

# THE EDINBURGH INVESTMENT TRUST plc



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Annual Report  
For the year ended  
31 March 2003

Managed by

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EIT's website

[www.itseit.co.uk](http://www.itseit.co.uk)

The site offers investors comprehensive information on The Edinburgh Investment Trust (EIT) and its related products. Just some of the features are:

- the latest prices
- performance figures, charts and commentary
- product information
- how to invest

The achievement of capital growth at a higher rate than the FTSE All-Share Index and dividend growth above the rate of UK inflation

## Company Summary

Investment manager	Fidelity Investments International
Equity shareholders' funds	£681.3 million at 31 March 2003
Market capitalisation	£560.9 million at 31 March 2003
Capital structure	<p>242,796,714 ordinary shares of 25p each.</p> <p>Each ordinary share is entitled to one vote on a show of hands and, on a poll, to one vote for every share held.</p> <p>£100,000,000 11½% debenture stock 2014</p> <p>£100,000,000 7¾% debenture stock 2022</p>
Management fee	<p>0.26% per annum of the total assets of the company, after deducting current liabilities and excluding commonly managed funds.</p> <p>The management agreement which was effective from 1 August 2002 is terminable by three months' notice, to be effective on or after 31 July 2003.</p>
ISA/PEP status	<p>The company's shares are eligible for Individual Savings Accounts (ISAs).</p> <p>The company's shares can continue to be held in existing PEPs and are eligible for PEP transfers.</p>
AITC membership	The Company is a member of The Association of Investment Trust Companies.
Website	<a href="http://www.itseit.co.uk">www.itseit.co.uk</a>

# Financial Summary

## Performance

### Capital return

Net asset value per share	278.59p	484.73p	-42.5
FTSE All-Share Index	1,735.7	2,557.43	-32.1
Share price	231.00p	422.50p	-45.3
<b>Total return</b>			
Net asset value	—	—	-40.1
FTSE All-Share Index	—	—	-29.8
Share price	—	—	-43.1
NAV adjusted for borrowings valued at market value	251.38p	461.46p	-45.5
Total dividend for the year	13.15p	12.75p	3.1
Revenue return per share	11.05p	12.50p	-11.6

## Discount

(difference between share price and net asset value per share)

Where borrowings are deducted at par value	17.1%	12.8%
Where borrowings are deducted at market value	8.1%	8.4%

## Gearing

Actual gearing ratio†	19.0%	11.1%
Maximum potential gearing ratio†	29.4%	16.7%

## Total expense ratio

- as % of average shareholders' funds	0.54%	0.49%
---------------------------------------	-------	-------

Year's Highs/Lows	High	Low
Net asset value	484.7p	254.1p
Share price	422.5p	221.0p
Discount	7.6%	17.8%

† Actual gearing: borrowings less net current assets + shareholders' funds  
 Potential gearing: borrowings + shareholders' funds

The twelve-month period to 31 March 2003 has been one of major change and challenge for the company, with the appointment of a new manager coinciding with a profound fall in the FTSE All-Share Index. The one-off cost of realigning the portfolio following the appointment of Fidelity Investments International (Fidelity) as manager had a negative impact on performance as did the impact of the company's gearing in a sharply falling market. During the period the net asset value per share fell by 42.5% (capital only) compared with a 32.1% decline in the FTSE All-Share Index (capital only) and the share price fell by 45.3%. The board is recommending a final dividend of 8.95p per share which, if approved, will give a total distribution for the year of 13.15p per share, an increase of 3.1%. During the same period the UK's underlying rate of inflation was 3.0%.

## Change of manager

Fidelity succeeded Edinburgh Fund Managers (EFM) as manager and secretary of the company with effect from 1 August 2002. I wrote to shareholders on 22 July 2002 explaining the reasons why the range of Fidelity's qualities had impressed the board and I repeated those reasons in my Review in the interim report last October. Some shareholders may be disappointed that, as yet, there has not been a dramatic turn around in the company's performance but conditions have been extremely difficult and these are still early days. Meanwhile your board believes that the reasons for appointing Fidelity are as valid today as they were ten months ago and it will continue to work with the manager to ensure that the strengths which led to its appointment will benefit the company's performance in the future.

## Performance

Shareholders might find it helpful to review the performance of the company in three distinct phases. The first, to 31 July 2002, when the investment management contract with EFM came to an end, the second, from 1 August 2002, when the portfolio was in transition and the third, from 1 October 2002, when it was fully managed by Fidelity.

During the period from 1 April to 31 July 2002, the portfolio was not defensively positioned for a falling market and the net asset value fell by 5.2% relative to the FTSE All-Share Index benchmark – of this 2.2% was the effect of stock and sector selection. I explained at the Interim stage that, on assuming the management of the company on 1 August 2002, Fidelity decided to retain only 60% of the inherited portfolio. However some of the portfolio inherited by Fidelity proved to be exceptionally illiquid and continuing to hold certain positions in a falling market had a detrimental impact, estimated at 1.5%

on performance. This was offset in part by an outperformance of 0.4% by the remainder of the portfolio during the two month period ending 30 September 2002. Additionally the cost of buying and selling securities in constructing the Fidelity portfolio was around £9.3m (1% of the portfolio). Overall, in these two transitional months, the net asset value fell by 4.4% relative to the benchmark.

During the third period, from 1 October 2002 to 31 March 2003, net asset value fell by 8.1% compared to a fall of 3.7% in the FTSE All-Share Index over the same period. The effect of the company's borrowings during this period was negative and accounted for almost half of the underperformance.

As reported above, during the financial year as a whole the net asset value per share fell by 42.5% compared to a fall in the FTSE All-Share Index of 32.1%. The discount to net asset value at which the shares were trading at the start of the last financial year was 12.8%. During the year it fluctuated in a wide range, from 17.8% to 7.6%, varying according to market conditions as well as to supply and demand. The end of the financial year coincided with all the uncertainty and volatility surrounding the Iraq war and represented a near low point in markets for the financial year. At this time the discounts on many investment trusts opened up as market makers attempted to discourage sellers, and the company's own shares traded at a discount of 17.1% to net asset value.

The combination of underperformance and widening discount led to the share price falling by 45.3% over the year – some 13% worse than the benchmark index. An attribution analysis is on page 8 and a more detailed account of the year is given in the Manager's Review on pages 6 to 9.

# Chairman's Statement

## Gearing

Like many investment trusts, the company is geared - it has borrowed money in the expectation that returns to shareholders in rising markets will be enhanced. The board determines the company's maximum borrowings and the manager has day-to-day discretion to decide the degree to which these borrowings should be invested in equities or in cash.

Although the company has from time to time had short-term borrowings, its gearing has derived principally from £200 million in two Debenture stocks, which were issued when interest rates were much higher than they are today, carry coupons of 11½% and 7¾% and which fall to be redeemed respectively in 2014 and 2022. In conditions of positive market returns, such as those seen in the 1990s, shareholders have benefited substantially. In three years of falling markets, however, borrowings, particularly at such high rates, have had a negative impact on the company's performance. Over the last year as a whole, and despite Fidelity having offset part of the borrowings with cash holdings, net borrowings have accounted for virtually half of the net asset value shortfall relative to the benchmark.

Early redemption of one or both of the Debenture stocks would save interest costs and the Board has discussed this possibility thoroughly. However, it believes that the substantial premium to par that would have to be paid, along with the relative levels of equity and bond markets, make this step unattractive at present. Nevertheless, the situation will be kept under constant review.

## Accounting policy

Since 1 April 2000 the policy of the company has been to allocate 70% of the management fee and interest costs to capital. Under the terms of the relevant accounting standard, the board is required to review regularly this allocation (between interest and capital) and to adjust the policy where it believes *inter alia* that significant changes in long-term trends have occurred. The board has reviewed the position and at this time it is not convinced that future expectations necessarily call for a change from the present policy. It will, however, remain mindful of its obligation to keep the matter under review.

## Dividends

The board is recommending a final dividend of 8.95p per share making a total dividend for the year of 13.15p per share, an increase of 3.1% over the previous year. This recommendation is made despite a fall in the company's income. This is due to some large dividend cuts by companies held in the portfolio, the impact on portfolio income of the transition and a significant fall year on year in short term interest rates. Some of the final dividend will be met from the revenue reserve which has been built up over many years against times, such as this, in the economic cycle when the return on the investments may not be sufficient to cover the dividend to shareholders. After this payment the revenue reserve will still remain in excess of one year's dividend. The board is conscious of the importance to shareholders of the present progressive dividend policy and will be keeping the generation of the requisite amount of income constantly under review. It will remain prepared prudently to draw further on the revenue reserve should that become necessary.

The final dividend will be paid on 3 July 2003 to shareholders on the register at close of business on 6 June 2003 and the shares will go "ex dividend" on 4 June 2003.

## Share buy-back programme

During the year the company bought back and cancelled 4.03 million shares, representing 1.63% of the issued share capital at the beginning of the year. This has resulted in an increase of approximately 0.2% in the net asset value per share for the remaining shareholders.

The ability to buy back the company's shares for cancellation is beneficial to all shareholders and accordingly a special resolution to renew the board's authority to purchase shares for cancellation will be proposed at the forthcoming Annual General Meeting.

## Marketing

An important reason for selecting Fidelity to manage the company was its acknowledged position as the industry leader in the provision of ISAs, PEPs, and other savings solutions. It is not to be expected that the benefits of Fidelity's retail marketing strengths

## Chairman's Statement

would be fully realised in a period of sharply depressed retail demand for investment products. Nevertheless sales of the company's shares within these wrapper products have been promising and should, over time, help reduce the size and volatility of the discount to net asset value per share.

The board has been very pleased with the high level of promotional activity which The Edinburgh Investment Trust has received since Fidelity was appointed as manager. This has included considerable national press advertising and several mailings promoting the company both specifically and as part of the range of investment trusts managed by Fidelity. The company has also enjoyed editorial in Fidelity's customer newsletters, it has a suite of dedicated pages on the website and it has been featured in investment trust seminars.

### The board

Sir Gavin Laird has now reached the age of 70 and, as required by the company's Articles of Association, he will not be seeking re-election at the forthcoming Annual General Meeting. Sir Gavin was appointed to the board in 1994 and he became Chairman of the Audit and Management Engagement Committee in 1996. The board has benefited immeasurably from his wise counsel and from his wide range of experience of both the public and private sectors. I know that I speak for all my colleagues when I thank him for his friendship and support and wish him well for the future.

Sir Gavin retired as chairman of the Audit and Management Engagement Committee on 19 August 2002 and was succeeded by Mr Ian Inglis.

As to my own position, I have told my colleagues that I have decided to retire as chairman and from the board at the end of the Annual General Meeting. I shall have been a member of the board for eleven years and its chairman for nine years and current thinking is that these periods of office are quite long enough. That apart, however, I would still have reached the same decision. All the steps necessary to implement the change of manager have been taken, the company is beginning a new chapter in its history and I believe it appropriate for that chapter to be written by a new hand.

I am very pleased to be able to report that the board has unanimously elected Scott Dobbie as my successor. Scott joined the board in 1998 and since 1999 has been its extremely effective senior independent director. He brings with him a wealth of knowledge about the City, the investment industry in general and investment trusts in particular and I am confident that he will be a great success as the company's chairman.

### The way ahead

The recurring theme of this, my final statement, has been challenge and change. The last year has been challenging for both the company and its manager. Implementing a change of manager was anticipated to be a major undertaking and one that was expected to cause upheaval, but that period of change and upheaval is now behind us. The board is fully committed to the strategy implemented by Fidelity and is entirely satisfied with the way that it has applied its large and experienced team to issues that have arisen since its appointment. I am sure that the foundations for improved long-term investment performance and stability have now been put in place and that, in the hands of my successor, The Edinburgh Investment Trust will continue to be seen as an excellent vehicle for long-term investors in the UK market.



The Earl of Eglinton and Winton  
Chairman

20 May 2003

# Manager's Review

## Market Background

The FTSE All-Share Index recorded one of the sharpest one-year falls in its history over the twelve months to the end of March 2003. It shed 32% of its value during the period, as hopes of a firm recovery in the global economy and corporate earnings faded whilst geopolitical risks increased. Investors were very sensitive to any new developments and the daily fluctuations of the index reached historically high levels during the period. In this environment, many of the sectors that were most dependent on an improvement in economic conditions were weakest. Technology-related sectors such as information technology hardware, software and electronic/electrical equipment registered the most significant falls, declining by 76%, 71% and 61% respectively. Shares in life assurance and insurance companies, where capital levels are affected by equity market values, also witnessed steep declines. With corporate earnings continuing to disappoint, companies with resilient earnings found favour. Utilities, tobacco and food producers were amongst the best performing areas of the market during the period, although each sector did decline in absolute terms.

