Income Statement

for the year to 31 October 2011

	Notes	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000
Net (losses)/gains on investments held at fair value through profit and loss	8	–	(8,445)	(8,445)	–	83,571	83,571
Net (losses)/gains on currencies		–	(745)	(745)	–	28	28
Income	1	21,544	–	21,544	19,542	–	19,542
Expenses	2	(2,623)	(1,820)	(4,443)	(2,531)	(1,753)	(4,284)
Net Return before Finance Costs and Taxation		18,921	(11,010)	7,911	17,011	81,846	98,857
Interest payable	5	(3,213)	(3,213)	(6,426)	(3,214)	(3,213)	(6,427)
Return on Ordinary Activities before Tax		15,708	(14,223)	1,485	13,797	78,633	92,430
Tax on ordinary activities	6	(1,341)	–	(1,341)	(1,334)	–	(1,334)
Return attributable to Shareholders		**14,367**	**(14,223)**	**144**	**12,463**	**78,633**	**91,096**
Return per share		**12.43p**	**(12.31)p**	**0.12p**	**10.26p**	**64.73p**	**74.99p**
Weighted average number of shares in issue during the year			**115,558,047**			**121,484,325**	

	Notes	2011 £'000	2010 £'000
Dividends paid and proposed	7		
Interim 2011 – 4.60p (2010: 4.45p)		5,273	5,359
Final 2011 – 5.80p (2010: 5.60p)		6,626	6,497
		11,899	**11,856**

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 2011

	Notes	2011 £'000	2011 £'000	2010 £'000	2010 £'000
Fixed Assets					
Equity investments	8	541,554		680,976	
Fixed interest investments	8	2,988		9,351	
			544,542		690,327
Current Assets					
Debtors	10	1,969		6,888	
Current asset investments	8	65,768		–	
Cash and deposits	8	97,394		53,729	
		165,131		60,617	
Creditors: liabilities falling due within one year	11	(701)		(10,804)	
Net Current Assets			164,430		49,813
Total Assets less Current Liabilities			708,972		740,140
Creditors: liabilities falling due after more than one year					
Long-term borrowings at par	12		(107,853)		(107,733)
Pension liability	4		(2,249)		(2,040)
Net Assets			**598,870**		**630,367**
Capital and Reserves					
Called-up share capital	13		28,560		29,526
Share premium account	14		39,922		39,922
Other reserves	14				
Capital redemption reserve			42,301		41,335
Capital reserve			441,316		475,086
Revenue reserve			46,771		44,498
Shareholders' Funds			**598,870**		**630,367**
Net Asset Value per share with borrowings at par			**524.2p**		**533.7p**
Number of shares in issue at year end	13		**114,238,926**		**118,102,926**

The financial statements on pages 24 to 42 were approved by the board of directors on 16 December 2011 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 2011

	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000
Return attributable to shareholders	14,367	(14,223)	144	12,463	78,633	91,096
Actuarial losses (Note 4)	(324)	(226)	(550)	(359)	(249)	(608)
Total recognised gains/(losses) for the year	**14,043**	**(14,449)**	**(406)**	**12,104**	**78,384**	**90,488**
Total recognised gains/(losses) per share	**12.15p**	**(12.50)p**	**(0.35)p**	**9.96p**	**64.52p**	**74.48p**

Reconciliation of Movements in Shareholders' Funds
for the year to 31 October 2011

	2011 £'000	2010 £'000
Opening shareholders' funds	630,367	587,675
Total recognised (losses)/gains	(406)	90,488
Dividend payments	(11,770)	(11,750)
Share repurchases	(19,321)	(36,046)
Closing shareholders' funds	**598,870**	**630,367**

Cash Flow Statement

for the year to 31 October 2011

	Notes	2011 £'000	2011 £'000	2010 £'000	2010 £'000
Net Cash Inflow from Operating Activities			14,736		14,141
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			328		541
Investing Activities					
Purchases of investments – equities		(205,007)		(507,235)	
– fixed interest		(10)		(22)	
Disposals of investments – equities		332,768		538,214	
– fixed interest		6,143		15,785	
Net cash inflow from investing activities			133,894		46,742
Dividends Paid	7		(11,770)		(11,750)
Net cash inflow before use of liquid resources and financing			130,882		43,368
Management of Liquid Resources					
Increase in current asset investments and short-term deposits	15		(111,325)		(4,000)
Financing					
Net cash outflow from financing – share buybacks	13		(20,770)		(34,761)
(Decrease)/Increase in Cash	15		**(1,213)**		**4,607**
Reconciliation of Net Revenue before Finance Costs and Taxation to Net Cash Inflow from Operating Activities					
Net revenue before finance costs and taxation			18,921		17,011
Expenses charged to capital			(1,820)		(1,753)
Scrip dividends			(96)		(67)
(Increase)/decrease in accrued income			(316)		813
(Decrease)/increase in other creditors			(2,461)		2,593
Decrease/(increase) in other debtors			2,466		(2,517)
Movement in pension funding			(341)		(252)
Tax on investment income			(1,617)		(1,687)
Net Cash Inflow from Operating Activities			**14,736**		**14,141**

