

Dividend

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

Business and Tax Status

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

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

Directors

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

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

Biographical details of all directors are given on page 6.

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

years in September 1998 which were renewed in September 2001 for a further three years. No compensation is payable to a director who leaves the board before the expiry of his term of office. No director has a service contract with the company. All directors are subject to re-election in rotation by stockholders at intervals of no more than three years. No contract or arrangement entered into by the company in which any director is interested has subsisted during the year.

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

Directors' Interests

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

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

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

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

Share Buybacks

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

Corporate Governance

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

Directors' Report

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

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

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

The Principles of Good Governance

Directors

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

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

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

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

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

Remuneration

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

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

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

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

Relations with stockholders

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

Accountability and audit

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

The audit committee, which meets three times per year, has written terms of reference which are shown on the company's website. Its duties

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

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

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

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

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

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

audit committee assists the board in discharging its review responsibilities.

Detailed procedures are in place to ensure that:

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

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

Directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Directors' Report

of the company and to prevent and detect fraud and other irregularities.

Substantial Stockholdings

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

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

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

Annual General Meeting

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

Repurchase of the company's own ordinary stock

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

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

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

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

Socially Responsible Investing

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

Auditors

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

Payment of Creditors

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

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

Donations

No charitable or political donations were made during the year.

By order of the board



I M Harding

Secretary

10 December 2003