The Scottish Investment Trust PLC

118th Report & Accounts 2005

Contents

The Company

Company Data as at 31 October 2005

TOTAL ASSETS	STOCKHOLDERS' FUNDS (with borrowings at par)	MARKET CAPITALISATION
£1,037.0 million	£889.0 million	£787.6 million

Objectives of The Scottish Investment Trust PLC (SIT)

- *To provide investors with above average returns through a diversified portfolio of international equities; and*
- *To achieve, over the long term, asset growth in excess of the company's stated benchmark and dividend growth ahead of UK inflation.**

Risk

SIT's portfolio is invested over a range of industries and is diversified on a geographical basis so that risk is lowered. It regularly employs borrowed money to invest in equities with the objective of improving overall returns. The use of borrowings magnifies market movements both up and down. The company has a policy not to invest more than 15% of gross assets in other UK listed investment companies.

Benchmark*

The company's benchmark is made up of 50% FTSE Actuaries UK All-Share Index™ and 50% FTSE World (ex UK) Index Series.™

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. No other funds are managed leaving the management free to concentrate exclusively on the company's affairs.

Capital Structure

At 31 October 2005 the company had in issue 208,910,518 ordinary stock units and long-term borrowings at par amounted to £148.0m with an average annual interest cost of 5.9%.

Management Expenses

The total expenses of managing the company's business during the year were £3,973,000 equivalent to 0.49% of average stockholders' funds. The company aims to keep this percentage low in comparison with competing investment products.

ISA/PEP

The ordinary units are fully eligible for both ISAs and PEPs. Details of the schemes run by the company are on page 20.

AITC

The company is a member of The Association of Investment Trust Companies.

*Attention is drawn to the proposed amendment to the company's objectives (see pages 5 and 25).

Ten Year Record (with borrowings at par)

Year to 31 October	Earnings per ordinary unit net (p)[1]	Dividend per ordinary unit net (p)[2]	Total expenses £'000	Total expense ratio %	Total assets £'000	Stock-holders' funds £'000	NAV per ordinary unit (p)[3]	Market price per ordinary unit (p)	Discount %	NAV total return %
1995	5.84	5.67	2,602	0.35	913,287	801,040	282.6	242.5	14.2	15.2
1996	6.16	5.95	2,932	0.34	1,023,847	912,583	322.0	274.5	14.8	16.0
1997	6.29	6.25	3,310	0.34	1,101,239	1,020,680	360.1	306.0	15.0	13.8
1998	6.41	6.50	3,751	0.35	1,176,244	1,095,685	386.6	344.0	11.0	9.0
1999	8.34	6.65	4,467	0.37	1,364,145	1,287,086	466.4	393.5	15.6	22.7
2000	7.93	6.90	4,568	0.35	1,578,998	1,356,861	538.9	457.0	15.2	17.1
2001	9.33	7.05	4,821	0.43	1,130,370	908,066	402.1	359.0	10.7	–24.4
2002	8.24	7.50	4,558	0.58	893,915	671,443	314.8	259.0	17.7	–20.2
2003	9.28	7.80	4,129	0.59	942,154	719,515	342.1	281.0	17.9	11.5
2004[6]	9.29	8.10	4,108	0.57	881,273	733,468	351.1	298.8	14.9	5.3
2005	**9.86**	**8.40**	**3,973**	**0.49**	**1,036,974**	**889,002**	**425.5**	**377.0**	**11.4**	**23.8**

Ten Year Growth Record

	Earnings per ordinary unit net[1]	Dividend per ordinary unit net[2]	Retail Prices Index	NAV per ordinary unit[3]	NAV per ordinary unit total return[3]	Market price per ordinary unit	Market price per ordinary unit total return	Benchmark[4]	Benchmark total return[4]	Current benchmark total return[5]
1995	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1996	105.5	104.9	102.7	113.9	116.0	113.2	115.6	112.5	117.3	115.2
1997	107.7	110.2	106.5	127.4	132.0	126.2	131.6	134.0	144.8	134.2
1998	109.8	114.6	109.8	136.8	144.0	141.9	151.0	148.4	163.8	151.7
1999	142.8	117.3	111.1	165.0	176.6	162.3	175.7	181.5	204.2	189.2
2000	135.8	121.7	114.6	190.7	206.7	188.5	207.1	201.1	230.0	213.1
2001	159.8	124.3	116.4	142.3	156.4	148.0	166.3	152.3	177.7	164.6
2002	141.1	132.3	118.8	111.4	124.8	106.8	123.5	120.9	144.5	133.8
2003	158.9	137.6	121.9	121.1	139.2	115.9	137.7	134.8	165.6	153.5
2004[6]	159.1	142.9	125.9	124.2	146.6	123.2	150.3	142.3	179.4	166.2
2005	**168.8**	**148.1**	**129.0**	**150.6**	**181.6**	**155.5**	**193.9**	**165.4**	**214.2**	**198.5**
Ten Year Return Per Annum	**5.4%**	**4.0%**	**2.6%**	**4.2%**	**6.1%**	**4.5%**	**6.8%**	**5.2%**	**7.9%**	**7.1%**
Five Year Return Per Annum	**4.5%**	**4.0%**	**2.4%**	**–4.6%**	**–2.6%**	**–3.8%**	**–1.3%**	**–3.8%**	**–1.4%**	**–1.4%**

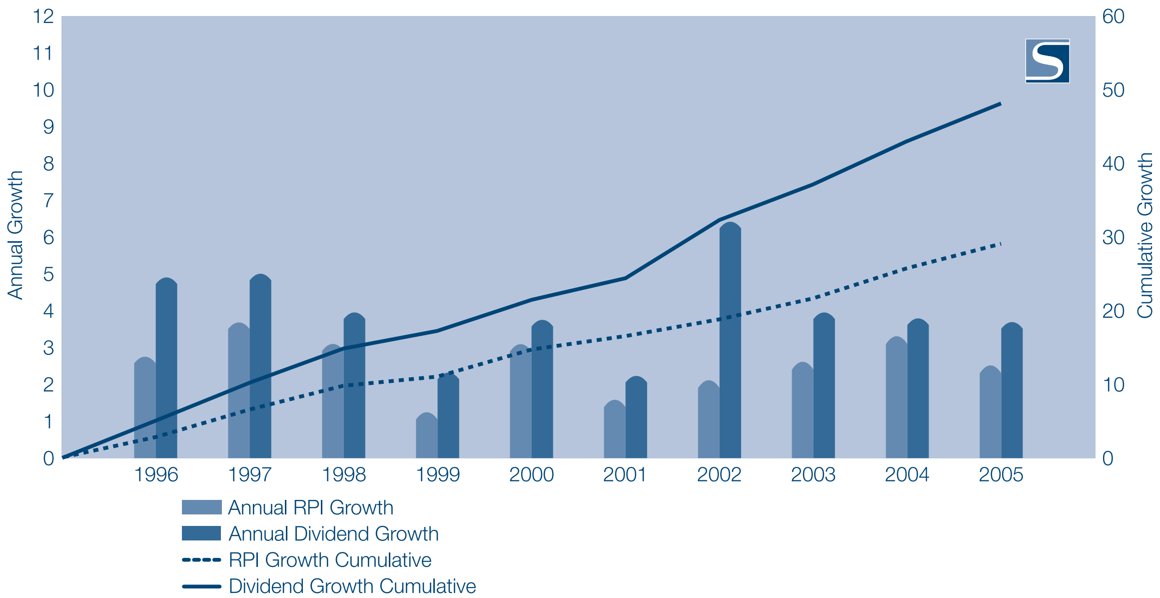
1. From 1 November 1999 the company has charged two-thirds of investment-related expenses and finance costs to realised capital reserves.
2. Excluding special dividends of 0.75p in 1998 and 1.00p in 2001.
3. NAV at 31 October 1995 has been adjusted to reflect the adoption of the Statement of Recommended Practice for investment trusts. NAV prior to 1995 has been adjusted to reflect the exercise in February 1995 of warrants to subscribe for ordinary units in SIT.
4. Benchmark before 31 October 1998 is FTSE World Index™ for the UK and from then on is 50% FTSE Actuaries UK All-Share Index™ and 50% FTSE World (ex UK) Index Series™.
5. Benchmark is 50% FTSE Actuaries UK All-Share Index™ and 50% FTSE World (ex UK) Index Series™.
6. 2004 figures include a charge for early repayment of debenture stocks.

Financial Highlights

		2005	2004	% change
CAPITAL	Equity investments	£932.8m	£781.6m	+19.3
	Net current assets	£104.2m	£99.7m	
	Total assets	£1,037.0m	£881.3m	+17.7
	Less: borrowings at par	£148.0m	£147.8m	
	Equity stockholders' funds	£889.0m	£733.5m	+21.2
	Net asset value per ordinary unit with borrowings at market value	418.5p	350.1p	+19.5
	Net asset value per ordinary unit with borrowings at par	425.5p	351.1p	+21.2
	Market price per ordinary unit	377.0p	298.8p	+26.2
	Discount with borrowings at market value	9.9%	14.7%	
	Benchmark index			+16.3
INCOME	Total income	£29.4m	£26.9m	+9.3
	Earnings per ordinary unit	9.86p	9.29p	+6.1
	Dividend per ordinary unit	8.40p	8.10p	+3.7
	Retail prices index (RPI)			+2.5

YEAR'S HIGH & LOW	Year to 31 October 2005 High	Year to 31 October 2005 Low	Year to 31 October 2004 High	Year to 31 October 2004 Low
NAV with borrowings at par	435.2p	351.1p	362.4p	322.2p
Closing market price	388.0p	302.3p	307.5p	258.8p
Discount with borrowings at par	14.9%	9.6%	22.4%	13.3%

Dividend Growth (%)



Chairman's Statement

CAPITAL

Over the year to 31 October 2005 the net asset value per ordinary unit (NAV) with debt valued at par rose by 21.2%, ahead of the 16.3% benchmark return. Measured with debt at market value, the NAV increased by 19.5%. The performance reflected strong contributions from the global listed portfolio, which outperformed for the second consecutive year and our unlisted holdings, together with a modest net benefit from gearing.

The listed portfolio outperformance was attributable to good sector positioning and stock selection across the portfolio with a notable performance from our North American oil selections including Suncor Energy, Todco and ConocoPhillips. Our unlisted portfolio generated excellent returns with strong contributions from the Aberforth Limited Partnership 1B, HG Capital Trust and Apax Europe V. Our unlisted portfolio is maturing rapidly and we have seen material realisations over the year. Our return in this area also benefited from a change in valuation basis for Aberforth which added approximately 0.6% to NAV.

Effective gearing was maintained at an average of 106% over the year with sizeable distributions from unlisteds being largely reinvested in the listed equity portfolio, principally through additions in Europe (ex UK).

While equity markets performed well over the year, the majority of the returns came in the second half of our financial year. Markets made steady progress over the first third of the year only to fall away following weak economic indicators and some poor corporate trading statements. In spite of the headwinds of high oil prices and rising US interest rates, markets regained their upward momentum over the summer months as investors regained confidence in the outlook for global growth and corporate profits. The Resources sector comprising oil and mining stocks was the dominant share price performer over the year, reflecting high oil prices and surging Chinese demand for raw materials.

Of the regional stock markets, Japan produced the strongest returns for the first time in many years, rising 32.8% in local currency terms and 25.4% in sterling. Foreign investors pushed the Japanese market higher sensing an improvement in the outlook for reform within the Japanese economy and corporate sector. Elsewhere, Europe (ex UK) performed well, rising 22.2% in local currency terms and 18.7% in sterling, in spite of the weak European economy. The Pacific (ex Japan) markets rose 17.1% in local currency terms and 22.8% in sterling while the UK market rose 16.0%. The main laggard was the US which rose 8.2% in US dollar terms and 12.0% in sterling. The return achieved by our own North American holdings was substantially higher however as we had switched much of our global oil exposure to this region. The main global sector change was to reduce Telecommunication Services exposure by £21.7m, principally through sales of Vodafone.

PORTFOLIO MANAGEMENT CHANGES

Following the restructuring of the investment management approach in January 2004, there has been a marked improvement in the company's investment performance. Between the end of January 2004 and 31 October 2005, the NAV has risen by 23.1% outperforming the benchmark, which rose 19.9%, despite the impact on NAV performance of approximately 3.1% from the early repayment of debentures in July 2004. During this time, the global equity portfolio (including unlisteds) returned 26.8% in capital terms. In order to focus the investment management team's efforts on its strongest investment opportunities and raise the performance potential of the company, the number of holdings in the global listed portfolio was reduced further over the year from 150 to 116. The portfolio remains well diversified by geography and sector but is now clearly differentiated in its construction from underlying investment indices.

