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 2012 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of 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 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 2012 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;
- 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 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
12 December 2012

Income Statement

for the year to 31 October 2012

	Notes	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
Net gains/(losses) on investments held at fair value through profit and loss	8	–	46,470	46,470	–	(8,445)	(8,445)
Net losses on currencies		–	(761)	(761)	–	(745)	(745)
Income	1	20,565	–	20,565	21,544	–	21,544
Expenses	2	(2,735)	(1,897)	(4,632)	(2,623)	(1,820)	(4,443)
Net Return before Finance Costs and Taxation		17,830	43,812	61,642	18,921	(11,010)	7,911
Premium on repayment of secured bonds	12	–	(1,344)	(1,344)	–	–	–
Interest payable	5	(3,188)	(3,189)	(6,377)	(3,213)	(3,213)	(6,426)
Return on Ordinary Activities before Tax		14,642	39,279	53,921	15,708	(14,223)	1,485
Tax on ordinary activities	6	(1,085)	–	(1,085)	(1,341)	–	(1,341)
Return attributable to Shareholders		**13,557**	**39,279**	**52,836**	**14,367**	**(14,223)**	**144**
Return per share		**12.01p**	**34.79p**	**46.80p**	**12.43p**	**(12.31)p**	**0.12p**
Weighted average number of shares in issue during the year			**112,896,385**			**115,558,047**	

	Notes	2012 £'000	2011 £'000
Dividends paid and proposed	7		
Interim 2012 – 4.60p (2011: 4.60p)		5,178	5,273
Final 2012 – 6.65p (2011: 5.80p)		7,438	6,602
Total 2012 – 11.25p (2011: 10.40p)		12,616	11,875

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 2012

	Notes	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Fixed Assets					
Equity investments	8	639,355		541,554	
Fixed interest investments	8	–		2,988	
			639,355		544,542
Current Assets					
Debtors	10	10,902		1,969	
Current asset investments	8	10,174		65,768	
Cash and deposits	8	87,949		97,394	
		109,025		165,131	
Creditors: liabilities falling due within one year	11	(13,579)		(701)	
Net Current Assets			**95,446**		**164,430**
Total Assets less Current Liabilities			**734,801**		**708,972**
Creditors: liabilities falling due after more than one year					
Long-term borrowings at par	12		(104,051)		(107,853)
Pension liability	4		(2,506)		(2,249)
Net Assets			**628,244**		**598,870**
Capital and Reserves					
Called-up share capital	13		27,965		28,560
Share premium account	14		39,922		39,922
Other reserves					
Capital redemption reserve	14		42,896		42,301
Capital reserve	14		469,244		441,316
Revenue reserve	14		48,217		46,771
Shareholders' Funds			**628,244**		**598,870**
Net Asset Value per share with borrowings at par			**561.6p**		**524.2p**
Number of shares in issue at year end	13		**111,857,926**		**114,238,926**

The financial statements on pages 24 to 42 were approved by the board of directors on 12 December 2012 and were signed on its behalf by:

Douglas McDougall

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 2012

	Notes	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
Return attributable to shareholders		13,557	39,279	52,836	14,367	(14,223)	144
Actuarial losses relating to pension scheme	4	(331)	(230)	(561)	(324)	(226)	(550)
Total recognised gains/(losses) for the year		**13,226**	**39,049**	**52,275**	**14,043**	**(14,449)**	**(406)**
Total recognised gains/(losses) per share		**11.71p**	**34.59p**	**46.30p**	**12.15p**	**(12.50)p**	**(0.35)p**

Reconciliation of Movements in Shareholders' Funds

for the year to 31 October 2012

	Notes	2012 £'000	2011 £'000
Opening shareholders' funds		598,870	630,367
Total recognised gains/(losses)		52,275	(406)
Dividend payments	7	(11,780)	(11,770)
Share buybacks		(11,121)	(19,321)
Closing shareholders' funds		**628,244**	**598,870**

The accompanying notes are an integral part of these statements.

