

Securities Trust of Scotland plc

Interim report
Six months to 30 September 2004



**martin
currie**

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www.securitiestrust.com

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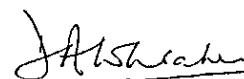
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Welcome

Welcome to the interim report for 2004. It covers the six-month period to the end of September.

We have placed a copy of this report on www.securitiestrust.com. On this site, you can also find a wealth of information including the latest share price, performance figures and a monthly update.

As ever, we welcome your views and comments on any issues relating to the trust. You can write to me via Martin Currie's Investor services team at the address on the back of this report, or e-mail me at investorservices@martincurrie.com.



David Whitaker
Chairman

About the trust

The objective of Securities Trust of Scotland is to achieve rising income and long-term capital growth by investment in the United Kingdom. The emphasis is on companies with the potential for strong earnings and dividend growth.

The performance of the trust is measured against the FTSE All-Share index.

Total assets (less current liabilities)

£392m

Shareholders' funds

£328m

Market capitalisation

£276m

Capital structure

304,642,996 ordinary shares of 25p, each entitled to one vote.

Management and secretarial fees

The total fees payable to Martin Currie Investment Management Ltd in the six months to 30 September 2004 amounted to 0.3% of shareholders' funds (0.2% of gross assets).

Management company

Martin Currie Investment Management Ltd. Founded in 1881, the privately owned group specialises in international equity investment and today manages assets of some £7.7 billion for a range of institutions, pension funds, pooled funds, investment trusts and charities.

AITC membership category

UK Growth & Income

Financial highlights

Key Data	As at 30 September 2004	As at 31 March 2004	% change
Net asset value per share	107.82p	103.53p	↑ 4.1
Benchmark*	2,271.67	2,196.97	↑ 3.4
Share price	90.50p	87.25p	↑ 3.7
Discount	16.1%	15.7%	

*FTSE All-Share index

Total returns	Six months ended 30 September 2004	Six months ended 30 September 2003	
Net asset value per share	4.1%	17.5%	
Benchmark*	5.1%	19.0%	
Share price	3.7%	20.9%	

*FTSE All-Share index

Income	Six months ended 30 September 2004	Six months ended 30 September 2003	% change
Revenue return per share	2.28p	2.47p	↓ 7.7
Dividend per share	2.00p	1.27p	↑ 57.5 [†]

†see chairman's statement
on page 4

Total expenses [†]	Six months ended 30 September 2004	Six months ended 30 September 2003	
As a percentage of gross assets	0.3%	0.3%	
As a percentage of shareholders' funds	0.4%	0.4%	

†Investment management fee
and other expenses are shown in
the statement of total return on
page 10.

Chairman's statement

- ♦ Strategic review
- ♦ Net asset value per share increased by 4.1% compared with the 3.4% gain registered by the benchmark FTSE All-Share index.
- ♦ Dividend re-balanced; proposed move to quarterly payments.

David Whitaker

Following the announcement of the company's results for the year to 31 March 2004, on 29 April, the board initiated a strategic review of the company's investment objectives and policy, which has resulted in a number of actions over the last few months:

- ♦ We have purchased £10 million nominal of TrustCo Finance plc 11.5% debenture stock 2016 and intend to surrender this to TrustCo. This will have the effect of cancelling the company's existing £10 million loan from TrustCo.
- ♦ Holders of the company's 12% debenture stock 2013 have approved a proposal for the company to repay this stock early at a price that would give a yield of 0.30% over the reference gilt.
- ♦ The board intends to repay a £50 million 7.43% term loan that falls due on 3 December 2004. We will replace this, in part, with a short-term revolving credit facility of up to £25 million.

These changes will mean that an outstanding £50 million of 6.25% debenture stock 2031 and the short-term credit facility will represent all of the company's debt. The company's debt will fall from £125 million to a range of £50-75 million, depending on the use of the short-term facility. As a percentage of shareholders' funds of £328.5 million (as at 30 September 2004), gearing will fall from 38% to 15-23%.

