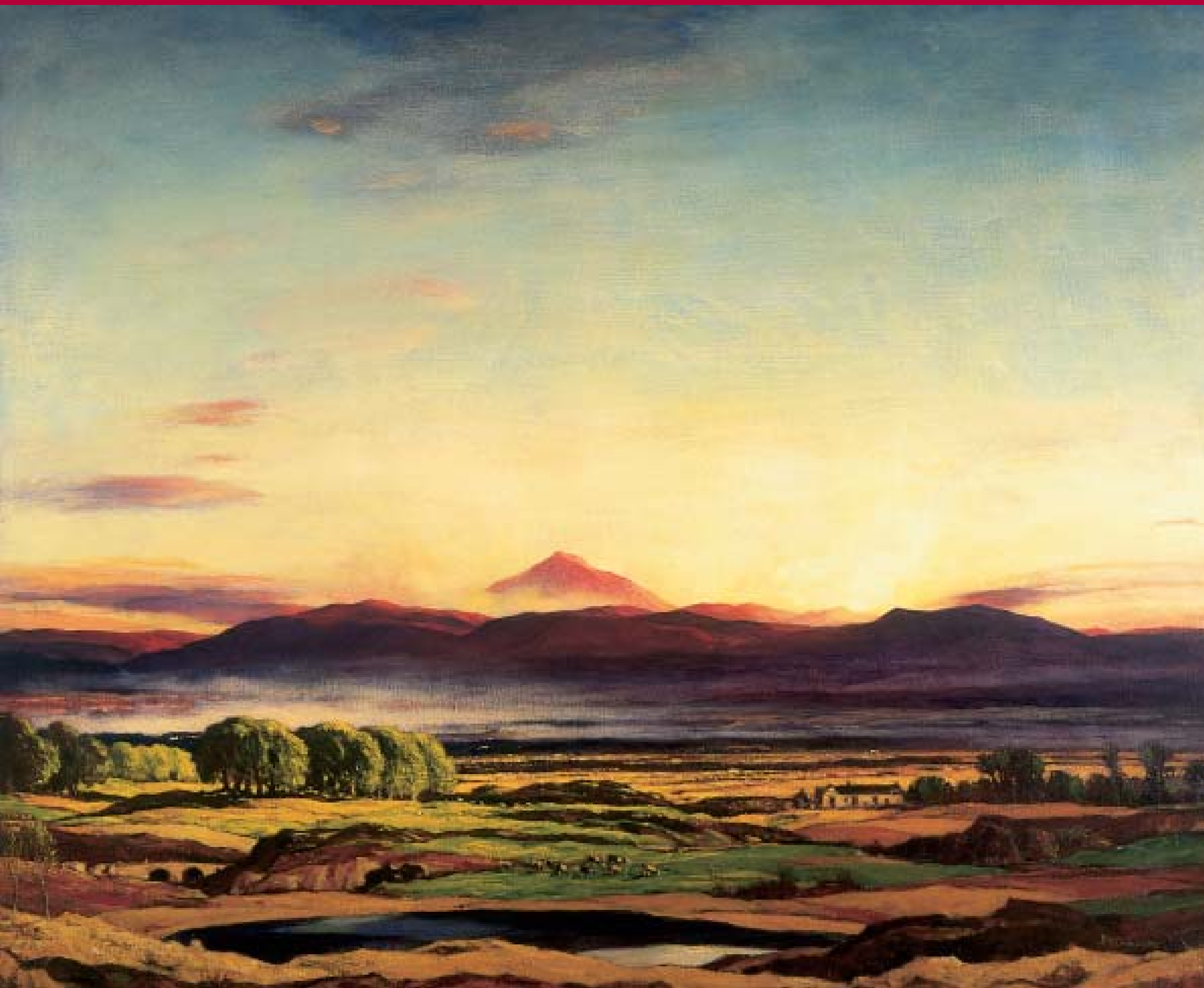
115th REPORT AND ACCOUNTS 2002



The Scottish Investment Trust PLC

The painting on the front cover, ''Dawn'' by Sir D Y Cameron (1865 – 1945), is in a Scottish private collection and is reproduced by kind permission of the owner.

Contents

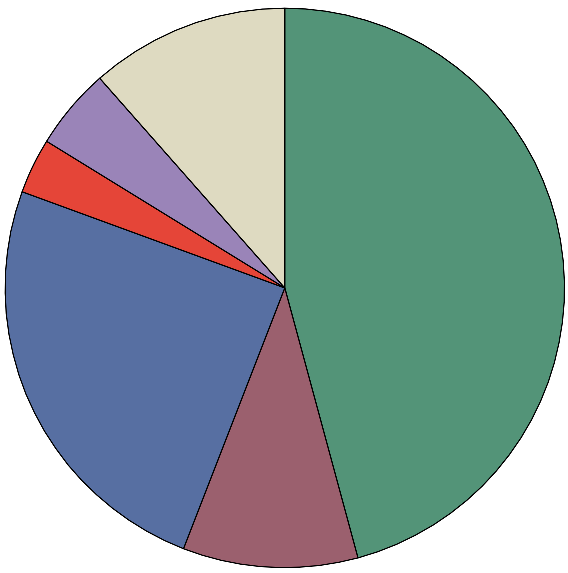
Financial Summary

		2002	2001	% change
CAPITAL	Equity investments	**£791.0m**	£1,024.4m	–22.8
	Net current assets	**102.9m**	106.0m	
	Total assets	**893.9m**	1,130.4m	–20.9
	Less: borrowings	**222.5m**	222.3m	
	Stockholders' funds	**£671.4m**	£908.1m	–26.1
	Net asset value (NAV) per ordinary unit	**314.8p**	402.1p	–21.7
	Market price per ordinary unit	**259.0p**	359.0p	–27.9
	Discount	**17.7%**	10.7%	
	Benchmark index			–20.6
INCOME	Total income	**£28.1m**	£32.1m	–12.4
	Earnings per ordinary unit	**8.24p**	9.33p	–11.7
	Dividend per ordinary unit	**7.50p**	7.05p	+6.4
	Special dividend per ordinary unit	**–**	1.00p	
	Retail price index (RPI)			+2.1

YEAR'S HIGH & LOW	Year to 31 October 2002		Year to 31 October 2001	
	High	**Low**	High	Low
NAV	**443.0p**	**290.3p**	540.5p	354.0p
Closing market price	**399.5p**	**240.0p**	472.0p	306.0p
Discount	**18.0%**	**9.0%**	14.8%	9.3%

Distribution of Total Assets

At 31 October 2002



United Kingdom 45.8% (45.5%)

Continental Europe 10.1% (10.8%)

USA 24.7% (27.5%)

Japan 3.2% (3.6%)

Pacific (ex Japan) 4.7% (3.2%)

Net Current Assets 11.5% (9.4%)

Figures in brackets are as at 31 October 2001

The Company

COMPANY DATA
as at 31 October 2002

TOTAL ASSETS	STOCKHOLDERS' FUNDS	MARKET CAPITALISATION
£893.9 million	**£671.4 million**	**£552.5 million**

POLICY and OBJECTIVES

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

RISK

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

BENCHMARK

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

MANAGEMENT

The company is managed by its own employees led by Ian McLeish 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 2002 the company had in issue 213,304,399 ordinary stock units and long term debt amounted to £222.5m.

MANAGEMENT COSTS

The total costs of managing the company's business during the year were £4,558,000 equivalent to 0.58% 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.

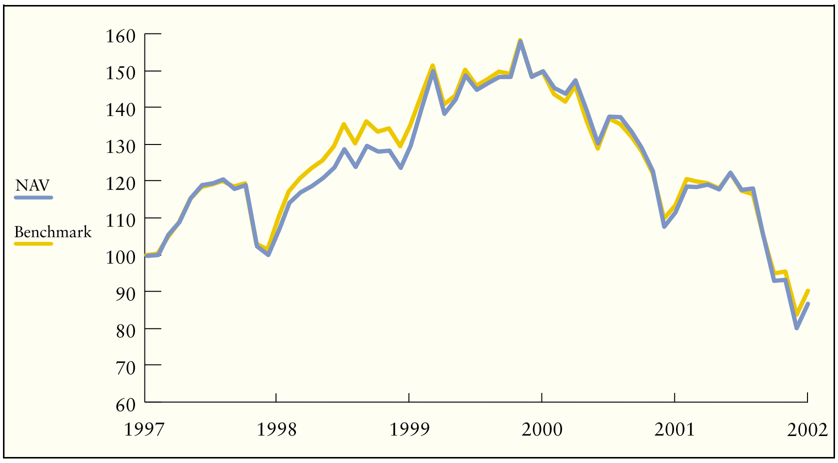
Ten Year Record

YEAR TO 31 OCTOBER	TOTAL ASSETS £'000	STOCKHOLDERS' FUNDS £'000	TOTAL EXPENSES £'000	EARNINGS PER ORDINARY UNIT NET P(1)	**DIVIDEND PER ORDINARY UNIT NET P(2)**	NAV PER ORDINARY UNIT P(3)	**MARKET PRICE PER ORDINARY UNIT P**	DISCOUNT %	NAV TOTAL RETURN %
1992	615,209	552,665	2,027	4.82	**4.62**	206.6	**175.5**	15.1	7.7
1993	776,960	712,767	2,100	5.48	**4.90**	266.2	**224.5**	15.7	31.2
1994	783,096	671,873	2,276	5.49	**5.15**	250.3	**215.5**	13.9	–4.0
1995	913,287	801,040	2,602	5.84	**5.67**	282.6	**242.5**	14.2	15.2
1996	1,023,847	912,583	2,932	6.16	**5.95**	322.0	**274.5**	14.8	16.0
1997	1,101,239	1,020,680	3,310	6.29	**6.25**	360.1	**306.0**	15.0	13.8
1998	1,176,244	1,095,685	3,751	6.41	**6.50**	386.6	**344.0**	11.0	9.4
1999	1,364,145	1,287,086	4,467	8.34	**6.65**	466.4	**393.5**	15.6	22.4
2000	1,578,998	1,356,861	4,568	7.93	**6.90**	538.9	**457.0**	15.2	17.0
2001	1,130,370	908,066	4,821	9.33	**7.05**	402.1	**359.0**	10.7	–23.9
2002	**893,915**	**671,443**	**4,558**	**8.24**	**7.50**	314.8	**259.0**	17.7	–19.8

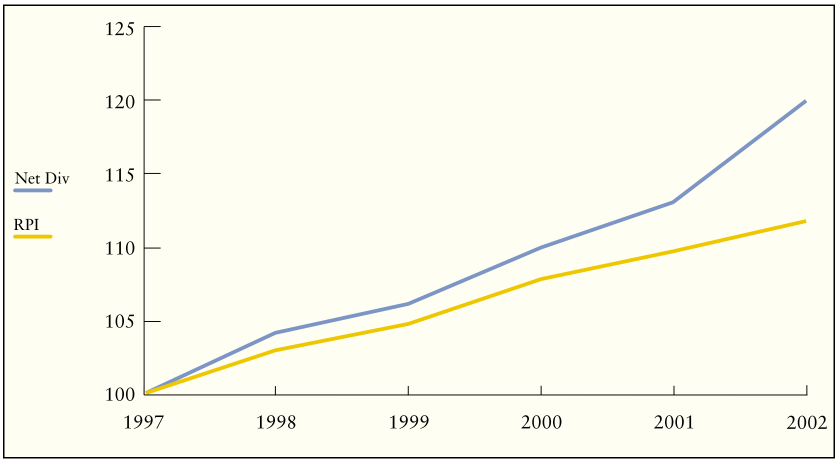
1 From 1 November 1999 the company has charged two-thirds of eligible expenses and finance costs to realised capital reserves.
2 Excluding special dividends of 0.75p in 1998 and 1.00p in 2001.
3 NAV at 31 October 1995 has been adjusted to reflect the adoption of the Statement of Recommended Practice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

Five Year Performance

SIT NAV AND BENCHMARK



SIT NET DIVIDEND AND RETAIL PRICE INDEX
excluding special dividends



Chairman's Statement

After a positive first six months it was a difficult second half. Over the full year net asset value (NAV) fell by 21.7%. Invested assets outperformed the 20.6% fall in the benchmark index by 3% but our long term gearing, which should be beneficial in rising markets, had an adverse effect on NAV as markets dropped in the second six months. Our share price fell by 27.9% reflecting an exceptional widening in the discount to NAV just before year end.

