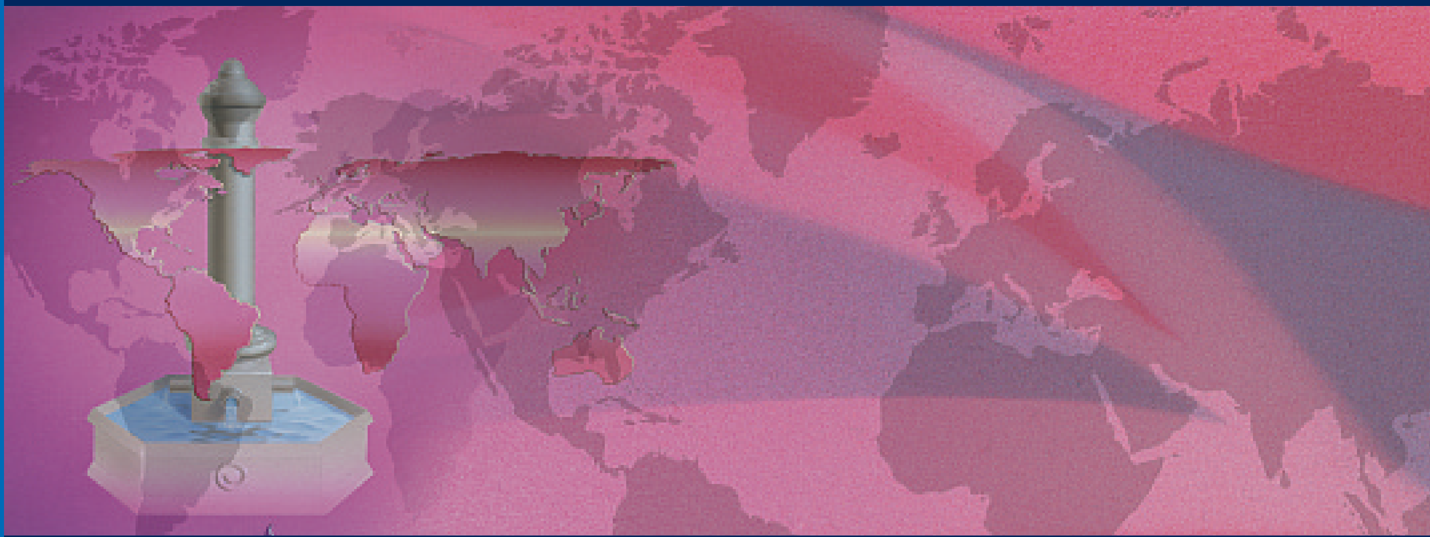
Allianz Dresdner
Asset Management



THE BRUNNER INVESTMENT TRUST PLC

Report and Accounts for the year ended
30th November 2003

Report

Contents

The illustration on the cover of this report features a fountain (Brunnen in German) from the Arms of the Brunner family, which derives from Switzerland. The great, great, great grandfather of WR Worsley, a director of The Brunner Investment Trust, was born in Canton Zürich and migrated to Lancashire in 1832. His son, Sir John T. Brunner, Bart, was the co-founder of Brunner, Mond & Co, the largest of the four companies which came together to form ICI in 1926. The family's interest in ICI was used in the following year to establish The Brunner Investment Trust PLC.

A member of The Association of Investment Trust Companies.

Category: Global Growth

Key Facts

Investment Objective

The Company's objective is to achieve a total return higher than that of the benchmark index of 60% FTSE All Share and 40% FTSE World Index (ex-UK sterling adjusted) over the long term.

Strategy

This objective will be achieved by investing in UK and international securities and by using appropriate gearing to enhance returns. The strategy is designed to meet the requirements of those seeking a single investment in a diversified and professionally managed portfolio.

Highlights of the Year

Revenue	2003	2002	% change
Available for Ordinary Dividend	£4,893,436	£4,769,167	+2.6%
Earnings per Ordinary Share	8.65p	8.16p	+6.0%
Dividends per Ordinary Share	7.80p	7.50p	+4.0%
Retail Price Index	182.7	178.2	+2.5%

Assets	2003	2002	% change
Total Net Assets	£189,655,533	£189,374,826	+0.2%
Share Price	262.5p	262.5p	0.0%
Net Asset Value per Ordinary Share	343.1p	329.0p	+4.3%
Expenses Ratio*	0.6%	0.7%	n/a

Explanation of the movement in Net Asset Value per Ordinary Share

Over the year to 30th November 2003 the benchmark index (60% FTSE All-Share Index, 7.2% and 40% FTSE World Index, ex UK in sterling 6.5%) increased by 7.0%.

Other factors accounting for the remainder of the difference between the opening and closing net asset value per share include the proportions of management fee and finance costs charged to capital and the retained revenue and positive impact of repurchasing Ordinary Shares, as set out below.

Portfolio performance

Performance of portfolio benchmark**		7.0%
Performance of equity portfolio against benchmark		
Due to stock selection	–0.6%	
Due to sector selection	–0.3%	
		–0.9%
		6.1%

Other factors

Retained revenue	0.3%	
Management fee and finance costs charged to capital	–1.9%	
Impact of repurchasing Ordinary Shares	1.0%	
Other	–1.2%	
		1.8%
		4.3%

*The expenses ratio is calculated by dividing operating expenses by total assets less current liabilities.

**The movement in the benchmark index over the year is calculated on a capital basis. The constituent indices are based on capital index returns re-balanced on a monthly basis.

Chairman's Statement

In the Interim Report dated 17th July 2003 I referred to the sharp rebound in markets during the second quarter of 2003. I expressed caution on how much further the upward trend would continue as valuation levels particularly in the United States were historically high. This view proved to be too cautious and further progress was seen in the latter part of the year albeit at a much slower pace than in the second quarter. Until very recently the running in markets during the recovery has been made by companies at the higher end of the risk spectrum. Consequently, the Trust, with its concentration on companies with strong balance sheets and lower risk, underperformed its benchmark this year as can be seen from the table on page 2. The graph on page 6 shows we remain just above the benchmark during the period since November 1998 when it was first adopted.

Earnings per share during the year grew by 6% and it is the Board's recommendation that the final dividend be increased from 4.20p to 4.40p per share making a total for the year of 7.80p (7.50p) a rise of 4%, in advance of the rate of inflation. In paying this dividend the Board has examined what the revenue position would look like if all of the gearing was committed to the markets on the same yield basis as the current portfolio.

The most disappointing feature of the last year has been the high level of discount to net assets at which the Trust's share price has stood in the Stock Market. Because of this our share price has lagged behind many of our peer group. As you can see on page 34 we have included in the report this year a calculation of what our net asset value would be if our prior charge capital was valued at its market price rather that at par as laid down by current account guidelines. You will see that this would reduce our discount to 18.9%, a figure which is significantly higher than our peer average discount of 14.5%.

The Board is unhappy with this level of discount and has considered what can be done to improve the situation. It is the capital structure that seems to be the prime cause of the problem. Between 10 and 15 years ago, the then Board raised two long term debentures with rates of interest between 9% and 11.5%. The Trust benefited significantly during the 1990s from that gearing, but so far in this decade, the gearing has acted as a considerable drag. Although we were able to neutralise the gearing, as far as capital values are concerned, by raising cash at a time when the FTSE index was around 5,000, compared with today's level of 4,400 we could not avoid the income shortfall arising from the fact that rates on deposit have been around 3%, whilst the cost of the debenture has been significantly higher.

Not only has the Trust borne that differential, amounting to around 1.5% of total assets per annum, but it has caused some uncertainty in the market place, and thus given Brunner a higher discount than most of our peers.

Finding a solution to the problem is not easy. The cost of repaying the debentures would be high, as it would involve paying a significant premium to par at a price governed by the comparable gilt yield or, in the case of First Debenture Finance, at the market price with associated tax penalties. We have also looked at the question of buying back the debentures in the market, but they are held for the long term by institutions and trade infrequently. Our willingness to take either of these two courses of action is also strongly influenced by the fact that, as we move towards redemption, the price of repayment will fall each year towards par, and we believe that interest rates are still near the bottom of the current cycle. Not only will further rises in interest rates reduce the repayment premium, but they will also lead to a reduction in the current income shortfall on any balances held in cash. Thus although we would like to change the current gearing structure it does not seem to be in the interests of shareholders to do so at this time.

A new law came into force in December allowing companies to buy back their own shares and hold them in Treasury. The shares can then be re-issued or cancelled at a later date. The arguments for and against Treasury shares are beginning to be heard and the Board believes that it would be sensible to give more thought to the consequences of their use before bringing a resolution to the AGM to take the necessary powers. Resolution 12, therefore, is confined to renewing for a further year the "Buy Back for cancellation" powers which have been operating for some time. Your Board believes that it is in the interests of Shareholders to vote in favour of such a resolution.

It is with much sadness that we learned of the death on 5th August last year of our former colleague John Flemming. John resigned shortly after the last AGM for health reasons. With his exceptional knowledge and experience of economic affairs, John made a major contribution to Board discussions during his years as a Director.

On 1 January 2004 the Board was very pleased to invite Vivian Bazalgette and Keith Percy to become Directors. They both have considerable investment management experience which will be of great benefit to the Trust in the future. Brief biographies of each can be found on page 41 of this report. I welcome them to the Board and I urge you to vote in favour of their election.

Chairman's Statement

Looking to the future there are the usual number of conflicting factors affecting current share prices. In America the stimulatory monetary and fiscal measures taken early last year do seem to have had the desired impact and growth rates have risen. But at what cost? The twin budget and current account deficits have reached record levels and the dollar has fallen sharply. Elsewhere signs of recovery are being seen in Europe and Japan but the strength of the euro and the yen could restrict any upturn and government finances in both areas have also shown distinct deterioration. Finally, and most importantly, the significant growth seen in the very competitive Chinese economy is having more and more of an impact on the global economic scene. The Board believes that such a background emphasises the need to stick to quality companies, despite or maybe because of their underperformance since last March, whilst continuing to look for opportunities to mitigate the cost of the current gearing structure whenever possible.

John Trott
Chairman
24th February 2004

Historical Record

Years ended 30th November

Revenue and Capital

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Gross revenue (£000s)	7,087	7,222†	8,018	7,586	6,833‡	6,679	7,254	7,495	7,232	7,327
Earnings per share	5.86p	6.25p†	6.98p	6.37p	6.40p	6.91p	8.01p	8.00p	8.16p	8.65p
Dividend per share (net)	5.50p	5.90p	6.30p*	6.50p	6.70p#	6.90p	7.10p	7.30p	7.50p	7.80p
Tax credit per share	1.375p	1.475p	1.575p*	1.625p	1.15p	0.77p	0.79p	0.81p	0.83p	0.87p
Total dividend	6.875p	7.375p	7.875p*	8.125p	7.85p	7.67p	7.89p	8.11p	8.33p	8.67p
Total net assets (£000s)	163,170	189,153†	210,274	227,400	252,307	342,148	326,102	254,055	189,375	189,656
Assets attributable to										
Ordinary Capital (£000s)	162,720	188,703†	209,824	226,950	251,857	341,698	325,652	253,605	188,925	189,206
Net Asset Value per Ordinary Share	254.2p	294.8p†	327.9p	354.6p	393.5p	560.7p	540.2p	424.3p	329.0p	343.1p
Share price	235.0p	249.0p	284.5p	310.0p	310.0p	467.5p	497.0p	376.5p	262.5p	262.5p
Discount (%)	8	15	13	13	21	17	8	11	20	23

Notes

Includes a Foreign Income Dividend of 2.11p.

* The dividend payment in 1996 excludes a special non-recurring dividend of 1.80p net or 2.25p gross.

† Restated to reflect the change in accounting policy for (i) recognition of dividend and fixed interest income, and (ii) the allocation of management fees and taxation between capital and revenue, resulting from the adoption of the Statement of Recommended Practice for the financial statements of investment trust companies.

‡ Restated to reflect income from UK dividends being recorded net of any tax credit in accordance with FRS16.

The share price, after adjustment for bonus issues, was 37.25p at 31st March 1982.

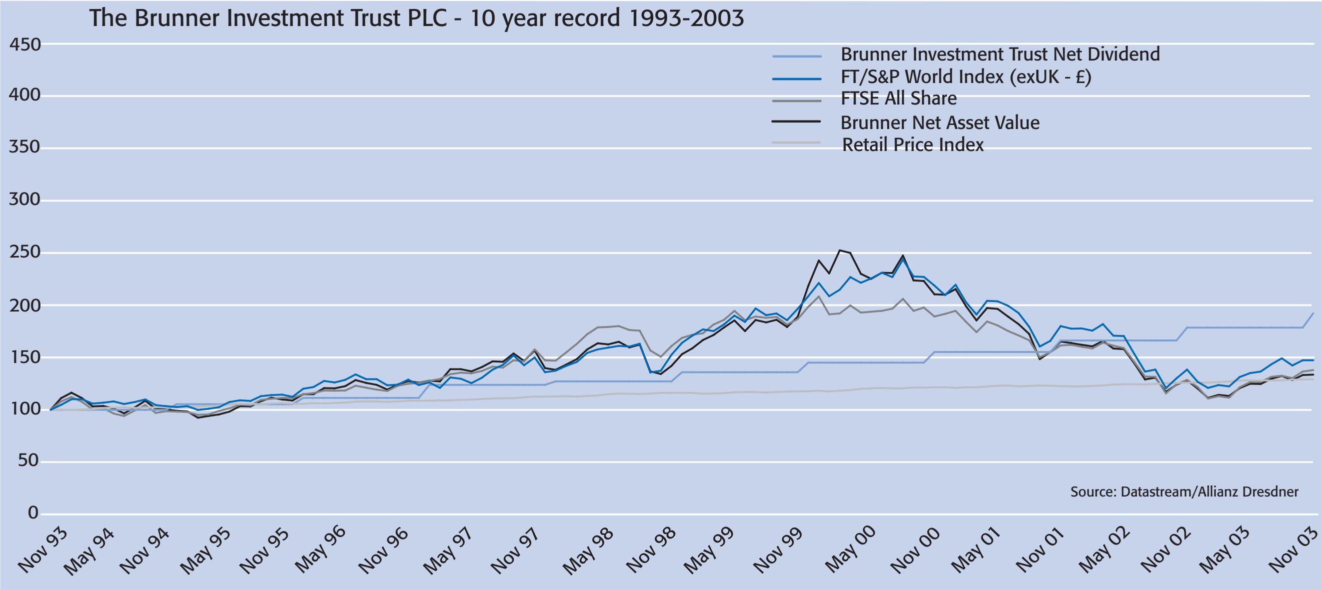
The share prices quoted in the London Stock Exchange Daily Official List for 28th November 2003 were 262.25p to 262.75p.

