The Scottish Investment Trust PLC

120th Report & Accounts 2007

Contents

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 immediately.

If you have sold or otherwise transferred all of your ordinary stock in The Scottish Investment Trust PLC, please forward this document and the accompanying form of proxy as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was or is being effected for delivery to the purchaser or transferee.

The Company

Company Data as at 31 October 2007

TOTAL ASSETS	STOCKHOLDERS' FUNDS (with borrowings at par)	MARKET CAPITALISATION
£910,574,000	£802,353,000	£710,275,000

Objectives of The Scottish Investment Trust PLC (SIT)

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 18.

Investment Risk

The SIT investment portfolio is diversified over a range of industries and regions in order to spread risk. SIT has a long-term policy of borrowing money to invest in equities in the expectation that this will improve returns. However, should stockmarkets fall, such borrowings would magnify any losses. Investment risk is considered in more detail on pages 18 and 19 of the Directors' Report.

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 2007 the company had in issue 134,267,515 ordinary stock units and long-term borrowings at par amounted to £107,372,000 with an average annual interest cost of 5.9%.

Management Expenses

The total expenses of managing the company's business during the year were £4,709,000, equivalent to 0.61% of average stockholders' funds. The company aims to keep this percentage low in comparison with competing investment products.

PEP, ISA and SIPP

The ordinary units are eligible for PEPs, ISAs and SIPPs. Details of all of the savings schemes offered by SIT Savings Ltd are shown on page 42.

The Association of Investment Companies (AIC)

The company is a member of the AIC, the trade organisation for the closed-ended investment company industry.

Ten Year Record

Year to 31 October	Earnings per ordinary unit net (p)[1]	Dividend per ordinary unit net (p)[2]	Total expenses £'000	Total expense ratio %	Total assets £'000	Stock-holders' funds £'000	NAV (debt at par) per ordinary unit (p)	Stock price per ordinary unit (p)	Discount to NAV %[4]	NAV (debt at par) total return %
1997	6.29	6.25	3,310	0.34	1,101,239	1,020,680	360.1	306.0	–	13.8
1998	6.41	6.50	3,751	0.35	1,176,244	1,095,685	386.6	344.0	–	9.0
1999	8.34	6.65	4,467	0.37	1,364,145	1,287,086	466.4	393.5	–	22.7
2000	7.93	6.90	4,568	0.35	1,578,998	1,356,861	538.9	457.0	14.6	17.1
2001	9.33	7.05	4,821	0.43	1,130,370	908,066	402.1	359.0	8.7	–24.4
2002	8.24	7.50	4,558	0.58	893,915	671,443	314.8	259.0	15.6	–20.2
2003	9.28	7.80	4,129	0.59	942,154	719,515	342.1	281.0	16.2	11.5
2004[3]	9.29	8.10	4,108	0.56	888,578	739,342	353.9	298.8	14.3	6.2
2005[3]	9.86	8.40	3,973	0.49	1,044,315	894,412	428.1	377.0	9.5	23.6
2006	9.39	8.72	4,481	0.55	839,641	730,594	510.4	451.0	8.5	21.3
2007	**11.02**	**9.10**	**4,709**	**0.61**	**910,574**	**802,353**	**597.6**	**529.0**	**9.9**	**19.5**

Ten Year Growth Record

	Earnings per ordinary unit net[1]	Dividend per ordinary unit net[2]	Retail Prices Index	NAV (debt at market) per ordinary unit	NAV (debt at par) per ordinary unit	Stock price per ordinary unit	NAV (debt at par) per ordinary unit total return	Stock price per ordinary unit total return	UK FTSE All-Share Index total return	FTSE All-World Index total return
1997	100.0	100.0	100.0	–	100.0	100.0	100.0	100.0	100.0	100.0
1998	101.9	104.0	103.1	–	107.4	112.4	109.0	114.5	112.1	113.7
1999	132.6	106.4	104.4	–	129.5	128.6	133.7	133.5	133.1	147.3
2000	126.1	110.4	107.6	100.0	149.6	149.3	156.6	157.5	144.2	170.5
2001	148.3	112.8	109.3	73.5	111.7	117.3	118.4	125.7	116.0	127.6
2002	131.0	120.0	111.5	57.4	87.4	84.6	94.6	92.8	95.9	102.6
2003	147.5	124.8	114.5	62.7	95.0	91.8	105.5	103.8	109.0	118.6
2004[3]	147.7	129.6	118.2	66.0	98.3	97.6	112.0	114.1	121.7	125.5
2005[3]	156.8	134.4	121.2	78.7	118.9	123.2	138.4	147.5	145.7	149.7
2006	149.3	139.5	125.6	93.4	141.7	147.4	167.9	180.0	177.3	171.3
2007	**175.2**	**145.6**	**131.0**	**111.0**	**166.0**	**172.9**	**200.7**	**216.0**	**201.5**	**197.0**
Ten Year Return Per Annum	**5.8%**	**3.8%**	**2.7%**	**-**	**5.2%**	**5.6%**	**7.2%**	**8.0%**	**7.3%**	**7.0%**
Five Year Return Per Annum	**6.0%**	**3.9%**	**3.3%**	**14.1%**	**13.7%**	**15.4%**	**16.2%**	**18.4%**	**16.0%**	**13.9%**

1. From 1 November 1999 to 31 October 2005 the company charged two-thirds of eligible expenses and finance costs to capital reserve-realised and since 1 November 2005 the company has charged half of eligible expenses and finance costs to capital reserve-realised.

