The Scottish Investment Trust PLC

125th Annual Report & Accounts

31 October 2012

Contents

Responsibility statement

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

a) the set of financial statements, which has been prepared in accordance with United Kingdom Generally Accepted Accounting Practice, gives a true and fair view of the assets, liabilities, financial position and return of the company;

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

c) no transactions with related parties took place during the financial year other than fees payable to the directors.

For and on behalf of the board

Douglas McDougall

Douglas McDougall
Chairman
12 December 2012

The Company

Company Data as at 31 October 2012

£734,801,000
Total Assets

£628,244,000
Shareholders' Funds

£535,799,000
Market Capitalisation

Objective of The Scottish Investment Trust PLC
To provide investors, over the longer term, with above-average returns through a diversified portfolio of international equities and to achieve dividend growth ahead of UK inflation. The company's investment policy is shown in the Directors' Report on page 16.

Investment Risk
The Scottish Investment Trust PLC (SIT) investment portfolio is diversified over a range of industries and regions in order to spread risk. SIT has a long-term policy of borrowing money to invest in equities in the expectation that this will improve returns but should stockmarkets fall, such borrowings would magnify losses on these investments. SIT can buy back and cancel its own shares. All other things being equal, this would have the effect of increasing gearing. Investment risk is considered in more detail in the Directors' Report on pages 16 to 21.

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

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

Capital Structure
At 31 October 2012 the company had in issue 111,857,926 shares and long-term borrowings at par amounted to £104,051,000 with an average annual interest cost of 5.8%.

Management Expenses
The total expenses of managing the company's business during the year were £4,632,000, equivalent to 0.75% of average shareholders' funds. The company aims to keep this percentage low in comparison with competing investment products.

Dividend
Details of the company's dividends can be found on pages 44 and 49.

ISA and SIPP
The shares are eligible for ISAs and SIPPs. Details of all of the savings schemes offered by SIT Savings Ltd are shown on page 43.

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

Ten Year Record

Year to 31 October	Earnings per share (p)[1]	Dividend per share (p)[2]	Total expenses £'000	Total expense ratio %	Total assets £'000	Share-holders' funds £'000	NAV (debt at par) (p)	Share price (p)	Discount to NAV %[4]	NAV (debt at par) total return %
2002	8.24	7.50	4,558	0.58	893,915	671,443	314.8	259.0	15.6	(20.2)
2003	9.28	7.80	4,129	0.59	942,154	719,515	342.1	281.0	16.2	11.5
2004[3]	9.29	8.10	4,108	0.56	888,578	739,342	353.9	298.8	14.3	6.2
2005[3]	9.86	8.40	3,973	0.49	1,044,315	894,412	428.1	377.0	9.5	23.6
2006	9.39	8.72	4,481	0.55	839,641	730,594	510.4	451.0	8.5	21.3
2007	11.02	9.10	4,709	0.61	910,574	802,353	597.6	529.0	9.9	19.5
2008	11.00	9.50	4,440	0.67	633,521	525,679	405.5	372.0	7.5	(30.7)
2009	10.62	9.60	4,139	0.74	696,971	587,675	465.6	410.0	8.9	17.6
2010	10.26	10.05	4,284	0.70	740,140	630,367	533.7	469.3	9.0	17.0
2011	12.43	10.40	4,443	0.72	708,972	598,870	524.2	452.0	8.2	0.0
2012	**12.01**	**11.25**	**4,632**	**0.75**	**734,801**	**628,244**	**561.6**	**479.0**	**8.6**	**9.2**

Ten Year Growth Record

	Earnings per share[1]	Dividend per share[2]	Retail Prices Index	NAV (debt at market value)	NAV (debt at par)	Share price	NAV (debt at par) total return	Share price total return	UK FTSE All-Share Index total return	FTSE All-World Index total return
2002	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2003	112.6	104.0	102.6	109.3	108.7	108.5	111.5	111.9	113.6	115.5
2004[3]	112.7	108.0	106.0	115.0	112.4	115.3	118.4	123.0	126.8	122.2
2005[3]	119.7	112.0	108.7	137.2	136.0	145.6	146.3	159.0	151.9	145.9
2006	114.0	116.3	112.6	162.8	162.1	174.1	177.5	194.0	184.8	166.9
2007	133.7	121.3	117.4	193.5	189.8	204.2	212.1	232.7	210.0	191.9
2008	133.5	126.7	122.4	133.2	128.8	143.6	147.1	167.6	137.9	140.2
2009	128.9	128.0	121.4	148.6	147.9	158.3	172.9	189.5	170.2	171.0
2010	124.5	134.0	126.9	170.0	169.6	181.2	202.3	222.0	200.0	202.2
2011	150.8	138.7	133.8	163.0	166.5	174.5	202.3	218.1	201.2	201.5
2012	**145.8**	**150.0**	**138.1**	**173.1**	**178.4**	**184.9**	**220.9**	**236.5**	**221.0**	**220.4**
Ten Year Return Per Annum	3.8%	4.1%	3.3%	5.6%	6.0%	6.3%	8.2%	9.0%	8.3%	8.2%
Five Year Return Per Annum	1.7%	4.3%	3.3%	(2.2%)	(1.2%)	(2.0%)	0.8%	0.3%	1.0%	2.8%

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

Financial Highlights

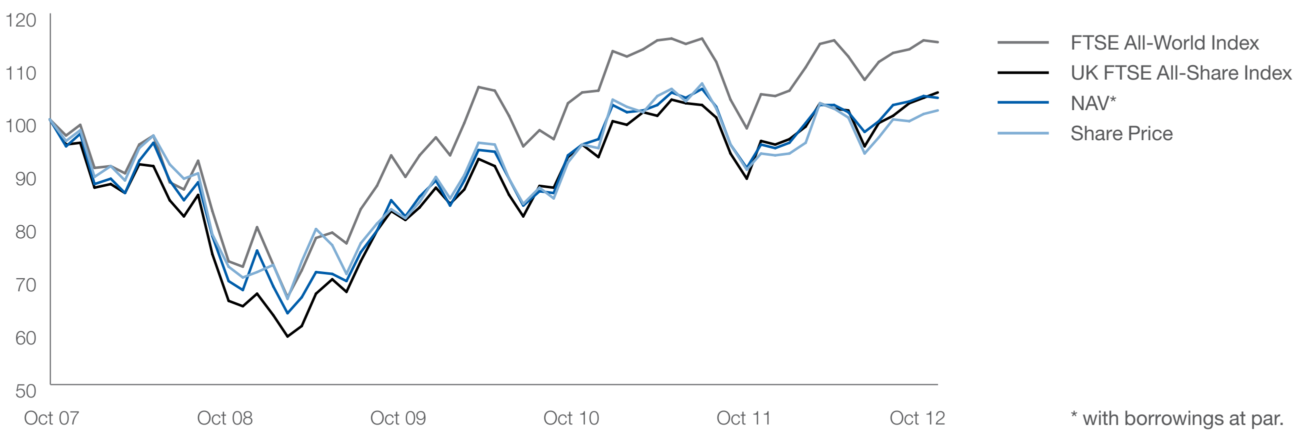
	2012	2011	Change %	Total return %
NAV with borrowings at par	561.6p	524.2p	7.1	9.2
NAV with borrowings at market value	531.3p	500.2p	6.2	8.4
Ex-income NAV with borrowings at par	554.2p	516.3p	7.3	
Ex-income NAV with borrowings at market value	523.8p	492.2p	6.4	
Share price	479.0p	452.0p	6.0	8.4
Discount to ex-income NAV with borrowings at market value	8.6%	8.2%		
FTSE All-World Index			6.3	9.4
UK FTSE All-Share Index			5.7	9.8
	£'000	£'000		
Equity investments	639,355	541,554		
Fixed interest investments	–	2,988		
Net current assets	95,446	164,430		
Total assets	734,801	708,972		
Long-term borrowings at par	(104,051)	(107,853)		
Pension liability	(2,506)	(2,249)		
Shareholders' funds	**628,244**	**598,870**		

Total income	20,565	21,544		
Earnings per share	12.01p	12.43p		
Dividend per share (2012: proposed final 6.65p)	11.25p	10.40p	8.2	
UK Consumer Prices Index – annual inflation			2.7	
UK Retail Prices Index – annual inflation			3.2	

Year's High & Low

	Year to 31 October 2012 High	Year to 31 October 2012 Low	Year to 31 October 2011 High	Year to 31 October 2011 Low
NAV with borrowings at market value	550.2p	481.6p	585.3p	464.6p
Closing share price	495.5p	429.0p	524.0p	417.0p
Discount to ex-income NAV with borrowings at market value	12.3%	7.0%	11.1%	5.8%

NAV* and Share Price against Comparator Indices Total Return (5 years to 31 October 2012)



* with borrowings at par.

Chairman's Statement

Performance

The net asset value per share (NAV) total return for the year to 31 October 2012 was 8.4% (with borrowings at market value) which compares to the 9.4% sterling total return of the global FTSE All-World Index and 9.8% from the UK FTSE All-Share Index. The share price total return was also 8.4%. The company's global equity portfolio achieved a total return of 12.1% which was ahead of both of the company's global and UK comparator indices.