INCOME

Dividend income generation exceeded our expectations with strong growth in dividends from companies across the globe, particularly from continental Europe, and a number of special dividends. After three years of recovery in corporate profits, balance sheets have been rebuilt thereby enabling these increased payouts. Higher dividend income and lower interest payable allowed earnings per ordinary unit to increase by 6.1% to 9.86p.

The board has reviewed the long outstanding Italian withholding tax owed to the company and has taken the decision to write off the balance of £824,000 which, while material, is small in relation to the company's assets. However, we will continue to work to secure reimbursement of the amount outstanding.

The board is recommending an increase of 3.7% in the dividend for the year to 8.40p per ordinary unit, which compares with the October year on year UK RPI inflation rate of 2.5%. We have increased our dividend in each of the last 22 years and it is a stated objective of the company to increase the dividend by more than the UK rate of inflation.

STOCK PRICE AND DISCOUNT TO NAV

The stock price rose by 26.2%, driven by the increase in NAV and the narrowing of the discount to NAV (with borrowings at market value) from 14.7% at 31 October 2004 to 9.9% at the year end.

PROPOSED TENDER OFFER AND STOCK BUYBACK POLICY

Your board has undertaken a long-term strategic review of the company, having particular regard to the improved performance of the company over the past two years, the reduction in the discount to net asset value at which the stock has traded over the past six months, and the differing requirements of institutional and private stockholders. Having completed that review, the board has concluded that the company remains an attractive vehicle for investors, particularly private investors and private client asset managers who are seeking a cost-effective exposure to global equity markets through a diversified portfolio of investments. At the same time, the board believes that it would be appropriate to provide an opportunity for those stockholders who so wish to realise all, or substantially all, of their investment in the company. Accordingly, the board is putting forward proposals for a tender offer for up to 40% of the company's issued share capital at a price representing a discount of 9% to the net asset value per stock unit with borrowings valued at par.

The board is also introducing a new stock buyback policy which, it is intended, will be used in conjunction with the buyback authority which the board is seeking to renew at the 2006 Annual General Meeting. Under this policy, the company will actively seek to buy back stock with the aim, in normal market conditions, of maintaining a discount to net asset value of 9% or less (taking the secured bonds at their market value). The board has set the stock buyback policy with borrowings at market value so that the buyback level in the future will take account of the effect of movements in long-term interest rates on the value of borrowings. Full details of these proposals will be contained in a circular being sent to stockholders. The directors believe the proposals are in the best interests of stockholders as a whole. None of the directors will be tendering his stock in the proposed tender offer. Stockholders are encouraged to vote for these proposals at the forthcoming Extraordinary General Meeting on 27 January 2006.

PROPOSED AMENDMENTS TO INVESTMENT OBJECTIVE

Having outperformed the existing benchmark over the two year period to 31 October 2005, even after accounting for the costs of early repayment of higher coupon debentures in July 2004, the board believes this to be an appropriate time to reconsider the use of a benchmark. The board would prefer the company to be managed without reference to market capitalisation-weighted indices which may from time to time be dominated by a small number of large companies. Subject to approval by stockholders at the forthcoming Annual General Meeting, the company's investment objective is being amended to dispense with the link to a formal benchmark, thereby removing the constraint it imposes on investment policy. Future performance will be 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,™ but the portfolio will not be modelled on any index.

NEW DIRECTOR

In September, we announced the appointment of Mr James S MacLeod as a non-executive director of the company. Mr MacLeod was a partner in the accountancy firm Ernst & Young and its predecessor firms for over 25 years specialising in corporate tax, particularly for investment trusts and insurance companies. He has been appointed chairman of the company's audit committee and will seek election by stockholders at the AGM. The board is unanimously recommending his election.

ACCOUNTING CHANGES

There are a number of accounting changes which will be implemented in the year to October 2006 including the UK Accounting Standards Board's FRS17 – Retirement Benefits. As a self-managed investment trust, FRS17 brings the company's pension liability for its employees onto the balance sheet with effect from 1 November 2005. We will also see changes in respect of UK accounting standards as they converge with International Accounting Standards.

Since 2000, when the company issued a large secured bond, interest and investment-related expenses have been charged one-third to revenue, two-thirds to realised capital reserves in line with the directors' prevailing expectations of the nature of long term future returns from the company's investments. In view of the increasing emphasis on dividends as a component of return in major international equity markets, the board has decided to lower the proportion of interest and expenses charged to capital, from two-thirds to one half. All else being equal, this will have the effect of lowering revenue return for the financial year to October 2006. However, we do not expect this change to inhibit the company's dividend policy.

OUTLOOK

Global equity markets have been recovering from the bear market of 2000-03 for two and a half years during which time corporate profitability has been restored to cyclically high levels and company balance sheets have been rebuilt. Markets have rallied in the face of high oil prices, rising short-term interest rates and an uncertain political backdrop in the Middle East. It is notable that the US market has de-rated relative to better performing areas such as Europe and the Pacific. While the much discussed global economic imbalances remain unresolved corporate profits seem likely to grow in 2006 and valuations in most regions are within acceptable bounds by past standards.

Douglas McDougall.

Douglas McDougall

12 December 2005

Board of Directors

***†Douglas McDougall OBE (61)** 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 Foreign & Colonial Eurotrust 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 former chairman of IMRO, the Association of Investment Trust Companies and the Fund Managers Association.

†Hamish Leslie Melville (61) was appointed to the board in November 1996. He is a managing director of Credit Suisse First Boston (Europe). He is chairman of Old Mutual South Africa Trust, Mithras Investment Trust, The Fleming Mercantile Investment Trust and a director of Persimmon. He is chairman of the remuneration committee.

Sir George Mathewson CBE LLD FRSE (65) joined the board in 1981. He was chief executive of the Scottish Development Agency until 1987. He then joined the board of The Royal Bank of Scotland Group and was appointed chief executive in January 1992. Following the Group's acquisition of NatWest, he was appointed executive deputy chairman in March 2000 and in April 2001 became chairman of the Group. He is on the board of directors of the Institute of International Finance and in June 2005 was appointed President of the International Monetary Conference.

***†Hamish Buchan (61)** was appointed to the board in November 2003. He is chairman of the Association of Investment Trust Companies and was formerly chairman of NatWest Securities in Scotland. He is chairman of JP Morgan Fleming American Investment Trust and a director of Aberforth Smaller Companies Trust, Personal Assets Trust, Shires Income and Standard Life European Private Equity Trust.

Francis Finlay (62) joined the board in November 1996. He is chairman of the New York based international fund management firm Clay Finlay, which he co-founded in 1982, and a director of SVG Capital. Previously he held senior investment management positions with Lazard Frères and Morgan Guaranty in Paris and New York. He is also a director of a number of international investment companies and charitable organisations.

***Jim MacLeod (64)** was appointed to the board in September 2005. 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 and INVESCO Perpetual AIM VCT. He is chairman of the audit committee.

* Member of audit committee
† Member of remuneration committee

Management Team

Manager

John Kennedy MA (Hons) ACIB MBA ASIP

Assistant Managers

Hugh Duff BSc (Hons) ASIP

Martin Robertson BSc (Hons) MBA ASIP

Investment Managers

James Kinghorn BSc MBA CFA

Howard Kippax MA (Hons) ASIP

Alasdair McKinnon MA (Hons) MSc ASIP CFA

Sarah Monaco BA DipM MBA

Secretary

Iain Harding FCMA FCIS

Assistant Secretary

Steven Hay ACIS

Investor Relations and Compliance Manager

Alan Jamieson BA (Hons)

Marketing Manager – SIT Savings

Sherry-Ann Sweeting BA (Hons) MBA DipM CIM

Head of Statistics and Information Technology

Neill Wood

Investment Philosophy

- *To pursue a flexible investment policy avoiding any permanent specialisation.*
- *To focus on fundamental value and employ a disciplined investment approach.*
- *To invest in well-managed companies in established stock markets around the world.*
- *To enhance performance in rising markets by prudent use of borrowed money.*
- *To provide simple, low-cost investment and savings products for investors.*

Market Performances

Year to 31 October 2005

	Currency Adjusted %	In Local Terms %
UK	+16.0	+16.0
Europe (ex UK)	+18.7	+22.2
US	+12.0	+8.2
Japan	+25.4	+32.8
Pacific (ex Japan)	+22.8	+17.1
Benchmark	+16.3	

Performance Attribution Analysis

Year to 31 October 2005

	%
Increase in NAV	+21.21
Increase in benchmark index	+16.27
Relative performance	+4.94
Asset allocation	+0.27
Stock selection	+3.95
Gearing	+1.24
Interest and expenses charged to capital less retained earnings	–0.44
Residual	–0.08
Relative performance	+4.94

The attribution analysis shows how the overall performance of the company's NAV (with borrowings at par) relative to the benchmark has been achieved.

Performance Attribution

The company's 50/50 benchmark rose 16.3% during the year led by overseas markets. Local currency returns ranged from +8.2% for the US to +32.8% for Japan. Sterling returns after adjusting for currency produced a narrower range of returns from +12.0% for the US to +25.4% for Japan. The NAV (with borrowings at par) increased 21.2%.

Relative NAV outperformance was attributable to positive contributions from geographic asset allocation, stock selection and gearing.

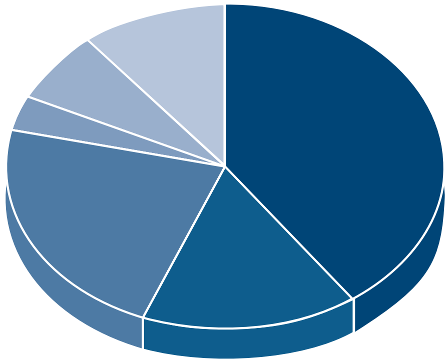
Geographical asset allocation added 0.27% to performance with the result benefiting from being underweight in the US stockmarket which underperformed and being overweight in the Pacific (ex Japan) and Europe (ex UK) regions which outperformed. However, we did miss out on some strong performance by smaller emerging markets.

Due to our investments now being managed as a single global portfolio, regional relative performance statistics are not meaningful. Consequently, portfolio performance will be analysed by industrial sector. Stock selection added 3.95% to NAV performance and benefited from generally good sector positioning and individual share selection as the listed portfolio outperformed for the second consecutive year. In particular, we had an excellent performance by our North American oil selections which were built up by switching out of the UK oil majors. Our unlisted portfolio is maturing and rewarded us with a number of material realisations and a very strong performance. Full details of the portfolio performance and stock selection outcome follow in the Portfolio Performance and Activity section.

The global equity portfolio has outperformed over the twenty-one months since the portfolio was restructured. Against a benchmark which has increased by 19.9% over this period, the NAV rose 23.1%, despite the 3.1% impact from early repayment of debentures in July 2004. Stock selection from the listed portfolio has been a major factor in the outperformance of this period, accompanied by a good contribution from unlisteds.

Distribution of Total Assets

At 31 October 2005



	2005 %	2004 %
UK	39.1	43.6
Europe (ex UK)	16.6	12.6
North America	23.2	22.5
Japan	3.9	3.5
Pacific (ex Japan)	7.2	6.5
Net current assets	10.0	11.3
Total assets	100.0	100.0

Changes in Asset Distribution

Year to 31 October 2005

	Opening Valuation £m	Net Purchases (Sales) £m	Appreciation (Depreciation) £m	Closing Valuation £m
UK	356.0	(21.4)	43.3	377.9
Europe (ex UK)	111.3	33.0	27.7	172.0
North America	184.8	4.2	39.5	228.5
Japan	31.0	(0.5)	10.0	40.5
Pacific (ex Japan)	57.9	(1.6)	17.9	74.2
Unlisted portfolio	40.6	(21.3)	20.4	39.7[1]
Total equities	781.6	(7.6)	158.8	932.8
Net current assets	99.7	1.6	2.9[2]	104.2
Total assets	881.3	(6.0)	161.7	1,037.0
Borrowings	(147.8)	(0.2)	0.0	(148.0)
Stockholders' funds	733.5	(6.2)[3]	161.7	889.0

[1] Includes £9.8m of investments which are listed.
[2] Includes retained earnings.
[3] Interest, expenses and tax relief apportioned to capital.

Changes in Distribution

After having reduced effective gearing from the relatively high levels employed as markets bottomed in 2003, this was maintained in a range of 105-107% over the year and ended the year at 104.9% (2004 – 106.6%). The potential gearing ratio if all borrowings were invested in equities would be 116.6% (2004 – 120.2%). The average interest cost of borrowings, all of which are fixed rate and long-term, is 5.9% (2004 – 5.9%). We have net current assets of £104.2m or 10.0% of total assets (2004 – 11.3%).

We made net sales of £7.6m from total equities over the year. Exposure to listed equities was increased by £13.7m, with additions to Europe (ex UK) and North America funded by significant sales from the UK listed segment of £21.4m and distributions from unlisteds of £21.3m. In relative terms, the overweighting of Europe (ex UK) was increased as was the underweighting of the UK.

