DIVIDEND

The directors recommend a final dividend of 4.70p and a special dividend of 1.00p per ordinary stock unit both payable on 8 February 2002 which, with the interim dividend of 2.35p already paid, makes a total of 8.05p for the year. The total dividend absorbs £18,171,000 leaving £3,543,000 to be transferred to revenue reserve.

BUSINESS AND TAX STATUS

The business of the company is that of an 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 company has continued the programme of ordinary stock buybacks authorised by stockholders. During the year 25,996,279 ordinary stock units, representing 10.3% of the issued ordinary stock at 31 October 2000, were repurchased at a cost of £118,708,000.

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 2000. 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.

The company has throughout the year met the requirements for full qualifying status under the Personal Equity Plan legislation. It is the directors' present intention to continue to meet these requirements.

DIRECTORS

The directors who held office at the end of the financial year and their interests in the company's capital are shown on page 36.

Mr Ian Russell resigned from the board on 29 May 2001. Sir George Mathewson and Sir Paul Nicholson retire by rotation from the board of directors at the annual general meeting and are eligible for re-election. 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 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. Sir Angus Grossart and Sir George Mathewson do not have service contracts with the company. All directors are subject to re-election in rotation by stockholders. Expenses for the year under review include £300,000 plus VAT payable to Noble Grossart Limited, of which Sir Angus Grossart is chairman and managing director, in respect of corporate advice. No other contract or arrangement entered into by the company in which any director is interested has subsisted during the year.

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

CORPORATE GOVERNANCE

The Committee on Corporate Governance published its report on the principles of good governance and code of best practice entitled "The Combined Code" in June 1998 and this was incorporated into the Listing Rules of The UK Listing Authority in January 1999.

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

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

The principles of good governance

Directors

The board meets monthly throughout the year and deals with important aspects of the company's affairs including setting and monitoring strategy, reviewing performance, the making of major investments and ensuring adequate financial reporting. There is a formal schedule of matters reserved for the board.

All six members of the current board are non-executive and are independent of the company's management. Day to day management is in the hands of the company's two managers who report directly to the board.

All directors appointed after 1995 are appointed for fixed terms of three years. Each year at the annual general meeting one third of the board retires and is eligible for re-election.

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.

Remuneration

The board has appointed a remuneration committee to recommend pay and conditions for the board and employees.

Directors' fees are set with a view to attracting individuals of appropriate calibre and experience and 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.

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

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

Relations with stockholders

The company recognises the value of good communications with its stockholders. The managers meet regularly with the company's major institutional stockholders and all attendees at the AGM have an opportunity to ask questions of the board and management. Newsletters are sent to stockholders during the year. 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. 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 25 and 26.

The audit committee, which meets three times per year, has written terms of reference. Its duties include the approval of published financial statements prior to approval by the full board.

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

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

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

In compliance with Provision D.2.1 of the Combined Code, the board regularly reviews the effectiveness of the group's system of internal control. The board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The audit committee assists the board in discharging its review responsibilities.

Detailed procedures are in place to ensure that:

- all transactions are accounted for accurately and reported fully to the board;

- the management observes the authorisation limits set by the board;

- there is a clear segregation of duties so that no investment transaction can be completed by one person;

- control activities are regularly checked;

- compliance procedures are in place for legal and regulatory obligations.

The board recognises that such systems can only provide reasonable, not guaranteed, assurance against material misstatement or loss. The effectiveness of the company's internal controls is reviewed by the audit committee every six months. The company has only 25 employees and the audit committee considers that an internal audit function is not required. This is reviewed every year.

The audit committee also reviews on an annual basis the scope and results of the external audit and the company's relationship with the auditors.

Directors' responsibilities
Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the revenue and cash flows for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements and estimates that are reasonable and prudent;

- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements;

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

SUBSTANTIAL STOCKHOLDINGS

At 26 November 2001 the company had been notified of the following holdings in excess of 3% of its ordinary stock.

	Ordinary stock units	% of issue
AXA Group	24,637,797	10.9
Britel Fund Trustees	14,003,712	6.2*
Standard Life Assurance Company	8,830,780	3.9

*Includes a 4.1% interest notified by Devon County Council.

ANNUAL GENERAL MEETING

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

Repurchase of the company's own ordinary stock
At the annual general meeting of the company held on 23 February 2001 stockholders passed a resolution giving the company authority to make purchases of up to 35,149,315 ordinary stock units, being 14.99% of the then issued ordinary stock of the company. The authority is due to expire on 22 August 2002.

Resolution number 6 set out in the notice of annual general meeting seeks to renew the authority to repurchase ordinary stock until 27 July 2003. 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.

AUDITORS

A resolution will be proposed at the annual general meeting to re-appoint Arthur Andersen as auditors and to authorise the directors to fix their remuneration.

PAYMENT OF CREDITORS

It is the company's policy to agree in advance 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

During the year the company made charitable donations totalling £10,000. No political donations were made.

By order of the board

I M Harding

I M Harding
Secretary
26 November 2001

Auditors' Report

TO THE STOCKHOLDERS OF THE SCOTTISH INVESTMENT TRUST PLC

We have audited the financial statements of The Scottish Investment Trust PLC for the year ended 31 October 2001 which comprise the Statement of Total Return, the Balance Sheet, the Cash Flow Statement, and the related notes numbered 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom accounting standards are set out in the Statement of Directors' Responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

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

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

We read the other information contained in the Annual Report, including the Corporate Governance Statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, The Financial Summary, 10 Year Record, Management Review, Portfolio Reviews, Distribution of Assets by Sector and Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 October 2001 and of its total return and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Chartered Accountants and
Registered Auditors

Saltire Court
20 Castle Terrace
Edinburgh
EH1 2DB

18 December 2001