufacturer Harley-Davidson. We made a significant investment in Japanese auto manufacturer Toyota which is making impressive market share gains globally and is attracting a good reputation for build quality. Korean manufacturer Hyundai Motor performed very well for us and this was another holding which we built up as part of the restructuring.

NON-CYCLICAL CONSUMER GOODS

Beverages/Food Producers & Processors/Health/Personal Care & Household Products/Pharmaceuticals & Biotechnology/ Tobacco

Our stock selection was reasonable in this part of the market which underperformed globally. During the year, we reinforced our underweight position within the pharmaceutical sector through major reductions, exiting Bristol-Myers Squibb (US), Wyeth (US) and our Japanese sector holdings while making sizeable reductions in GlaxoSmithKline (UK). The industry's pressures include product pricing, generic competition, patent expiry and a struggle to replenish product pipelines. An emphasis on more robust names in the sector including Sanofi-Synthelabo (France), a new holding which subsequently merged with Aventis (France) and Johnson & Johnson (US) served us well. However, we over-estimated Pfizer's (US) ability to withstand industry pressures and our addition to AstraZeneca (UK) was unhelpful.

As we have grown progressively more wary of the pharmaceutical sector, we have become increasingly drawn to the broader medical technology sector. We recycled funds from the Pharmaceuticals and Beverages sectors, where we exited Anheuser-Busch (US) and Diageo (UK), into a number of health and medical technology stocks.

We benefited from gains by diagnostics group Cytyc (US), one of six new holdings which include European companies Nobel Biocare (Switzerland), a leader in dental implants, and hearing-aid maker GN Store Nord (Denmark). We believe carefully selected medical technology stocks have good long term performance potential as they offer a combination of profitability and growth unmatched in other sectors. In Tobacco, Korean tobacco group KT&G performed well and we added a new holding in UST (US), a leading provider of smokeless tobacco products which should benefit from demand for less harmful tobacco products.

CYCLICAL SERVICES

Retailers-General/Leisure & Hotels/Media & Entertainment/ Support Services/Transport

The overall performance by these sectors was mixed with Leisure moderately outperforming and Retailers-General and Media & Entertainment underperforming. Within Cyclical Services, we switched our emphasis from media to retailing.

Our retail selections performed well, particularly Hong Kong-based fashion retailer Esprit Holdings. Esprit proved to be our best performing holding over the year as investors reappraised its good current trading and potential for growth around the world. Our two UK retailers GUS and Next also performed well and generated significant valuation gains, again reflecting good results.

Our largest retailing holding, US DIY retailer Lowe's Companies, underperformed over the year on fears of rising interest rates. However, we took advantage of this underperformance to add to the holding in the late summer and benefited from a recovery in the stock price. We took new holdings in Halfords (UK) which obtained a listing in June, German multi-format retailer Metro which is expanding outwith Germany and Japanese electrical retailer Yamada Denki.

As part of the restructuring, we sold twelve Media sector holdings including Pearson (UK), Emap (UK), Havas (France), VNU (Neth.), Fuji Photo (Japan), Nippon TV (Japan) and Omnicom (US). We added two new media holdings which are restructuring, United Business Media of the UK and Germany's ProSieben Sat 1.

A further complete sale which proved timely was UK-based caterer Compass Group. Our disposal was completed before the profit warning which caused the share price to fall heavily. Elsewhere in Support Services, UK outsourcing company Serco performed well and generated good gains after being built up further early in the year.

Within Leisure & Hotels, we made substantial gains in our holding in US cruise operator Carnival.

NON-CYCLICAL SERVICES

Food & Drug Retailers/Telecommunication Services

The Food & Drug Retailers sector underperformed modestly while Telecommunications outperformed global markets by a similar margin. We have tended to avoid the Food Retailing industry due to its competitive pressures. Our sole holding, UK market-leader Tesco, performed well generating sizeable gains reflecting its strong trading in the UK where it is winning market share from rivals.

Telecommunications is another sector where we eliminated several names, with seven holdings being sold over the year including Alltel (US), NTT (Japan), NTT DoCoMo (Japan) and TeliaSonera (Sweden). In Europe, we also sold Telefonica (Spain), reinvesting in our holding in Italian mobile operator TIM, which was subsequently the subject of a bid. We also took a new holding in Deutsche Telekom (Germany) which performed well and marked its recovery from over-expansion in the technology bubble by reinstating a good level of dividend payout.

Our largest holding in this sector by some margin remains Vodafone which we felt looked attractively valued. This position was vindicated by a sound performance over the year, particularly the second half, with the holding generating significant gains for the portfolio. It subsequently announced a doubling of its dividend and an increased share buy-back programme.

Our stock selection in telecoms was undistinguished however, with modest underperformance from a number of names including BT (UK), Telstra (Australia) and China Mobile (HK).

UTILITIES

Electricity/Utilities – Other

The unfashionable Utilities sector proved to be the second best performing area after Oil & Gas over the year. We added to the area principally by investing further in our holding in German gas and electricity group E.On early in the year, turning it into one of our largest overweight selections. E.On has successfully repositioned itself through a series of disposals and acquisitions into a more focused energy group with improving returns on capital and rising dividend payouts. E.On, together with UK utility holdings ScottishPower, AWG, United Utilities and National Grid Transco, generated combined gains of over £7.3m over the year.

FINANCIALS

Banks/Insurance/Life Assurance/Investment Companies/Real Estate/Speciality & Other Finance

Globally, Financials matched world equity returns over the year. Banks around the world were mixed performers, underperforming by 5.3% in the UK market where they account for 19.6% of the FTSE All-Share.

Insurance companies suffered from a combination of company-specific problems and more broadly, following an investigation into insurance industry practices by the New York State Attorney General.

Over the year, we sold eight small bank holdings and added two new ones: Dublin based Anglo Irish Bank which is expanding rapidly and performed well; and Dah Sing Financial, a Hong Kong-based bank with a focus on consumer lending and credit cards.

Our stock selection was disappointing in the Banks sector where our holdings underperformed the sector everywhere except the UK. There, our bank performance benefited from reductions in Lloyds TSB and HBOS on fears of the impact of a slowing housing market on loan growth rates. We consolidated our UK bank holdings, reinvesting our Standard Chartered sale proceeds into HSBC.