Unlisted Portfolio and Largest Unlisted Investment

The unlisted portfolio appreciated in value by 69.7% reflecting strong performances by a number of investments including Aberforth Limited Partnership 1B, HG Capital Trust, Apax Europe V and Boston Ventures VI. Unlisted performance also reflected a change to the accounting treatment of Aberforth Limited Partnership 1B after we received full repayment of our initial investment. A change in the basis of accounting by Apax Partners also increased the value of Apax Europe V.

The largest unlisted investment is Aberforth Limited Partnership 1B which holds stakes in small listed UK companies.

The unlisted portfolio is maturing and as a consequence, we received distributions of £21.3m. We did not enter into any new partnerships during the year. At year end, our commitments to invest in partnerships totalled £4.1m (2004 – £8.1m) and we expect that these will be met from distributions from existing holdings.

The unlisted portfolio was valued at a total of £39.7m which is equivalent to 4.5% (2004 – 5.5%) of stockholders' funds. Included in this figure is £9.8m which is invested in listed funds which specialise in unlisted investments.

Holdings in Listed Funds

Our holdings include investments in listed investment funds of £30.0m (2004 – £28.4m). These are held to provide exposure to smaller companies in the UK and Japan and also the UK property sector. Of these listed funds £9.8m (2004 – £6.7m) specialise in unlisted investments and are included in the unlisted portfolio valuation of £39.7m (2004 – £40.6m).

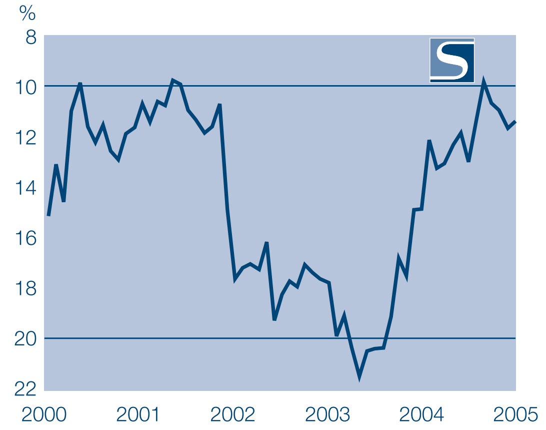
The company has a policy not to invest more than 15% of gross assets in other UK listed investment companies.

Largest Unlisted Holdings

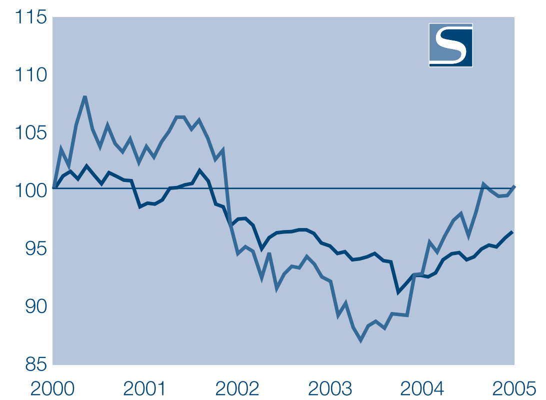
At 31 October 2005

		£m
Aberforth LP 1B	Investment in small UK listed companies	8.0
Boston Ventures Funds	Venture capital, US	7.4
Apax Europe V	Venture capital, Europe	6.3
Sprout Group Funds	Venture capital, US	3.0
Close Investment Funds	Venture capital, UK	2.0
		26.7

Discount to NAV with borrowings at par
5 years to 31 October 2005



NAV* and Stock Price relative to Benchmark
5 years to 31 October 2005



* with borrowings at par

Portfolio Turnover

Total purchases of investments amounted to £399.2 (2004 – £288.1m) and sales were £406.8m (2004 – £390.1m). Investment sales were 42.4% (2004 – 42.8%) of average total assets. Turnover levels were again high during the year due to the process of reducing the number of holdings within a single global portfolio. Dealing expenses during the restructuring process were minimised by using low-cost dealing programmes and dealing arrangements. Commission paid to brokers on purchases and sales during the year was £1,257,000 (2004 – £1,125,000).

No use was made of investment derivatives or currency hedges during the year for assets or liabilities. We used a forward contract to guarantee an exchange rate for a portion of our US dollar denominated dividend income.

Analysis of Stock Register
At 31 October 2005

Category of holder	Number	Ordinary Capital %
Individuals	29,930	48.2
Investment companies	53	25.8
Insurance companies	17	15.8
Pension funds	31	5.2
Other	139	5.0
Total	30,170	100.0

Services to Investors

Individuals hold 48.2% of SIT's stock, including 13.4% held in SIT Savings' products.

Our savings and investment schemes allow quick and easy access to SIT stock. Simple to use, they are low-cost, transparent and flexible. The schemes are appropriate for the long-term investor.

Our website **www.sit.co.uk** has been redesigned to improve ease of access and navigation. It provides a wide range of regularly updated information on the company and is a quick and easy way of obtaining information on and application forms for SIT's products. It is also the gateway for certificated stockholders and for PEP and ISA investors to obtain current valuations of their holdings online.

GLOBAL ECONOMIC REVIEW

After the strong growth achieved by the world economy in 2004, global economic growth slowed over 2005. The World Bank estimates that global GDP increased by 3.2% in real terms during 2005, lower than the 3.8% achieved in 2004. The reasons for the deceleration include emerging pressures on industrial production capacity together with higher oil and commodity prices.

2005 growth benefited from a resilient performance by the US economy and further strong growth in developing regions, particularly Asia and the Pacific, with China's economy continuing to expand rapidly.

A key feature of the year was the strength of oil and commodities prices. Oil prices rose by 20% over our financial year to $58 per barrel, having peaked at around $67 per barrel in September. The effect on oil prices of strong global demand and concerns over security of supply were compounded by refining and production bottlenecks in the US. These were further exacerbated by Hurricane Katrina which hit the US Gulf Coast in August. From the low in December to the peak in September, oil prices rose approximately 80% before easing back.

Commodity prices rose steeply over the year with demand from China being the principal driver. The gold price increased towards the end of our year reflecting growing inflation fears.

Political developments over the year included general elections in four of the world's largest economies – USA, Japan, Germany and UK. Of the incumbent leaders, the only one with a clearly positive outcome from the elections was Junichiro Koizumi in Japan who won a mandate for further reform.

Global imbalances in the world economy remained unchecked with concerns over the US trade deficit prompting weakness in the US dollar over the earlier part of our year. The dollar reached an all-time low against the euro at an exchange rate of 1.36. Subsequently, the dollar has confounded sceptics by strengthening against principal currencies, reflecting widening interest rate differentials in favour of the dollar and a relatively strong economy.

The UK economy decelerated sharply with growth in Q3 2005 of just 1.6% year on year. While consumer price inflation remains just above the authorities' target rate, UK house price inflation has slowed considerably and retail sales have been lacklustre. In August the Bank of England lowered interest rates for the first time in two years by 0.25% to 4.5% – possibly a precautionary measure to guard against a further slowdown. We expect official UK interest rate movements to be on hold for the time being. Devastating terrorist attacks on the London transport system in July appeared to be targeted to coincide with the G8 meeting at Gleneagles.

Continental Europe took on Japan's mantle as the most disappointing of the major economies. Eurozone growth fell to around 1% year on year with consumption noticeably weak. Structural reforms do not appear to be emerging and the growth potential of Western Europe is likely to be below that of other regions. European political integration received a setback during the year with the electorates of France and the Netherlands rejecting the proposed EU Constitution. There are signs that the European economy is picking up from low levels although the area of strength remains the export segment. Prospects for reform in Germany appear to have stalled as the closely fought election in September produced a coalition government.

In the US, George W Bush was re-elected for a second term in another close campaign in November 2004. The Federal Reserve increased interest rates by 0.25% on eight separate occasions during the year with a further 0.25% increase in November 2005 taking official interest rates to 4.0%. With the US consumer price index increasing 1.2% in September alone, inflationary pressure is the main reason behind the latest increases and the authorities may be looking to restore short rates back to nearer 5.0%.

We noted last year that the economic outlook for Japan had improved in 2004 and the picture continued to brighten across 2005. Japanese GDP growth accelerated over the year, reflecting strong demand for exports. Domestic consumption picked up with retail sales improving against a backdrop of falling unemployment.

Prime Minister Koizumi won a snap election in September on the question of reform of the postal system. With a larger majority, his prospects for further reform in Japan look brighter. While deflation has not been eliminated, the banking system appears more solid and loan growth has recommenced. On the basis of leading indicators and survey evidence, Japan appears set to sustain a recovery into 2006.

In the Pacific, growth levels were below 2004 with notable weaknesses from South Korea where consumer sentiment and high personal debt levels acted as a drag on consumption. As China's trade balance surplus increased over the year, so did pressure to revalue its currency. In response, the Chinese authorities allowed a modest increase in the value of the yuan against the US dollar to which it had been pegged. Further appreciation is expected although the timing of it is unpredictable.

GLOBAL EQUITY MARKET REVIEW

The company's financial year started positively with markets rising steadily between November 2004 and February 2005. Despite US rates being increased regularly over the year from the extraordinarily low levels of 1% reached in 2003, a combination of generally good economic news and continued growth in corporate profits enabled equity markets to progress. The outlook for the US dollar was the main concern over the first quarter. We opted not to hedge dollar assets despite widespread expectations that the dollar was likely to depreciate. These fears were compounded in February by rumours that Asian central banks were set to diversify their holdings out of dollars. The dollar subsequently recovered over the rest of the year.

Sustained high oil prices and strong demand for commodities and metals meant that the Resources sector performed very well over the year. On a global basis, Resources outperformed the rest of the global market by a wide margin. Other than Utilities, which was also a strong sector, returns from the other parts of the market were within a relatively narrow range. The influence of oil and mining stocks fed through into aggregate corporate profits which reached new highs in 2005. However, the rate of growth in corporate profits slowed compared to 2004. After three years of improved cashflows, corporate balance sheets appear to have been strengthened.

A combination of low interest rates, strong balance sheets and a well-financed private equity sector provided the conditions for higher merger and acquisition (M&A) activity over the year. The flurry of transactions in the UK towards the end of the year suggests that the pace of activity is still accelerating. M&A was a feature in most industrial sectors over the year and the portfolio was a beneficiary of a number of actual and potential bids.

Most of the gains from equity markets came in the second half of the year as investors perceived inflation to be under control. While interest rates were being increased in the US, corporate profits were still increasing, dividend payouts were strong and the growth outlook appeared sound.

Examining returns in geographic terms, the strongest returns among the major regions came from Japan followed by Europe (ex UK) and the Pacific (ex Japan) with the US market being a clear laggard. Sterling exchange rate movements contrived to lower the returns from Europe (ex UK) and Japan and increase the returns from the US and Pacific (ex Japan).

A major feature of the year was the impressive performance by the Japanese stock market. After a prolonged spell of poor and then, more recently, indifferent performance, the Japanese market responded to renewed interest from overseas investors. The domestic economy showed signs of recovery during 2005 from economic problems which included price deflation and a weak banking system. A further catalyst for the improved stock market performance came from the convincing re-election of the Japanese prime minister.

Continental European stockmarkets were able to perform well against a weak domestic economy due in large part to the strength of export demand. European valuations were also relatively attractive. The Pacific (ex Japan) region also performed well, although the sterling return of +22.8% masked divergent performances among individual countries reflecting differing local fundamentals. Korea rose 47.8% while Taiwan increased only 3.8% over the year in sterling terms.

The US stock market underperformance despite a strong economic background may have reflected its relatively high valuation and domestic investor demand for non-US equities. The valuation gap between the US and other regions is narrowing and the US market is at an eight year price-relative low for sterling investors. The UK market provided competitive returns although the strong showing by the large Oil & Gas sector was offset in part by the underperformance of the even larger UK Banks sector which rose only 4.1% over the year.

PORTFOLIO PERFORMANCE AND ACTIVITY

The global portfolio outperformed over the year by 4.4%, reflecting strong performances from both listed and unlisted portfolios.

Following a board level review of strategy in 2003, the regional portfolio structure was replaced with a single global portfolio. To increase the performance potential of the company, the number of listed holdings was reduced in 2004 from over 200 to 150 by October 2004. Encouraged by early signs of improvement, the process continued in the year to October 2005 and the number of listed holdings was reduced further to 116 by the year end. Under the new structure, the index weight of any stock is not a factor in deciding how much the company will invest.

The fund remains diversified by industrial sector and geography and it was encouraging therefore that the listed portfolio outperformed in eight of the ten industrial sectors. There were good results in Cyclical Services, Resources and Information Technology. The two underperforming areas were Non-Cyclical Consumer Goods and Non-Cyclical Services where our stock selection let us down.