2. Excluding special dividends of 0.75p in 1998, 1.00p in 2001, 2.00p in 2006 and 2.00p in 2007.

3. Figures for 2004 and 2005 have been restated, where applicable, in accordance with accounting changes.

4. Discount to NAV (after deducting dividends proposed but not paid) with borrowings at market value.

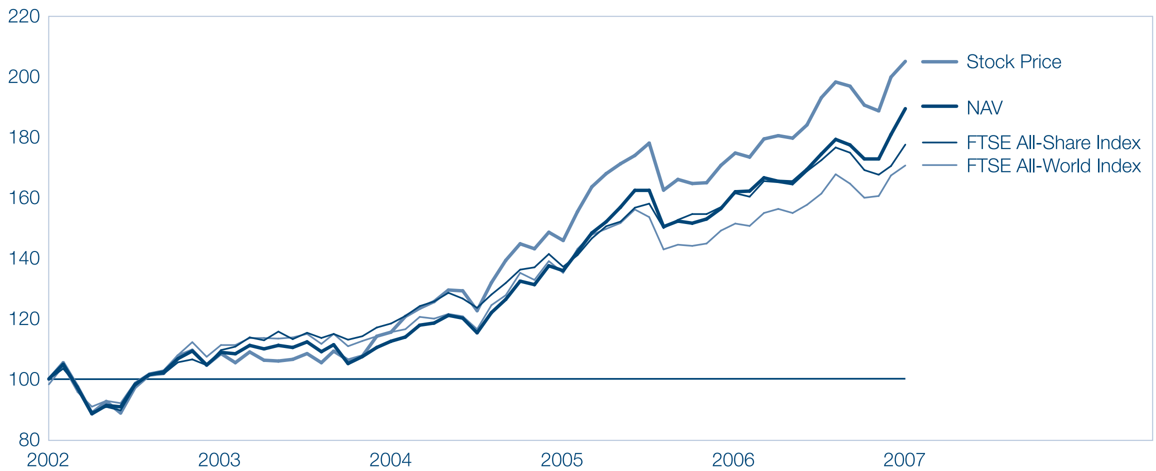
Financial Highlights

		2007	2006	change
CAPITAL	NAV with borrowings at par	597.6p	510.4p	+17.1%
	NAV with borrowings at market value	593.9p	499.7p	+18.9%
	Stock price per ordinary unit	529.0p	451.0p	+17.3%
	Discount to NAV (after deducting dividends proposed but not paid) with borrowings at market value	9.9%	8.5%	
	FTSE All-World Index			+12.5%
	UK FTSE All-Share Index			+10.0%
		£'000	£'000	
	Equity investments	835,357	750,870	
	Net current assets	75,217	88,771	
	Total assets	910,574	839,641	
	Borrowings at par	(107,372)	(107,252)	
	Pension liability	(849)	(1,795)	
	Equity stockholders' funds	802,353	730,594	
INCOME	Total income	23,704	23,755	
	Earnings per ordinary unit	11.02p	9.39p	
	Dividend per ordinary unit	9.10p	8.72p	+4.4%
	Special dividend per ordinary unit	2.00p	2.00p	
	UK Retail Prices Index			+4.2%

YEAR'S HIGH & LOW (based on NAV after deducting dividends proposed but not paid)	Year to 31 October 2007 High	Year to 31 October 2007 Low	Year to 31 October 2006 High	Year to 31 October 2006 Low
Published NAV with borrowings at market value	587.3p	493.1p	512.9p	416.7p
Closing stock price	535.0p	444.5p	465.5p	377.0p
Discount with borrowings at market value	9.9%	6.6%	10.6%	7.2%

PERFORMANCE

NAV* and Stock Price Against Comparator Indices
5 years to 31 October 2007



* NAV with borrowings at par

CAPITAL

Over the year to 31 October 2007 the net asset value per ordinary unit (NAV) with borrowings at par rose by 17.1%, ahead of the company's principal comparator indices, the FTSE All-World Index which rose by 12.5% and the UK FTSE All-Share Index which rose by 10.0%. Measured with borrowings at market value, the NAV increased by 18.9%. The NAV performance again reflected the contribution from the global equity portfolio which outperformed the FTSE All-World Index for a fourth consecutive year. Good stock selection was achieved across the portfolio with strong contributions from a number of sectors including Oil & Gas, Consumer Goods, Consumer Services and Telecommunications. The largest individual contributions came from China Mobile, Nintendo, National Oilwell Varco and Guangzhou R&F Properties.

Critical to the successful performance during the period was a timely move out of Financials. From the beginning of the financial year, we steadily sold some £88m of financial holdings, particularly those with clear exposure to investment banking, as we sensed an end to buoyant market conditions. The proceeds were reinvested in a number of new and existing holdings across different industries. In particular, the additions to holdings in the oil service industry were highly profitable. We also lowered significantly our exposure to the pharmaceutical industry which subsequently proved to be the worst performing sector globally. These sector changes had the effect of lowering exposure to the UK and increasing North America. We also made cautious but profitable initial moves into South Africa and India. Effective gearing was maintained at an average of 103% over the year, within a range of 100% to 105%.

Industry sector returns over the year were far more widely dispersed than in 2006. The poor returns from Financials reflected the crisis in financial markets emanating from the deterioration in the US sub-prime mortgage market – the dominant feature of the year. Weakness in Financials, Health Care and Consumer Services meant that the other seven major industry groups in the All-World Index generated above-market returns. The variation in regional stockmarket sterling performance was extreme, ranging from increases of over 50% for both Asia Pacific (ex Japan) and Latin America to a decline of 6% for Japan. It was important that we were well represented in Asia Pacific (ex Japan) and our holdings there collectively matched that region's exceptional return while our small collection of Japanese investments also did well, returning 20.0%. Europe (ex UK) and North America both recorded double-digit gains in local currency; the latter was reduced to just 5.3% in sterling owing to dollar weakness, while euro strength pushed Europe (ex UK) sterling returns to 17.9%.