The board has declared in lieu of a final dividend a second interim dividend of 5.00p per ordinary unit making a total for the year of 7.50p. This is an increase of 6.4% and compares with UK inflation of 2.1%. We have increased our regular dividend level in each of the last nineteen years and the board is committed to continuing to grow the regular dividend ahead of UK inflation, in line with our objectives.

As anticipated, our income was lower due to a combination of factors. The level of "special" dividends we had received in the previous year was not repeated and lower interest rates reduced deposit income. There was a reduction in income due to the repurchase of our own stock units. This was partly offset at the level of earnings per ordinary unit as there are now fewer units in issue.

World stockmarkets were quite firm over the first half of our year as equity markets responded to the concerted central bank monetary stimulus following 11 September. Western markets reached recovery high levels in our first quarter but slipped back over the next few months. The Pacific (ex Japan) performed particularly well over our first half due to very strong rises in the Korean and Taiwanese markets early in the period.

Over the second half the mood changed markedly. It became apparent that investors were too optimistic on the outlook for the US economy and that estimates of corporate profits there were too high. Share valuations, particularly in the US, were still expensive by historical standards and a number of highly publicised accounting scandals shook investor faith in the integrity of declared company profits. It also became evident that the US economy would not be strong enough to pull the rest of the world out of stagnation and investors began to worry at the apparent inability of Japan and the eurozone to sort out their structural problems in order to promote economic growth. World markets fell sharply in May and June, plunged again to new lows in early October before staging a partial recovery. Over the second half our benchmark index lost 23.3%, one of the sharpest falls in recent years.

All the main regional markets fell by similar percentage amounts over this period. The losses were very broadly based and not confined to specific industries or sectors such as technology or telecoms which had been weak for some time.

Having reduced our listed equity exposure by £92.8m in our previous year we maintained well diversified portfolios biased towards stable businesses which are financially strong and demonstrate good returns on capital, with reasonable valuations. We outperformed all the main regional benchmark indices, UK, Europe (ex UK), US and Japan. In the Pacific (ex Japan) we were behind due to a low exposure to Korea. We increased our exposure to the Pacific (ex Japan) by £10.1m during the year.

Against a particularly difficult background our unlisted portfolio performed very well. Our largest investment in that portfolio, John Wood Group which has developed from an Aberdeen-based North Sea oil service company into a very successful international operator, obtained a UK listing. This enabled us to realise a quarter of our holding on flotation and to benefit from the increased valuation on the shares retained. We have held shares in John Wood Group for over twenty years during which time we have received significant dividends. The flotation price represented a multiple of 23 times on our initial investment. This amply demonstrates the advantages of the investment trust structure which enables management to take a long term view.

We have continued our policy of buying back our own shares where this provides a benefit to continuing investors. Over the year we took the opportunity to buy back 12.5m shares at a discount to NAV. This has added an estimated 2.6p to the closing NAV per ordinary unit. However, the discount to NAV rose sharply just before the end of our year as market volatility increased. The company will continue to buy in ordinary stock where there are attractive opportunities to improve the NAV for continuing investors and a resolution to renew the buyback authority will be put to stockholders at the annual general meeting.

We continue to work hard on our marketing efforts. In our previous year receipts from our STOCKPLAN savings scheme and ISA products were strong but against a difficult market background the figures last year fell in line with the industry. Our private investor schemes now hold 13% of our outstanding shares. Our investing for children product, STOCKPLAN: A Flying Start, is proving popular with parents and grandparents.

In bear markets it is important not to lose sight of the long term benefits of equity investment. Investing in equities provides a participation in the real long term growth of countries and companies. Equities also provide a growing stream of income in the form of dividends. Dividends were largely ignored during the technology bubble years but are again contributing a meaningful proportion of the total investment return. SIT has a good long term record of increasing dividends and an investor in SIT shares fifteen years ago now receives an annual net dividend yield of 6.1% on the original cost of his or her investment.

We currently employ £119.6m of our long term fixed rate borrowings in equity markets. This is equivalent to 17.8% of stockholders' funds and we monitor our overall equity exposure closely. We hold substantial net current assets of £102.9m which are available to take advantage of opportunities. While gearing caused our recent overall underperformance in a falling market, in the longer term it has the potential to enhance both capital and income returns.

During the year two of the company's institutional shareholders submitted a proposal to transform the company into a split fund, with the assets divided into a UK index fund and a managed fund, in the belief that this would reduce the share price discount to net assets. After considering the proposal carefully, the board wrote to all investors rejecting it on the grounds that it was complex, costly and opaque.

In March 2002 Donald Ness, one of the joint managers, retired after 31 years loyal service to SIT. We wish him well for his retirement. Ian McLeish continues as manager. John Kennedy, who joined the company in 1993, has been appointed head of investment.

OUTLOOK

For some time we have taken the view that as the US economic downturn was relatively shallow so would the recovery be correspondingly muted. US companies and consumers have record amounts of debt and there is significant spare capacity in the economy. The scope for further growth in consumer spending or early recovery in corporate capital expenditure is limited. In Europe, the rigidities of the EU economic stability and growth pact, the failure of the German authorities to tackle structural problems and the unwillingness to date of the European Central Bank to reduce interest rates are all combining to hold back growth. In Japan the government still appears to lack ideas which would revive the deflationary economy. By contrast, the UK seems reasonably well placed although there are some economic imbalances and the economy is unlikely to make real progress until the problems of our trading partners are resolved. Meanwhile there are the uncertainties of Iraq and the war on terrorism.

There are some hopeful signs. The US Federal Reserve has recently cut interest rates to their lowest level for over 40 years and the ECB is expected to cut rates within the next few months. The declines in stockmarkets over recent months have now brought valuations down to much more reasonable levels and dividend yields on many shares are now competitive with cash deposits and bonds particularly in the UK and Europe. While corporate profits are not as strong as forecast earlier this year, they have started to grow again.

Sir Angus Grossart
2 December 2002

Board of Directors

*†Sir Angus M M Grossart
CBE LLD FRSE DL (65)
has been chairman since 1975 and a director since 1974. He is chairman and managing director of Noble Grossart, merchant bankers. He is a vice-chairman of the Royal Bank of Scotland Group and a director of other public companies. He is a former chairman of the trustees of the National Galleries of Scotland and is a trustee and deputy chairman of the National Heritage Memorial Fund.

*†Sir George Mathewson
CBE LLD FRSE (62)
joined the board in 1981. He was chief executive of the Scottish Development Agency until 1987. He then joined the board of The Royal Bank of Scotland Group and was appointed chief executive in January 1992. Following the Group's acquisition of NatWest Sir George was appointed executive deputy chairman in March 2000 and in April 2001 became chairman of the Group. Sir George is also a director of Santander Central Hispano, is on the board of directors of the Institute of International Finance and in April 2002 became President of the British Bankers' Association.

Francis Finlay (59)
joined the board in November 1996. He is chairman of the New York based international fund management firm Clay Finlay, which he co-founded in 1982. Previously he held senior investment management positions with Lazard Frères and Morgan Guaranty in Paris and New York. He is also a director of a number of international investment companies and charitable organisations.

†Hamish Leslie Melville (58)
was appointed to the board in November 1996. He is a managing director senior advisor of Credit Suisse First Boston (Europe). He is chairman of Northern Recruitment Group, Old Mutual South Africa Trust and Mithras Investment Trust, and a director of The Fleming Mercantile Investment Trust and Persimmon. He is a former chairman of The National Trust for Scotland. He is chairman of the remuneration committee.

†Douglas McDougall (58)
was appointed to the board in September 1998. He is chairman of The Law Debenture Corporation, The Independent Investment Trust and Foreign and Colonial Eurotrust. He is a former senior partner of Baillie Gifford & Co and former chairman of IMRO and of the Association of Investment Trust Companies.

*Sir Paul Nicholson (64)
joined the board in September 1998. He is Lord-Lieutenant of County Durham. He was chairman of Vaux Group plc and the Tyne and Wear Development Corporation. He is a former chairman of Northern Investors, the Northern Region of the CBI and former president of the North East Chamber of Commerce. He is chairman of the audit committee.

* Member of audit committee
† Member of remuneration committee

Investment team, left to right

James Kinghorn
Ian Anderson
Mari Yamamoto
Richard Doyle
Michael Dick
Ian McLeish
Howard Kippax
John Kennedy

MANAGER

Ian McLeish CA (57)

was appointed a manager in 1986, having joined the company in 1973. He is responsible directly to the board for all aspects of the day to day management of the company.

HEAD OF INVESTMENT

John Kennedy MA (Hons) ACIB MBA ASIP

SENIOR INVESTMENT MANAGERS

Ian Anderson

Michael Dick ACIB

INVESTMENT MANAGERS

Richard Doyle BA (Hons)

James Kinghorn BSc MBA

Howard Kippax MA (Hons) ASIP

Mari Yamamoto BA ASIP

SECRETARY

Iain Harding FCMA FCIS

ASSISTANT SECRETARY

Alan Jamieson BA (Hons)

Management Review

Ian McLeish, Manager

INVESTMENT PHILOSOPHY

To pursue a flexible investment policy avoiding any permanent specialisation.

To focus on fundamental value and move funds into those areas offering the most attractive returns.

To invest in well managed companies in established stockmarkets around the world.

To enhance performance in rising markets by prudent use of borrowed money.

To provide simple, low cost dealing arrangements for investors.

MARKET PERFORMANCES
Year to 31 October 2002

	Currency adjusted %	In local terms %
UK	–19.7	–19.7
Continental Europe	–22.4	–24.4
USA	–22.5	–16.7
Japan	–23.2	–17.3
Pacific (ex Japan)	–1.3	+0.6
Benchmark	–20.6	

PERFORMANCE ATTRIBUTION ANALYSIS
Year to 31 October 2002

	%
Decrease in NAV	–21.7
Decrease in benchmark index	–20.6
Contribution	–1.1
Stock selection	+3.2
Asset allocation	+0.1
	+3.3
Gearing	–3.4
Interest and expenses charged to capital less retained earnings	–0.9
Buybacks	+0.6
Residual	–0.7
Contribution	–1.1

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

PERFORMANCE ATTRIBUTION

The major world markets were all very weak over our year but, despite being highly valued, the US performed best of the group in local currency terms. However, the US dollar fell by 4.4% on a trade weighted basis and as a result the overall currency adjusted performances of the major markets were remarkably similar. Asset allocation between these areas was not a significant factor in investment performance but the Pacific (ex Japan) held up much better than other areas and our overweight in this area made a modest contribution to our performance.

Our stock selection overall was very good particularly in Europe (ex UK), the US and Japan and we were also helped by some significant successes in our unlisted portfolio. The only area where we underperformed was in the Pacific (ex Japan).

After a good first half we failed to anticipate the major market falls of the second six months. Our effective gearing, which then stood at 115.1% of stockholders' funds, had a material impact on our overall performance and offset the strong relative investment results which we had achieved.

Over the year we repurchased 12.5m ordinary units at a discount to NAV and this added an estimated 0.6% to NAV. This was more than offset by the effect of charging a portion of interest and expenses to capital reserve.

CHANGES IN DISTRIBUTION

Having reduced our effective listed equity exposure by £92.8m in our previous year, net sales of equities over the year were matched by share buybacks. These were financed mainly from the UK and US portfolios which we reduced by £24.5m and £18.0m respectively. We added £10.1m to the Pacific (ex Japan) increasing the percentage of our assets held there from 3.2% to 4.7%. Over the year we have reduced the number of holdings in each area in order to focus on the strongest opportunities.

At the year end our effective gearing was 117.8% of stockholders' funds. The potential gearing ratio if we were to invest all our borrowings in equities is 133.1%. We have net current assets of £102.9m available for investment.

UNLISTED PORTFOLIO

Our unlisted portfolio depreciated in value by 2.5% last year which was a satisfactory performance in the light of the substantial falls in quoted equity markets. Over the last five years our unlisted portfolio has appreciated by 31.6% compared to a fall in our benchmark of 9.8%.