The 12.1% equity portfolio total return was not fully translated into NAV and share price performance predominantly due to two related features of the company's long-term borrowings. First, the company has significant long-term borrowings which in recent periods have been held largely in cash and short-term bonds reflecting a cautious outlook for markets. Consequently, there was no worthwhile return on these secure liquid assets to offset the 1.1 percentage point deduction to the NAV total return from interest charges. Second, variations in the market value of these borrowings, which reflect changes in the market level of bond yields, must be accounted for each year even though the fixed rate cost of servicing the borrowings is unchanged. Consequently, the NAV return was lowered by a further 1.4 percentage points owing to the increase in the market value of the borrowings. This increase in the value of borrowings has affected the NAV return negatively for the last four consecutive years. Adjusting for this distortion, the NAV with borrowings at par rose by 9.2%, broadly in line with the global index.

Global equity returns over the year were again driven by North America, which accounts for almost half of the FTSE All-World Index and achieved a total return of 14.4% in sterling terms. This compares to a sterling total return for the rest of the world of around 5%. North America was the only region to generate a sterling return ahead of the FTSE All-World Index. Sterling strength lowered sterling returns materially for Europe (ex UK), Latin America and Middle East & Africa.

Despite a relative under-exposure to North America, the global equity portfolio again outperformed owing to strong regional stock selection. There were notable absolute and relative sterling total returns from our North American investments which returned 19.9%, some 5 percentage points ahead of the North American index return. Asia Pacific (ex Japan) holdings returned 15.8% compared with a regional index return of 7.4%. UK and Latin American holdings' returns also exceeded regional index returns by good margins. On an industry analysis of performance, stock selection contributed positively.

Gearing and Portfolio Activity

After a cautious start to the year, gearing was increased steadily from 6% net cash to a geared position of 7% by year end (with borrowings at market value). Average gearing was 0% and potential gearing at the year end amounted to 23%. The global equity portfolio appreciated in value by £46.5m with £51.3m net investment in equities as gearing was increased. Most of these funds (£43.5m) were added to Europe (ex UK), an area which has lagged in recent years. North American holdings were reduced by £23.8m after a long spell of strong performance, primarily through profit-taking in Apple (£13.5m) and McDonalds (£11.5m). Equity portfolio turnover was 27%.

Income

Total income decreased by 4.5% to £20.6m owing to a lower level of investment in equities over the year and a smaller contribution from special dividends. This was offset to a degree by good dividend growth from portfolio holdings. Expenses rose by 4.3%, and on a lower average number of shares outstanding following share buybacks net income per share fell by 3.4% to 12.01p (2011: 12.43p).

Dividend

The board is recommending a final dividend of 6.65p per share (2011: 5.80p). If approved, taken together with the interim dividend of 4.60p per share (2011: 4.60p), this will result in an increase of 8.2% in the total dividend for the year to 11.25p per share (2011: 10.40p) which compares with October UK CPI inflation of 2.7% and RPI of 3.2%. If the proposal is approved, the company will have increased its dividend in each of the last 29 years.

Share Buybacks, Discount and Secured Bond Repurchases

The discount to ex-income NAV (with borrowings at market value) was broadly stable moving from 8.2% at the previous year end to 8.6%. The company's buyback policy is intended to keep the discount to ex-income NAV at or below 9.0% (with borrowings at market value). Under the policy, 2.4m (2011: 3.9m) shares were repurchased for cancellation over the financial year accounting for 2.1% of the shares in issue at the start of the period. The shares were repurchased at an average discount of 9.6% and a cost of £11.1m (2011: £19.3m) inclusive of dealing expenses. The average discount over the year was 9.3% and the average between the introduction of the scheme in February 2006 and the year end was 8.7%. As an offset to the reduction in shareholders' funds, the company repurchased for cancellation £4.0m nominal of its 5.75% Secured Bonds 2030 at a cost of £5.3m. The cost of repurchasing the secured bonds was below the prevailing market value of the bonds in the NAV. Consequently, there was an immaterial enhancement to the NAV (with borrowings at market value).

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

125th Anniversary Investment Seminars

To mark the 125th anniversary of its founding, the company held two well-received investment seminars during the year, in London and Edinburgh. The seminars featured presentations covering the current investment outlook from leading investment strategists used by the company. The audiences comprised institutional shareholders, professional investors and other interested stakeholders.

Board Committee Composition

During the year, Russell Napier was appointed to the audit and remuneration committees and Francis Finlay was appointed to the audit committee.

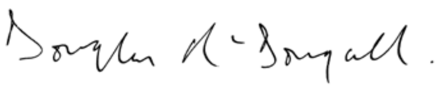
EU Alternative Investment Fund Managers (AIFM) Directive

Along with the rest of the investment trust industry, we are awaiting final details of the proposed AIFM Directive to which the company will regrettably become subject. One almost inevitable consequence of this directive will be additional costs to be borne by investment trust investors.

Outlook

Despite a further deterioration in the outlook for the global economy, companies in most industry groups are expected to report positive growth in earnings in 2012. However, a fall in profits in some cyclical sectors may hold back aggregate earnings growth to leave global equities on around 12x earnings. While this appears reasonable by historic standards, profit margins do remain at elevated levels and longer-term stockmarket valuations such as the cyclically-adjusted PE (CAPE) are less supportive. The company's global portfolio stands on around 12x earnings with a dividend yield of 3.0%.

Many of the issues which clouded the outlook a year ago remain unresolved and include the combined deflationary pressures from prolonged austerity-driven economic weakness in Europe, the long-term funding requirements of the US economy and developments in the Chinese economy. While earnings growth expectations for 2013 are currently being moderated, global corporate earnings growth is still expected to be robust in 2013 and there have been broadly helpful if still inconclusive developments in some of the areas of uncertainty. The company has entered the year with £87m of its long-term borrowings available for investment on material weakness in markets.

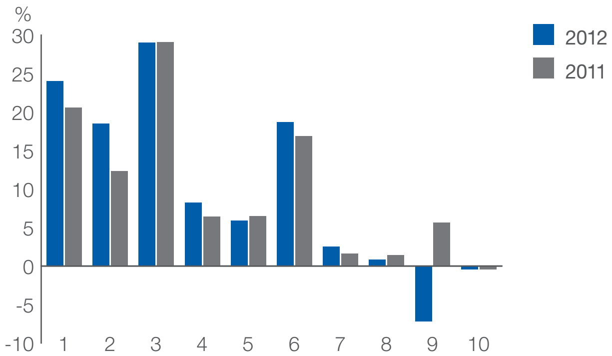


Douglas McDougall
Chairman
12 December 2012

Management Review

Distribution of Shareholders' Funds by Region

At 31 October



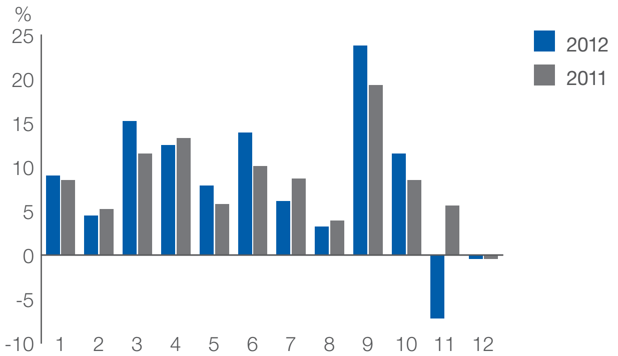
		2012 %	2011 %
1	UK	24.0	20.6
2	Europe (ex UK)	18.5	12.3
3	North America	29.0	29.1
4	Latin America	8.2	6.4
5	Japan	5.9	6.5
6	Asia Pacific (ex Japan)	18.7	16.9
7	Middle East & Africa	2.5	1.6
8	Unlisted	0.8	1.4
	Total equities	107.6	94.8
	Fixed interest	–	0.5
	Net current assets	16.0	28.8
	Borrowings at market value	(23.2)	(23.7)
9	(Gearing)/net cash	(7.2)	5.6
10	Pension liability	(0.4)	(0.4)
	Shareholders' funds	**100.0**	**100.0**

Changes in Asset Distribution by Region

	31 October 2011 £m	Net purchases/ (sales) £m	Appreciation/ (depreciation) £m	31 October 2012 £m
UK	117.7	14.7	10.0	142.4
Europe (ex UK)	70.3	43.5	(3.8)	110.0
North America	166.1	(23.8)	30.1	172.4
Latin America	36.5	12.1	0.1	48.7
Japan	37.4	2.7	(4.9)	35.2
Asia Pacific (ex Japan)	96.5	2.3	12.0	110.8
Middle East & Africa	9.0	2.6	3.5	15.1
Unlisted	8.1	(2.8)	(0.5)	4.8
Total equities	541.6	51.3	46.5	639.4
Fixed interest	3.0	(3.0)	0.0	–
Net current assets	164.4	(68.2)	(0.8)	95.4
Total assets	709.0	(19.9)	45.7	734.8
Long-term borrowings at par	(107.9)	3.9	(0.1)	(104.1)
Pension liability	(2.2)	–	(0.3)	(2.5)
Shareholders' funds	**598.9**	**(16.0)**	**45.3**	**628.2**

