

# **The Scottish Investment Trust PLC**

**Interim Report**  
For the six months to  
30 April 2004

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# Financial Summary

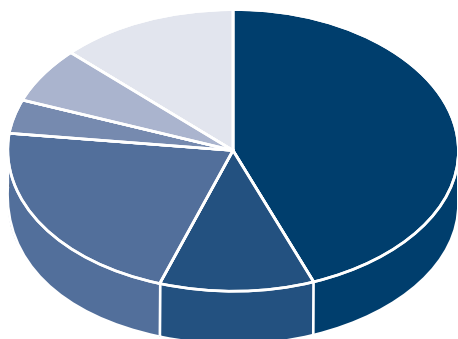
Summary of Results (unaudited) for the six months to 30 April 2004

		30 April 2004	31 October 2003	% change
<b>CAPITAL</b>	Net asset value per ordinary stock unit	353.4p	342.1p	+3.3
	Market price per ordinary stock unit	281.0p	281.0p	0.0
	Benchmark Index			+4.1
		£'m	£'m	% change
	Total assets – after share buybacks of £3.9m	961.1	942.1	+2.0
	Borrowings	(222.7)	(222.6)	
	Equity stockholders' funds	738.4	719.5	+2.6
		30 April 2004 £'000	30 April 2003 £'000	% change
<b>INCOME</b>	Total income	13,710	13,263	+3.4
	Earnings per ordinary stock unit	4.67p	4.40p	+6.1
	Interim dividend per ordinary stock unit	3.90p	2.60p	+50.0*
Retail Prices Index				+2.5

\* Increased to reduce disparity with the final dividend.

## Geographical Distribution of Total Assets

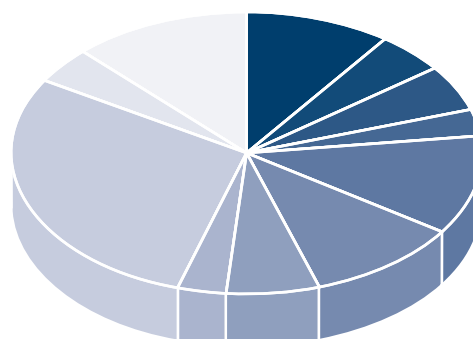
At 30 April 2004



	%
UK	44.1
Europe (ex UK)	11.0
North America	21.8
Japan	3.9
Pacific (ex Japan)	6.5
Net current assets	12.7
Total assets	100.0

## Distribution of Assets by Sector

At 30 April 2004



	%
Resources	10.0
Basic industries	4.6
General industrials	5.3
Cyclical consumer goods	3.1
Non-cyclical consumer goods	11.4
Cyclical services	10.5
Non-cyclical services	6.3
Utilities	3.2
Financials	28.8
Information technology	4.1
Net current assets	12.7
	100.0

# The Company

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## Company Data as at 30 April 2004

TOTAL ASSETS	STOCKHOLDERS' FUNDS	MARKET CAPITALISATION
£961.1 million	£738.4 million	£587.0 million

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## Objectives

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

## Risk

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

## Benchmark

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

## Management

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

## Capital Structure

At 30 April 2004 the company had in issue 208,910,518 ordinary stock units. Shareholders' funds were valued at £738.4m and long term debt amounted to £222.7m.

## Management Costs

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

## ISA/PEP

The ordinary units are fully eligible for both ISAs and PEPs. Details of the schemes run by the company are on page 8.

## AITC

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

## Chairman's Review

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Over the six months to end April 2004, global equity markets continued the recovery from the lows of March 2003, albeit at a more modest pace than over the previous six months. Our net asset value per ordinary unit (NAV) rose 3.3% during the period. The benchmark index rose 4.1%. Our listed equity portfolio was modestly behind the index reflecting the continued strength in more speculative recovery stocks early in the period. However, since end January when the portfolio was reorganised following the change in manager, underlying investment performance has improved and has been ahead of benchmark.

The recovery in stockmarkets over the last 15 months reflects the strong rebound in the US economy and corporate profits around the world.

Boosted by cost cutting in recent years, profit margins of US companies have responded impressively to the improving economic background and appear likely to have reached cyclical highs. Globally, profitability has been recovering for around 18 months and is also high by the standards of past cycles.

