The Scottish Investment Trust PLC

123rd Annual Report & Accounts

31 October 2010

Contents

The Company	1
Ten Year Record	2
Ten Year Growth Record	2
Financial Highlights	3
Chairman's Statement	4
Board of Directors and Management	6
Management Review	7
Glossary	12
Distribution of Total Assets by Sector	13
List of Investments	14
Directors' Report	15
Directors' Remuneration Report	21
Income Statement	22
Balance Sheet	23
Statement of Total Recognised Gains and Losses	24
Reconciliation of Movements in Shareholders' Funds	24
Cash Flow Statement	25
Accounting Policies	26
Notes to the Financial Statements	27
Independent Auditors' Report	41
Investor Information	42
Notice of Meeting	45
Financial Calendar 2011	49
Useful Addresses	49

Responsibility statement

The board of directors confirms that to the best of its knowledge:

a) the set of financial statements, which has been prepared in accordance with applicable accounting standards, gives a true and fair view of the assets, liabilities, financial position and return of the company;

b) the annual report includes a fair review of the development and performance of the business and the position of the company together with a description of the principal risks and uncertainties the company faces; and

c) no transactions with related parties took place during the financial year.

For and on behalf of the board

Douglas McDougall

Douglas McDougall
Chairman
16 December 2010

The Company

Company Data as at 31 October 2010

£740,140,000
Total Assets

£630,367,000
Shareholders' Funds (with borrowings at par)

£554,257,000
Market Capitalisation

Objectives of The Scottish Investment Trust PLC
To provide investors, over the longer term, with above-average returns through a diversified portfolio of international equities and to achieve dividend growth ahead of UK inflation. The company's investment policy is shown in the Directors' Report on page 15.

Investment Risk
The Scottish Investment Trust PLC (SIT) investment portfolio is diversified over a range of industries and regions in order to spread risk. SIT has a long-term policy of borrowing money to invest in equities in the expectation that this will improve returns. However, should stockmarkets fall, such borrowings would magnify any losses. SIT can buy back and cancel its own shares. All other things being equal, this would have the effect of increasing gearing. Investment risk is considered in more detail in the Directors' Report on pages 15 and 16.

Performance Comparators
The company does not have a formal benchmark. Performance is reviewed in the context of returns achieved by a broad basket of UK equities through the FTSE All-Share Index™ and of international equities through the FTSE All-World Index™. The portfolio is not modelled on any index.

Management
The company is managed by its own employees, led by the manager who is responsible to the directors for all aspects of the day to day management of the company.

Capital Structure
On 31 October 2010 the company had in issue 118,102,926 shares and long-term borrowings at par amounted to £107,733,000 with an average annual interest cost of 5.9%.

Management Expenses
The total expenses of managing the company's business during the year were £4,284,000, equivalent to 0.70% of average shareholders' funds. The company aims to keep this percentage low in comparison with competing investment products.

ISA and SIPP
The shares are eligible for ISAs and SIPPs. Details of all of the savings schemes offered by SIT Savings Ltd are shown on page 42.

The Association of Investment Companies (AIC)
The company is a member of the AIC, the trade organisation for the closed-ended investment company industry.

Ten Year Record

Year to 31 October	Earnings per share (p)[1]	Dividend per share (p)[2]	Total expenses £'000	Total expense ratio %	Total assets £'000	Share-holders' funds £'000	NAV (debt at par) (p)	Share price (p)	Discount to NAV %[4]	NAV (debt at par) total return %
2000	7.93	6.90	4,568	0.35	1,578,998	1,356,861	538.9	457.0	14.6	17.1
2001	9.33	7.05	4,821	0.43	1,130,370	908,066	402.1	359.0	8.7	(24.4)
2002	8.24	7.50	4,558	0.58	893,915	671,443	314.8	259.0	15.6	(20.2)
2003	9.28	7.80	4,129	0.59	942,154	719,515	342.1	281.0	16.2	11.5
2004[3]	9.29	8.10	4,108	0.56	888,578	739,342	353.9	298.8	14.3	6.2
2005[3]	9.86	8.40	3,973	0.49	1,044,315	894,412	428.1	377.0	9.5	23.6
2006	9.39	8.72	4,481	0.55	839,641	730,594	510.4	451.0	8.5	21.3
2007	11.02	9.10	4,709	0.61	910,574	802,353	597.6	529.0	9.9	19.5
2008	11.00	9.50	4,440	0.67	633,521	525,679	405.5	372.0	7.5	(30.7)
2009	10.62	9.60	4,139	0.74	696,971	587,675	465.6	410.0	8.9	17.6
2010	**10.26**	**10.05**	**4,284**	**0.70**	**740,140**	**630,367**	**533.7**	**469.3**	**9.0**	**17.0**

Ten Year Growth Record

	Earnings per share[1]	Dividend per share[2]	Retail Prices Index	NAV (debt at market value)	NAV (debt at par)	Share price	NAV (debt at par) total return	Share price total return	UK FTSE All-Share Index total return	FTSE All-World Index total return
2000	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2001	117.7	102.2	101.6	73.5	74.6	78.6	75.6	79.8	80.4	74.9
2002	103.9	108.7	103.7	57.4	58.4	56.7	60.4	58.8	66.5	60.2
2003	117.0	113.0	106.4	62.7	63.5	61.5	67.4	65.9	75.6	69.5
2004[3]	117.2	117.4	109.9	66.0	65.7	65.4	71.5	72.4	84.4	73.6
2005[3]	124.3	121.7	112.6	78.7	79.4	82.5	88.4	93.5	101.0	87.8
2006	118.4	126.4	116.8	93.4	94.7	98.7	107.2	114.1	122.9	100.4
2007	139.0	131.9	121.7	111.0	110.9	115.8	128.1	136.9	139.7	115.5
2008	138.7	137.7	126.9	76.4	75.3	81.4	88.8	98.6	91.7	84.4
2009	133.9	139.1	125.9	85.3	86.4	89.7	104.4	111.5	113.2	103.0
2010	**129.4**	**145.7**	**131.6**	**97.5**	**99.0**	**102.7**	**122.2**	**130.6**	**133.0**	**121.7**
Ten Year Return Per Annum	2.6%	3.8%	2.8%	-0.3%	-0.1%	0.3%	2.0%	2.7%	2.9%	2.0%
Five Year Return Per Annum	0.8%	3.7%	3.2%	4.4%	4.5%	4.5%	6.7%	6.9%	5.6%	6.7%

1. From 1 November 1999 to 31 October 2005 the company charged two-thirds of eligible expenses and finance costs to capital reserve and since 1 November 2005 the company has charged half of eligible expenses and finance costs to capital reserve.
2. Excluding special dividends of 1.00p in 2001, 2.00p in 2006 and 2.00p in 2007.
3. Figures for 2004 and 2005 have been restated, where applicable, in respect of accounting changes.
4. Discount to ex-income NAV with borrowings at market value.

Financial Highlights

Capital

	2010	2009	% Change
NAV with borrowings at par	533.7p	465.6p	14.6
NAV with borrowings at market value	521.7p	456.2p	14.4
Ex-income NAV with borrowings at par	527.7p	459.3p	14.9
Ex-income NAV with borrowings at market value	515.7p	449.9p	14.6
Share price	469.3p	410.0p	14.5
Discount to ex-income NAV with borrowings at market value	9.0%	8.9%	
FTSE All-World Index			15.3
UK FTSE All-Share Index			13.6
	£'000	£'000	
Equity investments	680,976	611,455	
Fixed interest investments	9,351	25,274	
Net current assets	49,813	60,242	
Total assets	740,140	696,971	
Borrowings at par	(107,733)	(107,612)	
Pension liability	(2,040)	(1,684)	
Equity shareholders' funds	630,367	587,675	

Income

Total income	19,542	21,620	
Earnings per share	10.26p	10.62p	
Dividend per share	10.05p	9.60p	4.7
UK Consumer Prices Index			3.2
UK Retail Prices Index			4.5

Year's High & Low

	Year to 31 October 2010 High	Low	Year to 31 October 2009 High	Low
Published ex-income NAV with borrowings at market value	533.7p	445.3p	490.0p	334.8p
Closing share price	483.0p	401.0p	443.0p	326.3p
Discount/(premium) to ex-income NAV with borrowings at market value	10.2%	7.5%	12.9%	(0.9%)

NAV* and Share Price against Comparator Indices (5 years to 31 October 2010)

* with borrowings at par.

Chairman's Statement

Performance

Over the year to 31 October 2010, the net asset value per share (NAV) total return was 17.0% (cum income and with borrowings at par). The total returns of the comparator indices, the global FTSE All-World Index and the UK FTSE All-Share Index, were 18.2% and 17.5% respectively.

Portfolio performance benefited from strong returns from Asian holdings which offset a weak first half from a number of US holdings. The principal contributors to investment performance included Apple (US), Kia Motors (Korea), Aspen Pharmacare (South Africa), Spectris (UK), CIMB (Malaysia), BHP Billiton (UK), Hengan International (Hong Kong) and Li & Fung (Hong Kong). The three most negative contributors were all in the oil industry – Diamond Offshore Drilling (US), BP (UK) and Petrobras (Brazil).

After a disappointing first half, relative investment performance picked up sharply in a second half in which the portfolio rose in value despite global equity markets falling modestly. Over the year, industry sector positioning was broadly helpful.

Equity markets were volatile throughout the year. Effective equity gearing levels were managed actively but cautiously and deployment added 0.7% to NAV performance. The uplift to NAV from share buybacks largely offset the 0.8% cost to NAV performance from interest and expenses charged to capital.

Positive investor sentiment stemming from resurgent corporate profits, broadly improving economic data and abundant merger and acquisition activity was intermittently punctured by bouts of weakness reflecting concerns over policy measures to cool Chinese growth and over the European sovereign debt crisis centred on Greece and other indebted countries on the EU periphery. Much of the equity market gain made in the first six months was eliminated by August as risks of a slowdown in the US economy emerged. However, the indications by the US monetary authorities in late August that further quantitative stimulus would be applied prompted a sharp rally in equity markets and other risk assets. A striking feature has been the close inverse correlation between the US dollar and asset prices, a symptom of the pressures and imbalances within the global financial system.

Industry sector performance was equally volatile with sequential rotations in and out of more cyclical sectors as markets rose and fell. The China demand-linked Basic Materials industry stocks produced the best returns over the year, followed by other consumer cyclicals and industrials. While more defensive sectors lagged generally, it was Oil & Gas which performed worst as heavyweights BP and Petrobras succumbed to stock-specific pressures. In geographic terms, the fall in sterling exchange rates transformed overseas returns for UK-based investors and propelled the emerging market regions of Middle East & Africa, Latin America and Asia Pacific (ex Japan) to sterling returns well in excess of 20%.

There were a small number of main themes behind portfolio activity. First, effective equity gearing was deployed actively in volatile and uncertain markets during a year in which equally clear cases could be made for either further equity gains or a major sell-off if fears of a return to recession were vindicated. Gearing was deployed in a range of 101% to 112% and at an average level of 106% over the year. Second, a £50m addition was made to US holdings early in the year ahead of a dollar strength-fuelled spell of strong performance from US equities, although our holdings lagged the wider US market. Third, the move into the US was funded in part by significant reductions to Europe (ex UK) ahead of regional market weakness relating to euro sovereign debt worries. Later, reductions were made to North America with assets swapped back into UK and European equities ahead of stronger relative spells by these regions.

Over the year, the portfolio appreciated by £83.6m. For the second consecutive year, the largest contributions came from Industrials (+£24.7m) and some reductions were made here to lock in some of the good gains made over the last eighteen months. Consumer Goods holdings, which were built up during the year, rose by £19.2m. By region, Asia Pacific (ex Japan) produced the largest appreciation (+£27.6m). Oil & Gas generated the worst portfolio returns although reductions made early in the year were usefully recycled into Basic Materials holdings. With dividend income recovering, some of the short-dated corporate bond holdings, held to boost income in the face of declining interest rates, were sold.

In the period from end January 2004, when the current management approach was introduced, to 31 October 2010, the NAV and share price total returns were ahead of the two comparator indices. The NAV total return was 76.3% compared with 70.9% for the FTSE All-World and 70.3% for the FTSE All-Share. The share price total return was 98.9%.

Income

Dividend payouts started to recover after one of the worst spells for dividends in decades. Good dividend growth from holdings allied with control over expenses, which saw the expenses ratio decline, and a lower number of shares outstanding, left earnings per share (EPS) at 10.26p (2009: 10.62p). The passing of dividends by BP resulted in a loss of projected income of around 0.25p per share or 2.4% of EPS.

Dividend

It is a stated objective of the company to increase the dividend by more than the UK rate of inflation over the longer term. The board is therefore recommending a final dividend of 5.60p per share (2009: 5.15p). Taken together with the interim dividend of 4.45p per share (2009: 4.45p), this would result in an increase of 4.7% in the total dividend for the year to 10.05p per share (2009: 9.60p) which compares with October UK CPI inflation of 3.2% and RPI inflation of 4.5%. If the proposal is approved, the company will have increased its dividend in each of the last 27 years.

Over 5 years the company's dividend has increased by 19.6%. This compares with RPI inflation of 16.8% and CPI inflation of 14.4%.

Share Price, Discount and Buybacks

The share price rose by 14.5% as the discount to ex-income NAV was stable over the year and ended the period at 9.0% (2009: 8.9%). The company's buyback policy is intended to keep the discount to ex-income NAV at or below 9.0% (with borrowings at market value). Under the policy, 8.1m shares were repurchased for cancellation over the financial year (adding 0.7% to NAV performance) and utilising 4.62% of the 14.99% authority renewed at the February 2010 AGM. The shares were repurchased at an estimated average discount to ex-income NAV of 10.2% and at a cost of £36.0m inclusive of dealing expenses. The buybacks were funded from sales of fixed interest holdings and equities and from net current assets. The average discount over the year was 9.6% and the daily average between the introduction of the scheme in February 2006 and the year end was 8.4%.

The company's savings schemes, ISA and SIPP operated by its regulated subsidiary, SIT Savings Ltd, continued to provide steady net demand for the company's shares over the year.

European Regulatory Proposals – Impact on Self-Managed Trusts

Investors may recall the concern expressed by the Board last year regarding the EU draft directive governing so – called "Alternative Investment Fund Managers (AIFM)". These proposals were aimed primarily at hedge funds and private equity funds but inadvertently caught conventional UK investment trusts and risked the imposition of some inappropriate measures. While the worst outcomes appear to have been avoided, it will be some time before the boards of self-managed and other investment trusts can assess the increase in costs which will almost certainly follow. Indications are that the new regime will not come into force before 2013.

Outlook

Global equity markets rose by 61% in sterling terms between the end of the bear market in March 2009 and the end of October 2010 as a series of emergency monetary and fiscal measures supported troubled developed world economies and encouraged money to flow into riskier assets. It was perhaps ironic that stockmarkets should rally on the suggestions in August that the US authorities felt compelled by the economic outlook to sanction further quantitative stimulus measures. Central bank policies are again exposing the various structural imbalances in the world economy and may give rise to competitive currency devaluations around the world, the spread of capital controls and, in time, price inflation. The debt situation in the periphery of the EU remains a concern and it is still troubling that interest rates in several major economies remain at or close to zero. The challenge for authorities is to achieve an adequate stimulus without sparking inflation, fears over which have been growing throughout the year, and a normalisation of interest rates. Corporate profits and balance sheets have recovered well and profits are expected to grow in 2011. Our portfolio is currently valued less highly than the global market on aggregate, has a higher dividend yield and good prospective dividend growth.