Our greatest success last year was John Wood Group, the Aberdeen based oil service company which obtained a listing in May in order to take advantage of attractive acquisition opportunities. We realised 25% of our investment at the time of flotation and at year end

CHANGES IN ASSET DISTRIBUTION
Year to 31 October 2002

	Opening Valuation	Net Purchases (Sales)	Appreciation (Depreciation)	Closing Valuation
Listed equities	**£m**	**£m**	**£m**	**£m**
UK	483.6	(14.6)[1]	(84.8)	384.2
Continental Europe	121.8	(3.0)	(28.5)	90.3
USA	277.2	(18.0)	(56.3)	202.9
Latin America	7.3	(6.2)	(1.1)	–
Japan	40.5	(4.6)	(7.1)	28.8
Pacific (ex Japan)	36.4	10.1	(4.6)	41.9
	966.8	(36.3)	(182.4)	748.1
Unlisted holdings	57.6	(13.5)[1]	(1.2)	42.9[2]
Net current assets	106.0	(5.1)	2.0	102.9
Total assets	1,130.4	(54.9)	(181.6)	893.9
Borrowings and prior charges	(222.3)	–	(0.2)	(222.5)
Stockholders' funds	908.1	(54.9)[3]	(181.8)	671.4

(1) includes Wood Group transferred to listed at market value of £9.9m
(2) includes £6.1m of investments which are now listed
(3) ordinary stock units repurchased and expenses apportioned to capital

DISTRIBUTION OF ASSETS

	31/10/01 %	31/10/02 %
UK	45.5	45.8
Continental Europe	10.8	10.1
Americas	27.5	24.7
Japan	3.6	3.2
Pacific (ex Japan)	3.2	4.7
Net current assets	9.4	11.5
Total assets	100.0	100.0

LARGEST UNLISTED HOLDINGS
At 31 October 2002

		£m
Aberforth LP	Investment in small UK listed companies	11.8
Boston Ventures Funds	Venture capital, US	7.2
Sprout Group Funds	Venture capital, US	4.3
Mercury Grosvenor (listed)	Private equity, UK	3.5
1818 Fund	Growth capital, US	3.3
		30.1

transferred the balance of our holding to the listed portfolio. Under the terms of the flotation we were restricted in our ability to sell until the end of November and so the holding was valued at a 5% discount to the market price. We first invested in Wood Group in 1982 and it has been an extremely successful investment generating an average rate of return of over 20% per annum.

Two years ago we committed to invest £15.0m in Aberforth LP which holds stakes in small listed UK companies. By year end £13.5m had been drawn down and invested in a portfolio of twelve holdings. Progress has been satisfactory against a difficult market background. Other calls under our commitments were relatively small and our total subscriptions to unlisteds were met by realisations from the unlisted portfolio.

Over the year, including the sale of Wood Group and the transfer of the balance to listed investments, we realised a net £13.5m from this portfolio.

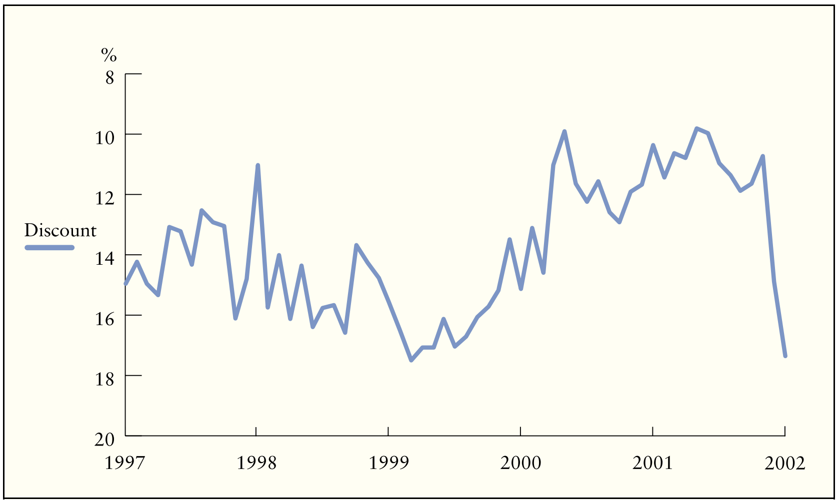
We did not enter into any new partnerships during the year and so by year end our commitments had fallen from £28.9m to £17.7m. We envisage these being drawn at a relatively slow pace and they should largely be funded by distributions from existing holdings.

Our unlisted portfolio is valued at a total of £42.9m which is equivalent to 6.4% (2001 – 6.3%) of stockholders' funds. Of this total £6.1m is in specialist listed investment funds. We value this portfolio on a conservative basis and, where appropriate, we take into account any diminution in value of listed investments which our partnerships hold.

ANALYSIS OF STOCK REGISTER
At 31 October 2002

Category of holder	Number	Ordinary Capital %
Individuals	36,005	56.2
Insurance Companies	20	20.4
Pension Funds	33	7.5
Other	147	15.9
Total	36,205	100.0

DISCOUNT TO NAV
5 years to 31 October 2002



PORTFOLIO TURNOVER

Total purchases of investments amounted to £241.2m (2001 – £232.9m) and sales were £291.0m (£437.5m). Investment sales were 28.8% (32.3%) of average total assets. No use was made of investment derivatives or currency hedges during the year.

HOLDINGS IN LISTED FUNDS

Our holdings include investments in listed investment funds of £19.9m (2001 – £30.5m). These are held mainly to provide exposure to smaller companies in the UK and Japan. In addition, £6.1m (£8.7m) of listed funds which specialise in unlisted investments are included in the unlisted portfolio valuation of £42.9m (£57.6m).

SERVICES TO INVESTORS

Sales of our savings products fell last year in line with industry experience. However we again increased the number of investors so that over the last five years they have risen by 20.5% to over 36,000. Individuals now hold 56.2% of our stock compared to 38.8% five years ago.

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

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

FUTURE STRATEGY

Over the last year investors have had to absorb a lot of bad news and share prices have fallen significantly. The recent action taken by the Federal Reserve in lowering interest rates should enable the US economy to achieve reasonable growth in 2003. Corporate profits there have started to grow again. This should continue into next year but low volume growth and a continuing lack of pricing power indicate that progress may be slower than many analysts are currently forecasting.

After such a difficult period it may take time for confidence to be restored. Many institutions have seen their vulnerability to falling equity markets exposed and are likely to pursue more conservative investment policies. While valuations are now at fair levels they are not outstandingly cheap and so equities could be vulnerable to external shocks. However, longer term, share prices should deliver moderate but acceptable returns as they reflect a return to growth in economies and corporate profits.

We are using some of our borrowing capacity to invest in equities as the longer term growth we anticipate should exceed our borrowing costs. Our underlying portfolios continue to be conservative emphasising dividend paying companies which are financially strong, with good returns on capital and where prospects are reasonable in relation to valuations. We see the most attractive values in the UK market where we have the majority of our assets.

Ian McLeish
2 December 2002

DEFINITIONS

Total assets refers to total assets less current liabilities as shown in the balance sheet.

Net Asset Value (NAV) is stated after deducting borrowings at book value.

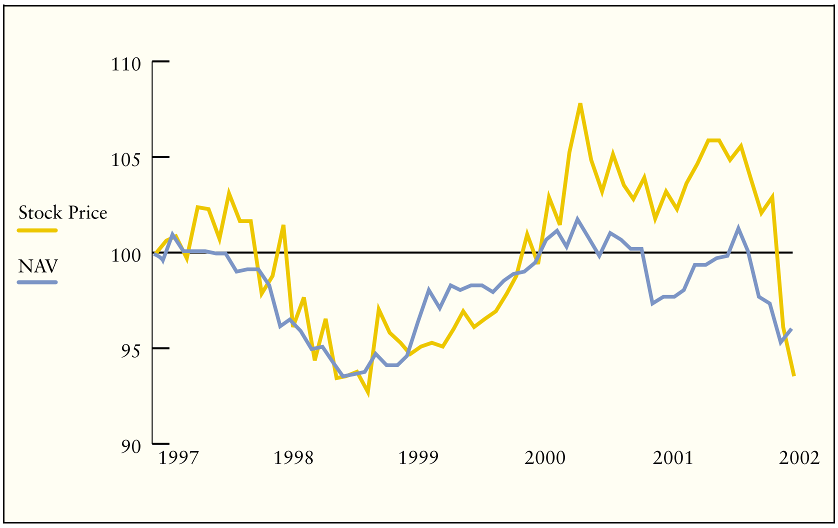
Discount is the difference between the ordinary stockmarket price and the NAV expressed as a percentage of the NAV.

Gearing is the percentage of stockholders' funds invested in equities.

GDP references are to gross domestic product in real terms.

STOCK PRICE AND NAV RELATIVE TO BENCHMARK

5 years to 31 October 2002



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.

Unless otherwise stated, SIT ordinary stock performance figures are based on mid price to mid price before expenses.

Portfolio Review

United Kingdom

LISTED EQUITIES	£389.4m
PRINCIPAL HOLDINGS	£'000

BP 28,249
One of the world's big three exploration and production groups, BP has a range of energy assets to drive future growth in profits.

GLAXOSMITHKLINE 24,400
New drugs should provide long-term potential whilst more mature products are adapted for new uses through the consumer healthcare division.

ROYAL BANK OF SCOTLAND 23,112
Wide range of financial services for UK customers including those of now fully integrated NatWest. The strong New England based Citizens Financial continues to grow organically and by contiguous acquisitions.

VODAFONE 20,499
Global mobile phone service provision, with particular strength in the UK, Continental Europe and more recently with success in Japan.

SHELL TRANSPORT 15,075
Anglo-Dutch based global energy group driving internal efficiencies in oil and gas operations whilst also developing renewable alternatives.

HBOS 14,896
The merger of Halifax and Bank of Scotland created an opportunity to make cost savings and to market a wider portfolio of financial services to existing clients.

BARCLAYS 11,934
Expansion in Europe with Barclaycard and Barclays Capital and in the UK retail market with Woolwich provides leading products in chosen markets.

LLOYDS TSB 11,660
A leading UK bank offering a high yield with brands such as Scottish Widows and Cheltenham & Gloucester providing opportunities for growth.

JOHN WOOD GROUP 9,894
International oil service group based in Aberdeen which recently floated to take advantage of acquisition opportunities.

DIAGEO 9,705
The acquisition of Seagram's spirits brands combined with United Vintners and Guinness has created a world leading drinks group.

TOTAL 169,424

ScottishPower leads the way in alternative energy resources such as wind generation. (Our holding valued at £7.7m).

Within the UK market there are many companies whose shares are available at historically low valuations offering well-covered dividends.

The UK economy grew by 1.8% over the year to September 2002. While consumer spending was the main driving force, the manufacturing sector was weak and many companies have retrenched by cutting costs and reducing capital expenditure. Although economic growth was below earlier expectations and below trend it partly reflected disappointing performances in the economies of our major trading partners in Europe and the USA.

Strong consumer spending and rapidly rising house prices have been accompanied by higher levels of household debt. Borrowing rates have remained at historically low levels so that the cost of servicing loans has been affordable. Short term interest rates are expected to edge up later in 2003.

Government spending is set to rise significantly. Combined with low interest rates both here and overseas this should contribute to a higher level of economic growth next year. However, tax receipts are not now meeting the Chancellor's forecasts and so the UK once more has a budget deficit. This creates a risk that any further increases in government spending, such as for a Middle East conflict, would need to be funded by additional taxation which would in turn damage consumer confidence.

As a consequence of diminishing economic expectations, company profit estimates were regularly pared back throughout 2002 and it is now anticipated that there will be no growth in corporate earnings for the year. However, companies should have adjusted their cost structures to reflect slower economic growth and so some earnings progress is forecast for 2003.

Equity prices have fallen for a second successive year reflecting the disappointing economic and corporate performances. They have also been affected by several highly publicised corporate scandals even though these have been mainly overseas. The FTSE All-Share Index fell by 19.7%; our UK portfolio fell by 19.2%.

We have reduced the number of holdings in order to concentrate our efforts and in so doing have reinforced the value-based nature of the portfolio. Holdings with strong finances and good market positions including supermarket operator Wm. Morrison and defence supplier Smiths Group have been increased. In the light of rising oil prices we added to BP but this proved to be unsuccessful in the short term as the company subsequently encountered production problems. Overweight sector positions in building and tobacco were rewarded while individual mid-size companies such as Northern Foods (prepared meals) and Meggitt (specialist defence contractor) performed strongly.