We boosted our UK real estate exposure over the year by £5.5m, taking stakes in newly listed property investment trusts, Insight Foundation Property Trust and Standard Life Investments Property Income Trust, both of which generated gains, as did our existing holding UK Balanced Property Trust. Each of these property trusts contributes good levels of dividend income.

In Japan we invested in a fund, Schroder Japan Alpha Plus, to maintain exposure to Japan while we restructure our Japanese holdings.

Within insurance, we sold our holding in Marsh & McLennan (US) prior to its fall of almost 50% in October as the Spitzer investigation into industry practices came to light.

Within Speciality & Other Finance, we disposed of our long-held stake in Fannie Mae (US). We generated good profits in bond-rating agency Moodys (US) to which we added during the year. However, we suffered from the performance of UK financial group Man.

INFORMATION TECHNOLOGY

Information Technology Hardware/Software & Computer Services

The underperformance of the IT sectors was attributable largely to the Hardware sector which was the single worst performing sector in our year, falling 18.5% behind global markets. Our decision to exit a number of holdings including Nokia (Finland) and Cisco Systems (US) was helpful as we remained underweight in this area. We reduced our holding in semiconductor leader Intel (US) but not decisively enough and lost performance on this high quality but deeply cyclical share. A new investment in US telecom equipment manufacturer Qualcomm performed well.

We opted to build Samsung Electronics (S. Korea) into one of our larger technology investments believing it to have considerable growth potential. However, it underperformed over the year. Another new holding was Acer (Taiwan), a manufacturer of PCs, which did contribute positively to performance.

In Software & Computer Services, we sold six small holdings and added to the UK-based tax and accounting software group Sage which has recovered well in recent months. Our holding in Adobe Systems (US) also generated good gains. Industry bellwether Microsoft (US), in which we have a holding, announced plans to pay a $32bn special dividend, having already commenced payment of regular dividends.

UNLISTEDS

Our unlisted portfolio provided another good contribution. The investment in unlisted Aberforth LP 1B Partnership, which invests in a portfolio of small UK listed companies, performed exceptionally well appreciating by £3.3m over the year. Apax Europe V and the UK listed HG Capital Trust also generated good gains for the portfolio. We reduced our investment in unlisteds by £9.5m over the year through proceeds from Aberforth and a number of the other unlisted funds.

GLOSSARY

Total assets means total assets less current liabilities.

NAV is net asset value per ordinary unit after deducting borrowings at par or fair value, as stated.

Par value is the book value of the company's borrowings.

Fair value is the company's estimate of the market value of its borrowings.

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.

Distribution of Total Assets by Sector

Based on total assets at 31 October 2004 of £881.3m (2003 – £942.1m)

	October 2004 Total %	October 2003 Total %
Resources	**11.1**	**10.8**
Mining	2.2	2.2
Oil & Gas	8.9	8.6
Basic Industries	**4.5**	**4.3**
Chemicals	0.4	0.6
Construction & Building Materials	3.8	3.5
Forestry & Paper	–	0.2
Steel & Other Metals	0.3	0.0
General Industrials	**5.1**	**5.2**
Aerospace & Defence	1.5	1.4
Diversified Industrials	0.4	0.9
Electronic & Electrical Equipment	1.3	1.5
Engineering & Machinery	1.9	1.4
Cyclical Consumer Goods	**3.9**	**3.1**
Automobiles & Parts	3.3	1.9
Household Goods & Textiles	0.6	1.2
Non-Cyclical Consumer Goods	**10.3**	**12.4**
Beverages	1.0	2.6
Food Producers & Processors	0.4	0.8
Health	2.5	0.8
Personal Care & Household Products	0.2	0.5
Pharmaceuticals & Biotechnology	5.0	7.1
Tobacco	1.2	0.6
Cyclical Services	**10.7**	**11.4**
Retailers – General	4.5	3.1
Leisure & Hotels	1.2	1.3
Media & Entertainment	2.0	3.7
Support Services	0.9	1.2
Transport	2.1	2.1
Non-Cyclical Services	**7.1**	**6.4**
Food & Drug Retailers	1.1	0.8
Telecommunication Services	6.0	5.6
Utilities	**4.0**	**2.7**
Electricity	1.1	1.0
Utilities – Other	2.9	1.7
Financials	**28.1**	**27.6**
Banks	13.7	15.3
Insurance	2.3	2.1
Life Assurance	1.5	1.0
Investment Companies	7.4	6.3
Real Estate	0.7	0.8
Speciality & Other Finance	2.5	2.1
Information Technology	**3.9**	**4.7**
Information Technology Hardware	2.3	2.2
Software & Computer Services	1.6	2.5
Total Equities	**88.7**	**88.6**
Net Current Assets	**11.3**	**11.4**
Total Assets	**100.0**	**100.0**

As at 31 October 2004 the company held no convertibles (2003 – Nil).

List of Investments

Listed Holdings

Holding	Country	£'000
BP	UK	29,013*
Vodafone	UK	27,477*
HSBC Holdings	UK	26,763*
Royal Bank of Scotland	UK	16,924*
ConocoPhillips	USA	13,040*
Barclays	UK	12,582*
Total	France	12,368*
Anglo American	UK	11,403*
Persimmon	UK	9,993*
BT	UK	9,945
Meggitt	UK	9,908
Lowe's Companies	USA	9,789
Tesco	UK	9,531
Bank of America	USA	9,379
GUS	UK	9,320
AstraZeneca	UK	9,174
Shell Transport & Trading	UK	8,832
Deutsche Telekom	Germany	8,807
Sanofi-Aventis	France	8,323
GlaxoSmithKline	UK	8,075
ScottishPower	UK	8,025
HBOS	UK	7,977
Serco	UK	7,851
E.On	Germany	7,562
National Grid Transco	UK	7,492
Citigroup	USA	7,374
Johnson & Johnson	USA	7,140
Legal & General	UK	7,054
Close Brothers	UK	6,950
Harley-Davidson	USA	6,950
P & O	UK	6,499
Moodys	USA	6,455
Ingersoll-Rand	USA	6,451
UBS	Switzerland	6,398
Aviva	UK	6,218
Toyota Motor	Japan	6,122
HG Capital Trust	UK	6,048
Next	UK	5,903
Pepsico	USA	5,880
Carnival	USA	5,773
Taylor Nelson Sofres	UK	5,763
adidas-Salomon	Germany	5,608
BNP Paribas	France	5,575
US Bancorp	USA	5,559
Suncor Energy	Canada	5,462
Qualcomm	USA	5,453
UK Balanced Property Trust	UK	5,451
BBA	UK	5,412
Microsoft	USA	5,167
Pfizer	USA	5,084
Lloyds TSB	UK	5,081
Whitbread	UK	4,831
AWG	UK	4,712
ING	Netherlands	4,649