In making changes to the portfolio, we have been adding to 'growth' stocks over the last year which appear to be at reasonable valuations relative to the wider market. 'Growth' stocks are widely perceived to have lagged 'value' stocks in recent years.

Sector performance figures in the following paragraphs refer to the FTSE World Index™ sector returns.

RESOURCES

Mining/Oil & Gas

Our Resources holdings appreciated by £34.1m over the year as the sector outperformed by 16.7%.

In Mining, we sold Anglo American to focus on our two remaining mining companies, Rio Tinto (UK) and BHP Billiton (UK), both of which performed well and provided solid sector exposure.

However, for a second consecutive year it was in Oil & Gas that we generated the largest absolute portfolio gains. Relative performance also benefited considerably from good stock selection within this sub-sector.

We built up further our North American Oil & Gas holdings. We added to Suncor Energy (Canada) and took a new holding in Todco (US), both of which performed very well with the latter doubling in value since purchase. Our sole US oil major, ConocoPhillips, generated the single largest gain (£7.3m) in the listed portfolio. The increase in North American oil stocks was financed by selling down BP (UK) which turned out to be a relatively poor performer within the sector. Towards the end of the year, we sold a large holding in Royal Dutch (UK) outright and reinvested in BG Group (UK) and Cairn Energy (UK) where we saw more potential value.

BASIC INDUSTRIES

Chemicals/Construction & Building Materials/Forestry & Paper/Steel & Other Metals

The Basic Industries sector outperformed narrowly by 1.9% over the year. We maintained a relatively large exposure to the Construction & Building Materials sub-sector and benefited from its strong performance.

We sold Ecolab (US), our sole holding in Chemicals and reinvested in preferred Building & Construction names Fletcher Building (NZ), Rinker (AUS) and Wolseley (UK). While we trimmed our holding in Persimmon (UK) as a precaution against further deterioration in the UK housing market, we made a good gain on the holding overall.

GENERAL INDUSTRIALS

Aerospace & Defence/Diversified Industrials/Electronic & Electrical Equipment/Engineering & Machinery

General Industrials performed broadly in line with global markets. Within the sector, we had helpful performances from Meggitt (UK), Hong Kong trading group Swire Pacific and made good profits in two companies which we had built up earlier in the year, electronics manufacturer Hon Hai Precision Instruments (Taiwan) and industrial supplies wholesaler, MSC Industrial Direct (US). We made outright sales in Ricoh (Japan), Schneider Electric (France) and Venture (Singapore), adding two new holdings later in the year – instrumentation and controls group, Spectris (UK) and German laser technology group Rofin-Sinar Technologies.

CYCLICAL CONSUMER GOODS

Automobiles & Parts/Household Goods & Textiles

Cyclical Consumer Goods underperformed global markets by 4.3% over the year. However, our holdings more than offset the sector's underperformance. The automobile industry is suffering from overcapacity and high oil prices with US manufacturers particularly badly hit. We made reductions of £15.1m to our auto industry exposure, selling BMW (Germany), Harley-Davidson (US), Hyundai Motor (Taiwan) and Johnson Controls (US). We were confident that the outlook was brighter for German tyre and brake specialist Continental and added significantly to this holding which enjoyed another good year.

In Household Goods, we benefited from a sound performance by sports goods manufacturer adidas-Salomon which acquired US rival Reebok during the year. We added two new holdings, supply chain manager Li & Fung (Hong Kong) and luxury leather goods specialist Tod's (Italy).

NON-CYCLICAL CONSUMER GOODS

Beverages/Food Producers & Processors/Health/Personal Care & Household Products/Pharmaceuticals & Biotechnology/Tobacco

While we were correctly positioned being relatively light in this sector, stock selection let us down within the Health sub-sector. This was an area we had correctly identified as promising as it outperformed by 30.4% over the year. By contrast we have long been pessimistic about the scope of pharmaceutical companies to withstand competitive and regulatory pressures and this area was again a lacklustre performer. We continue to believe the health and medical technologies industries offer a better combination of growth and profitability than the pharmaceuticals industry.

We added a net £8.2m to the Health sub-sector and had mixed results. Our main disappointment was a new holding, orthopaedics group Zimmer (US). Pricing pressure has started to bear more heavily on this area causing downward adjustments to valuations. However, there was an excellent performance from Swiss dental implants group Nobel Biocare which we sold towards the end of the year after our valuation expectations had been exceeded. We also benefited from a bid for US dialysis group Renal Care from Fresenius Medical Care (Germany) and subsequently bought back into this industry via Fresenius Medical Care. Our largest absolute return in Health was made by new holding Wellpoint (US) which generated gains of £2.8m.

In Tobacco, our lack of exposure to the US sector cost us some relative performance as it rallied after news on the litigation outlook. In Pharmaceuticals, we exited two large holdings, Pfizer (US) and Sanofi-Aventis (France) to focus on preferred holdings. Our stock selection here was generally reasonable and we benefited from a strong performance at Roche (Switzerland) and CSL, an Australian blood specialist acquired during the year.

CYCLICAL SERVICES

Retailers-General/Leisure & Hotels/Media & Entertainment/ Support Services/Transport

We generated our strongest contribution to relative performance in this sector which proved to be the weakest part of the market, underperforming by 7.5%. Wary of a downturn in consumer sentiment in western economies, we reduced our presence in the Retail, Media & Leisure sub-sectors by £16.9m. In Retailing, we lowered our exposure early in the year, selling Next (UK) and Target (US) outright. Our strong relative performance was achieved by the excellent share price gains made by Hong Kong based clothing retailer, Esprit Holdings and Japanese electrical goods retailer, Yamada Denki. The latter outperformed global markets by over 100% and generated a gain of £6.0m.

The Media industry is struggling with a raft of competitive issues and our decision to sell four Media holdings proved timely. We added a new investment in professional publisher, Informa (UK).

We added £7.2m to Support Services and benefited from outperformance by outsourcing group Serco (UK) and education group Laureate (US), a new holding during the year. Within Transport, ports operator P&O generated a gain of £2.9m after a bid approach in October.

NON-CYCLICAL SERVICES

Food & Drug Retailers/Telecommunication Services

Non-Cyclical Services' underperformance of 5.6% reflected weakness in the Telecommunications sub-sector which is suffering from intense competition with cost and pricing pressures negating the growth potential of broadband, mobile and data services. We exited three telecoms holdings including TIM (Italy) which was fully consolidated within its parent, Telecom Italia. Our stock selection was disappointing however. While BT outperformed the sector, we missed out on some of the consolidation within the industry in the UK and our holding in Deutsche Telekom underperformed following disappointing trading results.

The largest single move we made over the year was to reduce our holding in Vodafone (UK). Vodafone started the year as our second largest holding worth £27.5m. Following initial sales in June 2005, we halved our subsequent holding selling £12.1m in October, less than a month before a sharp fall in the share price. In total, we reduced our telecommunications holdings by £21.7m over the year.

UTILITIES

Electricity/Utilities – Other

The combination of attractive dividend yields and M&A activity within the sector explains the good performance of Utilities which outperformed by 4.5%. Within Electricity, we added to ScottishPower (UK) which outperformed, reflecting general approval of the disposal of its US business and also bid interest from competitors. Our water utility, AWG (UK), generated good gains following positive regulatory reviews while a new holding in the US, power distributor Sempra Energy, also performed strongly.

FINANCIALS

Banks/Insurance/Life Assurance/Investment Companies/Real Estate/Speciality & Other Finance

Financials as a group performed in line with the market. The Banks sub-sector trailed the Insurance, Investment Companies, Real Estate and Speciality & Other Finance sub-sectors, all of which benefited from more favourable industrial trends.

In Banks, we consolidated our holdings, selling large positions in Citigroup (US) and, after a spell of good performance, HBOS (UK), together with a number of smaller overseas holdings. In January, we also sold £15.8m of HSBC Holdings (UK) due to valuation concerns. However, at the end of the year we have been re-investing in this holding following a spell of marked underperformance. The largest gain in Banks came from rapidly growing Anglo Irish (Ireland), a holding we boosted materially in January. We added to Insurance to take advantage of recovering life-market conditions and attractive valuations. Our Insurance holdings were strong performers, including new holding Allianz (Germany) and US specialist insurer HCC, while the largest gains came from AXA (France) and Hartford (US). We sold AIG (US) in full ahead of a sharp fall in its share price relating to a regulatory investigation.

In the belief that the spell of small company outperformance was coming to an end, we continued to sell down our small-cap UK investment trusts which had served us well for a number of years. Our Real Estate exposure is now achieved through UK listed property investment trusts.

We added materially to speciality finance companies including Moody's (US) and a new holding, Lehman Brothers (US), both of which performed strongly and generated gains in excess of £3m each.

INFORMATION TECHNOLOGY

Information Technology Hardware/Software & Computer Services

Our stock selection in Information Technology was helpful to performance despite the 5.0% underperformance of the sector. In Information Technology Hardware, we added to the area, building up holdings in Taiwanese computer manufacturer Acer which is winning market share globally, together with a new holding in graphics and digital media processor group Nvidia (US) which was also strong. We made a useful sale of our holding in printer company Lexmark (US) before its stock price collapsed in October.

In Software, we saw reasonable investment returns with good gains from Sage (UK) and a new holding, security software group Symantec (US), which we bought after a spell of underperformance.

UNLISTEDS

It was a vintage year for our unlisted portfolio. As the funds in which we are invested mature, we are seeing a number of good realisations to the benefit of performance. The unlisted portfolio returned 69.7% although this was flattered by a change in the valuation basis for Aberforth Limited Partnership 1B after our initial capital had been returned in full. There was also an uplift from a change in accounting by Apax Europe V.

Aberforth Limited Partnership 1B generated substantial gains in value and returned cash of £16.8m over the year. We also saw good uplifts in valuation from Apax Europe V, HG Capital Trust and Boston Ventures VI.

GLOSSARY

Total assets means total assets less current liabilities.

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

Par value is the book value of the company's borrowings, the nominal value less unamortised issue expenses.

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

Gearing is the percentage of stockholders' funds invested in equities. 100% represents an ungeared position.

GDP references are to gross domestic product adjusted for inflation.

The index quoted for UK performance comparisons is the FTSE Actuaries UK All-Share Index.™ For all other markets the constituents of the FTSE World Index Series™ have been used. Unless otherwise stated, SIT and index performance figures have been adjusted for currency movements.

Distribution of Total Assets by Sector

Based on total assets less current liabilities at 31 October 2005 of £1,037.0m (2004 – £881.3m)

	October 2005 Total %	October 2004 Total %
Resources	**12.8**	**11.1**
Mining	2.2	2.2
Oil & Gas	10.6	8.9
Basic Industries	**4.6**	**4.5**
Chemicals	0.0	0.4
Construction & Building Materials	4.6	3.8
Forestry & Paper	0.0	0.0
Steel & Other Metals	0.0	0.3
General Industrials	**5.2**	**5.1**
Aerospace & Defence	1.6	1.5
Diversified Industrials	0.5	0.4
Electronic & Electrical Equipment	1.5	1.3
Engineering & Machinery	1.6	1.9
Cyclical Consumer Goods	**3.7**	**3.9**
Automobiles & Parts	1.9	3.3
Household Goods & Textiles	1.8	0.6
Non-Cyclical Consumer Goods	**11.2**	**10.3**
Beverages	1.1	1.0
Food Producers & Processors	0.5	0.4
Health	3.2	2.5
Personal Care & Household Products	0.0	0.2
Pharmaceuticals	5.7	5.0
Tobacco	0.7	1.2
Cyclical Services	**9.7**	**10.7**
Retailers – General	3.8	4.5
Leisure & Hotels	0.9	1.2
Media & Entertainment	1.0	2.0
Support Services	1.7	0.9
Transport	2.3	2.1
Non-Cyclical Services	**4.4**	**7.1**
Food & Drug Retailers	1.1	1.1
Telecommunication Services	3.3	6.0
Utilities	**4.7**	**4.0**
Electricity	1.3	1.1
Utilities, Other	3.4	2.9
Financials	**28.7**	**28.1**
Banks	12.2	13.7
Insurance	4.0	2.3
Life Assurance	1.9	1.5
Investment Companies	6.2	7.4
Real Estate	0.0	0.7
Speciality & Other Finance	4.4	2.5
Information Technology	**5.0**	**3.9**
Information Technology Hardware	3.1	2.3
Software & Computer Services	1.9	1.6
Total Equities	**90.0**	**88.7**
Net Current Assets	**10.0**	**11.3**
Total Assets less Current Liabilities	**100.0**	**100.0**

As at 31 October 2005 the company held no convertibles (2004 – nil).