The performance of the bank sector is important as it represents almost one fifth of our UK portfolio. We sold Abbey National before the negative news that subsequently drove the share price down and increased our positions in HBOS (Halifax/Bank of Scotland) and Royal Bank of Scotland. Although falling in absolute terms in a market that barely discriminated between sectors, our bank holdings have done well in relative terms. The financial sector could be vulnerable to a prolonged recession but the attractive and growing dividend yields of the stronger stocks provide good support.

There were disappointments within the portfolio: none more so than the retailer JJB Sports where a surprise acquisition of a discount department store chain was followed by a substantial fall in share price; also a costly contract overrun at the defence contractor BAE Systems caused a reassessment and we have reduced this holding. The small holdings in the information technology sectors have suffered as their end markets collapsed. We sold software systems group CMG as the balance sheet became a concern. A short-term bounce in the market since the low in early October included a number of technology stocks. This was probably no more than an inevitable rebound from deeply oversold levels, and unless company fundamentals improve we shall continue to avoid these shares.

Within the UK market there are many companies whose shares are available at historically low valuations offering well-covered dividends and this is our area of focus. Low interest rates and the prospect of emerging profit recovery should set the scene for a better market in 2003. However, some pension funds and life companies are over-exposed to equities and their re-balancing will act as a brake to progress. Strong financials and the integrity of management will continue to be fundamental to our stock selection.

Ian G. Anderson

Continental Europe

LISTED EQUITIES	£90.3m
PRINCIPAL HOLDINGS	£'000

ENI (Italy) 4,830
Integrated oil and gas group achieving significant exploration and production growth.

TOTALFINAELF (France) 4,757
The group's post-merger focus combines strong oil and gas volume growth with downstream and chemicals restructuring.

NOVARTIS (Switzerland) 4,534
Generates 80% of profits from prescription pharmaceuticals with few upcoming patent expiries. 61 new compounds in current development.

BNP PARIBAS (France) 4,052
Universal bank with strong franchises in European retail financial services and growing presence on the US West Coast.

NOKIA (Finland) 4,052
The world's leading mobile handset manufacturer is experiencing recovering demand and pricing as product success confirms its dominant market position.

UNILEVER (Netherlands) 3,172
Pre-eminent branded consumer group deriving 55% of sales from food is culling underperforming brands and businesses to deliver major cost savings by 2004.

UBS (Switzerland) 3,128
Private banking services provider demonstrating active cost management while the credit portfolio remains resilient in a deteriorating environment.

TELECOM ITALIA MOBILE (Italy) 3,073
Dominant in the most profitable European mobile communications market, TIM generates strong cash flow while launching new services in Italy and Latin America.

SWISS RE (Switzerland) 2,880
A pure play on the strengthening reinsurance market, the world's second largest operator is growing its life/health business but suffering asset portfolio impairments.

ACCOR (France) 2,755
Worldwide hotel group Accor is benefiting in a weak market from economy and budget segment focus.

TOTAL 37,233

Adidas-Salomon owns several leading sports brands covering footwear, apparel and equipment. (Our holding valued at £2.1m).

While Europe's structural rigidities remain, European equity valuations are at levels unseen for many years.

Deterioration in economic growth in the eurozone in the final quarter of 2001 was met with an interest rate cut of 0.5% by the European Central Bank (ECB). Some evidence of a pick-up in the US economy early in 2002 was mirrored in Europe and stockmarkets were quite firm in the period to March. However, these improvements were short-lived and evidence of a renewed downturn together with concerns over financial mismanagement undermined investors' confidence. Forced selling of equities by financially strained insurers exacerbated the market's fall over the summer, resulting in a decline of almost one third from end-March levels to six year lows. A bounce-back in October left our benchmark 22.4% lower over the year. Avoidance of some of the problem areas and our policy to be less exposed to economically sensitive sectors limited the reduction in our portfolio's value to 20.4%.

Healthier eurozone economic surveys during the early spring reflected over-optimistic expectations and were soon followed by evidence of deteriorating output, fragile consumer sentiment and worryingly high unit labour costs. Germany's economy has been particularly weak due to its over-reliance on manufacturing which has been impacted by the strengthening of the euro, higher oil prices and an inflexible employment structure. These uncertainties, together with a severe downgrading of corporate profit expectations and concern over highly indebted companies, drove markets downward. Consequently financial institutions, particularly insurance companies, were obliged to improve solvency ratios through emergency capital raising and bank loan-loss provisions were increased.

In expectation of a gradual economic upturn we realigned the portfolio in late 2001/early 2002, benefiting through purchases of Spanish contractor Dragados, reinsurer Converium, international sporting goods manufacturer Adidas-Salomon and world-wide hotelier Accor. A more cautious approach during spring and summer saw further reduction of our few remaining technology holdings in favour of the more defensive TotalFinaElf, newly listed toll-road operator Autoroutes du Sud de la France and luxury goods supplier Hermès. We realised significant profits in German pharmaceuticals company Altana, reinvesting via broadly based Novartis in Switzerland. We established new positions in food group Unilever and auto leader Renault, the latter funded from our successful investment in Peugeot. These holdings, together with investments in construction and retail banking outperformed our benchmark. Underperformance from more cyclical media companies, insurers, banks exposed to Latin America and certain holdings where there were signs of balance sheet deterioration were offsetting factors.

Against a background of minimal economic growth, the eurozone remains hampered by the excessively tight fiscal and monetary regime of the EU stability and growth pact. This allied with the ECB's low 2% inflation target produces a perverse policy mix of spending restraints and tax increases which is inappropriate for large parts of the region. Belated realisation of the implications has seen the new right-leaning French government reject some of these strictures. Clearly incremental reform must occur, particularly in Germany where the ten year average economic growth rate is half that of the UK, and its economy veers close to recession and deflation.

No significant economic upturn is likely before mid-2003 and Europe's structural rigidities remain. However, inflation is declining, oil prices peaking and much bad news appears discounted in share prices. There is an expectation that the ECB will soon reduce short term interest rates.

With European markets down 48% from their peak, valuations are at levels unseen for many years, particularly in relation to bonds. New supply of equity from government privatisations and equity issues to repair weak balance sheets will be absorbed if offered on sufficiently attractive terms. Our portfolio favours international cyclical consumer goods and services together with selected financials, chiefly consumer banks. We are more exposed to the faster growing countries of France and Spain and in the latter have emphasised the construction sector where activity remains strong. We continue to invest in soundly financed companies with proven managements and quality franchises.

Michael Dick

USA

LISTED EQUITIES	£203.8m
PRINCIPAL HOLDINGS	£'000

CITIGROUP 9,424
Geographical and product diversity have helped the world's largest financial services company win market share and maintain profitability during the economic downturn.

MICROSOFT 7,929
Expansion in the entertainment, security, and Internet software markets will help generate growth to complement a dominant position in desktop software.

PFIZER 7,750
The world's largest pharmaceutical company should benefit from further economies of scale with the acquisition of Pharmacia.

BANK OF AMERICA 6,880
The US's third largest bank has been improving its operating efficiency and credit profile over the past year.

JOHNSON & JOHNSON 6,346
Success in bringing new products to market has helped maintain this diversified healthcare company's market leadership.

EXXON MOBIL 6,325
An integrated oil company whose assets in major oil producing regions around the world should provide attractive future investment opportunities.

AMERICAN INTERNATIONAL GROUP 5,842
Multi-line insurance and financial services company that is benefiting from rising prices, demand for new products and geographical expansion.

SARA LEE 5,545
Successful restructuring is helping increase productivity and profitability in Sara Lee's food, beverage and clothing businesses.

UNITED TECHNOLOGIES 5,321
Provides a range of technology and support services to the building systems and aerospace industries.

ALLTEL 5,268
A rural telecommunications services company with a large and well managed wireless business that enjoys steady growth.

TOTAL 66,630

Lowe's Companies' lines of home improvement products reach over 7 million US customers every week. (Our holding valued at £4.9m).

The US still appears to have the strongest long term growth prospects among the developed countries.

The US stockmarket experienced further heavy declines in 2002 after a difficult 2001. Expectations earlier in the year that the economy was starting to recover after the 11 September tragedy proved to be premature. Our benchmark, the FTSE World US index, fell 22.5% in sterling terms and in early October reached lows not seen for over five years. Due to good stock selection our portfolio's decline was restricted to 19.8%.

At the beginning of the year economic growth was largely positive. GDP rose very strongly in the first quarter of 2002 and it appeared that the series of interest rate cuts in 2001, to the lowest level in over 40 years, was having the desired effect. The market rose accordingly but economic data since March has been disappointing, suggesting that the economy while no longer shrinking is not making any meaningful recovery. US investors have also had to endure the war in Afghanistan, a potential conflict with Iraq and the ongoing fear of further terrorist activity at home. Furthermore several high profile accounting scandals rocked investor confidence in Wall Street.

Whereas the decline in our previous year was largely due to weakness in technology stocks, last year it was far more broadly-based. The weakest sectors were telecommunication services and utilities which were plagued by the collapse of WorldCom and Enron respectively. IT hardware had another poor year as overcapacity and weak demand depressed earnings. The drug sector, usually resilient in economic downturns, was also weak due to a dearth of new products and generic competition in key drugs. The best performing sectors included some of the more cyclical names in the machinery and aerospace/defence industries as well as more typical safe havens in the form of food producers, personal care and beverage companies. Consumer related stocks in general performed well due to the resilience of US consumers who have continued to spend despite the economic environment.

We reduced an already light position in IT hardware stocks and cut back our exposure to utilities and telecommunications services. Profits were taken on some of our consumer staples and retailing holdings such as Clorox and Family Dollar which had performed well. We increased our position in energy with a new purchase of Kerr-McGee and added significantly to the household goods and textiles sector by increasing clothing retailer Liz Claiborne and purchasing Mattel, both strong performers. We also benefited from good stock selection in the health and food industries boosted by the addition of food group Sara Lee. A key to performance this year was to avoid companies exposed to any form of accounting discrepancy. We were not completely unaffected and half way through the year we sold Tyco, a holding of several years in which we were losing confidence.

Although the market has fallen by over 40% from the highs seen in March 2000, valuations remain full because profits have also fallen heavily. However, there have been selective opportunities within the market throughout the year. We took this year's stock market weakness as a chance to increase the overall quality of our portfolio and decrease the number of stocks held. The current uncertain environment will provide further opportunities to buy into companies with superior returns at reasonable valuations as the market struggles to come to terms with slower economic growth than that experienced during the 1990s. We expect to see a muted profit recovery during 2003 and while a lot of this may already be discounted, the US still appears to have the strongest long term growth prospects among the developed countries. Moreover, investor confidence should gradually be restored with new, more stringent governance obligations currently being implemented.

James Kinghorn

Nissan's manufacturing plant at Tochigi, north of Tokyo.

Japan

LISTED EQUITIES	£28.8m
PRINCIPAL HOLDINGS	£'000

TAKEDA CHEMICAL 2,125
Expansion in the US and strong sales of drugs for stomach ulcers and prostate cancer are producing good returns.

NISSAN MOTOR 2,033
After rigorous cost reduction the company is now delivering good sales growth in Japan and the US.

RICOH 1,908
Sales of company's multi-functional printers are growing in Japan and overseas acquisitions are contributing to earnings growth.

HONDA MOTOR 1,878
The company is launching several new models which should enhance margins, particularly in the US market.

INVESCO GT JAPAN ENTERPRISE FUND 1,692
This fund focuses on smaller companies with long-term sustainable growth in the service and applied technology industries.

TOTAL 9,636

The Japanese authorities have again failed to tackle the well-recognised problems of deflation and bad debts in the banking system.

Over the last fiscal year to March 2002 the Japanese economy shrank by 1.9%, a result which disappointed expectations which were already low. Declining exports and falling capital expenditure were the main causes. Prospects for the current year appeared to improve when exports grew over the spring months as the global technology sector re-stocked. This was relatively short-lived; exports to the US have now flattened out and domestic demand is sluggish so that growth for the full year is likely to be around 0.5%. There is no current reason to expect much acceleration next fiscal year.