Listed Holdings

Holding	Country	£'000
United Business Media	UK	4,632
Schroder Japan Alpha Plus	Japan	4,590
First Group	UK	4,542
Novartis	Switzerland	4,495
Renal Care	USA	4,484
Sage	UK	4,477
Hartford Financial	USA	4,455
AXA	France	4,341
Samsung Electronics	South Korea	4,295
Throgmorton Trust	UK	4,248
BHP Billiton	Australia	4,237
Daito Trust Construction	Japan	4,232
Biomet	USA	4,188
Gallaher	UK	4,146
Rio Tinto	UK	4,130
United Utilities	UK	4,109
Man Group	UK	4,070
Equity Residential	USA	4,049
Suzuki Motor	Japan	4,040
ENI	Italy	4,011
RMC	UK	4,008
Schneider Electric	France	3,988
Yamada Denki	Japan	3,853
ANZ Bank	Australia	3,749
American International Group	USA	3,711
Wimpey (George)	UK	3,650
Target	USA	3,628
Telecom Italia Mobile	Italy	3,615
Illinois Tool Works	USA	3,591
Nobel Biocare	Switzerland	3,585
Daikin Industries	Japan	3,580
KT & G	South Korea	3,536
Johnson Controls	USA	3,506
Esprit Holdings	Hong Kong	3,477
Ecolab	USA	3,447
Beckman Coulter	USA	3,413
Insight Foundation Property Trust	UK	3,394
Société Générale	France	3,371
Donaldson	USA	3,369
Cytyc	USA	3,104
Hormel Foods	USA	3,096
American Express	USA	3,082
UST	USA	3,055
Hyundai Motor	South Korea	3,041
ProSieben Sat 1	Germany	3,039
Insurance Australia Group	Australia	2,977
Anglo Irish Bank	Ireland	2,965
Swire Pacific	Hong Kong	2,914
Adobe Systems	USA	2,829
Scottish & Newcastle	UK	2,813
Standard Life Inv Property Inc Trust	UK	2,794
Lexmark International	USA	2,790
Dell	USA	2,789
Continental	Germany	2,657

List of Investments

Listed Holdings

Holding	Country	£'000
OCBC Bank	Singapore	2,510
Ricoh	Japan	2,483
China Petroleum	Hong Kong	2,462
BMW	Germany	2,444
Gannett	USA	2,417
Intel	USA	2,412
Rinker	Australia	2,406
United Technologies	USA	2,399
China Steel	Taiwan	2,380
MSC Industrial Direct	USA	2,329
Metro	Germany	2,288
Fleming Mercantile	UK	2,282
Aegis	UK	2,274
Vinci	France	2,262
Wolseley	UK	2,258
Lafarge	France	2,170
JPMF Japanese Smaller Companies	Japan	2,117
Clorox	USA	2,056
Medtronic	USA	2,011
Petrochina	Hong Kong	1,992
Telstra	Australia	1,879
Sun Hung Kai Properties	Hong Kong	1,853
Sempra Energy	USA	1,830
Acer	Taiwan	1,822
Autoroutes du Sud de la France	France	1,818
Electronic Arts	USA	1,770
Banco Popular	Spain	1,717
Hon Hai Precision Industries	Taiwan	1,692
Huaneng Power International	Hong Kong	1,491
Roche Holding	Switzerland	1,476
3i Smaller Quoted Companies	UK	1,462
Halfords	UK	1,425
Cheung Kong Infrastructure	Hong Kong	1,389
Dah Sing Financial	Hong Kong	1,279
Fletcher Building	New Zealand	1,241
China Mobile	Hong Kong	1,236
Wood Group (John)	UK	1,176
ST Engineering	Singapore	1,158
National Australia Bank	Australia	1,148
GN Store Nord	Denmark	1,102
Venture Corporation	Singapore	1,056
Nestlé	Switzerland	665
Sunplus Technology	Taiwan	650
Thompson Clive Investments	UK	638
Others (under £0.5m)		55
		747,742

Unlisted Holdings

Holding	Country	£'000
Aberforth LP 1B	UK	13,306*
Boston Ventures VI	USA	4,869
Apax Europe V	UK	3,353
Boston Ventures V	USA	2,013
1818 Fund III	USA	1,908
Sprout Capital VII	USA	1,443
Sprout Capital VIII	USA	1,433
Close Investment 1994 Fund	UK	1,240
Heritable Property & Loans	UK	1,232
Close Investment 1997 Fund	UK	942
Cahill Warnock Strategic Partners	USA	909
Apax UK VI	UK	505
Others (under £0.5m)		722
		33,875

*Denotes ten largest holdings with an aggregate market value of £172,869,000.

Marketing

The integrated marketing strategy of SIT Savings Ltd, a subsidiary of The Scottish Investment Trust PLC (SIT), has been developed to encourage investment into SIT Savings' products. Using a mix of advertising, PR, a comprehensive range of literature, the internet, direct mail, AITC roadshows and ongoing product development, SIT aims to provide high levels of service and communication. A priority is to offer low cost, simple, transparent investment products with the flexibility and accessibility to fulfil investor requirements. SIT's global investment strategy spreads risk and allows access to long term investment opportunities to benefit investors.

How to Invest

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

STOCKPLAN – SIT's savings and investment scheme – is one of the lowest charging investment trust savings schemes available. Extremely flexible, it allows 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 scheme. Based on STOCKPLAN, it benefits from the same low charges and flexibility. It can now be opened in one of two ways, either as a designated plan or, more formally, as a bare trust. A Flying Start enables family and friends to invest on behalf of a child to help build savings for the future.