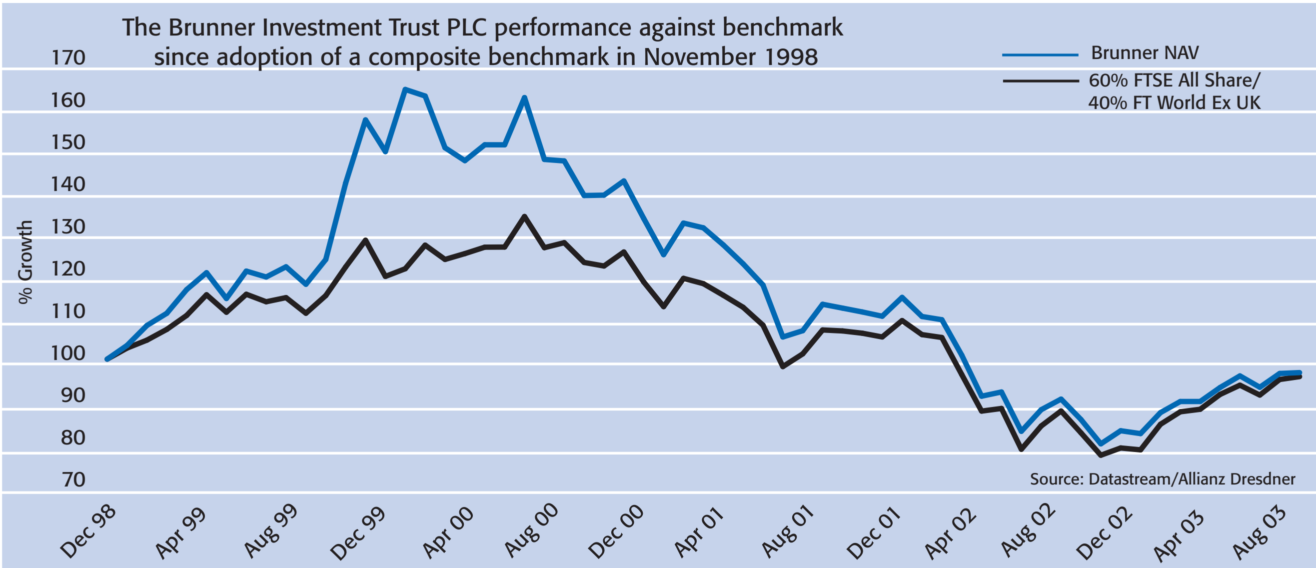
Geographical Disposition

	Percentage of Invested Funds									
	1994	1995	1996	1997	1998	1999	2000	2001	2002*	2003*
United Kingdom	53.8	55.0	53.7	64.2	63.1	59.9	68.6	63.7	58.1	56.7
Europe	9.0	10.3	11.5	7.8	16.5	10.0	7.2	9.2	9.3	11.0
Americas	14.0	14.0	13.1	13.0	13.9	17.0	18.4	19.6	21.7	23.0
Japan	2.1	2.5	4.4	4.9	2.6	8.2	3.2	3.4	3.6	4.1
Pacific Basin	15.5	14.0	14.2	7.6	2.5	3.3	1.4	2.7	5.1	4.9
Other Countries	5.6	4.2	3.1	2.5	1.4	1.6	1.2	1.4	2.2	0.3
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

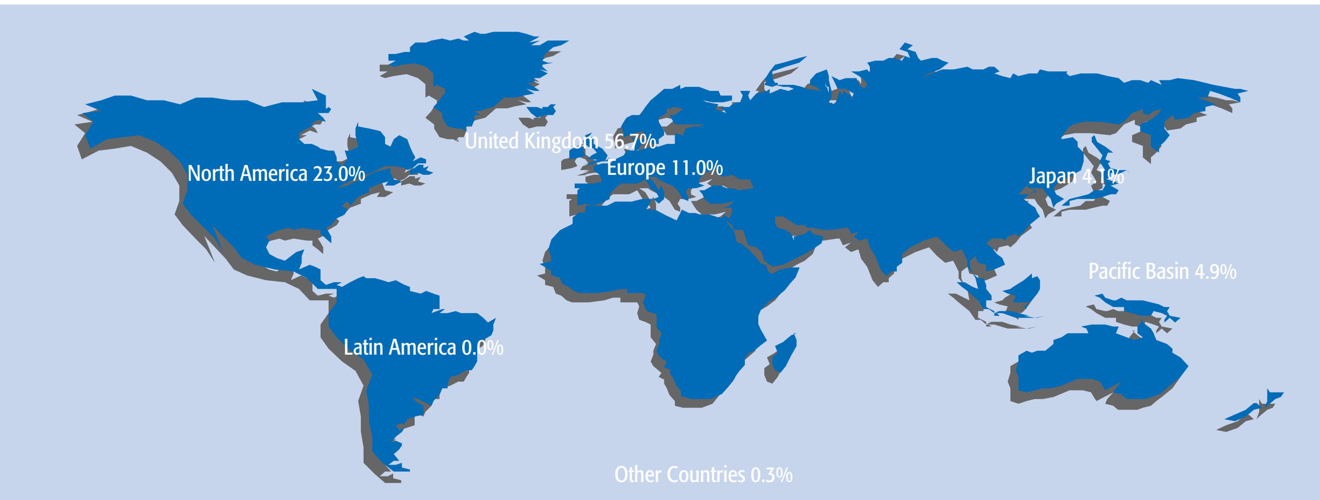
* Excludes Treasury Stock to the value of £25,130,000 (2002 – £25,355,000).

Performance Graphs





Geographical Disposition at 30th November 2003



Thirty Largest Investments

	Valuation 30th November 2003 £	% of Invested Funds	Principal Activities
Treasury Stock 5% 2004	25,130,000	11.44	Gilt
BP	9,470,501	4.30	Integrated Oil and Gas
Vodafone Group	9,337,221	4.24	Telecommunications
HSBC Holdings	9,038,038	4.11	Banking and Financial Services
GlaxoSmithkline	7,860,114	3.58	Manufacture of Pharmaceuticals
Royal Bank of Scotland	6,310,873	2.87	Banking and Financial Services
Barclays	4,731,518	2.15	Banking and Financial Services
Shell Transport & Trading	3,537,838	1.61	Integrated Oil and Gas
AstraZeneca	3,530,586	1.61	Manufacture of Pharmaceuticals
HBOS	3,154,206	1.44	Banking and Financial Services
Lloyds TSB	2,503,742	1.14	Banking and Financial Services
Compass	2,278,778	1.04	Leisure Entertainment and Hotels
British Sky Broadcasting	2,128,404	0.97	Media
Barratt Development	2,099,955	0.96	Construction and Building
Tesco	2,002,438	0.91	Food and Drug Retail
United Utilities	1,981,516	0.90	Water
Prudential	1,893,760	0.86	Life Assurance
Allied Domecq	1,884,731	0.86	Beverages
Unilever	1,646,568	0.75	Food Production
McDonalds	1,631,920	0.74	Leisure Entertainment
Pfizer	1,622,649	0.74	Health and Personal Care
Citigroup	1,617,660	0.74	Banking and Financial Services
General Electric	1,552,749	0.71	Diversified Industrial
Altria	1,492,885	0.68	Beverages and Tobacco
Microsoft	1,487,134	0.68	Software and Computer Services
Legal & General	1,485,971	0.68	Life Assurance
Cendant	1,471,781	0.67	Leisure Entertainment
BHP Billiton	1,461,161	0.67	Mining Metals and Minerals
Exxon Mobil	1,423,934	0.65	Integrated Oil and Gas
Anglo American	1,414,875	0.64	Mining Metals and Minerals
	£117,183,506	53.34	% of Total Invested Funds

Investment Managers' Review

United Kingdom

2003 was a pivotal year for the UK equity market. It began with a further bout of severe weakness, with investors concerned by the prospect of war, deflation, financial distress and the emergence of the SARS virus in Asia. By mid-March shares had fallen to such an extent that the yield on UK equities exceeded that on gilts, creating a valuation base that allowed the market to begin to rally when nerves were soothed by the anticipation of a swift conclusion to the war in Iraq. As the rally gathered pace it was further fuelled by a change from the forced selling by weakened Life Offices to forced buying of stocks in order to cover speculators' short positions in the market. As the year progressed, what started out as a fragile and speculative recovery became underpinned by signs of economic growth and rising investment. By the end of the year the UK stock market had recouped all of its initial fall and then gone on to register one of the strongest returns for many years.

We made a number of new investments and disposals during the year, some of which are discussed below. In general the moves were designed to raise the economic sensitivity of the portfolio to capture more of the potential benefits of a recovering global economy. One of the key sectors for the trust is its above-market exposure to the UK Banking sector, where fears of a major provisioning crisis have proven unfounded. The holding in **Barclays** was increased several times during the year, whilst **Royal Bank of Scotland** is our largest overweight individual stock. We did however dispose of the Company's holding in **Abbey National** toward the end of the period after it recovered to a level where we believed that future prospects for recovery were already discounted.

One of the most depressed industries in recent years has been the tourist trade, which suffered the twin blows of an economic downturn and the aftershocks of the 9/11 attacks on New York. Cruise liners were hit hard by the slowdown and the industry sought to consolidate. The resulting merger between **Carnival** and **Princess** created the dominant US cruise line, a business which we believe enjoys a degree of industry domination rarely found. We bought into the new business in the second quarter of the year and have since increased the holding. With a strong recovery in bookings underway and encouraging signs of rising profits we believe that Carnival has the potential to be an attractive growth company over the next decade.

Another industry to offer strong recovery prospects after a prolonged recession is Media; we have steadily increased the Company's exposure to the Media sector and it is now one of the strongest overweight positions in the UK portfolio. We sought exposure to an expected upturn in advertising volumes through purchases of **WPP, Aegis, Granada** and **Pearson**. Recent reports have suggested that such a recovery is now gaining momentum and we are hopeful of seeing upgrades to profit forecasts in the sector.

With financial markets also showing a stronger tone a number of specialist players in the Financial Services industries were purchased, including ICAP, the fast growing inter-broker dealer and Amvescap, the UK/US asset management business. Real Estate should also see a return to growth as the economy picks up, and may benefit from the proposed introduction of new tax-efficient corporate vehicles known as Real Estate Investment Trusts or REITs . Two stocks that could benefit substantially from both better market conditions and the proposed change to the tax regime were introduced to the portfolio. The first, **Slough Estates,** stands to see strong rises in income from a major development programme, and the second, **Minerva,** offers outstanding capital growth prospects from key new retail and office developments in Croydon and the City.

In the Telecoms and Technology sectors exposure to **Vodafone** and **LogicaCMG** was raised in anticipation of improved trading conditions, whilst the Government's campaign to modernise the NHS's management systems through the introduction of a national electronic patient records database led us to invest some of the Company's funds into **iSoft** which has won substantial contracts to provide some of the necessary software.

The Company's holding in **RMC** was sold after a substantial recovery in value, whilst **Safeway** was disposed of after receiving an offer from **William Morrisons. Bradford and Bingley** disappointed on trading and was sold during the year, whilst our concerns that **Capita** was not winning sufficient new business to maintain a growth rate commensurate with the rating of the stock led us to sell that holding too.

Looking forward, it seems likely that the growth in consumer expenditure in recent years will moderate, leaving government expenditure to take up the slack. Interest rates are also likely to increase during the year, but not to levels which will seriously undermine consumer confidence. With economic activity picking up globally and no current threats of inflation returning, the UK economy looks likely to continue its recent pattern of relatively steady growth, which should provide a helpful background for the stock market.

Investment Managers' Review

United Kingdom Listed Equity Holdings
at 30th November 2003

	Value (£)	Principal Activities
BP	9,470,501	Integrated Oil and Gas
Vodafone Group	9,337,221	Telecommunications
HSBC Holdings	9,038,038	Banking and Financial Services
GlaxoSmithkline	7,860,114	Manufacture of Pharmaceuticals
Royal Bank of Scotland	6,310,873	Banking and Financial Services
Barclays	4,731,518	Banking and Financial Services
Shell Transport & Trading	3,537,838	Integrated Oil and Gas
AstraZeneca	3,530,586	Manufacture of Pharmaceuticals
HBOS	3,154,206	Banking and Financial Services
Lloyds TSB	2,503,742	Banking and Financial Services
Compass	2,278,778	Leisure Entertainment and Hotels
British Sky Broadcasting	2,128,404	Media and Photography
Barratt Development	2,099,955	Construction and Building
Tesco	2,002,438	Food and Drug Retail
United Utilities	1,981,516	Water
Prudential	1,893,760	Life Assurance
Allied Domecq	1,884,731	Beverages
Unilever	1,646,568	Food Production
Legal & General	1,485,971	Life Assurance
Anglo American	1,414,875	Mining
Centrica	1,366,164	Gas Distribution
Intercontinental Hotels	1,292,624	Leisure Entertainment and Hotels
3i Group	1,270,538	Financial Services
Diageo	1,220,900	Beverages
Dixons	1,185,822	Retailers
Man Group	1,152,103	Financial Services
Sage Group	1,117,406	Software and Computer Services
Cobham	1,104,987	Aerospace and Defence
Johnson Matthey	1,099,982	Chemicals
BPB	1,021,686	Construction and Building
Pearson	1,020,678	Media & Entertainment
BT	1,013,018	Telecommunications
BG Group	1,003,127	Integrated Oil and Gas

Investment Managers' Review

United Kingdom Listed Equity Holdings (continued)
at 30th November 2003

	Value (£)	Principal Activities
Carnival	973,080	Transport
ICAP	953,046	Financial Services
Royal Bank of Scotland	939,339	Banking and Financial Services
BAA	870,780	Transport
Slough Estates	865,942	Real Estate
EMAP	785,385	Media and Entertainment
LogicaCMG	708,410	Software and Computer Services
United Utilities 'A'	666,181	Water
Burberry	636,121	Leisure Entertainment and Hotels
Aegis	624,618	Media and Entertainment
Granada	618,196	Leisure Entertainment and Hotels
Mersey Docks & Harbour	617,394	Transport
Amvescap	592,868	Financial Services
Rank	575,386	Leisure Entertainment and Hotels
Minerva	572,428	Real Estate
WPP	559,958	Media and Entertainment
Scottish & Newcastle	548,588	Leisure Entertainment and Hotels
Intertek Testing Services	542,043	Support Services
PHS	503,609	Support Services
Yell	468,413	Media and Entertainment
Woolworths	460,953	General Retailers
Xstrata	458,485	Mining
FKI	426,910	Engineering and Machinery
Serco Group	426,583	Financial Services
Wimpey (George)	341,000	Construction and Building
Schroders (New)	306,807	Financial Services
BTG	280,020	Support Services
First Debenture Finance	23,893	Financial Services
Fintrust Debenture	4,338	Financial Services
	£109,511,442	49.86% of Total Invested Funds

Investment Managers' Review

United Kingdom Unlisted Equity Holdings
at 30th November 2003

	Value (£)	Principal Activities
Kleinwort Benson Equity Partners	878,720	Venture Partnership
	£878,720	0.40% of Total Invested Funds

United Kingdom Fixed Interest Holdings
at 30th November 2003

	Value (£)	Principal Activities
Treasury Stock 5% 07/06/2004	25,130,000	
	£25,130,000	11.44% of Total Invested Funds UK Govt. Gilt

Global Equity Markets

The year under review saw marked divergences in returns from the major geographic regions. In sterling terms, using FTSE World indices, the best performing markets were Asia +16.13%, Japan +12.95% and Europe +12.53%. The USA lagged, with the FTSE World USA returning just 4.01%, dragged down by the falling US dollar. These figures disguise the very high volatility in markets within the period.

Initial nervousness in global equity markets was fed by the uncertain economic and political background. Markets swung from extreme caution before the Iraq war to a renewed appetite for risk afterwards as investors chased shares in highly geared and cyclical companies. The latter were perceived as being the greatest beneficiaries of economic recovery. This theme, an increased appetite for higher risk, or "lower quality" stocks – where we remain underweight – was the main reason why our portfolio lagged the benchmark during the year.

By way of illustration, in the motor sector our portfolio has been invested in **Toyota** which, although it has appreciated and been a successful investment in absolute terms, its weaker competitors such as **Ford** have appreciated more. Toyota is in a stronger position in global markets, including the USA, than Ford and has higher margins. Over the longer term therefore we expect Toyota to perform more strongly as a global business, but in the volatile markets seen in 2003, buying the riskier stock proved the more successful short term strategy.