Against a background of subdued inflation, the US Federal Reserve has maintained an aggressive interest rate policy in order to give the US economy as much scope as possible for the recovery to become sustainable. Recent indications that the recovery has moved into a self-sustaining phase have been met with sharply higher interest rate expectations in the US. Fears that inflation is now about to reappear are being compounded by continued strength in oil prices which are in turn being driven by strong demand and tensions in the Middle East.

Interest rates are being increased in the UK where growth remains steady despite economic imbalances, among which house prices and consumer debt levels feature large. Continental Europe remains a relative laggard and growth expectations for 2003 and 2004 have been revised down continually. While growth in Japan has been modest, it has at least exceeded expectations having benefited from Chinese demand. In the short term, there are risks that China may overheat and there have been recent policy measures there to temper growth. Longer term, this part of the world is likely to achieve above average growth.

Over the period, we lowered our effective gearing from 116.0% to 113.6% reflecting the belief that, after the strong recovery since March 2003, value within world markets was becoming less apparent. Equity holdings in the UK were reduced by £22.9m and in the US by £15.4m, while additions were made in Continental Europe and Asia. Holdings in Europe ex-UK and Pacific ex-Japan outperformed local benchmarks and the US holdings, while underperforming, have picked up well following the portfolio restructuring. The UK holdings were slightly behind the local benchmark while the performance in Japan was poor reflecting a low exposure to domestic and financial companies.

Our income is ahead of last year. During the period, income from our US holdings and the significant proportion of our UK holdings which now pay dividends in dollars came under pressure owing to the weakness of the dollar.

However, dividend income from our portfolio was boosted by extremely strong dividend growth from US holdings where dividend payout ratios are being increased in response to tax changes. Expenses were lower than last year and earnings per ordinary unit increased by 6.1% to 4.67p (2003 – 4.40p).

In January, the company declared an interim dividend of 3.90p per ordinary unit (2003 – 2.60p) in respect of the current financial year to 31 October 2004. The interim dividend was paid in March in order to create a final opportunity for SIT PEP & ISA holders and charities to reclaim tax on that dividend prior to the abolition of this facility. The interim was increased to reduce the disparity with the final dividend and the board anticipates that the full year's dividend will be not less than the total of 7.80p paid last year.

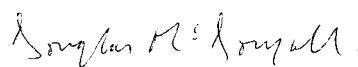
In March, we announced the appointment of Dresdner Kleinwort Wasserstein to act as joint broker to the company alongside Bell Lawrie White.

At the AGM, stockholders voted to renew the board's authority to buy back up to 14.99% of outstanding ordinary units. Since the last year end, we have bought back 1.4m units at a discount to NAV and this has had a small positive effect on performance. The board will continue to use this authority from time to time for the benefit of stockholders.

With borrowings on the balance sheet of £222.7m, our potential equity gearing stands at 131.1% of shareholders' funds. This is some way above our current effective gearing level of 112.5% and our strategic ceiling of 120.0%. The board is reviewing the level of potential gearing.

After 30 years with the company, Ian McLeish retired as manager with effect from 31 December 2003 and has been replaced by John Kennedy. Two other senior members of the investment team also retired during the period and we are pleased to have secured the services of two experienced investment managers from outside the company.

Along with these significant changes to the investment personnel, the board has formally reviewed the management and strategy of the company. A consequence of this review is that, with effect from the end of January 2004, the manager and his team have been running the reorganised investment portfolio as a co-ordinated single global portfolio, applying a consistent investment process across the regions.



**Douglas McDougall**  
1 June 2004

# Statement of Total Return (unaudited)

for the six months to 30 April 2004 (incorporating Revenue Account)