Against this background the market fell by 17.3% in local currency terms over our year. The yen was also weak resulting in the Japanese index falling by 23.2% in sterling terms. The auto sector performed relatively well due to the success of Japanese car manufacturers such as Honda and Nissan in the competitive US market. Personal care companies fared well due to their stable growth characteristics in a very uncertain environment and steel companies benefited from industry rationalisation and higher domestic prices. The important technology and telecoms sectors were very mixed with copier companies such as Ricoh performing well while software and telecom companies suffered. The bank sector is still labouring through the bad debt crisis and as a result performed very poorly. The pharmaceutical sector failed to perform in its normal defensive manner due to stricter drug pricing in Japan.

Our portfolio outperformed but nevertheless fell by 19.7% in sterling terms. Our holdings in autos performed well and Nissan was particularly successful due to the benefits of ongoing rationalisation. Having sold all our commercial banking holdings in our previous year we avoided the serious underperformance of that sector.

During the year we sold our holding in Sony, the leading home electronics company, as the valuation was very expensive. We established a new position in Murata Manufacturing where the share price had fallen sharply in anticipation of weakness in the mobile phone sector to which Murata supplies high quality components. Within the broad electronics sector we also added Shin-Etsu Chemical, the global leader in silicon wafer manufacture. Elsewhere we sold out of Asahi Kasei, a chemical company whose diversification strategy has failed, and Amada which is suffering from falling orders for its machine tools. Over the year we reduced our Japanese holdings by £4.6m following a £45.4m reduction in the previous year.

The Japanese authorities have again failed to tackle the well-recognised problems of deflation and bad debts in the banking system. Over the years a number of solutions have been put forward but in every case proposals have been dropped or seriously watered down. This has been repeated in recent months when, having appointed a new head of the Financial Services Agency to take tough measures to deal with banking problem, Prime Minister Koizumi failed to back the new plans. The longer the necessary reforms are postponed the more painful the ultimate adjustment will be. In these circumstances we shall continue to concentrate on companies with solid balance sheets which are well managed and which have some prospects for underlying growth.

Mari Yamamoto

Cheung Kong Infrastructure is involved in the construction of National Highway 107 in Henan Province, China. (Our holding valued at £1.1m.)

Pacific (ex Japan)

LISTED EQUITIES	£41.9m
PRINCIPAL HOLDINGS	£'000

SAMSUNG ELECTRONICS (Korea) 2,527
World's largest manufacturer of memory chips also achieving strong growth in consumer electronics.

BHP BILLITON (Australia) 2,305
Major diversified resources company with industry leading positions in alumina, iron ore and coal, along with growing oil interests.

NATIONAL AUSTRALIA BANK 1,830
Largest bank in Australia benefiting from consistent growth in the Australian economy.

AMCOR (Australia) 1,653
One of world's leading packaging companies with benefits to come from recent acquisitions and modernisation programme.

UNITED OVERSEAS BANK (Singapore) 1,581
The most profitable of the Singapore banks with potential for further improvement through the divestment of non-core assets.

TOTAL 9,896

Asian consumers have high savings and there is scope for increased consumption.

Pacific region economies and stockmarkets are generally recognised as being very geared towards the prospects for their western counterparts because of their high levels of dependence on exports, particularly to the United States. Last year was a significant exception and while economic growth in the west tapered off and forecasts for 2003 were revised down several times, economists have remained relatively optimistic in relation to the Pacific region.

The region's stockmarkets were among the strongest performers over our year led by Korea which rose by 37.4% against an overall decline in the regional index of 1.3%. Hong Kong was the poorest market falling by 14.3%. Australia, the largest market in the region, declined by 3.0% and was by far the least volatile. Korea and Taiwan led these markets early in the year rising by around 50% over our first quarter as investors became increasingly optimistic about their prospects for increasing exports; while Korea retained most of its gains Taiwan finished the year slightly lower due to the heavy technology element in its economy. Our portfolio fell by 7.6% over the year, the underperformance being due largely to our underweight position in Korea at the beginning of the year.

Our main activity was in Korea where over the year we added £8.7m through several new purchases, the largest of which were Samsung Electronics, which is becoming a world leader in chip manufacture, and Kookmin Bank which is benefiting from restructuring within the banking sector and increased consumer spending.

Elsewhere we had very good performances from three of our Australian holdings, Amcor (packaging), BHP (commodities) and National Australia Bank. United Overseas Bank in Singapore also performed very well for us. However, these were to some extent offset by poor performances from Mayne Group, an Australian healthcare company which was a new investment last year, and our long standing holding in Hutchison Whampoa, a Hong Kong conglomerate which suffered from its exposure to telecommunications.

The outlook for the region is sound. Although the slowing of the US economy affects Asian exports there are signs of growing intra-regional trade and stronger consumer spending. Unlike their western counterparts, Asian consumers have high savings and there is scope for increased consumption. Valuations in Asian markets are low by their own historical standards and in relation to western markets.

Ian McLeish

Investor Information

THE SCOTTISH INVESTMENT TRUST

The past two years have been difficult for investors as markets have fallen worldwide and The Scottish Investment Trust (SIT)'s short term return has reflected this. However SIT, founded in 1887, has been working to produce wealth for investors for over 115 years – through numerous times of market volatility and uncertainty as well as market highs. SIT's independence enables its team of experienced managers to follow a focused approach which has resulted in SIT providing solid long term performance – with an average annual return over the last fifty years of 13.7%.

WHY INVEST IN SIT?

SIT's global investment strategy spreads risk over a broad range of countries, sectors and companies and promotes a wide search for investment opportunity to benefit investors. As one of the biggest investment trusts in the UK, SIT has the critical mass required to weather such unsettled times and is well placed to maximise the opportunities that will become available when the market upturn comes.

The Scottish Investment Trust can be used for a number of financial planning requirements such as helping to pay off your mortgage or to supplement your retirement income. It is also a suitable way to invest on behalf of a child with a view to providing a nest egg for the child's future.

HOW TO INVEST

You can buy shares directly using the simple, low cost investment products outlined below. Alternatively shares can be bought directly through a stockbroker or indirectly through a bank, lawyer, accountant or other professional adviser.

SIT SAVINGS PRODUCTS

SIT's wholly-owned subsidiary, SIT Savings Limited, offers the investor access to ordinary stock units through a number of cost effective plans. SIT's products allow investments to be made on a lump sum or regular basis, or a combination of both. Regular investment, which smoothes out highs and lows in the price of stock, can be beneficial in times of market volatility. Investors buy fewer shares when prices are high and more when prices are low, so the timing risk is considerably reduced.

Left to right: Alan Jamieson, Sherry-Ann Sweeting and Iain Harding.

STOCKPLAN – SIT's savings scheme – is one of the lowest charging investment trust savings schemes available. There is no initial plan charge, no annual management fee and, with a selling charge of only £10 + vat, it is very cost effective. There is considerable flexibility built into the scheme, allowing minimum regular investments from only £25 per month and/or lump sum investments from £250. There is no maximum investment limit and you can stop and start at any time.

STOCKPLAN: A Flying Start, is SIT's Investing for Children plan. Based on the STOCKPLAN scheme it has the same low charges and flexibility of investment. A Flying Start enables parents, other family members, godparents and friends to invest on behalf of a child with a view to providing a nest egg for the future. It can also be used to help save for future expenses – such as school and university fees, to fund a gap year, a deposit on a first home, a wedding or a business start up.

The SIT ISA is one of the most competitive ISAs on offer. There is no initial, exit or withdrawal plan charge. The annual management fee is 0.6% capped at £30 + vat regardless of how much your ISA investment grows or how many years' ISA allowances you invest with SIT. Both Mini and Maxi equity ISAs are available.

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. Existing PEP investments continue to grow tax free. SIT accepts Single Company as well as General PEPs with full or partial transfers allowed. There is no entry charge for transferring an existing PEP to SIT in order to benefit from The SIT PEP's investment spread, low costs and long term performance.

All 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 our registrar, Computershare, on 0870 702 0010.

PRODUCT SALES PERFORMANCE

Growth in the number of investors has slowed since last year but, despite market uncertainties and low equity investor confidence, SIT attracted over 1,200 new investors over the course of the year. STOCKPLAN and ISA inflows have held up relatively well with the number of investors up by 7% and 12% respectively. A Flying Start has established itself as a vehicle for equity investment on behalf of children with sales having risen significantly.

HOW CAN I MONITOR MY INVESTMENT?

SIT's stock prices, 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 web sites, such as the FT web site, **www.ft.com** and Trustnet, **www.trustnet.com** carry share price information.

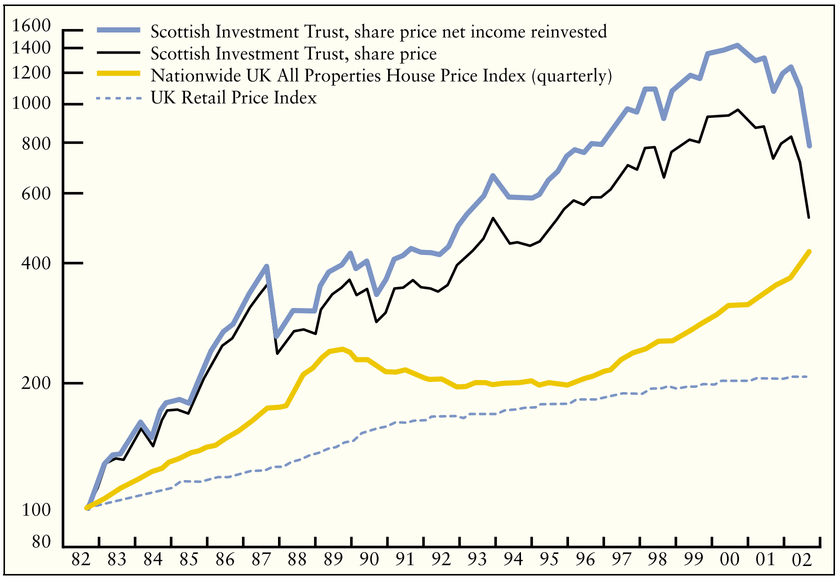
The Scottish Investment Trust issues weekly net asset value information on its web site. An interim report is issued in June of each year, with the annual report being distributed to all investors in late December.

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

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

20 YEAR TOTAL RETURN (Quarterly to September 2002)

How an investment in SIT has performed relative to UK house prices and UK inflation.



Source: Datastream

PERFORMANCE COMPARISONS

At 31 October 2002

	Note	1 YEAR	5 YEARS	7 YEARS
SIT – NAV	1	78	92	122
SIT – Share Price	1	72	90	119
AVERAGE:				
Investment Trust – Share Price	1	80	95	120
Global Growth Inv. Trust – Share Price	1	78	94	125
Global Growth Unit Trust	2	77	90	108
Insurance Fund – Global Equities	2	78	88	101
Individual Pensions – Global Equities	2	76	88	103

Notes
1 NAV/share price with net income reinvested based on Fundamental Data figures adjusted for notional expenses of 2.5%.
2 Offer to bid, net income reinvested. Source: Standard & Poor's.

The figures show the value of £100 invested at the beginning of the period including net income reinvested and allowing for notional expenses of buying and selling.

STOCKHOLDERS' MEETINGS

Investors whose names appear on the main stock register are entitled to attend and vote at the AGM and other general meetings. Notices of meetings and proxy cards are sent to their registered addresses.

STOCKPLAN, A Flying Start, PEP and ISA investors are also entitled to attend and vote by completing the form of direction enclosed with this report and returning it to arrive no later than seven working days before the meeting.

PERSONAL TAXATION

Income Tax

Currently, all UK dividends are paid to stockholders net of a tax credit of 10%. Changes to the tax regime mean that from April 1999 non tax payers are no longer able to reclaim the tax credit. It is currently only reclaimable by PEP and ISA managers on behalf of their investors on dividends paid before April 2004. Non PEP and ISA stockholders liable to higher rates of tax will be assessed for any additional tax through their annual returns.

Capital Gains Tax (CGT)

Investment trusts currently pay no CGT on gains made within the portfolio. When investors sell all or part of their holdings, they may be liable to CGT. Currently, the first £7,700 pa of such gains from all sources is exempt.