As was the case last year, merger and acquisition activity had a marked bearing on performance. Our portfolio benefited as ten holdings merged or were acquired or approached, including Scottish & Newcastle, to which we had added, and ScottishPower. Over the year, we eliminated smaller investments and reduced the number of holdings in the global listed portfolio by 19 to 98. The portfolio remains widely diversified by industry and geographic location of operations.

The restructuring of the investment management approach in January 2004 continued to yield benefits. Between the end of January 2004 and 31 October 2007, the NAV with borrowings at par rose by 70.9%, outperforming our comparator indices: the FTSE All-World Index rose by 49.3% and the UK FTSE All-Share Index rose by 57.9%. Over the same period the stock price rose by 92.4%.

INCOME

Dividend income generated was again strong and ahead of our expectations. Good dividend growth combined with higher interest rates on deposits, control over expenses and a reduced weighted average number of stock units allowed earnings per ordinary unit to increase by 17.4% to 11.02p (2006 – 9.39p).

The board is recommending an increase of 4.4% in the regular dividend for the year to 9.10p per ordinary unit (2006 – 8.72p), which compares with the October UK RPI annual inflation rate of 4.2%. We have increased our dividend in each of the last 24 years and it is a stated objective of the company to increase the dividend by more than the UK rate of inflation. In view of the strength of dividend income growth and the company's strong revenue reserve position, the board is again recommending an additional special dividend of 2.00p per ordinary unit, making a combined distribution for the year of 11.10p.

STOCK PRICE, BUYBACKS AND DISCOUNT

The stock price rose by 17.3%, broadly mirroring the NAV performance and reaching an all-time high of 535p in October 2007. Under the company's buyback policy, 8.9m stock units were repurchased for cancellation over the financial year (utilising 5.89 percentage points of the 14.99% authority renewed at the January 2007 AGM) at an average discount of 9.5% and a cost of £44.2m inclusive of dealing expenses. The repurchases were funded from net reductions to the equity portfolio. The average discount over the year, with borrowings at market value, was 9.1% and the estimated average daily discount since the introduction of the scheme in February 2006 was also 9.1%. The stock price discount to NAV (after deducting dividends proposed but not paid) with borrowings at market value widened to 9.9% (2006 – 8.5%) at the year end.

COMPANY SECRETARY

Iain Harding retired in October after 28 years of service as company secretary. Iain was a quite exceptionally able and loyal servant to the company over this long period and, on behalf of the board and stockholders, I would like to record our appreciation for his distinguished service. Iain has been succeeded by Steven Hay, who had been assistant secretary since 2003.

OUTLOOK

This was a year of extremes in financial markets. Most major regional stockmarket indices reached all-time highs, with notably strong performances from China-linked and Latin American stockmarkets. It is remarkable that such strong returns were achieved in the face of high oil prices and slowing growth in large parts of the world and especially while the full implications of the credit crisis, for both financial institutions and the wider world economy, remain unknown.

While corporate profits are generally forecast to rise again in 2008, expectations for the rate of growth are being lowered in the US and other developed markets. Although equity valuations generally appear reasonable by historic standards, some wide variations within sectors are appearing and after some very strong gains, a number of prominent growth stocks and China-linked equities are on demanding valuations. Volatility within markets has risen again and, though central banks have begun to reduce interest rates, some near-term caution is warranted. We have enjoyed a strong bull market in equities since 2003, but conditions are now likely to be more difficult.

Douglas McDougall

Douglas McDougall

Chairman

30 November 2007

Board of Directors

***†Douglas McDougall OBE (63)**
was appointed to the board in September 1998 and became chairman in October 2003. He is chairman of The Law Debenture Corporation, The Independent Investment Trust and Foreign & Colonial Eurotrust and a director of The Monks Investment Trust, Pacific Horizon Investment Trust and Herald Investment Trust. He is a former senior partner of Baillie Gifford & Co and a former chairman of IMRO, the Association of Investment Companies and the Fund Managers' Association.

Sir George Mathewson CBE LLD FRSE (67)
joined the board in 1981. He was chief executive of the Scottish Development Agency from 1981 to 1987. He joined the Royal Bank of Scotland Group in 1987 and in 1990 was appointed deputy group chief executive. In 1992 he was appointed group chief executive and, following the acquisition of NatWest, was appointed executive deputy chairman in 2000. In 2001 Sir George became chairman of the group, retiring from the chairmanship in 2006 but continuing as an adviser. He was president of the International Monetary Conference from 2005 to 2006. He is a director of Stagecoach Group and chairman of Toscafund Holdings and Cheviot Capital. In 2007 he was appointed chairman of the Council of Economic Advisers to The Scottish Government, chairman of Wood Mackenzie and chairman of The Royal Botanic Garden Edinburgh Board of Trustees.

Francis Finlay (64)
joined the board in November 1996. He is chairman of the New York based international fund management firm Clay Finlay, which he co-founded in 1982, and a director of SVG Capital. Previously he held senior investment management positions with Lazard Frères and Morgan Guaranty in Paris and New York. He is also a director of a number of international investment companies and charitable organisations.