It is estimated that the early repayment of the two debentures will cost approximately £11.5 million, equivalent to 3.5% of shareholders' funds as at 30 September 2004. The company currently adopts an accounting policy whereby 70% of finance costs and investment management fees are charged to capital, and 30% to revenue. The proposed repayment of debt, together with the associated removal of the investment management fee on the debt repaid, represents savings of £2.1 million to the revenue account and £4.9 million to the capital account each year. The latter figure is equivalent to 1.5% of shareholders' funds as at 30 September 2004.

Changes to the structure of the portfolio

Despite the ongoing savings from the change to the company's capital structure, the reduction in total assets will require a marginal increase in the yield on the company's equity portfolio in order to maintain the company's progressive dividend policy. It is anticipated that, assuming a full drawdown of the £25 million short-term facility, the company will typically invest 85-90% of its total assets in equities, at an average yield of 110-115% of that of the FTSE All-Share index. The remaining 10-15% will be invested in cash and fixed interest securities. The board has imposed a restriction on the investment managers that equity gearing may not exceed 120%, nor be less than 80%.

These limits will be subject to regular review, with the manager having to take into consideration the company's absolute, and not just relative, return. There has been increased domination of the index by the largest-cap stocks over recent years. So the board has agreed that the managers should have greater freedom to deviate from the benchmark index, thereby allowing greater emphasis on stock picking. The main focus will be on an above-average yielding portfolio with scope to deliver superior dividend growth.

Performance review

Over the six months to 30 September 2004, the company's net asset value (NAV) per share increased by 4.1%. That compares with the 3.4% gain registered by the benchmark FTSE All-Share index. This outperformance was recorded even after the cost of early repayment of the TrustCo debenture, which was equivalent to 1.3% of NAV as at 30 September 2004. The total return of the company's NAV per share underperformed the benchmark due to this and to the lack of a dividend payment by the company in the interim period. However, rising by 3.7%, the company's share price also outperformed the benchmark. As it failed to match the increase in NAV per share, the discount widened marginally, from 15.7% at 31 March 2004 to 16.1% at 30 September 2004.

Income

Earnings per share have fallen in the period, by 7.7%, to 2.28p, largely due to

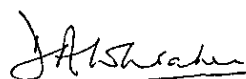
the timing of dividend receipts. However, the board has declared an interim dividend of 2.00p per share, payable on 17 December to shareholders on the register on 19 November. This is an increase of 57.5% on the 1.27p per share paid for the equivalent period last year. This reduces the disparity between the interim and final (last year: second interim) dividend. From the start of the company's next financial year, the trust intends to move to quarterly dividends.

It is the board's current intention, barring unforeseen circumstances, to pay dividends in respect of the financial year to 31 March 2005 totalling no less than the 4.55p per share paid for the financial year to 31 March 2004. On current estimates, this will be covered by earnings. A dividend of 4.55p per share would represent a yield of just over 5% on the share price of 90.5p at 30 September 2004. That compares with the UK Base Rate of 4.75% and the yield on the FTSE All-Share index of 3.2% at the same date. The board remains committed to growing the company's dividend on an annual basis. We have achieved this in each of the last 10 years.

Outlook

We are conscious that we are undertaking a significant strategic change at a time when the outlook for the UK stockmarket remains uncertain. The board expects that the reduction in debt and the increased flexibility given to the investment manager will provide him

with the opportunity to deliver improved performance for shareholders. Consequently, the board will keep the implementation of the revised strategy under review and will decide upon its success by no later than 31 December 2005. Any such decision will be accompanied by consultation, as required, with shareholders.



David Whitaker
28 October 2004

Manager's report

During the period, the UK equity portfolio delivered a total return of 6.7%. This was ahead of the benchmark FTSE All-Share index return of 5.1%.