List of Investments

Listed Holdings

Holding	Country	£'000
Barclays	UK	23,154*
ConocoPhillips	USA	20,741*
BP	UK	20,417*
Total	France	17,300*
Suncor Energy	Canada	14,589*
BT	UK	14,260*
HSBC Holdings	UK	13,998*
Lehman Brothers	USA	13,723*
Johnson & Johnson	USA	13,131*
ScottishPower	UK	12,968*
Royal Bank of Scotland	UK	12,660
Serco	UK	12,598
AstraZeneca	UK	12,260
Meggitt	UK	12,208
BG Group	UK	12,127
Moody's	USA	11,836
Tesco	UK	11,746
BHP Billiton	UK	11,672
Vodafone	UK	11,521
GlaxoSmithKline	UK	11,444
Bank of America	USA	11,420
BNP Paribas	France	10,852
Todco	USA	10,668
Rio Tinto	UK	10,628
Hartford Financial Services	USA	10,573
Legal & General	UK	10,553
Wolseley	UK	10,398
Lloyds TSB	UK	10,346
Allianz	Germany	10,300
Persimmon	UK	10,172
AXA	France	9,908
Yamada Denki	Japan	9,841
E.On	Germany	9,824
Aviva	UK	9,726
HG Capital Trust † (1)	UK	9,360
Novartis	Switzerland	9,269
Anglo Irish Bank	Ireland	8,975
Ingersoll-Rand	USA	8,842
Samsung Electronics	Korea	8,632
adidas-Salomon	Germany	8,384
P&O	UK	8,263
Deutsche Telekom	Germany	7,824
UBS	Switzerland	7,819
GN Store Nord	Denmark	7,680
Zimmer Holdings	USA	7,619
Sage	UK	7,576
Imperial Tobacco	UK	7,484
Rinker	Australia	7,418
Continental	Germany	7,381
Nvidia	USA	7,338
Acer	Taiwan	7,326
Sempra Energy	USA	7,305
Indymac Bancorp	USA	7,273
GUS	UK	7,257

Listed Holdings

Holding	Country	£'000
Lowe's Companies	USA	7,212
National Grid	UK	7,172
Wellpoint	USA	6,994
Australia and New Zealand Banking	Australia	6,857
Close Brothers	UK	6,697
Scottish & Newcastle	UK	6,571
Tod's	Italy	6,522
Danske Bank	Denmark	6,479
Vinci	France	6,344
AWG	UK	6,223
HCC Insurance Holdings	USA	6,078
BBA	UK	5,966
Roche	Switzerland	5,945
PetroChina	Hong Kong	5,878
MSC Industrial Direct	USA	5,804
Bausch & Lomb	USA	5,775
Bed Bath & Beyond	USA	5,731
Schroder Japan Alpha Plus(2)	Japan	5,716
Hon Hai Precision Industry	Taiwan	5,663
UK Balanced Property Trust(3)	UK	5,629
Toyota Motor	Japan	5,602
Esprit Holdings	Hong Kong	5,543
Informa	UK	5,460
Fletcher Building	New Zealand	5,291
Throgmorton Trust(4)	UK	5,285
Swire Pacific	Hong Kong	5,229
FirstGroup	UK	5,182
Société Générale	France	5,156
Royal Numico	Netherlands	5,142
PepsiCo	USA	5,123
Daito Trust Construction	Japan	5,120
United Business Media	UK	5,103
United Utilities	UK	5,043
ENI	Italy	4,910
Symantec	USA	4,908
United Technologies	USA	4,869
Whitbread	UK	4,794
Marshall & Ilsley	USA	4,727
Laureate Education	USA	4,713
Aiful	Japan	4,670
Carnival	USA	4,641
Fresenius Medical Care	Germany	4,633
Dell	USA	4,618
CSL	Australia	4,558
Adobe Systems	USA	4,381
ING	Netherlands	4,204
Norfolk Southern	USA	4,203
Rofin-Sinar Technologies	Germany	4,185
Li & Fung	Hong Kong	4,161
Daikin Industries	Japan	3,957
Keppel Corporation	Singapore	3,954
Spectris	UK	3,933
Halfords	UK	3,826
Cairn Energy	UK	3,765

List of Investments

Listed Holdings

Holding	Country	£'000
DBS	Singapore	3,670
Qualcomm	USA	3,648
Insight Foundation Property Trust(3)	UK	3,395
Wimpey (George)	UK	3,243
JPMF Japanese Smaller Companies(2)	Japan	3,026
SAP	Germany	2,993
Standard Life Inv Property Inc Trust(3)	UK	2,944
Suzuki Motor	Japan	2,506
Gyrus	UK	2,271
Others (under £0.5m)		397
		902,825

* Denotes ten largest holdings with an aggregate market value of £164,281,000.

† Listed company which forms part of the unlisted portfolio.

Investments providing exposure to:

(1)Private equity
(2)Japanese equities
(3)Property
(4)UK smaller companies

Unlisted Holdings

Holding	Country	£'000
Aberforth LP 1B	UK	8,045
Apax Europe V	UK	6,307
Boston Ventures VI	USA	5,425
Boston Ventures V	USA	1,975
Sprout Capital VII	USA	1,470
Sprout Capital VIII	USA	1,314
Close Investment 1994 Fund	UK	1,256
Heritable Property & Loans	UK	1,232
1818 Fund III	USA	978
Close Investment 1997 Fund	UK	755
Cahill Warnock Strategic Partners	USA	731
Others (under £0.5m)		464
		29,952

Marketing

SIT's marketing objectives are to promote awareness of The Scottish Investment Trust PLC and SIT Savings' products and to stimulate demand from private investors. Marketing activity comprises a mix of PR, an increasing internet presence, a comprehensive range of literature, direct mail, AITC roadshows and product development. A priority is to offer low-cost, simple, transparent investment products with the flexibility and accessibility to fulfil investor requirements. SIT's global investment strategy allows access to long-term investment opportunities to benefit stockholders.

How to Invest

You can buy SIT stock using the simple, low-cost investment products outlined below. SIT stock can also be bought directly on the stockmarket through a stockbroker or a bank, lawyer, accountant or other professional adviser.

STOCKPLAN – SIT's investment trust savings scheme – is one of the lowest charging available. Extremely flexible, it allows minimum regular investments from only £25 per month and/or lump sum investments from £250. There is no maximum investment limit and you can stop and start at any time.

STOCKPLAN: A Flying Start is SIT's Investing for Children plan. 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 is one of the most competitively priced stocks and shares ISAs on offer. Other than stamp duty, there is no initial, exit or withdrawal plan charge. The annual management fee of 0.6% of the value of the investment is capped at £30 + VAT regardless of how much your ISA investment grows or how many years ISA allowances you invest with SIT.

The SIT PEP also has one of the lowest charging structures around, with an annual fee of only £30 + VAT again regardless of the number of SIT PEPs held or the value of the investment.

ISAs and PEPs

The maximum annual investment limit of a stocks and shares Mini ISA has been increased and it is now possible to invest up to £4,000 per tax year. The SIT ISA is a stocks and shares ISA and can be held as either a Mini or a Maxi ISA.

Investment in ISAs and PEPs continues to be free from any capital gains tax. Higher rate tax payers do not have to pay any additional tax on the dividend, nor does it need to be included in a tax return.

Contract Notes

Investors in The SIT ISA and The SIT PEP who do not wish to receive contract notes for every transaction on their account should contact the ISA/PEP Administrator – Halifax Share Dealing – on 0845 850 0181. All investors will continue to receive six monthly statements on their ISA/PEP accounts.

Dividends

The following dividends have been paid or proposed during 2005:

Dividends	Amount	XD date	Record date	Payment date
Final 2004	4.20p	4 January 2005	7 January 2005	10 February 2005
Interim 2005	4.05p	7 June 2005	10 June 2005	15 July 2005
Final 2005 (proposed)	4.35p	4 January 2006	6 January 2006	10 February 2006

The SIT plans listed provide automatic reinvestment of dividends. However, they also allow for dividends to be taken as income, if required. STOCKPLAN, ISA and PEP holders should contact SIT's Investor Relations team to request the relevant income distribution request form if they would like to take dividends as income.

Conversely, stockholders whose names are on our stock register, where dividends are automatically paid as income, can have their dividends reinvested by joining our dividend reinvestment plan. Details are available from Computershare Investor Services, our Registrar, on 0870 703 0195 or from our website, **www.sit.co.uk**.

How Can I Monitor My Investment?

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

The price of ordinary stock units is published daily in most quality newspapers and is also available on Ceefax and Teletext, listed as Scot.IT. In addition, a number of financial websites, such as the FT website, **www.ft.com** and Trustnet, **www.trustnet.com** carry stock price information.

SIT publishes a weekly NAV and a monthly statement 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, ISA and PEP investors receive twice yearly statements of their holdings and SIT's investor newsletter is issued twice yearly.

Accessing your account online

ISA and PEP investors

SIT's ISA and PEP investors may view their accounts online through the links in the ISA and PEP sections of our website or by visiting **www.halifax.co.uk/online**. Please note you will need your Share Dealing Personal Reference

Investor Information

Number (PRN) and Personal Identification Number (PIN) to access this service. If you do not have either of these, please contact the PEP and ISA administrator, Halifax Share Dealing, on 0845 850 0181.

Name on register stockholders
Investors who hold ordinary stock in their own name on SIT's stock register can check their holdings on our Registrar's website **www.computershare.com** or through the link on our website. Please note that to access this facility investors will need to quote the reference number shown on their stock certificate.

Alternatively, 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.computershare.com/investor** for further information.

Electronic communications

If you are a name on register stockholder (i.e. not in the STOCKPLAN, ISA or PEP schemes) you may choose to receive our interim and annual reports and other stockholder communications electronically instead of in paper form. All you need to do to register is to visit the link in the stockholder information section on our website at **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.

Stockholders' Meetings

Investors whose names appear on the main stock register (i.e. not in the STOCKPLAN, ISA or PEP schemes) 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 PEP investors are entitled to attend the AGM and other general meetings and vote on a poll 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 27 January 2006 at 10.05 am, or if later, immediately after the conclusion of the extraordinary general meeting (EGM) convened for 10.00 am that day.

Electronic Voting

Name on register stockholders are able to submit proxy votes for our AGM electronically. Please follow the instructions on your proxy card.

Personal Taxation

Income Tax
Currently, all UK dividends are paid to stockholders net of a tax credit of 10%. Changes to the tax regime mean that from April 1999 non tax payers are no longer able to reclaim the tax credit.

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

Capital Gain 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 £8,500 pa of such gains from all sources is exempt.

Up to 5 April 1998 the cost of investments for CGT purposes was adjusted to allow for inflation. However from 6 April 1998 this indexation was replaced by a taper relief and from this date chargeable gains will be reduced in line with the length of time the investment has been held.

For investors who purchased stock 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 and PEP investments will continue to 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 authorised and regulated by the Financial Services Authority (FSA).

Risk Warning

Past performance is no guarantee of future returns and the capital value of stock units and the income from them can go down as well as up as a result of market and currency fluctuations and cannot be guaranteed. An investor may not get back the amount originally invested. 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 for stockholders. However, if markets fall these borrowings will magnify any losses. Investment in SIT is intended as a long-term investment. Taxation levels, bases and reliefs are subject to change and may depend on individual circumstances.

Further Details

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

SIT Investor Relations
SIT Savings Limited
Freepost EH882
Edinburgh EH2 0BR
Telephone: 0800 42 44 22
Fax: 0131 226 3663
Email: heather@sit.co.uk

Dividend

The directors recommend a final dividend of 4.35p per ordinary stock unit payable on 10 February 2006 which, with the interim dividend of 4.05p already paid, makes a total of 8.40p for the year. The total dividend absorbs £17,548,000 leaving £3,040,000 to be transferred to revenue reserve.

Business and Tax Status

The business of the company is that of a self-managed investment trust and it is registered as an investment company within the meaning of the Companies Act 1985. A review of the company's business during the year is given in the chairman's statement on page 4 and the management review on page 8.

The Inland Revenue has approved the company as an investment trust for the purposes of S842, Income and Corporation Taxes Act 1988 up to the accounting period ending 31 October 2004. The company has subsequently continued to satisfy the conditions for such approval.

Stock Buybacks

During the year no ordinary stock was repurchased.

Directors

The directors of the company at 31 October 2005 are shown on page 6. All directors served throughout the year except for James S MacLeod who was appointed on 1 September 2005.

The following table shows the attendance of directors at board and committee meetings during the year to 31 October 2005.

	Board	Audit	Remuneration	Nomination
Number of meetings	10	3	3	3
D C P McDougall	10	3	3	3
Sir George Mathewson	8	1	1	2
D F K Finlay	10	n/a	n/a	3
I H Leslie Melville	10	n/a	3	3
H N Buchan	9	2	n/a	3
J S MacLeod (appointed 1.9.05)	3	1	n/a	1
Sir Paul Nicholson (retired 28.1.05)	2	1	n/a	1

Sir George Mathewson retired from the audit and remuneration committees during the year and was replaced by Jim MacLeod and Hamish Buchan respectively.