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

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

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

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

FURTHER DETAILS

For further information and brochures of any SIT products please visit our web site: **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

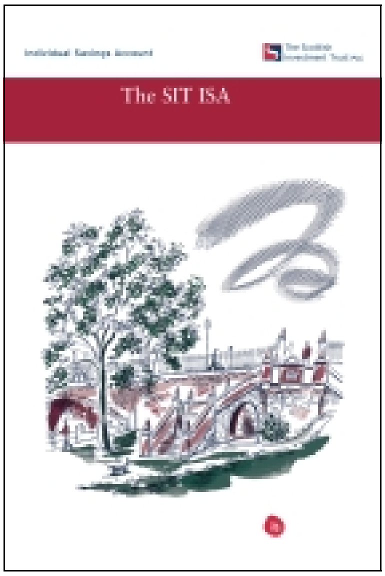
USEFUL ADDRESSES

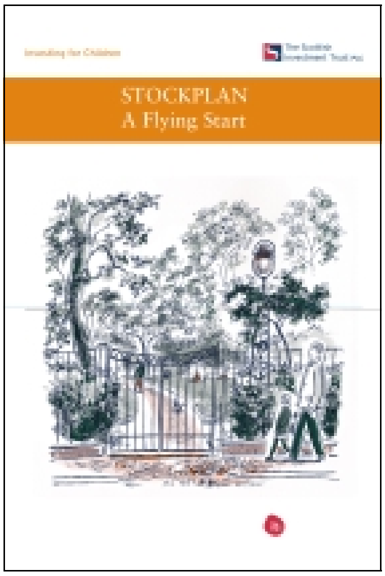
For valuations and other details of your investment or to notify a change of address please contact the following:

Registrar
Computershare Investor Services PLC
PO Box 435
Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR
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: 0870 600 9966

STOCKPLAN and 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





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 regulated by the Financial Services Authority (FSA).

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

Based on total assets at 31 October 2002 of £893.9m

	United Kingdom %	Continental Europe %	USA %	Pacific Region %	**October 2002 Total %**	October 2001 Total %
Resources	**7.8**	**1.1**	**1.5**	**0.6**	**11.0**	**10.4**
Mining	1.4	0.0	0.0	0.2	**1.6**	1.2
Oil & Gas	6.4	1.1	1.5	0.4	**9.4**	9.2
Basic Industries	**2.5**	**0.7**	**0.6**	**0.5**	**4.3**	**4.0**
Chemicals	0.5	0.0	0.3	0.1	**0.9**	0.9
Construction & Building Materials	2.0	0.6	0.0	0.4	**3.0**	2.7
Forestry & Paper	0.0	0.0	0.3	0.0	**0.3**	0.2
Steel & Other Metals	0.0	0.1	0.0	0.0	**0.1**	0.2
General Industrials	**1.8**	**0.4**	**1.4**	**1.4**	**5.0**	**5.4**
Aerospace & Defence	1.6	0.0	0.6	0.1	**2.3**	1.9
Diversified Industrials	0.0	0.3	0.5	0.4	**1.2**	2.0
Electronic & Electrical Equipment	0.0	0.0	0.0	0.9	**0.9**	0.7
Engineering & Machinery	0.2	0.1	0.3	0.0	**0.6**	0.8
Cyclical Consumer Goods	**0.0**	**1.0**	**1.0**	**0.7**	**2.7**	**1.5**
Automobiles & Parts	0.0	0.6	0.0	0.7	**1.3**	0.9
Household Goods & Textiles	0.0	0.4	1.0	0.0	**1.4**	0.6
Non-cyclical Consumer Goods	**7.4**	**1.6**	**5.6**	**0.7**	**15.3**	**14.6**
Beverages	1.5	0.0	0.9	0.1	**2.5**	2.3
Food Producers & Processors	0.6	0.6	1.1	0.0	**2.3**	1.2
Health	0.0	0.0	1.0	0.1	**1.1**	0.9
Personal Care & Household Products	0.0	0.0	0.3	0.1	**0.4**	0.3
Pharmaceuticals	3.9	1.0	2.3	0.4	**7.6**	8.9
Tobacco	1.4	0.0	0.0	0.0	**1.4**	1.0
Cyclical Services	**4.9**	**1.0**	**3.6**	**1.0**	**10.5**	**10.2**
Retailers – General	1.7	0.0	1.4	0.3	**3.4**	3.6
Leisure, Entertainment & Hotels	0.5	0.3	0.5	0.2	**1.5**	1.7
Media & Photography	1.1	0.5	1.0	0.3	**2.9**	2.5
Support Services	0.8	0.2	0.7	0.2	**1.9**	0.7
Transport	0.8	0.0	0.0	0.0	**0.8**	1.7
Non-cyclical Services	**4.0**	**0.8**	**1.6**	**0.5**	**6.9**	**8.8**
Food & Drug Retailers	0.9	0.2	0.4	0.0	**1.5**	2.4
Telecommunication Services	3.1	0.6	1.2	0.5	**5.4**	6.4
Utilities	**2.0**	**0.0**	**0.0**	**0.2**	**2.2**	**2.3**
Electricity	0.8	0.0	0.0	0.2	**1.0**	1.2
Gas Distribution	0.0	0.0	0.0	0.0	**0.0**	0.0
Water	1.2	0.0	0.0	0.0	**1.2**	1.1
Information Technology	**0.2**	**0.6**	**2.6**	**0.3**	**3.7**	**6.0**
Information Technology Hardware	0.0	0.5	1.5	0.3	**2.3**	3.2
Software & Computer Services	0.2	0.1	1.1	0.0	**1.4**	2.8
Financials	**15.2**	**2.9**	**6.8**	**2.0**	**26.9**	**27.4**
Banks	8.1	2.1	2.2	0.9	**13.3**	12.6
Insurance	0.0	0.6	1.1	0.1	**1.8**	2.4
Life Assurance	1.1	0.2	0.3	0.1	**1.7**	2.6
Investment Companies	4.4	0.0	2.0	0.4	**6.8**	6.0
Real Estate	0.8	0.0	0.4	0.4	**1.6**	1.5
Speciality & Other Finance	0.8	0.0	0.8	0.1	**1.7**	2.3
Total Equities	**45.8**	**10.1**	**24.7**	**7.9**	**88.5**	**90.6**
Net Current Assets	**11.4**	**0.0**	**0.1**	**0.0**	**11.5**	**9.4**
Total Assets	**57.2**	**10.1**	**24.8**	**7.9**	**100.0**	**100.0**

Total equities include convertibles Nil (2001 – £8,777,000 = 0.8%).

DIVIDEND

The directors have declared in lieu of a final dividend a second interim dividend of 5.00p per ordinary stock unit payable on 10 February 2003 which, with the interim dividend of 2.50p already paid, makes a total of 7.50p for the year. The total dividend absorbs £16,076,000 leaving £1,940,000 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 company has continued the programme of ordinary stock buybacks authorised by stockholders. During the year 12,505,693 ordinary stock units, representing 5.5% of the issued ordinary stock at 31 October 2001, were repurchased at a cost of £43,865,000.

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 2001. The company has subsequently continued to satisfy the conditions for such approval. The ''close company'' provisions of the 1988 Act do not apply to the company.

DIRECTORS

The directors who held office at the end of the financial year and their interests in the company's capital are shown on page 37.

Sir Angus Grossart and Mr Hamish Leslie Melville 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 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. 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. No contract or arrangement entered into by the company in which any director is interested has subsisted during the year.

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

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, reviewing major investments for the control of risk and ensuring adequate financial reporting. There is a formal schedule of matters reserved for the board.

All six members of the board are non-executive and are independent of the company's management. Day to day management, including the selection of investments, is in the hands of the company's manager who reports 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 management meets 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 23 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 23 December 2002 the company had been notified of the following holdings in excess of 3% of its ordinary stock.

	Ordinary stock units	% of issue
AXA Group	18,919,515	9.0
Britel Fund Trustees	15,130,052	7.2*
Scottish Widows Investment Partnership	7,643,091	3.6
Legal & General	6,537,872	3.1
D C Thomson	6,336,040	3.0

*includes a 4.3% interest notified by Devon County Council.

ANNUAL GENERAL MEETING

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

Repurchase of the company's own ordinary stock
At the annual general meeting of the company held on 28 January 2002 stockholders passed a resolution giving the company authority to make purchases of up to 32,805,628 ordinary stock units, being 14.99% of the then issued ordinary stock of the company. The authority is due to expire on 27 July 2003.

Resolution number 4 set out in the notice of annual general meeting seeks to renew the authority to repurchase ordinary stock until 27 August 2004. 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 4.

SOCIALLY RESPONSIBLE INVESTING

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

AUDITORS

Following the resignation of Arthur Andersen on 31 July 2002 the directors appointed Deloitte & Touche to fill the casual vacancy created.

A resolution will be proposed at the annual general meeting to re-appoint Deloitte & Touche 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
23 December 2002

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 2002 which comprise the Statement of Total Return, the Balance Sheet, the Cash Flow Statement, the accounting policies, 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

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. Our responsibility is to audit the financial statements 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 are properly prepared in accordance with the Companies Act 1985. We also report 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 Directors' Report and the other information contained in the Annual Report for the above year as described in the contents section and 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 2002 and of its total return for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and
Registered Auditors
Edinburgh

20 January 2003

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 accounting standards. The company's accounting policies comply with the Statement of Recommended Practice (SORP) "Financial statements of investment trust companies".

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

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

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

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

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

Where the company has elected to receive its 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 and interest payable 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 in the same proportion as the charges themselves using the company's effective rate of corporation tax for the period.

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".

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
The company has adopted FRS 19 Deferred Tax. 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. The implementation of this standard has had no effect on the current or prior periods' results.

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

(h) Capital reserves
Capital Reserve – Realised

The following are accounted for in this reserve:

- gains and losses on the realisation of investments
- realised exchange differences of a capital nature
- realised gains and losses and related income on transactions undertaken to hedge an exposure of a capital nature
- the funding of ordinary stock repurchases
- expenses and interest charged to capital.

Capital Reserve – Unrealised

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year end
- unrealised exchange differences of a capital nature
- unrealised gains and losses and related income on transactions undertaken to hedge an exposure of a capital nature.

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

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

Statement of Total Return FOR THE YEAR TO 31 OCTOBER 2002 (incorporating the revenue account*)

	Notes	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000	2001 Revenue £'000	2001 Capital £'000	2001 Total £'000
Net losses on investments and currencies	15	–	**(183,654)**	**(183,654)**	–	(322,546)	(322,546)
Income	1	**28,099**	–	**28,099**	32,086	–	32,086
Expenses	2	**(2,143)**	**(2,415)**	**(4,558)**	(2,436)	(2,385)	(4,821)
Net Return before Finance Costs and Taxation		**25,956**	**(186,069)**	**(160,113)**	29,650	(324,931)	(295,281)
Interest payable	5	**(5,160)**	**(10,320)**	**(15,480)**	(5,160)	(10,321)	(15,481)
Return on Ordinary Activities before Tax		**20,796**	**(196,389)**	**(175,593)**	24,490	(335,252)	(310,762)
Tax on ordinary activities	6	**(2,780)**	**1,691**	**(1,089)**	(2,776)	1,622	(1,154)
Return attributable to Equity Stockholders		**18,016**	**(194,698)**	**(176,682)**	21,714	(333,630)	(311,916)
Dividends on ordinary stock:	7						
Regular		**(16,076)**	–	**(16,076)**	(15,913)	–	(15,913)
Special		–	–	–	(2,258)	–	(2,258)
Transfer to Reserves	15	**1,940**	**(194,698)**	**(192,758)**	3,543	(333,630)	(330,087)
Return per Ordinary Stock Unit		**8.24p**	**(89.04)p**	**(80.80)p**	9.33p	(143.39)p	(134.06)p
Weighted average number of Ordinary Stock Units in issue during the year			**218,671,178**			232,673,041	

*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.