Tom Maxwell

For a large part of the six months under review the market drifted down, as investors only seemed to respond to bad news and ignored the good. By August, negative sentiment had become extreme, resulting in a relatively inexpensive market valuation. So, when the Monetary Policy Committee of the Bank of England were interpreted as giving a signal that interest rates were close to peaking, sentiment improved and the market rallied.

During the period, the UK equity portfolio delivered a total return of 6.7%. This was ahead of the benchmark FTSE All-Share index's return of 5.1%. At the sector level, the portfolio has benefited from our overweight positions in banks, retail, oils and utilities. Our underweight positions in media, support services and food producers also contributed positively to performance. However, some of the more defensive sectors did lag the rally in September.

At the stock level, **Glenmorangie** was a star performer. Its price rose to reflect the announcement that the controlling family was looking to sell. We also benefited from a bid approach for RMC from the Mexican cement manufacture Cemex.

Regarding portfolio activity, significant changes included the sale of Kelda. It had risen sharply following a favourable regulatory review. We also reduced our holding of **AstraZeneca**, where expectations for the new product pipeline look too optimistic. Meanwhile, we bought new holdings in **Go-Ahead Group**, one of the UK's leading bus and rail companies, **Britannic Group**, a consolidator of closed books of business in the insurance industry, and **Kingfisher**, the leading DIY retailer with significant interests overseas.

The fixed interest portfolio also performed well, with a total return of 5.0% against the 2.1% return of the FTSE Government All Stocks index. Gearing has been beneficial during the period: both equities and bonds produced positive returns in excess of the average cost of borrowing. We did however take advantage of the rally in the later part of the period to reduce the equity gearing. At 30 September, this stood at 120%, compared with 126% at 31 March.

The pace of global economic recovery is now moderating. The best of the

rebound in corporate earnings growth is behind us and markets are entering that difficult period when growth is slowing and interest rates are rising. This is not helped by the relentless rise in the oil price. Against this background, we believe our focus on companies with premium yields and high and sustainable free cash flow should result in superior dividend growth for investors.



Tom Maxwell
28 October 2004

Portfolio summary

Portfolio distribution as at 30 September

By asset class	2004	2003
Equities	120%	121%
Fixed interest	13%	15%
Cash	2%	4%
Less borrowings	(35%)	(40%)
	100%	100%

By sector

Financials	36%	35%
Consumer goods	18%	20%
Resources	18%	17%
Services	17%	18%
Utilities	5%	4%
Basic industries	4%	4%
General industrials	2%	2%
	100%	100%

Largest holdings as at 30 September 2004

	Market value £000	% of portfolio
BP	41,409	9.39
HSBC	36,714	8.33
Vodafone	27,140	6.16
GlaxoSmithKline	22,028	5.00
Royal Bank of Scotland	17,556	3.98
Shell Transport and Trading	15,875	3.60
Lloyds TSB	15,016	3.41
HBOS	12,831	2.91
Barclays	12,720	2.89
HBOS (9.25% preference shares)	11,522	2.61
British American Tobacco	10,085	2.29
Intermediate Capital	9,621	2.18
Scottish and Southern Energy	9,195	2.09
Glenmorangie 'B'	7,076	1.61
Diageo	6,868	1.56
Imperial Tobacco	6,836	1.55
Next	6,494	1.47
Wolseley	6,133	1.39
Man	6,028	1.37
National Grid Transco	5,938	1.35

Investor information

There are a number of ways in which you can hold shares in Securities Trust of Scotland. Of course, investment trusts - like any listed company - can be bought and sold through a stockbroker, shareshop or bank. But there are other ways too:

Martin Currie FundsCircle

If you want to buy more shares in the trust, then FundsCircle offers a simple way of doing so:

- ◆ Invest lump sums from **£500** - or save from **£50** a month
- ◆ Top-up from **£250** for existing investors
- ◆ **No** initial charge - apart from stamp duty
- ◆ **No** annual charge

Martin Currie FundsCircle ISA

If you want tax-free returns, then FundsCircle ISA could be right for you:

- ◆ **Low cost** and **tax efficient** way to hold shares in the trust
- ◆ Invest lump sums from **£1,000** - or save from **£50** a month
- ◆ **No** initial charge - apart from stamp duty
- ◆ **Low** annual charge of 1%

Martin Currie FundsCircle PEP

You can transfer existing PEPs with other managers to the trust through the FundsCircle PEP Transfer Service:

- ◆ **Low cost** and **tax efficient** way to hold shares in the trust
- ◆ **No** initial charge - apart from stamp duty
- ◆ **Low** annual charge of £30

Share exchange service

If you have shareholdings - large or small - in companies listed on the London Stock Exchange, you can exchange them for shares in Securities Trust of Scotland through Martin Currie FundsCircle or FundsCircle ISA.

There is a charge of £45 per security for each registered holder, as long as you invest the proceeds in one or more of the Martin Currie funds.

For more details about all of these products, call free on **0808 100 21 25**.

Keeping you informed...

We want to make it easy for you to follow your investment and to keep up to date with news on the trust. We publish annual and interim reports each year. We know many of you want to monitor the price of your shares on a more regular basis. You can find the company's share price listed in:

- ◆ The Times
- ◆ The Daily Telegraph
- ◆ The Scotsman
- ◆ The Herald
- ◆ Financial Times

Or you can call the FT City Line on **0906 843 3977** for real-time prices.

...and online

There's a website specifically for the trust. It includes price and performance statistics, online versions of the trust's annual and interim reports and ways in which you can invest.

You will find this on **www.securitiestrust.com**.

You can also find information about the trust on Martin Currie's website - **www.martincurrie.com/its**.

Tell us what you think

We also value your views and comments. You can write to Martin Currie's Investor services team at the address on the back of this report or e-mail:

investorservices@martincurrie.com.

Nov Interim report issued	Dec Interim dividend payment	Jan	Feb	Mar	Apr Year-end figures announced
May Annual report issued	Jun	Jul Annual general meeting Final dividend payment	Aug	Sep	Oct Interim results announced

Key dates 2004/2005

The company is moving to quarterly dividend payments with effect from the start of the next financial year.

Directors

David Whitaker (chairman)
Neil Donaldson
Anita Frew
Andrew Irvine
Michael Walker

Manager and secretaries

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Fax 0131 222 2532
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Authorised and regulated by the Financial Services Authority and a member of the Investment Management Association.

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Registered in Scotland, No 1827

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Telephone 0870 162 3100
website www.capitaregistrars.com

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Bankers

The Northern Trust Company
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Canary Wharf
London E14 5NT

Association of Investment Trust Companies (AITC)

AITC
9th Floor
24 Chiswell Street
London EC1Y 4YY
Telephone 020 7282 5555
Website www.aitc.co.uk

Securities Trust of Scotland
is a member of the AITC.

Other investment trusts

Martin Currie manages nine other investment trusts:
Martin Currie Capital Return Trust
Martin Currie Enhanced Income Trust
Martin Currie European Investment Trust
Martin Currie High Income Trust
Martin Currie Income & Growth Trust
Martin Currie Japan Investment Trust
Martin Currie Pacific Trust
Martin Currie Portfolio Investment Trust
Premium Trust