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

Jim MacLeod was appointed to the board on 1 September 2005 on the recommendation of the nomination committee. The committee considered that his long experience of the financial services industry as a partner of Ernst & Young made him an excellent candidate for appointment to the board. No external agency was involved in the selection process. Mr MacLeod will stand for election at the AGM in accordance with the company's Articles of Association. The chairman recommends his election.

Three other directors are standing for re-election at the AGM. Sir George Mathewson, Francis Finlay and Hamish Leslie Melville have all served as directors for more than nine years and therefore retire on an annual basis. After formal performance evaluation, the chairman confirms that they continue to perform effectively and with great commitment and he recommends their re-election.

Biographical details of all directors appear on page 6.

Sir George Mathewson's appointment as a director runs for one year at a time. Francis Finlay and Hamish Leslie Melville were appointed as directors for fixed terms of three years in November 1996 which were renewed in November 1999 and November 2002 for a further three years. These appointments were renewed in November 2005 for a period of one year. Douglas McDougall was appointed for a fixed term of three years in September 1998 which was renewed in September 2001 and September 2004 for a further three years. Hamish Buchan was appointed in November 2003 and Jim MacLeod was appointed in September 2005 both for initial terms of three years. Directors' letters of appointment will be available for inspection at the AGM.

The company maintained liability insurance for its directors and officers throughout the year.

Directors' Interests

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

	Ordinary stock units of 25p	
	31 October	1 November
Beneficial interests	2005	2004
D C P McDougall	60,000	60,000
Sir George Mathewson	57,983	18,383
D F K Finlay	60,000	60,000
I H Leslie Melville	60,000	60,000
H N Buchan	20,000	20,000
J S MacLeod	15,000	–
Non-beneficial interests		
Sir George Mathewson	26,500	13,200

There have been no changes in the directors' interests between 31 October 2005 and 12 December 2005.

Corporate Governance

Compliance
The board has considered the principles set out in the Combined Code on Corporate Governance ("the Combined Code") and believes that the way the company is governed is consistent with those principles. Throughout the year the company has complied with the provisions of the Combined Code except that there is no senior independent director. The directors consider that, where all directors are independent and non-executive, there is no compelling case for having a senior independent director.

Directors
The board will normally meet eight times throughout the year while the audit and remuneration committees meet three times each. The nomination committee meets annually for performance appraisals and board review and as required to consider new appointments.

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

All six members of the current board are non-executive and are independent of the company's management.

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

All directors have been appointed for fixed terms not exceeding three years. All directors are required to retire by rotation at their first AGM and at intervals of not more than three years thereafter. No compensation is payable to a director who leaves the board before the expiry of his term of office. No director has a service contract with the company. No contract or arrangement entered into by the company in which any director is interested has subsisted during the year.

The company has a policy on tenure which is shown on its website. It states that:

"All non-executive directors will be appointed for fixed terms of three years. Each director will be subject to re-election by the company in general meeting at least once every three years up to and including the ninth anniversary of his appointment.

"The performance of each director will be appraised by the nomination committee annually and prior to the renewal of a three year term. A more rigorous appraisal will take place prior to the second or subsequent renewal of a three year term.

"The directors recognise that independence is not a function of service or age and that experience is an important attribute within the board. The directors may decide to recommend a director with more than nine years service for re-election. In such a case, shareholder approval will be sought annually."

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.

There is a nomination committee comprising the whole board for the purpose of selecting and appointing new directors and appraising board performance. It has written terms of reference which are shown on the company's website.

Remuneration
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 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 and stockholders.

With regard to its employees, the company aims to provide levels of remuneration in line with similar organisations and to reward responsibility and achievement. Basic salaries are compared annually with those of equivalent employees in a group of comparable fund management organisations operating in Scotland. Remuneration consists of basic salary, a performance-related bonus and benefits including a contributory pension scheme.

Relations with stockholders
The company recognises the value of good communications with its stockholders. The management meets regularly with private client stockbrokers and the company's major institutional stockholders. The board receives regular briefings from the company's brokers. Newsletters are sent to stockholders during the year and are posted on the company's website. Stockholders are encouraged to attend the AGM and ask questions of the board and management. Any stockholder wishing to raise questions at other times should write to the chairman. Proxy voting figures for each resolution are announced to the meeting after voting on a show of hands. Separate items of business are proposed as separate resolutions including the receipt of the report and accounts and the approval of the directors' remuneration report. The annual report is sent to stockholders at least 20 working days before the AGM.

Accountability and audit
The respective responsibilities of the directors and the auditors in respect of the financial statements are given on pages 24 and 27.

The audit committee, which normally meets three times per year, 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 auditor's remuneration, the terms of engagement and the level of non-audit work, if any, carried out by the auditor. The committee will also ensure that the level of non-audit work does not compromise the auditor's independence.

The directors continue to believe that the financial statements should be prepared on a going concern basis as the assets of the company consist mainly of readily realisable securities.

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 every year.

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 safeguard the company's assets.

The board has applied Principle C.2 of the Combined Code by establishing a continuous process for identifying, evaluating and managing the significant risks the company faces. This process, which has been in place throughout the year and up to and including the date of approval of this report is in accordance with Internal Control: Guidance for Directors on the Combined Code published in September 1999 (The Turnbull Guidance).

In compliance with Provision C.2 of 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 to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied or indicate a need for more extensive monitoring. The audit committee assists the board in discharging its review responsibilities.

Detailed procedures are 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 a clear segregation of duties so that no investment transaction can be completed by one person;
- control activities are regularly checked;
- compliance procedures are in place for legal and regulatory obligations.

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

Directors' responsibilities
United Kingdom company law requires the directors to prepare financial statements for the year to 31 October 2005 which give a true and fair view of the state of affairs of the company and of the revenue 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act

1985. 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 2005;
- 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.

Substantial Stockholdings

At 12 December 2005 the company had been notified of the following holdings in excess of 3% of its ordinary stock.

	Ordinary stock units	% of issue
Carrousel Capital	22,176,287	10.6
AXA Group	14,533,734	7.0
QVT	6,753,395	3.2
Legal & General	6,537,872	3.1
Lloyds TSB Group	6,532,468	3.1
D C Thomson	6,336,040	3.0

Annual General Meeting

Resolutions relating to the following items of special business will be proposed at the forthcoming annual general meeting:

Amendment of the company's objectives

As described in the chairman's statement, the board proposes to amend the company's objectives to the following: 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.

Repurchase of the company's own ordinary stock

At the annual general meeting of the company held on 28 January 2005 stockholders passed a resolution giving the company authority to make purchases of up to 31,315,686 ordinary stock units, being 14.99% of the then issued ordinary stock of the company. The authority is due to expire on 27 July 2006.

Resolution number 10 set out in the notice of annual general meeting seeks to renew the authority to repurchase ordinary stock until 26 April 2007. The principal reasons for such repurchases are to enhance the net asset value of the ordinary stock by repurchasing ordinary stock at prices which, after allowing for costs, represent a discount to the prevailing net asset value and also to address any imbalance between the supply of and demand for ordinary stock.

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 ordinary stock over the five business days immediately preceding the date of purchase, (ii) the price of the last independent trade and (iii) the highest current independent bid. The minimum price which may be paid is 25p per ordinary stock unit. Purchases of ordinary stock will be made in accordance with the new stock buyback policy set out in the chairman's statement.

The directors consider that it is in the best interests of the company to renew the authority to repurchase ordinary stock and recommend that stockholders vote in favour of the resolution.

Voting Policy

The management reviews the business to be conducted at 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 performance are considered and these will 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

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

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.

By order of the board

I M Harding

I M Harding
Secretary
12 December 2005

Directors' Remuneration Report

This report has been prepared in accordance with the requirements of Schedule 7A to the Companies Act 1985 incorporating the Directors' Remuneration Report Regulations 2002. An ordinary resolution for the approval of the report will be put to stockholders at the AGM on 27 January 2006.

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 Leslie Melville and the other members are Douglas McDougall and Hamish Buchan.

The remuneration committee met on 27 May 2005 and considered the level of directors' fees. Although these are below the level recommended by external consultants in 2003, the committee has proposed that no increase in fees be sought at the present time.

Policy on Directors' Fees

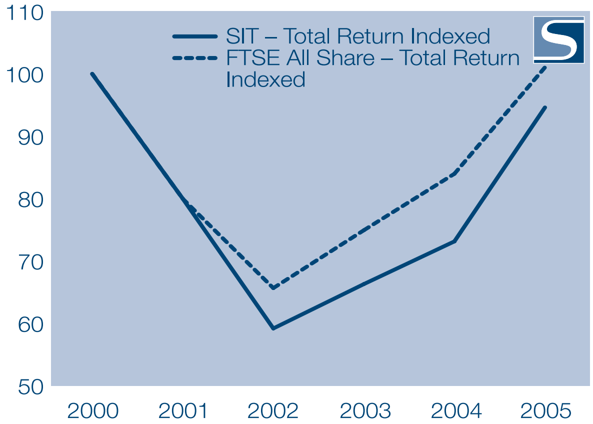
At the year end the board consisted of six directors, all of whom are non-executive. Directors' fees are set with a view to attracting individuals of appropriate calibre and experience, taking into account the time commitment required and the level of fees paid by similar investment trusts. It is intended that this policy shall apply for the year to 31 October 2006 and to subsequent years. The directors do not receive bonuses, share options, long-term incentives, pension or other benefits.

Service Contracts

The directors do not have service contracts as such. 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 stockholders' approval at intervals of not more than three years.

Company Performance

The graph below shows the company's five year total return compared to the notional return on the FTSE All-Share Index over the same period. This index has been chosen as it is a common performance comparator for companies like SIT.



Directors' Emoluments for the Year to 31 October 2005 (audited)

Fees	2005 £	2004 £
Douglas McDougall	35,000	35,000
Sir George Mathewson	20,000	20,000
Francis Finlay	20,000	20,000
Hamish Leslie Melville	20,000	20,000
Hamish Buchan	20,000	19,130
Jim MacLeod	3,333	–
Sir Paul Nicholson	5,000	20,000
	123,333	134,130

Fees in respect of Mr Hamish Leslie Melville were paid to Credit Suisse First Boston. The other directors receive their fees personally.

Approval

The directors' remuneration report was approved by the board on 5 December 2005 and signed on its behalf by the chairman of the remuneration committee.

Hamish Leslie Melville

12 December 2005

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 2005 which comprise the Statement of Total Return, the Balance Sheet, the Cash Flow Statement, the accounting policies and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 described in the paragraph headed directors' responsibilities in the Corporate Governance section of the Directors' Report, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the Directors' Remuneration Report. Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

We also report to you, if in our opinion, the company has not complied with any of the four Directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long-term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the July 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read the Directors' Report and the other information contained in the Annual Report for the above year as described in the contents section including the unaudited part of the Directors' Remuneration Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report described as having been audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company as at 31 October 2005 and of the total return of the company for the year then ended; and
- the financial statements and part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and
Registered Auditors
Edinburgh
12 December 2005

Statement of Total Return

for the year to 31 October 2005 (incorporating the Revenue Account*)

	Notes	2005 Revenue £'000	2005 Capital £'000	2005 Total £'000	2004 Revenue £'000	2004 Capital £'000	2004 Total £'000
Net gains on investments and currencies	15	–	158,653	158,653	–	49,108	49,108
Income	1	29,374	–	29,374	26,894	–	26,894
Expenses	2	(1,802)	(2,171)	(3,973)	(1,878)	(2,230)	(4,108)
Net Return before Finance Costs and Taxation		27,572	156,482	184,054	25,016	46,878	71,894
Premium on repayment of debentures		–	–	–	–	(22,360)	(22,360)
Interest payable	5	(2,962)	(5,924)	(8,886)	(4,602)	(9,205)	(13,807)
Return on Ordinary Activities before Tax		24,610	150,558	175,168	20,414	15,313	35,727
Tax on ordinary activities	6	(4,022)	1,936	(2,086)	(985)	–	(985)
Return attributable to Equity Stockholders		20,588	152,494	173,082	19,429	15,313	34,742
Dividends on ordinary stock	7	(17,548)	–	(17,548)	(16,922)	–	(16,922)
Transfer to Reserves	15	3,040	152,494	155,534	2,507	15,313	17,820
Return per Ordinary Stock Unit		9.86p	72.99p	82.85p	9.29p	7.32p	16.61p
Weighted average number of Ordinary Stock Units in issue during the year			208,910,518			209,220,405	

*The revenue 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 2005

	Notes	2005 £'000	2004 £'000
Fixed Assets			
Equity investments	8	932,777	781,617
Current Assets			
Debtors	11	2,166	5,513
Current asset investments	8	10,000	15,000
Cash and deposits	8	105,957	89,712
		118,123	110,225
Creditors: amounts falling due within one year	12	(13,926)	(10,569)
Net Current Assets		104,197	99,656
Total Assets less Current Liabilities		1,036,974	881,273
Creditors: amounts falling due after more than one year			
Long term borrowings at par	13	(147,972)	(147,805)
Net Assets		889,002	733,468
Capital and Reserves			
Called-up share capital	14	52,228	52,228
Share premium account	15	39,922	39,922
Other reserves	15		
Capital redemption reserve		18,633	18,633
Capital reserve – realised		528,710	480,634
Capital reserve – unrealised		214,306	109,888
Revenue reserve		35,203	32,163
Equity Stockholders' Funds	16	889,002	733,468
Net Asset Value per Ordinary Stock Unit with borrowings at par	17	425.5p	351.1p
Number of Ordinary Stock Units in issue at year end	14	208,910,518	208,910,518

The financial statements on pages 28 to 39 were approved by the board of directors on 5 December 2005 and were signed on its behalf by:

Douglas McDougall.