We believe it is correct to maintain a relatively cautious approach in the current environment and remain invested in quality companies. Although quality is a subjective term, a significant amount of our in-house analysts' time is spent meeting with companies, analysing the calibre and experience of senior management, and the strength of their business models. It is also possible to produce a score card of a company's credit rating, dividend cover, interest cover, and profit margin, as well as the dispersion of analyst profit estimates as a short hand proxy for defining quality. In the main, companies which have high credit ratings, low dispersion of analyst estimates (high visibility of future earnings), high dividend cover, high interest cover and high profit margins can be characterised as high quality. Unsurprisingly, our research suggests that over the long term, companies displaying these characteristics tend to outperform those that do not.

One positive contributor to our performance relative to our benchmark has been our above-index weighting in non-US markets. We remain underweight the benchmark in US equities given their high relative valuations (European and Asian stocks are typically priced on lower multiples of earnings) and the deficits in the private and public sectors which have created US dollar weakness.

Investment Managers' Review

We continue to be attracted to growth in China. This theme was a positive for the portfolio over the period with stocks such **Huaneng Power** (a Chinese electricity company), **CNOOC** (a Chinese oil company) gaining from increasing domestic demand for oil) and Hong Kong Exchange strongly outperforming. Hong Kong Exchange benefits from interest in China as many of the companies which investors choose when looking at Chinese opportunities are listed on the Hong Kong stock market. The Exchange benefits from greater trade volumes and the introduction of new stocks becoming publicly traded. This factor means that the stock has a robust earnings profile because of the strength of interest in China even though it is not a direct investment in China.

Within the energy sector, apart from the Chinese exposure to energy companies, the portfolio has also benefited from exposure to Russian oil with an investment, no longer held, in **Yukos**. The stock performed strongly as investors recognised the superior growth in companies such as Yukos when compared to the large global oil players. Less successful energy related investments were those in some of the "safest" companies, utilities such as Dominion Resources in the USA and Suez in Europe. Again, this was because of the increased risk appetite in the equity markets which led to stable companies with strong cash flow underperforming, even though they are robust companies.

One successful investment in the technology sector was Intel, which saw increasing demand for its Pentium chips as companies have now begun to invest more in information technology after a couple of lean years for investment recently. Another recent acquisition, **Seagate Technology** in the US, was initially less successful but the stock has been retained because of the strength of demand for its hard disk drives, in particular for "notebook" computers which are gaining market share. The stock failed to meet expectations for sales in 2003 but it is strongly positioned in a growing market and we expect it to deliver better performance in 2004.

In the pharmaceutical sector, our holding in **Wyeth** in the US was a negative for the portfolio. The stock was hit by unexpected litigation related to its HRT products. It has since begun to recover, however. More positively, investing in the US medical instruments company **Boston Scientific** contributed strongly to performance as the company continues to maintain its leading position in diagnostics in pharmaceuticals.

Another theme in the portfolio for 2004 includes the impact of the decline of the US dollar on corporate profitability. In Europe we have increased our exposure to European domestic stocks such as **Telecom Italia.** The latter has revenues in Euros and some costs in US dollars, and we are also avoiding those European exporters whose margins will suffer. Similarly we are attracted to US stocks that have significant earnings abroad such as **McDonalds** and **Cisco** - both beneficiaries of dollar weakness.

It seems likely that mergers and acquisitions (M&A) activity will pick up globally in 2004. A combination of low debt costs, high levels of internally available funds and an economic turnaround should mean an increase in M&A activity in 2004. Stocks in the portfolio that will benefit from this include **UBS**.

Outlook

Looking forward, in the world's largest economy, the United States, much rests on the pre-election stimulus from the tax rebates in the spring and the incentives for capital investment and how the stock market responds to the ebbs and flows of the economic news in response to this impetus and its timing. With the US budget and trade deficits approaching record levels and extremely dependent on foreign inflows it is hard to be very positive about the US dollar, and foreign appetite for US equities has also waned. Last year witnessed an impressive pick up in US corporate margins but, if employment is to recover, it seems unlikely that company profits can increase their share of GDP further. Sales growth has to replace cost-cutting as the driver of profits and this requires a sustainable recovery in the economy.

The surge in US demand is helping European industry despite the strength of the euro. This may begin to diminish next year but the transfer of real purchasing power to the European consumer could prove to be a positive surprise in the coming year. European equities are unusually cheap versus the US and this may also encourage a step-up in corporate activity. Ignoring the strictures of The Growth and Stability Pact gives governments greater flexibility to boost their economies and recent evidence is that activity has picked up and profits are recovering.

China remains strong despite the authorities' restrictions on bank lending, and this is helping the whole region of the Far East. Already the Australians have acted to tighten policy and the Japanese are talking of fiscal retrenchment next year. Strong results from the Japanese banking sector support the view that the Japanese recovery is more than a cyclical boost, but any US or Chinese slowdown would create unhelpful headwinds.

In the short term, rapidly slowing monetary aggregates, global trade tensions and high valuations are unhelpful. The ability to

Investment Managers’ Review

make further progress depends in large part on the strength of US consumer and Chinese demand and the extent to which they slow from the giddy heights of last year. We remain cautious on US retail and consumer staples, but are encouraged by the current surge in industrial production and its implications for manufacturing, shipping and commodities. We continue to favour Europe and Asia over the US and the UK.

North America Listed Equity Holdings
at 30th November 2003

	Value (£)	Principal Activities
McDonalds	1,631,920	Leisure Entertainment and Hotels
Pfizer	1,622,649	Pharmaceuticals
Citigroup	1,617,660	Banks
General Electric	1,552,749	Diversified Industrial
Altria	1,492,885	Beverages
Microsoft	1,487,134	Software and Computer Services
Cendant Corp	1,471,781	Leisure Entertainment and Hotels
Exxon	1,423,934	Oil and Gas
US Bancorp	1,410,806	Banks
Wyeth	1,349,227	Health and Personal Care
CIT Group	1,326,557	Financial Institutions and Services
Oracle	1,188,535	Software and Computer Services
Amgen	1,083,517	Health and Personal Care
Everest	1,079,268	Insurance
Seagate Technology	1,073,441	Engineering and Machinery
United Technologies	1,053,988	Aerospace and Defence
Intel	1,028,564	Information Technology Hardware
Wal-Mart Stores	1,017,755	Discount, Superstores and Warehouses
Corning	944,101	Information Technology Hardware
Bellsouth	941,400	Telecommunications
Wells Fargo	934,256	Banks
Forest Laboratories	922,011	Health and Personal Care
Dow Chemical	896,596	Chemicals
Dell Computers	882,635	Information Technology Hardware
Dean Foods	879,461	Food Products and Processing
Mattel	844,370	Household Durables
Hartford Financial Services	837,559	Insurance
Honeywell International	836,098	Aerospace and Defence

Investment Managers' Review

North America Listed Equity Holdings (continued)
at 30th November 2003

	Value (£)	Principal Activities
Procter & Gamble	833,953	Health and Personal Care
Schlumberger	831,818	Energy
Comcast	827,581	Media and Photography
Cisco Systems	812,699	Information Technology Hardware
Johnson & Johnson	811,108	Pharmaceuticals
Dominion Resources (Vir)	801,570	Utilities
Encana Corp	790,374	Oil and Gas (Canada)
Bank of America	785,639	Banks
Amer International	765,862	Insurance
Home Depot	677,186	Household Goods and Textiles
International Business Machinery	664,222	Information Technology Hardware
Nextel Commns	661,204	Utilities
Pepsico	610,390	Beverages
Verizon Communications	585,404	Telecommunications
Medtronic	512,543	Health and Personal Care
Tyco International	454,295	Aerospace and Defence
Apple Computer	408,803	Information Technology Hardware
	£44,665,508	20.34% of Total Invested Funds

Continental Europe Listed Equity Holdings
at 30th November 2003

	Value (£)	Principal Activities
A P Moller-Maersk	1,397,580	Transport (Germany)
Credit Suisse	1,256,186	Banks (Switzerland)
Siemens	1,242,023	Electrical Equipment (Germany)
UBS	1,216,950	Banks (Switzerland)
Renault	1,046,367	Automobiles (France)
Roche	1,008,133	Pharmaceuticals (Switzerland)
ENI	997,575	Oil and Gas (Italy)
Nokia	986,125	Telecommunications Equipment (Finland)
Alcatel	945,178	Electrical Equipment (France)
Telecom Italia	921,171	Telecommunications Equipment (Italy)
Adidas-Salomon	848,113	Leisure Entertainment and Hotels (Germany)
Pernod-Ricard	836,269	Beverages (France)

Investment Managers' Review

Continental Europe Listed Equity Holdings (continued)
at 30th November 2003

	Value (£)	Principal Activities
BNP Paribas	835,478	Banks (France)
E. ON	777,124	Oil and Gas (Germany)
Deutsche Boerse	765,761	Financial Services (Germany)
Nestle	661,730	Food Processors (Switzerland)
ING	651,768	Insurance (Netherlands)
Aegon	648,911	Insurance (Netherlands)
Enel	613,409	Utilities (Italy)
Ahold (Kon)	610,409	Retail (Netherlands)
Banca Nazionale Del Lavoro	603,196	Banks (Italy)
SAP	571,863	Software and Computer Services (Germany)
T-Online Intl	570,181	Software and Computer Services (Germany)
Porsche Non Voting	510,681	Automobiles (Germany)
Total	415,275	Oil and Gas (France)
Unicredito Italian	407,683	Banks (Italy)
Ahold (Kon) Non Voting Rights	79,663	Retail (Netherlands)
	£21,424,802	9.75% of Total Invested Funds.

Japan Listed Equity Holdings
at 30th November 2003

	Value (£)	Principal Activities
NTT Docomo	1,184,022	Telecom Services
Mitsubishi Tokyo Financial	1,059,642	Banks
Ricoh	816,775	Electrical Equipment
Fuji Photo Film	773,527	Media and Photography
Daiwa Secs	756,060	Financial Services
Keyence	653,277	Electrical Equipment
Seiko Epson	552,140	Electrical Equipment
Canon	537,275	Electrical Equipment
Honda Motor	518,502	Automobiles
Toyota Motor	439,655	Automobiles
Shin-Etsu Chemical	407,522	Chemicals
Fujisawa Pharm	325,710	Health
Nomura	5,496	Banks
	£8,029,603	3.65% of Total Invested Funds.

Investment Managers' Review

Pacific Basin Listed Equity Holdings
at 30th November 2003

	Value (£)	Principal Activities
BHP Billiton (LSE)	1,461,161	Mining (Australia)
Hong Kong Exchange	1,099,271	Financial Institutions and Services (Hong Kong)
Rio Tinto	893,691	Mining (Australia)
News Corporation	884,569	Media (Australia)
HSBC	878,512	Banks (Hong Kong)
Taiwan Semiconduct	818,863	Electronics and Electrical Equipment (Taiwan)
Huaneng Power International 'H'	682,359	Utilities (Hong Kong)
Samsung Electronic	662,093	Electronics and Electrical Equipment (Korea)
Quanta Computer	634,172	Electronics and Electrical Equipment (Taiwan)
#New Zealand Investment Trust	628,425	Investment Trust
CNOOC	454,707	Oil and Gas (Hong Kong)
Hutchison Whampoa	381,544	Diversified Industrial (Hong Kong)
	£9,479,367	4.32% of Total Invested Funds

#Listed on London Stock Exchange

Emerging Markets Listed Equity Holdings
at 30th November 2003

	Value (£)	Principal Activities
Teva Pharma	518,088	Pharmaceuticals (Israel)
	£518,088	0.24% of Total Invested Funds

Risk Review

Financial Reporting Standard 13 (FRS 13) – Derivatives and Other Financial Instruments: Disclosure

FRS 13 requires entities to disclose narrative and numerical information about the financial instruments that they use.

The purpose of these disclosures is to provide enough information to investors to enable them to make their own decisions about the risk profile of the entity in which they have invested, and to assess for themselves the impact of the use of financial instruments (investments, cash/overdraft and borrowings) on the performance of the entity. Short term debtors and creditors are not considered to be financial instruments. They have been included at the bottom of the numerical disclosure in Note 20(a) merely to enable users of the accounts to reconcile the summary provided to total net assets per the balance sheet.

These disclosures are in line with the requirements of FRS 13. As an investment trust, the Company invests in securities for the long term. Accordingly it is, and has been throughout the year under review, the Company's policy that no short term trading in investments or other financial instruments shall be undertaken. The main risks arising from the Company's financial instruments are market price risk, liquidity risk, interest rate risk and foreign currency risk.

The overall risk profile of the Company and the policies adopted to manage risk have not changed from the prior year.

Market price risk

Market price risk arises mainly from the uncertainty about future prices of financial instruments held. It represents the potential loss the Company might suffer through holding market positions in the face of price movements. The Board meets regularly to consider the asset allocation of the portfolio in order to minimise the risk associated with particular countries or industry sectors. Dedicated fund managers have the responsibility for monitoring the existing portfolio selection in accordance with the Company's investment objectives and seek to ensure that individual stocks meet an acceptable risk reward profile.

Liquidity risk

The Company's assets comprise mainly realisable securities, which can be sold to meet funding requirements if necessary. Short-term flexibility can be achieved through the use of overdraft facilities, where necessary.

Interest rate risk

The Company invests predominantly in equities, the values of which are not directly affected by changes in prevailing market interest rates.

The Company also holds £50.6 million of cash and short gilts, which effectively offsets the impact of gearing.

The Company finances its operations through a mixture of share capital, retained earnings and long term borrowings.

Foreign currency risk

The income and capital value of the Company's investments can be affected by exchange rate movements as some of the Company's assets and income are denominated in currencies other than sterling. The exposure to currency movements is a structural feature of the Company's portfolio and when appropriate the fund managers will hedge currency risk.

Credit risk

In 1999, the Company commenced stock lending in order to generate additional income. The risk of default is negated by holding collateral, in the form of letters of credit, G7 bonds and G7 equities, amounting to 105% of the mid value of the stock on loan. The level of collateral required is recalculated on a daily basis.