The decline over the period succeeded two previous years of negative returns. Optimism early in the reporting period soon gave way to new concerns. The discovery of large-scale accounting irregularities at several high-profile US companies (Enron, Worldcom and Tyco International) was deeply unsettling to investors and cast doubt on both the credibility of international accounting standards and on reported earnings figures themselves. It was against this backdrop of investor unease that economic data in the US and Europe continued to disappoint, suggesting that the interest rate reductions made by monetary authorities in the wake of 11 September 2001 had not been sufficient to stimulate economic activity. This was also echoed in weaker than expected corporate earnings announcements. Investors on both sides of the Atlantic suspected that the global economic recovery was faltering. The third quarter of 2002 saw the value of the UK equity market fall by over 20%. The FTSE All-Share Index hit 1,782 during September, its lowest point for 2002.

Simon Fraser  
(Chief Investment officer of  
Fidelity International Limited)

Peter Yarrow  
(Senior Investment Director)

As 2002 drew to a close, equity markets staged a brief rally, as corporate earnings showed signs of stabilising, but this proved short-lived as new worries about a possible conflict in the Middle East troubled investors. Tensions between the US and Iraq mounted during the fourth quarter, although the Iraqi government subsequently permitted UN weapons inspectors back into the country. In addition, North Korea moved to restart a nuclear facility, mothballed under an earlier agreement with the US. However, as 2003 began, the prospect of war in Iraq became increasingly likely and investors worried about the effect higher oil prices and prolonged hostilities might have on the global economy. The FTSE All-Share Index reached its lowest point for the review period on 12 March, eight days before the conflict actually began. Despite a sustained recovery on hopes of a short military campaign, the Index finished the reporting year significantly lower at 1,736.

## Portfolio review

### Capital return

In overall terms, the twelve months to the end of March 2003 represented a poor period of performance for the company's investment portfolio. The net asset value per share fell by 42.5% compared with a 32.1% decline in the FTSE All-Share Index over the same period. Gearing accounted for more than one-half of the portfolio's underperformance in this twelve-month period.

In analysing the performance of the company, it is helpful to divide the twelve-month period into three stages, reflecting the changeover in the management

of the company from Edinburgh Fund Managers (EFM) to Fidelity Investments International (Fidelity).

During the period prior to Fidelity's appointment as manager (1 April to 31 July), the portfolio was not defensively positioned for a falling market and underperformed the FTSE All-Share Index by 2.2% on a capital return basis (excluding gearing and charges to capital). Fidelity was officially named as manager of the company with effect from 1 August 2002. The structure of the portfolio on that date represented about 60% of Fidelity's target portfolio. The transition process took place in August and September in difficult market conditions, which were characterised by low market volumes and extreme volatility. The realignment of the portfolio to the desired structure was largely completed by the end of September. The efficiency and cost effectiveness of the transition process was monitored by Analytics, a professional organisation which specialises in analysing transition costs, and Gordon Bagot, an investment and actuarial consultant. Their calculations showed the costs of the transition to be around £9.3 million or 1% of the portfolio value, which was considered to be highly acceptable given the prevailing market conditions. However, some holdings inherited by Fidelity proved to be highly illiquid and continuing to hold these stocks detracted a further 1.5% from the portfolio's relative performance during the transition period. In addition, it was found that had Fidelity's target portfolio been in place during August and September, it would have outperformed the FTSE All-Share Index.

In the six months since 1 October 2002, the performance of the stocks held in the portfolio has been weaker than expected. On a capital return basis, the company recorded a decline of 8.1% against a fall of 3.7% for the FTSE All-Share Index over the same period. The effect of the company's borrowings during this period accounted for a substantial proportion of the underperformance (2.2% out of the total underperformance of 4.5%). Within the equity portfolio, stock picking in the banking sector was the primary source of underperformance. The company had an

underweight position in Royal Bank of Scotland, which proved to be one of the sector's strongest performers in this period, rising in absolute terms. Overweight positions in Lloyds TSB and Abbey National also detracted from returns. A dividend cut from Abbey National and the decision by Lloyds TSB not to increase its payment helped to depress investor sentiment towards both companies. Another area of weakness was the food producers/processors sector, where the portfolio owned a number of companies which underperformed. The detrimental effect from these stocks more than offset the positive performance of Unilever, which rose in absolute terms. Unilever is currently in the process of a major restructuring to focus on its 400 core brands. This process has seen it rationalise its production facilities and enabled it to increase marketing spending on these brands. However, the earnings growth potential of this restructuring has yet to be fully appreciated by the market and it is starting to bear fruit. Elsewhere, exposure to the support services sector proved negative primarily due to a holding in Chubb, the security services firm. The company continues to experience slower demand for its products in its Asian markets and appointed a new CEO during the first quarter. An underweight position in the mining sector also worked against the portfolio's relative performance. On the positive side, being underweight in beverages benefited relative performance whilst stock picking decisions in the aerospace/defence sector also proved effective, as the portfolio had relatively less exposure than the benchmark to BAE Systems and Rolls Royce which registered significant declines, but held an overweight position in Cobham which rose strongly.

Table 1 on page 8 breaks down the various elements - equity holdings, gearing, cash, charges and share buybacks - which have contributed to the company's performance relative to the FTSE All-Share Index over the reporting period. It shows *inter alia* that the portfolio's holdings have underperformed the FTSE All-Share Index by 5.2% during the period. The table also shows how gearing has increased the scale of this underperformance, detracting a further 6.7% from relative performance.

## Manager's Review

Period	1-Apr-02 31-Jul-02	1-Aug-02 30-Sep-02	1-Oct-02 31-Mar-03	1-Apr-02 31-Mar-03
	EFM Management	Fidelity Transition	Fidelity Management	1 Year
Change in Net Asset Value (%)	-25.0	-16.6	-8.1	-42.5
Change in FTSE All-Share (%)	-19.8	-12.2	-3.7	-32.1
Relative Change (%)	-5.2	-4.4	-4.5	-10.4
UK Equities (%)	-2.2	-2.1	-3.1	-5.2
Borrowings* (%)	-3.7	-2.9	-2.2	-6.7
Cash (%)	0.7	0.7	0.8	1.6
Charges (%)	-0.1	-0.1	-0.3	-0.3
Share Buybacks (%)	0.0	0.0	0.3	0.2
Relative Change in NAV (%)	-5.2	-4.4	-4.5	-10.4

Table 1 Analysis of capital performance

1 All figures are calculated ex income; similarly the FTSE All-Share price Index

2 The effect of the dividends is not attributed in this breakdown

\* Excludes the attributable effect of stock selection and sector allocation.

### Portfolio activity

The portfolio is managed using a multi-manager approach with the company's assets split across four individual Fidelity portfolio managers. By adopting this structure, the risk profile of the company is reduced, as the performance risk of each portfolio manager is offset by the performance of the others. The Fidelity fund managers involved with this company have been selected because their investment styles tend to be complementary in this respect. As a stock picking investment management house, each Fidelity fund manager constructs their portfolio using a bottom-up approach, where attractive companies are identified first and the portfolio is constructed to reflect these choices. As a result, the sector positioning of the fund is purely a by-product of the stock picking process. At the end of March 2003, the company's key overweight sector positions were in the areas of food producers/processors, tobacco and support services. The fund managers have identified a number of companies in the food producers and tobacco sectors where they believe earnings growth is robust but undervalued by other investors. The support services sector contains companies involved in a wide range of activities. Specific areas of interest amongst these stocks include companies active in outsourcing, recruitment

and the provision of security services. Since the transition period was completed at the end of September 2002, the company's exposure to investment companies has decreased moving to an underweight stance versus the sector's weighting in the FTSE All-Share Index. The company's largest underweight sector positions at the end of the review period were in the areas of beverages, investment companies and utilities. The structure of the portfolio requires that the asset split is periodically rebalanced to maintain equal weightings between the fund managers.

### Purchases

Since the transition was completed, holdings in a broad spectrum of sectors have been added to the portfolio, which reflects the bottom-up stock picking style of the fund managers. Key positions that were purchased included retailers Kingfisher, Debenhams and Dixons Group, packaging materials maker Rexam, building materials firm BPB, British Airways and Xstrata, a mining company.

### Sales

A large number of holdings in investment companies which were held through the transition period were sold during the last six months. Other sales during the same period included oil & gas company BG Group, Waste Recycling Group, building materials company Hanson and leisure group Six Continents. In addition, the portfolio managers sold holdings in support services company Serco Group, brewer SABMiller and advertising and marketing firm Aegis Group.

### Gearing

The board is responsible for the balance sheet structure of the company and any decision to take on new debt or restructure the balance sheet. Short-term tactical decisions on how much of the debt is invested in equities is left to the investment manager.

The manager gave serious consideration as to whether the company's gearing level was appropriate given the volatile and difficult market conditions experienced over the last twelve months. When markets are rising, gearing can be employed to provide an additional source of positive return. However, the reverse is also true in times of falling equity values. Then, the company must not only bear the capital losses from its holdings but also must

## Manager's Review

meet the costs associated with its borrowing. As the last 12 months have witnessed a steep fall in equity values, the company's gearing level has been an additional source of underperformance, detracting 6.7% from relative returns. However, after careful deliberation it was felt that to reduce borrowings when equity market sentiment appeared to be strengthening would not be in shareholders' interests, as it would reduce the company's ability to maximise returns should equity values begin to move higher. The manager believes that gearing will prove to be beneficial for shareholders over the long-term.

### Future portfolio strategy

The equity portfolio will continue to reflect the strongest investment ideas of Fidelity's fund management team. This team is supported by one of the largest research departments of any global investment firm. The investment process is based on fundamental company research where frequent meetings with company management teams play a key role in determining and reviewing the investment case for each stock. The fund managers do not focus on macro-economic forecasts and the portfolio is not constructed with any specific expectations for equity market and economic performance in mind. Rather, the fund managers develop their economic and industry perspectives through the process of company meetings. As such, the holdings in the portfolio represent stocks where the fund managers believe the company's future potential is being undervalued by other investors.

In terms of market capitalisation, the equity portfolio has greater exposure to medium-sized companies than the FTSE All-Share Index and holds proportionally fewer of its assets in larger companies. This reflects the manager's belief that greater value can be added by stock selection amongst companies that are less intensively researched by other investors, rather than amongst larger companies where Fidelity's estimates are less likely to be materially different from the consensus.

### Market outlook

In response to slowing global conditions, Chancellor Gordon Brown has scaled back his estimate for economic growth in 2003 to between 2% and 2.5% from a previous forecast of 2.5% to 3%. Nevertheless, the UK economy remains in reasonably

FTSE 100	78.2	86.2
FTSE 250	19.6	11.1
FTSE Small Cap	1.9	2.7
Other	0.3	0.0
	100.0	100.0

Table 2 Size analysis of the UK equity portfolio.

Index is the FTSE All-Share Index

good shape relative to other major markets. As ever, the key to the continued health of the economy remains the consumer. Whilst more recent data has suggested a slowdown in consumer activity, it seems likely that domestic spending should continue to grow in 2003 though possibly at a slower pace than before. Mortgage lenders expect house price growth to continue and most observers forecast unemployment to remain largely unchanged this year. The Bank of England expects inflation to stay above its 2.5% target level over the short term, but the future direction of interest rates is uncertain.