Douglas McDougall

Douglas McDougall
Chairman
16 December 2010

Board of Directors

***†Douglas McDougall OBE**
was appointed to the board in September 1998 and became chairman in October 2003. He is chairman of The Law Debenture Corporation, The Independent Investment Trust and The European Investment Trust and a director of The Monks Investment Trust, Pacific Horizon Investment Trust and Herald Investment Trust. He is a former senior partner of Baillie Gifford & Co and a former chairman of IMRO, the Association of Investment Companies and the Fund Managers' Association.

Francis Finlay
was appointed to the board in November 1996. He is former chairman of Clay Finlay, the New York-based international fund management firm he co-founded in 1982 and led until 2006. He is a director of the London-listed investment trust, SVG Capital, as well as serving on the boards of a number of international investment institutions and charitable organisations. Previously he held senior investment positions with Lazard Frères and Morgan Guaranty Trust in Paris and New York.

***†Hamish Buchan**
was appointed to the board in November 2003. He is a director and former chairman of the Association of Investment Companies and was formerly chairman of NatWest Securities in Scotland. He is chairman of JP Morgan American Investment Trust and Personal Assets Trust, a director of Aberforth Smaller Companies Trust, Standard Life European Private Equity Trust and Templeton Emerging Markets Investment Trust PLC. He is chairman of the remuneration committee.

***†James MacLeod**
was appointed to the board in September 2005. He is a chartered accountant. He was a partner in Ernst & Young and its predecessor firms for 25 years until his retirement in 1998 and specialised in corporate tax, particularly for investment trusts and insurance companies. He was a visiting professor at the University of Edinburgh until 2001. He is a director of British Assets Trust, INVESCO Perpetual AIM VCT and INVESCO Perpetual Recovery Trust 2011. He is chairman of the audit committee.

Russell Napier
was appointed to the board in July 2009. He is a consultant global macro strategist with CLSA Asia-Pacific Markets. He began his career as an investment manager at Baillie Gifford & Co and then moved to Foreign and Colonial Emerging Markets where he managed Asian portfolios. From 1995 to 1998 he was Asian equity strategist for CLSA in Hong Kong. He is a director of Mid Wynd International Trust and a limited partner of Cerno Capital Partners. He is also a member of the investment committee for the National Trust for Scotland and runs a course in financial history at The Edinburgh Business School. He is author of the book "Anatomy of The Bear: Lessons from Wall Street's Four Great Bottoms".

* Member of audit committee
† Member of remuneration committee

Management

Manager
John Kennedy

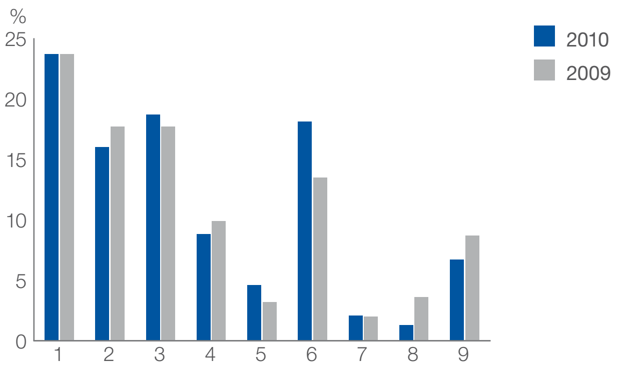
Assistant Managers
Hugh Duff
Martin Robertson

Secretary
Steven Hay

Management Review

Distribution of Total Assets by Region

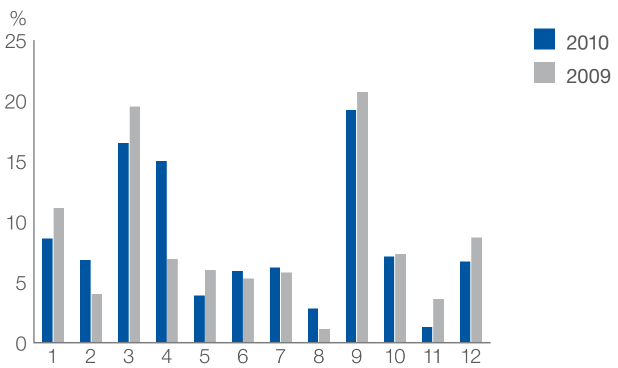
At 31 October 2010



		2010 %	2009 %
1	UK	23.7	23.7
2	Europe (ex UK)	16.0	17.7
3	North America	18.7	17.7
4	Latin America	8.8	9.9
5	Japan	4.6	3.2
6	Asia Pacific (ex Japan)	18.1	13.5
7	Middle East & Africa	2.1	2.0
8	Fixed interest	1.3	3.6
9	Net current assets	6.7	8.7
	Total assets	**100.0**	**100.0**

Distribution of Total Assets by Sector

At 31 October 2010



		2010 %	2009 %
1	Oil & Gas	8.6	11.1
2	Basic Materials	6.8	4.0
3	Industrials	16.5	19.5
4	Consumer Goods	15.0	6.9
5	Health Care	3.9	6.0
6	Consumer Services	5.9	5.3
7	Telecommunications	6.2	5.8
8	Utilities	2.8	1.1
9	Financials	19.2	20.7
10	Technology	7.1	7.3
11	Fixed interest	1.3	3.6
12	Net current assets	6.7	8.7
	Total assets	**100.0**	**100.0**

Changes in Asset Distribution by Sector

	31 October 2009 £m	Net Purchases/ (Sales) £m	Appreciation/ (Depreciation) £m	31 October 2010 £m
Oil & Gas	77.2	(12.2)	(1.5)	63.5
Basic Materials	27.7	12.8	9.8	50.3
Industrials	136.0	(38.8)	24.7	121.9
Consumer Goods	47.9	44.2	19.2	111.3
Health Care	42.0	(20.2)	6.8	28.6
Consumer Services	37.2	1.8	5.0	44.0
Telecommunications	40.2	0.1	5.4	45.7
Utilities	8.0	9.6	3.5	21.1
Financials	144.5	(2.9)	0.4	142.0[1]
Technology	50.7	(8.6)	10.5	52.6
Total equities	611.4	(14.2)	83.8	681.0
Fixed interest	25.3	(15.8)	(0.2)	9.3
Net current assets	60.3	(10.5)	0.0	49.8
Total assets	697.0	(40.5)	83.6	740.1
Borrowings	(107.6)	(0.1)	–	(107.7)
Pension liability	(1.7)	–	(0.3)	(2.0)
Equity shareholders' funds	**587.7**	**(40.6)**	**83.3**	**630.4**

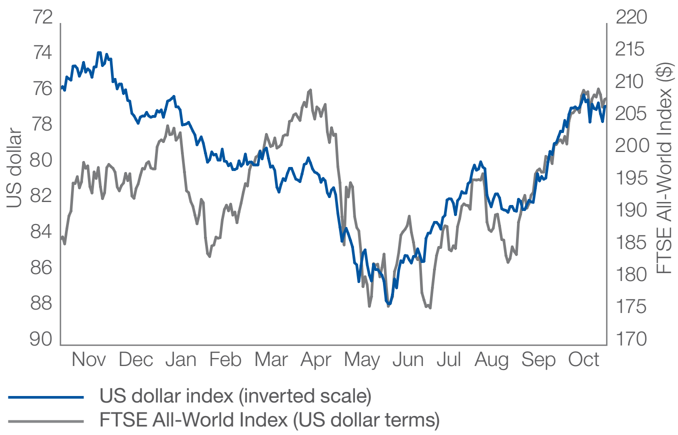
1. Includes £10.0m of investments which are unlisted.

Summary

- Another volatile year for global stockmarkets
- Equity portfolio total return 17.6% and NAV total return 17.0%
- Dividend income growth ahead of expectations
- Strong second half investment performance

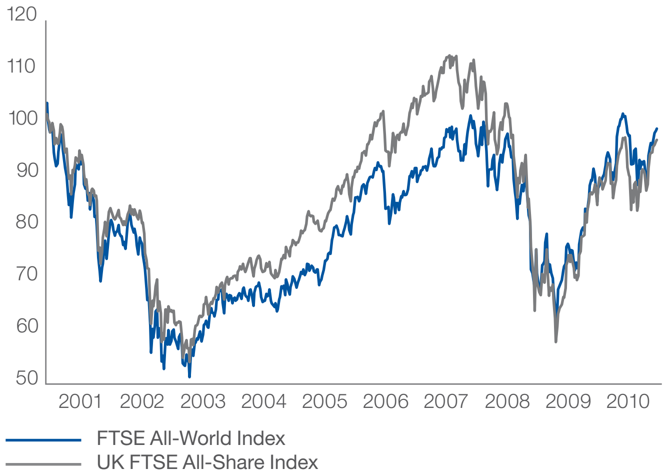
The year to October 2010 proved to be another volatile period for global equity markets. The year began with a continuation of the strong rally from the stockmarket lows of March 2009, sparked initially by emergency monetary and fiscal stimulus measures. Markets overcame intermittent concerns over EU member country budget levels and slowing Chinese growth to post a strong return over the first half of the financial year. Sentiment was buoyed by steadily improving economic data from around the world, a robust recovery in corporate profits and considerable merger and acquisition activity. However, between May and July, markets retreated sharply as fears surfaced regarding a faltering US economic recovery and an intensifying EU debt crisis centred on Greece. With markets having fallen back to near the lows for the year, the chairman of the US Federal Reserve Bank indicated in late August that further stimulus measures, which would take the form of quantitative easing, would be forthcoming. Markets responded by rallying sharply to the October year end. Equity markets maintained a close inverse relationship with the US dollar. As the chart below shows, advances and declines by equities were matched by corresponding spells of dollar weakness and strength, a sign that markets were still being driven by major macro-economic themes.

FTSE All-World Index ($) & US dollar (inverted)



The company's equity portfolio achieved a total return of 17.6% over the year compared with 18.2% for the FTSE All-World Index and 17.5% for the UK FTSE All-Share Index. The equity portfolio held its own against the FTSE All-World in local currency terms. However, sterling weakness against the US dollar, which has a very significant influence on the All-World Index, lowered relative portfolio performance by around 1%.

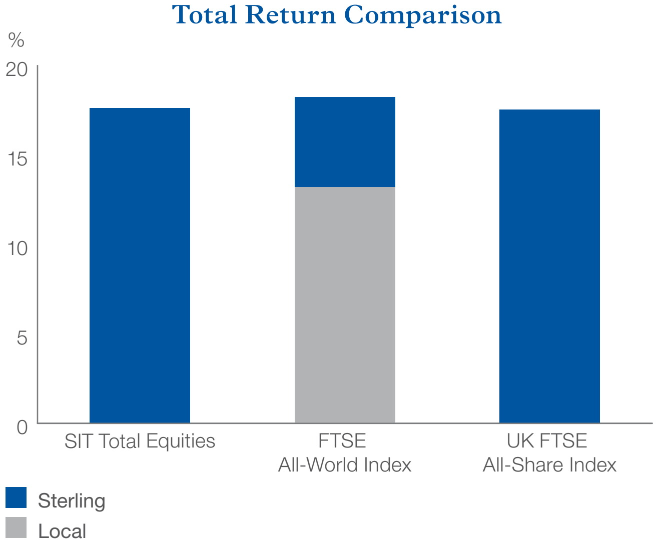
Stockmarket Performance
10 years to 31 October 2010



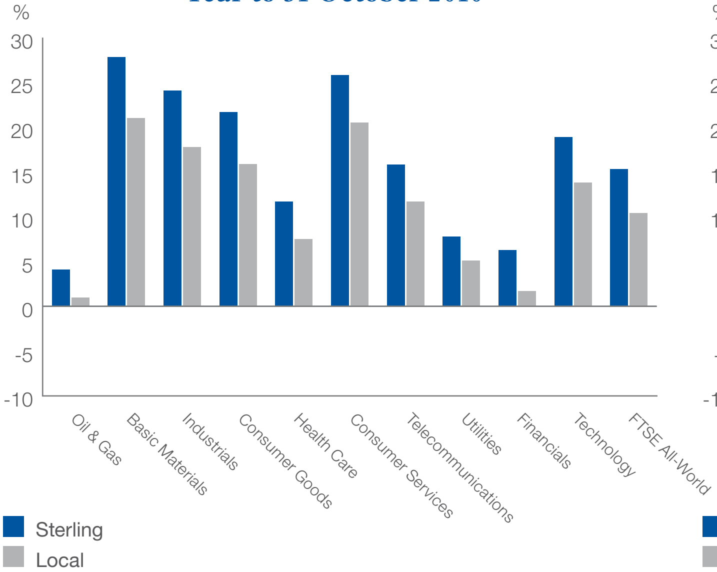
Source: Thomson Reuters Datastream

Performance improved over the second half of the year during which the portfolio and NAV return exceeded that of both indices. Dividend income was above expectations despite the passing of dividends by BP. The difference between the portfolio and NAV total returns reflects management expenses and interest payments partially offset by the uplift from share buybacks and the effect of gearing.

Total Return Comparison

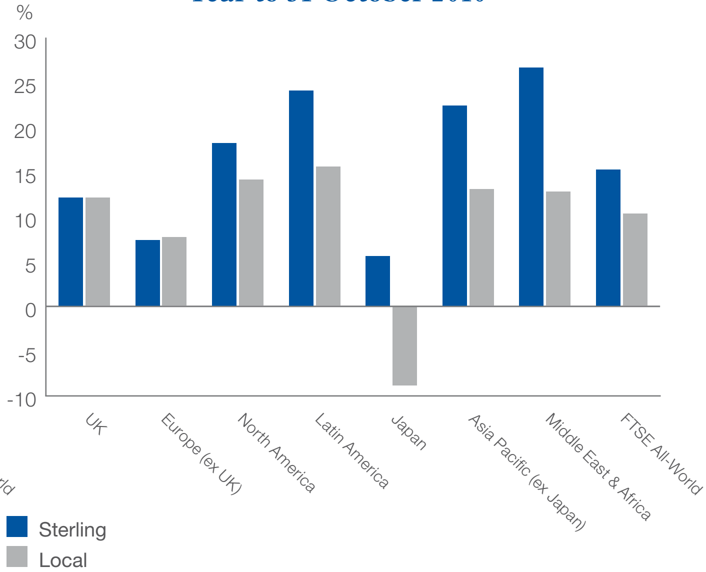


Industry Sector Performance
Year to 31 October 2010



Indices are components of the FTSE All-World Index Series

Regional Performance
Year to 31 October 2010



Indices are components of the FTSE All-World Index Series

The above charts show the spread of global equity returns by industry and region. Despite frequent changes of leadership as investor risk appetite oscillated during the year, cyclical sectors ended up providing the best returns. Oil & Gas, Financials and more defensive areas generally lagged. Sterling weakness substantially elevated emerging region stockmarket returns for sterling-based investors. We were well positioned in the strongest regions and overall industry positioning was broadly helpful.

Our central investment positioning for the year was influenced by the existence of two opposing but equally credible scenarios. The first was predicated on the US and other troubled western economies gradually improving, aided by additional central bank measures and, potentially, an upturn in bank credit growth. The second, more pessimistic, scenario saw a clear risk of a return to recession in the west, accompanied by weak stockmarkets. The volatility of markets and the real risk of another market correction, if recession fears were vindicated, meant that we opted for a tactical use of gearing over the year as we sought to avoid gearing into weakening markets. There was also volatility in regional stockmarket performance. In early 2010, the emphasis in the portfolio was shifted towards the US, and away from Europe in anticipation of a spell of weaker performance on EU budget concerns. While the switch was well-timed, we did not capitalise fully as the performance of US holdings was lacklustre. Stock selection in other areas was stronger, particularly so in the Asia Pacific (ex Japan) region. Such changes in the level of gearing and geographical exposure in volatile markets as well as sales to finance share buybacks inflated headline portfolio turnover levels. In order to give shareholders more insight into the portfolio and performance, there follows a summary of some of the top contributors to and from performance for the year.