Distribution of Invested Funds

at 30th November 2003

Invested Funds - £194,507,530 (2002 – £193,217,410)
excluding Treasury Stock 5% 2004 - £25,130,000 (2002 - £25,355,000)
Percentage of valuation

	United Kingdom	North America	Other Countries	2003 Total	60% All Share 40% World Index 2003 Benchmark Sector Weighting*	2002 Total
	%	%	%	£	%	%
Resources						
Mining	1.45	–	1.21	2.66	2.70	1.57
Oil & Gas	7.20	1.14	1.36	9.70	8.90	11.52
	8.65	1.14	2.57	12.36	11.60	13.09
Basic Industries						
Chemicals	0.57	0.46	0.21	1.24	1.40	2.42
Construction & Building Materials	1.78	–	–	1.78	1.90	3.13
Forestry & Paper	–	–	–	–	0.30	–
Steel & Other Metals	–	–	–	–	0.40	–
	2.35	0.46	0.21	3.02	4.00	5.55
General Industrials						
Aerospace & Defence	0.57	1.21	–	1.78	1.20	1.81
Diversified Industries	–	0.80	0.20	1.00	1.30	2.16
Electronic & Electrical Equipment	–	–	3.52	3.52	1.40	2.48
Engineering & Machinery	0.22	0.55	–	0.77	1.00	0.23
	0.79	2.56	3.72	7.07	4.90	6.68
Cyclical Consumer Goods						
Automobiles	–	–	1.29	1.29	1.20	1.24
Household Goods & Textiles	0.33	0.78	0.35	1.46	0.60	0.23
	0.33	0.78	1.64	2.75	1.80	1.47
Non-Cyclical Consumer Goods						
Beverages	1.87	1.08	0.43	3.38	2.50	2.61
Food Products & Processing	0.85	0.98	0.34	2.17	2.20	1.88
Health	–	2.41	–	2.41	1.80	1.19
Packaging	–	–	–	–	–	0.32
Personal & Household Products	–	–	–	–	1.20	3.63
Pharmaceuticals	5.86	1.25	0.95	8.06	9.30	8.50
Tobacco	–	–	–	–	1.40	–
	8.58	5.72	1.72	16.02	18.40	18.13
Cyclical Services						
General Retailers	0.85	–	–	0.85	3.60	3.57
Leisure Entertainment & Hotels	2.45	1.60	0.44	4.49	1.80	3.33
Media & Photography	2.87	0.43	0.85	4.15	4.10	2.58
Support Services	0.90	–	–	0.90	2.30	1.85
Transport	1.27	–	0.72	1.99	1.60	1.89
	8.34	2.03	2.01	12.38	13.40	13.22
Non-Cyclical Services						
Food & Drug	1.03	–	–	1.03	1.90	1.17
Telecom Services	5.32	0.78	1.59	7.69	7.60	7.53
	6.35	0.78	1.59	8.72	9.50	8.70
Utilities						
Electricity	–	0.75	0.67	1.42	1.70	0.34
Gas Distribution	0.70	0.43	–	1.13	0.80	0.73
Water	1.36	–	–	1.36	1.00	2.31
	2.06	1.18	0.67	3.91	3.50	3.38

Distribution of Invested Funds

at 30th November 2003

Invested Funds - £194,507,530 (2002 – £193,217,410)
excluding Treasury Stock 5% 2004 - £25,130,000 (2002 - £25,355,000)
Percentage of valuation

	United Kingdom	North America	Other Countries	2003 Total	60% All Share 40% World Index 2003 Benchmark Sector Weighting*	2002 Total
	%	%	%	£	%	%
Financials						
Banks	13.22	2.44	3.22	**18.88**	**17.50**	**16.46**
Insurance	–	1.38	0.67	**2.05**	**1.90**	**1.84**
Life Assurance	1.74	–	–	**1.74**	**1.90**	**1.82**
Investment Companies	0.65	–	0.32	**0.97**	**1.60**	**1.94**
Real Estate	0.74	–	–	**0.74**	**1.50**	–
Speciality & Other Finance	1.56	0.68	1.35	**3.59**	**2.70**	**1.86**
	17.91	**4.50**	**5.56**	**27.97**	**27.10**	**23.92**
Information Technology						
Information Technology Hardware	–	2.44	–	**2.44**	**3.50**	**2.63**
Software & Computer Services	0.94	1.38	0.59	**2.91**	**2.30**	**2.66**
	0.94	**3.82**	**0.59**	**5.35**	**5.80**	**5.29**
Unquoted	**0.45**	**–**	**–**	**0.45**	**–**	**0.57**
Total	**56.75**	**22.97**	**20.28**	**100.00**	**100.00**	**100.00**

The above groupings are based on the FT-Actuaries Share Indices.

*In order to enable fairer comparison against the benchmark, the Treasury Stock 5% 2004 has been excluded from the above table.

Statement of Total Return

for the year ended 30th November 2003

	Note	2003 £ Revenue	2003 £ Capital	2003 £ Total	2002 £ Revenue	2002 £ Capital	2002 £ Total
Net gains (losses) on investments	8	–	9,141,433	9,141,433	–	(53,686,225)	(53,686,225)
Income	1	7,326,590	–	7,326,590	7,231,778	–	7,231,778
Investment management fee	2	(368,948)	(860,879)	(1,229,827)	(423,501)	(988,168)	(1,411,669)
Expenses of administration	3	(171,395)	–	(171,395)	(193,078)	–	(193,078)
Net return before finance costs and taxation		6,786,247	8,280,554	15,066,801	6,615,199	(54,674,393)	(48,059,194)
Finance costs of borrowings	4	(1,347,875)	(3,138,799)	(4,486,674)	(1,329,612)	(3,102,229)	(4,431,841)
Return on ordinary activities before taxation		5,438,372	5,141,755	10,580,127	5,285,587	(57,776,622)	(52,491,035)
Taxation	5	(522,436)	376,340	(146,096)	(493,920)	381,446	(112,474)
Return on ordinary activities after taxation for the financial year		4,915,936	5,518,095	10,434,031	4,791,667	(57,395,176)	(52,603,509)
Dividends on Preference Stock	11	(22,500)	–	(22,500)	(22,500)	–	(22,500)
Return attributable to Ordinary Shareholders		4,893,436	5,518,095	10,411,531	4,769,167	(57,395,176)	(52,626,009)
Dividends on Ordinary Shares	6	(4,349,673)	–	(4,349,673)	(4,291,248)	–	(4,291,248)
Transfer to (from) reserves		543,763	5,518,095	6,061,858	477,919	(57,395,176)	(56,917,257)
Return per Ordinary Share	7	8.65p	9.75p	18.40p	8.16p	(98.17)p	(90.01)p

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 23 to 34 form part of these Accounts.

Balance Sheet

as at 30th November 2003

	Note	2003 £	2003 £	2002 £
Fixed Assets				
Investments	8, 9		219,637,530	218,572,416
Current Assets				
Debtors	10	1,828,917		2,589,573
Cash at bank	10	25,486,491		26,928,212
		27,315,408		29,517,785
Creditors: Amounts falling due within one year	10	(5,471,482)		(6,825,252)
Net Current Assets			21,843,926	22,692,533
Total Assets less Current Liabilities			241,481,456	241,264,949
Creditors: Amounts falling due after more than one year	10		(51,825,923)	(51,890,123)
Total Net Assets			189,655,533	189,374,826
Capital and Reserves				
Called up Share Capital: Ordinary	11		13,785,104	14,358,104
Preference	11		450,000	450,000
Capital Redemption Reserve	12		2,214,896	1,641,896
Capital Reserves: Realised	14	174,945,310		189,927,374
Unrealised	14	(8,946,122)		(23,665,130)
			165,999,188	166,262,244
Revenue Reserve	13		7,206,345	6,662,582
Shareholders' Funds	16		189,655,533	189,374,826
Analysis of Shareholders' Funds				
Equity interests			189,205,533	188,924,826
Non-equity interests	11		450,000	450,000
			189,655,533	189,374,826

Approved by the Board of Directors on 24th February 2004 and signed on its behalf by:

JFH Trott

WR Worsley

The Notes on pages 23 to 34 form part of these Accounts.

Cash Flow Statement

for the year ended 30th November 2003

	Note	2003 £	2003 £	2002 £
Net cash inflow from operating activities	18		5,741,387	4,723,163
Servicing of finance				
Interest paid		(4,383,834)		(4,495,164)
Dividends paid on Preference Stock		(22,500)		(22,500)
Net cash outflow on servicing of finance			(4,406,334)	(4,517,664)
Taxation				
UK income tax repaid			–	3,983
Financial investment				
Purchase of fixed asset investments		(152,141,473)		(203,072,342)
Sale of fixed asset investments		160,387,386		202,035,483
Net cash inflow (outflow) from financial investment			8,245,913	(1,036,859)
Equity dividends paid			(4,335,656)	(4,329,387)
Net cash inflow (outflow) before financing			5,245,310	(5,156,764)
Financing				
Repurchase of Ordinary Shares for cancellation		(5,779,819)		(7,762,969)
(Decrease) increase in short term loan		(907,212)		320,309
Net cash outflow from financing			(6,687,031)	(7,442,660)
Decrease in cash	19		(1,441,721)	(12,599,424)

The Notes on pages 23 to 34 form part of these accounts.

Statement of Accounting Policies

for the year ended 30th November 2003

1. The financial statements have been prepared under the historical cost convention, modified to include the revaluation of investments. The financial statements have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice 'Financial statements of investment trust companies' issued by the Association of Investment Trust Companies in January 2003.

2. Revenue - Dividends on equity shares are accounted for on an ex-dividend basis. UK dividends are shown net of tax credits and foreign dividends are grossed up at the appropriate rate of withholding tax.

   Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the equivalent of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital reserves.

   Returns on fixed interest investments are recognised on an accruals basis.

   Deposit interest receivable and stock lending fees are accounted for on an accruals basis. Underwriting commission is recognised when the issue underwritten closes.

3. Investment management fee - The investment management fee is calculated on the basis set out in Note 2 and is charged to capital and revenue in the ratio 70:30 to reflect the Company's investment policy and prospective capital and income growth.

4. Valuation – Investments listed in the United Kingdom have been valued at middle market prices. Those listed abroad have been valued at closing or middle market prices as available. Unlisted investments are valued by the Directors based upon the latest dealing prices, stockbrokers' valuations, net asset values, earnings and other known accounting information in accordance with the principles set out by the British Venture Capital Association. An unrealised Capital Reserve has been established to reflect differences between value and book cost.

   Net gains or losses arising on realisations of investments are taken directly to the realised Capital Reserve.

5. Finance costs – In accordance with Financial Reporting Standard 4 "Capital Instruments", long term borrowings are stated at the amount of net proceeds immediately after issue plus the appropriate accrued finance costs at the balance sheet date. The finance costs of such borrowings, being the difference between the net proceeds of a borrowing and the total payments that may be required in respect of that borrowing, are allocated to periods over the term of the debt at a constant rate on the carrying amount. Finance costs on long term borrowings are charged to capital and revenue in the ratio 70:30 to reflect the Company's investment policy and prospective capital and income growth.

6. Taxation – Where expenses are allocated between capital and revenue, any tax relief obtained in respect of those expenses is allocated between capital and revenue, using the marginal method and the Company's effective rate of tax for the accounting period.

   Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date. Where deferred tax assets are likely to be considered irrecoverable, no provision is made.

7. Foreign currency – Transactions in foreign currencies are translated into sterling at the rates of exchange ruling on the date of the transaction. Foreign currency assets and liabilities are translated into sterling at the rates of exchange ruling at the balance sheet date. Profits and losses on foreign currencies held, whether realised or unrealised, are taken direct to Capital Reserves.

Notes to the Accounts

for the year ended 30th November 2003

1. Income

	2003 £	2003 £	2002 £
Income from investments*			
Franked income:			
Dividends from UK equity securities		3,701,149	3,832,695
Unfranked income:			
Dividends from overseas equity securities	1,544,351		982,344
Interest from UK fixed income securities	1,250,000		1,116,071
		2,794,351	2,098,415
		6,495,500	5,931,110
Other income:			
Deposit interest	830,749		1,224,750
Underwriting commission	–		48,458
Stock lending fees	341		18,568
Other income	–		8,892
		831,090	1,300,668
Total income		7,326,590	7,231,778

*All dividend income is derived from listed investments.

2. Investment Management Fee

	2003 £ Revenue	2003 £ Capital	2003 £ Total	2002 £ Revenue	2002 £ Capital	2002 £ Total
Investment management fee	368,948	860,879	1,229,827	423,501	988,168	1,411,669

The Company's investment managers are RCM (UK) Limited ("RCM"). The contract provides for a management fee based on 0.45% per annum of the value of the assets after deduction of current liabilities, short-term loans under one year and other funds managed by RCM. The amounts stated include partially recoverable VAT of £183,166 (2002 – £210,249).

The provision of investment management services and company administrative and secretarial services by RCM (UK) Limited under the Management and Administration Agreement may be terminated by either the Company or the Managers on not less than 12 months' notice.

Notes to the Accounts

for the year ended 30th November 2003

3. Expenses of Administration

	2003 £	2002 £
Directors' fees	53,354	59,000
Auditors' remuneration	12,167	12,922
Other administrative expenses (see (iv) below)	225,012	242,442
VAT recovered	(119,138)	(121,286)
	171,395	193,078

(i) The above expenses include value added tax where applicable.

(ii) There were no fees payable to the Auditors in respect of non-audit services (2002 – £nil).

(iii) Directors fees are paid at the rate of £11,000 (2002 – £11,000) per annum with an additional sum of £4,000 (2002 – £4,000) per annum paid to the Chairman. Directors' emoluments amounted to £62,854 (2002 – £68,500) which comprises the fees of £53,354 (2002 – £59,000) and an amount of £9,500 (2002 – £9,500) in respect of Mr SRT White, an Alternate Director, which are the emoluments he received from the Managers which relate to the management of the Company. Company law requires those emoluments to be disclosed even though the Company does not pay them.

(iv) Included within other administrative expenses are Savings Scheme costs of £62,371 (2002 – £100,198) and other promotional activity costs of £13,776 (2002 – £18,642).

4. Finance Costs of Borrowings

	2003 £ Revenue	2003 £ Capital	2003 £ Total	2002 £ Revenue	2002 £ Capital	2002 £ Total
On Stepped Rate Interest Loan repayable after more than five years	604,435	1,410,349	2,014,784	585,263	1,365,614	1,950,877
On Fixed Rate Interest Loan repayable after more than five years	740,764	1,728,450	2,469,214	744,264	1,736,615	2,480,879
On sterling overdraft	2,676	–	2,676	85	–	85
	1,347,875	3,138,799	4,486,674	1,329,612	3,102,229	4,431,841

Notes to the Accounts

for the year ended 30th November 2003

5. Taxation

	2003 £ Revenue	2003 £ Capital	2003 £ Total	2002 £ Revenue	2002 £ Capital	2002 £ Total
Corporation tax at 30%	376,340	(376,340)	–	381,446	(381,446)	–
Overseas tax	146,096	–	146,096	112,474	–	112,474
Current tax charge	522,436	(376,340)	146,096	493,920	(381,446)	112,474
Reconciliation of current tax charge:						
Return on ordinary activities before taxation	5,438,372	5,141,755	10,580,127	5,285,587	(57,776,622)	(52,491,035)
Tax on return on ordinary activities at 30%	1,631,512	1,542,526	3,174,038	1,585,676	(17,332,987)	(15,747,311)
Reconciling factors:						
Non taxable income	(1,110,345)	–	(1,110,345)	(1,150,589)	–	(1,150,589)
Non taxable capital (gains) losses	–	(2,742,430)	(2,742,430)	–	16,105,867	16,105,867
Disallowable expenses	29,420	15,344	44,764	63,106	68,459	131,565
Allowable expenses charged to capital	–	1,184,560	1,184,560	–	1,158,681	1,158,681
Excess of taxable income over allowable expenses	(505,014)	–	(505,014)	(465,709)	–	(465,709)
Accrued income taxable in other periods	(1,550)	–	(1,550)	–	–	–
Overseas tax suffered	146,096	–	146,096	112,474	–	112,474
UK tax relief on overseas tax expense	(44,023)	–	(44,023)	(32,504)	–	(32,504)
Equalisation adjustment	376,340	(376,340)	–	381,466	(381,466)	–
Current tax charge	522,436	(376,340)	146,096	493,920	(381,446)	112,474

The Company's taxable income is exceeded by its tax allowable expenses, which include both revenue and capital elements of the management fee and finance costs. The Company has surplus expenses carried forward of £26.7m (2002: £24.1m). Given the Company's current investment strategy, it is unlikely to generate sufficient UK taxable profits to relieve these expenses.

As at 30th November 2003 there is an unrecognised deferred tax asset, measured at the standard rate of corporation tax of 30%, of £8.0m (2002 – £7.2). This deferred tax asset relates to the current and prior year unutilised expenses. It is considered uncertain that there will be a tax liability in the future against which the deferred asset can be offset. Therefore the asset has not been recognised.