Fidelity Investments International

20 May 2003

## Thirty Largest Investments

at 31 March 2003

Company	Market Value £'000	Sector
BP	66,551	Oil & Gas
GlaxoSmithKline	64,160	Pharmaceuticals
Vodafone	53,790	Telecommunication services
Shell Transport & Trading	40,798	Oil & Gas
HSBC	35,217	Banks
Unilever	23,438	Food producers & processors
Royal Bank of Scotland	18,042	Banks
AstraZeneca	17,640	Pharmaceuticals
Gallaher	17,545	Tobacco
Barclays	16,155	Banks
Ten largest investments	353,336	40.3% of total assets less current liabilities
Standard Chartered	15,466	Banks
HBOS	15,355	Banks
Tesco	13,368	Food & drug retailers
Lloyds TSB	12,166	Banks
Northern Rock	10,691	Banks
Imperial Tobacco	9,849	Tobacco
Kingfisher	9,081	General retailers
Abbey National	8,240	Banks
BHP Billiton	7,792	Mining
Hilton	7,746	Leisure & hotels
Twenty largest investments	463,090	52.8% of total assets less current liabilities
Reed Elsevier	7,587	Media & entertainment
British American Tobacco	7,503	Tobacco
Prudential	7,357	Life assurance
Scottish & Southern Energy	7,325	Electricity
Associated British Foods	7,088	Food producers & processors
Tate & Lyle	6,988	Food producers & processors
British Sky Broadcasting	6,579	Media & entertainment
Safeway	6,399	Food & drug retailers
Compass	6,368	Support services
Cobham	6,363	Aerospace & defence
Thirty largest investments	532,647	60.8% of total assets less current liabilities
Other equity investments represented by 150 holdings	273,550	
Total investments	806,197	92% of total assets less current liabilities
Net current assets	70,222	
Total assets less current liabilities	876,419	100%

A full list of investments is given on pages 41 and 42

# Distribution of Assets

at 31 March 2003

		FTSE All-Share Index Weightings 2003	Distribution of Assets	
			2003	2002
<b>Resources</b>	Mining	3.6	1.9	2.3
	Oil & Gas	13.6	12.8	13.4
		17.2	14.7	15.7
<b>Basic industries</b>	Chemicals	0.8	0.9	0.0
	Construction & Building Materials	2.2	2.7	3.1
	Forestry & Paper	0.1	0.1	0.0
	Steel & Other Metals	0.0	0.0	0.0
		3.1	3.7	3.1
<b>General industrials</b>	Aerospace & Defence	1.0	1.6	0.7
	Electronic & Electrical Equipment	0.2	0.1	0.0
	Engineering & Machinery	0.6	0.5	1.7
		1.8	2.2	2.4
<b>Cyclical consumer goods</b>	Automobiles & Parts	0.2	0.8	0.1
	Household Goods & Textiles	0.1	0.0	0.0
		0.3	0.8	0.1
<b>Non cyclical consumer goods</b>	Beverages	3.0	0.9	4.1
	Food Producers & Processors	2.9	5.1	1.0
	Health	0.9	0.8	1.3
	Personal Care & Household Products	0.8	0.0	0.0
	Pharmaceuticals	10.8	9.9	10.4
	Tobacco	2.1	4.0	0.1
		20.5	20.7	16.9
<b>Cyclical services</b>	General Retailers	3.5	2.6	1.9
	Leisure Entertainment & Hotels	2.0	2.0	1.3
	Media & Photography	3.6	4.7	5.5
	Support Services	2.8	4.1	1.9
	Transport	1.7	1.4	2.8
		13.6	14.8	13.4
<b>Non cyclical services</b>	Food & Drug Retailers	2.2	2.6	1.8
	Telecommunications Services	9.6	7.1	9.0
		11.8	9.7	10.8
<b>Utilities</b>	Electricity	1.4	1.1	1.7
	Utilities	2.7	1.1	1.2
		4.1	2.2	3.5
<b>Information technology</b>	Information Technology Hardware	0.1	0.2	0.1
	Software & Computer Services	0.6	0.9	0.7
		0.7	1.1	0.8
<b>Financials</b>	Banks	18.8	15.7	16.9
	Insurance	0.5	0.5	1.0
	Life Assurance	2.3	1.6	4.4
	Investment Companies	2.2	0.6	3.0
	Real Estate	1.6	1.2	1.4
	Speciality & Other Finance	1.5	2.5	1.8
		26.9	22.1	28.5
<b>Total investments</b>		100.0	92.0	95.2
Net current assets		-	8.0	4.8
<b>Total assets less current liabilities</b>		100.0	100.0	100.0

## Changes in Asset Distribution

Sector classification	Valuation at 31 March 2002 £'000	Net purchases (sales) £'000	Appreciation (depreciation) £'000	Valuation at 31 March 2003 £'000
Resources	218,900	(20,773)	(69,785)	128,342
Basic industries	43,346	4,065	(14,875)	32,536
General industrials	33,994	4,307	(19,647)	18,654
Cyclical consumer goods	1,163	8,180	(1,854)	7,489
Non cyclical consumer goods	235,426	29,975	(83,889)	181,512
Cyclical services	186,968	27,939	(84,794)	130,113
Non cyclical services	151,432	(28,496)	(38,468)	84,468
Utilities	48,294	(12,414)	(16,673)	19,207
Information Technology	11,629	10,337	(12,485)	9,481
Financials	398,463	(59,553)	(144,515)	194,395
<b>Total investments</b>	<b>1,329,615</b>	<b>(36,433)</b>	<b>(486,985)</b>	<b>806,197</b>
Net current assets	66,813	3,409	0	70,222
<b>Total assets less current liabilities</b>	<b>1,396,428</b>	<b>(33,024)</b>	<b>(486,985)</b>	<b>876,419</b>

Investments - by Sector as a % of total assets less current liabilities

## Analysis of Shareholders

% of ordinary shares held by shareholders

## Capital Gains Tax Information

The market value of an ordinary share in the company on 31 March 1982 was 58.49p. The price does not apply to shares held in Scottish United Investors plc at 31 March 1982 which were subsequently acquired by the company.

# Long term Record

Per ordinary share at 31 March

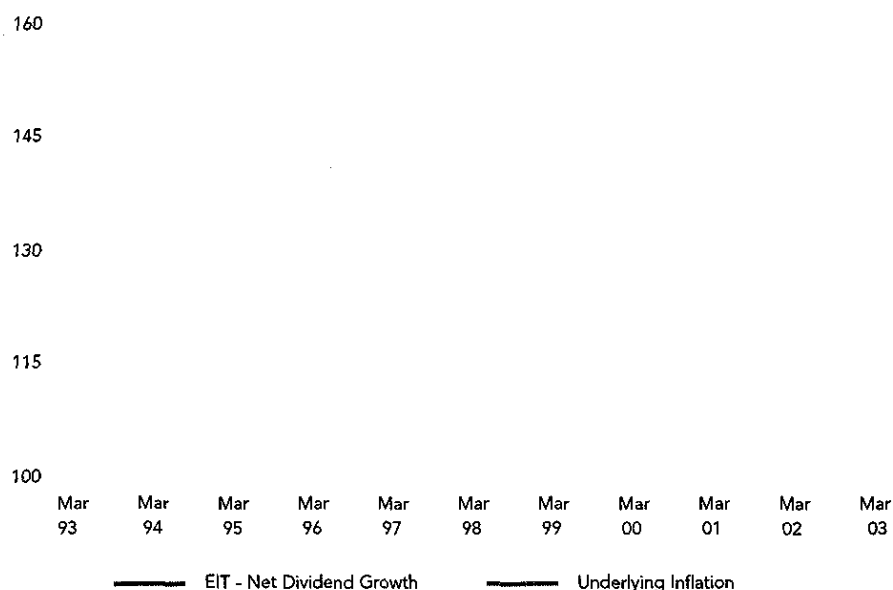
Year ended 31 March	Total assets less current liabilities £m	Ordinary shareholders' funds £m	Net asset value p	Revenue return p	Dividend p	Share price p	Discount %	% expenses of average shareholders' funds	Actual gearing ratio %	Potential gearing ratio %
1993	1,097.2	883.9	300.8	9.25	8.40	263.5	12.4	0.4	22.4	24.1
1994	1,212.5	1,005.1	342.1	10.17	8.75	306.5	10.4	0.4	18.1	20.6
1995	1,097.2	939.9	319.9	10.37	9.35	292.5	8.6	0.5	14.4	16.7
1996	1,228.3	1,124.9	382.9	13.37	10.00	330.5	13.7	0.4	10.9	11.8
1997	1,337.6	1,234.3	420.1	12.56	10.75	364.5	13.2	0.4	1.0	8.4
1998	1,846.8	1,651.3	559.9	14.48	11.40	500.5	10.6	0.4	6.4	12.1
1999	1,838.4	1,642.6	557.0	11.71	11.85	464.5	16.6	0.4	11.9	12.3
2000	1,831.3	1,636.9	618.3	9.15	12.15	534.5	13.6	0.5	12.2	12.3
2001	1,576.9	1,373.3	514.0	12.07	12.45	475.5	12.1	0.5	11.9	14.6
2002	1,396.4	1,201.6	484.7	12.50	12.75	422.5	12.8	0.5	11.1	16.7
2003	876.4	681.3	278.6	11.05	13.15	231.0	17.1	0.5	19.0	29.4

Notes:

1. Of the 11.85p dividend for 1999, 3.80p was paid as a foreign income dividend.
2. Shares have been bought back and cancelled as follows:

Year	Number of shares bought back	Cost £'000
2000	29,978,827	151,762
2001	10,978,930	56,102
2002	6,040,000	28,125
2003	4,025,000	11,935

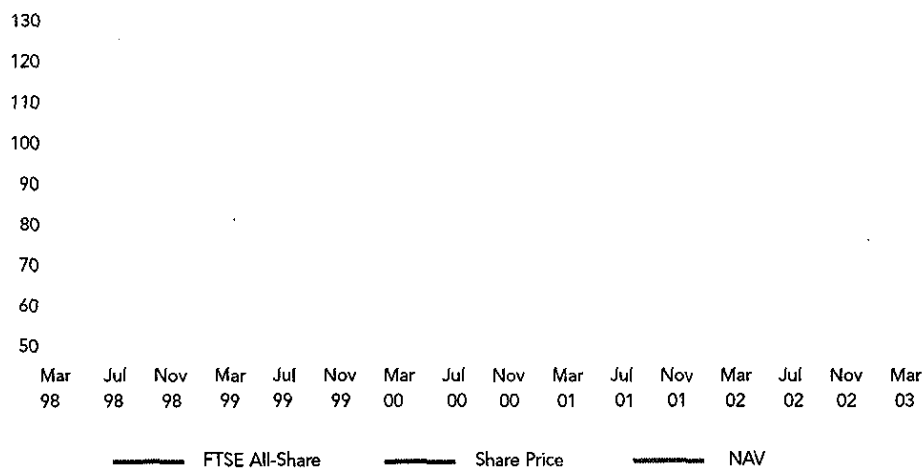
Comparison of Net Dividend Growth of The Edinburgh Investment Trust  
to Underlying Inflation (figures rebased to 100)



Sources: AITC and Datastream

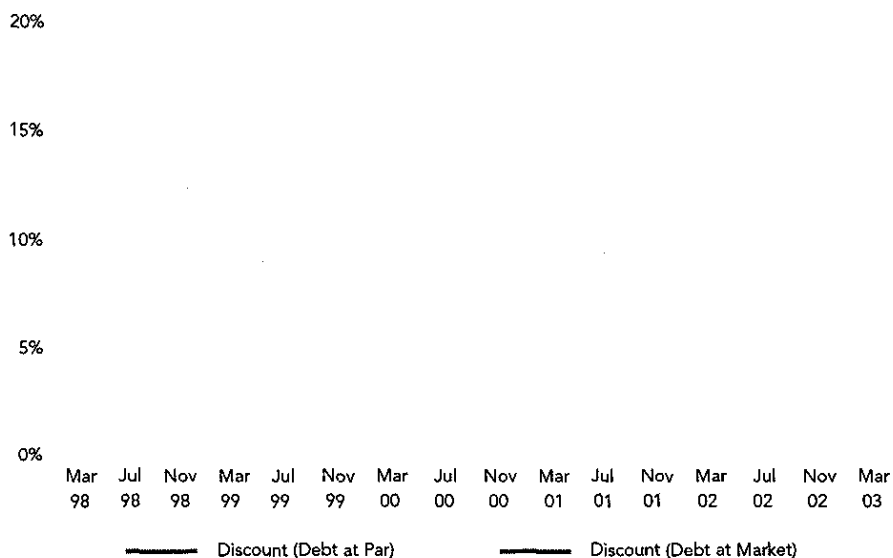
# Long Term Record

Comparison of NAV and Share Price Total Return Performance of The Edinburgh Investment Trust to FTSE All-Share Index (figures rebased to 100)



Sources: AITC and Datastream

Share Price discount to NAV of The Edinburgh Investment Trust



Sources: AITC and Datastream

# Corporate Information

## Registered Office

3 Glenfinlas Street  
Edinburgh EH3 6AQ

## Manager and Secretary

Fidelity Investments International  
Beech Gate  
Millfield Lane  
Lower Kingswood  
Tadworth, Surrey KT20 6RB  
Telephone: 01732 361144  
Fax: 01737 836892  
Website: [www.fidelity.co.uk](http://www.fidelity.co.uk)

## Registrars

Lloyds TSB Registrars Scotland  
PO Box 28448  
Finance House  
Orchard Brae  
Edinburgh EH4 1WQ  
Fax: 0870 600 3980  
Website: [www.shareview.co.uk](http://www.shareview.co.uk)

## Bankers

Bank of New York Limited

## Auditors

KPMG Audit Plc  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2EG

## Company Brokers

UBS Warburg  
Dresdner Kleinwort Wasserstein

## Company Registration Number

SC 1836

## The Earl of Eglinton and Winton Chairman

The Earl of Eglinton and Winton (63) was appointed to the board in 1992 and became chairman in 1994. He was deputy chairman of Gerrard and National Holdings and chairman of Gerrard Vivian Gray.