***†Hamish Buchan (63)**
was appointed to the board in November 2003. He was, until recently, chairman of the Association of Investment Companies and was formerly chairman of NatWest Securities in Scotland. He is chairman of JP Morgan American Investment Trust and a director of Aberforth Smaller Companies Trust, Personal Assets Trust and Standard Life European Private Equity Trust. He is chairman of the remuneration committee.

***†James MacLeod (66)**
was appointed to the board in September 2005. He is a chartered accountant. He was a partner in Ernst & Young and its predecessor firms for 25 years until his retirement in 1998 and specialised in corporate tax, particularly for investment trusts and insurance companies. He was a visiting professor at the University of Edinburgh until 2001. He is a director of British Assets Trust, INVESCO Perpetual AIM VCT and INVESCO Perpetual Recovery Trust 2011. He is chairman of the audit committee.

* Member of audit committee
† Member of remuneration committee

Management

Manager

John Kennedy

Investment Management

Hugh Duff Assistant Manager, Senior Investment Manager (UK)

Martin Robertson Assistant Manager, Senior Investment Manager (Europe)

James Kinghorn Senior Investment Manager (Americas)

Howard Kippax Senior Investment Manager (Pacific)

Secretary

Steven Hay

Assistant Secretary

Michael Creasey

Head of Statistics and Information Technology

Neill Wood

Investor Relations and Compliance Manager

Alan Jamieson

Marketing Manager – SIT Savings Ltd.

Sherry-Ann Sweeting

Summary

- Stockmarkets were again strong with the FTSE All-World Index rising 12.5% in sterling.
- NAV rose by 17.1%, ahead of comparator indices for the third consecutive year.
- Global equity portfolio outperformed global equity markets for a fourth consecutive year.
- Performance reflected good stock selection across a number of sectors.
- The stock price rose by 17.3% and the average discount over the year was 9.1%.

GLOBAL EQUITY MARKET REVIEW

Global equity markets rose for the fifth consecutive company financial year, continuing the recovery from the lows of March 2003. The global FTSE All-World Index and UK FTSE All-Share Index both rose over the year, by 12.5% and 10.0% respectively in sterling terms.

The world economy remained strong over the period and maintained the growth momentum of recent years in spite of rising oil prices. However, stark differentials emerged between the higher growth parts of the world and the G7 countries which collectively grew by 2.7% in 2006 and are expected to slow to nearer 2% in 2007 and 2008. As the US economy decelerated, reflecting increased short-term interest rates in the previous year and the pressures of a weakening housing market, world growth became more reliant on China and India which both continued to generate GDP growth of over 10%.

Oil Price

Year to 31 October 2007

Source: Thomson Datastream

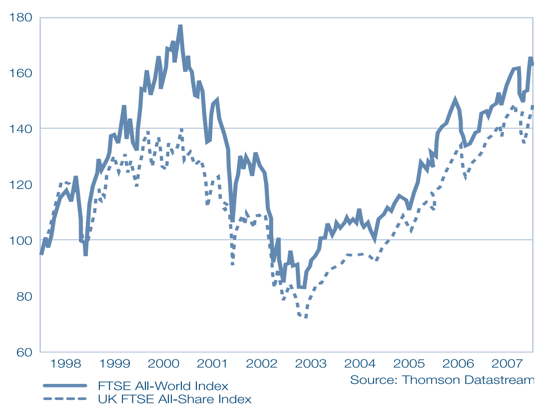
The key developments over the year hinged around the US economy and specifically, its housing market. Data from the US housing and construction markets had been deteriorating early in the period and continued to worsen over the summer months. While US GDP data for the first quarter of 2007 confirmed that a slowdown was underway, inflation remained stubbornly high. European growth appeared to peak as its export-led recovery was not boosted by domestic consumption. Japan too stopped accelerating and produced disappointing growth with signs that deflation has not yet been eradicated. The UK economy maintained its steady progress with real growth of around 3%. However, UK inflation was also persistently high and the Governor of the Bank of England was obliged to write a letter of explanation to the then Chancellor, Gordon Brown.

The economic patterns over the year had clear linkages into global equity markets. The first linkage was through the transmission of deteriorating US residential property fundamentals into the so-called "sub-prime" (lower credit quality) mortgage market financial crisis which dominated the year and hit financial sectors. The second was through the extraordinary gains made by the equity markets of Latin America, Asia Pacific (ex Japan) and Middle East & Africa as capital was drawn to the shares of companies operating in these high growth emerging regions.

G7 central banks were more focused on inflation control early in the year and did not anticipate the impending economic and financial market difficulties as official short-term rates were increased in a number of major economies including the UK (from 4.75% to 5.75%), Eurozone (from 3.25% to 4.00%) and even Japan where rates were raised by 0.25% to 0.5% in February. The Federal Reserve Bank (Fed) kept US official rates on hold at 5.25% for over 12 months from mid-2006 until concerns over the impact on the economy from the unfolding sub-prime mortgage market crisis prompted an emergency 0.5% cut in the discount rate (a rate at which it lends to banks) in August. This was then followed up by two cuts in Fed Funds in September and October to leave US rates at 4.5%.

Stockmarket Performance

10 years to 31 October 2007



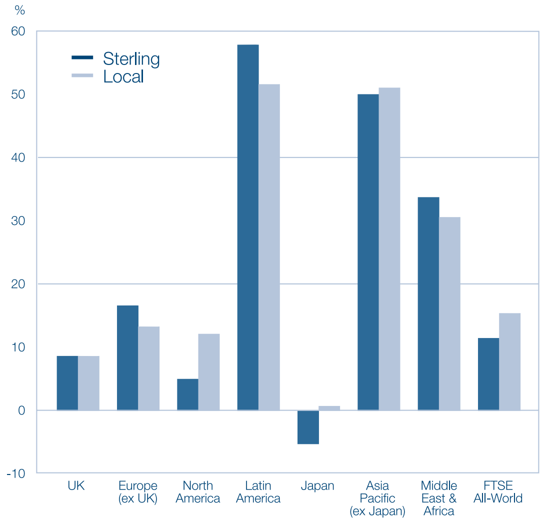
Global equities made steady progress over the first part of the year, rising by 10.6% to the end of May 2007. There was a brief setback during that period as profit taking hit the buoyant Chinese equity market on fears of tighter regulation. This spilled over into other markets as fears of US recession took hold.