Distribution of Shareholders' Funds by Industry

At 31 October



		2012 %	2011 %
1	Oil & Gas	9.0	8.5
2	Basic Materials	4.5	5.2
3	Industrials	15.2	11.5
4	Consumer Goods	12.5	13.3
5	Health Care	7.9	5.8
6	Consumer Services	13.9	10.1
7	Telecommunications	6.1	8.7
8	Utilities	3.2	3.9
9	Financials[1]	23.8	19.3
10	Technology	11.5	8.5
	Total equities	107.6	94.8
	Fixed interest	–	0.5
	Net current assets	16.0	28.8
	Borrowings at market value	(23.2)	(23.7)
11	(Gearing)/net cash	(7.2)	5.6
12	Pension liability	(0.4)	(0.4)
	Shareholders' funds	**100.0**	**100.0**

Changes in Asset Distribution by Industry

	31 October 2011 £m	Net purchases/ (sales) £m	Appreciation/ (depreciation) £m	31 October 2012 £m
Oil & Gas	48.7	7.9	(3.1)	53.5
Basic Materials	29.9	(0.2)	(3.0)	26.7
Industrials	66.0	15.9	8.6	90.5
Consumer Goods	75.8	(6.9)	5.7	74.6
Health Care	33.0	7.6	6.2	46.8
Consumer Services	57.5	14.4	10.4	82.3
Telecommunications	49.7	(13.4)	0.1	36.4
Utilities	22.1	(3.0)	(0.4)	18.7
Financials[1]	110.5	21.9	9.0	141.4
Technology	48.4	7.1	13.0	68.5
Total equities	541.6	51.3	46.5	639.4
Fixed interest	3.0	(3.0)	0.0	–
Net current assets	164.4	(68.2)	(0.8)	95.4
Total assets	709.0	(19.9)	45.7	734.8
Long-term borrowings at par	(107.9)	3.9	(0.1)	(104.1)
Pension liability	(2.2)	–	(0.3)	(2.5)
Shareholders' funds	**598.9**	**(16.0)**	**45.3**	**628.2**

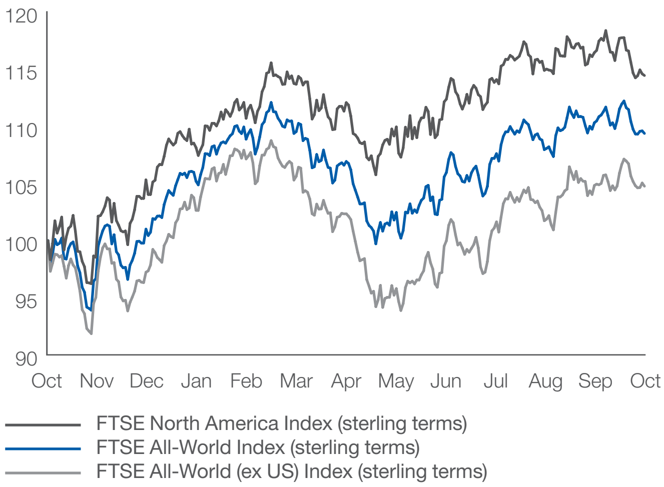
1. Includes unlisted.

Summary

- Global equity portfolio performance ahead of both comparator indices
- Good dividend growth from holdings
- Global equity portfolio appreciates by £46.5m
- NAV return subdued by increased market value of borrowings

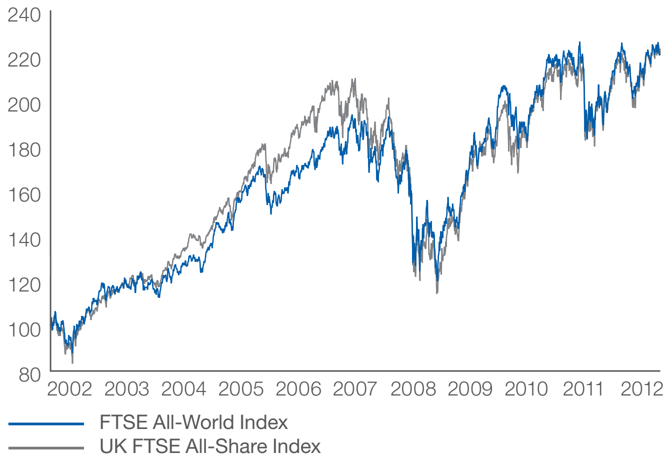
After flat markets in the previous period, the financial year to 31 October 2012 was a positive one for global equity markets. Despite a weak start to the year as worries over the eurozone sovereign debt crisis weighed, markets rallied from mid-November as investors welcomed central bank liquidity measures to support financial markets and the appointment of Mario Draghi as President of the ECB. The FTSE All-World Index reached what proved to be its peak for the year in mid-March, supported by encouraging US economic data and signs of a recovery in the US housing sector. The rally ended abruptly as eurozone sovereign debt concerns resurfaced, centred on political instability in Greece and civil unrest in the southern periphery, accompanied by fresh concerns over slowing Chinese economic growth.

FTSE All-World, North America & All-World (ex US)
Total Return Year to 31 October 2012



Source: Thomson Reuters

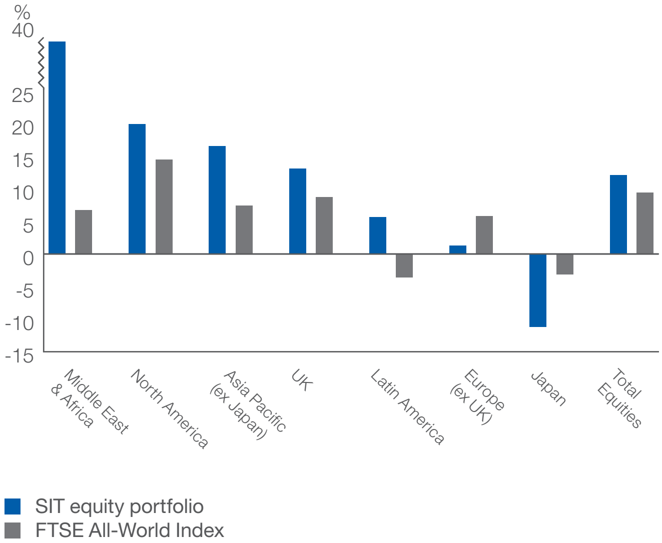
Stockmarket Performance
Total Return 10 years to 31 October 2012



Source: Thomson Reuters

Stockmarkets lost ground over the spring, particularly Europe (ex UK), as rating agencies downgraded Spanish government debt and sentiment was undermined by widespread political instability in Greece and changes of leadership in some major European economies. Just as markets threatened to reach fresh lows for the year, supportive political developments in Greece and measures to rescue Spanish banks, together with a rate cut from China, breathed new life into equities. Markets then rallied steadily from May to September to recoup much of the ground ceded in the spring, encouraged latterly by fresh rounds of stimulus measures from central banks in the US, eurozone, UK and Japan.

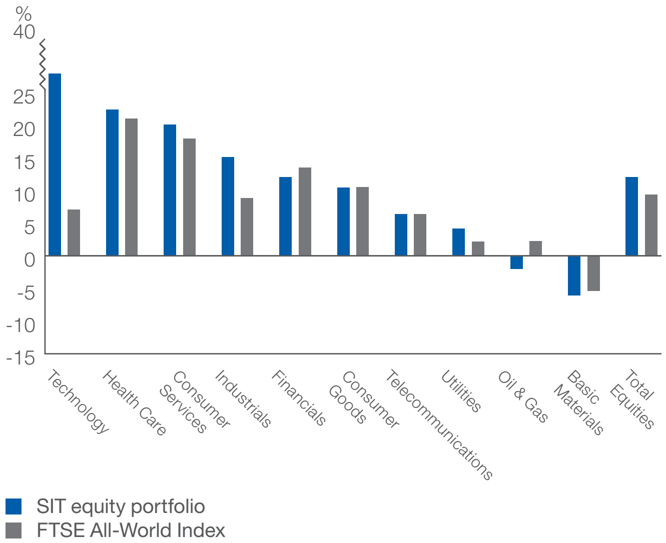
Total Return by Region
Year to 31 October 2012



Source: Thomson Reuters

Indices are components of the FTSE All-World Index Series

Total Return by Industry
Year to 31 October 2012



Source: Thomson Reuters

Indices are components of the FTSE All-World Index Series

The FTSE All-World Index was again driven by North America which accounts for almost half of this global index. Owing to broad sterling strength, North America was the only region to post a higher return than the FTSE All-World Index. In local currency terms, all regions other than Japan posted positive returns with North America, Europe (ex UK) and Middle East & Africa all achieving double-digit local currency total returns. The North American sterling total return of 14.4% contrasted with sterling total returns for the rest of the world of around just 5%. Global industry returns broadly reflected corporate earnings growth trends with among the weakest returns coming from Basic Materials and Oil & Gas and the strongest returns coming from Health Care, Consumer Services and Financials industries.

The 12.1% total return for the company's global equity portfolio was ahead of both of its comparator indices, the global FTSE All-World Index which returned 9.4% and the 9.8% of the FTSE All-Share Index.

The equity portfolio outperformance was attributable to stock selection which added 3.6% to relative NAV performance and more than offset the 0.7% impact from relative underexposure to North America. The portfolio was ahead in five of the seven regions of the world with strong relative performances in North America, Asia Pacific (ex Japan), UK and also emerging markets regions.