	Six months to 30 April 2004			Six months to 30 April 2003			Year to 31 October 2003		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net gains/(loses) on investments and currencies	–	29,024	29,024	–	(8,199)	(8,199)	–	65,236	65,236
Income	13,710	–	13,710	13,263	–	13,263	27,587	–	27,587
Expenses	(928)	(1,093)	(2,021)	(1,040)	(1,152)	(2,192)	(1,957)	(2,172)	(4,129)
<b>Net Return before Finance Costs and Taxation</b>	12,782	27,931	40,713	12,223	(9,351)	2,872	25,630	63,064	88,694
Interest payable	(2,573)	(5,146)	(7,719)	(2,561)	(5,121)	(7,682)	(5,160)	(10,321)	(15,481)
<b>Return on Ordinary Activities before Tax</b>	10,209	22,785	32,994	9,662	(14,472)	(4,810)	20,470	52,743	73,213
Tax on ordinary activities	(415)	–	(415)	(395)	–	(395)	(933)	–	(933)
<b>Return attributable to Equity Stockholders</b>	9,794	22,785	32,579	9,267	(14,472)	(5,205)	19,537	52,743	72,280
Dividends on ordinary stock	(8,148)	–	(8,148)	(5,468)	–	(5,468)	(16,259)	–	(16,259)
<b>Return per Ordinary Stock Unit</b>	4.67p	10.88p	15.55p	4.40p	(6.87)p	(2.47)p	9.28p	25.06p	34.34p
<b>Weighted average number of Ordinary Stock Units outstanding</b>	209,533,698			210,676,719			210,489,029		
The income figure is made up as follows:									
	2004 £'000			2003 £'000			2003 £'000		
Dividends	11,515			11,119			23,316		
Interest	2,195			2,144			4,266		
Other	–			–			5		
	13,710			13,263			27,587		

## Summary Balance Sheet (unaudited)

	30 April 2004 £'m	31 October 2003 £'m	30 April 2003 £'m
Equity investments	838.7	834.4	758.0
Net current assets	122.4	107.7	113.5
Total assets	961.1	942.1	871.5
Less: borrowings	222.7	222.6	222.5
Equity stockholders' funds	738.4	719.5	649.0
Net asset value per ordinary stock unit	353.4p	342.1p	308.6p

## Cash Flow Statement (unaudited)

	Six months to 30 April 2004 £'000	Six months to 30 April 2003 £'000	Year to 31 October 2003 £'000
Net cash inflow from operating activities	6,186	7,254	20,480
Servicing of finance	(7,657)	(7,657)	(15,314)
Taxation recovered	144	258	546
Purchases of investments	(167,985)	(46,479)	(159,588)
Sales of investments	192,428	67,845	178,652
Equity dividends paid	(19,083)	(10,520)	(15,988)
(Increase)/decrease in short term deposits	(1,500)	(4,284)	1,500
Share buybacks	(3,868)	(7,949)	(7,949)
(Decrease)/increase in cash	(1,335)	(1,532)	2,339

### Notes:

The interim statement has been prepared under accounting policies consistent with those used in the preparation of the annual report and accounts for the year to 31 October 2003.

The figures for 31 October 2003 have been extracted from the annual report and accounts for the year ended on that date which have been filed with the Registrar of Companies and which contain an unqualified report from the auditors.

The interim dividend absorbed £8,148,000 (2003 – £5,468,000) and was paid on 31 March 2004.

Equity stockholders' funds at 30 April 2004 exclude all revenue items for the current financial year.

Equity investments include the unlisted portfolio of £46.2m. Of this £7.2m is in listed funds which invest in unlisted securities.

The weighted average number of ordinary stock units during the half-year was 209,533,698 (2003 – 210,676,719) and this figure has been used to calculate the return per ordinary stock unit shown in the statement of total return. The net asset value per ordinary stock unit at 30 April 2004 has been calculated using the number of ordinary stock units outstanding on that date which was 208,910,518 (31 October 2003 – 210,304,399).

Unless otherwise stated, performance comparisons in the Chairman's Review are made with the FTSE Actuaries All Share Index<sup>TM</sup> for the UK and with the relevant currency adjusted constituents of the FTSE World ex UK Index Series<sup>TM</sup> for other geographical areas.