## Sir Gavin Laird

### Director

Sir Gavin Laird\*, CBE (70) was appointed to the board in 1994. He was General Secretary of the Amalgamated Engineering and Electrical Union, is a director of Murray VCT 4 and a former non-executive director of the Bank of England.

\*Member of the Audit and Management Engagement Committee

## Board of Directors

Scott Dobbie

**Director**

Scott Dobbie\*, CBE (63) was appointed to the board in 1998 and is the senior independent director. He is chairman of the Securities Institute and Standard Life European Private Equity Trust and a director of Premier Oil, Murray VCT4 and Scottish Financial Enterprise. He is also a Commissioner of the Jersey Financial Services Commission and an advisor to Deutsche Bank.

Ian Inglis

**Director**

Ian Inglis\*, LLB, FCIBS, WS (62) was appointed to the board in 1997 and is chairman of the audit and management engagement committee. He was a senior partner in Shepherd & Wedderburn WS and is a director of Murray tmt and Ivory & Sime UK Smaller Companies Trust.

Eileen Mackay

**Director**

Eileen Mackay\*, CB (59) was appointed to the board in 1996. She was Principal Finance Officer in The Scottish Finance Office and is a director of The Royal Bank of Scotland Group and its subsidiaries The Royal Bank of Scotland and National Westminster Bank. She is also a director of Scottish Financial Enterprise.

# the board

Richard Barfield

**Director**

Richard Barfield\* (56) was appointed to the board in 2001. He is director of New Look Group, The Baillie Gifford Japan Trust, The Merchants Trust, Marshalls, The JP Morgan Fleming Overseas Investment Trust and Equitas. He was previously Chief Investment Manager at Standard Life.

Roy Summers

**Director**

Roy Summers\*, OBE (67) was appointed to the board in 1994. He was a director of Scottish & Newcastle, is a director of Young & Cos Brewery and chairman of Canongate Technology.

# Directors' Report

## Business and status

The company carries on business as an investment trust. The Inland Revenue has approved the company's status as an investment trust under s842 of the Income and Corporation Taxes Act 1988 for the years ended 31 March 2001 and 31 March 2002, although this approval may be subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment. In the opinion of the directors, the company has subsequently conducted its affairs so as to enable it to continue to obtain such approval.

The company is not a close company and has no employees. It is registered as an investment company as defined in Section 266 Companies Act 1985 and operates as such.

## Review of activities

During the year the company followed the normal activities of an investment trust. Details of these are given in the Chairman's Statement and the Manager's Review.

## Company's manager

The manager, Fidelity Investments International, a subsidiary of Fidelity International Limited ("FIL"), provides management, accounting, administrative and secretarial services to the company under an agreement which was effective from 1 August 2002.

The manager also provides certain services, including marketing and administration, in connection with the Fidelity Investment Trust Share Plan and the Fidelity Individual Savings Account under the same agreement.

## Commissions

FIL has a series of arrangements with the brokers through whom trades are executed by FIL and its subsidiaries to ensure that FIL's managed funds pay the lowest possible commissions and obtain the maximum benefit for those commission flows. None of the commissions generated by trades on behalf of the company is used for market data services and similar 'soft dollar' benefits used by FIL. However, the manager does use commission flows from trades on behalf of the company to pay for research received from those brokers with which it does not trade, but whose research capabilities it values, and

this is included within the definition of soft commissions by the Financial Services Authority. In the year to 31 December 2002 3.7% of FIL's total commissions was used for such research.

## Interfunding

The company participates in the manager's interfund programme whereby Fidelity's traders, on occasion, identify situations where one fund is buying the same security that another fund is selling. If a trader can confirm that it would be in the interests of both accounts to execute a transaction between them rather than in the market, then an interfund transaction is executed. There is a regulatory requirement on the manager to obtain best execution and no individual deal is entered into which prevents compliance with this requirement.

## Political and charitable donations

The company has not made any political or charitable donations in the year (2002: nil).

## Share capital

During the year the company bought back 4,025,000 ordinary shares of 25p each (representing 1.6% of the issued share capital as at 31 March 2002) on the London Stock Exchange for cancellation. The total cost of these shares was £11,935,000.

The principal purpose of such share buybacks was to address the imbalance between the supply and demand for the company's ordinary shares and thereby reduce both the scale and volatility of the discount at which the shares trade in relation to the underlying net asset value whilst at all times enhancing the net asset value for the remaining shareholders.

## Dividends

The directors recommend that a final dividend of 8.95p (2001-8.65p) per share be paid on 3 July 2003 to shareholders on the register at the close of business on 6 June 2003, making a total of 13.15p (2002-12.75p) per share for the year ended 31 March 2003. £4.88m has been transferred from the revenue reserve.

## Directors

In accordance with the articles of association, Sir Gavin Laird will be retiring at the conclusion of the annual

# Directors' Report

general meeting and will not be seeking re-election. Eileen Mackay and Ian Inglis retire by rotation at the annual general meeting and offer themselves for re-election. Resolutions in respect of the foregoing will be proposed at the annual general meeting.

The chairman, having served as a director since 1992 and as chairman since 1994, will be retiring at the conclusion of the forthcoming Annual General Meeting.

The names of the directors and their holdings in the company's shares are shown in Table 1 below.

No contract or arrangement existed during the year in which any of the directors had a material interest. No director had a service contract with the company. There have been no related party transactions requiring disclosure under FRS8.

## Corporate Governance Compliance

The company is committed to high standards of corporate governance. The board is accountable to the company's shareholders for good governance and this statement describes how the company applies the principles identified in the Combined Code appended to the Listing Rules of the Financial Services Authority.

The board believes that the company has complied throughout the accounting period with the provisions set out in Section 1 of the Code except as detailed below.

The provision which relates to the combination of the roles of the chairman and chief executive does not

apply as the company has no executive directors. The whole board acts as a nomination committee, as and when required, to consider appointments to the board.

## Directors

The board has overall responsibility for the company's affairs. It delegates, through an investment management agreement and through specific instructions, the day to day management of the company to the manager, Fidelity Investments International. The company has no executives or employees.

The board presently consists of seven non-executive directors, one of whom is chairman.

All of the directors are considered by the board to be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

Biographies of the directors appear on pages 16 and 17 of this report. Each director has the requisite business and financial experience which enables the board to provide effective strategic leadership and proper governance of the company. The senior independent director is Scott Dobbie.

The board meets at least nine times each year. There is an annual cycle of board meetings which is designed to address, in a systematic way, overall strategy, review of investment policy, investment performance, marketing achievements, budgets, dividend policy and communication with shareholders.

	Ordinary shares held at		Nature of interest
	31 March 2003	31 March 2002	
<i>The Earl of Eglinton and Winton</i>	4,350	4,350	Beneficial
	4,969	4,885	Non beneficial
Richard Barfield	4,257	2,289	Beneficial
Scott Dobbie	111,603	108,523	Beneficial
	2,416	2,281	Non beneficial
Ian Inglis	5,000	5,000	Beneficial
Sir Gavin Laird	5,617	5,460	Beneficial
Eileen Mackay	2,573	2,552	Beneficial
Roy Summers	22,991	22,492	Beneficial
	3,679	3,522	Non beneficial

Table 1 Directors and their holdings in the company

## Directors' Report

Appointments of new directors are considered by the whole board taking into account the need to maintain a balanced board. When a new director is appointed to the board, he or she is provided with all relevant information regarding the company and their duties and responsibilities as a director. In addition, a new director will also spend some time with representatives of the manager whereby he or she will become familiar with the various processes which the manager considers necessary for the performance of its duties and responsibilities to the company. There is no formal training programme for directors. However, the directors receive regular briefings from *inter alios* the AITC, the auditors and the company secretary regarding any proposed developments or changes in law or regulations that could affect the company and/or the directors.

A director appointed during the year is required to retire and seek election by shareholders at the next annual general meeting. The articles also require that one third of the directors retire by rotation each year and seek re-election at the annual general meeting and also that every director submit himself or herself for re-election at least every three years. Subject to these requirements for re-election, directors are appointed to the board for a specified period, initially for three years and subsequent extensions are, in each case, at the discretion of the board.

There is a procedure for directors to take independent professional advice, if necessary, at the company's expense. This is in addition to the access which every director has to the advice and services of the company secretary, Fidelity Investments International, which is responsible to the board for ensuring that board procedures are followed and that applicable rules and regulations are complied with.

### Communication with shareholders

The directors place great importance on communication with the company's shareholders. The company carries out a programme of regular dialogue and individual meetings with institutional shareholders.

At the annual general meeting all shareholders have the opportunity to put questions to the board and a presentation from the manager covers the investment performance and strategy during the financial year

and the outlook for the year ahead. The board hopes that as many shareholders as possible will be able to attend the meeting.

### Proxy voting as an institutional shareholder

The manager instructs proxy voting on behalf of the company in accordance with the manager's existing guidelines and policies.

### Accountability and audit

The respective responsibilities of the directors and the auditors in connection with the financial statements appear on pages 22 and 25 to 26.

The board is responsible for the company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The board confirms that there is an ongoing process for identifying, evaluating and managing the company's significant business and operational risks, that it has been in place for the year ended 31 March 2003 and up to the date of approval of the annual report and accounts, that it is regularly reviewed by the board and accords with the internal control guidance for directors on the Combined Code.

The manager is responsible for the design, implementation and maintenance of controls and procedures to safeguard the assets of the company and to manage its affairs properly. The system extends to operational and compliance controls and risk management. Clear lines of accountability have been established between the board and the manager and regular reports on controls and compliance issues are provided to the board. In carrying out its review, the board has had regard to the activities of the manager, the manager's compliance and risk function and the external auditors. The board's review also includes consideration of FRAG 21 and similar reports issued by the manager and other service providers.

The audit and management engagement committee, of which Ian Inglis is chairman, meets at least four times a year and considers reports from the internal and external auditors, as well as from the manager.

# Directors' Report

The audit and management engagement committee keeps the scope and effectiveness of the external audit under review. The independence and objectivity of the external auditors are also considered on a regular basis, with particular regard to the level of non audit fees. Shareholders have the opportunity at each annual general meeting to vote on the election of the external auditors for the forthcoming year.

The board has reviewed the need for an internal audit function. The board has decided that the systems and procedures employed by the manager, including their internal audit function and the work carried out by the company's external auditors, provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the company's assets, is maintained. An internal audit function, specific to the company, is therefore considered unnecessary.

### Going concern

The directors believe that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### Substantial share interests

At 20 May 2003 the substantial interests in the ordinary share capital which had been notified to the company are shown in Table 2 opposite.

### Corporate Governance and Socially Responsible Investment Policy

The company's manager actively encourages investee companies to adhere to best practice in the area of Corporate Governance and Socially Responsible Investing. The manager believes that this can best be achieved by entering into a dialogue with company management to encourage them, where necessary, to improve their policies.

The manager's ultimate responsibility however is to invest in companies that appear to have the potential for superior investment return. Investment decisions are based primarily on business and financial considerations. The manager also takes into account political, environmental and social issues if they are likely to have a material impact on a company's

Holder	No of ordinary shares	%
Scottish Widows Investment Partnership Ltd	17,385,435	7.16
The Standard Life Assurance Company	16,638,876	6.85
Prudential plc	9,054,108	3.73
Legal & General Investment Management Ltd	8,392,758	3.46

Table 2 substantial share interests

present or future financial position or conflict with the manager's ability to manage and develop our investments.

### Payments Policy

The company's payment policy is to ensure settlement of suppliers' invoices in accordance with the stated terms. In certain circumstances, settlement terms are agreed prior to business taking place.

### Auditors

Resolutions will be proposed at the annual general meeting for the re-appointment of KPMG Audit Plc as auditors of the company and to authorise the directors to fix their remuneration.

### Annual General Meeting - special business

At the annual general meeting of the company to be held on 2 July 2003, special resolution 8 will be proposed to renew the company's authority to make market purchases of its own shares.