The top ten contributors added 7.0% to portfolio performance while the bottom ten subtracted 2.7%.

Positive contributors to absolute performance

Apple (US)

Apple designs and markets personal computers, software and consumer electronics products including the iPhone™, iPod™ and iPad™. Apple shares rose by 60% over the year, adding over 1% to performance, as its earnings consistently beat expectations. Drivers included strong demand for mobile handsets and computers with sales of the new iPhone 4™ exceeding initial expectations. Apple has achieved market share gains in its main product categories, and particularly so in mobile handsets. Media and mobile device software sales were also strong. Despite the strong performance, Apple's valuation remained reasonable with substantial cash balances on the balance sheet. Apple was the company's largest holding for much of the year.

Kia Motors (South Korea)

Kia Motors is South Korea's second-largest automobile manufacturer. The shares rose by 108% from initial purchase in February 2010 and added over 1% to performance. Part of the holding was sold late in the year in order to lock in some gains. Strong new product launches helped the company increase both domestic and global market share. Kia is targeting an increase in unit shipments of over 30% in 2010 following the opening of overseas production plants. Average selling prices and operating margins have risen with sales of new larger models. Incentives offered in the US market have been falling as vehicle residual values have increased. Kia has also been deepening manufacturing ties with sister company Hyundai Motor to generate operating efficiencies. The group has made faster than expected progress in reducing its debt and earlier this year it paid a dividend for the first time in four years.

Aspen Pharmacare (South Africa)
Aspen Pharmacare is a South African-based supplier of branded and generic pharmaceuticals in approximately 100 countries. Aspen shares rose by 41% over the year as it continued to mould itself into a broader-based emerging market pharmaceutical company. Pharmaceutical patent expiries and rising disposable income levels in South Africa have been strong underlying drivers. Aspen's strong strategic alliances and focus on emerging markets have produced solid earnings growth. As a result, Aspen's shares are now valued more in line with international peers. The domestic business has benefited from a strong rand with raw materials priced in US dollars helping Aspen to expand profit margins.

Spectris (UK)
Spectris is a manufacturer of instrumentation and controls which enable its industrial customers to monitor and improve various aspects of production. Spectris shares rose by 67% over the year as the company benefited from the ongoing recovery in manufacturing, particularly in industrial markets and in the Far East. This is a well-run company with tight control over costs. A strong balance sheet has been used to make sensible bolt-on acquisitions. With a significant proportion of overseas revenue, the company has also benefited from favourable exchange rates.

CIMB (Malaysia)
CIMB is a Malaysian bank with growing Asia Pacific regional operations. The key drivers of the group are its investment banking division and overseas operations, primarily in Indonesia and Thailand. The bank has a strong capital base to support its wide range of operations. It is a key beneficiary of rising infrastructure spending in Malaysia by virtue of its leading position in capital markets while its exposure to Indonesia, a higher growth market, is gaining scale and helping to drive higher returns.

Other large positive contributors: The share price performance of UK and Australian-listed mining and oil group **BHP Billiton** benefited from strength in the price of a number of mining commodities, with Chinese demand a key factor. Hong Kong-listed consumer hygiene goods manufacturer **Hengan International** had a good year operationally and its share price benefited from investor demand for China-linked consumer stocks which prompted us to take some profits. One of our largest holdings over the year, **Li & Fung**, is a Hong Kong-based consumer goods sourcing company which manages the supply chains for retailers worldwide. Li & Fung shares benefited from news of a major new contract with Wal-Mart and also a number of bolt-on acquisitions. **Fresenius Medical Care** is a German-listed, US-based, renal care company whose share price benefited from an end to uncertainty concerning US healthcare reforms. Fresenius has substantial scope to expand further its international network of kidney care centres. Mexican telephony group **América Móvil** is now the largest provider of wireless communication services in Latin America. It is also one of the leading integrated telecoms groups in the region after gaining control of Mexican fixed line operators Telmex and Telmex International.

Negative contributors to absolute performance
There were three main individual detractors from absolute performance over the year, all of them in the Oil & Gas industry:

Diamond Offshore Drilling (US)
Diamond is an offshore drilling contractor with a large fleet of semi-submersible and jack-up rigs. Although reductions were made in the first half, Diamond shares fell steadily over the year, with a cost to performance of 0.4%. The company formerly commanded a higher valuation than peers due to its high dividend yield which was a factor in the decision to hold these shares. Several mid and deepwater contracts expired during the year. Utilisation rates and contract prices did not recover and new contracts were signed at lower rates. Lower utilisation rates and rising costs led to earnings disappointments and ultimately the company cut the dividend in April 2010 prompting a significant fall in the share price. The moratorium on US Gulf of Mexico drilling in May after the Deepwater Horizon oil spills also affected utilisation rates and led to *force majeure* declarations by oil companies. Further earnings downgrades followed, culminating in another cut in the dividend in July.

BP (UK)
The share price of UK energy group BP fell by 26% during the year with a cost to performance of 0.4%. BP fell heavily in the aftermath of the tragic accident which sank the Deepwater Horizon rig in the Gulf of Mexico. The environmental threat outraged US public opinion and investors discounted a variety of dire scenarios. In response to political pressure, BP replaced the chief executive, suspended the dividend and established a $20bn compensation fund. However, as BP's weak share price appeared to more than reflect the likely costs, the holding was increased by a purchase of £6.1m at comparatively low levels. The suspension of the BP dividends resulted in a loss of projected dividend income of 0.25p per share.

Petrobras (Brazil)

Petrobras is a Brazilian energy group which is part-owned by the Brazilian government and is the largest company in Latin America. Petrobras fell by 22% over the year with a cost to performance of 0.3%. Throughout the year, the company's shares were held back by uncertainty over the proposed purchase of 5bn offshore barrels of oil (equivalent) from the Brazilian government. Investors were also concerned at the amount to be spent on refining operations to develop Brazil's oil and gas infrastructure. The company raised £44bn in a share offering after the price of the 5bn barrels was announced. We were fortunate to have halved the holding in January 2010 through a sale of £12m before the underperformance for the year had really begun.

Other top ten negative contributors to absolute performance all had individual cost impacts of below 0.3% and included a small number of European and Japanese companies, these being the two weakest regions globally over the year. Among them, complete sales of Spanish bank **BBVA**, which fell on EU budget concerns, and Finnish electronics group **Nokia**, which faced strong mobile handset competition, were made ahead of much worse underperformance. BBVA did well for the company in the previous financial year. Japanese fashion retailer **Fast Retailing**, which operates the Uniqlo™ fashion brand, failed to meet its expected sales and also gave a surprisingly cautious outlook for next year. Also, sales in the summer months were poor due in part to a long heat-wave in Japan. Subsequent to the year end, the share price rallied on the release of improved trading statistics.

Holdings in UK Listed Investment Companies

Company holdings include investments in UK-listed investment companies of £17.6m or 2.8% of total assets (2009: £19.7m, 3.4%). These are held to provide exposure to private equity, small companies, Indian and environmental equities. The company has a policy not to invest more than 15% of total assets in other UK-listed investment companies.

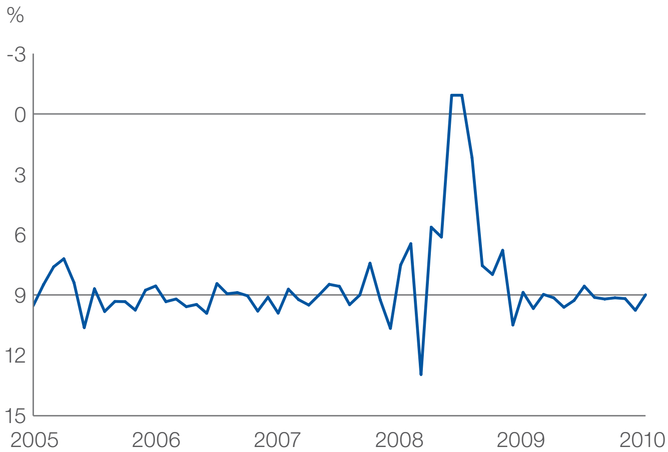
Share Price, Discount and Buybacks

The share price rose by 14.5% as the discount to ex-income NAV was stable over the year and ended the period at 9.0% (2009: 8.9%). The company's buyback policy is intended to keep the discount to ex-income NAV at or below 9.0% (with borrowings at market value). Under the policy, 8.1m shares were repurchased for cancellation over the financial year (adding 0.7% to NAV performance) and utilising 4.62 percentage points of the 14.99% authority renewed at the February 2010 AGM. The shares were repurchased at an estimated average discount to ex-income NAV of 10.2% and at a cost of £36.0m inclusive of dealing expenses. The buybacks were funded from sales of fixed interest holdings and equities and from net current assets. The average discount over the year was 9.6% and the daily average between the introduction of the scheme in February 2006 and the year end was 8.4%.

NAV Attribution Analysis
Year to 31 October 2010

Relative to FTSE:	All-World %	All-Share %
Increase in NAV	14.6	14.6
Increase in index	15.3	13.6
Relative performance	-0.5	0.9
Total equities (local terms)	-0.1	0.5
Currency effect	-0.9	–
Total equities (sterling terms)	-1.0	0.5
Gearing	0.7	0.6
Buybacks	0.7	0.7
Interest and expenses charged to capital	-0.8	-0.8
Increase in pension liability	-0.1	-0.1
Relative performance	-0.5	0.9

Discount to ex-income NAV with borrowings at market value
5 years to 31 October 2010



Unlisted

The company's unlisted portfolio appreciated by £3.1m primarily due to write-ups at Boston Ventures VI, Apax Europe V-B, Sprout Capital VIII and gains in Hg Capital Trust. Net sales and distributions from the maturing unlisted portfolio totalled £4.1m (2009: £3.3m). No new partnerships were entered into during the year and outstanding commitments to invest in such partnerships totalled £1.1m (2009: £1.2m).

The unlisted portfolio was valued at £15.9m (2009: £17.0m) which is equivalent to 2.5% of shareholders' funds. Included in the unlisted portfolio is £5.9m (2009: £7.0m) invested in Hg Capital Trust, a listed fund which specialises in unlisted investments.

Analysis of Share Register at 31 October 2010

Category of holder	Number	Share capital %
Individuals	24,934	66.4*
Investment companies	55	4.4
Insurance companies	13	18.9
Pension funds	28	4.7
Other	148	5.6
Total	25,178	100.0

* Includes 20.5% held in SIT Savings' products.

Glossary

Total assets means total assets less current liabilities.

NAV is net asset value per share after deducting borrowings at par or market value, as stated.

Ex-income NAV is the NAV excluding current year revenue.

Borrowings at par is the nominal value of the company's borrowings less any unamortised issue expenses.

Borrowings at market value is the company's estimate of the 'fair value' of its borrowings. The current estimated fair value of the company's secured bonds is based on the redemption yield of the reference gilt plus a margin of 100 basis points (1 percentage point). The reference gilt is the 6% Treasury Stock 2028.

Discount is the difference between the market price of a share and the NAV expressed as a percentage of the NAV.

Gearing is the term used to describe the process of borrowing money for investment purposes in the expectation that the returns on the investments purchased will exceed the cost of those borrowings.

Gross gearing is the gearing ratio if all borrowings were invested in equities: shareholders' funds (excluding current year revenue) + borrowings at par, expressed as a percentage of shareholders' funds.

Effective equity gearing is the true geared position of the company: shareholders' funds (excluding current year revenue) + borrowings at par – fixed interest investments – net current assets, expressed as a percentage of shareholders' funds.

GDP means gross domestic product adjusted for inflation.

Distribution of Total Assets by Sector

	31 October 2010 %	31 October 2009 %
Oil & Gas	**8.6**	**11.1**
Oil & Gas Producers	6.4	7.1
Oil Equipment, Services & Distribution	2.2	4.0
Basic Materials	**6.8**	**4.0**
Chemicals	1.2	–
Industrial Metals	1.1	1.6
Mining	4.5	2.4
Industrials	**16.5**	**19.5**
Construction & Materials	1.4	2.2
Aerospace & Defence	0.4	2.4
General Industrials	4.4	2.5
Electronic & Electrical Equipment	2.3	1.4
Industrial Engineering	3.1	5.0
Industrial Transportation	2.4	3.0
Support Services	2.5	3.0
Consumer Goods	**15.0**	**6.9**
Automobiles & Parts	5.8	0.9
Food Producers	1.4	0.4
Household Goods	0.5	1.5
Leisure Goods	1.0	0.9
Personal Goods	3.6	2.1
Tobacco	2.7	1.1
Health Care	**3.9**	**6.0**
Health Care Equipment & Services	1.0	1.8
Pharmaceuticals & Biotechnology	2.9	4.2
Consumer Services	**5.9**	**5.3**
Food & Drug Retailers	0.3	0.7
General Retailers	2.9	3.3
Media	0.8	1.3
Travel & Leisure	1.9	–
Telecommunications	**6.2**	**5.8**
Fixed Line Telecommunications	1.8	2.3
Mobile Telecommunications	4.4	3.5
Utilities	**2.8**	**1.1**
Electricity	0.8	–
Gas, Water & Multiutilities	2.0	1.1
Financials	**19.2**	**20.7**
Banks	11.9	11.2
Non-life Insurance	1.2	1.7
Life Insurance	1.2	0.6
Real Estate Investment & Services	–	1.7
Financial Services	1.3	2.3
Equity Investment Instruments	3.6	3.2
Technology	**7.1**	**7.3**
Software & Computer Services	2.4	3.0
Technology Hardware & Equipment	4.7	4.3
Total equities	**92.0**	**87.7**
Fixed interest	**1.3**	**3.6**
Net current assets	**6.7**	**8.7**
Total assets	**100.0**	**100.0**

Based on total assets at 31 October 2010 of £740.1m (2009: £697.0m).