The largest stock selection contribution came from **North America** where holdings returned 19.9% compared with the index return of 14.4%. Technology and Consumer Services holdings were the main drivers of performance. The largest absolute total returns were generated again by the largest holding, **Apple** (+£10.0m) boosted by strong sales of products such as the iPad™ tablet and iPhone™ smartphone. During 2012, Apple became the world's most valuable company and also paid its first cash dividend since 1995. US media and cable television group **Comcast** was another strong contributor with a total return of £4.2m while two retailers **Ross Stores**, a discount clothing retailer, and online auctioneer **eBay** both benefited from business models well-adapted to the current economic climate. US credit card provider **Capital One Financial** made a strong contribution of £2.8m as it benefited from improving credit trends and recent acquisitions.

Asia Pacific (ex Japan) holdings generated a strong total return of 16.5% compared with 7.4% for the regional index. Chinese internet search and entertainment group **Tencent** generated a £3.1m total return reflecting rapid sales growth to some of the 780m users of its QQ messaging service. Other notable contributions came from Hong Kong and China-based real estate groups **China Overseas Land & Investment** and **Wharf Holdings**. Australian high dividend-yielding investments, telephony group **Telstra** and **ANZ Banking Group**, both performed well as did another high yielder, **Hutchison Ports Holdings Trust**.

UK listed holdings generated a total return of 13.1%, well ahead of the 8.7% of the regional index. This was attributable in part to another good year for international instrumentation and controls manufacturer **Spectris** which generated a total return of £2.8m. **Standard Life** contributed £1.8m as its shares responded well to measures taken to position the company for the shift to fee-based financial advice in the UK.

Latin American holdings returned 5.6%, materially ahead of the -3.6% regional index total return. Two infrastructure holdings, Brazilian urban transport and toll road operator **CCR** and Mexican airport operator **Aeroportuario del Sureste** both generated significant total returns while Brazilian brewer and drinks distributor **Ambev** also continued to perform well.

In **Middle East & Africa**, South Africa-based generic pharmaceutical group **Aspen Pharmacare** produced a total return in excess of 50% to generate a return of £3.5m as sales growth remained strong thanks to expanded product offerings in its Asia Pacific and Sub-Saharan Africa businesses.

Europe (ex UK) holdings returned just 1.2% in sterling terms, behind the regional 5.8% total return as a result mainly of two disappointing higher dividend-yielding holdings. First, Spanish oil major **Repsol** suffered from measures taken by the Argentinian authorities to expropriate a stake in its Argentinian unit, YPF. Second, a new holding in French television channel operator **TF1** produced a disappointing performance in the period but has recovered much lost ground subsequently.

NAV Relative Performance Attribution Analysis by Region Year to 31 October 2012

	%
NAV with borrowings at market value total return	8.4
FTSE All-World Index total return	9.4
Relative performance	-0.9

	Region Allocation %	Stock Selection %	Contribution %
UK	0.0	0.9	0.9
Europe (ex UK)	0.2	-0.7	-0.5
North America	-0.7	1.5	0.8
Latin America	-0.7	0.8	0.1
Japan	0.2	-0.5	-0.3
Asia Pacific (ex Japan)	-0.1	1.3	1.2
Middle East & Africa	0.0	0.5	0.5
Unlisted	0.0	-0.2	-0.2
Total equities	-1.1	3.6	2.5
Gearing			0.0
Other income, tax & currency			-0.3
Buybacks			0.2
Interest and expenses			-1.9
Change in market value of borrowings			-1.4
Relative performance			-0.9

NAV Relative Performance Attribution Analysis by Industry Year to 31 October 2012

	%
NAV with borrowings at market value total return	8.4
FTSE All-World Index total return	9.4
Relative performance	-0.9

	Industry Allocation %	Stock Selection %	Contribution %
Oil & Gas	0.1	-0.3	-0.2
Basic Materials	0.3	0.0	0.3
Industrials	0.0	0.9	0.9
Consumer Goods	0.0	0.0	0.0
Health Care	-0.2	0.0	-0.2
Consumer Services	0.2	0.1	0.3
Telecommunications	-0.2	0.0	-0.2
Utilities	0.0	0.1	0.1
Financials	0.0	-0.3	-0.3
Technology	-0.1	1.9	1.8
Total equities	0.1	2.4	2.5
Gearing			0.0
Other income, tax & currency			-0.3
Buybacks			0.2
Interest and expenses			-1.9
Change in market value of borrowings			-1.4
Relative performance			-0.9

Contributors to Absolute Performance

	Total Return %	Positive Contribution %
Apple	47.1	1.8
Ross Stores	40.5	0.7
eBay	52.0	0.7
Aspen Pharmacare	52.9	0.6
Spectris	38.8	0.5

	Total Return %	Negative Contribution %
Repsol	-27.0	-0.4
TF1	-29.2	-0.3
SoftBank	-24.9	-0.2
Konica Minolta	-19.6	-0.2
Vale	-20.2	-0.2

After a total return of 25.0% last year, **Japan** holdings returned a disappointing -11.1% which was well behind the -3.1% from the regional index. Near year end, a new holding in Japanese internet and telephony group **SoftBank** reacted badly to news that it was to enter the US market through the acquisition of US wireless carrier Sprint. The shares rebounded strongly early in the new financial year. New holding, **Konica Minolta** was a disappointing share price performer despite reasonable trading results.

Analysing the global equity portfolio outperformance on an industry basis, stock selection was again strong adding 2.4% to relative NAV performance with particular strength globally in Industrials and Technology.

There were three broad strands to portfolio activity over the year. First, having been cautiously positioned at the start of the year, gearing was increased steadily from 6% net cash to a geared position of 7% by year end (with borrowings at market value). The global equity portfolio appreciated in value by £46.5m with £51.3m net investment in equities as gearing was increased.

Second, as funds were added to equities, exposure to Europe (ex UK) was increased by £43.5m primarily in Consumer Services. Europe (ex UK) had lagged other regions and appeared to be offering good relative value. Similarly, exposure to North America was reduced by £23.8m after a prolonged period of outperformance, with significant profit-taking in **Apple** (£13.5m) and **McDonalds** (£11.5m).

Third, industry moves were helpful over the year as emphasis was shifted towards two areas which did well – Financials, with additions to a number of holdings including **Standard Life** and **BNP**, and Consumer Services where there were a number of new European holdings including **Casino Guichard-Perrachon**, **Inditex** and **PPR**. Funds were also added to Industrials, an area in which stock selection was strong, with additions and new holdings in Industrial Transportation including **Sydney Airport**, **Airports of Thailand**, **CCR** and **Aeroportuario del Sureste**.

The NAV total return (with borrowings at par) was 9.2%. The NAV total return (with borrowings at market value) was 8.4%. The outperformance by the global equity portfolio added 2.5% to relative performance and the uplift from share buybacks added 0.2%. With average gearing over the year of 0%, gearing had a zero effect on performance which meant that with borrowings largely uninvested in equities, there was no meaningful offset to the interest charges which, along with expenses of 0.8%, deducted a combined 1.9% from NAV performance as shown in the tables on page 10.

As was the case last year, the difference between the return with borrowings at par and at market value was attributable to the further sharp decline in UK gilt yields which increased the market value of the borrowings.

Portfolio turnover was 27%, inflated slightly by changes to gearing levels. Underlying portfolio turnover excluding moves to deploy cash and buy back shares was 24%.

Income generation was good over the year despite the lower level of equity investment with strong dividend growth from holdings.

Holdings in Listed Closed-ended Investment Funds

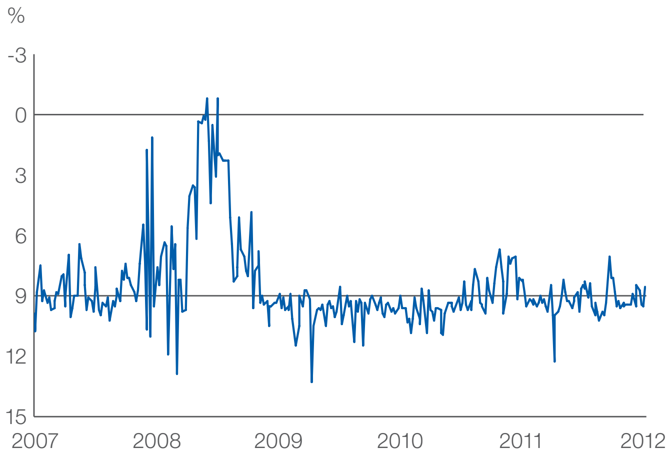
Company holdings include investments in listed closed-ended investment funds of £20.8m: 2.8% of total assets (2011: £24.1m: 3.4%). The company has a policy not to invest more than 15% of total assets in other listed closed-ended investment funds.

Unlisted Portfolio

The company's unlisted holdings depreciated by £0.5m. Net distributions totalled £2.8m (2011: £2.7m). No new partnerships were entered into during the year and outstanding commitments to invest in such partnerships totalled £0.9m (2011: £1.0m).

The unlisted holdings were valued at £4.8m (2011: £8.1m) which is equivalent to 0.8% of shareholders' funds.

Discount to ex-income NAV*
5 years to 31 October 2012



* with borrowings at market value.