The maximum number of ordinary shares which may be purchased pursuant to the authority shall be 14.99% of the issued share capital of the company as at the date of the passing of the resolution. The minimum price which may be paid for an ordinary share shall be 25p. The maximum price for an ordinary share (exclusive of expenses) shall be an amount equal to 105% of the average of the middle market quotations for the company's ordinary shares for the five business days immediately preceding the date of purchase. This authority, if conferred, will be exercised only if to do so would enhance the net asset value per share and is in the best interests of shareholders generally.

By order of the board,

  
Fidelity Investments International

Secretary

20 May 2003

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

# Directors' Remuneration Report

This report has been prepared by the board of directors in accordance with the requirements of Schedule 7A to the Companies Act 1985 and in compliance with the Directors' Remuneration Report Regulations 2002 in respect of the year ended 31 March 2003. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

## Remuneration policy

The whole board, which is comprised solely of non-executive directors, acts as a remuneration committee as and when required to consider the level of the fees payable to directors. The board's policy is that the level of remuneration of non-executive directors should be fair and sufficient to attract and retain the directors needed to properly oversee the company and to reflect the specific circumstances of the company, the duties and responsibilities of the directors and the value and amount of time committed to the company's affairs. It is intended that this policy will continue for the year ending 31 March 2004 and subsequent years. The company's articles of association limit the total fees payable to directors to £250,000 per annum. Non-executive directors are not eligible for any performance related fees, bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

At the beginning of 2001, a sub-committee was formed to review the level of remuneration payable to the chairman and the directors of the company. This committee consisting of Sir Gavin Laird and Mr Ian Inglis called on Edinburgh Fund Managers plc (the then managers of the company) to provide it with information on fees payable to the chairmen and directors of other investment trusts. The committee was provided with *inter alia* details of remuneration paid by 23 other investment trusts to their chairmen and other directors and the number of meetings attended by them. The committee also considered a review entitled "Non-executive

Directors: A survey of practice and opinion" which had been published by PricewaterhouseCoopers a short time before the committee met. The committee having given due consideration to the foregoing, recommended that the amount of fees payable by the company to the chairman and the directors should be increased. The board, having considered the foregoing information and the committee's recommendation, resolved that the chairman should receive an annual fee of £40,000 and that each director should be paid a fee of £22,000 per annum. The increases in such fees were to be staged over three years with the first increase coming into effect on 1 October 2001. The third and final increase will be made on 1 October 2003. The board also decided that the senior independent director and the chairman of the audit and engagement committee should receive an additional £5,000 per annum and £2,500 per annum respectively with effect from 1 October 2001 in respect of their additional responsibilities.

## Directors' service contracts

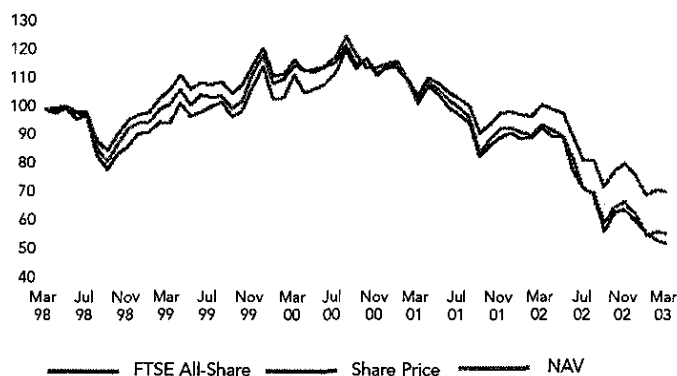
It is the board's policy that directors do not have service contracts, but new directors are provided with a letter of appointment. The letter of appointment provides that directors should retire and be subject to election at the first Annual General Meeting after their appointment. Thereafter directors are obliged to retire by rotation, and offer themselves for re-election by shareholders at least every three years after that. There is no notice period and no provision for compensation upon early termination of appointment.

## Company performance

The graph on page 24 compares the company's net asset value and share price (on a total return basis) over the last five financial years ending 31 March 2003 with the performance of the FTSE All-Share Index over the same period. This index has been chosen as it corresponds with the company's stated objectives as shown on page 1.

# Directors' Remuneration Report

Comparison of NAV and Share Price Total Return Performance of The Edinburgh Investment Trust to FSTE All-Share Index (figures rebased to 100)



Sources: AITC and Datastream

## Directors' Emoluments for the year (audited)

During the year under review the fees paid to the directors were as follows:

	2003 fees £	2002 fees £
The Earl of Eglinton and Winton	35,500	32,000
Scott Dobbie	24,750	20,500
Ian Inglis	21,303	18,000
Eileen Mackay	19,750	18,000
Sir Gavin Laird	20,697	19,250
Richard Barfield <sup>1</sup>	19,750	11,410
Roy Summers <sup>2</sup>	19,750	18,000
Sir Chips Keswick <sup>3</sup>	-	4,425
<b>Total</b>	<b>161,500</b>	<b>141,585</b>

<sup>1</sup> Richard Barfield was appointed a director on 20 August 2001

<sup>2</sup> Roy Summers' fees are paid to Thalassa Industries Ltd

<sup>3</sup> Sir Chips Keswick retired as a director on 4 July 2001

No director has received any taxable expenses, compensation for loss of office or non-cash benefits for the year ended 31 March 2003 or the year ended 31 March 2002.

On behalf of the board,

**Fidelity Investments International**

Secretary

20 May 2003

# Independent Auditor's Report

## To the members of The Edinburgh Investment Trust plc

We have audited the financial statements on pages 27 to 40. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 22, this includes responsibility for 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 whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. 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 regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the statement on pages 19 to 21 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 the unaudited part of the directors' remuneration report, 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 and the part of the directors' remuneration report to be audited. 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 company's circumstances, 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 and the part of the directors'


# Independent Auditor's Report

remuneration report to be audited 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 and the part of the directors' remuneration report to be audited.

## Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company as at 31 March 2003 and of the profit of the company for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.



**KPMG Audit Plc**  
Chartered Accountants  
Registered Auditor  
Edinburgh  
20 May 2003

# Statement of Total Return

for the year ended 31 March

	notes	2003			2002		
		revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
Realised losses on investments	10	-	(171,217)	(171,217)	-	(30,040)	(30,040)
Decrease in unrealised appreciation	10	-	(315,766)	(315,766)	-	(96,227)	(96,227)
<b>TOTAL CAPITAL LOSSES ON INVESTMENTS</b>		-	(486,983)	(486,983)	-	(126,267)	(126,267)
Currency losses	16	-	(2)	(2)	-	(2)	(2)
Income from investments	2	32,672	-	32,672	36,324	-	36,324
Interest receivable on short term deposits	2	1,682	-	1,682	3,457	-	3,457
Income from other securities	2	914	-	914	-	-	-
Underwriting commission	2	43	-	43	4	-	4
Investment management fee	3	(1,174)	(2,738)	(3,912)	(1,531)	(3,573)	(5,104)
Administrative expenses	4	(1,222)	-	(1,222)	(1,260)	-	(1,260)
<b>NET RETURN/(LOSS) BEFORE FINANCE COSTS AND TAXATION</b>		32,915	(489,723)	(456,808)	36,994	(129,842)	(92,848)
Interest payable and similar charges	6	(5,850)	(13,651)	(19,501)	(5,850)	(13,651)	(19,501)
<b>RETURN/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAX</b>		27,065	(503,374)	(476,309)	31,144	(143,493)	(112,349)
Tax on ordinary activities	7	-	-	-	(1)	-	(1)
<b>RETURN/(LOSS) ON ORDINARY ACTIVITIES AFTER TAX FOR THE YEAR ATTRIBUTABLE TO EQUITY SHAREHOLDERS</b>		27,065	(503,374)	(476,309)	31,143	(143,493)	(112,350)
Dividends	8	(32,016)	-	(32,016)	(31,230)	-	(31,230)
<b>TRANSFER FROM RESERVES</b>		(4,951)	(503,374)	(508,325)	(87)	(143,493)	(143,580)
<b>RETURN/(LOSS) PER ORDINARY SHARE</b>	9	11.05p	(205.49p)	(194.44p)	12.50p	(57.59p)	(45.09p)
<b>TOTAL DIVIDEND PER ORDINARY SHARE</b>		13.15p			12.75p		

The revenue column of this statement is the profit and loss account of the Company.  
All revenue and capital items in the above statement derive from continuing operations.  
No operations were acquired or discontinued in the year.

The notes on pages 30 to 40 form an integral part of this statement

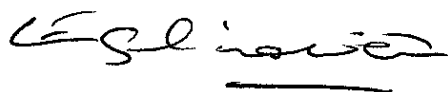
# Balance Sheet

as at 31 March

	notes	2003 £'000	2002 £'000
<b>FIXED ASSETS</b>			
Investments	10	806,197	1,329,615
<b>CURRENT ASSETS</b>			
Debtors	12	12,380	12,878
AAA Money Market Funds		-	73,000
UK Treasury Bills		-	24,831
Fidelity Institutional Cash Fund		68,414	-
Cash and short term deposits		14,808	2,797
		<u>95,602</u>	<u>113,506</u>
<b>CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	13	<u>(25,380)</u>	<u>(46,693)</u>
<b>NET CURRENT ASSETS</b>		<u>70,222</u>	<u>66,813</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>876,419</u>	<u>1,396,428</u>
<b>CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>			
	14	<u>(195,101)</u>	<u>(194,850)</u>
<b>TOTAL NET ASSETS</b>		<u>681,318</u>	<u>1,201,578</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital - equity	15	60,699	61,705
Share premium	16	6,639	6,639
Capital redemption reserve	16	12,756	11,750
Capital reserve - realised	16	685,793	885,336
Capital reserve - unrealised	16	(120,792)	194,974
Revenue reserve	16	36,223	41,174
<b>TOTAL EQUITY SHAREHOLDERS' FUNDS</b>	18	<u>681,318</u>	<u>1,201,578</u>
<b>NET ASSET VALUE PER ORDINARY SHARE:</b>	17	278.59p	484.73p

The financial statements on pages 27 to 40 were approved by the board of directors on 20 May 2003 and were signed on its behalf by:

THE EARL OF EGLINTON AND WINTON, Director



*The notes on pages 30 to 40 form an integral part of this statement*

# Cashflow Statement

for the year ended 31 March

		2003	2002
	notes	£'000	£'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	21	<u>33,393</u>	<u>33,778</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid		<u>(19,250)</u>	<u>(19,250)</u>
NET CASH OUTFLOW FROM SERVICING OF FINANCE		<u>(19,250)</u>	<u>(19,250)</u>
TAXATION			
Overseas tax paid		-	(1)
UK tax paid		-	(768)
TAX PAID		<u>-</u>	<u>(769)</u>
FINANCIAL INVESTMENT			
Purchase of investments		(722,771)	(387,035)
Exchange losses		(2)	-
Disposals of investments		<u>734,795</u>	<u>473,535</u>
NET CASH INFLOW FROM FINANCIAL INVESTMENT		<u>12,022</u>	<u>86,500</u>
EQUITY DIVIDENDS PAID		<u>(31,636)</u>	<u>(31,247)</u>
NET CASH (OUTFLOW)/INFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING		<u>(5,471)</u>	<u>69,012</u>
NET CASH INFLOW/(OUTFLOW) FROM MANAGEMENT OF LIQUID RESOURCES		<u>29,417</u>	<u>(43,226)</u>
NET CASH INFLOW BEFORE FINANCING		<u>23,946</u>	<u>25,786</u>
FINANCING			
Repurchase of ordinary shares		<u>(11,935)</u>	<u>(28,125)</u>
NET CASH OUTFLOW FROM FINANCING		<u>(11,935)</u>	<u>(28,125)</u>
INCREASE/(DECREASE) IN CASH	19	<u>12,011</u>	<u>(2,339)</u>

The notes on pages 30 to 40 form an integral part of this statement

# Notes to the Accounts

## 1 Accounting Policies

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The accounts have been prepared under the historical cost convention, modified to include the revaluation of investments and in accordance with applicable accounting standards and with the Statement of Recommended Practice 'Financial Statements of Investment Companies' (the SORP). They have also been prepared on the assumption that approval as an investment trust will continue to be granted.

**a) Revenue, expenses and interest payable** - Income from equity investments, including taxes deducted at source, is included in revenue by reference to the date on which the investment is quoted ex-dividend. Foreign income is converted at the exchange rate applicable at the time of receipt. Interest receivable on fixed interest securities, short term deposits, expenses and interest payable are treated on an accruals basis.