List of Investments

Listed Equities

Holding	Country	Market value £'000	Cumulative weight %
Apple	US	25,165*	
Serco	UK	18,596*	
Li & Fung	Hong Kong	14,386*	
McDonald's	US	14,013*	
Kia Motors	South Korea	13,836*	
BP	UK	13,254*	
Aspen Pharmacare	South Africa	12,503*	
Atlas Copco	Sweden	11,934*	
Tencent	Hong Kong	11,732*	
Spectris	UK	11,374*	21.3
CIMB	Malaysia	10,956	
América Móvil	Mexico	10,658	
Vale	Brazil	9,322	
Sampo	Finland	9,039	
Petrobras	Brazil	8,672	
BASF	Germany	8,531	
Freeport-McMoRan Copper & Gold	US	8,467	
BHP Billiton	UK	8,427	
Shanghai Industrial	China	8,394	
BT	UK	8,284	34.4
Komatsu	Japan	8,181	
Volkswagen	Germany	8,165	
Severn Trent	UK	8,141	
Tüpras	Turkey	7,886	
Jardine Matheson	Singapore	7,813	
CCR	Brazil	7,641	
New York Community Bancorp	US	7,494	
China Mobile	China	7,325	
Souza Cruz	Brazil	7,299	
FMC Technologies	US	7,261	45.6
Repsol YPF	Spain	7,126	
United Utilities	UK	7,059	
Nestlé	Switzerland	6,924	
Fresenius Medical Care	Germany	6,890	
Vodafone	UK	6,650	
BNP Paribas	France	6,623	
Svenska Handelsbanken	Sweden	6,601	
Vinci	France	6,522	
HSBC	UK	6,492	
GKN	UK	6,380	55.3
H & M	Sweden	6,358	
Norfolk Southern	US	6,286	
LG	South Korea	6,167	
ANZ Banking	Australia	6,100	
Newcrest Mining	Australia	6,086	
DBS	Singapore	5,992	
Honda Motor	Japan	5,936	
CPFL Energia	Brazil	5,887	
Hg Capital Trust	UK	5,875	
National Oilwell Varco	US	5,833	64.1
Lloyds Banking Group	UK	5,810	
JP Morgan Indian Investment Trust	India	5,768	
Wharf Holdings	Hong Kong	5,521	
KT & G	South Korea	5,427	
Schneider Electric	France	5,300	
Banco do Brasil	Brazil	5,207	
Banco Santander	Spain	5,206	
ITV	UK	5,147	
Wal-Mart Stores	US	5,112	
Comerica	US	5,065	71.9
Aberdeen Asset Management	UK	5,060	
Tele2	Sweden	5,044	
Rio Tinto	UK	4,988	
GlaxoSmithKline	UK	4,943	
Michelin	France	4,890	
Cenovus Energy	Canada	4,759	
Hengan International	Hong Kong	4,746	
General Electric	US	4,743	
Aviva	UK	4,719	
Taiwan Mobile	Taiwan	4,660	78.9
Sega Sammy	Japan	4,638	
Fast Retailing	Japan	4,632	
Philip Morris International	US	4,552	
Impax Environmental Markets	UK	4,493	
Antofagasta	UK	4,437	

Holding	Country	Market value £'000	Cumulative weight %
Citigroup	US	4,244	
Standard Life	UK	4,096	
Daihatsu Motor	Japan	3,995	
Kimberly-Clark de Mexico	Mexico	3,891	
Natura Cosméticos	Brazil	3,690	85.1
Kuehne+Nagel	Switzerland	3,653	
Hon Hai Precision Industries	Taiwan	3,646	
Oracle	US	3,639	
Daito Trust Construction	Japan	3,619	
Abbott Laboratories	US	3,606	
Procter & Gamble	US	3,383	
Royal Dutch Shell	UK	3,339	
Meggitt	UK	3,291	
Noble	US	3,286	
IG Group	UK	3,252	90.1
MTN	South Africa	3,114	
Nikon	Japan	3,053	
Imperial Tobacco	UK	3,050	
Associated British Foods	UK	3,044	
Walmex	Mexico	2,983	
Tata Motors	India	2,910	
US Bancorp	US	2,812	
Standard Chartered	UK	2,760	
Morrison (Wm.) Supermarkets	UK	2,702	
Compal Electronics	Taiwan	2,560	94.3
Hudson City Bancorp	US	2,555	
Barclays	UK	2,438	
O'Reilly Automotive	US	2,126	
Cairn Energy	UK	2,096	
Adobe Systems	US	2,054	
Hewlett-Packard	US	1,926	
Credit Suisse	Switzerland	1,913	
Qualcomm	US	1,835	
Aberforth Geared Income Trust	UK	1,440	
Dolby Laboratories	US	876	
Intuitive Surgical	US	691	
Total listed equities		**670,971**	**97.2**

Unlisted

Holding	Country	Market value £'000	Cumulative weight %
Boston Ventures VI	US	4,328	
Apax Europe V - B	UK	2,640	
Heritable Property & Loans	UK	1,153	
Sprout Capital VII	US	676	
Boston Ventures V	US	595	
Sprout Capital VIII	US	541	
Others (under £0.5m) (7)		72	
Total unlisted		**10,005**	**1.4**
Total equities		**680,976**	**98.6**

Fixed Interest

Holding	Coupon	Date	Country	Market value £'000	Cumulative weight %
Lowe's	5.6%	2012	US	892	
KPN	4.5%	2011	Netherlands	887	
Western Union	5.4%	2011	US	887	
Carrefour	4.4%	2011	France	883	
Kraft Foods	6.3%	2012	US	882	
Saint Gobain	4.3%	2011	France	881	
CVS	5.8%	2011	US	853	
AT&T	6.3%	2011	US	833	
Home Depot	5.2%	2011	US	812	
Metro Finance	4.6%	2011	Germany	530	
Bouygues	4.6%	2011	France	528	
E.ON	6.4%	2012	Germany	483	
Total fixed interest				**9,351**	**1.4**
Total investments				**690,327**	**100.0**

* Denotes 10 largest holdings with an aggregate market value of £146,793,000.

Directors' Report

Business Review

Investment policy

The company carries on business as a global growth investment trust. Its objective is to provide investors, over the longer term, with above-average returns through a diversified portfolio of international equities and to achieve dividend growth ahead of UK inflation.

In order to achieve this objective, the company invests in an integrated global portfolio constructed through an investment process whereby assets are primarily allocated on the basis of the investment merits of individual stocks rather than that of regions, sectors or themes.

The company's portfolio is actively managed and typically will contain 70 to 120 listed international equity investments. The portfolio is widely diversified both by industrial sector and geographic location of investments in order to spread investment risk.

Whilst performance is compared against major global and UK indices, the composition of indices has no influence on investment decisions or the construction of the portfolio. As a result, it is expected that the company's investment portfolio and performance may deviate from the comparator indices.

Since the company's assets are invested globally and without regard to the composition of any index, there are no restrictions on maximum or minimum exposures to specific geographic regions, industry sectors or unlisted investments. However, such exposures are reported in detail to, and monitored by, the board at each board meeting in order to ensure that adequate diversification is maintained.

Liquidity and long-term borrowings are managed with the aim of improving returns to shareholders. In pursuing its investment objective, from time to time the company will hold certain financial instruments comprising equity and non-equity shares, fixed income securities, interests in limited partnerships, structured products and cash and liquid resources. The company may use derivatives for hedging or tactical investment purposes with the prior authorisation of the board and subject always to the investment restriction which prohibits the company from making any investment in which there is unlimited liability. The company has the ability to enter into contracts to hedge against currency risks on both capital and income.

The company's investment activities are subject to the following limitations and restrictions:

- under the company's articles of association, up to 40% of the company's total assets on the last audited balance sheet may be used to make investments of up to a maximum of 8% of the value of total assets in any one company, at the time the investment is made. Thereafter, individual investments may not exceed 3% of the value of total assets, at the time the investment is made;
- the levels of effective equity gearing and gross gearing are monitored closely by the board and manager. The company applies a ceiling on effective equity gearing of 120%. While effective equity gearing will be employed in a typical range of 100% to 120%, the company retains the ability to lower equity exposure below 100% if deemed appropriate;
- the company has a policy not to invest more than 15% of gross assets in other UK listed investment companies; and
- the company may not make investments in respect of which there is unlimited liability.

Investment policy – implementation

During the year under review, the assets of the company were invested in accordance with the company's investment policy. For details of how the company's absolute performance and relative performance compared to its comparator indices, please refer to the Management Review on pages 7 to 12.

A full list of holdings is disclosed opposite and detailed analyses of the spread of investments by industry sector and geographic region are shown on pages 7 and 9. Further analysis of changes in asset distribution by industry sector over the year and the sources of gains and losses are shown on page 7. An attribution of NAV relative performance against a global equity index is shown on page 11.

At the year end, the number of listed holdings was 111, including one holding which was held within the company's unlisted portfolio. The top ten holdings comprised 19.8% of total assets (2009: 20.5%).

Details of the extent to which the company's objective has been achieved and how the investment policy was implemented are provided in the Chairman's Statement on pages 4 and 5 and the Management Review on pages 7 to 12.

Additional limitations on borrowings

Under the company's articles of association, the directors control the borrowings of the company and its subsidiaries to ensure that the aggregate amount of borrowings does not, unless approved by an ordinary resolution of shareholders, exceed the aggregate of the reserves excluding unrealised capital profit of the company and its subsidiaries, as published in the latest accounts. In addition, the directors are entitled to incur temporary borrowings in the ordinary course of business of up to 10% of the company's issued share capital. Such temporary borrowings are to be for no longer than six months.

Principal risks and uncertainties

The principal risks and uncertainties facing the business are as follows:
- investment and market price risk;
- interest rate risk;
- liquidity risk;
- foreign currency risk; and
- credit risk.

These and other risks facing the company are reviewed regularly by the audit committee and the board. Further information is given in note 17 to the accounts on pages 35 to 40.

Performance

The management provides the board with detailed information on the company's performance at every board meeting. Performance is measured in comparison with the company's peer group and comparator indices.

Key Performance Indicators are:
- NAV total return;
- NAV total return against comparators;
- NAV and share price total return against peers;
- discount with debt at market value;
- dividend growth against UK inflation; and
- total expense ratio.

Dividends

The board may declare dividends, including interim dividends, but no dividend is payable except out of the company's revenue returns or in excess of the amount recommended by the directors. Neither unrealised appreciation of capital assets nor realised profits arising from the sale of capital assets are available for dividend.

The directors recommend a final dividend of 5.60p per share payable on 7 February 2011. With the interim dividend of 4.45p already paid in July 2010, this makes a total of 10.05p for the year. Based on shares in issue at 31 October 2010 the final dividend will cost £6,614,000. The total dividend for the year will cost £11,973,000.

Status

The company is a self-managed investment trust and is an investment company within the meaning of the Companies Act 2006.

HM Revenue and Customs approved the company as an investment trust for the purposes of S842 of the Income and Corporation Taxes Act 1988 up to the accounting period ended 31 October 2009. This approval is subject to any subsequent enquiry by HM Revenue and Customs. The company continues to satisfy the conditions for such approval.

Share Capital

General

The company had 118,102,926 shares in issue on 31 October 2010. The rights attaching to shares in the company are set out in the company's articles of association. The company's articles of association may be amended by the passing of a special resolution of shareholders, that is, by the approval of a majority of not less than 75%.

Rights to the capital of the company on winding up

Shareholders would be entitled to the assets of the company in the event of a winding up (after the company's other liabilities have been satisfied).

Voting

On a show of hands, every shareholder present in person or by proxy has one vote and on a poll every member present in person or by proxy has one vote for each share.

Deadlines for exercising voting rights

If a shareholder wishes to appoint a proxy to attend, speak and vote at a meeting on his behalf, a valid appointment is made when the form of proxy (together, where relevant, with a notarially certified copy of the power of attorney or other authority under which the form of proxy is signed) is received by the company's registrar not less than 48 hours before the start of the meeting or the adjourned meeting at which the proxy is appointed to vote (or, in the case of a poll taken more than 48 hours after it is demanded, no later than 24 hours before the time appointed for taking the poll). In calculating these time periods, no account is taken of any day or part thereof that is not a working day.

Buybacks

The company's buyback policy, is intended to keep the discount to ex-income NAV at or below 9%. In calculating NAV for the purposes of the buyback policy, the company's borrowings are taken at their market value so as to ensure that future repurchases of shares will take into account changes in the value of the borrowings brought about by movements in long-term interest rates. During the year ended 31 October 2010, the company bought back for cancellation a total of 8,126,792 shares representing 6.4% of shares in issue at 31 October 2009, at a cost of £36,046,000. Buybacks since the AGM on 5 February 2010 have utilised 4.62 percentage points of 14.99% authority renewed at the AGM. The number of shares authorised for repurchase at the AGM was 18,560,407 leaving a balance of 10,433,615 shares remaining.

Substantial Shareholdings

At 10 December 2010 the company had been notified of the following holdings in excess of 3% of its shares.

	Shares	% of issue at date of notification
AXA Group	15,002,892	12.3
Lloyds Banking Group	6,346,502	5.1
Legal & General	5,100,886	3.9

Directors

The company's policy on the appointment of directors is shown on the company's website.

The directors of the company on 31 October 2010 and their biographical details are shown on page 6. All are non-executive.

The performance of each director was appraised by the nomination committee during the year. The chairman's performance was appraised in his absence by the other directors and the results were communicated to him. The board believes that each director is independent of the management in character and judgement and there are no relationships with the company or its employees which might compromise his independence.

Two directors are standing for re-election at the AGM. Douglas McDougall and Francis Finlay have served as directors for more than nine years and therefore retire on an annual basis. After formal performance evaluation, the board confirms that Douglas McDougall and Francis Finlay continue to perform effectively and with great commitment and it recommends their re-election.

The appointments of Douglas McDougall and Francis Finlay as directors run for one year at a time. Hamish Buchan was appointed in November 2003, James MacLeod was appointed in September 2005 and Russell Napier was appointed in July 2009 each for initial terms of three years. Hamish Buchan's appointment was renewed in November 2006 and November 2009 and James MacLeod's appointment was renewed in September 2008. Directors' letters of appointment will be available for inspection at the AGM.

The company maintains insurance in respect of directors' and officers' liability in relation to their acts on behalf of the company. The company's articles of association provide that any director or other officer of the company may be indemnified out of the assets of the company against any liability incurred by him as a director or other officer of the company to the extent permitted by law.

Directors' Interests

The interests of the directors and their families in the company's capital are as follows:

	Shares of 25p	
Beneficial interests	31 October 2010	31 October 2009
Douglas McDougall	60,000	60,000
Francis Finlay	60,000	60,000
Hamish Buchan	22,325	22,325
James MacLeod	22,708	22,553
Russell Napier	14,000	14,000

There have been no changes in the directors' interests between 31 October 2010 and 10 December 2010.

Corporate Governance

Compliance

The board has reviewed the principles set out in the Combined Code on Corporate Governance and believes that the way the company is governed is consistent with these principles. Throughout the year, the company complied with the provisions of the Combined Code including section 1 of the Combined Code except:

- there is no senior independent director; and
- the chairman is a member of the audit committee.

The directors consider that, as all directors are independent and non-executive, there is no compelling case for having a senior independent director. The board considers the chairman to be independent in character and judgement and therefore there is no reason for Douglas McDougall not to be a member of the audit committee. The Combined Code is available from the Financial Reporting Council – **www.frc.org.uk**

The board

The board normally meets eight times throughout the year while the audit and remuneration committees meet three times each. The nomination committee meets at least annually.

There is a schedule of matters reserved for the board which includes investment strategy, accounting and financial controls, dividends and announcements, capital structure, gearing and major contracts.

Day to day management, including the selection of investments, is delegated to the company's executive management which reports directly to the board.

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

The Companies Act 2006 requires that a director of the company must avoid a situation in which he has, or might have, an interest that conflicts, or may conflict, with the interests of the company. Each director submits a list of potential conflicts prior to each meeting. The other board members consider these and recommend whether or not each potential conflict should be authorised. No situation arose during the year whereby an interest of a director conflicted with the interests of the company.

The following table shows the attendance of directors at board and committee meetings during the year to 31 October 2010.

	Board	Audit	Remuneration	Nomination
Number of meetings	**9**	**3**	**3**	**1**
Douglas McDougall	8	2	2	1
Francis Finlay	8	n/a	n/a	1
Hamish Buchan	9	3	3	1
James MacLeod	9	3	3	1
Russell Napier	9	n/a	n/a	1

Nomination committee

There is a nomination committee comprising the whole board. The committee meets at least annually to review the structure, size and composition of the board and is responsible for identifying and nominating candidates to fill board vacancies as and when they arise. It has written terms of reference which are shown on the company's website.