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 (j) 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 and current asset 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 (i) below.

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

(c) Valuation of Debt

The Company's secured bonds and debentures are held at amortised cost being the nominal value of the bonds in issue less the unamortised costs of issue.

(d) 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.

(e) Expenses

All expenses are accounted for on an accruals basis.

Investment expenses are allocated between revenue and capital reserve in line with the directors' expectations of the nature of long-term future returns from the company's investments (2010: 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.

(f) Finance Costs

Interest payable is 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 (2010: same).

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

(g) 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.

(h) 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.

(i) Capital Reserve

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- realised and unrealised exchange differences of a capital nature;
- realised and unrealised 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; and
- increases and decreases in the valuation of the pension fund surplus or deficit.

(j) Pensions

Employer contributions for the defined benefit scheme are calculated by reference to the triennial actuarial valuation. Employer contributions for the defined contribution scheme are a predetermined percentage of the employee's salary.

Actuarial gains and losses are recognised in the Statement of Recognised Gains and Losses.

Further information on the company's pension schemes is contained in Note 4 to the Financial Statements on pages 30 to 32.

Notes to the Financial Statements
for the year to 31 October 2011

1. Income

	2011 £'000	2010 £'000
UK dividends including special dividends of £162,000 (2010: Nil)	5,453	5,113
UK fixed interest	–	158
Overseas dividends including special dividends of £1,670,000 (2010: £716,000)	15,472	13,706
Overseas fixed interest	265	446
Unlisted income	24	193
Scrip dividends	96	67
Deposit interest	363	137
Forward currency sales	(129)	(278)
	21,544	19,542
Income includes:		
Listed UK	5,453	5,271
Listed overseas	15,833	14,219
Unlisted	24	193
	21,310	**19,683**

2. Expenses

	2011 £'000	2010 £'000
Staff costs (Note 3)	2,721	2,634
Auditor's remuneration for audit services	35	34
Auditor's remuneration for pension scheme audit	5	5
Auditor's remuneration for tax advisory services	8	8
Auditor's remuneration for other financial advisory services	17	1
Other expenses	1,657	1,602
	4,443	**4,284**

3. Staff Costs

	2011 £'000	2010 £'000
Remuneration	2,010	1,946
Social security costs	227	219
Pensions and post-retirement benefits	484	469
	2,721	**2,634**

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

	2011 Number	2010 Number
Investment	12	11
Administration	11	11
	23	22
Directors' remuneration: Fees for services as directors	**£153,000**	**£136,000**

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 by Punter Southall & Co 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:

		2011 %	2010 %	2009 %	2008 %	2007 %
Rate of increase in salaries		3.7	3.7	4.0	5.0	5.2
Rate of increase in pensions in payment		3.5	3.6	3.7	3.4	3.5
Discount rate		5.0	5.2	5.6	6.9	5.8
Inflation	– RPI	3.1	3.4	3.6	3.0	3.2
	– CPI	2.5	2.8	–	–	–
Life expectancies on retirement at age 60 are:						
Retiring today	– males	27.6	27.5	26.3	26.2	26.1
	– females	30.4	30.2	28.8	28.7	28.6
Retiring in 20 years time	– males	29.8	29.7	27.5	27.5	27.4
	– females	32.5	32.4	29.8	29.7	29.7

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

	2011 %	2010 %	2009 %	2008 %	2007 %
Equities	7.2	7.2	7.2	7.7	7.7
Bonds	4.2	4.2	4.2	4.7	4.7
With-profit policies	3.5	4.1	4.3	4.5	5.8
Cash	3.5	4.1	4.3	4.5	5.8