Expenses are charged to capital where they are incurred in connection with the maintenance or enhancement of the value of the investments. In this respect the investment management fee and relevant finance costs are allocated between revenue and capital, in line with the board's expectation of returns from the company's investments over the long term in the form of revenue and capital respectively.

**b) Investments** - Listed investments are valued at middle market prices. Unlisted investments are valued at market prices ruling where an organised market in such investments exists; other unquoted investments are included at directors' valuation. Where a price is not readily available the holding is valued at cost unless circumstances indicate a different valuation is warranted. In general, valuations are increased where a substantial arm's length transaction has occurred subsequent to acquisition, at a price higher than cost. Valuations are decreased where subsequent transactions have taken place at a price lower than cost, where Fidelity's Fair Value Committee is aware that the company is experiencing operating difficulties, or there is a limited market place for the shares thus making them illiquid.

**c) Transactions denominated in foreign currencies** - Any such transactions are calculated in sterling at the rate of exchange ruling as at the date of the transactions. Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Realised and unrealised capital gains and losses, including exchange differences on the translation of foreign currency assets and liabilities, are dealt with in capital reserves realised and unrealised.

**d) Realised capital reserves** - Gains and losses on realisation of investments and differences on exchange are dealt with in the realised capital reserves. The capital element of the investment management fee along with the associated irrecoverable VAT and relevant finance costs are charged to this reserve. Any associated tax relief is credited to this reserve.

**e) Unrealised capital reserves** - Increases and decreases in the valuation of investments held are dealt with in the unrealised capital reserve.

**f) Taxation** - Deferred taxation is provided for in respect of all timing differences that have originated but not reversed by the balance sheet date where transactions or events that result in an obligation to pay more, or right to pay less, tax in future have occurred at the balance sheet date. A deferred tax asset is only recognised to the extent that its recovery is considered more likely than not. Deferred tax is recorded in accordance with FRS 19 "Deferred Tax".

## Notes to the Accounts

	2003 £'000	2002 £'000
<b>2 Income</b>		
<b>Income from investments</b>		
Franked investment income	32,635	35,712
UK unfranked investment income	37	604
Overseas unfranked investment income	-	8
	<u>32,672</u>	<u>36,324</u>
<b>Other income</b>		
Interest receivable on short term deposits	1,682	3,457
Income receivable on other securities	914	-
Underwriting commission	43	4
	<u>35,311</u>	<u>39,785</u>
<b>Total income</b>		
<b>Total income comprises</b>		
Dividends	32,635	36,324
Interest	1,682	3,457
Interest from securities	37	-
Other income	957	4
	<u>35,311</u>	<u>39,785</u>
<b>Income from investments</b>		
Listed UK	32,672	36,316
Unlisted overseas	-	8
	<u>32,672</u>	<u>36,324</u>
	2003 £'000	2002 £'000

### 3 Investment management fee

Investment management and secretarial fee (including VAT)	3,912	5,104
Charged against capital reserve - realised (see note 16)	(2,738)	(3,573)
<b>Charged against revenue</b>	<u>1,174</u>	<u>1,531</u>

The investment management fee paid to Fidelity from 1 August 2002 is 0.26% per annum of the total assets of the company, after deducting current liabilities and excluding commonly managed funds (2003 – £2,009,000). Prior to 1 August 2002 the management fee was paid to Edinburgh Fund Managers plc at 0.30% per annum of the total assets of the company, after deducting current liabilities and excluding commonly managed funds (2003 – £1,510,000). Included in the management fee is an amount of £393,000 paid to Edinburgh Fund Managers plc for the early termination of their management agreement.

The fee is subject to VAT at the appropriate rate. The investment management fee is chargeable 30% to revenue and 70% to capital.

## Notes to the Accounts

	2003 £'000	2002 £'000
<b>4 Administrative expenses</b>		
Directors' fees (including National Insurance contributions and irrecoverable VAT)	175	156
Auditors' remuneration - audit services	13	12
- non audit services	8	2
Other expenses	1,026	1,090
	<u>1,222</u>	<u>1,260</u>

The non audit fees relate to the auditor's review in connection with the change of investment manager and the interim accounts.

	2003 £'000	2002 £'000
<b>5 Directors' fees</b>		
Directors' fees	162	142

The emoluments of the chairman, who was the highest paid director, were £35,500 (2002 – £32,000). The emoluments of each of the other directors were £19,750 (2002 – £18,000) per annum plus an additional £5,000 (2002 – £2,500) for the senior independent director and £2,500 (2002 – £1,250) for the chairman of the audit and management engagement committee. The maximum aggregate fee payable under the company's articles of association is £250,000.

Roy Summers' emoluments were paid directly to Thalassa Industries Ltd on his behalf.

	2003 £'000	2002 £'000
<b>6 Interest payable and similar charges</b>		
Debentures repayable after more than five years	19,250	19,250
Amortised debenture stock discount and issue expenses	251	251
	<u>19,501</u>	<u>19,501</u>
Charged against capital reserve - realised (see note 16)	(13,651)	(13,651)
	<u>5,850</u>	<u>5,850</u>

## Notes to the Accounts

	2003 £'000	2002 £'000
<b>7 Tax on ordinary activities</b>		
<b>a) Analysis of charge in the year</b>		
Overseas taxation	-	1
<b>b) Factors affecting the tax charge for the year</b>		
The tax assessed for the period is lower than the standard rate of corporation tax in the UK for an investment trust company (30%) (2002 – 30%).		
The differences are explained below:		
	2003 £'000	2002 £'000
Return on ordinary activities before tax	27,065	31,144
Return on ordinary activities multiplied by the standard rate of corporation tax of 30% (2002 – 30%)	8,119	9,343
Effects of:		
Income not subject to corporation tax	(9,790)	(10,846)
Increase in excess management expenses/excess loan relationship debits in the revenue account	1,671	1,503
Overseas tax expensed	-	1
Current tax charge (note 7a)	-	1

Investment trust companies are exempt from tax on capital gains if they meet the Inland Revenue criteria set out in s842 ICTA 1988 for a given period. Therefore, any capital return is not included in the above reconciliation.

c) At 31 March 2003, the company had net surplus management expenses and net surplus losses on loan relationships (being the excess of interest payable on the debenture stocks and any other borrowing over interest receivable) totalling £131,149,793 (2002 – £109,190,095). A deferred tax asset has not been recognised in respect of these. 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.

	2003 £'000	2002 £'000
<b>8 Dividends</b>		
Interim dividend paid of 4.2 pence per share (2002 – 4.1p)	10,340	10,178
Final proposed dividend of 8.95 pence per share (2002 – 8.65p)	21,730	21,350
Overprovision of final dividend in prior year due to share buybacks	(54)	(298)
	<u>32,016</u>	<u>31,230</u>

# Notes to the Accounts

## 9 Return per ordinary share

	revenue	2003 capital	total	revenue	2002 capital	total
Basic	11.05p	(205.49p)	(194.44p)	12.50p	(57.59p)	(45.09p)

Returns per ordinary share are based on the net revenue return on ordinary activities after taxation of £27,065,000 (2002 – £31,143,000), and the capital depreciation in the year of £503,374,000 (2002 – depreciation of £143,493,000) and on 244,959,865 ordinary shares (2002 – 249,160,152), being the weighted average number of ordinary shares in issue during the year.

## 10 Investments

		2003 £'000	2002 £'000
Listed in the UK		806,069	1,328,626
Total listed investments		806,069	1,328,626
Unlisted investments - directors' valuation		128	989
		806,197	1,329,615
	listed UK £'000	unlisted £'000	total £'000
Opening book cost	1,133,843	798	1,134,641
Opening unrealised appreciation	194,783	191	194,974
Opening valuation	1,328,626	989	1,329,615
Movements in the year to 31 March 2003			
Purchases at cost	700,641	-	700,641
Sales - proceeds	(737,076)	-	(737,076)
Sales - realised losses on sales	(171,217)	-	(171,217)
Decrease in unrealised appreciation	(314,905)	(861)	(315,766)
Closing valuation	806,069	128	806,197
Closing book cost	926,191	798	926,989
Closing unrealised depreciation	(120,122)	(670)	(120,792)
	806,069	128	806,197
			2003 £'000
Realised losses on sales			(171,217)
Decrease in unrealised appreciation			(315,766)
Losses on investments			(486,983)
			2002 £'000
			(30,040)
			(96,227)
			(126,267)

The annualised portfolio turnover rate for the year is 76.4% (2002: 33.9%). The increase in the turnover rate was partly due to the realignment of the portfolio following the change of investment manager.

## 11 FRS 13 - Financial Instruments

The investment objective of the company is detailed on page 1. In pursuit of this objective, the company may be exposed to various forms of risk, as described below.

The company's financial instruments comprise:

- Equity shares held in accordance with the company's investment objective and policies
- Cash, liquid resources and short-term debtors and creditors that arise from its operations
- Debenture stocks

The risks arising from the company's financial instruments are market price risk, which comprises interest rate risk, equity price changes and foreign currency exposure, liquidity risk and counterparty credit risk. The board reviews and agrees policies for managing each of these risks, which are summarised below.

### Market price risk

Market risk arises mainly from uncertainty about future prices of financial instruments used in the company's business. It represents the potential loss the company might suffer through holding market positions in the face of price movements and changes in exchange rates. At each board meeting the board considers the asset allocation of the portfolio and the risk associated with particular industry sectors within the parameters of the investment objective. The investment manager is responsible for actively monitoring the existing portfolio selected in accordance with the overall asset allocation parameters described above and seeks to ensure that individual stocks also meet an acceptable risk-reward profile.

### Fair value of financial assets and liabilities

Financial assets and liabilities are stated in the balance sheet at values which are not materially different to their fair values, with the exception of the long term fixed rate debenture stocks, whose fair value as at 31 March 2003 has been estimated on the basis of quoted market prices for the stocks and is set out below.

	2003		2002	
	fair value £'000	book value £'000	fair value £'000	book value £'000
11½% debenture stock 2014	147,041	100,000	142,813	100,000
7¾% debenture stock 2022	119,047	100,000	114,625	100,000
	<u>266,088</u>	<u>200,000</u>	<u>257,438</u>	<u>200,000</u>

### Interest rate risk

All of the company's long term debt is fixed rate which exposes the company to changes in market value in the event that the debt is repaid before maturity. The debenture stocks in issue provide secure long term funding while short term flexibility is achieved through overdraft facilities. Information on the debenture stocks is provided in note 14.

The company's financial assets are mainly invested in equity shares and other investments which neither pay interest nor have a maturity date. The company also has substantial cash balances of £14,808,000. The rate of interest on the cash balances is currently 3.0625%, consequently the risk of a decrease in cash interest earned is low.

## Notes to the Accounts

The interest profile of the company's financial liabilities excluding short-term creditors, as at 31 March 2003 and 2002 was as follows:

Currency	2003 fixed rate financial liabilities £'000	2002 fixed rate financial liabilities £'000
UK Sterling	<u>200,000</u>	<u>200,000</u>
	2003 weighted average interest rate	2003 fixed rate financial liabilities: weighted average period for which rate is fixed
UK Sterling	<u>9.625%</u>	<u>184.5 months</u>

### Foreign currency risk

The company has a small holding denominated in a currency other than the company's base currency (sterling). The one remaining US Dollar stock is due to a previous strategy where overseas unquoted stocks were held.

### Liquidity risk

The company's assets mainly comprise readily realisable securities, which can be easily sold to meet funding commitments if necessary. Short-term flexibility is achieved by the use of overdraft facilities as required. Details of the company's borrowing commitments are explained in note 14 to the accounts.

The maturity profile of the company's financial liabilities at 31 March 2003 and 2002 is as follows:

	2003 £'000	2002 £'000
In more than five years	<u>200,000</u>	<u>200,000</u>
	<u>200,000</u>	<u>200,000</u>

Short-term debtors and short-term creditors are excluded from the above analysis.

The company is invested in the Fidelity Institutional Cash Fund plc - Sterling Fund. The advantages of investing in the Fund is that the rate of interest generated is consistent, as well as providing instant access to the invested cash. The Fund endeavours to maintain a Triple A rating (Aaa) and an MRI+ rating by Moody's. The Fund will be invested in low risk short term investments and accordingly will carry a low degree of risk. The Fund will invest in instruments whose maturity or interest rate refixing date is less than one year. It is expected that the average maturity will generally be under sixty days. The Fund may invest in bankers acceptances, certificates of deposit fixed and variable, promissory notes (master notes), commercial paper fixed and variable, floating rate notes, medium term notes, securites issued by the government primarily of an EU member state or any other OECD government (including supra-national entities) and securities or discount notes issued by agencies backed by such governments or supra-national entities, securities issued by non-government institutions. Fidelity receives a management fee capped at 0.15% of the Net Asset Value of the Fund.