## Largest Holdings

### United Kingdom

Holding	£'000
BP Oil	33,589
Vodafone Mobile Telecoms	29,930
Royal Bank of Scotland Banking	24,425
HSBC Holdings Banking	22,584
GlaxoSmithKline Pharmaceuticals	18,030
HBOS Banking	17,426
Aberforth 1B Limited Partnership	14,703
Persimmon House Building	14,563
Barclays Banking	14,162
Anglo American Mining	10,839
AstraZeneca Pharmaceuticals	9,836
Shell Transport & Trading Oil	9,569
Diageo Beverages	9,093
Lloyds TSB Group Banking	8,915
BT Group Telecoms	7,959
Close Brothers Investment Banking	7,862
Tesco Retailing	7,699
GUS Retailing	7,544
Meggitt Aerospace & Defence	7,246
Serco Group Support Services	7,047

### Europe (ex UK)

Holding	£'000
E.On – Germany Utilities	7,549
ENI – Italy Oil & Gas	6,133
Schneider Electric – France Electrical Equipment	5,989
Total – France Oil	5,340
UBS – Switzerland Banking	5,217
BNP Paribas – France Banking	5,098
Telefonica – Spain Telecoms	4,837
Adidas-Salomon – Germany Sports Equipment	4,811
Novartis – Switzerland Pharmaceuticals	4,357
AXA – France Insurance	3,866

### Japan

Holding	£'000
NTT Telecoms	2,851
JPMF Japanese Smaller Companies Investment Trust	2,814
Daito Trust Construction Construction	2,427
Takeda Chemical Industries Chemicals	2,338
Ricoh Office Equipment	2,316

### North America

Holding	£'000
Citigroup Diversified Financial	10,142
Bank of America Banking	8,594
ConocoPhillips Oil	8,194
Pfizer Pharmaceuticals	7,901
Johnson & Johnson Healthcare	7,327
Pepsico Beverages	7,224
American International Group Insurance	6,174
Ingersoll-Rand Engineering	5,940
Gannett Media	5,934
Harley-Davidson Motorcycles	5,304

### Pacific (ex Japan)

Holding	£'000
Samsung Electronics – Korea Electronics	6,039
KT & G – Korea Tobacco	3,638
BHP Billiton – Australia Mining	3,505
ANZ Bank – Australia Banking	3,410
Esprit Holdings – Hong Kong Retailing	3,019

These 50 holdings out of a total of 203 amount to £441.3m and account for 52.6% of total equity investments.

## Changes in Asset Distribution

Six months to 30 April 2004

	Opening Valuation £m	Net Purchases (Sales) £m	Appreciation (Depreciation) £m	Closing Valuation £m
UK	402.3	(22.9)	15.6	395.0
Europe (ex UK)	90.3	7.7	7.4	105.4
North America	208.6	(15.4)	(0.9)	192.3
Japan	31.1	5.1	1.2	37.4
Pacific (ex Japan)	57.6	3.4	1.4	62.4
Unlisted portfolio	44.5	(2.5)	4.2	46.2 <sup>1</sup>
Total equities	834.4	(24.6)	28.9	838.7
Net current assets	107.7	14.5	0.2	122.4
Total assets	942.1	(10.1)	29.1	961.1
Borrowings	(222.6)	–	(0.1)	(222.7)
Equity stockholders' funds	719.5	(10.1) <sup>2</sup>	29.0	738.4

<sup>1</sup> includes £7.2m of listed funds which invest in unlisted securities.

<sup>2</sup> ordinary stock units repurchased and interest and expenses apportioned to capital.

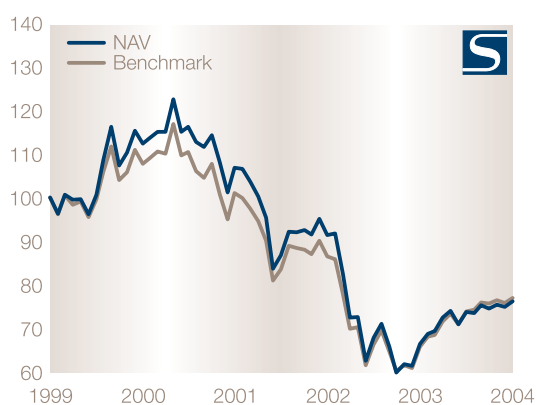
## Performance Attribution Analysis

Six months to 30 April 2004

Increase in NAV	+3.3
Increase in benchmark index	+4.1
Contribution	–0.8
Stock selection	–0.8
Asset allocation	+0.1
	–0.7
Gearing	+0.6
Interest and expenses charged to capital	–0.9
Buybacks	+0.1
Residual	+0.1
Contribution	–0.8

## Performance to 30 April 2004

### SIT NAV and Benchmark



The Scottish Investment Trust (SIT) has an international equity portfolio which is run by a team of highly experienced fund managers. As one of the largest global investment trusts in the UK, SIT has the size, strength and expertise to ride out the ups and downs of the stockmarket. We aim to lower risk by spreading investment over numerous companies and sectors worldwide whilst actively searching for opportunities to benefit our investors and maximise returns.