However, these concerns were shaken off and regional stockmarkets continued to advance over the early summer to reach new all-time highs in many cases with clear leadership by emerging markets equities and Asia Pacific (ex Japan). Chinese equities, both in mainland China and on the Hong Kong Exchange were rampant by mid-year and there were signs emerging of a bubble in valuations of many Chinese stocks. This reflected extraordinary demand from domestic investors for these shares despite various measures taken by authorities to cool demand including a tripling of stamp duty in May.

Global markets fell sharply over the summer months of June to early August as the extent of the problems facing financial markets due to the deteriorating sub-prime mortgage market became evident. A string of disclosures concerning losses on sub-prime related investments by banks and hedge funds snowballed into a full-blown global financial crisis. Banks and financial institutions worldwide were found to have been investing in complex securities which ultimately proved to be riskier than their bond ratings implied. By August, UK inter-bank money markets had ceased to function normally as suspicions of major losses spread and central banks began to intervene with emergency liquidity. The crisis led to the first run on a UK bank since 1866. However, encouraged by decisive interest rate action by the Fed in mid-August, markets rallied over the last part of the company's year to October.

Regional Performances

Year to 31 October 2007

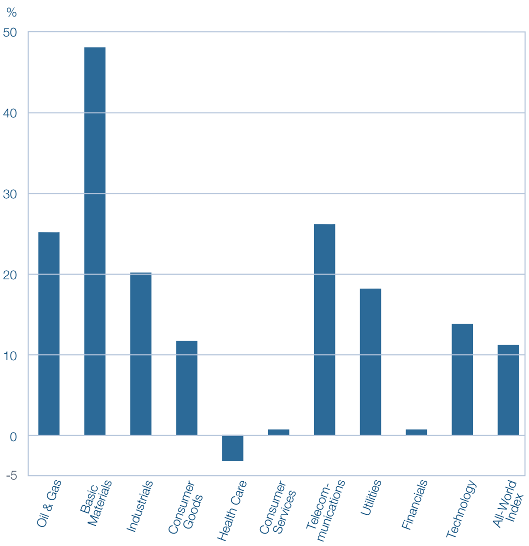


Indices are components of the FTSE All-World Index Series

While the FTSE All-World Index returned 12.5% in sterling terms, the variation in returns by its regional components was unusually wide. By far the strongest returns came from Latin America and Asia Pacific (ex Japan) which rose by 58.5% and 50.9% respectively in sterling, followed by the smaller Middle East & Africa region (34.8%). These three regions have been clear outperformers of the rest of the world since markets bottomed in 2003. Of the developed regions, only Europe (ex UK) beat the global return, rising 17.9% (14.3% in local terms). The UK was held back by its heavy exposure to banks and pharmaceuticals and only rose by 9.7%. Dollar weakness saw the reasonable 13.4% dollar return from North America shrink to 5.3% in sterling terms while the worst return globally came from Japan where a flat local return translated to a sterling decline of 6.1%. Currency has had a role in Japan and North America producing the lowest sterling returns in each of the last two years.

Industry Performance

Year to 31 October 2007



Industry sector returns were widely dispersed. The weakest areas were first, Health Care which fell 2.9% due to ongoing problems in the pharmaceutical industry; second, Financials, which gained only 1.1% over the year with underperformance in all regions; and third, Consumer Services (+1.1%), reflecting fears over consumer spending which hit general retailing shares. All other industry sectors outperformed with the best returns coming from Basic Materials (+48.8%) reflecting the strength of mining and metals shares which benefited from continued strong demand from China. Other areas of strength globally included Telecommunications (+26.5%), particularly mobile phone shares, and Oil & Gas (+25.9%).

Performance Attribution Analysis

Year to 31 October 2007

	%
Increase in NAV	+17.1
Increase in FTSE All-World Index	+12.5
Relative performance	+4.1
Sector allocation	–1.1
Stock selection	+4.6
Total equities	+3.5
Gearing	+0.4
Currency movement on cash deposits	0.0
Buybacks	+0.6
Interest and expenses charged to capital	–0.5
Reduction in pension liability	+0.1
Relative performance	+4.1

The company's NAV with borrowings at par increased by 17.1%, beating both of the company's comparator indices, the global FTSE All-World Index which rose by 12.5% and the UK FTSE All-Share Index which rose by 10.0%.

The global equity portfolio has generated superior returns compared to the FTSE All-World Index in each of the past four years.

The FTSE All-World Index is the more appropriate comparator index for relative performance attribution given the global nature of the investment portfolio. Comparison with the UK FTSE All-Share Index demonstrates to UK based investors the benefit, or otherwise, of diversifying into overseas stockmarkets.

The majority of the 4.1% relative NAV outperformance against the FTSE All-World Index was attributable to stock selection (+4.6%) with good or in-line stock selection results in nine of the ten industry groups. Sector allocations suffered from being, in relative terms, under-represented in the strong Basic Materials industry. The effects of being geared, at an average of 103% over the year, added 0.4% while the benefit of stock buybacks (+0.6%) more than offset interest and expenses charged to capital (–0.5%).