4. Pension Scheme (continued)

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

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Equities	3,988	5,238	2,807	2,286	3,311
Bonds	3,648	2,191	101	83	104
With-profit policies	181	161	136	1,293	1,223
Cash	1,240	383	3,699	2,182	1,984
Total fair value of assets	9,057	7,973	6,743	5,844	6,622
Present value of scheme liabilities	(11,306)	(10,013)	(8,427)	(6,194)	(7,471)
Net pension liability	**(2,249)**	**(2,040)**	**(1,684)**	**(350)**	**(849)**

Reconciliation of the opening and closing balances of the present value of the scheme assets	2011 £'000	2010 £'000
Fair value of scheme assets at beginning of year	7,973	6,743
Expected return on scheme assets	505	380
Actuarial (losses)/gains	(4)	490
Contributions by employer	694	616
Contributions by scheme participants	38	42
Benefits paid	(149)	(298)
Fair value of scheme assets at end of year	**9,057**	**7,973**

Reconciliation of the opening and closing balances of the present value of the scheme liabilities	2011 £'000	2010 £'000
Liabilities at beginning of year	10,013	8,427
Current service cost	332	272
Interest cost	526	472
Contributions by scheme participants	38	42
Actuarial losses	546	1,098
Benefits paid	(149)	(298)
Liabilities at end of year	**11,306**	**10,013**

4. Pension Scheme (continued)

Analysis of amount chargeable to operating profit during the year

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Current service cost	370	314	272	370	484
Total operating charge	370	314	272	370	484
Employee contribution to be set off	(38)	(42)	(41)	(37)	(41)
Analysis of amount credited to other finance income:					
Expected return on assets	505	380	351	437	355
Interest on liabilities	(526)	(472)	(429)	(418)	(388)
Net return	(21)	(92)	(78)	19	(33)
Movement in deficit during year: Deficit at beginning of year	(2,040)	(1,684)	(350)	(849)	(1,795)
Movement in year:					
Current service cost	(370)	(314)	(272)	(370)	(484)
Contributions for year	732	658	645	580	420
Net return from other finance income	(21)	(92)	(78)	19	(33)
Actuarial (losses)/gains in statement of total recognised gains and losses	(550)	(608)	(1,629)	270	1,043
Deficit at end of year	**(2,249)**	**(2,040)**	**(1,684)**	**(350)**	**(849)**

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Analysis of the actuarial deficit in the statement of recognised gains and losses:					
Actual return less expected return on assets	(4)	490	25	(1,371)	137
Experience (losses)/gains on liabilities	(111)	157	(6)	(143)	363
Change in assumptions	(435)	(1,255)	(1,648)	1,784	543
Actuarial (losses)/gains in statement of total recognised gains and losses	**(550)**	**(608)**	**(1,629)**	**270**	**1,043**

History of experience gains and losses

	2011 %	2011 £'000	2010 %	2010 £'000	2009 %	2009 £'000	2008 %	2008 £'000	2007 %	2007 £'000
Difference between actual and expected return on assets	0	(4)	6	490	0	25	(24)	(1,371)	2	137
Experience (losses)/gains on liabilities	(1)	(111)	2	157	(0)	(6)	(2)	(143)	5	363
Total amount recognised on statement of total recognised gains and losses	(5)	(550)	(6)	(608)	(19)	(1,629)	3	270	14	1,043

The pension cost of operating the defined contribution scheme amounted to £82,000 (2010: £82,000).

5. Interest Payable

	2011 £'000	2010 £'000
On secured bonds, debentures and overdrafts	6,306	6,306
Amortisation of secured bond issue expenses	120	121
	6,426	**6,427**

6. Tax on Ordinary Activities

	2011 £'000	2010 £'000
Taxation		
UK corporation tax at 26.83% (2010: 28%)	–	–
Overseas tax	1,341	1,334
Current tax	**1,341**	**1,334**

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 the tax year 2009/10 and 26% for the 2010/11 tax year (2010: 28%).

	2011 £'000	2010 £'000
Return on ordinary activities before tax	1,485	92,430
Corporation tax at 26.83% (2010: 28%)	398	25,881
Effects of: Non-taxable capital returns	3,816	(22,017)
Finance costs and expenses charged to capital	(1,350)	(1,390)
Non-taxable dividends	(2,699)	(2,319)
Non-taxable scrip dividends	(26)	(19)
Unutilised expenses	(139)	(136)
Overseas tax	1,341	1,334
	1,341	**1,334**

There are unrelieved management expenses at 31 October 2011 of £76,409,000 (2010: £66,764,000) 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

	2011 £'000	2010 £'000
Dividends paid on shares recognised in the year:		
Previous year final of 5.60p per share (2009: 5.15p)	6,497	6,391
Interim of 4.60p per share (2010: 4.45p)	5,273	5,359
	11,770	**11,750**