## How to Invest

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

### STOCKPLAN

This savings and investment scheme is one of the lowest charging investment trust savings schemes available. Its flexibility allows minimum regular investments from only £25 per month and/or lump sum investments from £250. There is no maximum investment limit and you can stop and start at any time.

### STOCKPLAN: A Flying Start

SIT's investing for children plan is based on the STOCKPLAN scheme. It has the same low charges and flexible investment options. A Flying Start enables family and friends to invest on behalf of a child with a view to providing a nest egg for the future. The scheme now also allows investors to set up a bare trust for a child as well as the usual designated plan thus providing greater choice than before.

### The SIT ISA

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

### The SIT PEP

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

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

## Tax Issues

From 6 April 2004 the tax credit attached to UK dividends ceased to be reclaimable by PEP and ISA managers on behalf of their investors. SIT paid its 2004 interim dividend

of 3.9p on 31 March 2004 to ensure that the tax credit could be reclaimed for PEP and ISA investors.

Investment in PEPs and ISAs continues to be free from any capital gains tax. Higher rate tax payers do not have to pay any additional tax on the dividend, nor does it need to be included in a tax return.

## Important Notice for SIT PEP and ISA investors

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

**0845 850 0181.**

This number should be used for any account queries, requests for valuations or information about your PEP or ISA, to give change of address details or for help with accessing PEP and ISA information on line.

## Electronic communications

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

## Electronic voting

SIT investors will be able to submit proxy votes electronically for our next AGM to be held in January 2005. Details will be sent out when the annual report is published.

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

**Risk Warning** *Past performance will not necessarily be repeated and is no guide for, or guarantee of, future returns. The value of shares and the income from them can go down as well as up as a result of market and currency fluctuations and investors may not get back the amount originally invested. SIT has a long term policy of borrowing money to invest in equities in the expectation that this will improve returns for SIT shareholders. However, if markets fall borrowings will magnify losses. Investment in SIT is intended as a long term investment. Taxation levels, bases and reliefs are subject to change and may depend on individual circumstances.*

## Useful Addresses

For further information and brochures of any SIT products please visit our website: [www.sit.co.uk](http://www.sit.co.uk) or contact:

### SIT Investor Relations

SIT Savings Limited  
Freepost EH882  
Edinburgh EH2 0BR  
Brochure request line:  
0800 42 44 22  
Fax: 0131 226 3663  
Email: [heather@sit.co.uk](mailto:heather@sit.co.uk)

### Registered Office

6 Albyn Place  
Edinburgh  
EH2 4NL  
Registered No: SCO 01651  
Telephone: 0131 225 7781  
Fax: 0131 226 3663

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

### Registrar

Computershare Investor Services PLC  
PO Box 82  
The Pavilions  
Bridgwater Road  
BRISTOL  
BS99 7NH  
Helpline: 0870 702 0010  
Website: [www.computershare.com](http://www.computershare.com)

### PEP and ISA Administrator

The SIT PEP/ISA  
Halifax Share Dealing Limited  
Trinity Road  
Halifax  
West Yorkshire  
HX1 2RG  
Helpline: 0845 850 0181  
Website: [www.halifax-online.co.uk](http://www.halifax-online.co.uk)

### STOCKPLAN and STOCKPLAN: A Flying Start Administrator

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

### Association of Investment Trust Companies

SIT is a member of the Association of Investment Trust Companies (AITC) which publishes a number of useful free booklets and explanatory leaflets for investors interested in investment trusts. The AITC also regularly holds a number of investor roadshows throughout the country. Their address is:

AITC  
3rd Floor  
Durrant House  
8-13 Chiswell Street  
London EC1Y 4YY  
Telephone: 020 7282 5555  
Website: [www.aitc.co.uk](http://www.aitc.co.uk)