Dividend income from portfolio investments was again strong and this, combined with higher interest rates on deposits, control over expenses and a reduced weighted average number of stock units, allowed earnings per ordinary unit to increase by 17.4% to 11.02p (2006 – 9.39p).

Changes in Asset Distribution by Sector

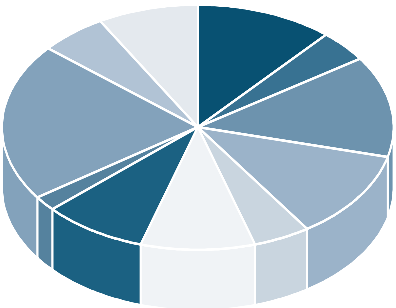
Year to 31 October 2007

	Opening Valuation £m	Net Purchases/ (Sales) £m	Appreciation/ (Depreciation) £m	Closing Valuation £m
Oil & Gas	52.2	26.5	26.0	104.7
Basic Materials	17.3	8.6	11.0	36.9
Industrials	84.0	13.6	24.3	121.9
Consumer Goods	59.3	20.6	27.0	106.9
Health Care	67.3	(20.7)	(2.5)	44.1
Consumer Services	92.5	(12.8)	6.0	85.7
Telecommunications	24.1	30.6	21.9	76.6
Utilities	32.6	(17.1)	4.2	19.7
Financials	271.7	(74.3)	(9.1)	188.3[1]
Technology	49.9	(8.8)	9.5	50.6
Total equities	750.9	(33.8)	118.3	835.4
Net current assets	88.7	(13.8)	0.3	75.2
Total assets	839.6	(47.6)	118.6	910.6
Borrowings	(107.3)	(0.1)	0.0	(107.4)
Pension liability	(1.7)	0.0	0.9	(0.8)
Equity stockholders' funds	730.6	(47.7)[2]	119.5	802.4

1 Includes £15.1m of investments which are unlisted.
2 Includes stock buybacks and interest, expenses & tax apportioned to capital.

Distribution of Total Assets by Sector

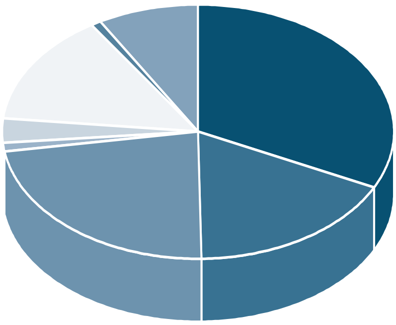
At 31 October 2007



	2007 %	2006 %
Oil & Gas	11.5	6.2
Basic Materials	4.0	2.0
Industrials	13.4	10.0
Consumer Goods	11.7	7.1
Health Care	4.8	8.0
Consumer Services	9.4	11.0
Telecommunications	8.4	2.9
Utilities	2.2	3.9
Financials	20.7	32.4
Technology	5.6	5.9
Net current assets	8.3	10.6
Total assets	100.0	100.0

Distribution of Total Assets by Region

At 31 October 2007



	2007 %	2006 %
UK	32.1	37.9
Europe (ex UK)	17.7	17.8
North America	22.7	18.7
Latin America	1.0	0.6
Japan	3.1	3.8
Asia Pacific (ex Japan)	14.3	10.6
Middle East & Africa	0.8	–
Net current assets	8.3	10.6
Total assets	100.0	100.0

Changes in Distribution

After having reduced effective gearing from the relatively high levels employed as markets bottomed in 2003, effective gearing (after deducting dividends proposed but not paid) was maintained within a range of 100% to 105% over the year and at an average of 103%. This was slightly below the level of 2006 (105%). Effective gearing ended the year at 105%. The potential gearing, that is if total borrowings were invested in equities, was 113.5% (2006 – 114.9%). The average interest cost of borrowings, all of which are fixed rate and long-term, is 5.9% (2006 – 5.9%). Net current assets at the year end totalled £75.2m or 8.3% of total assets (2006 – 10.6%) and the total equity portfolio appreciated by £118.3m (2006 – £140.1m).

Over the year, we made net sales of equities of £33.8m and lowered net current assets to finance stock buybacks of £44.2m inclusive of dealing expenses. Looking at changes in distribution in terms of industry exposure, by far the largest change was a reduction in Financials of £74.3m. Financials holdings provided the lion's share of gains in the previous year (£51.0m) and the decision was made to take profits and reduce exposure early in the year in anticipation of an end to the benevolent market conditions for the industry. Sales were focused on banks and financial institutions which had direct exposure to financial markets and investment banking in particular. These reductions, which were largely implemented in early summer before the worst of that industry's share price performance, had a material beneficial impact on relative performance over the year. We made net investments in a number of areas, most notably Telecommunications (£30.6m) where the focus was on mobile operators in high growth areas, and Oil & Gas (£26.5m) with large additions to oil service companies benefiting from strong demand conditions. Exposure to Health Care was lowered as large pharmaceuticals companies continued to struggle in difficult markets.

In geographic terms, these stock and industry decisions led to net sales of £51.1m from UK holdings and net purchases of £37.9m in North America.

OIL & GAS

Oil & Gas holdings performed well over the year, appreciating by £26.0m against a supportive backdrop of higher oil prices. Within Oil & Gas Producers, we concentrated holdings by selling three outright including BP (UK) and built up retained selections including Suncor Energy (Canada), ConocoPhillips (US) and BG Group (UK). Stock selection benefited from excellent performances from PetroChina (China) and BG Group which appreciated by £5.3m and £3.0m respectively.