The manager has the option to invest up to £200m of the above debenture stocks in the equity market. However using 100% of the debenture stocks at a time when the portfolio has fallen in value would leave the company potentially "overgeared" to the market. In a rising market the company would benefit, but in a falling market the impact would be severe. In order to manage the level of gearing, Fidelity invests part of the assets available in short term cash deposits. This controls the level of net gearing.

## Notes to the Accounts

### Counterparty risk

Certain transactions in securities that the company enters into expose it to the risk that the counterparty will not deliver either the shares (on a purchase) or the cash (on a sale) after the company has fulfilled its responsibilities.

The company buys and sells investments on a delivery versus payment basis to manage risk.

The company only buys and sells investments through brokers which have been approved by the manager as an acceptable counterparty. Additionally, limits are set as to the maximum exposure to any broker at any time, and these limits are reviewed on a regular basis.

	2003 £'000	2002 £'000
<b>12 Debtors</b>		
Amounts falling due within one year		
Amounts due from brokers	3,839	1,558
Accrued income	8,541	11,320
	<u>12,380</u>	<u>12,878</u>
	2003 £'000	2002 £'000

### 13 Creditors - amounts falling due within one year

Amounts due to brokers	278	22,408
Interest due on debenture stocks	2,836	2,836
Sundry creditors	536	99
Proposed final ordinary dividend	21,730	21,350
	<u>25,380</u>	<u>46,693</u>
	2003 £'000	2002 £'000

### 14 Creditors - amounts falling due after more than one year

<b>Repayable after more than five years:</b>		
11½% debenture stock 2014	100,000	100,000
7¾% debenture stock 2022	100,000	100,000
Unamortised discount and expenses of debenture issue	(4,899)	(5,150)
	<u>195,101</u>	<u>194,850</u>

The 11½% debenture stock is redeemable at par on 30 June 2014 and interest is payable in half yearly instalments in June and December each year. The 7¾% debenture stock is redeemable at par on 30 September 2022 and interest is payable in half yearly instalments in March and September each year.

Both debenture stocks are secured by a floating charge over the whole of the assets of the company.

The market value of the debenture stocks at 31 March 2003 was £266,088,000 (2002 – £257,438,000).

The effect on the net asset value of deducting the debenture stocks at market value rather than at par is disclosed in note 17.

## Notes to the Accounts

	2003 £'000	2002 £'000
<b>15 Called-up share capital</b>		
<b>Authorised:</b>		
316,099,929 (2002: 316,099,929) ordinary shares of 25p each - equity	79,025	79,025
<b>Allotted, called up and fully paid:</b>		
242,796,714 (2002: 246,821,714) ordinary shares of 25p each - equity	60,699	61,705

During the year, the company repurchased 4,025,000 ordinary shares at a cost of £11,935,000. This represented 1.63% of the company's issued ordinary share capital and reduced the number of ordinary shares in issue from 246,821,714 to 242,796,714.

	share premium account £'000	capital redemption reserve £'000	2003 capital reserve realised £'000	capital reserve unrealised £'000	revenue reserve £'000
<b>16 Reserves</b>					
<b>Beginning of year</b>	6,639	11,750	885,336	194,974	41,174
Exchange losses on other net assets	-	-	(2)	-	-
Net loss on realisation of investments	-	-	(171,217)	-	-
Decrease in unrealised appreciation	-	-	-	(315,766)	-
Management fee charged to capital	-	-	(2,738)	-	-
Debenture interest and amortised expenses	-	-	(13,651)	-	-
Retained net loss for the year	-	-	-	-	(4,951)
Repurchase of ordinary shares	-	1,006	(11,935)	-	-
<b>End of year</b>	<u>6,639</u>	<u>12,756</u>	<u>685,793</u>	<u>(120,792)</u>	<u>36,223</u>

70% of the investment management fee and relevant finance costs have been allocated to the realised capital reserve, in line with the board's expectation of returns from the company's investments over the long term in the form of income and capital respectively.

## 17 Net asset value per share

Total shareholders' funds have been calculated in accordance with the provisions of Financial Reporting Standard 4 "Capital Instruments". The analysis of total shareholders' funds on the face of the balance sheet does not reflect the rights, under the articles of association, of the ordinary shareholders on a return of assets. These rights are reflected in the net asset value and the net asset value per share attributable to ordinary shareholders at the year end, adjusted to reflect the deduction of the debenture stock at par. A reconciliation between the two sets of figures is given below:

	2003	2002
Total shareholders' funds	£681,318,000	£1,201,578,000
Adjusted net assets	£676,419,000	£1,196,428,000
Number of equity shares in issue at year end	242,796,714	246,821,714
Total shareholders' funds per share	280.61p	486.82p
Less: Unamortised debenture stock discount and issue expenses	(2.02p)	(2.09p)
Adjusted net asset value per share	<u>278.59p</u>	<u>484.73p</u>

## Notes to the Accounts

### Net asset value per share - continued

	2003 £'000	2002 £'000
The movements during the year of the assets attributable to the ordinary shares were as follows:		
Adjusted net assets at 31 March 2002	1,196,428	1,367,882
Total recognised capital loss for the year	(503,374)	(143,493)
Revenue return for the year	27,065	31,143
Dividend appropriated in the year	(32,016)	(31,230)
Movement in unamortised debenture stock discount and issue expenses	251	251
Share buybacks	(11,935)	(28,125)
Adjusted net assets at 31 March 2003	<u>676,419</u>	<u>1,196,428</u>

The net asset value adjusted to include the debenture stocks at market value rather than at par is 251.38p (2002 – 461.46p).

### 18 Reconciliation of movement in shareholders' funds

	2003 £'000	2002 £'000
<b>Opening shareholders' funds</b>	1,201,578	1,373,283
Repurchase of ordinary shares	(11,935)	(28,125)
Total recognised losses before dividends	(476,309)	(112,350)
Interim dividend paid	(10,340)	(10,178)
Proposed dividend payable	(21,730)	(21,350)
Overprovision of final dividend in prior year due to share buybacks	54	298
<b>Closing shareholders' funds</b>	<u>681,318</u>	<u>1,201,578</u>

### 19 Reconciliation of net cash movements to movement in net debt

	2003 £'000	2002 £'000
<b>Beginning of year</b>	(94,222)	(134,856)
Net cash inflow/(outflow)	12,011	(2,339)
Foreign exchange rate movement	-	(2)
Treasury bills	(24,831)	(29,774)
AAA Money Market Funds	(73,000)	73,000
Fidelity Institutional Cash Fund	68,414	-
Debt due after more than one year	(251)	(251)
<b>Change in net debt</b>	<u>(17,657)</u>	<u>40,634</u>
<b>End of year</b>	<u>(111,879)</u>	<u>(94,222)</u>

## Notes to the Accounts

### Reconciliation of net cash movements to movement in net debt - continued

	2003 £'000	Cash flows £'000	expenses £'000	2002 £'000
<b>Analysis of balances</b>				
Cash at bank	14,808	12,011	-	2,797
Treasury Bills	-	(24,831)	-	24,831
AAA Money Market Funds	-	(73,000)	-	73,000
Fidelity Institutional Cash Fund	68,414	68,414	-	-
Debt due after more than one year	(195,101)	-	(251)	(194,850)
<b>End of year</b>	<u>(111,879)</u>	<u>(17,406)</u>	<u>(251)</u>	<u>(94,222)</u>

	2003		2002			
	share capital £'000	debentures £'000	total £'000	share capital £'000	debentures £'000	total £'000

### 20 Analysis of changes in financing during the year

<b>Beginning of year</b>	68,344	194,850	263,194	69,854	194,599	264,453
Cash outflow from repurchase of shares	(1,006)	-	(1,006)	(1,510)	-	(1,510)
Amortised discount and expense of issue	-	251	251	-	251	251
<b>End of year</b>	<u>67,338</u>	<u>195,101</u>	<u>262,439</u>	<u>68,344</u>	<u>194,850</u>	<u>263,194</u>

	2003 £'000	2002 £'000
<b>21 Reconciliation of net revenue before finance costs and taxation to net cash inflow from operating activities</b>		

Net return before finance costs and taxation	32,915	36,994
Decrease in accrued income	2,779	388
Increase/(decrease) in sundry creditors	437	(31)
Management fee charged to capital	(2,738)	(3,573)
<b>Net cash inflow from operating activities</b>	<u>33,393</u>	<u>33,778</u>

	2003 £'000	2002 £'000
<b>22 Contingent liabilities and capital commitments</b>		

Amounts uncalled in respect of nil or partly paid shares	-	383
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## Investments

	£'000		£'000
<b>BASIC INDUSTRIES</b>		Pearson	2,557
<b>CHEMICALS</b>		Informa	2,068
Croda International	2,580	Johnston Press	1,620
Johnson Matthey	1,893	Daily Mail & General Trust	1,576
BOC	1,828	Granada	1,000
British Vita	1,300	GWR	909
<b>CONSTRUCTION &amp; BUILDING MATERIALS</b>		Capital Radio	612
Barratt Developments	4,735	Sportsworld Media	0
Wolseley	3,890	<b>SUPPORT SERVICES</b>	
McAlpine (Alfred)	3,291	Compass	6,368
AMEC	2,972	Davis Service	4,178
BPB	2,204	Intertek Testing Services	3,694
Persimmon	1,637	PHS	3,389
Mowlem (John)	1,553	Chubb	3,056
Balfour Beatty	1,323	Hays	2,100
Bellway	1,000	Rexam	2,016
Westbury	640	RPS	1,755
Ultraframe	536	Mitie Group	1,425
<b>FORESTRY &amp; PAPER</b>		Johnson Service	1,354
DS Smith	1,154	Peterhouse	1,285
	<u>32,536</u>	Shanks	1,207
<b>CYCLICAL CONSUMER GOODS</b>		Bunzl	956
<b>AUTOMOBILES &amp; PARTS</b>		Trifast	862
Inchcape	3,695	Jarvis	642
Pendragon	1,244	Acal	590
Vardy	1,173	Michael Page International	561
European Motor	586	Robert Walters	453
C D Bramall	403	Communis	198
Lookers	240	<b>TRANSPORT</b>	
Mayflower	148	BAA	3,555
	<u>7,489</u>	Easyjet Airline	1,977
<b>CYCLICAL SERVICES</b>		Arriva	1,416
<b>GENERAL RETAILERS</b>		Tibbett & Britten	1,415
Kingfisher	9,081	British Airways	1,313
JJB Sports	2,639	P&O	1,208
WH Smith	2,290	Avis Europe	1,140
Matalan	1,734	TDG	615
Debenhams	1,581		<u>130,113</u>
Signet	1,215	<b>FINANCIALS</b>	
Wyevale Garden Centres	1,193	<b>BANKS</b>	
Woolworths	830	HSBC	35,217
Brown (N)	764	Royal Bank of Scotland	18,042
Dixons	588	Barclays	16,155
Homestyle	276	Standard Chartered	15,466
Hamleys	247	HBOS	15,356
<b>LEISURE &amp; HOTELS</b>		Lloyds TSB	12,166
Hilton	7,746	Northern Rock	10,691
Stanley Leisure	4,002	Abbey National	8,240
Whitbread	1,510	Alliance & Leicester	3,973
William Hill	1,405	Bradford & Bingley	2,634
Punch Taverns	1,103	<b>INSURANCE</b>	
Wetherspoon (JD)	989	Royal & Sun Alliance Insurance	3,259
First Choice Holidays	601	Jardine Lloyd Thompson	1,250
<b>MEDIA &amp; ENTERTAINMENT</b>		<b>INVESTMENT COMPANIES</b>	
Reed Elsevier	7,587	3i	5,254
BSkyB	6,580	<b>LIFE ASSURANCE</b>	
EMAP	6,142	Prudential	7,357
United Business Media	5,076	Aviva	4,791
Trinity Mirror	2,960	Legal & General	1,152
Taylor Nelson Sofres	2,904	St James's Place Capital	748