Cash Flow Statement
for the year to 31 October 2012

	Notes	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Net Cash Inflow from Operating Activities			14,009		14,736
Servicing of Finance					
Premium on repayment of secured bonds	12	(1,344)		–	
Interest Paid		(6,266)		(6,306)	
Net cash outflow from servicing of finance			(7,610)		(6,306)
Taxation					
Net cash inflow from taxation – overseas tax recovered			225		328
Investing Activities					
Purchases of investments – equities		(212,576)		(205,007)	
– fixed interest		(1)		(10)	
Disposals of investments – equities		163,876		332,768	
– fixed interest		3,002		6,143	
Net cash (outflow)/inflow from investing activities			(45,699)		133,894
Dividends Paid	7		(11,780)		(11,770)
Net cash (outflow)/inflow before use of liquid resources and financing			(50,855)		130,882
Management of Liquid Resources					
Decrease/(increase) in current asset investments and short-term deposits	15		71,961		(111,325)
Financing					
Repayment of secured bonds	12,15	(3,921)		–	
Share buybacks		(10,992)		(20,770)	
Net cash outflow from financing			(14,913)		(20,770)
Increase/(Decrease) in Cash	15		**6,193**		**(1,213)**
Reconciliation of Net Revenue before Finance Costs and Taxation to Net Cash Inflow from Operating Activities					
Net revenue before finance costs and taxation			17,830		18,921
Expenses charged to capital			(1,897)		(1,820)
Scrip dividends			(118)		(96)
Increase in accrued income			(292)		(316)
Increase/(decrease) in other creditors			5,209		(2,461)
(Increase)/decrease in other debtors			(5,195)		2,466
Movement in pension funding			(304)		(341)
Tax on investment income			(1,224)		(1,617)
Net Cash Inflow from Operating Activities			**14,009**		**14,736**

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 (see page 20), 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 (2011: 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 (2011: 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 and secured bond buybacks;
- 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 2012

1. Income

	2012 £'000	2011 £'000
UK dividends including special dividends of £736,000 (2011: £162,000)	5,809	5,453
Overseas dividends including special dividends of £267,000 (2011: £1,670,000)	14,175	15,472
Overseas fixed interest	63	265
Unlisted income	–	24
Scrip dividends	118	96
Deposit interest	265	363
Gains/(losses) on forward currency sales	135	(129)
	20,565	**21,544**
Income includes:		
Listed UK	5,809	5,453
Listed overseas	14,356	15,833
Unlisted	–	24
	20,165	**21,310**

2. Expenses

	2012 £'000	2011 £'000
Staff costs (Note 3)	2,971	2,721
Auditor's remuneration for audit services	33	35
Auditor's remuneration for pension scheme audit	5	5
Auditor's remuneration for tax compliance services	8	8
Auditor's remuneration for other assurance services	3	17
Other expenses	1,612	1,657
	4,632	**4,443**

3. Staff Costs

	2012 £'000	2011 £'000
Remuneration	2,169	2,010
Social security costs	248	227
Pensions and post-retirement benefits	554	484
	2,971	**2,721**

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

	2012 Number	2011 Number
Investment	12	12
Administration	11	11
	23	23
Directors' remuneration:		
Fees for services as directors	**£153,000**	**£153,000**

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 benefit 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 benefit 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 benefit 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:

		2012 %	2011 %	2010 %	2009 %	2008 %
Rate of increase in salaries		3.7	3.7	3.7	4.0	5.0
Rate of increase in pensions in payment		3.5	3.5	3.6	3.7	3.4
Discount rate		4.8	5.0	5.2	5.6	6.9
Inflation	– RPI	3.1	3.1	3.4	3.6	3.0
	– CPI	2.3	2.5	2.8	–	–
Life expectancies on retirement at age 60 are:						
Retiring today	– males	27.7	27.6	27.5	26.3	26.2
	– females	30.5	30.4	30.2	28.8	28.7
Retiring in 20 years time	– males	29.9	29.8	29.7	27.5	27.5
	– females	32.6	32.5	32.4	29.8	29.7

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

	2012 %	2011 %	2010 %	2009 %	2008 %
Equities	7.2	7.2	7.2	7.2	7.7
Bonds	4.2	4.2	4.2	4.2	4.7
With-profit policies	3.3	3.5	4.1	4.3	4.5
Cash	3.3	3.5	4.1	4.3	4.5

4. Pension Scheme (continued)

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

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Equities	4,007	3,988	5,238	2,807	2,286
Bonds	3,845	3,648	2,191	101	83
With-profit policies	192	181	161	136	1,293
Cash	2,294	1,240	383	3,699	2,182
Total fair value of assets	10,338	9,057	7,973	6,743	5,844
Present value of scheme liabilities	(12,844)	(11,306)	(10,013)	(8,427)	(6,194)
Net pension liability	**(2,506)**	**(2,249)**	**(2,040)**	**(1,684)**	**(350)**