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

8. Investments

	2011 £'000	2010 £'000
Investments listed on a recognised investment exchange	536,422	680,322
Unlisted investments	7,967	9,852
Subsidiary undertakings (Note 9)	153	153
	544,542	**690,327**

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total £'000
Opening book cost	147,489	419,854	7,328	574,671
Opening unrealised appreciation	29,920	83,059	2,677	115,656
Opening valuation	**177,409**	**502,913**	**10,005**	**690,327**
Movements in the year:				
Purchases at cost	20,741	178,014	121	198,876
Sales – proceeds	(69,712)	(263,574)	(2,859)	(336,145)
– realised gains on sales	9,275	32,098	1,869	43,242
Amortisation on fixed interest investments	–	(71)	–	(71)
Decrease in unrealised appreciation	(15,509)	(35,162)	(1,016)	(51,687)
Closing valuation	**122,204**	**414,218**	**8,120**	**544,542**
Closing book cost	107,793	366,321	6,459	480,573
Closing unrealised appreciation	14,411	47,897	1,661	63,969
Closing valuation	**122,204**	**414,218**	**8,120**	**544,542**

Total purchases of equities amounted to £198,876,000 (2010: £513,509,000) and sales were £330,082,000 (2010: £527,719,000). The purchases at cost and sales proceeds figures include transaction costs of £1,101,000 (2010: £2,699,000), comprising commissions, government stamp duty and other exchange fees.

	2011 £'000	2010 £'000
Realised gains on sales	43,242	54,708
(Decrease)/increase in unrealised appreciation	(51,687)	28,863
(Losses)/gains on investments	**(8,445)**	**83,571**

Unlisted investments include heritable property valued at £1,000,000 (2010: £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

	2011 Fixed £'000	2011 Floating £'000	2011 Total £'000	2010 Fixed £'000	2010 Floating £'000	2010 Total £'000
Sterling	99,982	2,079	102,061	34,000	1,017	35,017
Euro	–	33	33	–	50	50
US dollar	18,462	387	18,849	–	4,007	4,007
Other	26,202	16,017	42,219	–	14,655	14,655
	144,646	**18,516**	**163,162**	**34,000**	**19,729**	**53,729**

The maximum period for fixed rate deposits outstanding at the year end was 6 days (2010: 6 days). The weighted average fixed interest rate at the year end was 0.24% (2010: 0.40%). 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

	2011 £'000	2010 £'000
Amounts due from brokers	–	2,719
Overseas tax recoverable	396	446
Prepayments and accrued income	1,573	3,723
	1,969	**6,888**

11. Creditors: Liabilities Falling Due Within One Year

	2011 £'000	2010 £'000
Amounts due to brokers	50	10,194
Other creditors	651	610
	701	**10,804**

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

	2011 Book value £'000	2011 Fair value £'000	2010 Book value £'000	2010 Fair value £'000
4% perpetual debenture stock	350	321	350	273
4¼% perpetual debenture stock	700	682	700	579
5% perpetual debenture stock	1,009	1,157	1,009	983
5¾% secured bonds due 17/4/2030	105,794	133,133	105,674	120,125
	107,853	**135,293**	**107,733**	**121,960**

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 £135.3m (2010: £122.0m) has the effect of decreasing the year end NAV per share from 524.2p to 500.2p (2010 decreasing from: 533.7p to 521.7p). Market value is the estimated 'fair value' of the company's secured bonds and debenture stocks. The estimated fair value of the company's secured bonds was 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

	2011	2010
Shares of 25p	£28,560,000	£29,526,000
Number of shares in issue	114,238,926	118,102,926

3,864,000 shares were repurchased in the stockmarket during the year to 31 October 2011 (2010: 8,126,792).

296,000 shares were repurchased from 1 November 2011 to 12 December 2011.