# Investments

	£'000		£'000
REAL ESTATE		Amersham	2,104
Chelsfield	3,239	Alliance Unichem	1,137
Slough Estates	2,598	Nestor Healthcare	605
Pillar Property	2,178	SSL International	548
Capital & Regional Cv 6.75% 07/2016	1,910	Bespak	529
Minerva	793	PHARMACEUTICALS & BIOTECHNOLOGY	
SPECIALITY & OTHER FINANCE		GlaxoSmithKline	64,160
AMVESCAP	5,919	AstraZeneca	17,640
Intermediate Capital	3,639	Shire Pharmaceuticals	2,856
Provident Financial	3,326	Galen	2,458
Close Brothers	2,017	TOBACCO	
Investec	1,788	Gallaher	17,545
ICAP	1,647	Imperial Tobacco	9,849
Man	1,516	British American Tobacco	7,503
Countrywide Assured	1,209		<u>181,512</u>
Cattles	737	NON-CYCLICAL SERVICES	
KB Mezzanine Fund	128	FOOD & DRUG RETAILERS	
	<u>194,395</u>	Tesco	13,367
GENERAL INDUSTRIALS		Safeway	6,399
AEROSPACE & DEFENCE		Morrison	2,899
Cobham	6,363	TELECOMMUNICATION SERVICES	
Vosper Thornycroft	3,176	Vodafone	53,790
British Aerospace	1,672	Cable & Wireless	5,601
Meggitt	1,255	mmO <sub>2</sub>	1,652
Ultra Electronics	1,163	BT	760
ELECTRONIC & ELECTRICAL EQUIPMENT			<u>84,468</u>
Renishaw	795	RESOURCES	
ENGINEERING & MACHINERY		MINING	
Cookson	2,720	BHP Billiton	7,792
Rotork	938	Anglo American	5,115
Bodycote	572	Xstrata	1,509
Cammell Laird	0	Rio Tinto	1,416
	<u>18,654</u>	Lonmin	611
INFORMATION TECHNOLOGY		OIL & GAS	
INFORMATION TECHNOLOGY HARDWARE		BP Amoco	66,551
Arm	1,113	Shell Transport & Trading	40,798
Filtronic	273	John Wood	1,865
SOFTWARE & COMPUTER SERVICES		Expro International	1,453
Logica	2,937	Cairn Energy	811
Misys	1,792	Lasmo	421
Isoft	1,779		<u>128,342</u>
Xansa	805	UTILITIES	
Emblaze Systems	581	ELECTRICITY	
Surfcontrol	201	Scottish & Southern Energy	7,326
	<u>9,481</u>	Scottish Power	2,176
NON-CYCLICAL CONSUMER GOODS		OTHER UTILITIES	
BEVERAGES		Centrica	4,066
Diageo	6,266	Severn Trent	2,555
Allied Domecq	1,387	National Grid	1,057
FOOD PRODUCERS & PROCESSORS		Kelda	849
Unilever	23,438	AWG	716
Associated British Foods	7,088	Pennon	462
Tate & Lyle	6,988		<u>19,207</u>
Cadbury-Schweppes	5,261	Total Investments	<u>806,197</u>
Geest	1,414	Total Equities	804,287
Dairy Crest	346	Total Bonds	1,910
HEALTH			<u>806,197</u>
Smith & Nephew	2,390		

# Notice of Meeting

Notice is hereby given that the one hundred and fourteenth Annual General Meeting of The Edinburgh Investment Trust plc will be held in the Caledonian Hilton Hotel, Princes Street, Edinburgh on Wednesday 2 July 2003 at 12 noon, for the following purposes:

## ORDINARY BUSINESS

1. To receive the report of the directors and auditors and the financial statements for the year ended 31 March 2003.
2. To declare a final dividend on the ordinary shares.
3. To re-elect Miss Eileen Mackay a director of the company.
4. To re-elect Mr Ian Inglis a director of the company.
5. To approve the Directors' Remuneration Report for the year ended 31 March 2003
6. To re-appoint KPMG Audit Plc as auditors of the company.
7. To authorise the directors to fix the remuneration of the auditors for the year to 31 March 2004.

## SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution.

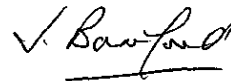
### *Special resolution*

8. That, in substitution for any existing authority, the company be and it is hereby authorised in accordance with section 166 of the Companies Act 1985 (the "Act"), to make market purchases (within the meaning of section 163(3) of the Act) of any of its ordinary shares of 25p each ('shares') in such manner and upon such terms as the directors of the

company may from time to time determine, provided that:

- (i) the maximum number of shares hereby authorised to be purchased is 14.99% of the issued share capital of the company as at the date of the passing of this resolution;
- (ii) the minimum price which may be paid for a share shall be 25p;
- (iii) the maximum price (exclusive of expenses) which may be paid for a share shall be an amount equal to 105% of the average of the middle market quotations (as derived from the Stock Exchange Daily Official List) for the shares for the five business days immediately preceding the date of purchase; and
- (iv) unless previously revoked, renewed or varied, the authority hereby conferred shall expire on the earlier of 1 January 2005 or at the conclusion of the annual general meeting of the company to be held in 2004, save that the company may, prior to such expiry enter into a contract or contracts to purchase shares under such authority which would or might be executed wholly or partly after the expiry of such authority and the company may make such a purchase in pursuance of any such contract or contracts as if the authority hereby conferred had not expired.

By order of the board



**Fidelity Investments International**

Secretary

2 June 2003

# Notice of Meeting

Note:

1. A member who is entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the company.
2. A form of proxy for use by shareholders is enclosed with these accounts. Completion and return of the form of proxy will not prevent any shareholder from attending the meeting and voting in person. To be valid, the form of proxy should be lodged, together with any Power of Attorney or other authority (if any) under which it is signed or an extract from the Books of Council and Session or a notarially certified copy of such power or authority at the address stated thereon, so as to be received not less than 48 hours before the time of the meeting.
3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the company specifies that only those shareholders entered on the register of members of the company as at 6.00pm on 30 June 2003 or, in the event that the meeting is adjourned, on the register of members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares registered in their name at that time. Changes to the entries on the register of members after 6.00pm on 30 June 2003 or, in the event that the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting, notwithstanding any provisions in any enactment, the articles of association of the company or other instrument to the contrary.
4. There are special arrangements for holders of shares through The Fidelity Investment Trust Share Plan and The Fidelity Investment Trust ISA/PEP, and for holders through InvestIT - The Edinburgh Fund Managers Investment Trust Savings Plan and ISA/PEP and Pension arrangements. These are explained in the 'Letter of Direction' which such holders will have received with this report.

# Financial Calendar

Announcements, ordinary share dividend payments and the issue of the annual and interim reports may normally be expected in the following months:

**May** – Preliminary figures and recommended final dividend for year announced

**June** – Annual report and accounts published

**July** – Annual General Meeting and final dividend paid

**October** – Interim figures and interim dividend announced

**November** – Interim report for half-year to 30 September published

**December** – Interim dividend paid

Debenture interest is payable half-yearly as undernoted.

**This year's Annual General Meeting will be held in the Caledonian Hilton Hotel, Princes Street, Edinburgh on Wednesday 2 July 2003 at 12 noon to be followed by a buffet lunch. Shareholders are asked to reply on the enclosed card if they will be attending the meeting.**

Debenture stock	interest payable
11½ % debenture stock 2014	30 June and 31 December
7¾ % debenture stock 2022	31 March and 30 September

# The Fidelity ISA, PEP and Investment Trust Share Plan

## The Manager

The manager, Fidelity Investments International, offers a flexible and good value range of products (with no exit fees) to help you get the most from investing in the company.

**The Fidelity Investment Trust ISA and PEP**  
ISA - investing in the company through the Fidelity ISA (Individual Savings Account) can be an excellent way to get more from your investment because there is no income or capital gains tax to pay on your returns.

There are two types of ISA:

- **Maxi ISA** – allows you to invest your full tax allowance of £7,000 per year into stocks and shares
- **Mini ISA** – enables you to invest up to £3,000 per tax year into stocks and shares

You can invest a lump sum from £1,000 or start a monthly savings plan from £50 a month. You can also top-up your ISA from £250.

**5 in 1 ISA** - As part of the range of 5 Fidelity managed investment trusts, you can also invest in the company via the 5 in 1 ISA which spreads your money equally across Fidelity's whole investment trust range. The 5 in 1 ISA is a simple and convenient way to invest across Europe, the UK, Japan and Asia, providing a broadly diversified investment.

**ISA & PEP transfers** - You can transfer ISAs and PEPs you currently hold with other providers into the company within the Fidelity ISA or PEP without losing your existing tax benefits – there is no transfer charge for this service. However, please bear in mind that your current ISA or PEP manager may ask you to pay an exit charge.

If you hold shares in the company in an ISA or PEP with the previous manager – Edinburgh Fund Managers (EFM) – and wish to transfer your ISA or PEP to Fidelity, Fidelity will cover the exit fee charged by EFM.

To transfer your holdings to Fidelity simply call on 0800 41 41 10 for a transfer pack or log onto [www.itseit.co.uk](http://www.itseit.co.uk) to download a transfer application form.

**ISA & PEP charges** - The standard initial charge for the Fidelity ISA is 3.25%. The annual charge for The Edinburgh Investment Trust plc within an ISA or PEP is 0.5% +VAT. There is an additional charge of 0.5% +VAT per annum for investors investing via an authorised financial adviser.

## The Fidelity Investment Trust Share Plan (investment trust savings scheme)

**Share Plan** - This product offers a particularly low cost, convenient and flexible way to invest in The Edinburgh Investment Trust plc. You can invest from £1,000 for lump sums or from £50 for monthly savings. The Fidelity Investment Trust Share Plan can be particularly attractive if you have already used your full ISA allowance or would like to invest on behalf of a child. In addition, you'll receive a twice yearly report detailing the value of your shareholding and a statement of your transactions.

**Investing for Children** - The Fidelity Investment Trust Share Plan is also a highly flexible and inexpensive way to invest on behalf of children. To take advantage of this, simply enter the initials or name of the child for whom you are investing in the Designation Box when you complete the standard Share Plan application form. A special leaflet on investing for children through investment trusts is available from Fidelity.

**Transfers** - If you hold shares directly in the company you can transfer these into the Fidelity Investment Trust Share Plan by completing an application form and CREST transfer form. To receive these forms please call Fidelity on 0800 41 41 10.

If you hold the company's shares within the EFM investment trust savings scheme (InvestIT) you can

# The Fidelity ISA, PEP and Investment Trust Share Plan

also transfer these to the Fidelity Investment Trust Share Plan and Fidelity will cover any exit fees charged by EFM. Such a transfer could be of particular benefit to investors who would like to recommence monthly savings (now no longer available with the EFM scheme) and would like to have all their holdings together in one account. For investors transferring existing holdings, Fidelity will also accept monthly savings contribution below its standard £50 per month minimum. To arrange a transfer please call Fidelity on 0800 41 41 10.

**Share Plan charges** - There are no charges for buying, selling or holding shares through the Fidelity Investment Trust Share Plan other than 0.5% Government Stamp Duty which is currently payable on all share purchases. Advisers may receive a commission up to 3% through the addition of an initial charge.

## Keeping you informed

The company's share price appears daily in The Financial Times, The Times, The Guardian, The Daily Telegraph, The Scotsman and The Herald. Investors can also obtain the latest share price by phoning FT Cityline on 0906 843 2422. All calls cost 60p per minute.

Detailed data on the company, including price and performance information is available on the website [www.itseit.co.uk](http://www.itseit.co.uk).

## Further information

For further details of the products described or to request literature and application forms please contact the Fidelity Investment Trust Line on 0800 41 41 10 and talk to a Fidelity customer representative (9am to 6pm every day).

If you live in the London area, you may like to visit Fidelity's Investor Centre, on the ground floor of their offices at 25 Cannon Street, next to St Paul's Cathedral.

You can also find out more about investing in The Edinburgh Investment Trust plc at [www.itseit.co.uk](http://www.itseit.co.uk), alternatively, please contact your Independent Financial Adviser.

A 10% tax credit on equity dividends will be reclaimable within an ISA until 5 April 2004. The value of tax savings and eligibility to invest in an ISA will depend on individual circumstances and all tax rules may change in the future. Past performance is not a guide to future returns. The value of investments and the income from them may fall as well as rise and the investor may not get back the amount invested. Fidelity only provides information about its products and will not give investment advice based on individual circumstances. Should you wish to seek advice, please contact an Independent Financial Adviser. The Fidelity Investment Trust ISA is offered and managed by Financial Administration Services Limited and the Fidelity Investment Trust Share Plan is offered by Fidelity Investments International. Both companies are authorised and regulated by the Financial Services Authority. The above information has been approved for the purposes of section 21 of the Financial Services and Markets Act 2000 by Fidelity Investments International which is authorised and regulated by the Financial Services Authority.