The discount to ex-income NAV (with borrowings at market value) was broadly stable moving from 8.2% to 8.6% over the year which was within the targeted level of 9% under the company's buyback policy. Under this policy, 2.4m (2011: 3.9m) shares were repurchased for cancellation over the financial year accounting for 2.1% of the shares in issue at the start of the period. The shares were repurchased at an average discount of 9.6% and a cost of £11.1m (2011: £19.3m) inclusive of dealing expenses.

Analysis of Share Register
at 31 October 2012

Category of holder	Number	Share capital %
Individuals	22,258	65.8*
Insurance companies	12	18.6
Investment companies	52	4.4
Pension funds	30	5.7
Other	159	5.5
Total	**22,511**	**100.0**

* Includes 21.2% held in SIT Savings' products.

Glossary

Total assets means total assets less current liabilities.

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

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

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

Borrowings at market value is the company's estimate of the 'fair value' of its borrowings. The current estimated fair value of the company's borrowings is based on the redemption yield of the relevant existing reference gilt plus a margin derived from the spread of AA UK corporate bond yields (15 years+) over UK gilt yields (15 years+) (31 October 2011: margin was fixed at 1 percentage point). The reference gilt for the secured bonds is the 6% UK Treasury Stock 2028 and the reference gilt for the perpetual debenture stocks is the longest dated UK Treasury stock listed in the Financial Times.

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

Potential gearing is the geared position if all the borrowings were invested in equities: Borrowings expressed as a percentage of Shareholders' funds.

Gearing is the true geared position of the company: Borrowings less cash and equivalents expressed as a percentage of shareholders' funds.

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

Distribution of Shareholders' Funds by Industry

	31 October 2012 %	31 October 2011 %
Oil & Gas	**9.0**	**8.5**
Oil & Gas Producers	5.4	6.8
Oil Equipment, Services & Distribution	3.6	1.7
Basic Materials	**4.5**	**5.2**
Chemicals	0.9	0.5
Industrial Metals & Mining	0.5	0.6
Mining	3.1	4.1
Industrials	**15.2**	**11.5**
Construction & Materials	2.9	2.7
General Industrials	1.6	1.3
Electronic & Electrical Equipment	1.5	1.3
Industrial Engineering	3.1	2.5
Industrial Transportation	5.3	2.9
Support Services	0.8	0.8
Consumer Goods	**12.5**	**13.3**
Automobiles & Parts	4.9	4.4
Beverages	1.5	1.8
Food Producers	1.7	2.3
Household Goods & Home Construction	1.4	–
Leisure Goods	0.7	1.7
Personal Goods	0.6	0.2
Tobacco	1.7	2.9
Health Care	**7.9**	**5.8**
Health Care Equipment & Services	3.3	2.7
Pharmaceuticals & Biotechnology	4.6	3.1
Consumer Services	**13.9**	**10.1**
Food & Drug Retailers	1.5	1.7
General Retailers	5.9	3.6
Media	2.5	1.2
Travel & Leisure	4.0	3.6
Telecommunications	**6.1**	**8.7**
Fixed Line Telecommunications	2.4	1.9
Mobile Telecommunications	3.7	6.8
Utilities	**3.2**	**3.9**
Electricity	1.3	1.6
Gas, Water & Multi-utilities	1.9	2.3
Financials	**23.8**	**19.3**
Banks	9.6	7.0
Non-life Insurance	3.0	1.4
Life Insurance	2.0	1.4
Real Estate Investment & Services	2.0	2.0
Real Estate Investment Trusts	0.7	0.7
Financial Services	3.1	2.1
Equity Investment Instruments	3.4	4.7
Technology	**11.5**	**8.5**
Software & Computer Services	4.7	3.5
Technology Hardware & Equipment	6.8	5.0
Total equities	**107.6**	**94.8**
(Gearing)/net cash	**(7.2)**	**5.6**
Fixed interest	–	0.5
Net current assets	16.0	28.8
Borrowings at market value	(23.2)	(23.7)
Pension liability	**(0.4)**	**(0.4)**
Shareholders' funds	**100.0**	**100.0**

List of Investments
as at 31 October 2012

Listed Equities

Holding	Country	Market value £'000	Cumulative weight %
Apple	US	17,032*	
Ross Stores	US	12,821*	
Capital One Financial	US	12,820*	
Aspen Pharmacare	South Africa	11,990*	
Comcast	US	11,313*	
Chevron	US	11,312*	
Tencent	Hong Kong	10,724*	
eBay	US	10,660*	
CCR	Brazil	10,580*	
Qualcomm	US	10,129*	18.7
Sampo	Finland	9,898	
Jardine Matheson	Singapore	9,425	
CIMB	Malaysia	9,304	
Ambev	Brazil	9,122	
UnitedHealth	US	8,980	
Spectris	UK	8,891	
Samsung Electronics	South Korea	8,636	
Persimmon	UK	8,580	
Standard Life	UK	7,891	
Philip Morris International	US	7,810	32.5
National Oilwell Varco	US	7,758	
BT	UK	7,632	
US Bancorp	US	7,602	
Ladbrokes	UK	7,549	
Atlas Copco	Sweden	7,524	
Yum! Brands	US	7,485	
Accenture	US	7,465	
Pfizer	US	7,382	
Daito Trust Construction	Japan	7,043	
Casino Guichard-Perrachon	France	7,041	44.2
Wharf Holdings	Hong Kong	6,778	
Aeroportuario del Sureste	Mexico	6,684	
Royal Dutch Shell	UK	6,618	
Telstra	Australia	6,591	
ANZ Banking	Australia	6,569	
PPR	France	6,432	
DBS	Singapore	6,308	
Toyota Motor	Japan	6,263	
Kia Motors	South Korea	6,219	
Petrofac	UK	6,091	54.3
Vodafone	UK	6,050	
Google	US	5,978	
BHP Billiton	UK	5,929	
Nestlé	Switzerland	5,916	
CPFL Energia	Brazil	5,730	
Fresenius Medical Care	Germany	5,650	
GlaxoSmithKline	UK	5,631	
Severn Trent	UK	5,611	
Zurich Insurance	Switzerland	5,507	
BASF	Germany	5,390	63.2
United Utilities	UK	5,332	
Hutchison Port Holdings Trust	Singapore	5,326	
BNP Paribas	France	5,275	
Hg Capital Trust	UK	5,269	
Standard Chartered	UK	5,213	
Continental	Germany	5,188	
China Overseas Land & Investment	China	5,064	
SoftBank	Japan	5,008	
Sumitomo Mitsui Financial	Japan	5,004	
Seadrill	Norway	4,948	71.3
Airports of Thailand	Thailand	4,816	
Serco	UK	4,757	
McDonald's	US	4,684	
Konica Minolta	Japan	4,671	
Hess	US	4,557	
Volkswagen	Germany	4,512	
Sega Sammy	Japan	4,456	
JPMorgan Indian Investment Trust	India	4,336	
Deere	US	4,267	
Vale	Brazil	4,242	78.4

Holding	Country	Market value £'000	Cumulative weight %
British Land	UK	4,231	
Newcrest Mining	Australia	4,215	
GKN	UK	4,210	
Taiwan Mobile	Taiwan	4,194	
Tüpras	Turkey	4,137	
Sydney Airport	Australia	4,055	
Associated British Foods	UK	4,027	
HSBC	UK	3,958	
Aviva	UK	3,929	
Micro Focus International	UK	3,878	84.8
Svenska Handelsbanken	Sweden	3,876	
Vinci	France	3,843	
Rio Tinto	UK	3,837	
América Móvil	Mexico	3,798	
Rockwell Automation	US	3,688	
Banco Brasil	Brazil	3,590	
CRH	Ireland	3,466	
MedicX Fund	UK	3,364	
Coach	US	3,349	
TF1	France	3,325	90.4
NCC	Sweden	3,268	
Freeport-McMoRan Copper & Gold	US	3,133	
MTN	South Africa	3,082	
Aberforth Geared Income Trust	UK	2,952	
Weir Group	UK	2,864	
Fast Retailing	Japan	2,762	
Elekta	Sweden	2,590	
Coloplast	Denmark	2,570	
TGS-NOPEC Geophysical	Norway	2,552	
Mahle Metal Leve	Brazil	2,542	94.9
Topdanmark	Denmark	2,515	
Inditex	Spain	2,507	
Aberdeen Asset Management	UK	2,487	
Petrobras	Brazil	2,388	
KT & G	South Korea	2,365	
MasterCard	US	2,166	
Oil Search	Australia	2,084	
Sands China	Hong Kong	2,071	
Enel	Italy	2,060	
Genus	UK	1,988	98.4
Greggs	UK	1,928	
AirAsia	Malaysia	1,716	
Ophir Energy	UK	1,009	
Aberdeen Latin American Income Fund	UK	685	
Total listed equities		**634,523**	**99.2**

Unlisted

Holding	Country	Market value £'000	Cumulative weight %
Boston Ventures VI	US	2,062	
Apax Europe V-B	UK	1,233	
Heritable property & subsidiaries	UK	1,028	
Others (under £0.5m) (4)	US	509	
Total unlisted		**4,832**	**0.8**
Total equities		**639,355**	**100.0**

* Denotes 10 largest holdings with an aggregate market value of £119,381,000.