Reconciliation of the opening and closing balances of the present value of the scheme assets	2012 £'000	2011 £'000
Fair value of scheme assets at beginning of year	9,057	7,973
Expected return on scheme assets	503	505
Actuarial gains/(losses)	163	(4)
Contributions by employer	743	694
Contributions by scheme participants	39	38
Benefits paid	(167)	(149)
Fair value of scheme assets at end of year	**10,338**	**9,057**

Reconciliation of the opening and closing balances of the present value of the scheme liabilities	2012 £'000	2011 £'000
Liabilities at beginning of year	11,306	10,013
Current service cost	330	332
Interest cost	571	526
Contributions by scheme participants	39	38
Actuarial losses	724	546
Benefits paid	(167)	(149)
Past service cost	41	–
Liabilities at end of year	**12,844**	**11,306**

4. Pension Scheme (continued)

Analysis of amount chargeable to operating profit during the year

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Current service cost	369	370	314	272	370
Past service cost	41	–	–	–	–
Total operating charge	410	370	314	272	370
Employee contribution to be set off	(39)	(38)	(42)	(41)	(37)
Analysis of amount credited to other finance income:					
Expected return on assets	503	505	380	351	437
Interest on liabilities	(571)	(526)	(472)	(429)	(418)
Net return	(68)	(21)	(92)	(78)	19
Movement in deficit during year: Deficit at beginning of year	(2,249)	(2,040)	(1,684)	(350)	(849)
Movement in year:					
Current service cost	(369)	(370)	(314)	(272)	(370)
Past service cost	(41)	–	–	–	–
Contributions for year	782	732	658	645	580
Net return from other finance income	(68)	(21)	(92)	(78)	19
Actuarial (losses)/gains in statement of total recognised gains and losses	(561)	(550)	(608)	(1,629)	270
Deficit at end of year	**(2,506)**	**(2,249)**	**(2,040)**	**(1,684)**	**(350)**

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Analysis of the actuarial deficit in the statement of recognised gains and losses:					
Actual return less expected return on assets	163	(4)	490	25	(1,371)
Experience (losses)/gains on liabilities	(138)	(111)	157	(6)	(143)
Change in assumptions	(586)	(435)	(1,255)	(1,648)	1,784
Actuarial (losses)/gains in statement of total recognised gains and losses	**(561)**	**(550)**	**(608)**	**(1,629)**	**270**

History of experience gains and losses

	2012 %	2012 £'000	2011 %	2011 £'000	2010 %	2010 £'000	2009 %	2009 £'000	2008 %	2008 £'000
Difference between actual and expected return on assets	2	163	0	(4)	6	490	0	25	(24)	(1,371)
Experience (losses)/gains on liabilities	(1)	(138)	(1)	(111)	2	157	(0)	(6)	(2)	(143)
Total amount recognised on statement of total recognised gains and losses	(4)	(561)	(5)	(550)	(6)	(608)	(19)	(1,629)	3	270

The pension cost of operating the defined contribution scheme amounted to £91,000 (2011: £82,000).

5. Interest Payable

	2012 £'000	2011 £'000
On secured bonds, debentures and overdrafts	6,258	6,306
Amortisation of secured bond issue expenses	119	120
	6,377	**6,426**

6. Tax on Ordinary Activities

	2012 £'000	2011 £'000
Taxation		
UK corporation tax at 24.83% (2011: 26.83%)	–	–
Overseas tax	1,085	1,341
Current tax	**1,085**	**1,341**

The tax charge for the year is lower than that resulting from applying the standard rate of corporation tax in the UK of 26% for the tax year 2010/11 and 24% for the 2011/12 tax year.

	2012 £'000	2011 £'000
Return on ordinary activities before tax	**53,921**	**1,485**
Corporation tax at 24.83% (2011: 26.83%)	13,389	398
Effects of: Non-taxable capital returns	(9,753)	3,816
Finance costs and expenses charged to capital	(1,263)	(1,350)
Non-taxable dividends	(2,188)	(2,699)
Non-taxable scrip dividends	(29)	(26)
Unutilised expenses	(156)	(139)
Overseas tax	1,085	1,341
	1,085	**1,341**

There are unrelieved management expenses at 31 October 2012 of £87,122,000 (2011: £76,409,000) 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

	2012 £'000	2011 £'000
Dividends paid on shares recognised in the year:		
Previous year final of 5.80p per share (2010: 5.60p)	6,602	6,497
Interim of 4.60p per share (2011: 4.60p)	5,178	5,273
	11,780	**11,770**

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

8. Investments

	2012 £'000	2011 £'000
Investments listed on a recognised investment exchange	634,523	536,422
Unlisted investments	4,679	7,967
Subsidiary undertakings (Note 9)	153	153
	639,355	**544,542**