	Notes	2002 £'000	2001 £'000
Fixed Assets			
Equity investments	8	**791,029**	1,024,416
Current Assets			
Debtors	11	**6,014**	12,966
Cash and deposits	21	**115,366**	108,690
		121,380	121,656
Creditors: amounts falling due within one year	12	**(18,494)**	(15,702)
Net Current Assets		**102,886**	105,954
Total Assets less Current Liabilities		**893,915**	1,130,370
Creditors: amounts falling due after more than one year			
Long term borrowings	13	**(222,472)**	(222,304)
Net Assets		**671,443**	908,066
Capital and Reserves			
Called-up share capital	14	**53,326**	56,453
Share premium account	15	**39,922**	39,922
Other reserves	15		
Capital redemption reserve		**17,535**	14,408
Capital reserve – realised		**575,827**	659,788
Capital reserve – unrealised		**(41,545)**	113,057
Revenue reserve		**26,378**	24,438
Total Stockholders' Funds	16	**671,443**	908,066
Net Asset Value per Ordinary Stock Unit	17	**314.8p**	402.1p
Number of Ordinary Stock Units in issue at year end		**213,304,399**	225,810,092

The financial statements on pages 27 to 37 were approved by the board of directors on 23 December 2002 and were signed on its behalf by:

Sir Angus Grossart, Director

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

Cash Flow Statement FOR THE YEAR TO 31 OCTOBER 2002

	Notes	2002 £'000	2001 £'000
Net Cash Inflow from Operating Activities		**21,270**	24,516
Servicing of Finance			
Interest paid		**(15,313)**	(15,314)
Taxation			
ACT recovered		**–**	603
Overseas tax recovered		**160**	444
Net cash inflow from taxation		**160**	1,047
Investing Activities			
Purchases of investments		**(235,898)**	(235,178)
Disposals of investments		**298,591**	434,053
Net cash inflow from investing activities		**62,693**	198,875
Equity dividends paid		**(18,282)**	(16,958)
Net cash inflow before use of liquid resources and financing		**50,528**	192,166
Management of Liquid Resources			
Increase in short term deposits	18	**(13,415)**	(70,085)
Financing			
Share buybacks	14	**(43,865)**	(118,708)
Net cash outflow from financing		**(43,865)**	(118,708)
(Decrease)/increase in Cash	18	**(6,752)**	3,373
Reconciliation of Net Revenue before Finance Costs and Taxation to Net Cash Inflow from Operating Activities			
Net revenue before finance costs and taxation		**25,956**	29,650
Expenses charged to capital		**(2,415)**	(2,385)
Scrip dividends		**(428)**	(840)
Decrease in accrued income		**396**	387
Increase/(decrease) in other creditors		**104**	(473)
(Increase)/decrease in other debtors		**(572)**	60
Tax on investment income		**(1,771)**	(1,883)
Net Cash Inflow from Operating Activities		**21,270**	24,516

The accompanying notes are an integral part of this statement.

1. INCOME	2002 £'000	2001 £'000
Income from investments:		
UK franked investment income	**15,171**	18,757
Overseas dividends	**8,825**	9,693
Scrip dividends	**428**	840
Other	**206**	93
	24,630	29,383
Other income:		
Deposit interest	**3,459**	2,698
Underwriting commission	**10**	5
	3,469	2,703
Total income	**28,099**	32,086
Total income comprises:		
Dividends including special dividends of £445,000 (2001 – £1,235,000)	**24,620**	29,334
Interest	**3,469**	2,747
Other income	**10**	5
	28,099	32,086
Income from investments:		
Listed UK	**15,755**	19,216
Listed overseas	**8,825**	9,834
Unlisted	**50**	333
	24,630	29,383

2. EXPENSES	2002 £'000	2001 £'000
Staff costs (Note 3)	**2,338**	1,987
Auditors' remuneration for audit	**20**	19
Other expenses	**2,200**	2,815
	4,558	4,821

Since 1 November 1999 eligible expenses have been charged one-third to revenue and two-thirds to capital.
Auditors' remuneration for non-audit services totalled £10,000 (2001 – £16,000).

3. STAFF COSTS	2002 £'000	2001 £'000
Salaries	**1,635**	1,502
Social security costs	**181**	165
Pensions and post-retirement benefits	**522**	320
	2,338	1,987

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

	2002 Number	2001 Number
Investment	**10**	10
Administration	**14**	15
	24	25

Directors' remuneration:		
Fees for services as directors	**£114,750**	£124,813
Chairman and highest paid director	**£28,500**	£28,500

4. PENSION SCHEME

The company provides for its employees a defined benefit pension scheme based on final salary. 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.

4. PENSION SCHEME (continued)

The pension cost charge for the period was £506,000 (2001 – £304,000). The pension cost charge is determined by a qualified actuary on the basis of triennial valuations. The charge for 2002 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 2002 was 38% of pensionable earnings, including an allowance of 12% in respect of the amortisation of the deficit, which is being recognised over twelve 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 2002 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:	**2002**	2001
	%	%
Rate of increase in salaries	**4.2**	4.5
Rate of increase in pensions in payment	**2.2**	2.5
Discount rate	**5.4**	6.0
Inflation assumption	**2.2**	2.5

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
	2002	2001	**2002**	2001
	%	%	**£'000**	£'000
Equities	**8.5**	8.2	**3,142**	4,848
Bonds	**4.8**	5.2	**681**	1,034
Other	**4.4**	5.2	**1,260**	964
Total fair value of assets			**5,083**	6,846
Present value of scheme liabilities			**7,202**	8,819
Net pension liability			**2,119**	1,973

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.

The following figures for the year to 31 October 2002 are given by way of note. They will be incorporated into the revenue account on full implementation of FRS 17 if it is implemented at the end of transition in 2005 and, had FRS 17 been adopted early, revenue reserve would be £24,259,000 (2001 – £22,465,000).

Analysis of amount chargeable to operating profit during the year:	**2002**
	£'000
Current service cost	**400**
Past service cost	**–**
Settlement/curtailments	**–**
Total operating charge	**400**
Employee contribution to be set off	**(48)**
Analysis of amount credited to other finance income:	
Expected return on assets	**420**
Interest on liabilities	**(529)**
Net return	**(109)**
Movement in deficit during year:	
Deficit at beginning of year	**(1,973)**
Movement in year:	
Current service cost	**(400)**
Contributions for year	**439**
Contributions prepaid	**458**
Settlements/curtailments	**–**
Past service costs	**–**
Net return from other finance income	**(109)**
Actuarial loss in statement of total return	**(534)**
Deficit at end of year	**(2,119)**

4. PENSION SCHEME (continued)

	2002 £'000
Analysis of amount recognised in statement of total return:	
Actual return less expected return on assets	**(924)**
Experience gains on liabilities	**476**
Change in assumptions	**(86)**
Actuarial loss recognised in statement of total return	**(534)**

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

5. INTEREST PAYABLE

	2002 £'000	2001 £'000
On debentures, bank loans, overdrafts and other loans	**15,313**	15,314
Amortisation of secured bond issue expenses	**167**	167
	15,480	15,481

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

6. TAX ON ORDINARY ACTIVITIES

	2002 £'000	2001 £'000
Tax on ordinary activities		
Overseas tax	**1,092**	1,167
Deferred tax	**(3)**	(13)
	1,089	1,154
Tax relief credited to capital	**1,691**	1,622
	2,780	2,776

The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK of 30% (2001 – 30%)		
The differences are explained below:		
Profit on ordinary activities before tax	**8,061**	11,784
Tax at 30% thereon	**(2,418)**	(3,535)
Effects of:		
UK dividend income	**4,551**	5,627
Stock dividends	**129**	252
Foreign tax charge	**(1,089)**	(1,154)
Surplus management expenses	**(2,265)**	(2,357)
	(1,092)	(1,167)

There are surplus management expenses at 31 October 2002 of £19,068,000 (2001 – £11,460,000) 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

	2002 £'000	2001 £'000
Dividends on ordinary stock:		
– interim paid of 2.50p per unit (2001 – 2.35p)	**5,411**	5,354
– second interim declared of 5.00p per unit (2001 – final 4.70p)	**10,665**	10,613
– special paid (2001 – 1.00p)	**–**	2,258
– dividends on stock repurchased	**–**	(54)
	16,076	18,171

8. INVESTMENTS

	2002 £'000	2001 £'000
Investments listed on a recognised investment exchange	**754,271**	977,176
Unlisted investments	**36,655**	47,137
Subsidiary undertakings (Note 9)	**103**	103
	791,029	1,024,416

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	**Total 2002 £'000**
Opening book cost	408,244	464,537	38,578	**911,359**
Opening unrealised appreciation	87,255	17,140	8,662	**113,057**
Opening valuation	495,499	481,677	47,240	**1,024,416**
Movements in the year:				
Purchases at cost	76,127	154,178	10,883	**241,188**
Sales – proceeds	(103,754)	(174,783)	(12,426)	**(290,963)**
– realised gains/(losses) on sales	6,509	(39,238)	3,719	**(29,010)**
Decrease in unrealised appreciation	(87,027)	(58,237)	(9,338)	**(154,602)**
Transfers	3,320	–	(3,320)	**–**
Closing valuation	390,674	363,597	36,758	**791,029**
Closing book cost	390,446	404,694	37,434	**832,574**
Closing unrealised appreciation/(depreciation)	228	(41,097)	(676)	**(41,545)**
	390,674	363,597	36,758	**791,029**

	2002 £'000	2001 £'000
Realised (losses)/gains on sales	**(29,010)**	81,430
Decrease in unrealised appreciation	**(154,602)**	(402,529)
Losses on investments	**(183,612)**	(321,099)

A geographical analysis of the investment portfolio (page 1), an analysis of the investment portfolio by broad industrial or commercial sector (page 23), and a full list of investments by market value (pages 39 and 40), are contained within the annual report.

Unlisted investments include the following:

(a) Heritable property valued at £700,000 (2001 – £700,000). The property was valued on an open market basis by Ryden, chartered surveyors, on 3 November 1998. An interim valuation, carried out by Ryden on 20 December 2000, valued the property at £1,000,000.

(b) Property loans totalling £75,000 (2001 – £100,000) in respect of the following: Ian McLeish and Iain Harding who form part of the key management of the company. Standard securities are held for all loans outstanding.

9. SUBSIDIARY UNDERTAKINGS

The company has investments in the following subsidiary undertakings:

Name of undertaking	**Principal 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 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	Profit after tax for year £'000
Sprout Growth Limited	Inc Cayman Islands operating in USA	ord shares of US$1	49.7	391	15
		part red pref shares of US$0.01	49.7		

11. DEBTORS	2002 £'000	2001 £'000
Amounts due from brokers	**2,309**	9,958
Overseas tax recoverable	**1,303**	780
Prepayments and accrued income	**2,402**	2,228
	6,014	12,966

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2002 £'000	2001 £'000
Amounts due to brokers	**5,888**	1,006
Dividends	**10,665**	12,871
Other creditors	**1,920**	1,817
Bank overdraft	**21**	8
	18,494	15,702

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	2002 £'000	2001 £'000
4% perpetual debenture stock	**350**	350
4¼% perpetual debenture stock	**700**	700
5% perpetual debenture stock	**1,009**	1,009
10⅞% debenture stock 30/4/2019	**25,000**	25,000
7¾% debenture stock 25/9/2013	**50,000**	50,000
5¾% secured bonds due 17/4/2030	**145,413**	145,245
	222,472	222,304

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

14. CALLED-UP SHARE CAPITAL	Authorised		Issued	
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000
Ordinary stock units of 25p	**85,500**	85,500	**53,326**	56,453
Number of ordinary stock units in issue			**213,304,399**	225,810,092

12,505,693 ordinary stock units were repurchased in the stockmarket during the year to 31 October 2002 at a total cost of £43,865,000. 2,900,000 ordinary stock units were repurchased between 31 October 2002 and 10 January 2003 at a total cost of £7,709,000.