However, the main focus was on the oil equipment and services area with additions of £26.6m and three new US holdings; Diamond Offshore Drilling, National Oilwell Varco and Pride International. National Oilwell Varco, a broadly based oil industry equipment supplier, performed spectacularly well and appreciated by £6.0m. Oil driller holding Todco (US) was acquired by its peer Hercules Offshore (US) and we retained a holding in the latter.

BASIC MATERIALS

The Basic Materials industry group provided the highest industry returns globally (+48.8%) reflecting sustained buoyant demand for metals and minerals from Asia and China in particular. SIT industry selections performed even more strongly with excellent contributions from BHP Billiton (UK) and Rio Tinto (UK) which appreciated by £5.2m and £3.4m respectively. However, relative performance against the FTSE All-World Index suffered from the portfolio being under-represented in this area. A new holding in crop specialist Monsanto (US) generated good early gains (£2.2m) and a new holding was also taken in Chinese paper and cardboard group, Nine Dragons Paper (HK).

INDUSTRIALS

Industrials also benefited from global growth patterns over the year and the portfolio was appropriately positioned to benefit with good selection results. During the year, net additions of £13.6m were made and holdings appreciated by £24.3m. There was considerable activity as nine holdings were sold outright, including Swift Transportation (US) which was taken private by its founder and Wolseley (UK) which we feared was likely to be impacted by the US housing market. Eight new names were introduced including infra-red applications specialist Flir Systems (US) which appreciated by £4.7m and South African construction engineering group Murray & Roberts. Other useful contributions were generated by outsourcing service company Serco (UK), French concessions-to-construction group Vinci and a new holding, Finnish mining equipment supplier, Outotec. The single largest industry gain came from the holding in Singapore-based marine engineering group Keppel Corp (£5.6m) which was a beneficiary of the strong demand for oil rigs in which it is a global leader.

CONSUMER GOODS

Against a backdrop of generally weakening consumer sentiment, it was striking that the largest absolute industry group gains (£27.0m) should come through Consumer Goods holdings. We added £20.6m to this industry group and achieved good stock selection results. During the year, the holding in Japanese electronic games designer Nintendo was built into one of the largest positions in the belief that its latest products would beat expectations. This holding appreciated by £6.8m, the second largest overall individual gain, and some profits were taken late in the year. £9.0m was added to the holding in Scottish & Newcastle (UK) ahead of an approach from European rival brewers which helped the holding appreciate by £5.0m. A new holding late in the previous year, automotive group Fiat (Italy), performed well as its restructuring and product development continued to plan, yielding an appreciation of £4.9m. Helpful mid-year additions to Fiat were funded from a complete sale of Toyota Motor (Japan), which subsequently underperformed, as we believed its operational excellence was largely priced in. Other useful contributions came from new holding Li & Fung (Hong Kong), a global sourcing agent, German tyre group, Continental, and Imperial Tobacco (UK).

HEALTH CARE

Health Care achieved the lowest returns of all the global industry groups largely owing to difficulties within the pharmaceutical industry where global sector returns were negative. While portfolio selections were neutral in aggregate, performance benefited from the decision to make net sales of £20.7m while exiting AstraZeneca (UK), GlaxoSmithKline (UK), Johnson & Johnson (US), Sanofi-Aventis (France) and Amgen (US). Excellent returns, especially for this industry, were earned by Australian blood groups specialist CSL (£4.8m) and new holding Gilead Sciences (US) (£1.3m). Health care equipment holdings generally did better than pharmaceuticals.

CONSUMER SERVICES

After a strong showing in the previous year, Consumer Services sectors were mixed this year with weakness in General Retailers and Media. Performance benefited from lightening in this area with net sales of £22.4m made in these two sectors including outright sales of Vivendi (France) and Japanese electronic goods retailer Yamada Denki. Stock selection performance here was good however benefiting from a very strong performance again from Hong Kong-listed fashion group Esprit Holdings which appreciated by £5.1m. Laureate Education (US) was acquired by private investors and there was a benefit from further progress by UK transport operator, First Group.

TELECOMMUNICATIONS

The company's exposure to the Telecommunications industry in recent years has been modest. However, the biggest sector addition in the year was an investment of £30.6m in Telecommunications as we sought opportunities with less cyclical growth. In so doing there were four new holdings added: European and Latin American operator Telefónica (Spain), US giant AT&T, Mexican mobile leader América Móvil and Bharti Airtel (India). By far the largest contribution for the entire portfolio came from Chinese mobile phone behemoth, China Mobile, which was built up over the year and which ended up as the largest holding at the year end. After a spectacular share price performance which benefited from the demand for mainland and Hong Kong-listed Chinese equities, the holding appreciated by a remarkable £13.6m. With Chinese valuations becoming full, the decision was made to take profits in China Mobile just before the year end.

UTILITIES

Utilities outperformed global markets again and company holdings appreciated by £4.2m with good contributions from ScottishPower (UK) which received a bid early in the year from Spanish electricity group Iberdrola. AWG (UK) also succumbed to M&A while German energy group E.On again performed well (+£2.0m).

FINANCIALS

The dominant theme over the second half of the year was the deterioration in financial markets stemming from the US sub-prime mortgage crisis referred to earlier. Consequently, the share price performance of the Financials industry group was also poor. Twelve months ago, Financials had made the largest contribution to portfolio performance and at the beginning of the year, just over one-third of the portfolio was in this area.