Unaudited statement of total return

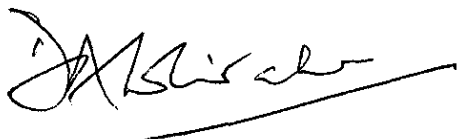
		Six months to 30 September 2004			Six months to 30 September 2003			Year to 31 March 2004 (audited)		
	Note	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gains on investments										
- realised		-	1,439	1,439	-	16,192	16,192	-	12,214	12,214
- unrealised		-	18,080	18,080	-	26,576	26,576	-	54,492	54,492
Currency losses		-	-	-	-	(113)	(113)	-	(113)	(113)
Income - franked	2	8,701	-	8,701	8,803	-	8,803	17,886	-	17,886
- unfranked	2	320	-	320	1,043	-	1,043	1,427	-	1,427
Investment management fee		(276)	(643)	(919)	(309)	(720)	(1,029)	(593)	(1,383)	(1,976)
Other expenses		(284)	(14)	(298)	(300)	(14)	(314)	(636)	(28)	(664)
Net return before finance costs and taxation		8,461	18,862	27,323	9,237	41,921	51,158	18,084	65,182	83,266
Interest payable and similar charges	3	(1,465)	(3,417)	(4,882)	(1,470)	(3,430)	(4,900)	(2,940)	(6,861)	(9,801)
Charge on repurchase of debentures	3	-	(4,257)	(4,257)	-	-	-	-	-	-
Return on ordinary activities before taxation		6,996	11,188	18,184	7,767	38,491	46,258	15,144	58,321	73,465
Taxation on ordinary activities		-	-	-	(74)	-	(74)	(74)	-	(74)
Return on ordinary activities after taxation		6,996	11,188	18,184	7,693	38,491	46,184	15,070	58,321	73,391
Dividends in respect of equity shares		(6,093)	-	(6,093)	(3,963)	-	(3,963)	(14,177)	-	(14,177)
Transfer to reserves		903	11,188	12,091	3,730	38,491	42,221	893	58,321	59,214
Return per ordinary share		2.28p	3.64p	5.92p	2.47p	12.33p	14.80p	4.83p	18.70p	23.53p

The revenue columns of this statement are the profit and loss accounts of the company.
All revenue and capital items in the above statement derive from continuing operations.
No operations were acquired or discontinued in the period.

Unaudited balance sheet

		30 September 2004		30 September 2003		31 March 2004 (audited)	
	Note	£000	£000	£000	£000	£000	£000
Fixed assets							
Investments at market value	4		440,874		419,876		439,247
Current assets							
Debtors	5	10,386		3,212		9,450	
Cash at bank		1,551		12,343		1,909	
		11,937		15,555		11,359	
Creditors							
Amounts falling due within one year	6	(60,416)		(5,732)		(55,422)	
Net current (liabilities)/assets			(48,479)		9,823		(44,063)
Total assets less current liabilities			392,395		429,699		395,184
Creditors							
Amounts falling due after one year	7		(63,942)		(123,902)		(73,922)
Net assets attributable to share capital			328,453		305,797		321,262
Capital and reserves							
Called-up ordinary capital			76,161		78,006		77,581
Capital redemption reserve			3,919		2,074		2,499
Capital reserve			238,612		214,022		232,324
Revenue reserve			9,761		11,695		8,858
Total shareholders' funds			328,453		305,797		321,262
Net asset value per ordinary share of 25p			107.82p		98.00p		103.53p

The financial statements were approved by the board on 28 October 2004.



Unaudited statement of cash flow

		Six months to 30 September 2004		Six months to 30 September 2003		Year to 31 March 2004 (audited)	
	Note	£000	£000	£000	£000	£000	£000
Operating activities							
Net dividends and interest received from investments		11,524		11,038		18,029	
Interest received from deposits		111		479		599	
Investment management fee paid		(919)		(1,029)		(1,976)	
Cash paid to and on behalf of directors		(35)		(39)		(78)	
Bank charges paid		(12)		(9)		(19)	
Other cash payments		(247)		(306)		(543)	
Net cash inflow from operating activities	8		10,422		10,134		16,012
Servicing of finance							
Interest paid		(4,988)		(4,910)		(9,801)	
Charge on repurchase of debenture stock		(4,257)		-		-	
Net cash outflow from servicing of finance			(9,245)		(4,910)		(9,801)
Taxation							
Taxation paid		-		(74)		(74)	
Taxation recovered		-		22		98	
Net cash (outflow)/inflow from taxation			-		(52)		24
Capital expenditure and financial investment							
Payments to acquire investments		(26,181)		(74,434)		(104,479)	
Receipts from disposal of investments		39,546		63,387		97,640	
Net cash inflow/(outflow) from capital expenditure and financial investment			13,365		(11,047)		(6,839)
Equity dividends paid			-		(10,140)		(24,317)
Net cash inflow/(outflow) before financing			14,542		(16,015)		(24,921)
Financing							
Movement in long-term borrowings		(10,000)		-		-	
Repurchase of ordinary shares		(4,900)		-		(1,528)	
Net cash outflow from financing			(14,900)		-		(1,528)
Decrease in cash			(358)		(16,015)		(26,449)