Unless nominated by the board, a person nominated as a director is not eligible for election at a general meeting unless a shareholder who is entitled to vote at the meeting gives the company secretary at least six clear days' written notice of his intention to propose the relevant nominee for election, along with a notice in writing signed by the nominee confirming his willingness to be elected.

Remuneration committee

The board has appointed a remuneration committee to recommend pay and conditions for the board and employees. It has written terms of reference which are shown on the company's website.

Directors' fees are set with a view to attracting individuals of appropriate calibre and experience, taking into account the time commitment required and the level of fees paid by similar investment trusts. No other benefits are provided to directors. Fees recommended by the remuneration committee are subject to approval by the board. The company's articles of association provide for a maximum level of total remuneration of £250,000 payable to directors in any financial year.

The company aims to provide levels of employee remuneration which reward responsibility and achievement and are comparable with other fund management organisations operating in Scotland. Remuneration is reviewed annually. Every employee is entitled to a salary and other benefits including a contributory pension scheme. In addition, there is a discretionary performance related bonus scheme. For investment staff, bonuses payable depend, inter alia, on individual performance, the company's NAV total return and the NAV total return relative to comparator indices and peers. For other staff, bonuses depend, inter alia, on individual performance and share price total return. Notice periods for employees range from three to twelve months.

Relations with shareholders

The company recognises the value of good communication with its shareholders. The management meets regularly with private client stockbrokers and the company's major institutional shareholders. The board receives regular briefings from the company's brokers. Newsletters are sent to shareholders during the year and are posted on the company's website.

The annual general meeting of the company is the main forum at which shareholders can ask questions of the board and the management. All shareholders are encouraged to attend the AGM and to vote on the resolutions which are contained in the Notice of Meeting on page 45 and which is posted to shareholders at least 21 days prior to the meeting. Shareholders who cannot attend the AGM are encouraged to vote by proxy on the resolutions. Proxy voting figures are given at the end of the meeting.

Any shareholder who wishes to ask a question at another time should write to the chairman.

Accountability and audit

The responsibilities of the directors and auditors in respect of the financial statements are given below and on page 41.

The audit committee has written terms of reference which are shown on the company's website. Its duties include risk assessment, reviewing internal controls, the company's accounting policies, financial statements prior to their release and the company's procedures on whistleblowing. The committee is also responsible for all aspects of the company's relationship with its external auditors including:

- reviewing the scope and effectiveness of the annual audit;
- the auditors' remuneration;
- the terms of engagement; and
- the level of non-audit work, if any, carried out by the auditors.

The committee will also ensure that the level of non-audit work does not compromise the auditors' independence.

The accounts of the company have been prepared on a going concern basis. It is the opinion of the directors that, as most of the company's assets are readily realisable and exceed its liabilities, it is expected that the company will continue in operational existence for the foreseeable future. The company does not have an internal audit function as the audit committee believes that the company's straightforward structure and small number of employees do not warrant such a function. This is reviewed by the committee annually.

The board is responsible for ensuring that the company has in place an effective system of internal controls designed to maintain the integrity of accounting records and to safeguard the company's assets. The board has applied the Combined Code by establishing a continuous process for identifying, evaluating and managing the significant risks the company faces. This process, which has existed throughout the year, is in accordance with 'Internal Control: Revised Guidance for Directors on the Combined Code' published in June 2008 (The Turnbull Guidance). In compliance with the Combined Code, the board reviews the effectiveness of the company's system of internal control at six-monthly intervals.

The board's monitoring covers all controls, including financial, operational, and compliance controls and risk management. It is based principally on reviewing reports from management and considering whether significant risks are identified, evaluated, managed and controlled, and whether any significant weaknesses are promptly remedied or require more extensive monitoring. During the course of its review of the system of internal control, the board has not identified, nor been advised of, any material failings or weaknesses. Therefore a confirmation in respect of necessary actions has not been considered appropriate. The audit committee assists the board in discharging its review responsibilities.

There are procedures in place to ensure that:

- all transactions are accounted for accurately and reported fully to the board;
- the management observes the authorisation limits set by the board;
- there is clear segregation of duties so that no investment transaction can be completed by one person;
- control activities are regularly checked; and
- legal and regulatory obligations are met.

The board recognises that such systems can only provide reasonable, but not guaranteed, assurance against material misstatement or loss.

Directors' responsibilities

United Kingdom company law requires the directors to prepare annual financial statements which give a true and fair view of the state of affairs of the company and of the returns and cash flows for that year. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The audit committee has reviewed the matters within its terms of reference and reports as follows:

- it has approved the financial statements for the year to 31 October 2010;
- it has reviewed the effectiveness of the company's internal controls and risk management;
- it has reviewed the need for a separate internal audit function;
- it has recommended to the board that a resolution be proposed at the AGM for the reappointment of the external auditors and it has considered the proposed terms of their engagement;
- it has satisfied itself as to the independence of the external auditors; and
- it has satisfied itself that the terms of the business review are consistent with the financial statements.

Annual General Meeting

The directors consider that the resolutions, to be proposed at the AGM, are all in the best interests of the company and of shareholders as a whole, and recommend that shareholders vote in favour of them.

Resolutions 1 to 6 are self explanatory. Resolution 7, set out in the Notice of the Annual General Meeting on page 45, seeks to renew the authority to repurchase shares until 30 April 2012. The principal reasons for such repurchases are to enhance the net asset value of the shares by repurchasing shares for cancellation at prices which, after allowing for costs, improve the NAV for remaining shareholders and to allow implementation of the company's share buyback policy.

Under the Listing Rules of the UK Listing Authority, the maximum price that may be paid on the exercise of the authority must not exceed the higher of (i) 105% of the average of the middle market quotations for the shares as derived from the Daily Official List of the London Stock Exchange over the five business days immediately preceding the date of purchase and, (ii) the higher price of the last independent trade and the highest current independent bid. The minimum price which may be paid is 25p per share.

Voting Policy

The management reviews resolutions put to general meetings of the companies in which it invests and, wherever practicable, will cast its vote, usually by proxy.

Socially Responsible Investing

When investments are made, the primary objective is to achieve the best investment return while allowing for an acceptable degree of risk. In pursuing this objective, various factors that may impact on the performance are considered and these may include socially responsible investment issues. If it is considered that a company's social, environmental or ethical record will adversely affect financial performance and result in poor returns, then an investment will not be made in the company.

Auditors

Re-appointment of auditors

A resolution to re-appoint Deloitte LLP as the company's auditors, and to authorise the directors to fix their remuneration, will be proposed at the forthcoming annual general meeting.

Disclosure of information to auditors

It is the company's policy to allow the auditors unlimited access to its records. The directors confirm that, so far as each of them is aware, there is no relevant audit information of which the company's auditors are unaware and they have taken all the steps which they should have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Payment of Creditors

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

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

Donations

No charitable or political donations were made during the year (2009: same).

By order of the board

Steven Hay

Steven Hay
Company Secretary
16 December 2010

Directors' Remuneration Report

This report has been prepared in accordance with the requirements of Section 421 of the Companies Act 2006 incorporating the Directors' Remuneration Report Regulations 2002. An ordinary resolution for the approval of the report will be put to shareholders at the AGM on 28 January 2011.

Remuneration Committee

The company has a remuneration committee whose terms of reference include setting the fees of the directors. The full terms of reference are posted on the company's website. The committee is chaired by Hamish Buchan and the other members are Douglas McDougall and James MacLeod.

Policy on Directors' Fees

On 31 October 2010 the board consisted of five directors, all of whom are non-executive. Directors' fees are set by the remuneration committee with a view to attracting individuals of appropriate calibre and experience, taking into account the time commitment required and the level of fees paid by similar investment trusts. It is intended that this policy will apply for the year to 31 October 2011 and to subsequent years. The directors do not receive bonuses, share options, long-term incentives, pension or other benefits. The committee agreed to an increase in directors' fees, with effect from 1 November 2010, to £45,000 per annum for the chairman and £27,000 per annum for other directors. Directors' fees were last increased on 1 November 2006.

Directors' Emoluments (audited)

Fees	Year to 31 October 2010 £	Year to 31 October 2009 £
Douglas McDougall	40,000	40,000
Francis Finlay	24,000	24,000
Hamish Buchan	24,000	24,000
James MacLeod	24,000	24,000
Russell Napier	24,000	6,522
Sir George Mathewson	–	6,000
	136,000	**124,522**

Sir George Mathewson retired from the board on 30 January 2009. Russell Napier was appointed to the board on 24 July 2009.

Service Contracts

The directors do not have service contracts. They have letters of appointment for fixed terms of not more than three years which can be renewed but there is no notice period and no compensation is payable on early termination. All directors are subject to retirement by rotation and re-election subject to shareholders' approval at intervals of not more than three years.

Company Performance

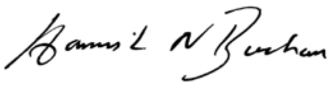
The graph below shows the company's five year share price total return compared to the notional total return of the UK FTSE All-Share Index over the same period.

This index has been chosen as it is a common performance comparator for companies such as SIT.

Source: Datastream

Approval

The directors' remuneration report was approved by the board on 16 December 2010 and signed on its behalf by the chairman of the remuneration committee.



Hamish Buchan
Director
16 December 2010

Income Statement

for the year to 31 October 2010

	Notes	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Net gains on investments held at fair value through profit and loss	8	–	83,571	83,571	–	80,220	80,220
Net gains/(losses) on currencies		–	28	28	–	(264)	(264)
Income	1	19,542	–	19,542	21,620	–	21,620
Expenses	2	(2,531)	(1,753)	(4,284)	(2,445)	(1,694)	(4,139)
Net Return before Finance Costs and Taxation		17,011	81,846	98,857	19,175	78,262	97,437
Interest payable	5	(3,214)	(3,213)	(6,427)	(3,213)	(3,213)	(6,426)
Return on Ordinary Activities before Tax		13,797	78,633	92,430	15,962	75,049	91,011
Tax on ordinary activities	6	(1,334)	–	(1,334)	(2,277)	948	(1,329)
Return attributable to Equity Shareholders		**12,463**	**78,633**	**91,096**	**13,685**	**75,997**	**89,682**
Return per share		**10.26p**	**64.73p**	**74.99p**	**10.62p**	**59.00p**	**69.62p**
Weighted average number of shares in issue during the year			**121,484,325**			**128,817,089**	

	Notes	2010 £'000	2009 £'000
Dividends paid and proposed	7		
Interim 2010 – 4.45p (2009: 4.45p)		5,359	5,735
Final 2010 – 5.60p (2009: 5.15p)		6,614	6,391
		11,973	**12,126**

All revenue and capital items in the above statement derive from continuing operations.

The total column of this statement is the profit and loss account of the company.

The accompanying notes are an integral part of this statement.

Balance Sheet
as at 31 October 2010

	Notes	2010 £'000	2010 £'000	2009 £'000	2009 £'000
Fixed Assets					
Equity investments	8	680,976		611,455	
Fixed interest investments	8	9,351		25,274	
			690,327		636,729
Current Assets					
Debtors	10	6,888		15,853	
Cash and deposits	8	53,729		45,122	
		60,617		60,975	
Creditors: liabilities falling due within one year	11	(10,804)		(733)	
Net Current Assets			49,813		60,242
Total Assets less Current Liabilities			740,140		696,971
Creditors: liabilities falling due after more than one year					
Long-term borrowings at par	12		(107,733)		(107,612)
Pension liability	4		(2,040)		(1,684)
Net Assets			**630,367**		**587,675**
Capital and Reserves					
Called-up share capital	13		29,526		31,558
Share premium account	14		39,922		39,922
Other reserves	14				
Capital redemption reserve			41,335		39,303
Capital reserve			475,086		432,748
Revenue reserve			44,498		44,144
Equity Shareholders' Funds			**630,367**		**587,675**
Net Asset Value per share with borrowings at par			**533.7p**		**465.6p**
Number of shares in issue at year end	13		**118,102,926**		**126,229,718**

The financial statements on pages 22 to 40 were approved by the board of directors on 16 December 2010 and were signed on its behalf by:

Douglas McDougall
Director

The accompanying notes are an integral part of this statement.

Registered no. SCO 01651

Statement of Total Recognised Gains and Losses
for the year to 31 October 2010

	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Return attributable to equity shareholders	12,463	78,633	91,096	13,685	75,997	89,682
Actuarial losses (Note 4)	(359)	(249)	(608)	(961)	(668)	(1,629)
Total recognised gains for the year	**12,104**	**78,384**	**90,488**	**12,724**	**75,329**	**88,053**
Total recognised gains per share	**9.96p**	**64.52p**	**74.48p**	**9.88p**	**58.48p**	**68.36p**

Reconciliation of Movements in Shareholders' Funds
for the year to 31 October 2010

	2010 £'000	2009 £'000
Opening equity shareholders' funds	587,675	525,679
Total recognised gains	90,488	88,053
Dividend payments	(11,750)	(12,281)
Share repurchases	(36,046)	(13,776)
Closing equity shareholders' funds	**630,367**	**587,675**

Cash Flow Statement

for the year to 31 October 2010

	Notes	2010 £'000	2010 £'000	2009 £'000	2009 £'000
Net Cash Inflow from Operating Activities			14,141		13,105
Servicing of Finance					
Net cash outflow from servicing of finance – interest paid			(6,306)		(6,306)
Taxation					
Net cash inflow from taxation – overseas tax recovered			541		149
Investing Activities					
Purchases of investments – equities		(507,235)		(422,804)	
– fixed interest		(22)		(26,623)	
Disposals of investments – equities		538,214		430,671	
– fixed interest		15,785		1,086	
Net cash inflow/(outflow) from investing activities			46,742		(17,670)
Equity Dividends Paid	7		(11,750)		(12,281)
Net cash inflow/(outflow) before use of liquid resources and financing			43,368		(23,003)
Management of Liquid Resources					
(Increase)/decrease in current asset investments and short-term deposits	15		(4,000)		31,662
Financing					
Net cash outflow from financing – share buybacks	13		(34,761)		(14,099)
Increase/(decrease) in Cash	15		**4,607**		**(5,440)**
Reconciliation of Net Revenue before Finance Costs and Taxation to Net Cash Inflow from Operating Activities					
Net revenue before finance costs and taxation			17,011		19,175
Expenses charged to capital			(1,753)		(1,694)
Scrip dividends			(67)		(769)
Decrease/(increase) in accrued income			813		(1,187)
Increase/(decrease) in other creditors			2,593		(129)
Increase in other debtors			(2,517)		(80)
Adjustment for pension funding			(252)		(295)
Tax on investment income			(1,687)		(1,916)
Net Cash Inflow from Operating Activities			**14,141**		**13,105**

The accompanying notes are an integral part of this statement.

Accounting Policies

A summary of the principal accounting policies is set out in paragraphs (a) to (i) below. All have been applied consistently throughout the current and the preceding year:

(a) Basis of Accounting

The financial statements are prepared on a going concern basis under the historical cost convention, modified to include the revaluation of investments at fair value, and in accordance with applicable United Kingdom accounting standards. The company's accounting policies comply with the AIC Statement of Recommended Practice (SORP) issued in January 2009 'Financial Statements of Investment Trust Companies and Venture Capital Trusts'.

(b) Valuation of Investments

Listed investments are valued at fair value through profit and loss. Fair value is the closing bid or last traded price according to the recognised convention of the markets on which they are quoted. Where trading in the securities of an investee company is suspended, the investment is valued at the board's estimate of its net realisable value. Where appropriate, the directors have adopted the guidelines issued by the International Private Equity and Venture Capital Association for the valuation of unlisted investments. Heritable property is included at a professional valuation. Depreciation is not charged on heritable property as it is not material.