The SIT ISA is one of the most competitively priced ISAs on offer. Other than stamp duty, there are no initial or withdrawal plan charges. The annual management fee is 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.

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

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 or from our website, www.sit.co.uk

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 0845 850 0181. All investors will continue to receive six monthly statements on their ISA/PEP accounts.

On 6 April 2004 the tax credit attached to ISA and PEP dividends ceased to be reclaimable by ISA and PEP managers on behalf of their investors. However investment in ISAs and PEPs continues to be free from any capital gains tax. Higher rate tax payers are not required to pay any additional tax on the dividend, nor does a PEP or ISA 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 web site: **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 web site. 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 0845 850 0181.

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 website. Please note that to access this facility investors will need to quote the reference number shown on their stock certificate.

Important Notice for SIT PEP and ISA investors

Please note the contact/helpline number for The SIT PEP and ISA administrator, Halifax Share Dealing (HSDL) has changed.

It is now **0845 850 0181**.

This number should be used for any account queries, requests for valuations or information about your

PEP or ISA, to give change of address details or for help with accessing PEP and ISA information on line.

Electronic communications

If you are a name on register stockholder (i.e. not in the PEP, ISA or STOCKPLAN schemes) you may choose to receive our interim and annual reports and other stockholder communications electronically instead of in paper form. All you need to do to register is to visit the link on our website at **www.sit.co.uk** and provide your email details. You will then be advised by email when an electronic communication is available to be accessed.

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 on a poll by completing the form of direction enclosed with this report and returning it to the address shown to arrive no later than seven working days before the meeting. The AGM will be held at the Roxburghe Hotel, Charlotte Square, Edinburgh on 28 January 2005 at 11.00 am.

Changes to the ISA rules

These changes affect investors who hold an insurance ISA along with a stocks and shares ISA, such as The SIT ISA, or a cash ISA.

On 6 April 2005 the ISA rules are changing. From that date you will still be able to hold an insurance policy in your ISA but the separate mini insurance ISA will end and instead, depending on the type of insurance policy you hold, your policy will now qualify for either the:

- Mini ISA Cash Component – with an unchanged limit of £3,000
- Mini ISA Stocks and Shares Component – with an increased limit of £4,000; or
- Maxi ISA – with a limit of £7,000

If you currently pay into an ISA insurance policy it will be possible to continue paying into that policy after 5 April 2005 **BUT** if you also subscribe to either a mini cash or a mini stocks and shares ISA you may have to re-arrange your savings.

Please remember The SIT ISA is a stocks and shares ISA. It can be held as either a Mini or a Maxi ISA. It will be possible to transfer an Insurance ISA which falls into the stocks and shares ISA into The SIT ISA.

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.

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 £8,200 p.a. 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.

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).

Risk Warning

Past performance is no guarantee of future returns and the capital value of stock units and the income from them can go down as well as up as a result of market and currency fluctuations and cannot be guaranteed. An investor may not get back the amount originally invested. The Scottish Investment Trust PLC has a long term policy of borrowing money to invest in equities in the expectation that this will improve returns for SIT shareholders. However, if markets fall borrowings will magnify losses. 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

Dividend

The directors recommend a final dividend of 4.20p per ordinary stock unit payable on 10 February 2005 which, with the interim dividend of 3.90p already paid, makes a total of 8.10p for the year. The total dividend absorbs £16,922,000 leaving £2,507,000 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 2003. 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.

Share Buybacks

During the year 1,393,881 ordinary stock units, representing 0.7% of the issued ordinary stock at 31 October 2003, were repurchased at a cost of £3,868,000.

Debt Repayment

On 26 July 2004, the £50m 7.75% debenture stock 2013 and the £25m 10.875% debenture stock 2019 were repaid at a total cost of £97.4m.

Directors

The directors of the company at 31 October 2004 are shown on page 6. All directors served throughout the year except for Mr Hamish Buchan who was appointed on 17 November 2003.

The following table shows the attendance of directors at board and committee meetings during the year to 31 October 2004.

	Board	Audit	Remuneration	Nomination
Number of meetings	11	3	3	1
D C P McDougall	11	3	3	1
Sir George Mathewson	9	3	3	1
F Finlay	11	n/a	n/a	1
I H Leslie Melville	9	n/a	3	1
Sir Paul Nicholson	10	3	n/a	1
H N Buchan	9	n/a	n/a	1

The performance of each director has been appraised by the chairman in individual interviews during the year. The chairman's performance has been appraised in his absence by the other directors and the results have been communicated to him. Each director continues to make a valuable contribution to the effectiveness of the board.

As recommended by the Combined Code on Corporate Governance, Sir George Mathewson retires annually as he has been a director for more than nine years; he offers himself for re-election at the 2005 AGM.

The chairman confirms that Sir George is independent of the management in character and judgement and that his long service as a director has been of great benefit to the company. His remuneration from the company is not a significant part of his total income and there are no relationships with the company or its employees which might compromise his independence. The chairman recommends that he be re-elected as a director at the AGM.

Mr Hamish Leslie Melville and Sir Paul Nicholson retire by rotation from the board of directors at the annual general meeting and are eligible for re-election. Sir Paul Nicholson has intimated that he does not wish to stand for re-election.

The chairman confirms that Mr Leslie Melville is independent of the management in character and judgement and recommends that he should be re-elected as a director at the AGM.

Biographical details of all directors appear on page 6.

Sir George Mathewson's appointment as a director runs for one year at a time.

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. Mr McDougall's appointment has been renewed for a further three years from September 2004. Mr Hamish Buchan was appointed in November 2003 for an initial term of three years.

Directors' letters of appointment will be available for inspection at the AGM.

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	
	31 October	1 November
Beneficial interests	2004	2003
D C P McDougall	60,000	60,000
Sir George Mathewson	18,383	18,383
F Finlay	60,000	60,000
I H Leslie Melville	60,000	60,000
Sir Paul Nicholson	20,000	10,000
H N Buchan	20,000	–

There have been no changes in the directors' interests between 31 October 2004 and 13 December 2004.