Board of Directors

*†Douglas McDougall OBE (Chairman)

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

*Francis Finlay

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

*†Hamish Buchan

was appointed to the board in November 2003. He is a former chairman of the Association of Investment Companies and was formerly chairman of NatWest Securities in Scotland. He is chairman of Personal Assets Trust, a director of Aberforth Smaller Companies Trust and Templeton Emerging Markets Investment Trust. He is chairman of the remuneration committee.

*†James MacLeod

was appointed to the board in September 2005. He is a chartered accountant and is chairman of the audit committee. 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.

*†Russell Napier

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

* Member of audit committee

† Member of remuneration committee

Management

Manager

John Kennedy

Secretary

Steven Hay

Directors' Report

Business Review

Investment policy

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

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

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

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

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

Liquidity and long-term borrowings are managed with the aim of improving returns to shareholders. In pursuing its investment objective, from time to time the company will hold certain financial instruments comprising equity and non-equity shares, fixed income securities, interests in limited partnerships, structured products and cash and liquid resources. The company may use derivatives, other than in relation to the sale of index futures, for hedging or tactical investment purposes. The company may only sell index futures for efficient portfolio management purposes. For the avoidance of doubt, any derivative instrument may only be used with the prior authorisation of the board. The company has the ability to enter into contracts to hedge against currency risks on both capital and income.

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

- under the company's articles of association, up to 40% of the company's total assets on the last audited balance sheet may be used to make investments of up to a maximum of 8% of the value of total assets in any one company, at the time the investment is made. Thereafter, individual investments may not exceed 3% of the value of total assets, at the time the investment is made;
- the levels of gearing and potential gearing are monitored closely by the board and the manager. The company applies a ceiling on gearing of 20%. While gearing will be employed in a typical range of 0% to 20%, the company retains the ability to lower equity exposure to a net cash position if deemed appropriate;
- the company has a policy not to invest more than 15% of total assets in other listed closed-ended investment funds; and
- the company may not make investments in respect of which there is unlimited liability except that the company may sell index futures for efficient portfolio management purposes.

Investment policy – implementation

During the year under review, the assets of the company were invested in accordance with the company's investment policy. For details of how the company's absolute performance and relative performance compared to its comparator indices, please refer to the Management Review on pages 6 to 12.

A full list of holdings is disclosed on page 14 and detailed analyses of the spread of investments by geographic region and industry sector are shown on pages 6, 7 and 13. Further analyses of changes in asset distribution by industry and region over the year including the sources of appreciation and depreciation are shown on pages 6 and 7. Attributions of NAV relative performance, by industry and region, against a global equity index are shown on page 10.

At the year end, the number of listed holdings was 114. The top ten holdings comprised 16.2% of total assets (2011: 16.1%).

Details of the extent to which the company's objective has been achieved and how the investment policy was implemented are provided in the Chairman's Statement on pages 4 and 5 and the Management Review on pages 6 to 12.

Additional limitations on borrowings

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

Principal risks and uncertainties

The principal risks and uncertainties facing the business are as follows:

- investment and market price risk;
- interest rate risk;
- liquidity risk;
- foreign currency risk; and
- credit risk.

These and other risks facing the company are reviewed regularly by the audit committee and the board. Further information is given in Note 17 to the accounts on pages 37 to 42.

Performance

Management provides the board with detailed information on the company's performance at every board meeting. Performance is measured in comparison with the company's peers and comparator indices.

Key Performance Indicators are:

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

Dividends

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

The directors recommend a final dividend of 6.65p per share payable on 4 February 2013. With the interim dividend of 4.60p already paid in July 2012, this makes a total of 11.25p for the year. Based on shares in issue at 31 October 2012 the final dividend will cost £7,438,000. The total dividend for the year will cost £12,616,000.

Status

The company is a self-managed investment trust and is an investment company within the meaning of the Companies Act 2006. HM Revenue and Customs approved the company as an investment trust under Section 1158 of the Corporation Tax Act 2010 up to the accounting period ended 31 October 2011. This approval is subject to any subsequent enquiry by HM Revenue and Customs. The company continues to satisfy the conditions for such approval and approval is expected for the accounting period ended 31 October 2012.

Share Capital

General

The company had 111,857,926 shares in issue on 31 October 2012. The rights attaching to shares in the company are set out in the company's articles of association. The company's articles of association may be amended by the passing of a special resolution of shareholders, that is, by the approval of a majority of not less than 75% of votes cast.

Rights to the capital of the company on winding up

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

Voting

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

Deadlines for exercising voting rights

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

Buybacks

The company's buyback policy is intended to keep the discount to ex-income NAV at or below 9%. In calculating NAV for the purposes of the buyback policy, the company's borrowings are taken at their market value so as to ensure that future repurchases of shares will take into account changes in the value of the borrowings brought about by movements in long-term interest rates. During the year ended 31 October 2012, the company bought back for cancellation a total of 2,381,000 shares representing 2.1% of shares in issue at 31 October 2011, at a cost of £11,121,000.

At the AGM on 27 January 2012 authority was granted to repurchase up to 14.99% of shares in issue on that date. The number of shares authorised for repurchase was 17,017,686. Share buybacks from the date of the AGM to the company's year end amounted to 1,669,000 shares or 1.47 percentage points of the 14.99% authority.

Substantial Shareholdings

At 12 December 2012, the company had been notified of the following holdings in excess of 3% of its shares.

	Shares	% of issue at date of notification
AXA Investment Managers SA	13,702,595	12.0
Lloyds Banking Group	6,346,524	5.1

Directors

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

The directors of the company on 31 October 2012 and their biographical details are shown on page 15. All are non-executive.

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

In accordance with the requirements of the UK Corporate Governance Code, all directors are standing for re-election at the AGM. Douglas McDougall, Francis Finlay and Hamish Buchan have served as directors for more than nine years. After formal performance evaluation, the board confirms that Douglas McDougall, Francis Finlay and Hamish Buchan continue to perform effectively and with great commitment, consequently, it recommends their re-election.

The appointments of Douglas McDougall, Francis Finlay and Hamish Buchan as directors run for one year at a time. James MacLeod was appointed in September 2005 and Russell Napier was appointed in July 2009 each for initial terms of three years subject to their re-election by shareholders at the first AGM after their appointment. James MacLeod's appointment was renewed in September 2008 and September 2011 and Russell Napier's appointment was renewed in July 2012. Directors' letters of appointment will be available for inspection at the AGM.

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

Directors' Interests

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

	Shares of 25p	
Beneficial interests	31 October 2012	31 October 2011
Douglas McDougall	60,000	60,000
Francis Finlay	60,000	60,000
Hamish Buchan	22,325	22,325
James MacLeod	24,243	22,849
Russell Napier	14,000	14,000

There were no changes in the directors' interests between 31 October 2012 and 12 December 2012.

Corporate Governance

Compliance

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

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

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

The board

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

During the year Francis Finlay and Russell Napier were appointed to the audit committee and Russell Napier was appointed to the remuneration committee.

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

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

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

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

The following table shows the attendance of directors at board and committee meetings during the year to 31 October 2012.

	Board	Audit	Remuneration	Nomination
Number of meetings	**8**	**3**	**3**	**1**
Douglas McDougall	8	3	3	1
Francis Finlay	6	2	n/a	1
Hamish Buchan	8	3	3	1
James MacLeod	8	3	3	1
Russell Napier	8	2	n/a	1

Nomination committee

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

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

Remuneration committee

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

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

The company aims to provide levels of employee remuneration which reward responsibility and achievement and are comparable with other fund management organisations operating in Scotland. Remuneration is reviewed annually.

Every employee is entitled to a salary and other benefits including a contributory pension scheme. In addition, there is a discretionary performance-related bonus scheme. For investment staff, bonuses payable depend, inter alia, on individual performance, the company's NAV total return and the NAV total return relative to comparator indices and peers. For other staff, bonuses depend, inter alia, on individual performance and share price total return. Notice periods for all members of staff range from three to twelve months.

Relations with shareholders

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

The annual general meeting of the company is the main forum at which shareholders can ask questions of the board and the management. All shareholders are encouraged to attend the AGM and to vote on the resolutions which are contained in the Notice of Meeting on page 46 and which is posted to shareholders at least 21 days prior to the meeting. Shareholders who cannot attend the AGM are encouraged to vote by proxy on the resolutions. Proxy voting figures are given at the end of the meeting.

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

Accountability and audit

The responsibilities of the directors and auditor in respect of the financial statements are given below and on page 23.

The audit committee has written terms of reference which are shown on the company's website. Its duties include risk assessment, reviewing internal controls, the company's accounting policies, financial statements prior to their release and the company's procedures on whistleblowing. The committee is also responsible for all aspects of the company's relationship with its external auditor 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 also ensures that the level of non-audit work does not compromise the auditor's independence.

The company does not have an internal audit function as the audit committee believes that the company's straightforward structure and small number of employees do not warrant such a function. This is reviewed by the committee annually.

The board is responsible for ensuring that the company has in place an effective system of internal controls designed to maintain the integrity of accounting records and to safeguard the company's assets. The board has applied the UK Corporate Governance Code by establishing a continuous process for identifying, evaluating and managing the significant risks the company faces.

This process, which has existed throughout the year, is in accordance with 'Internal Control: Revised Guidance for Directors on the UK Corporate Governance Code' published in October 2005 (The Turnbull Guidance). In compliance with the UK Corporate Governance Code, the board reviews the effectiveness of the company's system of internal control at six-monthly intervals.