Realised surpluses or deficits on the disposal of investments, permanent impairments in the value of investments and unrealised surpluses and deficits on the revaluation of investments are taken to capital reserve as explained in note (h) below.

Year end exchange rates are used to translate the value of investments which are denominated in foreign currencies.

(c) Income

Dividends receivable on quoted shares are brought into account on the ex-dividend date. Dividends receivable on shares where no ex-dividend date is quoted are brought into account when the company's right to receive payment is established.

Interest and other income from non-equity securities, including debt securities, are recognised on a time apportionment basis so as to reflect the effective yield on the securities.

Where the company elects to receive dividends in the form of additional shares (scrip dividends) rather than in cash, the amount of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash is recognised in capital reserves.

(d) Expenses

All expenses are accounted for on an accruals basis.

Eligible investment expenses have been charged one-half to revenue reserve and one-half to capital reserve in line with the directors' expectations of the nature of long-term future returns from the company's investments (2009: same).

Expenses which are incidental to the acquisition or disposal of an investment are treated as part of the cost, or deducted from the sales proceeds of the investment.

(e) Finance Costs

Interest payable has been charged one-half to revenue reserve and one-half to capital reserve in line with the directors' expectations of long-term future returns from the company's investments (2009: same).

The discount on, and expenses of issue of, the secured bonds due 2030 have been included in the financing costs of the issue which are being written off over the life of the bonds.

(f) Taxation

Current tax is provided at amounts expected to be paid (or recovered).

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted. The company has no deferred tax asset or liability.

(g) Foreign Currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates at the date of the transaction or, where appropriate, at the rate of exchange in a related forward contract. Assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in capital reserve or in the revenue account depending on whether the gain or loss is of a capital or revenue nature.

(h) Capital Reserve

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- realised exchange differences of a capital nature;
- realised gains and losses on transactions undertaken to hedge an exposure of a capital nature;
- the funding of share repurchases;
- expenses and interest charged to capital;
- increases and decreases in the valuation of investments held at the year end;
- unrealised exchange differences of a capital nature;
- unrealised gains and losses on transactions undertaken to hedge an exposure of a capital nature; and
- increases and decreases in the valuation of the pension fund surplus or deficit.

(i) Pensions

Information on the company's pension scheme is contained in Note 4 to the Financial Statements on page 28.

Notes to the Financial Statements
for the year to 31 October 2010

1. Income

	2010 £'000	2009 £'000
UK dividends	5,113	6,296
UK fixed interest	158	492
Overseas dividends including specials of £716,000 (2009: £687,000)	13,706	12,906
Overseas fixed interest	446	328
Unlisted income	193	–
Scrip dividends	67	768
Deposit interest	137	393
Forward currency sales	(278)	437
	19,542	**21,620**
Income includes:		
Listed UK	5,271	6,788
Listed overseas	14,219	14,002
Unlisted	193	–
	19,683	**20,790**

2. Expenses

	2010 £'000	2009 £'000
Staff costs (Note 3)	2,634	2,530
Auditors' remuneration for audit services	34	28
Auditors' remuneration for pension scheme audit	5	4
Auditors' remuneration for tax advisory services	8	8
Other financial advisory services	1	1
Other expenses	1,602	1,568
	4,284	**4,139**

Eligible investment expenses have been charged one-half to revenue reserve and one-half to capital reserve (2009: same).

3. Staff Costs

	2010 £'000	2009 £'000
Remuneration	1,946	1,873
Social security costs	219	217
Pensions and post-retirement benefits	469	440
	2,634	**2,530**

The average monthly number of persons employed during the year was:

	2010 Number	2009 Number
Investment	11	11
Administration	11	11
	22	22
Directors' remuneration: Fees for services as directors	**£136,000**	**£124,522**

4. Pension Scheme

The company's defined benefit pension scheme based on final salary is closed to new entrants. The assets of the scheme are held separately from those of the company. The scheme is under the control of trustees and is administered by Punter Southall & Co, consulting actuaries.

Actuarial valuations are obtained triennially and are updated at each balance sheet date. A full actuarial valuation was carried out in 2010 which disclosed a scheme deficit of £2,513,000 on 31 July 2010. The company has agreed to meet this deficit over nine years by equal instalments. It should be noted that this deficit differs from that disclosed by Financial Reporting Standard 17 (FRS17) which is set out below and which is the liability required to be shown in the financial statements. The main reason for the difference is that FRS17 requires future liabilities to be calculated actuarially using a rate of return based on the yield from investment grade corporate bonds which is lower than the expected rate of return on the equities in which the scheme is invested. The FRS17 liability is separately disclosed in the balance sheet.

For the defined benefits scheme the amounts charged against revenue, as part of staff costs, are the actuarial estimation of 'current service costs' (that is, the increase in scheme liabilities arising from employee service) for the current accounting period and gains and losses from settlements (whereby the company is relieved of a pension obligation) and from curtailments (whereby the estimated years of future service are reduced) in the period. The cost of past service benefits which have vested are charged against revenue as they arise. Where such benefits have not vested, costs are accrued until vesting occurs.

For employees who are not members of the defined benefits scheme, the company operates a defined contribution scheme under which the company has agreed to pay contributions as a percentage of salary, but has no obligation to pay further contributions. For this scheme, the amount charged to revenue is the contributions payable for the year.

The following statement has been prepared for the defined benefits scheme in accordance with the requirements of FRS17, the purpose of which is to ensure that:

1. the company's financial statements show the assets of the scheme at fair value, and the liabilities arising from its obligations to employees on their retirement, actuarially estimated as prescribed by FRS17;
2. the operating costs of providing retirement benefits to employees, actuarially estimated, are charged against the profits of the years in which employees earn those benefits; and
3. the financial statements adequately disclose the cost of providing retirement benefits and the related gains, losses, assets and liabilities.

The major assumptions used for the actuarial valuation of the final salary scheme were:

		2010 %	2009 %	2008 %	2007 %	2006 %
Rate of increase in salaries		3.7	4.0	5.0	5.2	4.9
Rate of increase in pensions in payment		3.6	3.7	3.4	3.5	3.5
Discount rate		5.2	5.6	6.9	5.8	5.0
Inflation	– RPI	3.4	3.6	3.0	3.2	2.9
	– CPI	2.8	–	–	–	–
Life expectancies on retirement at age 60 are:						
Retiring today	– males	27.5	26.3	26.2	26.1	–
	– females	30.2	28.8	28.7	28.6	–
Retiring in 20 years time	– males	29.7	27.5	27.5	27.4	–
	– females	32.4	29.8	29.7	29.7	–

The expected rates of return from the scheme assets on the balance sheet date were:

	2010 %	2009 %	2008 %	2007 %	2006 %
Equities	7.2	7.2	7.7	7.7	7.2
Bonds	4.2	4.2	4.7	4.7	4.2
With-profit policies	4.1	4.3	4.5	5.8	4.7
Cash	4.1	4.3	4.5	5.8	4.8

4. Pension Scheme (continued)

The fair value of the scheme assets and the present value of the scheme liabilities were:

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Equities	5,238	2,807	2,286	3,311	2,994
Bonds	2,191	101	83	104	100
With-profit policies	161	136	1,293	1,223	1,054
Cash	383	3,699	2,182	1,984	1,627
Total fair value of assets	7,973	6,743	5,844	6,622	5,775
Present value of scheme liabilities	(10,013)	(8,427)	(6,194)	(7,471)	(7,570)
Net pension liability	**(2,040)**	**(1,684)**	**(350)**	**(849)**	**(1,795)**

Reconciliation of the opening and closing balances of the present value of the scheme assets	2010 £'000	2009 £'000
Fair value of scheme assets at beginning of year	6,743	5,844
Expected return on scheme assets	380	351
Actuarial gains	490	25
Contributions by employers	616	604
Contributions by scheme participants	42	41
Benefits paid	(298)	(122)
Fair value of scheme assets at end of year	**7,973**	**6,743**

Reconciliation of the opening and closing balances of the present value of the scheme liabilities	2010 £'000	2009 £'000
Liabilities at beginning of year	8,427	6,194
Current service cost	272	231
Interest cost	472	429
Contributions by scheme participants	42	41
Actuarial losses	1,098	1,654
Benefits paid	(298)	(122)
Liabilities at end of year	**10,013**	**8,427**

4. Pension Scheme (continued)

Analysis of amount chargeable to operating profit during the year

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Current service cost	314	272	370	484	446
Total operating charge	314	272	370	484	446
Employee contribution to be set off	(42)	(41)	(37)	(41)	(37)
Analysis of amount credited to other finance income:					
Expected return on assets	380	351	437	355	298
Interest on liabilities	(472)	(429)	(418)	(388)	(347)
Net return	(92)	(78)	19	(33)	(49)
Movement in deficit during year:					
Deficit at beginning of year	(1,684)	(350)	(849)	(1,795)	(1,931)
Movement in year:					
Current service cost	(314)	(272)	(370)	(484)	(446)
Contributions for year	658	645	580	420	362
Net return from other finance income	(92)	(78)	19	(33)	(49)
Actuarial (losses)/gains in statement of total recognised gains and losses	(608)	(1,629)	270	1,043	269
Deficit at end of year	**(2,040)**	**(1,684)**	**(350)**	**(849)**	**(1,795)**

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Analysis of the actuarial deficit in the statement of recognised gains and losses:					
Actual return less expected return on assets	490	25	(1,371)	137	365
Experience gains/(losses) on liabilities	157	(6)	(143)	363	(96)
Change in assumptions	(1,255)	(1,648)	1,784	543	–
Actuarial (losses)/gains in statement of total recognised gains and losses	**(608)**	**(1,629)**	**270**	**1,043**	**269**

History of experience gains and losses

	2010 %	2010 £'000	2009 %	2009 £'000	2008 %	2008 £'000	2007 %	2007 £'000	2006 %	2006 £'000
Difference between actual and expected return on assets	6	490	0	25	(24)	(1,371)	2	137	6	365
Experience gains/(losses) on liabilities	2	157	(0)	(6)	(2)	(143)	5	363	1	(96)
Total amount recognised on statement of total recognised gains and losses	(6)	(608)	(19)	(1,629)	3	270	14	1,043	4	269

The pension cost of operating the defined contribution scheme amounted to £82,000 (2009: £75,000).

5. Interest Payable

	2010 £'000	2009 £'000
On secured bonds, debentures and overdrafts	6,306	6,306
Amortisation of secured bond issue expenses	121	120
	6,427	**6,426**

Interest payable has been charged one-half to revenue reserve and one-half to capital reserve (2009: same).

6. Tax on Ordinary Activities

	2010 £'000	2009 £'000
Taxation		
UK Corporation tax at 28% (2009: 28%)	–	–
Overseas tax	1,334	1,329
Current tax	**1,334**	**1,329**

The tax charge for the year is lower than that resulting from applying the standard rate of corporation tax in the UK of 28% for 2010 (2009: 28%).

	2010 £'000	2009 £'000
Return on ordinary activities before tax	92,430	91,011
Corporation tax at 28% (2009: 28%)	25,881	25,483
Effects of: Non-taxable capital returns	(22,017)	(21,014)
Finance costs and expenses charged to capital	(1,390)	(1,374)
Non-taxable dividends	(2,319)	(1,889)
Non-taxable scrip dividends	(19)	(215)
Unutilised expenses	(136)	(991)
Overseas tax	1,334	1,329
	1,334	**1,329**

There are unrelieved management expenses at 31 October 2010 of £66,764,000 (2009: £56,376,000) but the related deferred tax asset has not been recognised. This is because the company is not expected to generate taxable profits in a future period in excess of the deductible expenses of that future period and, accordingly, it is unlikely that the company will be able to reduce future tax liabilities through the use of existing unrelieved expenses.

7. Dividends

	2010 £'000	2009 £'000
Dividends paid on shares recognised in the year:		
Previous year final of 5.15p per share (2008: 5.05p)	6,391	6,546
Interim of 4.45p per share (2009: 4.45p)	5,359	5,735
	11,750	**12,281**

Dividends paid take into account share buybacks between the ex-dividend and payment dates.

8. Investments

	2010 £'000	2009 £'000
Investments listed on a recognised investment exchange	680,322	626,821
Unlisted investments	9,852	9,755
Subsidiary undertakings (Note 9)	153	153
	690,327	**636,729**

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total £'000
Opening book cost	155,373	385,890	8,673	549,936
Opening unrealised appreciation	20,861	64,697	1,235	86,793
Opening valuation	**176,234**	**450,587**	**9,908**	**636,729**
Movements in the year:				
Purchases at cost	100,019	413,434	56	513,509
Sales – proceeds	(118,726)	(422,280)	(2,323)	(543,329)
– realised gains on sales	10,858	42,928	922	54,708
Amortisation on fixed interest investments	(35)	(118)	–	(153)
Increase in unrealised appreciation	9,059	18,362	1,442	28,863
Closing valuation	177,409	502,913	10,005	690,327
Closing book cost	147,489	419,854	7,328	574,671
Closing unrealised appreciation	29,920	83,059	2,677	115,656
Closing valuation	**177,409**	**502,913**	**10,005**	**690,327**

Total purchases of equities amounted to £513,509,000 (2009: £423,441,000) and sales were £527,719,000 (2009: £432,103,000). The ratio of equity sales as a percentage of average total assets was 73.4% (2009: 65.0%). The purchases at cost and sales proceeds figures include transaction costs of £2,699,000 (2009: £2,173,000), comprising commissions, government stamp duty and other exchange fees.

	2010 £'000	2009 £'000
Realised gains/(losses) on sales	54,708	(36,107)
Increase in unrealised appreciation	28,863	116,327
Gains on Investments	**83,571**	**80,220**

Unlisted investments include heritable property valued at £1,000,000 (2009: £1,000,000). The property was valued on an open market basis by Ryden, chartered surveyors, on 15 October 2009.

8. Investments (continued)

Financial assets – cash, deposits and current asset investments

	2010 Fixed £'000	2010 Floating £'000	2010 Total £'000	2009 Fixed £'000	2009 Floating £'000	2009 Total £'000
Sterling	34,000	1,017	35,017	30,000	10,898	40,898
Euro	–	50	50	–	285	285
US dollar	–	4,007	4,007	–	3,726	3,726
Other	–	14,655	14,655	–	213	213
	34,000	**19,729**	**53,729**	**30,000**	**15,122**	**45,122**

The maximum period for fixed rate deposits outstanding at the year end was 6 days (2009: 12 days). The weighted average fixed interest rate at the year end was 0.40% (2009: 0.38%). Floating interest rates vary in relation to short-term rates in the currencies in which deposits are held.

9. Subsidiary Undertakings

The company has investments in the following subsidiary undertakings:

Name of undertaking	Principal activity	Country of incorporation and voting and operation	Description of shares held	Proportion of nominal value of issued shares and voting rights held
Hurtree Limited	Investment	UK	Ordinary	100%
SIT Savings Limited	Investment products	UK	Ordinary	100%

The accounts of these subsidiaries have not been consolidated with those of the parent company as, in the opinion of the directors, the amounts involved are not material. The directors are satisfied that the valuation of the subsidiaries reflects and does not exceed the value of the underlying assets.