14. Reserves

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000
At 31 October 2010	39,922	41,335	475,086	44,498
Exchange difference	–	–	(745)	–
Net gain on realisation of investments	–	–	43,242	–
Decrease in unrealised appreciation	–	–	(51,687)	–
Shares repurchased	–	966	(19,321)	–
Actuarial loss relating to pension scheme	–	–	(226)	(324)
Expenses and interest charged to capital in current year	–	–	(5,033)	–
Revenue return on ordinary activities after tax	–	–	–	14,367
Dividends paid during the year	–	–	–	(11,770)
At 31 October 2011	**39,922**	**42,301**	**441,316**	**46,771**

15. Analysis of Changes in Net Debt During the Year

	31 October 2010 £'000	Cash flows £'000	Non-cash movements £'000	31 October 2011 £'000
Cash	19,729	(1,213)	–	18,516
Short-term deposits	34,000	44,878	–	78,878
Current asset investments	–	66,447	(679)	65,768
Long-term borrowings at par	(107,733)	–	(120)	(107,853)
	(54,004)	**110,112**	**(799)**	**55,309**

16. Contingencies, Guarantees and Financial Commitments

	2011 £'000	2010 £'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	1,013	1,138

17. Financial Instruments

Summary of financial assets and financial liabilities by category

The company's financial assets and financial liabilities at the balance sheet date are as follows. The accounting policies on page 28 explain how the various categories of financial instrument are measured.

	2011 £'000	2010 £'000
Financial assets		
Financial assets at fair value through profit and loss		
Fixed asset investments – designated as such on initial recognition	544,542	690,327
Current assets:		
Debtors	1,969	6,888
Cash, short-term deposits and current asset investments	163,162	53,729
	165,131	60,617
	709,673	**750,944**
Financial liabilities		
Creditors: liabilities falling due within one year		
Purchases awaiting settlement	–	(10,194)
Other creditors	(701)	(610)
Creditors: liabilities falling due after more than one year		
Long-term borrowings at par	(107,853)	(107,733)
Pension liability	(2,249)	(2,040)
	(110,803)	**(120,577)**

17. Financial Instruments (continued)

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 a reduction in the company's net assets and 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. 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 receivable 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 2011 and 31 October 2010 are shown below. The company's equity and fixed interest investments which are priced in a foreign currency have been included separately in the analysis so as to show the overall level of exposure.

2011	US $ £'000	Euro £'000	Other £'000
Debtors (dividends receivable and accrued income)	344	297	601
Cash and current asset investments	18,849	33	42,219
Foreign currency exposure on net monetary items	19,193	330	42,820
Equity investments at fair value through profit and loss	203,062	44,601	170,535
Fixed interest investments at fair value through profit and loss	2,527	–	–
Total net foreign currency exposure	**224,782**	**44,931**	**213,355**

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**

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 2011	US $ £'000	Euro £'000	Other £'000
Maximum	36,179	6,072	49,542
Minimum	558	10	17,192

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

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 at 31 October 2011. 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.

	2011		2010	
	US $ £'000	Euro £'000	US $ £'000	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	261	532	323	318
Capital return	22,478	4,493	17,796	7,475
Return attributable to shareholders	**22,739**	**5,025**	**18,119**	**7,793**

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 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.

	2011			2010		
	Within one year £'000	More than one year £'000	Total £'000	Within one year £'000	More than one year £'000	Total £'000
Exposure to floating interest rates						
Cash	18,516	–	18,516	19,729	–	19,729
Exposure to fixed interest rates						
Fixed interest investments	2,988	–	2,988	7,094	2,257	9,351
Current asset investments	65,768	–	65,768	–	–	–
Short-term deposits	78,878	–	78,878	34,000	–	34,000
Long-term borrowings	–	(107,853)	(107,853)	–	(107,733)	(107,733)
Total exposure	**166,150**	**(107,853)**	**58,297**	**60,823**	**(105,476)**	**(44,653)**

17. Financial Instruments (continued)

Interest rate sensitivity

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

	2011 £'000	2010 £'000
Return attributable to shareholders	**(17)**	**(7)**

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 (2010: 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 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 and the extent to which revenue 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.

	2011 Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss	536,422	–	8,120	544,542

There were no transfers between Level 1 & 2 during the year (2010: same). There were two transfers between Level 2 & 3 during the year. These changes were attributable to changes in the observability of market data (2010: none).

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

Reconciliation of Level 3 fair value measurements of financial assets

	Fair value through profit and loss 2011 £'000
Balance at 31 October 2010	6,824
Total gains and losses: – in profit and loss	(331)
Reclassifications of asset-backed securities Transfers in to Level 3	1,627
Balance at 31 October 2011	**8,120**

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

18. Related Party Transactions

Directors' fees are detailed in the Directors' Remuneration Report on page 23. There were no matters requiring disclosure under S412 of the Companies Act 2006.

Independent Auditor's 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 2011 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 18. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 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 matters where the Companies Act 2006 requires us 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;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to the shareholders by the board on directors' remuneration.

David Claxt.

David Claxton ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Edinburgh, UK
16 December 2011