Corporate Governance

Compliance

The 1998 combined code on Corporate Governance has been revised in the light of the recommendations of the Higgs and Smith reports and the new "Combined Code on Corporate Governance" ("the Combined Code") applies to accounting periods commencing on or after 1 November 2003. 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. Throughout the year the company has complied with the provisions of the Combined Code except that 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.

Directors

The board will normally meet eight times throughout the year while the audit and remuneration committees meet three times each. The nomination committee meets annually for performance appraisals and board review and as required to consider new appointments.

There is a schedule of matters reserved for the board which include investment strategy, accounting and financial controls, dividends and announcements, capital structure, gearing and major contracts.

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 have been appointed for fixed terms not exceeding three years. All directors are required to retire by rotation at their first AGM and at intervals of not more than three years thereafter. 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. No contract or arrangement entered into by the company in which any director is interested has subsisted during the year.

The company has a policy on tenure which is shown on its website. It states that:

"All non-executive directors will be appointed for fixed terms of three years. Each director shall be subject to re-election by the company in general meeting at least once every three years up to and including the ninth anniversary of his appointment.

"The performance of each director will be appraised by the nomination committee annually and prior to the renewal of a three year term. A more rigorous appraisal will take place prior to the second or subsequent renewal of a three year term.

"The directors recognise that independence is not a function of service or age and that experience is an important attribute within the board. The directors may decide to recommend a director with more than nine years service for re-election. In such a case, shareholder approval will be sought annually."

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 and appraising board performance. 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 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.

With regard to its 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. The board receives regular briefings from the company's brokers. Newsletters are sent to stockholders during the year. Stockholders are encouraged to attend the AGM and ask questions of the board and management. Any stockholder wishing to raise questions at other times should write to the chairman. 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 24 and 27.

The audit committee, which normally 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 auditor 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 C.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 C.2 of the Combined Code, the board reviews the effectiveness of the group's system of internal control at six-monthly intervals. 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.

Directors' responsibilities

United Kingdom 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.

The audit committee has reviewed the matters within its terms of reference and reports as follows:

- it has approved the financial statements for the year to 31 October 2004;
- it has reviewed the effectiveness of the company's internal controls and risk management;
- it has reviewed the need for a separate internal audit function;
- it has recommended to the board that a resolution be proposed at the AGM for the reappointment of the external auditors and it has considered the proposed terms of their engagement;
- it has satisfied itself as to the independence of the external auditors.

Substantial Stockholdings

At 10 December 2004 the company had been notified of the following holdings in excess of 3% of its ordinary stock.

	Ordinary stock units	% of issue
AXA Group	14,733,734	7.1
Legal & General	6,537,872	3.1
D C Thomson	6,336,040	3.0

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 30 January 2004 stockholders passed a resolution giving the company authority to make purchases of up to 31,374,729 ordinary stock units, being 14.99% of the then issued ordinary stock of the company. The authority is due to expire on 29 July 2005.

Resolution number 6 set out in the notice of annual general meeting seeks to renew the authority to repurchase ordinary stock until 27 July 2006. 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 6.

Voting Policy

The management reviews the business to be conducted at general meetings of the companies in which it invests and, wherever practicable, will cast its vote, usually by proxy.

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

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
13 December 2004

Directors' Remuneration Report

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. An ordinary resolution for the approval of the report will be put to stockholders at the AGM on 28 January 2005.

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 the other members are Sir George Mathewson and Mr Douglas McDougall.

The remuneration committee met on 25 June 2004 and considered the level of directors' fees. Although these are below the level recommended by external consultants in 2003, the committee has proposed that no increase in fees be sought at the present time.

Policy on Directors' Fees

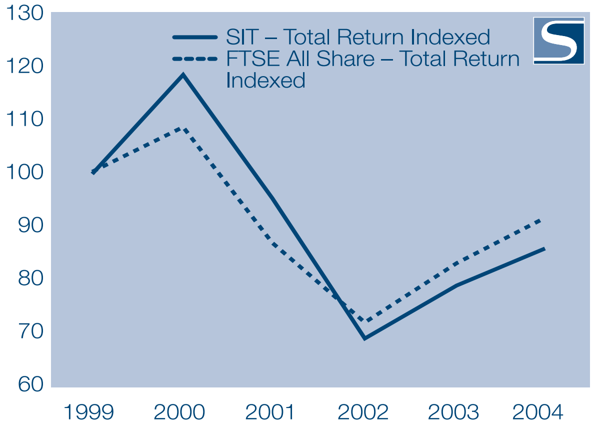
At the year end the board consisted of six directors, all of whom are non-executive. Directors' fees are set with a view to attracting individuals of appropriate calibre and experience, taking into account the time commitment required and the level of fees paid by similar investment trusts. It is intended that this policy shall apply for the year to 31 October 2005 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. They have letters of appointment for fixed terms of not more than 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 and re-election subject to stockholders' approval 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 2004 (audited)

Fees	2004 £	2003 £
Douglas McDougall	35,000	18,045
Sir George Mathewson	20,000	17,250
Francis Finlay	20,000	17,250
Hamish Leslie Melville	20,000	17,250
Sir Paul Nicholson	20,000	17,250
Hamish Buchan	19,130	–
Sir Angus Grossart	–	26,564
	134,130	113,609

Fees in respect of Mr Hamish Leslie Melville were paid to Credit Suisse First Boston. The other current directors receive their fees personally.

Approval

The directors' remuneration report was approved by the board on 26 November 2004 and signed on its behalf by the chairman of the remuneration committee.