6. Dividends on Ordinary Shares

	2003 £	2002 £
Dividends on Ordinary Shares		
Prior year over accrual	(1,259)	–
First interim 3.40p paid 29th August 2003 (2002 – 3.30p)	1,924,754	1,879,087
Final proposed 4.40p payable 26th March 2004 (2002 – 4.20p)	2,426,178	2,412,161
	4,349,673	4,291,248

The final dividend accrued is based on the number of shares in issue at the year end. However, the dividend payable will be based on the number of shares in issue on the record date and will reflect any purchases and cancellations of shares by the Company settled since the year end.

7. Return per Ordinary Share

	2003 £ Revenue	2003 £ Capital	2003 £ Total	2002 £ Revenue	2002 £ Capital	2002 £ Total
Return after taxation	4,915,936	5,518,095	10,434,031	4,791,667	(57,395,176)	(52,603,509)
Attributable to Preference Stockholders	(22,500)	–	(22,500)	(22,500)	–	(22,500)
Attributable to Ordinary Shareholders	4,893,436	5,518,095	10,411,531	4,769,167	(57,395,176)	(52,626,009)
Return per Ordinary Share	8.65p	9.75p	18.40p	8.16p	(98.17p)	(90.01p)

The return per Ordinary Share is based on a weighted average number of shares of 56,578,783 (2002 – 58,466,041) Ordinary Shares in issue.
The basic and diluted returns per Ordinary Share are the same.

Notes to the Accounts

for the year ended 30th November 2003

8. Fixed Asset Investments

	2003 £	2002 £
Listed at market valuation on recognised Stock Exchanges –		
United Kingdom	134,641,442	137,667,140
Abroad	84,117,368	79,802,137
	218,758,810	217,469,277
Unlisted at Directors' valuation –		
United Kingdom	878,720	1,061,180
Abroad	–	41,959
Total fixed asset investments	219,637,530	218,572,416
Market value of investments brought forward	218,572,416	273,744,480
Unrealised losses brought forward	23,665,130	5,800,996
Cost of investments held brought forward	242,237,546	279,545,476
Additions at cost	151,517,547	201,862,468
Disposals at cost	(165,171,441)	(239,170,398)
Costs of investments held at 30th November	228,583,652	242,237,546
Unrealised losses at 30th November	(8,946,122)	(23,665,130)
Market value of investments held at 30th November	219,637,530	218,572,416
Gains (losses) on investments		
Net realised losses based on historical costs	(5,599,571)	(35,832,646)
Less: Amounts recognised as unrealised in previous years	6,696,675	28,270,042
Net realised gains (losses) based on carrying value at previous balance sheet date	1,097,104	(7,562,604)
Net unrealised gains (losses) arising in the year	8,022,333	(46,134,176)
Net gains (losses) on investments before special dividends	9,119,437	(53,696,780)
Special dividends credited to capital	21,996	10,555
Total net gains (losses) on investments	9,141,433	(53,686,225)

The Board considers that none of the Company's unlisted investments was individually (or in aggregate) material to the financial statements. In addition, no material disposals of unlisted investments took place during the year.

Stock Lending

	2003	2002
Aggregate value of securities on loan at year-end	0.0m	6.0m
Maximum aggregate value of securities on loan during the year	6.0m	69.3m
Fee income from stock lending during the year	341	18,568

As no securities were on loan at the year end, the Company held no collateral (2002 – £6.3m). At the end of 2002 the value of collateral exceeded the value of the loan securities by £0.3m.

In respect of the maximum aggregate value of securities on loan during the year the Company held £6.3m as collateral (2002 – £72.8m), the value of which exceeded the value of securities on loan by £0.3m (2002 – £3.5m).

Notes to the Accounts

for the year ended 30th November 2003

9. Investments in Other Companies

The Company held more than 10% of the share capital of the following companies at 30th November 2003 –

Company	Class of Shares Held	%
First Debenture Finance PLC ('FDF')	'A' Shares	39.2
First Debenture Finance PLC	'B' Shares	34.1
First Debenture Finance PLC	'C' Shares	47.7
First Debenture Finance PLC	'D' Shares	32.1
Fintrust Debenture PLC ('Fintrust')	Ordinary Shares	50.0

These companies are incorporated in Great Britain and registered in England and Wales.

In the opinion of the Directors, the Company is not in a position to exert significant influence over these companies. FDF and Fintrust are lenders of the Company's Stepped Date Interest Loan and Fixed Rate Interest Loan, as detailed in notes 10(i) and (ii) respectively. The finance costs of these borrowings and outstanding balances at the year end are shown in notes 4 and 10 respectively. There were no other transactions between the Company, FDF and Fintrust.

10. Current Assets and Creditors

	2003 £	2002 £
Debtors –		
Sales for future settlement	647,226	1,462,742
Other debtors	1,181,691	1,126,831
	1,828,917	2,589,573
Cash at bank –		
Current account	109,931	211
Deposit account	25,376,560	26,928,001
	25,486,491	26,928,212
Creditors: Amounts falling due within one year –		
Purchases for future settlement	1,673,430	2,297,356
Other creditors (see (iii) below)	1,360,624	1,197,273
Short term loan (see (iv) below)	–	907,212
Dividend on Preference Stock	11,250	11,250
Proposed dividend on Ordinary Shares	2,426,178	2,412,161
	5,471,482	6,825,252
Creditors: Amounts falling due after more than one year –		
Stepped Rate Interest Loan (payable after more than five years – see (i) below)	18,841,390	18,776,683
Fixed Rate Interest Loan (payable after more than five years – see (ii) below)	32,984,533	33,113,440
	51,825,923	51,890,123

(i) The Stepped Rate Interest Loan comprises adjustable Stepped Rate Interest Loan Notes of £2,997,442 and Stepped Rate Interest Bonds of £11,909,766 issued at 97.4% and repayable in 2018 inclusive of a premium of £3,315,831 but exclusive of any redemption expenses. Interest, payable on the Bonds in July and January, was at an initial rate of 8.35% per annum increasing annually by 5.0% compound until January 1998. Thereafter it became payable at 13.6% per annum until maturity on 2nd January 2018. Interest on the Loan Notes is variable in accordance with the terms of the agreement with the lender, First Debenture Finance PLC ('FDF').

Notes to the Accounts

for the year ended 30th November 2003

10. Current Assets and Creditors (continued)

The Company has guaranteed the repayment of £18,191,669 being its proportionate share (32.15%) of the required amount to enable FDF to meet all of its liabilities to repay principal and interest on its £56.6 million of 11.125% Severally Guaranteed Debenture Stock 2018. There is a floating charge on all the Company's present and future assets to secure this obligation. The Company has also agreed to meet its proportionate share of any expenses incurred by FDF, including any tax liability which may accrue to FDF as a result of the redemption or earlier transfer of the Stepped Rate Loan Notes and Bonds held by FDF.

(ii) The Fixed Rate Interest Loan of £28,000,000 is due to Fintrust Debenture PLC ('Fintrust'). This loan is repayable in 2023 and carries interest at the rate of 9.25125% per annum on the principal amount payable in arrears by equal half yearly instalments in May and November in each year. As security for this loan, the Company has granted a floating charge over all its undertakings, property and assets in favour of the lender. The charge ranks pari passu with the floating charge created by the Company to secure its obligations to the 11.125% Severally Guaranteed Debenture Stock 2018 of First Debenture Finance PLC..

Following the liquidation of Kleinwort Overseas Investment Trust plc ('KOIT') in March 1998, the Company assumed £13,000,000 of its obligations to Fintrust. Both the interest cost and repayment terms of this additional borrowing are identical to the Company's existing loan. In order that the finance costs on this additional borrowings be comparable to existing market rates at that time, the Company also received a premium payment from KOIT of £5,727,111. This premium is being amortised over the remaining life of the loan in accordance with FRS 4, as set out in the accounting policies. At 30th November 2003 the unamortised premium included within the Fixed Rate Interest Loan balance of greater than one year amounted to £5,047,513 (2002 – £5,177,481).

The original loan from Fintrust is stated at net proceeds (being the principal amount of £15,000,000 less issue costs of £70,526) plus accrued finance costs.

(iii) Included within other creditors are £836,351 (2002 – £669,080) and £78,481 (2002 – £78,711) payable to FDF and to Fintrust respectively.

(iv) The short term loan from FDF is interest free and is repayable on demand.

11. Share Capital

		2003 £	2002 £
Authorised			
450,000	5% Cumulative Preference Stock Units of £1	450,000	450,000
66,200,000	Ordinary Shares of 25p	16,550,000	16,550,000
		17,000,000	17,000,000
Allotted and fully paid			
450,000	5% Cumulative Preference Stock Units of £1	450,000	450,000
55,140,416	Ordinary Shares of 25p (2002 – 57,432,416)	13,785,104	14,358,104
		14,235,104	14,808,104

The Cumulative Preference Stock Units have been classified as non-equity interests in shareholders' funds under the provisions of Financial Reporting Standard 4 'Capital Instruments'. The rights of the Stock to receive payments are not calculated by reference to the Company's profits and, in the event of a return of capital, are limited to a specific amount, being £450,000. In addition the Stock only has rights to vote in certain circumstances. Following the abolition of advance corporation tax in April 1999, the rate of the Company's Preference Coupon reverted to 5% from 3.5% plus tax credit.

Dividends on the Preference Stock are payable half yearly on 30th June and 31st December.

The Directors are authorised by an ordinary resolution passed on 27th March 2003 to allot relevant securities, in accordance with Section 80 of the Companies Act 1985, up to a maximum of 8,847,584 Ordinary Shares of 25p each. This authority expires on 27th May 2004 and accordingly a renewed authority will be sought at the Annual General Meeting on 25th March 2004.

During the year 2,292,000 Ordinary Shares were purchased by the Company and cancelled. The aggregate purchase price of these shares, amounting to £5,781,151 was charged to the Realised Capital Reserve (see Note 14). A further 780,000 Ordinary Shares have been repurchased for cancellation since the year end at a cost of £2,083,625.

Notes to the Accounts

for the year ended 30th November 2003

12. Capital Redemption Reserve

	£
Balance at 1st December 2002	1,641,896
Movement in year	573,000
Balance at 30th November 2003	2,214,896

The balance on this account was increased by the transfer of £573,000 in respect of 2,292,000 Ordinary Shares purchased by the Company and cancelled.

13. Revenue Reserve

	£
Balance at 1st December 2002	6,662,582
Profit for the year	543,763
Balance at 30th November 2003	7,206,345

14. Capital Reserves

	Realised £	Unrealised £	Total £
Balance at 1st December 2002	189,927,374	(23,665,130)	166,262,244
Net gain on realisation of investments	1,097,104	–	1,097,104
Increase in unrealised appreciation	–	8,022,333	8,022,333
Transfer on disposal of investments	(6,696,675)	6,696,675	–
Purchase of Ordinary Shares for cancellation	(5,781,151)	–	(5,781,151)
Investment management fee	(860,879)	–	(860,879)
Finance costs of borrowings	(3,138,799)	–	(3,138,799)
Special dividends credited to capital	21,996	–	21,996
Attributable taxation in respect of management fee and finance costs	376,340	–	376,340
Balance at 30th November 2003	174,945,310	(8,946,122)	165,999,188

Notes to the Accounts

for the year ended 30th November 2003

15. Net Asset Value per Share

The Net Asset Value per share (which equals the net asset values attributable to each class of share at the year end calculated in accordance with the Articles of Association) were as follows:

	Net Asset Value per Share attributable 2003	2002
Ordinary Shares of 25p	343.1p	329.0p
5% Cumulative Preference Stock Units £1	£1	£1

	Net Asset Value per Share attributable 2003	2002
Ordinary Shares of 25p	£189,205,533	£188,924,826
5% Cumulative Preference Stock Units £1	£450,000	£450,000

The movements during the year of the assets attributable to each class of share were as follows:

	Ordinary Shares £	Cumulative Preference Stock £	Total £
Total net assets attributable at 1st December 2002	188,924,826	450,000	189,374,826
Total recognised gains for the year	10,411,531	22,500	10,434,031
Dividends appropriated in the year	(4,349,673)	(22,500)	(4,372,173)
Repurchase of Ordinary Shares for cancellation	(5,781,151)	–	(5,781,151)
Total net assets attributable at 30th November 2003	189,205,533	450,000	189,655,533

The Net Asset Value per Ordinary Share is based on 55,140,416 (2002– 57,432,416) Ordinary Shares in issue at the year end.

16. Reconciliation of Movements in Shareholders' Funds

	2003 £	2002 £
Distributable reserves		
Revenue profit available for distribution	4,915,936	4,791,667
Dividends	(4,372,173)	(4,313,748)
Transfer to distributable reserves	543,763	477,919
Other reserves		
Recognised net capital gains (losses) transferred to non-distributable reserves	5,518,095	(57,395,176)
Purchase of Ordinary Shares for cancellation	(5,781,151)	(7,762,969)
	(263,056)	(65,158,145)
Net increase (decrease) in Shareholders' Funds	280,707	(64,680,226)
Opening Shareholders' Funds	189,374,826	254,055,052
Closing Shareholders' Funds	189,655,533	189,374,826

Notes to the Accounts

for the year ended 30th November 2003

17. Contingent Liabilities, Financial Commitments and Guarantees

At 30th November 2003 there were no outstanding contingent liabilities (2002 – nil) in respect of underwriting commitments and calls on partly paid investments. The Company has committed to an investment of £3 million in Kleinwort Benson Equity Partners of which £426,738 (2002 – £473,785) remained outstanding at the year end.

Details of the guarantee provided by the Company as part of the terms of the Stepped Rate Loan are provided in Note 10(i) on page 28 'Current Assets and Creditors'.

18. Reconciliation of Operating Revenue before Taxation to Net Cash Inflow from Operating Activities

	2003 £	2002 £
Net revenue before finance costs and taxation	6,786,247	6,615,199
Less: Management fee charged to capital	(860,879)	(988,168)
Add: Special dividends credited to capital	21,996	10,555
Less: Overseas tax suffered at source	(146,096)	(112,474)
Less: UK income tax suffered at source	–	(2,446)
	5,801,268	5,522,666
Increase in debtors	(54,860)	(564,327)
Decrease in creditors	(5,021)	(235,176)
Net cash inflow from operating activities	5,741,387	4,723,163

19. Reconciliation of Net Cash Flow to Movement in Net Debt

(i) Analysis of Net Debt

	Cash £	Short term loan £	Stepped and fixed rate loans £	Net Debt £
At 1st December 2002	26,928,212	(907,212)	(51,890,123)	(25,869,123)
Movement in year	(1,441,721)	907,212	64,200	(470,309)
At 30th November 2003	25,486,491	–	(51,825,923)	(26,339,432)

(i) Reconciliation of net cash flow to movement in net debt

	2003 £	2002 £
Net cash outflow	(1,441,721)	(12,599,424)
Decrease (increase) in short term loan	907,212	(320,309)
Decrease in long term loans	64,200	63,323
Movement in net funds	(470,309)	(12,856,410)
Net debt brought forward	(25,869,123)	(13,012,713)
Net debt carried forward	(26,339,432)	(25,869,123)

Notes to the Accounts

for the year ended 30th November 2003

20. Financial Reporting Standard 13 – Derivatives and Other Financial Instruments: Disclosures

The note below should be read in conjunction with the Risk Review of the Company on page 17.

(a) Interest Rate Risk Profile

The tables below summarise in sterling terms the assets and liabilities whose values are affected by changes in interest rates, together with the weighted average rates and periods for fixed interest bearing instruments.