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

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

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

Going concern

The accounts of the company have been prepared on a going concern basis. It is the opinion of the directors that, as most of the company's assets are readily realisable and exceed its liabilities, it is expected that the company will continue in operational existence for the foreseeable future.

Directors' responsibilities

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

United Kingdom company law requires the directors to prepare annual financial statements. Under that law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the returns and cash flows for that year.

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 2012;
- 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 auditor and it has considered the proposed terms of their engagement;
- it has satisfied itself as to the independence of the external auditor; and
- it has satisfied itself that the terms of the business review are consistent with the financial statements.

Auditor

Re-appointment of auditor

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

Disclosure of information to auditor

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

Annual General Meeting

Venue

The company's 125th AGM will be held at The Royal College of Physicians of Edinburgh, 9 Queen Street, Edinburgh, EH2 1JQ on Friday 25 January 2013 at 10.30am.

Board recommendation

The board considers that the resolutions to be proposed at the AGM are all in the best interests of the company and of shareholders as a whole and recommends that shareholders vote in favour of them.

Resolutions 1 to 9 are self explanatory. Resolution 10, set out in the Notice of the Annual General Meeting on page 46, seeks to renew the authority to repurchase shares until 30 April 2014. The principal reasons for such repurchases are to enhance the NAV of the shares by repurchasing shares for cancellation at prices which, after allowing for costs, improve the NAV for remaining shareholders and to allow implementation of the company's share buyback policy.

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

Resolution 10 will be proposed as a special resolution that requires to be passed by a three-quarters majority of votes cast at the AGM.

Voting Policy

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

Socially Responsible Investing

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

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 (2011: same).

By order of the board

Steven Hay

Steven Hay
Company Secretary
12 December 2012

Directors' Remuneration Report

This report has been prepared in accordance with the requirements of Section 421 of the Companies Act 2006 incorporating the Directors' Remuneration Report Regulations 2002. An ordinary resolution for the approval of the report will be put to shareholders at the AGM on 25 January 2013.

Remuneration Committee

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

Policy on Directors' Fees

On 31 October 2012, the board consisted of five directors, all of whom are non-executive. Directors' fees are set by the remuneration committee with a view to attracting individuals of appropriate calibre and experience, taking into account the time commitment required and the level of fees paid by similar investment trusts. It is intended that this policy will apply for the year to 31 October 2013 and to subsequent years. The directors do not receive bonuses, share options, long-term incentives, pension or other benefits.

Directors' Emoluments (audited)

Fees	Year to 31 October 2012 £	Year to 31 October 2011 £
Douglas McDougall	45,000	45,000
Francis Finlay	27,000	27,000
Hamish Buchan	27,000	27,000
James MacLeod	27,000	27,000
Russell Napier	27,000	27,000
	153,000	153,000

Service Contracts

The directors do not have service contracts. All directors retire and seek re-election annually.

Company Performance

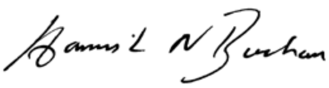
The graph below shows the company's five year share price total return compared to the notional total return of the UK FTSE All-Share Index over the same period.

Source: Thomson Reuters

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

Approval

The directors' remuneration report was approved by the board on 12 December 2012 and signed on its behalf by the chairman of the remuneration committee.



Hamish Buchan
Director
12 December 2012

Independent Auditor's Report
To the members of The Scottish Investment Trust PLC

We have audited the financial statements of The Scottish Investment Trust PLC for the year ended 31 October 2012 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Gains and Losses, the Reconciliation of Movement in Shareholders' Funds, and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

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

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:
- give a true and fair view of the state of the company's affairs as at 31 October 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:
- the directors' statement, contained within the directors' report, in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration

David Claxton ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Edinburgh, UK
12 December 2012

Income Statement

for the year to 31 October 2012

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

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

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

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

The accompanying notes are an integral part of this statement.

Balance Sheet
as at 31 October 2012

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

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

Douglas McDougall
Director

The accompanying notes are an integral part of this statement.

Registered no. SCO 01651

Statement of Total Recognised Gains and Losses

for the year to 31 October 2012

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

Reconciliation of Movements in Shareholders' Funds

for the year to 31 October 2012

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

The accompanying notes are an integral part of these statements.

Cash Flow Statement

for the year to 31 October 2012

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

The accompanying notes are an integral part of this statement.

Accounting Policies

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

(a) Basis of Accounting

The financial statements are prepared on a going concern basis under the historical cost convention (see page 20), modified to include the revaluation of investments at fair value, and in accordance with applicable United Kingdom accounting standards. The company's accounting policies comply with the AIC Statement of Recommended Practice (SORP) issued in January 2009 'Financial Statements of Investment Trust Companies and Venture Capital Trusts'.

(b) Valuation of Investments

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

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

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

(c) Valuation of Debt

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

(d) Income

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

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

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

(e) Expenses

All expenses are accounted for on an accruals basis.

Investment expenses are allocated between revenue and capital reserve in line with the directors' expectations of the nature of long-term future returns from the company's investments (2011: same).

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

(f) Finance Costs

Interest payable is charged one-half to revenue reserve and one-half to capital reserve in line with the directors' expectations of long-term future returns from the company's investments (2011: same).

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

(g) Taxation

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

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

(h) Foreign Currency

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

(i) Capital Reserve

The following are accounted for in this reserve:

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

(j) Pensions

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

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

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

Notes to the Financial Statements
for the year to 31 October 2012

1. Income

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

2. Expenses

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

3. Staff Costs

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

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

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

4. Pension Scheme

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

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

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

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

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

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

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

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

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

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

4. Pension Scheme (continued)

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

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

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

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

4. Pension Scheme (continued)

Analysis of amount chargeable to operating profit during the year

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

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

History of experience gains and losses

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

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

5. Interest Payable

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

6. Tax on Ordinary Activities

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

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

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

There are unrelieved management expenses at 31 October 2012 of £87,122,000 (2011: £76,409,000) but the related deferred tax asset has not been recognised. This is because the company is not expected to generate taxable profits in a future period in excess of the deductible expenses of that future period and, accordingly, it is unlikely that the company will be able to reduce future tax liabilities through the use of existing unrelieved expenses.

7. Dividends

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

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

8. Investments

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

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

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

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

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

8. Investments (continued)

Financial assets – cash, deposits and current asset investments

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

The maximum period for fixed rate deposits outstanding at the year end was 7 days (2011: 6 days). The weighted average fixed interest rate at the year end was 0.15% (2011: 0.24%). Floating interest rates vary in relation to short-term rates in the currencies in which deposits are held.

9. Subsidiary Undertakings

The company has investments in the following subsidiary undertakings:

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

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

10. Debtors

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

11. Creditors: Liabilities Falling Due Within One Year

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

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

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

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

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

13. Called-Up Share Capital

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

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

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

14. Reserves

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

15. Analysis of Changes in Net Debt During the Year

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

16. Contingencies, Guarantees and Financial Commitments

	2012 £'000	2011 £'000
Contingencies, guarantees and financial commitments of the company at the year end, which have not been accrued, are as follows:		
Commitments to provide additional funds to investees	**877**	**1,013**

17. Financial Instruments

Summary of financial assets and financial liabilities by category

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

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

17. Financial Instruments (continued)

Risk management policies and procedures

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

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

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

a. Investment and market price risk

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

b. Foreign currency risk

Approximately 75% of the company's assets are invested overseas which gives rise to a currency risk. From time to time, specific hedging transactions are undertaken. The company's overseas income is subject to currency movements. During the year, US dollar and euro dividend income was hedged by forward sales of US dollars and euros. The currency profile of the company's monetary assets and liabilities is set out in Notes 8 and 12.

Management of the risk

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

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

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

17. Financial Instruments (continued)

Foreign currency exposure

The fair values of the company's monetary items denominated in foreign currencies at 31 October 2012 and 31 October 2011 are shown below. The company's equity and fixed interest investments which are priced in a foreign currency have been included separately in the analysis so as to show the overall level of exposure.

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

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

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

Year to 31 October 2012	US $ £'000	Euro £'000	Other £'000
Maximum	53,687	13,280	46,224
Minimum	4,606	(1,603)	21,137

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

17. Financial Instruments (continued)

Foreign currency sensitivity

The following table illustrates the sensitivity of the total return for the year and the shareholders' funds in regard to the company's monetary financial assets and financial liabilities. It assumes a 10% depreciation of sterling against both the US dollar and the euro at 31 October 2012. These percentages have been determined based on the average market volatility in exchange rates in the previous twelve months. The sensitivity analysis is based on the company's monetary foreign currency financial instruments held at each balance sheet date.

	2012 US $ £'000	2012 Euro £'000	2011 US $ £'000	2011 Euro £'000
If sterling had weakened by 10% against the currencies shown, this would have had the following effect:				
Income statement – return on ordinary activities after taxation:				
Revenue return	325	374	261	532
Capital return	25,744	7,986	22,478	4,493
Return attributable to shareholders	**26,069**	**8,360**	**22,739**	**5,025**

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

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

c. Interest rate risk

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

Management of the risk

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

Interest rate exposure

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

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

17. Financial Instruments (continued)

Interest rate sensitivity

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

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

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

d. Liquidity risk

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

Management of the risk

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

e. Credit risk

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

Credit risk exposure

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

Cash comprises balances held by banks with a satisfactory credit rating (2011: same).