Hamish Leslie Melville

Hamish Leslie Melville

13 December 2004

Independent Auditors' Report

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 2004 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 Statement reflects the company's compliance with the nine provisions of the July 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the 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 2004 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
13 December 2004

Statement of Total Return

for the year to 31 October 2004 (incorporating the Revenue Account*)

	Notes	2004 Revenue £'000	2004 Capital £'000	2004 Total £'000	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000
Net gains on investments and currencies	15	–	49,108	49,108	–	65,236	65,236
Income	1	26,894	–	26,894	27,587	–	27,587
Expenses	2	(1,878)	(2,230)	(4,108)	(1,957)	(2,172)	(4,129)
Net Return before Finance Costs and Taxation		25,016	46,878	71,894	25,630	63,064	88,694
Premium on repayment of debentures		–	(22,360)	(22,360)	–	–	–
Interest payable	5	(4,602)	(9,205)	(13,807)	(5,160)	(10,321)	(15,481)
Return on Ordinary Activities before Tax		20,414	15,313	35,727	20,470	52,743	73,213
Tax on ordinary activities	6	(985)	–	(985)	(933)	–	(933)
Return attributable to Equity Stockholders		19,429	15,313	34,742	19,537	52,743	72,280
Dividends on ordinary stock	7	(16,922)	–	(16,922)	(16,259)	–	(16,259)
Transfer to Reserves	15	2,507	15,313	17,820	3,278	52,743	56,021
Return per Ordinary Stock Unit		9.29p	7.32p	16.61p	9.28p	25.06p	34.34p
Weighted average number of Ordinary Stock Units in issue during the year			209,220,405			210,489,029	

*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 2004

	Notes	2004 £'000	2003 Restated £'000
Fixed Assets			
Equity investments	8	781,617	834,407
Current Assets			
Debtors	11	5,513	4,397
Current asset investments	8	15,000	10,500
Cash and deposits	8	89,712	105,740
		110,225	120,637
Creditors: amounts falling due within one year	12	(10,569)	(12,890)
Net Current Assets		99,656	107,747
Total Assets less Current Liabilities		881,273	942,154
Creditors: amounts falling due after more than one year			
Long term borrowings at par	13	(147,805)	(222,639)
Net Assets		733,468	719,515
Capital and Reserves			
Called-up share capital	14	52,228	52,576
Share premium account	15	39,922	39,922
Other reserves	15		
Capital redemption reserve		18,633	18,285
Capital reserve – realised		480,634	532,169
Capital reserve – unrealised		109,888	46,907
Revenue reserve		32,163	29,656
Equity Stockholders' Funds	16	733,468	719,515
Net Asset Value per Ordinary Stock Unit with borrowings at par	17	351.1p	342.1p
Number of Ordinary Stock Units in issue at year end	14	208,910,518	210,304,399

The financial statements on pages 28 to 39 were approved by the board of directors on 26 November 2004 and were signed on its behalf by:

Douglas McDougall

Douglas McDougall

Director

The accompanying notes are an integral part of this statement.

Cash Flow Statement

for the year to 31 October 2004

	Notes	2004 £'000	2003 £'000
Net Cash Inflow from Operating Activities		21,597	20,480
Servicing of Finance			
Premium on repayment of debenture stocks		(21,244)	–
Interest paid		(13,975)	(15,314)
Net cash outflow from servicing of finance		(35,219)	(15,314)
Taxation			
Overseas tax recovered		283	546
Net cash inflow from taxation		283	546
Investing Activities			
Purchases of investments		(288,305)	(159,588)
Disposals of investments		388,123	178,652
Net cash inflow from investing activities		99,818	19,064
Equity dividends paid		(19,083)	(15,988)
Net cash inflow before use of liquid resources and financing		67,396	8,788
Management of Liquid Resources			
Decrease in short term deposits	18	8,500	1,500
Financing			
Repayment of debenture stocks	18	(75,000)	–
Share buybacks	14	(3,868)	(7,949)
Net cash outflow from financing		(78,868)	(7,949)
(Decrease)/increase in Cash	18	(2,972)	2,339
Reconciliation of Net Revenue before Finance Costs and Taxation to Net Cash Inflow from Operating Activities			
Net revenue before finance costs and taxation		25,016	25,630
Expenses charged to capital		(2,230)	(2,172)
Scrip dividends		(436)	(439)
Decrease in accrued income		240	57
Decrease in other creditors		(281)	(626)
Decrease/(increase) in other debtors		389	(647)
Tax on investment income		(1,101)	(1,323)
Net Cash Inflow from Operating Activities		21,597	20,480

The accompanying notes are an integral part of this statement.

Accounting Policies

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.

Current asset investments are valued at the lower of cost and net realisable value.

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. Tax relief applicable to those charges is 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. Tax relief applicable to those charges is allocated between revenue and capital using the marginal basis.

The premium paid on the repayment of the debenture stocks has been charged to capital in the statement of total return.

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 statement of total return 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.

Notes to the Financial Statements

for the year to 31 October 2004

1. INCOME

	2004 £'000	2003 £'000
Income from investments:		
UK franked investment income	12,895	14,118
Overseas dividends	8,289	8,336
Scrip dividends	436	439
Other	487	430
	22,107	23,323
Other income:		
Deposit interest	4,787	4,259
Underwriting commission	–	5
	4,787	4,264
Total income	26,894	27,587
Total income comprises:		
Dividends including special dividends of £138,000 (2003 – £262,000)	22,104	23,316
Interest	4,790	4,266
Other income	–	5
	26,894	27,587
Income from investments:		
Listed UK	13,786	14,871
Listed overseas	8,288	8,336
Unlisted	33	116
	22,107	23,323

2. EXPENSES

	2004 £'000	2003 £'000
Staff costs (Note 3)	2,204	2,129
Auditors' remuneration for audit	22	23
Other expenses	1,882	1,977
	4,108	4,129

Since 1 November 1999 eligible expenses have been charged one-third to revenue and two-thirds to capital. Auditors' remuneration for audit related services totalled £3,000 (2003 – £3,000) and for non-audit services totalled £nil (2003 – £Nil).

3. STAFF COSTS

	2004 £'000	2003 £'000
Salaries	1,481	1,435
Social security costs	162	156
Pensions and post-retirement benefits	561	538
	2,204	2,129

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

	2004 Number	2003 Number
Investment	10	10
Administration	13	13
	23	23

Directors' remuneration:		
Fees for services as directors	£134,130	£113,609

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 has been introduced for new employees.