	Currency	2003 Fixed rate interest paid £	2003 Floating rate interest paid £	2003 Nil interest paid £	2003 Total £	2002 Fixed rate interest paid £	2002 Floating rate interest paid £	2002 Nil interest paid £	2002 Total £
Financial Assets									
Values directly affected by movements in interest rates:									
Treasury Stock	Sterling	25,130,000	–	–	25,130,000	25,355,000	–	–	25,355,000
Values not directly affected by movements in interest rates:									
Equities	Sterling	–	–	110,390,162	110,390,162	–	–	112,312,140	112,312,140
Equities	Various	–	–	84,117,368	84,117,368	–	–	80,905,276	80,905,276
Cash	Sterling	–	25,486,491	–	25,486,491	–	26,928,212	–	26,928,212
		–	25,486,491	194,507,530	219,994,021	25,355,000	26,928,212	193,217,416	245,500,628
Total Financial Assets		25,130,000	25,486,491	194,507,530	245,124,021	25,355,000	26,928,212	193,217,416	245,500,628
Financial Liabilities									
Values directly affected by movements in interest rates:									
Fintrust loan	Sterling	(32,984,533)	–	–	(32,984,533)	(33,113,440)	–	–	(33,113,440)
First Debenture Finance loan	Sterling	(18,841,390)	–	–	(18,841,390)	(18,776,683)	–	–	(18,776,683)
		(51,825,923)	–	–	(51,825,923)	(51,890,123)	–	–	(51,890,123)
Values not directly affected by movements interest rates:									
Short term loan	Sterling	–	–	–	–	–	–	(907,212)	(907,212)
Total Financial Liabilities		(51,825,923)	–	–	(51,825,923)	(51,890,123)	–	(907,212)	(52,797,335)
Net Financial (Liabilities) Assets		(26,695,923)	25,486,491	194,507,530	193,298,098	(26,535,123)	26,928,212	192,310,204	192,703,293
Non financial instruments (consisting of short-term debtors and creditors)					(3,642,565)				(3,328,467)
Net Assets per balance sheet					189,655,533				189,374,826

In addition to the above, the Company had in issue £450,000 Cumulative Preference Stock Units. Interest is payable on these sterling financial liabilities at the fixed rate of 5% per annum.

,The Treasury Stock attracts interest at 5% per annum and is redeemable on 7th June 2004. Interest on floating rate financial assets is based on overnight money market rates.

The fixed rate interest bearing liabilities bear the following coupon and effective rates:

	Maturity date	Amount borrowed £	Coupon rate	Effective rate since inceptions
First Debenture Finance PLC – Bonds	2/1/2018	11,909,766	13.60%	11.27%
First Debenture Finance PLC – Notes	2/1/2018	2,977,442	13.60%	11.27%
Fintrust Debenture PLC – Original loan	20/11/2023	15,000,000	9.25125%	9.30%
Fintrust Debenture PLC – New loan	20/11/2023	13,000,000	9.25125%	6.00%

The details in respect of the above loans have remained unchanged since 2002.

*The effective rates are calculated in accordance with FRS 4 as detailed in the Accounting Policies and in Note 10 – Current Assets and Creditors.

The weighted average coupon rate is 10.76% (2002 – 10.76%) and the weighted average period to maturity is 17.9 years (2002 – 18.9 years).

Notes to the Accounts

for the year ended 30th November 2003

20. Financial Reporting Standard 13 – Derivatives and Other Financial Instruments: Disclosures (continued)

(b) Currency Risk Profile

A portion of the assets and liabilities of the Company are denominated in currencies other than Sterling, with the effect that the total net assets and total return can be affected by currency movements.

	2003 Investments £	2003 Current Assets £	2003 Creditors £	2003 Net Currency Exposure £	2002 Investments £	2002 Current Assets £	2002 Creditors £	2002 Net Currency Exposure £
Sterling	135,520,162	27,197,258	(57,297,405)	105,420,015	139,581,470	29,400,588	(58,715,375)	110,266,683
US Dollar	43,875,134	54,041	–	43,929,175	44,619,268	57,625	–	44,676,893
Euro	15,884,223	16,940	–	15,901,163	13,361,857	25,323	–	13,387,180
Japanese Yen	8,029,603	20,011	–	8,049,614	6,874,986	9,548	–	6,884,534
Swiss Franc	4,142,999	11,807	–	4,154,806	4,073,639	10,844	–	4,084,483
Hong Kong Dollar	3,496,393	–	–	3,496,393	3,358,245	–	–	3,358,245
Australian Dollar	3,239,421	14,799	–	3,254,220	3,075,331	10,054	–	3,085,385
Taiwan Dollar	1,453,035	–	–	1,453,035	–	–	–	–
Danish Krona	1,397,580	–	–	1,397,580	–	3,803	–	3,803
Canadian Dollar	790,374	–	–	790,374	–	–	–	–
Mexican Peso	–	–	–	–	755,757	–	–	755,757
Korean Won	662,093	–	–	662,093	1,815,844	–	–	1,815,844
New Zealand Dollar	628,425	–	–	628,425	–	–	–	–
Swedish Krone	–	–	–	–	622,798	–	–	622,798
Israeli Shekel	518,088	552	–	518,640	433,221	–	–	433,221
	219,637,530	27,315,408	(57,297,405)	189,655,533	218,572,416	29,517,785	(58,715,375)	189,374,826

(c) Fair Value Disclosure

With the exception of the Fintrust and FDF loans shown below, all other financial assets and financial liabilities of the Company are held at fair value.*

	2003 £ million Book value	2003 £ million Fair value	2002 £ million Book value	2002 £ million Fair value
Fintrust loan	33.0	36.7	33.1	37.0
First Debenture Finance loan	18.8	25.8	18.8	26.6

The net asset value per Ordinary Share, with the Fintrust and FDF Loans at fair value, is 323.8p (2002 - 308.4p).

*The fair value is derived from the closing market value as at 30th November 2003.

(d) Liquidity Profile

The maturity profile of the Company's liabilities at 30th November 2003, being the borrowings from Fintrust, First Debenture Finance, and the short term loan is detailed in Note 10, "Current Assets and Creditors".

(e) Hedging Instruments

At 30th November 2003 the Company had no hedging contracts in place (2002 – nil).

Independent Auditors' Report

Independent Auditors' Report to the Shareholders of The Brunner Investment Trust plc

We have audited the financial statements of The Brunner Investment Trust plc for the year ended 30th November 2003 on pages 20 to 34 which have been prepared under the accounting policies set out on page 23. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of Directors and Auditors
The directors' responsibilities for preparing the annual report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

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 or the Listing Rules regarding directors' remuneration and transactions with the Company is not disclosed.

We review whether the Corporate Governance Statement 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 other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only those sections set out in the table of contents including the Chairman's Statement, the Investment Managers' Review, the Distribution of Invested Funds, the Directors' Report and the Statement of Corporate Governance and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely upon this report unless such a person is a person entitled to rely upon this report by virtue of the Companies Act 1985 or has been expressly authorised to do so by our written consent. Save as above, we do not accept responsibility for this report to any person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion
We conducted our audit in accordance with United Kingdom 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' 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 the company's affairs as at 30th November 2003 and of its revenues and cash flows for the year then ended. 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.

BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
Northside House
69 Tweedy Road
Bromley
Kent BR1 3WA

24th February 2004

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 profit or loss 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 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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate Governance

The Board has put in place a framework for corporate governance which it believes is appropriate for an investment trust company and which enables the Company to comply with the Combined Code on Corporate Governance ("the Combined Code") issued by the Hampel Committee on Corporate Governance in 1998 with the exception that the Board has not identified a senior independent non-executive Director for the reason given below.

The Board has considered the new Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 which is effective for reporting years beginning on or after 1st November 2003. The Board intends to apply the provisions of the new code, as far as practicable, during the year ending 30th November 2004 and will make a compliance statement in next year's Annual Report.

The Board considers that the Company has complied with the applicable provisions contained within Section 1 of the Combined Code throughout the accounting period to 30th November 2003. Much of this statement describes how the relevant principles of governance are applied to the Company.

The Association of Investment Trust Companies (AITC) published its Code of Corporate Governance in July 2003. The Board intends to comply with the AITC Code as far as possible and where appropriate, and will report more fully on compliance with AITC Code in the Annual Report for the year ending 30th November 2004.

The Board

The Board currently consists of six non-executive Directors, five of whom are independent of the Company's investment manager. Their biographies, on page 41, demonstrate a breadth of investment, industrial, commercial and professional experience.

In accordance with the Articles of Association new Directors stand for election at the first Annual General Meeting following their appointment and then at least one third of Directors retire by rotation at each Annual General Meeting. Every Director is required to seek re-election at least every three years.

The Board meets at least six times a year and convenes ad hoc meetings as and when required. Between meetings regular contact with the investment manager is maintained. Matters specifically reserved for decision by the full Board have been defined and a procedure adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company. The Directors have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that Board procedures are followed and that the Company complies with applicable rules and regulations.

When a new Director is appointed there is an induction process carried out by the investment manager. Directors are provided, on a regular basis, with key information on the Company's regulatory and statutory requirements and internal financial controls. Changes affecting Directors' responsibilities are advised to the Board as they arise.

The Chairman of the Company is a non-executive Director. A senior independent non-executive Director has not been identified as the Board considers that this is not appropriate for a Board of this size which wholly consists of non-executive Directors. The Board believes that length of service does not diminish the contribution from an investment trust director and that a Director's experience and extensive knowledge of the Company is of positive benefit to the Board.

The Board has contractually delegated to the investment manager the management of the investment portfolio, and the day to day accounting and company secretarial requirements. This contract was entered into after full and proper consideration by the Board of the quality and cost of services offered, including the financial control systems in operation, in so far as they relate to the affairs of the Company. The Board receives and considers reports regularly from the investment manager and ad hoc reports and information are supplied to the Board as required. The Board's statement on its review of the management contract appears on page 45.

Board Committees

The Audit Committee consists of all of the independent non-executive Directors, with the exception of the Chairman, and has defined terms of reference and duties. The Audit Committee is chaired by William Worsley. This committee meets at least twice each year and reviews the annual accounts and interim report and the terms of appointment of the auditors together with their remuneration as well as any non-audit services provided by the auditors. It meets representatives of the investment manager and receives reports on the internal controls maintained on behalf of the Company and reviews the effectiveness of these controls.

The Nomination Committee meets at least once each year and makes recommendations on the appointment of new Directors. The Committee is chaired by John Trott, the Chairman of the Board. All Directors serve on the Committee and consider nominations made in accordance with an agreed procedure. External search consultants were used in the recent appointment to the Board of two non-executive directors.

The Management Engagement Committee meets at least once each year to review the Management Agreement and the Managers' performance. It has defined terms of reference and consists of the non-executive directors not employed by the

Corporate Governance

Managers in the past five years. It is chaired by John Trott, the Chairman of the Board.

The Remuneration Committee meets at least once each year and consists of the independent non-executives other than the Chairman of the Board. The Committee is chaired by Richard Wakeling.

The Terms of Reference for each of the Committees may be viewed by shareholders on request.

Internal Control

The Directors have overall responsibility for the Company's system of internal control. Whilst acknowledging their responsibility for the system of internal control, the Directors are aware that such a system can provide only reasonable but not absolute assurance against material misstatement or loss.

The key elements of the procedures that the Directors have established and which are designed to provide effective internal control are as follows:

- The Board, assisted by the Managers undertook a full review of the Company's business risks and these are analysed and recorded in a risk matrix. The Board receives every six months from the Managers a formal report which details any known internal controls failures, including those that are not directly the responsibility of the Managers. The Board continues to check that good systems of internal control and risk management are embedded in the operations and culture of the Company and its key suppliers.

- The appointment of RCM (UK) Limited ("RCM") as the Managers provides investment management, custodial, accounting and company secretarial services to the Company. The Managers therefore maintain the internal controls associated with the day to day operation of the Company. These responsibilities are included in the Management Agreement between the Company and the Managers whose system of internal control includes organisation arrangements with clearly defined lines of responsibility and delegated authority as well as control procedures and systems which are regularly evaluated by management and monitored by its internal audit department. RCM (UK) Limited is regulated by the Financial Services Authority ("FSA") and its compliance department regularly monitors compliance with FSA's rules.

- There is a regular review by the Board of asset allocation and any risk implications. There is also regular and comprehensive review by the Board of management accounting information including revenue and expenditure projections, actual revenue against projections, and performance comparisons.

- Authorisation and exposure limits are set and maintained by the Board.

- The Audit Committee assesses the Managers' and Custodian's systems of controls and approves the appointment of sub-custodians. The Audit Committee also receives reports from the Managers' and Custodian's internal auditors, compliance department and independent auditors.

The Directors confirm that the Audit Committee has reviewed the effectiveness of the system of internal control

Relations with Shareholders

The Board strongly believes that the Annual General Meeting should be an event which private shareholders are encouraged to attend. The Annual General meeting is attended by the Chairman of the Board, the respective Chairmen of the Board's Committees and the investment managers. The number of proxy votes cast in respect of each resolution will be made available at the Annual General Meeting.

The Managers meet with institutional shareholders on a regular basis and report to the Board on matters raised at these meetings.

The Notice of Meeting sets out the business of the meeting and special resolutions are explained more fully in the Directors' Report. Separate resolutions are proposed for each substantive issue.

Shareholders who wish to communicate directly with the Chairman or other Directors may write care of the Company Secretary at 155 Bishopsgate, London EC2M 3AD.

Accountability and Audit

The Directors' statement of responsibility in respect of the accounts is on page 36 and a statement of going concern is on page 43.

The Report of the Independent Auditors can be found on page 35.

Exercise of Voting Powers

The Company's investments are held in a nominee name. The Board has delegated discretion to the Managers to exercise voting powers on its behalf.

The Managers use a proxy voting service which casts votes in accordance with the guidelines of the National Association of Pension Funds (NAPF) research material, unless its clients request a very specific policy to be voted by its fund managers.

Where Directors hold directorships on the boards of companies in which the Company is invested, they do not participate in decisions made concerning those investments.

Directors' Remuneration Report

This report is submitted in accordance with the Directors' Remuneration Report Regulations 2002 for the year ended 30th November 2003.

The Board

The Board of Directors is composed solely of non-executive Directors. The determination of the Directors' fees is a matter dealt with by the Board, guided by the recommendations of the Remuneration Committee. The Remuneration Committee is made up of the independent directors other than the Chairman of the Board and is chaired by Richard Wakeling.

Policy on Directors' Remuneration

Directors meet at least six times each year. The audit committee meets twice each year and the other board committees meet at least once each year.

Directors offer themselves for retirement at least once every three years and annually after nine years. No director has a service contract with the Company. The Company's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears. There are no long term incentive schemes and fees are not related to the individual directors' performance, nor to the performance of the Board as a whole.

The Company's Articles of Association currently limit the aggregate fees payable to the Board of Directors to a total of £68,000 per annum. The Directors are proposing a change to this limit in a resolution being put to the Annual General Meeting to increase the overall limit to a maximum of £125,000. Subject to this overall limit, it is the Board's policy to determine the level of Directors' fees having regard to the level of fees payable to non-executive directors in the investment trust industry generally, the role that individual Directors fulfil, and the time committed to the Company's affairs. The Board believes that levels of remuneration should be sufficient to attract and retain non-executive directors to oversee the Company.

Directors' and Officers' Liability insurance cover is held by the Company.

The performance graph on the next page measures the Company's share price and net asset value performance against the benchmark index: 60% FTSE All Share and 40% FTSE World Index (ex-UK sterling adjusted). An explanation of the Company's performance is given in the Chairman's Statement and the Investment Managers' Review.

