

Directors' Report

DIVIDEND

The directors recommend a final dividend of 4.45p per ordinary stock unit payable on 9 February 2000 which, with the interim dividend of 2.20p already paid, makes a total of 6.65p for the year. The total dividend absorbs £18,515,000 requiring the transfer of £6,000 from revenue reserve.

BUSINESS AND TAX STATUS

The business of the company is that of an investment trust. 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 received stockholders' approval at an extraordinary general meeting held on 30 April 1999 to buy back its ordinary stock and to reduce its capital by way of repayment of its preferred and preference stocks. The buyback authority necessitated the temporary loss of investment company status. The preferred and preference stockholders were repaid in accordance with the company's Articles of Association as described in note 14 on page 34. At the year end 7,489,000 ordinary stock units had been repurchased at a total cost of £29.1m.

The Inland Revenue has approved the company for the purposes of s842, Income and Corporation Taxes Act 1988 up to the accounting period ending 31 October 1998. The company has subsequently continued to satisfy the conditions for such approval. The 'close company' provisions of the 1988 Act do not apply to the company.

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

DIRECTORS

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

Sir George Mathewson, Mr Hamish Leslie Melville and Mr Ian Russell retire by rotation from the board of directors at the annual general meeting but are eligible for re-election.

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

were appointed for fixed terms of three years in November 1998. 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 London Stock Exchange in January 1999.

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

The principles of good governance

Directors

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

All seven members of the current board are non-executive and are independent of the company's management. Day to day management is in the hands of the company's two managers who report directly to the board. The board has followed the guidance for best practice on corporate governance for investment trusts as produced by the Association of Investment Trust Companies.

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

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

There is a nomination committee comprising the whole board for the purpose of selecting and appointing new directors.

Remuneration

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

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

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

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

Relations with stockholders

The company recognises the value of good communications with its stockholders. The managers meet regularly with the company's major institutional stockholders and all attendees at the AGM have an opportunity to ask questions of the board and management. Newsletters are sent to stockholders during the year. Proxy voting figures for each resolution are announced to the meeting after voting on a show of hands. Separate items of business are proposed as separate resolutions including the receipt of the report and accounts. It is intended that, from this year onwards, the annual report will be sent to stockholders at least twenty 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 financial controls designed to maintain the integrity of accounting records and safeguard the company's assets.

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 board confirms that the effectiveness of the company's internal financial controls is reviewed by the audit committee every six months.

The company has only 26 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.

COMPLIANCE

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, there is no senior independent director and less than twenty working days notice of the 1999 AGM was given to stockholders. The directors consider that, where all directors are independent and non-executive, there is no compelling case for having a senior independent director. The production timetable for the annual report has been revised to allow twenty working days notice of the AGM in 2000 and future years.

The Turnbull guidance on internal control has now been published and requires to be adopted in full for accounting periods ending on or after 23 December 2000. The guidance has been reviewed by the board.

As permitted by the London Stock Exchange the company has complied with provision D 2.1 of the Combined Code by reporting on internal financial control in accordance with the guidance for directors on internal control and financial reporting that was issued by the Rutteman Working Group in December 1994.

SUBSTANTIAL STOCKHOLDINGS

At 29 November 1999 the company had been notified of the following holdings in excess of 3% of its ordinary stock.

	Ordinary stock units	% of issue
AXA Group	26,142,108	9.5
Equitable Life Assurance Company	17,556,213	6.4
Standard Life Assurance Company	12,211,125	4.4

ANNUAL GENERAL MEETING

Resolutions relating to the following items of special business will be proposed at the forthcoming annual general meeting:-

Repurchase of the company's own ordinary stock

At the extraordinary general meeting of the company held on 30 April 1999 stockholders passed a resolution giving the company authority to make purchases of up to 42,487,955 ordinary stock units, being 14.99% of the then issued ordinary stock of the company.

During the period 1 May to 31 October 1999 the company bought back 7,489,000 ordinary stock units, representing 2.6% of the issued ordinary stock of the company. The total consideration for the ordinary stock repurchased was £29.1m.

Although the authority is not due to expire until 29 October 2000, it was indicated at the time of the extraordinary general meeting in April that the directors expected to seek ordinary stockholders approval for renewal of the authority at the company's annual general meeting to be held in January 2000.

Resolution number 7 set out in the notice of annual general meeting seeks to renew the authority to repurchase ordinary stock. 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 London Stock Exchange, 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 will be 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.

Amendment to the Articles of Association

At the extraordinary general meeting of the company held on 30 April

1999, in addition to approving repurchases by the company of ordinary stock, stockholders also approved amendments to the Articles of Association of the company in order to facilitate such repurchases. An amendment to the Companies Act 1985, which became effective on 8 November 1999, now permits an investment company's Memorandum and Articles of Association to prohibit distributions of capital profits other than by way of the redemption or purchase of the company's own shares. The proposed amendment to the Articles of Association will allow the company to regain its status as an investment company whilst continuing to repurchase its own ordinary stock.

The proposed amendment is set out in resolution number 8 in the notice of annual general meeting. The directors recommend that stockholders vote in favour of such an amendment.

YEAR 2000

The directors are fully aware of the problems posed to computer systems by the year 2000 date change and the management has carried out a detailed analysis of the risks and uncertainties facing the company in this area.

A programme to upgrade the company's internal systems is now complete. Assurances have been sought from all third party suppliers of services that they themselves are compliant. It is not possible to be entirely certain that no third party suppliers will suffer compliance failures but the directors do not expect any such failures to be critical to the business of the company.

The cost to the company of preparing for the year 2000 has been less than the figure estimated in last year's annual report of £200,000.

AUDITORS

A resolution will be proposed at the annual general meeting to re-appoint

Arthur Andersen as auditors and to authorise the directors to fix their remuneration.

PAYMENT OF CREDITORS

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

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

DONATIONS

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

By order of the board



I M Harding Secretary
29 November 1999

Auditors' Report

TO THE STOCKHOLDERS OF THE SCOTTISH INVESTMENT TRUST PLC

We have audited the financial statements on pages 27 to 36 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on page 27.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report including, as described on page 25, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

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. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our

audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the statement on page 25 reflects the company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with 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 judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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 1999 and of its total return and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen
Chartered Accountants and
Registered Auditors
29 November 1999