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	14,408	659,788	113,057	24,438
Exchange difference	–	–	(42)	–	–
Net loss on realisation of investments	–	–	(29,010)	–	–
Decrease in unrealised appreciation	–	–	–	(154,602)	–
Ordinary stock repurchased	–	3,127	(43,865)	–	–
Interest and expenses charged to capital in current year	–	–	(11,044)	–	–
Transfer to reserves	–	–	–	–	1,940
End of year	39,922	17,535	575,827	(41,545)	26,378

16. RECONCILIATION OF MOVEMENTS IN STOCKHOLDERS' FUNDS	**2002 £'000**	2001 £'000
Opening equity stockholders' funds	**908,066**	1,356,861
Total recognised losses	**(176,682)**	(311,916)
Dividend payments	**(16,076)**	(18,171)
Ordinary stock repurchases	**(43,865)**	(118,708)
Closing equity stockholders' funds	**671,443**	908,066

17. NET ASSET VALUE PER ORDINARY STOCK UNIT

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

Reconciliation of movement in NAV per ordinary stock unit:	p
Opening NAV	402.14
Total return per ordinary unit	(80.80)
Dividend per ordinary unit	(7.50)
Adjustment for change in issued ordinary stock during year	0.94
Closing NAV	314.78

18. ANALYSIS OF CHANGES IN NET DEBT DURING THE YEAR

	At 1 November 2001 £'000	Cash flows £'000	Non-cash movements £'000	**At 31 October 2002 £'000**
Cash at bank	11,105	(6,739)	–	**4,366**
Bank overdraft	(8)	(13)	–	**(21)**
Short term deposits	97,585	13,415	–	**111,000**
Debt due after one year	(222,304)	–	(168)	**(222,472)**
	(113,622)	6,663	(168)	**(107,127)**

19. CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS	**2002 £'000**	2001 £'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	**17,663**	28,875

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.
- 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.
- 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.

21. FINANCIAL ASSETS

The company's portfolio investments are listed on pages 39 and 40. A geographical distribution is given on page 1 and a sector distribution appears on page 23. Cash and deposits are held at fixed and floating rates in the following currencies:

		2002			2001	
	Fixed £'000	**Floating £'000**	**Total £'000**	Fixed £'000	Floating £'000	Total £'000
Sterling	**110,000**	**4,663**	**114,663**	52,500	2,145	54,645
Swiss francs	**–**	**–**	**–**	–	1,936	1,936
Euro	**–**	**–**	**–**	11,767	4,705	16,472
US dollar	**–**	**498**	**498**	32,318	712	33,030
Other	**–**	**205**	**205**	–	2,607	2,607
	110,000	**5,366**	**115,366**	96,585	12,105	108,690

The maximum fixed period for deposits outstanding at the year end was 3 months.

22. FINANCIAL LIABILITIES

The company's long term borrowings as detailed in note 13 are denominated in sterling and carry interest at fixed rates. The secured bond and two debentures with fixed maturities have a weighted average life of 22.5 years (2001 – 23.5 years) and a weighted average interest rate of 6.9%. They are stated in the balance sheet at book value. Restating them at estimated market value would have the effect of reducing the year end NAV per ordinary stock unit from 314.8p to 306.9p (2001 – 402.1p to 393.1p). Based on the market price of 259.0p (2001 – 359.0p) the discount to NAV at the year end would be reduced from 17.7% to 15.6% (2001 – 10.7% to 8.7%).

23. DIRECTORS' INTERESTS

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

	Ordinary stock units of 25p	
Beneficial interests	**31 October 2002**	1 November 2001
Sir Angus Grossart	**8,076**	7,982
Sir George Mathewson	**376**	364
F Finlay	**10,000**	10,000
I H Leslie Melville	**60,000**	10,000
D C P McDougall	**10,000**	10,000
Sir Paul Nicholson	**10,000**	3,000

There have been no changes in the directors' interests between 31 October 2002 and 10 January 2003.

Notice of meeting

Notice is hereby given that the one hundred and fifteenth annual general meeting of The Scottish Investment Trust PLC will be held at the Roxburghe Hotel, Charlotte Square, Edinburgh, on 28 February 2003 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 2002.

2. (a) To re-elect Sir Angus Grossart as a director.

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

3. To appoint Deloitte & Touche as auditors and to authorise the directors to fix their remuneration.

As special business:

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

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

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

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

(d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 27 August 2004, 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 4 which is a special resolution.

By order of the board

I M Harding
Secretary
20 January 2003

Notes

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

Registered stockholders whose names appear on the company's register of members at 11.00 am on 26 February 2003 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 at the company's registered office, 6 Albyn Place, Edinburgh EH2 4NL, 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 no later than 19 February 2003. Other investors whose holdings are in nominee names and who wish to attend and vote are advised to contact their nominee before 19 February 2003.

The second interim dividend will be paid on 10 February 2003 to stockholders registered at the close of business on 6 January 2003.

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 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.

UNITED KINGDOM

Holding	£'000
BP	28,249*
GlaxoSmithKline	24,400*
Royal Bank of Scotland Group	23,112*
Vodafone Group	20,499*
Shell Transport & Trading	15,075*
HBOS	14,896*
Barclays	11,934*
Lloyds TSB Group	11,660*
John Wood Group	9,894*
Diageo	9,705
ScottishPower	7,722
British Land	7,616
Gallaher Group	7,499
Rio Tinto	7,358
Persimmon	7,271
AstraZeneca	7,155
Smiths Group	7,115
HSBC Holdings	6,978
BT Group	6,933
Anglo American	5,399
British American Tobacco	5,363
Morrison Supermarkets	5,256
Close Brothers	5,256
Northern Foods	4,921
Meggitt	4,916
Aviva	4,900
GUS	4,686
ICI	4,395
Dixons	4,382
UK Balanced Property Trust	4,372
Whitbread	4,372
Pearson	4,359
Next	4,174
Scottish & Newcastle	4,059
BG Group	3,959
AWG	3,899
FirstGroup	3,819
Standard Chartered	3,720
Fleming Mercantile	3,713
Hanson	3,538
Mercury Grosvenor	3,512
Berkeley Group	3,413
Compass Group	3,399
Tesco	3,350
Pennon Group	3,328
Electrocomponents	3,312
Shire Pharmaceuticals	3,278
Wolseley	3,210
BBA Group	3,176
Prudential	3,130
United Utilities	3,073
EMAP	2,899
Aberforth Split Level Trust	2,685
Throgmorton Trust	2,422
JJB Sports	2,253
BAE Systems	1,863
Britannic	1,851
FKI	1,750
Thompson Clive	1,643
Aegis Group	1,518
Taylor Nelson Sofres	1,470
Themis FTSE All-Small Index Trust	1,444
Logica	858
3i Smaller Quoted Companies Trust	844
Others (under £0.5m)	1,205
Total UK Investments	**389,415**

CONTINENTAL EUROPE

Holding	£'000
FINLAND	
Nokia	4,052
FRANCE	
TotalFinaElf	4,757
BNP Paribas	4,052
Accor	2,755
Renault	2,495
Aventis	2,453
Vinci	1,964
Lafarge	1,925
Hermès International	1,863
Autoroutes du Sud de la France	1,749
Havas	1,444
Pechiney	1,400
AGF	1,174
Atos Origin	1,143
Others (under £0.5m)	441
GERMANY	
BMW	2,562
E.On	2,320
Adidas-Salomon	2,139
Schering	1,599
Linde	1,194
IRELAND	
Allied Irish Banks	2,499
ITALY	
ENI	4,830
Telecom Italia Mobile	3,073
Unicredito Italiano	2,457
Alleanza	1,558
NETHERLANDS	
Unilever NV	3,172
VNU	2,543
Ahold	1,383
SPAIN	
Telefonica De Espana	2,714
Santander Central Hispano	2,453
Banco Popular Espanol	2,044
Grupo Dragados	1,549
SWEDEN	
Svenska Haldelsbanken	1,837
SWITZERLAND	
Novartis	4,534
UBS	3,128
Swiss Re	2,880
Nestlé	2,474
Converium Holding	1,695
Total European Investments	**90,304**

USA

Holding	£'000
Citigroup	9,424
Microsoft	7,929
Pfizer	7,750
Bank of America	6,880
Johnson & Johnson	6,346
Exxon Mobil	6,325
American International Group	5,842
Sara Lee	5,545
United Technologies	5,321
Alltel	5,268
Pepsico	5,194
Lowe's Companies	4,921
SBC Communications	4,878
Liz Claiborne	4,692
General Electric	4,651
Gannett	4,586
Cardinal Health	4,452
Target	4,390
ConocoPhillips	4,346
Omnicom	4,332
Mattel	4,295
Marsh & McLennan	4,222
Fannie Mae	4,111
Medtronic	4,095
Sysco	4,017
Wyeth	3,929
Equity Residential Properties Trust	3,927
Dell Computer	3,571
Automatic Data Processing	3,474
Intel	3,422
Carnival	3,364
Family Dollar Stores	3,316
American Express	3,201
Anheuser-Busch	3,153
Bristol-Myers Squibb	3,099
Ecolab	3,084
Amsouth Bancorp	3,063
Equifax	3,004
Lexmark International	2,849
Illinois Tool Works	2,826
Kerr-McGee	2,558
Clorox	2,484
John Hancock Financial Services	2,397
International Paper	2,255
Walgreen	2,022
Sungard Data Systems	1,899
Adobe Systems	1,753
Supervalu	1,722
Cisco Systems	1,429
Invesco GT Healthcare Fund	868
AOL Time Warner	811
Others (under £0.5m)	536
Total USA Investments	**203,828**

List of Equity Investments

JAPAN

Holding	£'000
Takeda Chemical Industries	2,125
Nissan Motor	2,033
Ricoh	1,908
Honda Motor	1,878
Invesco GT Japan Enterprise Fund	1,692
Daito Trust Construction	1,355
Daikin Industries	1,310
Rohm	1,279
JP Morgan Fleming Japanese Smaller Companies Investment Trust	1,259
Kao	1,256
Kyocera	1,160
Suzuki Motor	1,047
Nippon Television Network	1,037
Nintendo	1,013
NTT DoCoMo	1,002
Chugai Pharmaceutical	995
Fanuc	982
Skylark	873
NTT	724
Shin-Etsu Chemical	631
Sumitomo Bakelite	614
Nomura Holdings	574
Fast Retailing	534
Murata Manufacturing	522
Others (under £0.5m)	1,044
Total Japanese Investments	**28,847**

PACIFIC (ex Japan)

Holding	£'000
AUSTRALIA	
BHP Billiton	2,305
National Australia Bank	1,830
Amcor	1,653
ANZ Bank	1,470
Santos	1,308
Telstra	1,260
CSR	1,132
Insurance Australia Group	937
Mayne Group	920
AMP	653
HONG KONG	
Swire Pacific	1,471
Huaneng Power International	1,285
Sun Hung Kai Properties	1,263
Cheung Kong Holdings	1,230
China Petroleum	1,180
Hutchison Whampoa	1,102
Petrochina	1,077
Cheung Kong Infrastructure	1,072
Esprit Holdings	1,058
China Mobile	1,020
Bank of East Asia	905
Wharf Holdings	821
Henderson Land Development	699
Beijing Capital International Airport	579
South China Morning Post	557
KOREA	
Samsung Electronics	2,527
Kookmin Bank	1,425
Hyundai Motor	1,227
Hite Brewery	862
KT	794
Hyundai Department Stores	708
SINGAPORE	
United Overseas Bank	1,581
Oversea-Chinese Banking Corp	1,404
ST Engineering	1,132
Singapore Press Holdings	939
OTHER ASIAN	
Invesco Asia NET Fund	491
Total Pacific Region Investments	**41,877**

UNLISTED HOLDINGS

Holding	£'000
UNITED KINGDOM	
Aberforth LP	11,796*
Morgan Grenfell Equity	1,974
Close Investment 1997 Fund	1,575
Close Investment 1994 Fund	1,474
Apax Europe V	1,123
Heritable Property & Loans	1,050
Apax UK VI	878
UNITED STATES	
1818 Fund III	3,284
Boston Ventures VI	3,171
Boston Ventures V	2,822
Sprout Capital VII	2,422
Sprout Capital VIII	1,729
Cahill Warnock Strategic	1,663
Boston Ventures IV	1,070
Others (under $0.5m)	715
EUROPE	
ECI Eurofund Partnership	12
Total Unlisted Investments	**36,758**

*Denotes ten largest holdings with an aggregate market value of £171,515,000.

DIVIDEND AND INTEREST PAYMENTS

Ordinary stock second interim 2001/2002	10 February 2003
Ordinary stock interim 2002/2003	July
Secured bonds	17 April, 17 October
Debenture stocks	30 April, 31 October

ANNOUNCEMENT OF RESULTS

NAV	Weekly
Interim figures	May
Preliminary final figures	November
Annual report & accounts	January
Annual general meeting	28 February 2003

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