The following disclosures on directors' remuneration have been audited as required by Part 3 of Schedule 7A of the Companies Act 1985.

Remuneration

In the year to 30th November 2003 Directors were paid at the rate of £11,000 per annum with the Chairman of the Board being paid £15,000 per annum. The policy is to review these rates from time to time, but reviews will not necessarily result in a change to the rates. The last review resulting in an increase was in 2000. Increasingly, since then and most particularly in the past year, the role of non-executive directors has become more onerous, involving greater time commitment and higher a degree of responsibility against a more demanding regulatory environment. This year the Board has conducted its own research into fees paid within the investment trust industry and the Company's peer group, and with the weight of evidence supporting an increase, it intends to raise the Directors' fees to £15,000 each and the Chairman's fees to £25,000 to reflect market levels in the Company's investment trust sector and the increased volume of work of investment trust directors.

Directors' Emoluments

The payments receivable during the year and in the previous year are as follows:

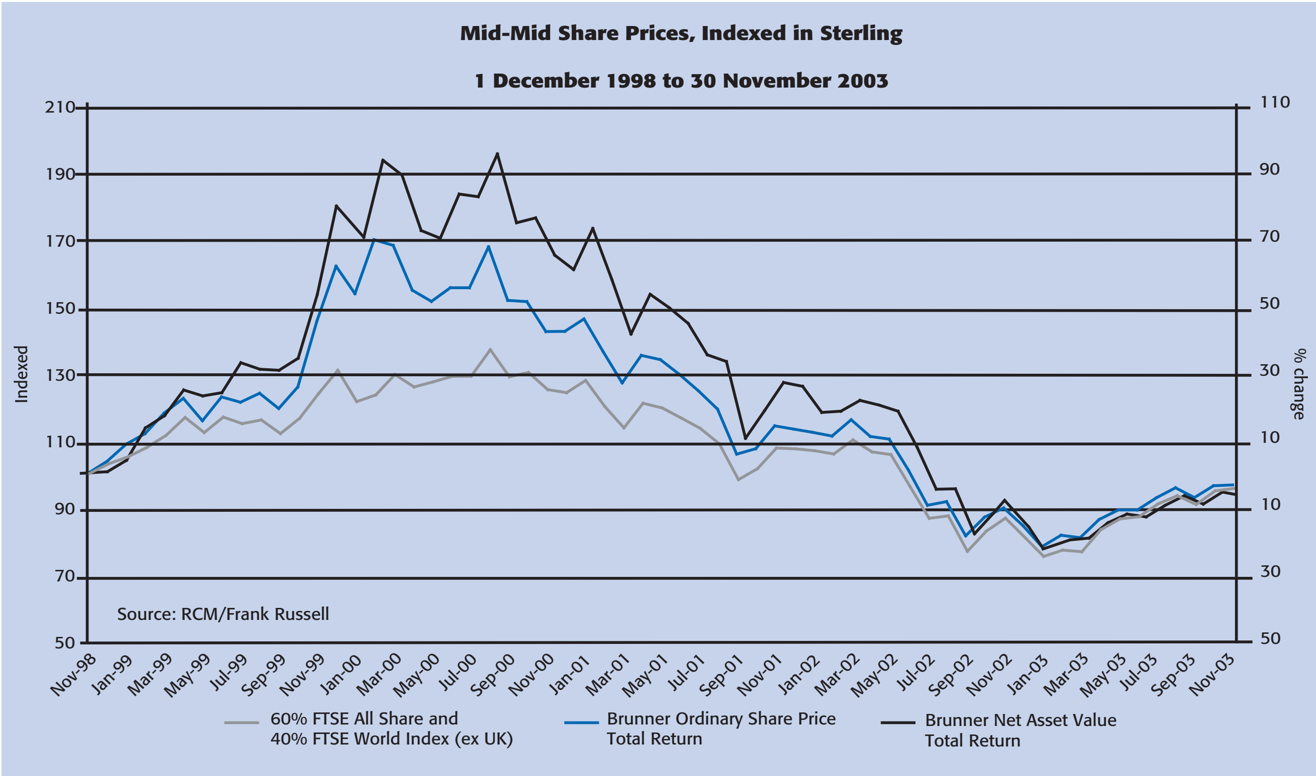
	Directors' fees Year 2003 £	Directors' fees Year 2002 £
J F H Trott	15,000	15,000
J S Flemming	5,354	11,000
B C R Siddons	11,000	11,000
R K A Wakeling	11,000	11,000
W R Worsley	11,000	11,000
Totals	53,354	59,000

By order of the Board
K J Salt
Secretary

24th February 2004

Directors' Remuneration Report

Performance Graph



Directors, Managers & Advisers

Directors All non-executive

JFH Trott BA (Chairman)*
(Born January 1938) joined the Board in December 1977 and was appointed Chairman in March 1998. He is Chairman of Murray International Trust He retired as Chairman of Standard Life Assurance Company in June 2003.

VP Bazalgette
(Born May 1951) joined the Board in January 2004. He retired as Chief Investment Officer of M & G Investment Management in September 2002 and was formerly a director of Gartmore Investment Management plc.

KE Percy
(Born January 1945) joined the Board in January 2004. He is Chairman and Chief Executive of SG Asset Management UK. He is also a director of Deutsche Equity Income Trust plc. He was previously Chief Executive of Morgan Grenfell Asset Management.

BCR Siddons FCA
(Born May 1945) joined the Board in February 1991. He is Chairman of Liverpool Victoria Portfolio Managers Ltd and a director of Allianz Dresdner Smaller Companies Investment Trust plc, Allianz Dresdner Income Growth Investment Trust PLC and Kleinwort Capital Trust plc. He was formerly a director of Kleinwort Benson Investment Management Ltd and Dresdner RCM Global Investors (UK) Ltd.

RKA Wakeling MA, Barrister, FCT* (Remuneration Committee Chairman)
(Born November 1946) joined the Board in July 2000. He is Chairman of Polar Capital Technology Trust PLC. He was formerly Chief Executive of Johnson Matthey PLC and non-executive director of LogicaCMG PLC.

WR Worsley FRICS (Audit Committee Chairman)*
(Born September 1956) joined the Board in January 2000. He is a Chartered Surveyor and is Chairman of the Scarborough Building Society.

*Independent of the Managers

The Managers:
In January 2003 the Managers changed their name from Dresdner RCM Global Investors (UK) Ltd to Allianz Dresdner Asset Management (UK) Limited.

On 30th January 2004 Allianz Dresdner Asset Management (UK) Limited, Allianz Group's regulated UK fund management company, re-registered as RCM (UK) Limited.

Allianz Dresdner Asset Management is the marketing name of RCM (UK) Limited, which is authorised and regulated by the Financial Services Authority.

Allianz Dresdner Asset Management Group is one of the largest fund managers in Europe. As at 30th September 2003, the Allianz Dresdner Asset Management Group had combined assets of £709 billion under management.

Allianz Dresdner Asset Management, through its predecessors, has a heritage of investment trust management expertise in the UK stretching back to the nineteenth century and had £1.04 billion assets under management in a range of investment trusts as at 31st December 2003.

Fund Manager
RCM (UK) Limited, represented by Neil Dwane, Mark Lovett and Nersen Pillay

Secretary and Registered Office
Kirsten Salt BA(Hons) ACIS
155 Bishopsgate,
London EC2M 3AD
Telephone: 020 7065 1513
Email: kirsten.salt@uk.rcm.com

Registrars and Transfer Office
Capita Registrars
The Registry
34 Beckenham Road
Beckenham, Kent BR3 4TU
Telephone: 0870 162 3100 or, if telephoning from overseas, 0044 20 8639 2157
Email: ssd@capitaregistrars.com

Auditors
BDO Stoy Hayward LLP
Northside House
69 Tweedy Road
Bromley
Kent BR1 3WA

Bankers
HSBC Bank plc
Kleinwort Benson Limited

Stockbroker
UBS Warburg

Registered Number
226323

Investor Information

Market and Portfolio Information

The Company's Ordinary Shares are listed on the London Stock Exchange. The market price range, gross yield and net asset value are shown daily in the Financial Times and The Daily Telegraph. The net asset value of the Ordinary Shares is calculated daily and published on the London Stock Exchange Regulatory News Service. The geographical spread of investments and ten largest holdings are published monthly on the London Stock Exchange Regulatory News Service. They are also available to any enquirer of Allianz Dresdner Asset Management on 0800 317 573 or the Managers' website: www.allianzdresdneram.co.uk.

Share Prices

The share prices quoted in London Stock Exchange Daily Official List for 29th November 2003 were 262.25p – 262.75p.

The share price, after adjustment for bonus issues was 37.25p at 31st March 1982.

Savings Scheme

The Allianz Dresdner Asset Management Investment Trust Savings Scheme provides a convenient and economical way for shareholders to increase their existing holdings. Investments can be in the form of a regular monthly payment or individual lump sum and there is an arrangement for the reinvestment of dividends. There are also facilities for selling and switching. Full details of the scheme are available from Allianz Dresdner Asset Management on 0800 317 573 and on the Managers' website: www.allianzdresdneram.co.uk.

Investment Trust Maxi ISA and PEP Transfer

Shareholders can invest in the shares of the Company through the Allianz Dresdner Asset Management Investment Trust Maxi ISA and PEP Transfer. Full details are available from Allianz Dresdner Asset Management on 0800 317 573.

Website

Further information about The Brunner Investment Trust PLC is available on the Managers' website: www.allianzdresdneram.co.uk.

Payment of Dividends Direct to Bank Accounts

Cash dividends will be sent by cheque to first-named shareholders at their registered address together with a tax voucher. Dividends may be paid directly into shareholders' bank accounts. Details of how this may be arranged can be obtained from the Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Dividends mandated in this way are paid via BACS (Bankers' Automated Clearing Services). Tax vouchers will then be sent directly to shareholders at their registered address unless other instructions have been given.

Association of Investment Trust Companies (AITC)

The Company is a member of the AITC, the trade body of the investment trust industry, which provides a range of literature including fact sheets and a monthly statistical service. Copies of these publications can be obtained from the AITC, Durrant House, 8-13 Chiswell Street, London EC1Y 4YY, or at www.aitc.co.uk.

Category: Global Growth.

Financial Calendar

Results

Half-year announced July. Full-year announced late January/early February. Report and Accounts posted to shareholders February/March. Annual General Meeting held March.

Ordinary Dividends

Interim usually paid August/early September. Final usually paid late March.

Preference Dividends

Payable half-yearly 30th June and 31st December.

Shareholder Enquiries

Capita Registrars are the Company's registrars and maintain the share register. In the event of queries regarding their holdings of shares, lost certificates, dividend cheques, registered details, etc., shareholders should contact them on 0870 162 3100 or 0044 20 8639 2157 if calling from overseas. Changes of name and address must be notified to the registrars in writing. Any general enquiries about the Company should be directed to the Company Secretary, The Brunner Investment Trust plc, 155 Bishopsgate, London EC2M 3AD.

Directors' Report

Status
The Company operates as an approved investment trust within the meaning of Section 842 of the Income and Corporation Taxes Act 1988, confirmation of which has been granted by the Inland Revenue for the year ended 30th November 2002 and is expected to be granted for the accounting year now under review. The Company is an Investment Company within the meaning of Part VIII of the Companies Act 1985.

Going Concern
After making enquiries, the Directors have a reasonable expectation 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.

Share Capital
A total of 2,292,000 Ordinary Shares of 25p each (nominal value £573,000) have been repurchased and cancelled as part of the share buy back programme that was approved last year. The consideration paid, including attributable expenses, amounted to £5,781,151.

Payment Policy
It is the Company's payment policy for the forthcoming financial year to obtain the best terms for all business and therefore there is no consistent policy as to the terms used. In general the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by these terms. The Company had no trade creditors at the year end.

Environmental Policy
The Board has instructed the Managers to take into account the impact of environmental policies on the investment prospects of the Company's underlying investments.

Invested Funds
Sales of investments during the year resulted in net losses based on historical costs of £5,599,571 (2002 – £35,832,646). Provisions contained in the Finance Act 1980 exempt approved Investment Trusts from corporation tax on their chargeable gains. Invested funds at 30th November 2003 had a value of £219,637,530 before deducting net liabilities of £29,981,997 (2002 – £218,572,416 and £29,197,590).

Net Asset Value
The Net Asset Value of the Ordinary Shares of 25p at the year end, was 343.1p as compared with a value of 329.0p at 30th November 2002.

Donations and Subscriptions
No donations or subscriptions of a political or charitable nature were made during the year.

Historical Record
There is included in the Investment Managers' Review a schedule of the Company's thirty largest investments. The distribution of invested funds is shown on pages 18 and 19 and the historical record of the Company's revenue, capital and invested funds over the past 10 years is shown on page 5. A graph is included on page 6 showing the performance over the past 10 years of the Net Asset Value of the Company's Ordinary Shares against the FTSE All Share Index and the FTSE World Index (ex UK sterling adjusted) and also the growth in ordinary distributions made by the Company, together with the Retail Price Index over the same period.

Business Review
A review of the Company's activities is given in the Chairman's Statement on page 3 and in the Investment Managers' Review on pages 8 to 16.

Auditors
On 31st December 2003, BDO Stoy Hayward, the Company's auditors transferred it business to BDO Stoy Hayward LLP, a limited liability partnership incorporated under the Limited Liability Partnership Act 2000. Accordingly, BDO Stoy Hayward resigned as auditors on that date and the directors appointed BDO Stoy Hayward LLP as its successor firm with effect from 1st January 2004.

In accordance with the Companies Act 1985 a resolution to re-appoint BDO Stoy Hayward LLP will be proposed at the Annual General Meeting, together with a resolution authorising the Directors to determine their remuneration.

Directors' Report

Revenue

	£	£
Gross income for the year amounted to		7,326,590
from which had to be deducted:		
Expenses of administration	(540,343)	
Finance costs of borrowings	(1,347,875)	
		(1,888,218)
leaving an amount subject to taxation of		5,438,372
Taxation absorbed		(522,436)
and there remained a balance available of		4,915,936
from which has been deducted the divided on £450,000 Preference Stock of		(22,500)
leaving available for distribution to the Ordinary Shareholders		4,893,436
Dividends		
Provisions have been made for dividends on the Ordinary Shares of 25p as follows:		
Prior year over accrual	1,259	
Interim 3.4p per Ordinary Share paid 29th August 2003	(1,924,754)	
Final proposed 4.4p per Ordinary Share payable 26th March 2004	(2,426,178)	
		(4,349,673)
thus leaving to be transferred to Revenue Reserve		543,763

The Board declared an interim dividend of 3.40p per Ordinary Share which was paid on 29th August 2003. The Board recommends a final dividend for the year ended 30th November 2003 of 4.40p, payable on 26th March 2004, making a total distribution for the year of 7.80p per Ordinary Share. The next interim dividend payment is expected to be made in August 2004.

Substantial Shareholdings

As at the date of this report the Company has been advised of the following holding in excess of 3% of the issued Ordinary Share capital: CE Wilkinson (as trustee 11.39%); HLJ Brunner (beneficial 6.54% – as trustee 4.74%); TBH Brunner (beneficial 1.42% – as trustee 5.96%); AXA Group (including Compagnie UAP and Sun Life Investment Management Ltd) (15.41%); JHK Brunner (beneficial 3.80% – as trustee 3.20%); Prudential plc (4.61%).

Mr CE Wilkinson acts as a co-trustee with Mr TBH Brunner in respect of 1,842,637 Ordinary Shares (3.39%), which form part of Mr TBH Brunner's trustee holding. Mr CE Wilkinson also acts as co-trustee with Mr HLJ Brunner in respect of 2,635,207 Ordinary Shares (4.85%) which form part of Mr HLJ Brunner's trustee holdings.