10. Debtors

	2010 £'000	2009 £'000
Amounts due from brokers	2,719	13,199
Overseas tax recoverable	446	635
Prepayments and accrued income	3,723	2,019
	6,888	**15,853**

11. Creditors: Liabilities Falling Due Within One Year

	2010 £'000	2009 £'000
Amounts due to brokers	10,194	214
Other creditors	610	519
	10,804	**733**

12. Creditors: Liabilities Falling Due After More Than One Year

	2010 Book value £'000	2010 Fair value £'000	2009 Book value £'000	2009 Fair value £'000
4% perpetual debenture stock	350	273	350	286
4¼% perpetual debenture stock	700	579	700	609
5% perpetual debenture stock	1,009	983	1,009	1,030
5¾% secured bonds due 17/4/2030	105,674	120,125	105,553	117,501
	107,733	**121,960**	**107,612**	**119,426**

The secured bonds are secured by a floating charge over the assets of the company and have a redemption value in 2030 of £108,015,000.

The debenture stocks and secured bonds are stated in the balance sheet at book value. Restating them at market value of £122.0m (2009: £119.4m) has the effect of decreasing the year end NAV per share from 533.7p to 521.7p (2009 decreasing from: 465.6p to 456.2p). Market value is the estimated 'fair value' of the company's secured bonds and debenture stocks. The current estimated fair value of the company's secured bonds is based on the redemption yield of the reference gilt plus a margin of 100 basis points (1 percentage point). The reference gilt is the 6% Treasury Stock 2028.

13. Called-Up Share Capital

	2010	2009
Shares of 25p	£29,526,000	£31,558,000
Number of shares in issue	118,102,926	126,229,718

8,126,792 shares were repurchased in the stockmarket during the year to 31 October 2010 (2009: 3,396,500).

637,000 shares were repurchased between 31 October 2010 and 10 December 2010.

14. Reserves

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000
At 31 October 2009	39,922	39,303	432,748	44,144
Exchange difference	–	–	28	–
Net gain on realisation of investments	–	–	54,708	–
Increase in unrealised appreciation	–	–	28,863	–
Shares repurchased	–	2,032	(36,046)	–
Actuarial loss relating to pension scheme	–	–	(249)	(359)
Expenses and interest charged to capital in current year	–	–	(4,966)	–
Revenue return on ordinary activities after tax	–	–	–	12,463
Dividends paid during the year	–	–	–	(11,750)
At 31 October 2010	**39,922**	**41,335**	**475,086**	**44,498**

15. Analysis of Changes in Net Debt During the Year

	31 October 2009 £'000	Cash flows £'000	Non-cash movements £'000	31 October 2010 £'000
Cash	15,122	4,607	–	19,729
Short-term deposits	30,000	4,000	–	34,000
Borrowings due after one year	(107,612)	–	(121)	(107,733)
	(62,490)	**8,607**	**(121)**	**(54,004)**

16. Contingencies, Guarantees and Financial Commitments

	2010 £'000	2009 £'000
Contingencies, guarantees and financial commitments of the company at the year end, which have not been accrued, are as follows:		
Commitments to provide additional funds to investees	1,138	1,162

17. Financial Instruments

Summary of financial assets and financial liabilities by category

The carrying amounts of the company's financial assets and financial liabilities at the balance sheet date are as follows. The accounting policies on page 26 explain how the various categories of financial instrument are measured.

	2010 £'000	2009 £'000
Financial assets		
Financial assets at fair value through profit and loss		
Fixed asset investments – designated as such on initial recognition	690,327	636,729
Current assets:		
Debtors	6,888	15,853
Cash and short-term deposits	53,729	45,122
	60,617	60,975
	750,944	**697,704**
Financial liabilities		
Creditors: liabilities falling due within one year		
Purchases awaiting settlement	(10,194)	(214)
Other creditors	(610)	(519)
Creditors: liabilities falling due after more than one year		
Long-term borrowings at par	(107,733)	(107,612)
Pension liability	(2,040)	(1,684)
	(120,577)	**(110,029)**

17. Financial Instruments (continued)

Financial instruments, risk management policies and procedures

As an investment trust, the company invests in equities and other investments for the long term so as to secure its investment objectives stated on page 1. In pursuing its investment objective, the company is exposed to a variety of risks that could result in either a reduction in the company's net assets or a reduction in the profits available for dividend.

The main risks include investment and market price risk (comprising foreign currency risk and interest rate risk), liquidity risk and credit risk. The directors' approach to the management of these risks, is set out below. The directors, the manager and the company secretary coordinate the company's risk management.

The objectives, policies and processes for managing the risks, and the methods used to measure the risks, which are set out below, have not changed from those applied in the previous year.

a. Investment and market price risk

The holding of securities and investing activities involve certain inherent risks. Events may occur which affect the value of investments. The company holds a portfolio which is well diversified across industrial and geographical areas to help minimise these risks. It may also use derivatives. From time to time the company may wish to use such instruments in order to protect against a specific risk or to facilitate a change in investment strategy such as the movement of funds from one area to another. No such transaction may take place without the prior authorisation of the board.

b. Foreign currency risk

Approximately 70% of the company's assets are invested overseas which gives rise to a currency risk. This risk is monitored by the manager on a daily basis and by the board at each meeting. From time to time specific hedging transactions are undertaken. The company's overseas income is subject to currency movements. During the year, US dollar and euro dividend income was hedged by forward sales of US dollars and euros. The currency profile of the company's monetary assets and liabilities is set out in Notes 8 and 12.

Management of the risk

The manager monitors the company's exposure to foreign currencies on a daily basis, and reports to the board at regular intervals. The manager measures the risk to the company of the foreign currency exposure by considering the effect on the company's net asset value and income of a movement in the rates of exchange to which the company's assets, liabilities, income and expenses are exposed.

Foreign currency borrowings and forward currency contracts may be used to limit the company's exposure to anticipated future changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments or the income received from them. These borrowings and contracts are limited to currencies and amounts commensurate with the asset exposure to those currencies.

Income denominated in foreign currencies is converted to sterling on receipt. The company does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt.

17. Financial Instruments (continued)

Foreign currency exposure

The fair values of the company's monetary items denominated in foreign currencies at 31 October 2010 and 31 October 2009 are shown below. The company's equity and fixed interest investments (which are not monetary items) which are priced in a foreign currency, have been included separately in the analysis so as to show the overall level of exposure.

2010	US $ £'000	Euro £'000	Other £'000
Debtors (amounts due from brokers, dividends receivable and accrued income)	268	2,302	3,750
Cash	4,007	50	14,655
Foreign currency exposure on net monetary items	4,275	2,352	18,405
Equity investments at fair value through profit and loss	172,542	70,931	258,873
Fixed interest investments at fair value through profit and loss	5,158	3,710	–
Total net foreign currency exposure	**181,975**	**76,993**	**277,278**

2009	US $ £'000	Euro £'000	Other £'000
Debtors (amounts due from brokers, dividends receivable and accrued income)	679	3,915	8,666
Cash	3,726	285	213
Foreign currency exposure on net monetary items	4,405	4,200	8,879
Equity investments at fair value through profit and loss	162,828	100,361	183,507
Fixed interest investments at fair value through profit and loss	5,102	15,233	–
Total net foreign currency exposure	**172,335**	**119,794**	**192,386**

The above year end amounts are not representative of the exposure to risk during the year, because the levels of monetary foreign currency exposure may change significantly throughout the year. The maximum and minimum net monetary assets/(liabilities) amounts for each currency were as follows.

Year to 31 October 2010	US $ £'000	Euro £'000	Other £'000
Maximum	49,502	15,175	23,395
Minimum	259	(141)	1,205

Year to 31 October 2009	US $ £'000	Euro £'000	Other £'000
Maximum	37,821	6,066	11,466
Minimum	1,154	(303)	46

17. Financial Instruments (continued)

Foreign currency sensitivity

The following table illustrates the sensitivity of the total return for the year and the shareholders' funds in regard to the company's monetary financial assets and financial liabilities. It assumes a 10% depreciation of sterling against both the US dollar and the euro. These percentages have been determined based on the average market volatility in exchange rates in the previous twelve months. The sensitivity analysis is based on the company's monetary foreign currency financial instruments held at each balance sheet date.

	2010 US $ £'000	2010 Euro £'000	2009 US $ £'000	2009 Euro £'000
If sterling had weakened by 10% against the currencies shown, this would have had the following effect:				
Income statement – return on ordinary activities after taxation:				
Revenue return	323	318	274	489
Capital return	17,796	7,475	17,152	11,906
Return attributable to equity shareholders	**18,119**	**7,793**	**17,426**	**12,395**

A 10% strengthening of sterling against the above currencies would result in an equal and opposite effect on the above amounts.

In the opinion of the directors, the above sensitivity analyses are broadly representative of the whole of the current and comparative years.

c. Interest rate risk

The company finances its operations through a combination of investment realisations, retained revenue reserves, bank credit facilities, debenture stocks and secured bonds. All of the existing debenture stocks and secured bonds are at fixed rates. The company has undrawn short-term multicurrency credit facilities which can be drawn at variable rates of interest. Details of interest rates on financial assets are included in Note 8. Details of interest rates on financial liabilities are included in Note 12.

Management of the risk

The company finances part of its activities through borrowings at levels which have been approved and are monitored by the board. The company, generally, does not, otherwise than in exceptional market conditions, hold substantial cash balances.

Interest rate exposure

The exposure, at the year end, of financial assets and financial liabilities to interest rate risk is shown by reference to floating interest rates.

	2010 Within one year £'000	2010 More than one year £'000	2010 Total £'000	2009 Within one year £'000	2009 More than one year £'000	2009 Total £'000
Exposure to floating interest rates						
Cash	19,729	–	19,729	15,122	–	15,122
Exposure to fixed interest rates						
Fixed interest investments	7,094	2,257	9,351	1,017	24,257	25,274
Short-term deposits	34,000	–	34,000	30,000	–	30,000
Long-term borrowings	–	(107,733)	(107,733)	–	(107,612)	(107,612)
Total exposure	**60,823**	**(105,476)**	**(44,653)**	**46,139**	**(83,355)**	**(37,216)**

17. Financial Instruments (continued)

Interest rate sensitivity

If interest rates had decreased by 5%, with all other variables held constant, the return attributable to equity shareholders as shown on the Income Statement would have decreased by the amounts shown in the table below:

	2010 £'000	2009 £'000
Return attributable to equity shareholders	(7)	(20)

A 5% increase in interest rates would result in an equal and opposite effect on the above amounts.

d. Liquidity risk

Almost all of the company's assets comprise listed securities which represent a ready source of funds. In addition the company has access to short-term borrowing facilities. The maturity profile of the company's borrowings is included in Note 12.

Management of the risk

Liquidity risk is not as significant as the other risks as most of the company's assets are investments in quoted equities and are readily realisable. The manager reviews the liquidity of the portfolio when making investment decisions.

e. Credit risk

The failure of the counterparty to a transaction to discharge its obligations under that transaction could result in the company suffering a loss.

Credit risk exposure

The amounts shown in the balance sheet under debtors and cash and deposits represent the maximum exposure to credit risk at the current and comparative year ends.

Cash comprises balances held by banks with a satisfactory credit rating (2009: same).

Management of the risk

This risk is managed as follows:
– by only dealing with brokers and banks which have been approved by the directors and which have high credit ratings assigned by international credit rating agencies; and
– by setting limits on the maximum exposure to any one counterparty at any time, which are reviewed semi-annually at meetings of the audit committee.

f. Capital management policies and procedures

The company carries on its business as a global growth investment trust. Its objective is to provide investors, over the longer term, with above-average returns through a diversified portfolio of international equities and to achieve dividend growth ahead of UK inflation.

The levels of effective equity gearing and gross gearing are monitored closely by the board and manager. The company applies a ceiling on effective equity gearing of 120%. While effective equity gearing will be employed in a typical range of 100% to 120%, the company retains the ability to lower equity exposure below 100% if deemed appropriate.

The board, with the assistance of the manager, monitors and reviews the broad structure of the company's capital on an ongoing basis. This review includes the planned level of gearing which will take into account the manager's view on the market, the need to buy back shares for cancellation which takes account of the difference between the net asset value per share and the share price (the company's buy back policy is intended to keep the discount to ex-income NAV at or below 9.0%) and the extent to which revenue in excess of that which is required to be distributed should be retained.

The company's objectives, policies and processes for managing capital are unchanged from the previous year.

17. Financial Instruments (continued)

Fair value measurements recognised in the balance sheet

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities;
- Level 2 fair measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 fair value measurements are those derived from valuation techniques not based on observable market data.

	2010			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss				
Financial assets	680,322	3,181	6,824	690,327

There were no transfers between Levels 1, 2 and 3 during the year.

Reconciliation of Level 3 fair value measurements of financial assets

	Fair value through profit and loss 2010 £'000
Balance at 31 October 2009	6,527
Total gains and losses:	
- in profit and loss	297
Balance at 31 October 2010	**6,824**

The table above only includes financial assets. There were no financial liabilities measured at fair value on Level 3 fair value measurement bases.

Independent Auditors' Report

To the members of The Scottish Investment Trust PLC

We have audited the financial statements of The Scottish Investment Trust PLC for the year ended 31 October 2010 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movement in Shareholders' Funds, and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 October 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement contained within the directors' report in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

David Claxton ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Edinburgh, UK
16 December 2010

Investor Information

The company's wholly-owned subsidiary, SIT Savings Ltd, provides a number of low-cost, flexible investment products which enable investors to access SIT shares.

How to Invest

SIT shares can be bought directly on the stockmarket through a stockbroker. Your bank, lawyer, accountant or other professional adviser may be able to help with this. Alternatively, our registrar, Computershare Investor Services PLC, provides a sharedealing service which can be found on their website, **www.investorcentre.co.uk**, or by telephoning 0870 703 0084.

You can also buy SIT shares using the easy to access, low-cost investment products outlined below:

STOCKPLAN

SIT's investment trust savings scheme is one of the most cost-effective available. There is no initial plan charge, other than stamp duty and dealing spread, and no annual charge. It costs just £11.95 to sell some or all of your holding. STOCKPLAN allows you to invest regularly (minimum investment £25 per month) and/or with a lump sum (minimum investment £250). There is no maximum investment limit and you can stop and restart investing at any time.

STOCKPLAN: A Flying Start

SIT's Investing for Children plan is based on the STOCKPLAN scheme. It benefits from the same low charges and flexibility and can be opened in one of two ways; either as a designated plan or, more formally, as a bare trust. STOCKPLAN: A Flying Start enables family and friends to invest on behalf of a child to help build savings for the future.

The SIT ISA

This is one of the lowest-charging stocks and shares ISAs on offer. There is no initial plan charge, other than stamp duty and dealing spread, nor are there closure or selling charges. The annual management fee of 0.6% of the value of the investment is currently capped at £30 + VAT regardless of how much your SIT ISA investment grows or how many years' ISA allowances you have invested with SIT.

The SIT ISA Transfer

SIT can accept the transfer of existing stocks and shares ISAs from other qualifying managers into The SIT ISA at any time without losing the ISA's tax status. SIT can also accept the transfer of cash ISAs into The SIT ISA. This would turn the cash ISA you are transferring into a stocks and shares ISA. SIT makes no charge for transfers in. However, your previous ISA manager may charge for administering the transfer out.

The SIT SIPP

This allows investment into SIT through a low-cost, flexible, self-invested personal pension. The wide choice of investments available, including SIT, enables you to tailor the investment combination in the SIPP to suit your particular needs and objectives – whether you are just starting to contribute to your pension or are approaching retirement. You can open a SIT SIPP even if you are already an active member of an employer's pension scheme or are contributing to other pension plans. You can also set up a SIT SIPP for a child or a non-earning spouse or partner.