Douglas McDougall
Director

The accompanying notes are an integral part of this statement.

Cash Flow Statement

for the year to 31 October 2005

	Notes	2005 £'000	2004 £'000
Net Cash Inflow from Operating Activities		23,361	21,597
Servicing of Finance			
Premium on repayment of debenture stocks		(1,116)	(21,244)
Interest paid		(8,766)	(13,975)
Net cash outflow from servicing of finance		(9,882)	(35,219)
Taxation			
Overseas tax recovered		1,029	283
Net cash inflow from taxation		1,029	283
Investing Activities			
Purchases of investments		(394,955)	(288,305)
Disposals of investments		408,927	388,123
Net cash inflow from investing activities		13,972	99,818
Equity dividends paid		(17,235)	(19,083)
Net cash inflow before use of liquid resources and financing		11,245	67,396
Management of Liquid Resources			
(Increase)/Decrease in current asset investments and short term deposits	18	(8,000)	8,500
Financing			
Repayment of debenture stocks	18	–	(75,000)
Share buybacks	14	–	(3,868)
Net cash outflow from financing		–	(78,868)
Increase/(Decrease) in Cash	18	3,245	(2,972)
Reconciliation of Net Revenue before Finance Costs and Taxation to Net Cash Inflow from Operating Activities			
Net revenue before finance costs and taxation		27,572	25,016
Expenses charged to capital		(2,171)	(2,230)
Scrip dividends		(146)	(436)
Decrease in accrued income		266	240
Increase/(Decrease) in other creditors		42	(281)
Decrease in other debtors		67	389
Tax on investment income		(2,269)	(1,101)
Net Cash Inflow from Operating Activities		23,361	21,597

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 under the historical cost convention, modified to include the revaluation of investments, and in accordance with applicable United Kingdom accounting standards. The company's accounting policies comply with the Statement of Recommended Practice (SORP) ''Financial Statements of Investment Trust Companies''.

(b) Valuation of Investments
Listed investments are valued at closing or last traded prices 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 British 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.

Current asset investments are valued at the lower of cost and net realisable value.

Realised surpluses or deficits on the disposal of investments and permanent impairments in the value of investments are taken to capital reserve – realised, and unrealised surpluses and deficits on the revaluation of investments are taken to capital reserve – unrealised 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 equity shares are brought into account on the ex-dividend date. Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the company's right to receive payment is established.

Fixed returns on non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield on the shares. Other returns on non-equity shares are recognised when the right to the return is established. The fixed return on a debt security is recognised on a time apportionment basis so as to reflect the effective yield on the debt security.

Where the company receives dividends in the form of additional shares 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-third to revenue, two-thirds to realised capital reserves in line with the directors' expectations of the nature of long term future returns from the company's investments. Tax relief applicable to those charges is allocated between revenue and capital using the marginal basis.

Expenses which are incidental to the acquisition of an investment are included within the cost of the investment.

Expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.

(e) Finance Costs
Finance costs, including dividends and other finance costs of non-equity shares, are accounted for on an accruals basis, and in accordance with the provisions of FRS 4 ''Capital Instruments''.

Interest payable has been charged one-third to revenue, two-thirds to realised capital reserves in line with the directors' expectations of long term future returns from the company's investments. Tax relief applicable to those charges is allocated between revenue and capital using the marginal basis.

The premium paid in 2004 on the repayment of the debenture stocks has been charged to capital in the statement of total return.

The discount and expenses of issue on the secured bonds due 17/4/2030 have been included in the financing costs of the issue which are being amortised over the life of the bonds.

(f) Taxation
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 at rates expected to apply when they crystallise based on the current tax rates and law. 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.

(g) Foreign Currency
Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as at the date of the transaction or, where appropriate, at the rate of exchange in a related forward contract. Monetary 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 respectively.

(h) Capital Reserves

Capital Reserve – Realised

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 and related income on transactions undertaken to hedge an exposure of a capital nature
- the funding of ordinary stock repurchases
- expenses and interest charged to capital.

Capital Reserve – Unrealised

The following are accounted for in this reserve:
- increases and decreases in the valuation of investments held at the year end
- unrealised exchange differences of a capital nature
- unrealised gains and losses and related income on transactions undertaken to hedge an exposure of a capital nature.

(i) Pensions
The expected cost of providing pensions, as calculated periodically by professionally qualified actuaries, is charged to the statement of total return so as to spread the cost over the service lives of employees in the scheme, in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll.

Additional contributions, representing variations from regular cost, are recorded within prepayments and amortised over the estimated average remaining service life of scheme members.

The company has adopted the transitional rules under FRS 17 – Retirement Benefits and has included the appropriate disclosures in Note 4.

Notes to the Financial Statements

for the year to 31 October 2005

1. INCOME	2005 £'000	2004 £'000
Income from investments:		
UK franked investment income	12,981	12,895
Overseas dividends	10,817	8,289
Scrip dividends	146	436
Other	641	487
	24,585	22,107
Other income:		
Deposit interest	4,986	4,787
FX Forward	(197)	–
	4,789	4,787
Total income	29,374	26,894
Total income comprises:		
Dividends including special dividends of £1,248,000 (2004 – £138,000)	24,583	22,104
Interest	4,988	4,790
Other income	(197)	–
	29,374	26,894
Income from investments:		
Listed UK	13,617	13,786
Listed overseas	10,963	8,288
Unlisted	5	33
	24,585	22,107

2. EXPENSES	2005 £'000	2004 £'000
Staff costs (Note 3)	2,213	2,204
Auditors' remuneration for audit	23	22
Other expenses	1,737	1,882
	3,973	4,108

Since 1 November 1999 investment-related expenses have been charged one-third to revenue and two-thirds to capital.

Auditors' remuneration for audit related services totalled £5,000 (2004 – £3,000) and for non-audit services totalled £Nil (2004 – £Nil).

3. STAFF COSTS	2005 £'000	2004 £'000
Salaries	1,505	1,481
Social security costs	173	162
Pensions and post-retirement benefits	535	561
	2,213	2,204

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

	2005 Number	2004 Number
Investment	9	10
Administration	12	13
	21	23
Directors' remuneration:		
Fees for services as directors	£123,333	£134,130

4. PENSION SCHEME

The company's defined benefit pension scheme based on final salary is now closed to new entrants. The assets of the scheme are held separately from those of the company. The fund is under the control of trustees and is administered by a firm of consulting actuaries. A defined contribution scheme has been introduced for new employees.

The pension cost charge for the period was £509,000 (2004 – £526,000). The pension cost charge is determined by a qualified actuary on the basis of triennial valuations. The charge for 2005 is based on a triennial valuation as at 31 July 2004. The attained age method was used. The most significant assumptions were that for past and future service the rate of return on investments would be 6.75% in the period up to retirement and 6.75% once the pension was in payment. The rate of increase of salaries would be 5.5%. The actuarial value of the assets at 31 July 2004 represented 92% of the actuarial value of the accrued benefits. The accrued benefits include all benefits for pensioners and former members as well as benefits based on service completed to date for active members allowing for future salary rises. The market value of the scheme assets at 31 July 2004 was £6,318,000. The pension charge for 2005 was 38% of pensionable earnings, including an allowance of 12% in respect of the amortisation of the deficit, which is being recognised over nine years, the remaining service lifetime of the current employees.

While the pension charge has been established in line with SSAP 24, additional disclosures regarding the company's pension scheme are required under the transitional provisions of FRS 17 "Retirement benefits" and these are set out below.

An actuarial valuation has been calculated at 31 October 2005 by a qualified actuary using assumptions that are consistent with the requirements of FRS 17. Investments have been valued, for this purpose, at fair value.

The major assumptions used for the actuarial valuation were:

	2005 %	2004 %	2003 %	2002 %
Rate of increase in salaries	4.9	4.9	2.5 and 4.5	4.2
Rate of increase in pensions in payment	3.5	3.8	2.5	2.2
Discount rate	5.0	5.5	5.4	5.4
Inflation assumption	2.9	2.9	2.5	2.2

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at the balance sheet date were:

	Expected rate of return				Fair value			
	2005 %	2004 %	2003 %	2002 %	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Equities	7.3	7.7	8.2	8.5	2,494	3,252	3,470	3,142
Bonds	4.3	4.7	4.8	4.8	71	93	907	681
With profit policies	4.7	4.7	4.8	4.4	1,262	2,121	2,529	1,260
Cash	4.5	4.8	–	–	999	897	–	–
Total fair value of assets					4,826	6,363	6,906	5,083
Present value of scheme liabilities					6,757	7,793	8,080	7,202
Net pension liability					1,931	1,430	1,174	2,119

The net pension liability arises mainly because future liabilities are discounted at a rate based on the yield on AA corporate bonds which is lower than the expected rate of return from equities in which the fund is largely invested.

4. PENSION SCHEME (continued)

The following figures for the year to 31 October 2005 are given by way of note. They will be incorporated into the statement of total return on full implementation of FRS 17 if it is implemented at the end of transition in 2006. Had FRS 17 been adopted early, the net asset value would have been reduced by 1.23p per ordinary stock unit (2004 – 1.05p).

Analysis of amount chargeable to operating profit during the year:

	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Current service cost	363	424	435	400
Past service cost	–	–	–	–
Settlement/curtailments	–	(1,530)	–	–
Total operating charge	363	(1,106)	435	400
Employee contribution to be set off	(35)	(49)	(58)	(48)
Analysis of amount credited to other finance income:				
Expected return on assets	360	430	426	420
Interest on liabilities	(370)	(423)	(389)	(529)
Net return	(10)	7	37	(109)
Movement in deficit during year:				
Deficit at beginning of year	(1,430)	(1,174)	(2,119)	(1,973)
Movement in year:				
Current service cost	(363)	(424)	(435)	(400)
Contributions for year	314	303	496	439
Contributions prepaid	–	–	620	458
Settlements/curtailments	–	–	–	–
Past service costs	–	1,530	–	–
Net return from other finance income	(10)	7	37	(109)
Actuarial (loss)/gain in statement of total return	(442)	(1,672)	227	(534)
Deficit at end of year	(1,931)	(1,430)	(1,174)	(2,119)
Analysis of amount recognised in statement of total return:				
Actual return less expected return on assets	256	(376)	285	(924)
Experience (losses)/gains on liabilities	(153)	(988)	(142)	476
Change in assumptions	(545)	(308)	84	(86)
Actuarial (loss)/gain recognised in statement of total return	(442)	(1,672)	227	(534)

History of experience gains and losses	%	£'000	%	£'000	%	£'000	%	£'000
Difference between actual and expected return on assets	5	256	6	(376)	4	285	21	(924)
Experience (losses)/gains on liabilities	2	(153)	13	(988)	2	(142)	7	476
Total amount recognised in statement of total return	7	(442)	21	(1,672)	3	227	7	(534)

Notes to the Financial Statements

for the year to 31 October 2005

5. INTEREST PAYABLE

	2005 £'000	2004 £'000
On debentures, bank loans, overdrafts and other loans	8,719	13,640
Amortisation of secured bond issue expenses	167	167
	8,886	13,807

Interest has been charged one-third to revenue and two-thirds to capital.

6. TAX ON ORDINARY ACTIVITIES

	2005 £'000	2004 £'000
Tax on ordinary activities		
Overseas tax	2,108	1,009
Deferred tax	(22)	(24)
	2,086	985
The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK of 30% (2004 –30%) The differences are explained below:		
Income	29,374	26,894
Expenses	(3,973)	(4,108)
Interest payable	(8,886)	(13,807)
Profit on ordinary activities before tax	16,515	8,979
Tax at 30% thereon	(4,955)	(2,694)
Effects of:		
UK dividend income	3,894	3,869
Stock dividends	44	131
Foreign tax charge	(1,262)	(985)
Overseas refundable withholding tax deemed irrecoverable	(824)	–
Surplus management expenses	995	(1,330)
	(2,108)	(1,009)

There are surplus interest and management expenses at 31 October 2005 of £31,348,000 (2004 – £30,035,000) but the related deferred tax asset at 30% has not been recognised. This is because the company is not expected to generate taxable income 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 surplus expenses.

