DIVIDEND

The directors have declared in lieu of a final dividend a second interim dividend of 4.63p per ordinary stock unit payable on 9 February 2001 which, with the interim dividend of 2.27p already paid, makes a total of 6.90p for the year. The total dividend absorbs £17,318,000 leaving £3,348,000 to be transferred to revenue reserve.

BUSINESS AND TAX STATUS

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

The company has continued the programme of ordinary stock buybacks authorised by stockholders in April 1999 and January 2000. During the year 24,146,629 ordinary stock units, representing 8.8% of the issued ordinary stock at 31 October 1999, were repurchased at a cost of £104,864,000.

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 1999. 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 during the financial year and their interests in the company's capital are shown on page 36.

Sir Angus Grossart, Mr Francis Finlay and Mr Douglas McDougall 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. 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. Except as provided below, 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' FEES

The following resolution will be included as part of the ordinary business of the annual general meeting: 'Until altered by the company in general meeting the fees of the directors shall not exceed £17,250 per annum per director except in the case of the chairman whose fee shall not exceed £28,500.'

5¾% SECURED BONDS DUE 17/4/2030

On 17 April 2000 the company issued £150m of 30 year secured bonds with a coupon of 5¾% priced at £98.288 per £100 nominal. The net proceeds amounted to £144,987,000. Allowing for the amortisation of the discount and expenses associated with the issue the overall financing cost to the company is just under 6.0% per annum. The issue expenses included a fee of £100,000 plus VAT to Noble Grossart Limited of which Sir Angus Grossart is chairman and managing director.

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 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.

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

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

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

Remuneration

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

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

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

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

Relations with stockholders
The company recognises the value of good communications with its stockholders. The managers meet regularly with the company's major institutional stockholders and all attendees at the AGM have an opportunity to ask questions of the board and management. Newsletters are sent to stockholders during the year. Proxy voting figures for each resolution are announced to the meeting after voting on a show of hands. Separate items of business are proposed as separate resolutions including the receipt of the report and accounts. The annual report is sent to stockholders at least 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 25 employees and the audit committee considers that an internal audit function is not required. This is reviewed every year.

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

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

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

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

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 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 Turnbull guidance on internal control requires to be adopted in full for accounting periods ending on or after 23 December 2000.

The board has considered the Turnbull guidance and has carried out a comprehensive review of the company's internal controls. As a result it has established the procedures to ensure full compliance with Turnbull for the year commencing 1 November 2000.

As permitted by the UK Listing Authority 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 18 December 2000 the company had been notified of the following holdings in excess of 3% of its ordinary stock.

	Ordinary stock units	% of issue
AXA Group	24,602,910	9.8
Equitable Life Assurance Company	20,331,213	8.1
Standard Life Assurance Company	12,211,125	4.8
ST Partners	7,757,000	3.1

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 annual general meeting of the company held on 28 January 2000 stockholders passed a resolution giving the company authority to make purchases of up to 40,664,572 ordinary stock units, being 14.99% of the then issued ordinary stock of the company. The authority is due to expire on 27 July 2001.

Resolution number 5 set out in the notice of annual general meeting seeks to renew the authority to repurchase ordinary stock until 22 August 2002. 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.

In connection with the repurchases of ordinary stock there will also be special resolution number 6 amending article 16 of the company's Articles of Association to clarify the authority for the purchase by the company of its own ordinary stock.

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
18 December 2000

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, preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, 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 corporate governance statement on pages 24 and 25 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance 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 2000 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
18 Charlotte Square
Edinburgh EH2 4DF
18 December 2000