The pension cost charge for the period was £526,000 (2003 – £522,000). The pension cost charge is determined by a qualified actuary on the basis of triennial valuations. The charge for 2004 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 2004 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 2004 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:

	2004	2003	2002
	%	%	%
Rate of increase in salaries	4.9	2.5 and 4.5	4.2
Rate of increase in pensions in payment	3.8	2.5	2.2
Discount rate	5.5	5.4	5.4
Inflation assumption	2.9	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		
	2004	2003	2002	2004	2003	2002
	%	%	%	£'000	£'000	£'000
Equities	7.7	8.2	8.5	3,252	3,470	3,142
Bonds	4.7	4.8	4.8	93	907	681
With profit policies	4.7	4.8	4.4	2,121	2,529	1,260
Cash	4.8	–	–	897	–	–
Total fair value of assets				6,363	6,906	5,083
Present value of scheme liabilities				7,793	8,080	7,202
Net pension liability				1,430	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 2004 are given by way of note. They will be incorporated into the statement of total return 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 £31,686,000 (2003 – £29,265,000).

Analysis of amount chargeable to operating profit during the year:

	2004 £'000	2003 £'000	2002 £'000
Current service cost	424	435	400
Past service cost	–	–	–
Settlement/curtailments	(1,530)	–	–
Total operating charge	(1,106)	435	400
Employee contribution to be set off	(49)	(58)	(48)
Analysis of amount credited to other finance income:			
Expected return on assets	430	426	420
Interest on liabilities	(423)	(389)	(529)
Net return	7	37	(109)
Movement in deficit during year:			
Deficit at beginning of year	(1,174)	(2,119)	(1,973)
Movement in year:			
Current service cost	(424)	(435)	(400)
Contributions for year	303	496	439
Contributions prepaid	–	620	458
Settlements/curtailments	–	–	–
Past service costs	1,530	–	–
Net return from other finance income	7	37	(109)
Actuarial (loss)/gain in statement of total return	(1,672)	227	(534)
Deficit at end of year	(1,430)	(1,174)	(2,119)
Analysis of amount recognised in statement of total return:			
Actual return less expected return on assets	(376)	285	(924)
Experience (losses)/gains on liabilities	(988)	(142)	476
Change in assumptions	(308)	84	(86)
Actuarial (loss)/gain recognised in statement of total return	(1,672)	227	(534)

History of experience gains and losses

	%	£'000	%	£'000	%	£'000
Difference between actual and expected return on assets	6	(376)	4	285	21	(424)
Experience (losses)/gains on liabilities	13	(988)	2	(142)	7	476
Total amount recognised in statement of total return	21	(1,672)	3	227	7	(534)

5. INTEREST PAYABLE

	2004 £'000	2003 £'000
On debentures, bank loans, overdrafts and other loans	13,640	15,314
Amortisation of secured bond issue expenses	167	167
	13,807	15,481

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

6. TAX ON ORDINARY ACTIVITIES

	2004 £'000	2003 £'000
Tax on ordinary activities		
Overseas tax	1,009	922
Deferred tax	(24)	11
	985	933
The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK of 30% (2003 – 30%) The differences are explained below:		
Profit on ordinary activities before tax	8,979	7,977
Tax at 30% thereon	(2,694)	(2,393)
Effects of:		
UK dividend income	3,869	4,235
Stock dividends	131	132
Foreign tax charge	(985)	(933)
Surplus management expenses	(1,330)	(1,963)
	(1,009)	(922)

There are surplus interest and management expenses at 31 October 2004 of £30,035,000 (2003 – £25,678,000) 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

	2004 £'000	2003 £'000
Dividends on ordinary stock:		
– interim paid of 3.90p per unit (2003 – 2.60p)	8,148	5,468
– final declared of 4.20p per unit (2003 – 5.20p)	8,774	10,936
– dividends on stock repurchased	–	(145)
	16,922	16,259

8. INVESTMENTS

	2004 £'000	2003 £'000
Investments listed on a recognised investment exchange	747,742	795,941
Unlisted investments	33,772	38,363
Subsidiary undertakings (Note 9)	103	103
	781,617	834,407

A geographical analysis of the investment portfolio (page 9), an analysis of the investment portfolio by broad industrial or commercial sector (page 17), and a full list of investments by market value (pages 18 and 19), are contained within the annual report.

8. INVESTMENTS (continued)

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total 2004 £'000
Opening book cost	361,289	388,819	37,392	787,500
Opening unrealised appreciation/(depreciation)	48,999	(3,166)	1,074	46,907
Opening valuation	410,288	385,653	38,466	834,407
Movements in the year:				
Purchases at cost	71,708	212,900	3,481	288,089
Sales – proceeds	(141,019)	(237,139)	(11,924)	(390,082)
– realised gains/(losses) on sales	8,367	(23,746)	1,601	(13,778)
Increase in unrealised appreciation	20,098	40,632	2,251	62,981
Closing valuation	369,442	378,300	33,875	781,617
Closing book cost	300,345	340,834	30,550	671,729
Closing unrealised appreciation	69,097	37,466	3,325	109,888
	369,442	378,300	33,875	781,617

	2004 £'000	2003 £'000
Realised losses on sales	(13,778)	(23,110)
Increase in unrealised appreciation	62,981	88,452
Gains on investments	49,203	65,342

Unlisted investments include the following:

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

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

Financial assets – cash, deposits and current asset investments

	2004			2003		
	Fixed £'000	Floating £'000	Total £'000	Fixed £'000	Floating £'000	Total £'000
Sterling	86,000	15,455	101,455	99,000	10,564	109,564
Euro	–	995	995	–	912	912
US dollar	–	733	733	–	4,161	4,161
Other	–	1,529	1,529	–	1,603	1,603
	86,000	18,712	104,712	99,000	17,240	116,240

The maximum fixed period for deposits outstanding at the year end was 22 days. The weighted average fixed interest rate at the year end was 4.73%. Floating interest rates vary in relation to short term rates in the currencies in which deposits are held.

Included within current asset investments and financial assets above is an amount of £15,000,000 (2003 – £10,500,000) representing overseas listed investments held at the end of the year. In the 2003 annual report the current asset investment of £10,500,000 was included within cash; however, this has been reclassified for comparative purposes.