Update on Tax-Efficient Investing

ISAs

- The overall annual ISA investment limit is currently £10,200 and applies to everyone who is eligible to invest in an ISA. Up to the full £10,200 can be invested in a stocks and shares ISA with one provider. Alternatively, up to £5,100 can be saved in a cash ISA with one provider; the remainder of the £10,200 can be invested in a stocks and shares ISA with either the same or another provider.
- From 6 April 2011, the annual ISA investment limit will be indexed annually in line with the Retail Prices Index (RPI) for the September before the start of each new tax year. Increased contribution limits will be rounded to a multiple of £120 to make the calculations easier for those who save monthly.
- The annual ISA investment limit for the 2011/12 tax year is £10,680. Up to £5,340 may be placed in a cash ISA and the remainder can be invested in a stocks and shares ISA with either the same or another provider. Alternatively, the full £10,680 can be invested in a stocks and shares ISA with one provider.
- Transfers from previous years' cash ISAs into stocks and shares ISAs are permitted and do not count against the current year's subscription.
- Investment in ISAs continues to be free from any capital gains tax. Higher rate tax payers do not have to pay any additional tax.

SIT Schemes' Administrator Telephone Number

There is one telephone number for the administration of the SIT STOCKPLAN and ISA schemes. This is the number for our scheme administrator, Halifax Share Dealing Limited (HSDL), and it should be used by holders of our STOCKPLAN, STOCKPLAN: A Flying Start and ISA schemes for:

- giving change of address details;
- instructing a sale;
- requesting a valuation;
- making an investment using a debit card;
- changing the amount of your monthly investment;
- account queries;
- information about your scheme; and
- help with accessing STOCKPLAN and ISA information online

The number is: **0845 850 0181**.

Investor Information (continued)

Dividends

The following dividends have been paid or proposed during 2010:

Dividends	Amount	XD date	Record date	Payment date
Final 2009	5.15p	13 January 2010	15 January 2010	11 February 2010
Interim 2010	4.45p	9 June 2010	11 June 2010	16 July 2010
Final 2010	5.60p	5 January 2011	7 January 2011	7 February 2011

SIT STOCKPLAN and ISA schemes

The STOCKPLAN and ISA schemes provide automatic reinvestment of dividends. However, they also allow for dividends to be taken as income, if required. STOCKPLAN and ISA holders should contact the scheme administrator, HSDL, on **0845 850 0181** if they would like to change their dividend arrangements.

Name on register shareholders

Conversely, name on register shareholders (investors whose names are on our share register and who hold their shares in certificated form) where dividends are automatically paid as income, can have their dividends reinvested by joining our Dividend Reinvestment Plan (DRIP). Details are available from Computershare Investor Services, our registrar, on **0870 703 0195**, or from the investor relations section on our website, **www.sit.co.uk**

Monitoring Your Investment

SIT's share price, together with performance information and product details, can be found on SIT's website, **www.sit.co.uk**

The share price is published daily in most quality newspapers. In addition, a number of financial websites, such as the FT website, **www.ft.com** and the London Stock Exchange, **www.londonstockexchange.com** carry share price information.

SIT publishes a daily NAV and a monthly factsheet on its website. An interim report is issued in June of each year, with the annual report being distributed to all investors in late December.

STOCKPLAN, STOCKPLAN: A Flying Start and ISA investors receive twice yearly statements of their holdings and SIT's investor newsletter is issued twice yearly.

Accessing Your Account Online

ISA, STOCKPLAN and STOCKPLAN: A Flying Start designated scheme investors

The above scheme investors may view their accounts online by registering with halifaxsharedealing-online. This can be accessed through the links in the various product sections on our website, **www.sit.co.uk** or by visiting **www.halifaxsharedealing.co.uk/online**

Please note you will need your Share Dealing Personal Reference Number (PRN) to access this service. If you do not have this, please contact SIT's scheme administrator, HSDL, on **0845 850 0181**.

SIPP investors

SIPP investors can set up monthly payments, buy and sell shares and access their account online, by visiting **www.halifaxsharedealing.co.uk/online**

Name on register shareholders

Investors who hold shares in their own name on SIT's share register can check their holdings on our registrar's website, **www.investorcentre.co.uk** or through the link in the investor relations section on SIT's website, **www.sit.co.uk** Please note that to access this facility, investors will need to quote the shareholder reference number shown on their share certificate.

Moreover, by registering for the Investors' Centre facility on Computershare's website, investors can view details of all their holdings for which Computershare is registrar, as well as access additional facilities and documentation.

Please see **www.investorcentre.co.uk** for further information.

Electronic Communications

Name on register shareholders

If you are a name on register shareholder (i.e. not in the STOCKPLAN, ISA or SIPP schemes, nor in a broker's nominee) you may choose to receive our interim and annual reports and other shareholder communications electronically instead of in paper form. All you need to do to register is to visit the link in the investor relations section on our website, **www.sit.co.uk** and provide your email details. You will then be advised by email when an electronic communication is available to be accessed.

Shareholders' Meetings

Name on register shareholders

Investors whose names appear on the main share register are entitled to attend and vote at the AGM and other general meetings. Notices of meetings and proxy cards are sent to their registered addresses.

STOCKPLAN, STOCKPLAN: A Flying Start, ISA and SIPP investors

STOCKPLAN, STOCKPLAN: A Flying Start, ISA and SIPP investors are entitled to attend the AGM and other general meetings and vote by completing and returning the form of direction enclosed with this report.

The AGM will be held at the Roxburghe Hotel, Charlotte Square, Edinburgh on 28 January 2011 at 10.30am.

Investor Information (continued)

Electronic Voting

Name on register shareholders

Name on register shareholders in their own right are able to submit proxy votes electronically for our AGM. Please follow the instructions on your proxy card.

Personal Taxation

Income Tax

Currently, all UK dividends are paid to shareholders net of a tax credit of 10%. Non-tax payers cannot reclaim the tax credit.

Non-ISA shareholders liable to higher rates of tax will be assessed for any additional tax through their annual tax return.

Capital Gains Tax (CGT)

Investment trusts currently pay no CGT on gains made within the portfolio. When investors sell all or part of their holdings, they may be liable to CGT. Currently, the first £10,100 per annum of such gains from all sources is exempt.

For investors who acquired shares prior to 31 March 1982 the cost for CGT purposes may be based on the price on that date of 41.472p.

Investors who are in any doubt as to their liability for CGT should seek professional advice.

ISA investments remain exempt from CGT.

Please remember that we are unable to offer individual investment or taxation advice. If you require such advice, you should consult your professional adviser.

SIT Savings Limited is the plan manager of STOCKPLAN, STOCKPLAN: A Flying Start and The SIT ISA and is authorised and regulated by the Financial Services Authority (FSA), 25 The North Colonnade, Canary Wharf, London E14 5HS.

Risk Warning

Past performance is not a guide to future performance. The value of shares and the income from them can go down as well as up as a result of market and currency fluctuations. You may not get back the amount you invest. The Scottish Investment Trust PLC has a long-term policy of borrowing money to invest in equities in the expectation that this will improve returns. However, should stockmarkets fall, such borrowings would magnify any losses. SIT can buy back and cancel its own shares. All other things being equal, this would have the effect of increasing gearing. Investment in SIT is intended as a long-term investment. Tax rates and reliefs can change in the future and the value of any tax advantages will depend on personal circumstances.

Further Information

For further information and brochures on any SIT products please visit our website, **www.sit.co.uk** or contact:

SIT Investor Relations
SIT Savings Limited
Freepost EH882
Edinburgh
EH2 0BR

Brochure Request Line: 0800 42 44 22
Fax: 0131 226 3663
Email: info@sit.co.uk

Investor Relations and Compliance Manager

Alan Jamieson

Marketing Manager – SIT Savings Ltd

Sherry-Ann Sweeting

Notice of Meeting

Notice is hereby given that the one hundred and twenty-third annual general meeting of The Scottish Investment Trust PLC will be held at The Roxburghe Hotel, Charlotte Square, Edinburgh, on 28 January 2011 at 10:30am, for the purpose of transacting the following:

As ordinary business:

1. To receive and consider the directors' report and statement of accounts for the year to 31 October 2010.
2. To approve the directors' remuneration report for the year to 31 October 2010.
3. To declare a final dividend of 5.60p per share.
4. To re-elect Mr Douglas McDougall as a director.
5. To re-elect Mr Francis Finlay as a director.
6. To re-appoint Deloitte LLP as auditors and to authorise the directors to fix their remuneration.
7. To authorise the company, in accordance with section 701 of the Companies Act 2006 (the 'Act') and in substitution for any pre-existing such authority, to make market purchases (within the meaning of section 693 of the Act) of shares of 25p each for cancellation, provided that:
   a. the maximum number of shares hereby authorised to be purchased shall be 14.99% of the aggregate issued shares on the date this resolution is passed;
   b. the minimum price which may be paid for a share shall be 25p;
   c. the maximum price (exclusive of expenses) which may be paid for a share shall be the higher of:
      (i) 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the five business days immediately preceding the date of purchase; and
      (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out;
   d. unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 30 April 2012, save that the company may, prior to such expiry, enter into a contract to purchase shares under such authority which will or might be executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract.

All resolutions are ordinary resolutions except number 7 which is a special resolution.

Steven Hay
Secretary
16 December 2010

Notes

Arrangements have been made to enable all investors to attend, speak and vote at the annual general meeting.

Registered shareholders whose names appear on the company's register of members no later than 48 hours (excluding non-working days) prior to the commencement of the AGM or any adjourned meeting shall be entitled to attend, speak and vote or be represented at the meeting in respect of the shares registered in their name at that time. Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

A member entitled to attend, speak and vote at the meeting is entitled to appoint one or more proxies to attend, speak and vote on his or her behalf. If a shareholder wishes to appoint more than one proxy, each proxy must be appointed to exercise rights attaching to a different share (or shares) held by the shareholder. A proxy need not be a member of the company but must attend the AGM to represent the relevant shareholder. Shareholders may not use any electronic address provided either in this notice or any related documents, including the proxy form, to communicate with the company for any purpose other than those expressly stated.

A proxy may only be appointed using the procedure set out in these notes and the notes to the proxy form. Proxy forms and the original or duly certified copy of the power of attorney or other authority, if any, under which it is signed or authenticated, must be lodged with the company's registrar not less than 48 hours (excluding non-working days) before the meeting or, in the case of a poll taken more than 48 hours after it was demanded, not less than 24 hours, excluding non-working days, before the time appointed for the taking of the poll. Completion of the proxy form will not prevent a member from attending the meeting and voting in person.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and by logging on to the website **www.euroclear.com/CREST**. CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider who will be able to take the appropriate action on their behalf.

For a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy instruction') must be properly authenticated in accordance with Euroclear UK and Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the company's registrar (Computershare Investor Services PLC) (CREST ID 3RA 50) no later than 48 hours (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the company's registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee by other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK and Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Any person holding 3% of the total voting rights in the company who appoints a person other than the chairman as his proxy will need to ensure that both he and such third party comply with their respective disclosure obligations under the Disclosure and Transparency Rules. As at 10 December 2010, the company's issued share capital comprised 117,465,926 shares (none of which are held in treasury). Each share carries the right to one vote at a general meeting of the company. Accordingly, the total number of voting rights exercisable at the meeting was 117,465,926.

Shareholders may require the company to publish, on its website, without payment, a statement, which is also passed to the auditors, setting out any matter relating to the audit of the company's accounts, including the auditors' report and the conduct of the audit, which they intend to raise at the meeting. The company will be required to do so once it has received such requests from either (i) members representing at least 5% of the total voting rights of the company or (ii) at least 100 members who have rights to vote and hold shares in the company on which there has been paid up an average sum per member of at least £100.

Further information regarding the meeting including the information required by section 311A of the Companies Act 2006 is available from **www.sit.co.uk**

Under section 319A of the Companies Act 2006, the company must answer any question relating to the business being dealt with at the meeting put by a member attending the meeting unless:

a) answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
b) the answer has already been given on a website in the form of an answer to a question; or
c) it is undesirable in the interests of the company or the good order of the meeting that the question be answered.

The directors' letters of appointment are available for inspection at the registered office of the company during normal business hours on any weekday. The register of directors' interests maintained by the company together with copies of directors' appointment letters will be available at the place of the annual general meeting from 15 minutes prior to the commencement of the annual general meeting until the conclusion thereof. No director has any service contract with the company.

STOCKPLAN, STOCKPLAN: A Flying Start, ISA and SIPP investors are welcome to attend and may vote by completing the Form of Direction enclosed with this report. This must be returned to the company's registrar no later than 10.30am on 21 January 2011. Other investors whose holdings are in nominee names and who wish to attend and vote are advised to contact their nominee before 21 January 2011.

The final dividend, if approved, will be paid on 7 February 2011 to shareholders registered at the close of business on 7 January 2011.

This report was sent to the address at present registered for communications. Any change of address should be notified to the company's registrar or the savings scheme administrator as appropriate.

Notes

Financial Calendar 2011

Dividend and Interest Payments

Final for the financial year to 31 October 2010	7 February 2011
Interim	July
Secured bonds	17 April, 17 October
Perpetual debenture stock	30 April, 31 October

Announcement of Results

NAV	Daily
Interim Management Statement	February, August
Interim figures	May
Preliminary final figures	November
Annual Report & Accounts	December
Annual General Meeting (AGM)	28 January 2011

Useful Addresses

Registered Office
6 Albyn Place
Edinburgh EH2 4NL
Registered no. SCO 01651

Telephone: 0131 225 7781
Facsimile: 0131 226 3663
Website: **www.sit.co.uk**
Email: info@sit.co.uk

Auditors
Deloitte LLP
Saltire Court
20 Castle Terrace
Edinburgh EH1 2DB

Bankers
The Royal Bank of Scotland plc
Brown Brothers Harriman & Co

Actuaries
Punter Southall & Co
Charlotte House
2 South Charlotte Street
Edinburgh EH2 4AW

The Association of Investment Companies
SIT is a member of The Association of Investment Companies (AIC) which publishes a number of useful free booklets and explanatory leaflets for investors interested in investment trusts.
Their address is:
The AIC
9th Floor
24 Chiswell Street
London EC1Y 4YY

Telephone: 020 7282 5555
Website: **www.theaic.co.uk**

For valuations and other details of your investment or to notify a change of address please contact the following:

Registrar
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

Helpline: 0870 703 0195
Website: **www.investorcentre.co.uk**

STOCKPLAN, STOCKPLAN: A Flying Start and The SIT ISA Administrator
Halifax Share Dealing Limited
Lovell Park Road
Leeds LS1 1NS

Helpline: 0845 850 0181
Website: **www.halifaxsharedealing.co.uk/online**

The SIT SIPP Administrator
If you have any specific questions about the administration of your SIT SIPP or any other pension-related enquiries, contact the SIPP Administrator, AJ Bell Management Limited:

The SIT SIPP
Halifax Share Dealing SIPP Administration Team
AJ Bell Management Limited
Trafford House
Chester Road
Manchester M32 0RS

Helpline: 08457 22 55 25

Mixed Sources
Product group from well-managed forests and other controlled sources
www.fsc.org Cert no. TT-COC-002242
© 1996 Forest Stewardship Council
FSC

Printed on Lumisilk (300gsm cover and 170gsm pages 1-48)
Lumisilk is an FSC-recognised paper, produced from well-managed forests. This publication was printed with vegetable oil-based inks by an FSC-recognised printer that holds an ISO 14001 certification.

The Scottish Investment Trust PLC
6 Albyn Place
Edinburgh
EH2 4NL

Telephone: 0131 225 7781
Facsimile: 0131 226 3663
Email: info@sit.co.uk

www.sit.co.uk