Management of the risk

This risk is managed as follows:

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

f. Capital management policies and procedures

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

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

The board, with the assistance of the manager, monitors and reviews the structure of the company's capital on an ongoing basis. This review includes the planned level of gearing which will take into account the manager's view on the market, the need to buy back shares for cancellation and the level of dividends.

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

17. Financial Instruments (continued)

Fair value measurements recognised in the balance sheet

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

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

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

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

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

Reconciliation of Level 3 fair value measurements of financial assets

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

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

18. Related Party Transactions

Directors' fees are detailed in the Directors' Remuneration Report on page 22. There were no matters requiring disclosure under S412 of the Companies Act 2006.

Investor Information

How to Invest

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

STOCKPLAN

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

STOCKPLAN: A Flying Start

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

The SIT ISA

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

The SIT ISA Transfer

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

The SIT SIPP

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

In addition to these products, you can buy SIT shares directly on the stockmarket through a stockbroker. Your bank, lawyer, accountant or other professional adviser may also be able to help with this. SIT's registrar, Computershare Investor Services PLC, provides a sharedealing service which can be accessed on its website, **www.investorcentre.co.uk** or by telephoning **0870 703 0195**.

Update on Tax-Efficient Investing

ISAs

- The overall annual ISA investment limit is currently £11,280.
- Up to the full £11,280 can be invested in a stocks and shares ISA with one provider. Alternatively, up to £5,640 can be saved in a cash ISA with one provider; the remainder of the £11,280 can be invested in a stocks and shares ISA with either the same or another provider.
- The annual ISA investment limit is indexed annually in line with the Consumer Prices Index (CPI) for the September before the start of each new tax year.
- The annual ISA investment limit for the 2013/14 tax year is £11,520. Up to £5,760 may be placed in a cash ISA and the remainder can be invested in a stocks and shares ISA with either the same or another provider. Alternatively, the full £11,520 can be invested in a stocks and shares ISA with one provider.
- Transfers from previous years' cash ISAs into stocks and shares ISAs are permitted and do not count against the current year's subscription.
- Investment in ISAs continues to be free from capital gains tax. Tax payers do not have to pay any additional tax.

Contact Telephone Numbers

Full contact details for the scheme administrators and registrar can be found in the Useful Addresses section on page 49.

STOCKPLAN and **ISA** investors wishing to:

- give a change of address
- instruct a sale
- request a valuation
- make an investment using their debit card
- change the amount of their monthly investment
- access their STOCKPLAN and ISA information online
- make general queries about their account or scheme

can contact the scheme administrator, Halifax Share Dealing Limited (HSDL), on: **0845 850 0181.**

SIT SIPP investors with questions about the administration of their SIPP, or any other pension-related enquiry, can contact the SIPP administrator, AJ Bell Management Limited, on: **08457 22 55 25.**

Shareholders who hold share certificates can contact the registrar, Computershare Investor Services PLC, on: **0870 703 0195**.

Dividends

The following dividends have been paid or proposed during 2012:

Dividends	Amount	XD date	Record date	Payment date
Final 2011	5.80p	4 January 2012	6 January 2012	6 February 2012
Interim 2012	4.60p	6 June 2012	8 June 2012	13 July 2012
Final 2012	6.65p	2 January 2013	4 January 2013	4 February 2013

SIT STOCKPLAN and ISA schemes

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

Shareholders who hold share certificates

Conversely, for shareholders who hold share certificates (investors whose names are on SIT's share register and who are not in SIT's schemes) dividends are automatically paid as income. However, it is easy to arrange to have these dividends reinvested by joining SIT's Dividend Reinvestment Plan (DRIP). Details are available from Computershare Investor Services, SIT's registrar, on **0870 703 0195**, or from the investor relations section on SIT's website, **www.sit.co.uk**

Monitoring Your Investment

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

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

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

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

Accessing Your Account Online

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

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

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

SIPP investors

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

Shareholders who hold share certificates

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

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

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

Electronic Communications

Shareholders who hold share certificates

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

Shareholders' Meetings

Shareholders who hold share certificates

Investors who hold share certificates are entitled to attend and vote at the AGM and other general meetings. Notices of meetings and proxy cards are sent to their registered addresses.

STOCKPLAN, STOCKPLAN: A Flying Start, ISA, and SIPP investors who invest in SIT

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

The AGM will be held at the Royal College of Physicians of Edinburgh, 9 Queen Street, Edinburgh EH2 1JQ, on 25 January 2013 at 10.30am.

Electronic Voting

Shareholders who hold share certificates

Shareholders who hold share certificates are able to submit proxy votes electronically for the AGM. Please follow the instructions on your proxy card.

Personal Taxation

Income Tax

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

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

Capital Gains Tax (CGT)

When investors sell all or part of their holdings, they may be liable to CGT. Currently, the first £10,600 per annum of such gains from all sources is exempt.

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

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

ISA investments remain exempt from CGT.

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

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

Risk Warning

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

Investor Relations and Compliance Manager

Alan Jamieson

Marketing Manager – SIT Savings Ltd

Sherry-Ann Sweeting

Notice of Meeting

Notice is hereby given that the one hundred and twenty-fifth annual general meeting of The Scottish Investment Trust PLC will be held at **The Royal College of Physicians of Edinburgh, 9 Queen Street, Edinburgh EH2 1JQ**, on 25 January 2013 at 10.30am, for the purpose of transacting the following:

1. To receive and consider the directors' report and statement of accounts for the year to 31 October 2012.
2. To approve the directors' remuneration report for the year to 31 October 2012.
3. To declare a final dividend of 6.65p per share.
4. To re-elect Mr Douglas McDougall as a director.
5. To re-elect Mr Francis Finlay as a director.
6. To re-elect Mr Hamish Buchan as a director.
7. To re-elect Mr James MacLeod as a director.
8. To re-elect Mr Russell Napier as a director.
9. To re-appoint Deloitte LLP as auditor and to authorise the directors to fix their remuneration.
10. To authorise the company, in accordance with section 701 of the Companies Act 2006 (the 'Act') and in substitution for any pre-existing such authority, to make market purchases (within the meaning of section 693 of the Act) of shares of 25p each for cancellation, provided that:
    a) the maximum number of shares hereby authorised to be purchased shall be 16,681,610 or, if less, 14.99% of the aggregate issued shares on the date this resolution is passed;
    b) the minimum price which may be paid for a share shall be 25p;
    c) the maximum price (exclusive of expenses) which may be paid for a share shall be the higher of:
        (i) 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the five business days immediately preceding the date of purchase; and
        (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out;
    d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 30 April 2014, save that the company may, prior to such expiry, enter into a contract to purchase shares under such authority which will or might be executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract.

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

Steven Hay
Secretary
12 December 2012

Map showing location of AGM venue

Notes

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

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

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

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

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

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

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

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

Any person holding 3% or more of the total voting rights in the company who appoints a person other than the chairman as his proxy will need to ensure that both he and such third party comply with their respective disclosure obligations under the Disclosure and Transparency Rules. On 10 December 2012, the company's issued share capital comprised 111,284,926 shares (none of which is held in treasury). Each share carries the right to one vote at a general meeting of the company. Accordingly, as at 10 December 2012, the total number of voting rights exercisable at the meeting was 111,284,926.

Shareholders may require the company to publish, on its website, without payment, a statement, which is also passed to the auditor, setting out any matter relating to the audit of the company's accounts, including the auditor's report and the conduct of the audit, which they intend to raise at the meeting. The company will be required to do so once it has received such requests from either (i) members representing at least 5% of the total voting rights of the company or (ii) at least 100 members who have rights to vote and hold shares in the company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state the member's full name and address and be sent to the company's registered office at 6 Albyn Place, Edinburgh, EH2 4NL. The company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006.

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

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

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

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

STOCKPLAN, STOCKPLAN: A Flying Start, ISA and SIPP investors who invest in SIT are welcome to attend and may vote by completing the Form of Direction enclosed with this report. This must be returned to the company's registrar no later than 10.30am on 18 January 2013. Other investors whose holdings are in nominee names and who wish to attend and vote are advised to contact their nominee before 18 January 2013.

The final dividend, if approved, will be paid on 4 February 2013 to shareholders registered at the close of business on 4 January 2013.

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

Financial Calendar 2013

Dividend and Interest Payments

Final for the financial year to 31 October 2012	4 February 2013
Interim	July
Secured bonds	17 April, 17 October
Perpetual debenture stock	30 April, 31 October

Announcement of Results

NAV	Daily
Interim Management Statement	February, August
Interim figures	May
Preliminary final figures	November
Annual Report & Accounts	December
Annual General Meeting (AGM)	25 January 2013

Useful Addresses

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

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

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

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

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

The Association of Investment Companies
SIT is a member of The Association of Investment Companies (AIC) which publishes a number of useful fact sheets and email updates for investors interested in investment trust companies.

The AIC
9th Floor
24 Chiswell Street
London EC1Y 4YY

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

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

Shareholders who hold share certificates:
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

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

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

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

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

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

Helpline: 08457 22 55 25

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