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total £'000
Opening book cost	107,793	366,321	6,459	480,573
Opening unrealised appreciation	14,411	47,897	1,661	63,969
Opening valuation	**122,204**	**414,218**	**8,120**	**544,542**
Movements in the year:				
Purchases at cost	36,341	183,157	–	219,498
Sales – proceeds	(21,595)	(146,724)	(2,808)	(171,127)
– realised gains on sales	1,201	12,759	173	14,133
Amortisation on fixed interest investments	–	(28)	–	(28)
Increase/(decrease) in unrealised appreciation	8,577	24,413	(653)	32,337
Closing valuation	**146,728**	**487,795**	**4,832**	**639,355**
Closing book cost	123,740	415,485	3,824	543,049
Closing unrealised appreciation	22,988	72,310	1,008	96,306
Closing valuation	**146,728**	**487,795**	**4,832**	**639,355**

Total purchases of equities amounted to £219,498,000 (2011: £198,876,000) and sales were £168,154,000 (2011: £330,082,000). The purchases at cost and sales proceeds figures include transaction costs of £1,063,000 (2011: £1,101,000), comprising commissions, government stamp duty and other exchange fees.

	2012 £'000	2011 £'000
Realised gains on sales	14,133	43,242
Increase/(decrease) in unrealised appreciation	32,337	(51,687)
Gains/(losses) on investments	**46,470**	**(8,445)**

Unlisted investments include heritable property valued at £875,000 (2011: £1,000,000). The property was valued on an open market basis by Ryden, chartered surveyors, on 31 October 2012.

8. Investments (continued)

Financial assets – cash, deposits and current asset investments

	2012 Fixed £'000	2012 Floating £'000	2012 Total £'000	2011 Fixed £'000	2011 Floating £'000	2011 Total £'000
Sterling	20,000	1,755	21,755	99,982	2,079	102,061
Euro	7,239	6,546	13,785	–	33	33
US dollar	36,001	5,138	41,139	18,462	387	18,849
Other	10,174	11,270	21,444	26,202	16,017	42,219
	73,414	**24,709**	**98,123**	**144,646**	**18,516**	**163,162**

The maximum period for fixed rate deposits outstanding at the year end was 7 days (2011: 6 days). The weighted average fixed interest rate at the year end was 0.15% (2011: 0.24%). 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

	2012 £'000	2011 £'000
Amounts due from brokers	8,762	–
Overseas tax recoverable	309	396
Prepayments and accrued income	1,831	1,573
	10,902	**1,969**

11. Creditors: Liabilities Falling Due Within One Year

	2012 £'000	2011 £'000
Amounts due to brokers	12,957	50
Other creditors	622	651
	13,579	**701**

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

	2012		2011	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
4% Perpetual Debenture Stock	350	331	350	321
4¼% Perpetual Debenture Stock	700	704	700	682
5% Perpetual Debenture Stock	1,009	1,195	1,009	1,157
5¾% Secured Bonds due 17/4/2030	101,992	135,762	105,794	133,133
	104,051	**137,992**	**107,853**	**135,293**

The secured bonds are secured by a floating charge over the assets of the company and have a redemption value in 2030 of £104,015,000. During the year a total of £4,000,000 nominal secured bonds due 2030 with a book value of £3,921,000 were repurchased at a cost of £5,265,000.

The debenture stocks and secured bonds are stated in the balance sheet at book value. Restating them at market value of £138.0m (2011: £135.3m) has the effect of decreasing the year end NAV from 561.6p to 531.3p (2011 decreasing from: 524.2p to 500.2p). 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 borrowings is based on the redemption yield of the relevant existing reference gilt plus a margin derived from the spread of AA UK corporate bond yields (15 years+) over UK gilt yields (15 years+) (31 October 2011: margin was fixed at 1 percentage point). The reference gilt for the secured bonds is the 6% UK Treasury Stock 2028 and the reference gilt for the perpetual debenture stocks is the longest dated UK Treasury stock listed in the Financial Times.

13. Called-Up Share Capital

	2012	2011
Shares of 25p	£27,965,000	£28,560,000
Number of shares in issue	111,857,926	114,238,926

2,381,000 shares were repurchased in the stockmarket during the year to 31 October 2012 (2011: 3,864,000).

573,000 shares were repurchased from 1 November 2012 to 10 December 2012.