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	267	(11)
		part red pref shares of US$0.01	49.7		

11. DEBTORS

	2004 £'000	2003 £'000
Amounts due from brokers	2,169	257
Overseas tax recoverable	979	1,146
Prepayments and accrued income	2,365	2,994
	5,513	4,397

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004 £'000	2003 £'000
Amounts due to brokers	–	604
Dividends	8,774	10,936
Other creditors	1,795	1,294
Bank overdraft	–	56
	10,569	12,890

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

	2004		2003	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
4% perpetual debenture stock	350	264	350	252
$4\frac{1}{4}$% perpetual debenture stock	700	561	700	535
5% perpetual debenture stock	1,009	966	1,009	921
$10\frac{7}{8}$% debenture stock 30/4/2019	–	–	25,000	35,678
$7\frac{3}{4}$% debenture stock 25/9/2013	–	–	50,000	55,084
$5\frac{3}{4}$% secured bonds due 17/4/2030	145,746	148,042	145,580	144,277
	147,805	149,833	222,639	236,747

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

The debenture stocks and secured bonds are stated in the balance sheet at book value. Restating them at estimated fair value of £149.8m (2003 – £236.7m) has the effect of reducing the year end NAV per ordinary stock unit from 351.1p to 350.1p (2003 – 342.1p to 335.4p). Based on the market price of 298.75p (2003 – 281.0p) the discount to NAV at the year end would be reduced from 14.9% to 14.7% (2003 – 17.9% to 16.2%).

During the year the company repaid two of its debenture stocks with a total nominal value of £75m – £50m nominal of $7\frac{3}{4}$% debenture stock 2013 and £25m nominal of $10\frac{7}{8}$% debenture stock 2019. The total repayment of £97.4m included a premium of £22.4m, of which £1.1m is not due to be paid until February 2005 and accordingly is included within other creditors.

14. CALLED-UP SHARE CAPITAL

	Authorised		Issued	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Ordinary stock units of 25p	85,500	85,500	52,228	52,576
Number of ordinary stock units in issue			208,910,518	210,304,399

1,393,881 ordinary stock units were repurchased for cash in the stockmarket during the year to 31 October 2004 at a total cost of £3,868,000. No further stock units were repurchased between 31 October 2004 and 13 December 2004.

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	18,285	532,169	46,907	29,656
Exchange difference	–	–	(95)	–	–
Net loss on realisation of investments	–	–	(13,778)	–	–
Increase in unrealised appreciation	–	–	–	62,981	–
Ordinary stock repurchased	–	348	(3,868)	–	–
Premium on repayment of debenture stocks	–	–	(22,360)	–	–
Interest and expenses charged to capital in current year	–	–	(11,434)	–	–
Transfer to reserves	–	–	–	–	2,507
End of year	39,922	18,633	480,634	109,888	32,163

16. RECONCILIATION OF MOVEMENTS IN STOCKHOLDERS' FUNDS

	2004 £'000	2003 £'000
Opening equity stockholders' funds	719,515	671,443
Total recognised gains	34,743	72,280
Dividend payments	(16,922)	(16,259)
Ordinary stock repurchases	(3,868)	(7,949)
Closing equity stockholders' funds	733,468	719,515

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 with borrowings at par:	p
Opening NAV	342.13
Total return per ordinary unit	16.61
Dividend per ordinary unit	(8.10)
Adjustment for change in issued ordinary stock during year	0.45
Closing NAV	351.09

18. ANALYSIS OF CHANGES IN NET DEBT DURING THE YEAR

	1 November 2003 £'000	Cash flows £'000	Non-cash movements £'000	31 October 2004 £'000
Cash at bank	6,740	(3,028)	–	3,712
Bank overdraft	(56)	56	–	–
Short term deposits	109,500	(8,500)	–	101,000
Debt due after one year	(222,639)	75,000	(166)	(147,805)
	(106,455)	63,528	(166)	(43,093)

19. CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS

	2004 £'000	2003 £'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	8,053	12,039

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 2005

Dividend and Interest Payments

Ordinary stock final 2003/2004	10 February 2005
Ordinary stock interim 2004/2005	July 2005
Secured bonds	17 April, 17 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)	28 January 2005

Useful Addresses

Registered Office
6 Albyn Place,
Edinburgh
EH2 4NL
Registered no. SCO 01651
Telephone 0131 225 7781
Facsimile 0131 226 3663
Brochure Request Line
0800 42 44 22
website **www.sit.co.uk**
email heather@sit.co.uk

Auditors
Deloitte & Touche LLP,
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, 9th Floor, 24 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,
The Pavilions,
Bridgwater Road,
Bristol
BS99 7NH
Helpline 0870 702 0010
website **www.computershare.com**

PEP and ISA Administrator
THE SIT PEP/ISA,
Halifax Share Dealing Limited,
Trinity Road,
Halifax,
West Yorkshire
HX1 2RG
Helpline 0845 850 0181
website: **www.halifax-online.co.uk**

STOCKPLAN and STOCKPLAN: A Flying Start Administrator
SIT STOCKPLAN,
The Bank of New York Europe Limited,
Investment Trust Administration Unit,
12 Blenheim Place,
Edinburgh
EH7 5ZR
Helpline 0131 525 9839

Notice of Meeting

Notice is hereby given that the one hundred and seventeenth annual general meeting of The Scottish Investment Trust PLC will be held at the Roxburghe Hotel, Charlotte Square, Edinburgh, on 28 January 2005 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 2004.

2. To approve the directors' remuneration report for the year to 31 October 2004.

3. To declare a final dividend of 4.20p per ordinary stock unit.

4. (a) To re-elect Sir George Mathewson as a director.

   (b) To re-elect Mr Hamish Leslie Melville as a director.

5. To re-appoint Deloitte & Touche LLP as auditors and to authorise the directors to fix their remuneration.

As Special Business:

6. 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 five business days immediately preceding the date of purchase; and

(d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 27 July 2006, 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 6 which is a special resolution.

By order of the board

I M Harding

I M Harding
Secretary
21 December 2004

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 26 January 2005 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 registrar no later than 19 January 2005. Other investors whose holdings are in nominee names and who wish to attend and vote are advised to contact their nominee before 19 January 2005.

The final dividend, if approved, will be paid on 10 February 2005 to stockholders registered at the close of business on 7 January 2005.

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 together with copies of directors' appointment letters.