7. DIVIDENDS AND OTHER APPROPRIATIONS

	2005 £'000	2004 £'000
Dividends on ordinary stock:		
– interim paid of 4.05p per unit (2004 – 3.90p)	8,461	8,148
– final declared of 4.35p per unit (2004 – 4.20p)	9,087	8,774
	17,548	16,922

8. INVESTMENTS

	2005 £'000	2004 £'000
Investments listed on a recognised investment exchange	902,825	747,742
Unlisted investments	29,849	33,772
Subsidiary undertakings (Note 9)	103	103
	932,777	781,617

A geographical analysis of the investment portfolio (page 9), an analysis of the investment portfolio by broad industrial or commercial sector (page 17), and a full list of investments by market value (pages 18 and 19), are contained within the annual report.

8. INVESTMENTS (continued)	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total 2005 £'000
Opening book cost	300,345	340,834	30,550	671,729
Opening unrealised appreciation/(depreciation)	69,097	37,466	3,325	109,888
Opening valuation	369,442	378,300	33,875	781,617
Movements in the year:				
Purchases at cost	112,061	283,814	3,361	399,236
Sales – proceeds	(133,650)	(248,777)	(24,361)	(406,788)
– realised gains on sales	24,053	19,552	10,689	54,294
Increase in unrealised appreciation	24,524	73,506	6,388	104,418
Closing valuation	396,430	506,395	29,952	932,777
Closing book cost	302,809	395,423	20,239	718,471
Closing unrealised appreciation	93,621	110,972	9,713	214,306
	396,430	506,395	29,952	932,777

	2005 £'000	2004 £'000
Realised gains/(losses) on sales	54,294	(13,778)
Increase in unrealised appreciation	104,418	62,981
Gains on investments	158,712	49,203

Unlisted investments include heritable property valued at £1,100,000 (2004 – £1,100,000). The property was valued on an open market basis by Ryden, chartered surveyors, on 16 October 2003.

Financial assets – cash, deposits and current asset investments

	2005 Fixed £'000	2005 Floating £'000	2005 Total £'000	2004 Fixed £'000	2004 Floating £'000	2004 Total £'000
Sterling	99,000	14,500	113,500	86,000	15,455	101,455
Euro	–	290	290	–	995	995
US dollar	–	1,262	1,262	–	733	733
Other	–	905	905	–	1,529	1,529
	99,000	16,957	115,957	86,000	18,712	104,712

The maximum fixed period for deposits outstanding at the year end was 28 days (2004 – 22 days). The weighted average fixed interest rate at the year end was 4.471%. Floating interest rates vary in relation to short term rates in the currencies in which deposits are held.

Included within current asset investments and financial assets above is an amount of £10,000,000 (2004 – £15,000,000) representing a money market fund listed in Dublin held at the end of the year.

9. SUBSIDIARY UNDERTAKINGS

The company has investments in the following subsidiary undertakings:

Name of undertaking	Principal activity	Country of incorporation 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. SIGNIFICANT INTERESTS

Details of investments, other than subsidiaries, in which the company has an interest of 20% or more of the nominal value of the allotted shares of any class, or of the net assets, are as follows:

Name of undertaking	Country of incorporation and operation	Description of shares held	Percentage held	Aggregate capital and reserves £'000	Loss after tax for year £'000
Sprout Growth Limited	Inc Cayman Islands operating in USA	ord shares of US$1	49.7	248	10
		part red pref shares of US$0.01	49.7		

11. DEBTORS

	2005 £'000	2004 £'000
Amounts due from brokers	–	2,169
Overseas tax recoverable	134	979
Prepayments and accrued income	2,032	2,365
	2,166	5,513

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005 £'000	2004 £'000
Amounts due to brokers	4,165	–
Dividends	9,087	8,774
Other creditors	674	1,795
	13,926	10,569

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2005		2004	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
4% perpetual debenture stock	350	280	350	264
4¼% perpetual debenture stock	700	592	700	561
5% perpetual debenture stock	1,009	1,020	1,009	966
5¾% secured bonds due 17/4/2030	145,913	160,821	145,746	148,042
	147,972	162,713	147,805	149,833

The secured bonds are secured by a floating charge over the assets of the company and have a redemption value in 2030 of £150m.

The debenture stocks and secured bonds are stated in the balance sheet at book value. Restating them at estimated market value of £162.7m (2004 – £149.8m) has the effect of reducing the year end NAV per ordinary stock unit from 425.5p to 418.5p (2004 – 351.1p to 350.1p). Based on the market price of 377.0p (2004 – 298.75p) the discount to NAV at the year end would be reduced from 11.4% to 9.9% (2004 – 14.9% to 14.7%). Estimated market value is the fair value of the company's secured bonds.

Notes to the Financial Statements

for the year to 31 October 2005

14. CALLED-UP SHARE CAPITAL

	Authorised 2005 £'000	Authorised 2004 £'000	Issued 2005 £'000	Issued 2004 £'000
Ordinary stock units of 25p	85,500	85,500	52,228	52,228
Number of ordinary stock units in issue		208,910,518		208,910,518

No ordinary stock units were repurchased in the stockmarket during the year to 31 October 2005. No ordinary stock units were repurchased between 31 October 2005 and 12 December 2005.

15. RESERVES

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
Beginning of year	39,922	18,633	480,634	109,888	32,163
Exchange difference	–	–	(59)	–	–
Net gain on realisation of investments	–	–	54,294	–	–
Increase in unrealised appreciation	–	–	–	104,418	–
Interest, expenses and tax charged to capital in current year	–	–	(6,159)	–	–
Transfer to reserves	–	–	–	–	3,040
End of year	39,922	18,633	528,710	214,306	35,203

16. RECONCILIATION OF MOVEMENTS IN STOCKHOLDERS' FUNDS

	2005 £'000	2004 £'000
Opening equity stockholders' funds	733,468	719,515
Total recognised gains	173,082	34,743
Dividend payments	(17,548)	(16,922)
Ordinary stock repurchases	–	(3,868)
Closing equity stockholders' funds	889,002	733,468

17. NET ASSET VALUE PER ORDINARY STOCK UNIT

Basic net asset value per ordinary stock unit is based on net assets after deducting long term borrowings at book value and on the number of ordinary stock units in issue at the year end.

Reconciliation of movement in NAV per ordinary stock unit with borrowings at par:	p
Opening NAV	351.09
Total return per ordinary unit	82.85
Dividend per ordinary unit	(8.40)
Closing NAV	425.54

18. ANALYSIS OF CHANGES IN NET DEBT DURING THE YEAR

	1 November 2004 £'000	Cash flows £'000	Non-cash movements £'000	31 October 2005 £'000
Current asset investments	15,000	(5,000)	–	10,000
Cash at bank	3,712	3,245	–	6,957
Short term deposits	86,000	13,000	–	99,000
Debt due after one year	(147,805)	–	(167)	(147,972)
	(43,093)	11,245	(167)	(32,015)

19. CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS

	2005 £'000	2004 £'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	4,121	8,053

20. FINANCIAL INSTRUMENTS

In pursuing its investment policy the company holds certain financial instruments, comprising equity and non-equity shares, fixed income securities, interests in limited liability partnerships, cash and liquid resources. These are financed through stockholders' funds and long and short term borrowings.

The risks faced by the company and the strategies for managing them are identified below.

- Investment risk and market price risk. The holding of securities and investing activities involve certain inherent risks. Events may occur within the underlying investments which affect their value and they are also sensitive to movements in market levels. The company holds a portfolio which is well diversified across industrial and geographical areas to help minimise these risks. It may also use derivatives. Trading in derivatives is not within the normal activities of an investment trust nor is it the company's policy to trade in such instruments. However, 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 policy such as the movement of funds from one area to another. No such transaction may take place without the prior authorisation of the board and no such transaction took place during the year.
- 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 line of 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 13.
- Liquidity risk. The majority 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 liquidity profile of the company's borrowings is included in notes 12 and 13.
- Foreign currency risk. Approximately half of the company's assets are invested overseas which gives rise to a currency risk. This risk is monitored by the managers on a daily basis and by the board monthly. From time to time specific hedging transactions are undertaken although none was in place at the year end. The company's overseas income stream is subject to currency movements which are not usually hedged. The currency profile of the company's assets is set out on page 9 and the currency profile of the company's monetary assets and liabilities is set out in notes 8 and 13. In accordance with FRS 13, short term debtors and creditors have been excluded from the disclosures.
- All financial assets are carried at their market value, which in the opinion of the directors, approximates their fair value. The estimated market values of the company's borrowings are set out in note 13.

Financial Calendar 2006

Dividend and Interest Payments

Ordinary stock final 2004/2005	10 February 2006
Ordinary stock interim 2005/2006	July 2006
Secured bonds	17 April, 17 October

Announcement of Results

NAV	Weekly
NAV & Monthly Statement	Monthly
Interim figures	May
Preliminary final figures	November
Annual report & accounts	December

Annual general meeting (AGM)	27 January 2006
Extraordinary general meeting (EGM)	27 January 2006

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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.computershare.com**

ISA and PEP Administrator
THE SIT ISA/PEP,
Halifax Share Dealing Limited,
Trinity Road,
Halifax,
West Yorkshire
HX1 2RG
Helpline 0845 850 0181
website: **www.halifax.co.uk/online**

STOCKPLAN and STOCKPLAN: A Flying Start Administrator
SIT STOCKPLAN,
The Bank of New York Europe Limited,
Investment Trust Administration Unit,
12 Blenheim Place,
Edinburgh
EH7 5JH
Helpline 0131 525 9839

Notice of Meeting

Notice is hereby given that the one hundred and eighteenth annual general meeting of The Scottish Investment Trust PLC will be held at the Roxburghe Hotel, Charlotte Square, Edinburgh, on 27 January 2006 at 10.05 am or, if later, immediately after the conclusion of the extraordinary general meeting (EGM) convened for 10.00 am that day, 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 2005.
2. To approve the directors' remuneration report for the year to 31 October 2005.
3. To declare a final dividend of 4.35p per ordinary stock unit.
4. To re-elect Sir George Mathewson as a director.
5. To re-elect Mr Francis Finlay as a director.
6. To re-elect Mr Hamish Leslie Melville as a director.
7. To elect Mr James MacLeod as a director.
8. To re-appoint Deloitte & Touche LLP as auditors and to authorise the directors to fix their remuneration.

As Special Business:

9. To approve an amendment to the Company's objectives (see page 25).
10. To authorise the Company, in accordance with section 166 of the Companies Act 1985 (the "Act") and in substitution for any pre-existing such authority other than the authority being sought at the EGM being convened by the notice in a circular to shareholders dated on or about 21 December 2005 ("the Circular"), to make market purchases (within the meaning of section 163(3) of the Act) of ordinary stock units of 25p each ("ordinary stock units"), provided that:

(a) the maximum number of ordinary stock units hereby authorised to be purchased shall be 14.99% of the issued ordinary stock immediately following completion of the repurchase by the Company of its own stock pursuant to the Tender Offer set out in the Circular or, if applicable, on the lapsing of the said Tender Offer;

(b) the minimum price which may be paid for an ordinary stock unit shall be 25p;

(c) the maximum price (exclusive of expenses) which may be paid for an ordinary stock unit 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 26 April 2007, save that the Company may, prior to such expiry, enter into a contract to purchase ordinary stock units under such authority which will or might be executed wholly or partly after the expiration of such authority and may make a purchase of ordinary stock pursuant to any such contract.

All resolutions are ordinary resolutions except number 10 which is a special resolution.

By order of the board

I M Harding
Secretary
21 December 2005

Notes

Arrangements have been put in place to enable all investors to attend and vote at the annual general meeting.

Registered stockholders whose names appear on the company's register of members at 10.05 am on 25 January 2006 are entitled to attend and vote at the meeting in respect of ordinary stock registered in their names at that time. Changes to entries on the register of members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, on a poll, to vote on his or her behalf. Such proxy need not be a member of the company. Proxy forms must be lodged with the company's registrars not less than 48 hours before the meeting.

STOCKPLAN, A Flying Start, PEP and ISA investors are welcome to attend and may vote on a poll by completing the Form of Direction enclosed with this report. This must be returned to the company's registrar no later than 23 January 2006. Other investors whose holdings are in nominee names and who wish to attend and vote are advised to contact their nominee before 23 January 2006.

The final dividend, if approved, will be paid on 10 February 2006 to stockholders registered at the close of business on 6 January 2006.

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

The register of directors' interests, maintained by the company as required by the Companies Act 1985, will be available for inspection at the meeting together with copies of directors' appointment letters.