14. Reserves

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000
At 31 October 2011	39,922	42,301	441,316	46,771
Net losses on currencies	–	–	(761)	–
Net gain on realisation of investments	–	–	14,133	–
Increase in unrealised appreciation	–	–	32,337	–
Premium on repayment of secured bonds	–	–	(1,344)	–
Share buybacks	–	595	(11,121)	–
Actuarial losses relating to pension scheme	–	–	(230)	(331)
Expenses and interest charged to capital	–	–	(5,086)	–
Return attributable to shareholders	–	–	–	13,557
Dividends paid	–	–	–	(11,780)
At 31 October 2012	**39,922**	**42,896**	**469,244**	**48,217**

15. Analysis of Changes in Net Debt During the Year

	31 October 2011 £'000	Cash flows £'000	Non-cash movements £'000	31 October 2012 £'000
Cash	18,516	6,193	–	24,709
Short-term deposits	78,878	(15,638)	–	63,240
Current asset investments	65,768	(56,323)	729	10,174
Long-term borrowings at par	(107,853)	3,921	(119)	(104,051)
	55,309	**(61,847)**	**610**	**(5,928)**

16. Contingencies, Guarantees and Financial Commitments

	2012 £'000	2011 £'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	**877**	**1,013**

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.

	2012 £'000	2011 £'000
Financial assets		
Financial assets at fair value through profit and loss		
Fixed asset investments – designated as such on initial recognition	639,355	544,542
Current assets:		
Debtors	10,902	1,969
Cash, deposits and current asset investments	98,123	163,162
	109,025	165,131
	748,380	**709,673**
Financial liabilities		
Creditors: liabilities falling due within one year		
Amounts due to brokers	(12,957)	(50)
Other creditors	(622)	(651)
Creditors: liabilities falling due after more than one year		
Long-term borrowings at par	(104,051)	(107,853)
Pension liability	(2,506)	(2,249)
	(120,136)	**(110,803)**

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 objective 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 company's 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 75% 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 2012 and 31 October 2011 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.

2012	US $ £'000	Euro £'000	Other £'000
Debtors (amounts due from brokers, dividends receivable and accrued income)	351	252	5,816
Cash and current asset investments	41,140	13,280	21,444
Foreign currency exposure on net monetary items	41,491	13,532	27,260
Equity investments at fair value through profit and loss	215,949	65,819	209,831
Total net foreign currency exposure	**257,440**	**79,351**	**237,091**

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**

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 2012	US $ £'000	Euro £'000	Other £'000
Maximum	53,687	13,280	46,224
Minimum	4,606	(1,603)	21,137

Year to 31 October 2011	US $ £'000	Euro £'000	Other £'000
Maximum	36,179	6,072	49,542
Minimum	558	10	17,192

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 2012. 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.

	2012 US $ £'000	2012 Euro £'000	2011 US $ £'000	2011 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	325	374	261	532
Capital return	25,744	7,986	22,478	4,493
Return attributable to shareholders	**26,069**	**8,360**	**22,739**	**5,025**

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.

	2012 Within one year £'000	2012 More than one year £'000	2012 Total £'000	2011 Within one year £'000	2011 More than one year £'000	2011 Total £'000
Exposure to floating interest rates						
Cash	24,709	–	24,709	18,516	–	18,516
Exposure to fixed interest rates						
Fixed interest investments	–	–	–	2,988	–	2,988
Current asset investments	10,174	–	10,174	65,768	–	65,768
Short-term deposits	63,240	–	63,240	78,878	–	78,878
Long-term borrowings	–	(104,051)	(104,051)	–	(107,853)	(107,853)
Total exposure	**98,123**	**(104,051)**	**(5,928)**	**166,150**	**(107,853)**	**58,297**

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:

	2012 £'000	2011 £'000
Return attributable to shareholders	**(11)**	**(17)**

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 (2011: 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 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 gearing and potential gearing are monitored closely by the board and manager. The company applies a ceiling on gearing of 20%. While gearing will be employed in a typical range of 0% to 20%, the company retains the ability to lower equity exposure to a net cash position 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 level of dividends.

The company's 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.

	2012			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss	**634,523**	**–**	**4,832**	**639,355**

There were no transfers between Level 1 & 2 during the year (2011: same).

	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

Reconciliation of Level 3 fair value measurements of financial assets

	Fair value through profit and loss 2012 £'000
Balance at 31 October 2011	8,120
Sales proceeds	(2,808)
Total losses: in profit and loss	(480)
Balance at 31 October 2012	**4,832**

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 22. There were no matters requiring disclosure under S412 of the Companies Act 2006.