Notes to the financial statements

1 Accounting policies

The financial statements have been prepared on the basis of the accounting policies set out in the most recent set of annual financial statements. The interim report is not the company's statutory accounts. The results for the year to 31 March 2004 and the position as at that date are an abridged version of the full statutory accounts for that year, which received an unqualified audit report and did not contain statements under Section 237(2) or (3) of the Companies Act 1985 and which have been filed with the Registrar of Companies.

	Six months to 30 September 2004 £000	Six months to 30 September 2003 £000	Year to 31 March 2004 £000
2 Income from investments			
From listed investments			
- Equities	7,414	7,828	15,474
- Fixed interest and convertibles	1,439	1,625	3,223
Interest on deposits	153	393	599
Underwriting commission	15	-	17
	9,021	9,846	19,313

3 Interest payable and similar charges

Interest payable on bank loans and overdrafts	1,862	1,862	3,726
Interest payable on debentures	3,020	3,038	6,075
Charge on repurchase of debentures	4,257	-	-
	9,139	4,900	9,801

	As at 30 September 2004 £000	As at 30 September 2003 £000	As at 31 March 2004 £000
4 Investments			
Cost at 1 April	408,628	388,424	388,424
Movements during year:			
Purchases	25,206	74,380	108,064
Disposals at cost	(41,676)	(45,647)	(87,860)
Cost at 30 September/31 March	392,158	417,157	408,628
Unrealised gains	48,716	2,719	30,619
Valuation at 30 September/31 March	440,874	419,876	439,247

5 Debtors

Dividends receivable	2,659	2,982	5,299
Due from brokers	7,520	-	3,984
Sundry debtors	-	57	-
Accrued income	199	115	159
Taxation recoverable	8	58	8
	10,386	3,212	9,450

Notes to the financial statements

	As at 30 September 2004 £000	As at 30 September 2003 £000	As at 31 March 2004 £000
6 Creditors - Amounts falling due within one year			
Proposed interim dividend	6,093	3,963	-
Accrued expenses	1,659	1,769	1,683
Due to brokers	2,664	-	3,639
Sterling bank loan (rate of 7.43% per annum - repayable December 2004)	50,000	-	50,000
Other creditors	-	-	100
	60,416	5,732	55,422
7 Creditors - Amounts falling due after one year			
12% debenture stock 2013*	15,000	15,000	15,000
11.5% Trustco debenture stock 2016	-	10,000	10,000
6.25% debenture stock 2031	48,942	48,902	48,922
Sterling bank loan (rate of 7.43% per annum - repayable December 2004)	-	50,000	-
	63,942	123,902	73,922

*The company has exercised its early repayment right and given notice to the stockholders that the stock will be redeemed on 18 November 2004.

	Six months to 30 September 2004 £000	Six months to 30 September 2003 £000	Year to 31 March 2004 £000
8 Reconciliation of net revenue before finance costs and taxation to net cash inflow from operating activities			
Net revenue before interest payable and taxation	8,461	9,237	18,084
Decrease/(increase) in accrued income and other debtors	2,600	1,667	(637)
Decrease in accrued expenses and other creditors	(19)	(24)	(20)
Capitalised expenses	(643)	(720)	(1,383)
Amortised debenture issue expenses and discount	6	6	12
Net taxation withheld	-	(48)	(74)
Effective yield adjustment	17	16	30
Net cash inflow from operating activities	10,422	10,134	16,012

How to contact us

If you want more information about the company, please contact Martin Currie's Investor services team or visit the website.

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Investor services

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