Directors' Report

Directors

V Bazalgette and K Percy, having been appointed as directors since last year's annual general meeting, resign and offer themselves for election. BCR Siddons retires by rotation, in accordance with the Articles of Association and offers himself for re-election. Biographical details of the Directors are on page 41. The present Directors and their interests in the share capital of the Company as at 30th November 2003 are set out below.

Ordinary Shares of 25p

	2003 Beneficial	2003 As Trustee	2002 Beneficial	2002 As Trustee
JFH Trott	136,638	13,290	109,224	13,290
BCR Siddons	4,629	–	4,629	–
RKA Wakeling	9,023	–	9,023	–
WR Worsley	110,000	613,900	110,000	621,000

Since the year end the following changes have taken place:

J Trott has added to his holdings so that the totals are now 136,638 beneficial and 33,290 non-beneficial. W Worsley has reduced his holdings so that the totals are now 110,000 beneficial and 591,200, non-beneficial. V Bazalgette acquired 4,000 shares.

No contracts of significance in which Directors are deemed to have been interested have subsisted during the year under review.

Contracts of service are not entered into with the Directors, who hold office in accordance with the Articles of Association.

Management Contract and Management Fee

The management contract provides for a management fee based on 0.45% per annum of the value of the Company's assets after deduction of current liabilities, short-term loans under one year and any other funds managed by the managers. The contract can be terminated with twelve months' notice.

The managers' performance under the contract and the contract terms are reviewed at least annually by the Management Engagement Committee. This committee consists of the directors not employed by the management company in the past five years. At its last meeting the committee reviewed the managers' investment process and considered the investment management performance over various time periods. The committee also considered the level of the management fee, which it found to be appropriate. The committee was satisfied with its review and believes that the continuing appointment of the managers is in the best interests of shareholders as a whole.

Allotment of new shares

A resolution authorising the directors to allot new share capital for cash was passed at the Annual General Meeting of the Company on 27th March 2003. The current authority will expire on 27th May 2004.

Approval is therefore sought for the renewal of this authority and for the granting of an authority to allot shares other than on a pro rata basis to existing shareholders until the conclusion of the Annual General Meeting in 2005. Accordingly resolutions 10 and 11 as set out in the Notice of Meeting on page 47 will be proposed as an Ordinary Resolution and a Special Resolution respectively.

Whilst it is appreciated that allotments under these authorities will normally be to the Allianz Dresdner Asset Management Investment Trusts Savings Scheme the resolutions allow for allotments of new shares at the discretion of the Directors and is not limited only to this scheme. The Directors confirm that no allotments of new shares will be made unless the lowest market offer price of the Ordinary Shares is at least at a premium to net asset value.

Takeover Code Requirements

Mr TBH Brunner and members of his immediate family, (the "Connected Parties") are treated as acting in concert for the purposes of the City Code on Takeovers and Mergers (the "Code"). The Connected Parties currently hold 28.74% of the ordinary share capital of the Company. If the proposed buy back authorised were to be used in full, the repurchase of Ordinary Shares could result in the Connected Parties holding 33.78% of the reduced ordinary share capital of the Company.

The Board is of the view that none of the Connected Parties is acting in concert with any of the current Directors and that consequently, pursuant to Note 1 on Rule 37 of the Code, there would be no obligation under Rule 9 of the Code for a general offer to be made to shareholders if the proposed buy back authority were to be used and the shareholdings of the Connected Parties increased accordingly.

Continuation of share buy back programme

As referred to in the Chairman's statement, the Board is proposing the renewal of the Company's authority to purchase Ordinary Shares in the market for cancellation and accordingly resolution 12 will be proposed at a Special Resolution at the AGM. The Board believes that such purchases in the market at appropriate times and prices may be a suitable method of enhancing shareholder value. The Company would make either a single purchase or a series of purchases, when market conditions are suitable, with the aim of maximising the benefits to shareholders and within guidelines set from time to time by the Board.

Where purchases are made at prices below the prevailing net asset value of the Ordinary Shares, this will enhance net asset

Directors' Report

value for the remaining shareholders. It is therefore intended that purchases would only be made at prices below net asset value, with the purchases to be funded from the realised capital profits of the Company (which are currently in excess of £189 million). The rules of the UK Listing Authority limit the price which may be paid by the Company to 105% of the average middle-market quotation for an Ordinary Share on the 5 business days immediately preceding the date of the relevant purchase. The minimum price to be paid will be 25p per Ordinary Share (being the nominal value). Additionally, the Board believes that the Company's ability to purchase its own shares should create additional demand for the Ordinary Shares in the market and that this increase in liquidity should assist shareholders wishing to sell their Ordinary Shares. Overall this share buy-back proposal should help to reduce the discount to net asset value at which the Company's shares currently trade.

The Company's Articles of Association permit the Company to redeem or purchase its own shares out of capital profits. Under the Financial Services Authority Listing Rules, a company is permitted to purchase up to 14.99% of its equity share capital through market purchases pursuant to a general authority granted by shareholders in general meeting.

The current authority which permits the Company to purchase up to 14.99% of the Ordinary Shares expires at the conclusion of the forthcoming Annual General Meeting. The Board believes that the Company should continue to have authority to make market purchases of its own Ordinary Shares for cancellation. The Board is therefore seeking to renew its power to make market purchases of Ordinary Shares for cancellation. Accordingly, a Special Resolution to authorise the Company to make market purchases of up to 14.99% of the Company's issued Ordinary Share capital at the date of the Annual General Meeting, will be proposed. The authority to make market purchases of up to 14.99% of the Company's issued Ordinary share capital is equivalent to 8,148,626 Ordinary Shares provided there is no change in the issued share capital between the date of this Report and the Annual General Meeting to be held on 25th March 2004.

Any purchase of shares would only be made at a discount to the prevailing Net Asset Value and hence would enhance the Net Asset Value of the remaining shares. The Company would also be better positioned to address any imbalance between supply and demand for its shares. The Board considers that it will be most advantageous to shareholders for the Company to be able to make such purchases as and when it considers the timing to be most favourable and therefore does not propose to set a timetable for making any such purchases. Purchases of shares would be made at the discretion of the Board and within the guidelines set from time to time by the Board in the light of prevailing market conditions.

The authority will last until the Annual General Meeting of the Company to be held in 2005 or the expiry of 14 months from the date of the passing of this resolution, whichever is the earlier. The authority will be subject to renewal by shareholders at subsequent annual general meetings.

Additional Information

The Directors unanimously recommend shareholders to vote in favour of resolution 12 to be proposed at the Annual General Meeting in relation to the renewed authority for the repurchase of shares as they intend to do in respect of their respective holdings of Ordinary Shares.

The Directors, whose names are set out on page 41 of this document accept responsibility for the information contained in the sections headed "Purchase of Own Shares", "Takeover Code Requirements", "Summary of connected party holdings" and this section and, to the best of their knowledge and beliefs (having taken all reasonable care to ensure that such is the case), the information contained in these sections is in accordance with the facts and does not omit anything that is likely to affect the import of such information.

By Order of the Board
KJ Salt
Secretary 24th February 2004

Notice of Meeting

Notice is hereby given that the Seventy-Sixth Annual General Meeting of **The Brunner Investment Trust PLC** will be held at **100 Liverpool Street, London EC2M 2PP**, on Thursday, 25th March 2004 at 12.00 noon to transact the following business. All resolutions shall be proposed as ordinary resolutions:

Ordinary Business

1 To receive and adopt the Report of the Directors and the Accounts for the year ended 30th November 2003 with the Auditors' Report thereon.

2 To declare a final dividend of 4.40p per Ordinary Share

3 To re-elect Mr BCR Siddons as a Director.

4 To elect Mr VP Bazalgette as a Director.

5 To elect Mr KE Percy as a Director.

6 To approve the Directors' Remuneration Report.

7 To re-appoint BDO Stoy Hayward LLP as Auditors

8 To authorise the Directors to determine the remuneration of the Auditors.

Special Business

To consider and, if thought fit, pass the following Resolutions of which Resolution 9 and 10 will be proposed as an Ordinary Resolution and Resolutions 11 and 12 will be proposed as Special Resolutions:

9 That the maximum total payable as Directors' fees to the directors is £125,000 per annum.

10 That the Directors be and are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 to allot relevant securities (within the meaning of Section 80(2) of that Act) provided that this power shall be limited to the allotment of relevant securities up to an aggregate nominal amount of £2,959,896 and shall expire at the conclusion of the next Annual General Meeting of the Company held after the meeting at which this Resolution is passed or 25th May 2005 if earlier, save that the Directors may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

11 That the Directors be and are hereby empowered, pursuant to Section 95 of the Companies Act 1985, to allot equity securities (as defined in Section 94 of that Act) pursuant to the authority conferred by Resolution 10 above as if Section 89 of that Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities for cash of an aggregate maximum nominal amount of £679,505 and shall expire at the conclusion of the next Annual General Meeting of the Company held after the meeting at which this Resolution is passed or 25th May 2005, if earlier, save that the Directors may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred had not expired.

12 That the Company be and is hereby generally and unconditionally authorised in accordance with section 166 of the Companies Act 1985 (the "Act") to make market purchases (within the meaning of section 163 of the Act) of Ordinary Shares of 25p each in the capital of the Company ("Ordinary Shares"), provided that:

(i) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 8,148,626;

(ii) the minimum price which may be paid for an Ordinary Share is 25p;

(iii) the maximum price which may be paid for an Ordinary Share is an amount equal to 105 per cent of the average of the middle market quotations for an Ordinary Share taken from the London Stock Exchange Official List for the 5 business days immediately preceding the day on which the Ordinary Share is purchased or such other amount as may be specified by the London Stock Exchange from time to time;

(iv) the authority hereby conferred shall expire at the conclusion of the annual general meeting of the Company in 2005 or, if earlier, on the expiry of 18 months from the passing of this resolution, unless such authority is renewed prior to such time; and

(v) the Company may make a contract to purchase

Notice of Meeting

Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares pursuant to any such contract.

(vi) any Ordinary Shares so purchased shall be cancelled.

155 Bishopsgate,	By Order of the Board
London EC2M 3AD	KJ Salt
24th February 2004	Secretary

Notes: Members entitled to attend and vote at this Meeting may appoint one or more proxies to attend and, on a poll, vote in their stead. The proxy need not be a Member of the Company. Proxies must reach the office of the Registrars at least 48 hours before the Meeting. A form of proxy is provided with the Annual Report. Completion of the form of proxy will not prevent a Member from attending the Meeting and voting in person.

Contracts of service are not entered into with the Directors, who hold office in accordance with the Articles of Association.

Annual General Meeting Venue

100 Liverpool Street
London
EC2M 2RH

Printed by Park Communications 26892

Form of Proxy

and Authority for Savings Scheme Investors – see D below
and Authority for PEP and/or ISA Investors – see E below

Notes on how to complete the proxy form

If you are a registered Ordinary Shareholder and you are unable to attend the Meeting or you are an investor through the Allianz Dresdner Investment Trust Savings Scheme ("Savings Scheme Investors") and/or Allianz Dresdner Trust PEP and/or ISA ("PEP and/or ISA Investors") you may appoint a proxy to attend and, on a poll, to vote on your behalf.

A How to sign the form

(i) Please print your name and address in the space provided and sign and date the form.

(ii) If someone else signs the form on your behalf, the authority entitling them to do so, or a certified copy of it, must accompany the form.

(iii) In the case of a corporation, this form must be executed either under its common seal or be signed on its behalf by an attorney or duly authorised officer of the corporation.

(iv) In the case of joint holders, the signature of the first-named on the Register of Members, in respect of the joint holding, shall be accepted to the exclusion of the other joint holders.

B Appointing a proxy

If you wish to appoint someone other than the Chairman as your proxy please cross out the words "the Chairman of the Meeting", initial the deletion, and insert the name and address of your proxy. A proxy need not be a member of the Company, but must attend the Meeting in order to represent you.

C Telling your proxy how to vote

Tick the appropriate box indicating how your proxy should vote on the Resolutions. If you do not give instructions, your proxy or relevant Administrator/Manager (see note D and E below) will vote or abstain at their discretion. They will also vote or abstain at their discretion on any other business which may lawfully be put before the Meeting.

D Savings Scheme Investors

The Ordinary Shares held on your behalf in the Savings Scheme are registered in the name of the Scheme Nominee Company. If you complete parts A and C of the form of proxy you will be deemed to have instructed the Scheme Administrator to vote as indicated in part C in respect of all such Ordinary Shares. You will also be deemed to have appointed the Chairman of the Meeting or, if you complete part B, the person named there, as your proxy in respect of any Ordinary Shares registered in your name.

E PEP and/or ISA holders

The Ordinary Shares held on your behalf in the PEP and/or ISA are registered in the name of the Plan/Account Nominee Company. If you complete parts A and C of the form of proxy you will be deemed to have instructed the Plan/Account Manager to vote as indicated in part C in respect of all such Ordinary Shares. You will also be deemed to have appointed the Chairman of the Meeting or, if you completed part B, the person named there, as your proxy in respect of any Ordinary Shares registered in your name.

Returning the form

The form must reach the office of the Registrars of the Company no later than 48 hours before the time of the Meeting, 96 hours in the case of Savings Scheme investors and PEP and/or ISA holders. If you are a registered Ordinary Shareholder and you subsequently decide to attend the Meeting you may do so.

Attendance at the AGM

Please indicate above if you wish to attend the Annual General Meeting. This will facilitate the Company's planning of the AGM in general, and in respect of Scheme, PEP and ISA holders, enable the relevant Nominee Company to send a Letter of Representation, for you to bring to the Meeting.

A Shareholders' name and address

Title and Surname . . . .

Forenames . . . .

Address . . . .

. . . .

. . . . .Postcode . . . .

B Appointment of Proxy

I/We, the undersigned, being (a) member(s) of the above-named Company hereby appoint the Chairman of the Meeting or

Title and Surname (or your chosen proxy) . . . .

Forenames . . . .

Address . . . .

. . . .

. . . . .Postcode . . . .

as my/our proxy to attend and vote for me/us and on my/our behalf as directed below at the Annual General Meeting of the Company to be held on Thursday 25th March 2004 and at any adjournment.

C Ordinary Business

		For	Against	Abstain
1	To receive and adopt the report and accounts	☐	☐	☐
2	To declare a final dividend	☐	☐	☐
3	To re-elect Mr BCR Siddons as a Director	☐	☐	☐
4	To elect Mr VP Bazalgette as a Director	☐	☐	☐
5	To elect Mr KE Percy as a Director	☐	☐	☐
6	To approve the Directors' Remuneration Report	☐	☐	☐
7	To re-appoint BDO Stoy Hayward as Auditors	☐	☐	☐
8	To authorise the Directors to determine the remuneration of the Auditors	☐	☐	☐
Special Business				
9	To increase the upper limit for Directors' fees	☐	☐	☐
10	To authorise the Directors to allot Shares	☐	☐	☐
Special Resolution				
11	To disapply pre-emption rights	☐	☐	☐
12	To authorise the Company to make market purchases of Ordinary Shares	☐	☐	☐

I/We wish to attend the AGM (all shareholders) ☐ Yes ☐ No

D Savings Scheme Investors only (*please tick*) ☐

E PEP and/or ISA Holders only (*please tick*) ☐

Signature . . . .

Date . . . .

Third Fold and Tuck in

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Proxies Department,
The Registry,
34 Beckenham Road,
BECKENHAM,
Kent
BR3 4BR

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