Taking the view that conditions in financial markets could not stay as positive as they had been, steady reductions were made to Financials holdings with an acceleration of this programme in June by the end of which we had made reductions of £88.3m with net reductions for the year ending at £74.3m. Reductions were focused on holdings which we felt would have been vulnerable to weakness in financial markets and investment banking in particular and included outright sales of UBS (Switzerland) and Deutsche Bank (Germany). In the case of Barclays (UK), which started the year as the largest holding, useful sizeable reductions were made early in the year with total net reductions of £11.8m. Nevertheless, the Barclays share price fell by 14.6% and even the much reduced holding depreciated by £2.3m. Most Financials holdings underperformed the broader market and the aggregate depreciation of £9.1m was incurred across a number of names with US stocks generating the largest depreciation. Amidst the poor performances from Financials holdings, where stock selection was not good, there were spectacular gains from Hong Kong-listed Chinese property developer Guangzhou R&F Properties whose share price more than tripled during the year as the holding appreciated by £5.9m. As was the case with China Mobile, some profits were taken later in the year.

TECHNOLOGY

There were good selection results within Technology Hardware & Equipment with new holdings Apple (US) and Nokia (Finland) making excellent early contributions, appreciating by £2.9m and £2.3m respectively, as demand for their differentiated product lines exceeded expectations. Existing technology manufacturing holdings Hon Hai Precision Industry (Taiwan) and Cisco Systems (US) also did well in robust technology markets.

UNLISTED PORTFOLIO

The company's unlisted portfolio appreciated by £7.3m, reflecting good uplifts in value from Apax Europe V-B and the listed HgCapital Trust (UK). Net distributions from the maturing unlisted portfolio partnerships totalled £13.0m including final proceeds from the highly successful Aberforth LP 1B. No new partnerships were entered into during the year and outstanding commitments to invest in partnerships totalled £1.9m (2006 – £3.1m).

The unlisted portfolio was valued at £25.0m (2006 – £30.7m) which is equivalent to 3.1% of stockholders' funds. Included in the unlisted portfolio is £9.9m (2006 – £8.5m) invested in listed funds which specialise in unlisted investments.

Portfolio Turnover

Total purchases of investments amounted to £388.2m (2006 £234.0m) and sales were £422.0m (2006 – £554.9m including the tender offer-related sales of £278.9m). The ratio of investment sales as a percentage of average total assets was 48.2% (2006 – 34.6% excluding tender offer sales). Commission paid to brokers during the year was £1.3m (2006 – £1.1m).

Forward currency contracts were used to guarantee exchange rates for a portion of our US dollar-denominated income.

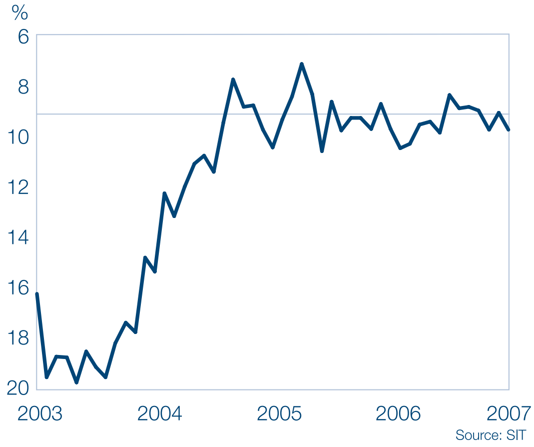
Holdings In UK Listed Investment Companies

The company's holdings include investments in UK listed investment companies of £21.7m (2006 – £26.8m). These are held to provide, variously, exposure to private equity, commercial property and environmental equities.

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

Discount to NAV*
with borrowings at market value

4 years to 31 October 2007



*After deducting dividends proposed but not paid.

Stock Price, Discount and Buybacks

The stock price rose by 17.3% (2006 – 19.6%) to 529p over the year reflecting the 18.9% (2006 – 18.7%) rise in NAV with borrowings at market value and slight widening of the discount at the year end to 9.9% (2006 – 8.5%) after deducting dividends proposed but not paid, attributable largely to a very strong performance by US holdings on the last day of the year but after the close of the UK market.

Under the company's buyback policy which is intended to maintain the discount at 9% or less in normal market conditions, 8.9m stock units were repurchased for cancellation over the financial year (utilising 5.89 percentage points of the existing 14.99% authority) at an average discount of 9.5% and a cost of £44.2m inclusive of dealing expenses. The repurchases were funded from net reductions to the equity portfolio and cash. The average discount over the year, with borrowings at market value, was 9.1% and the estimated average daily discount since the introduction of the scheme in February 2006 was also 9.1%.

Analysis of Stock Register
At 31 October 2007

Category of holder	Number	Ordinary Capital %
Individuals	26,526	64.1*
Investment companies	40	4.5
Insurance companies	11	19.0
Pension funds	33	5.6
Other	121	6.8
Total	26,731	100.0

*Includes 17.9% held in SIT Savings' products.

GLOSSARY

Total assets means total assets less current liabilities.

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

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

Borrowings at market value is the company's estimate of the fair value of its borrowings.

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

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

Potential gearing is the gearing ratio if all borrowings were invested in equities (stockholders' funds + borrowings at par), expressed as a percentage of stockholders' funds.

Effective gearing is the net geared position of the company taking into account only those borrowings which have been invested in equities (stockholders' funds + borrowings at par – net current assets), expressed as a percentage of stockholders' funds.

After deducting dividends proposed but not paid refers to adjustments made to the year end NAV for gearing and discount calculations, whereby dividends proposed but not paid are deducted, in order to provide consistency with the discount and gearing statistics published throughout the year.

GDP references are to gross domestic product adjusted for inflation.

Distribution of Total Assets by Sector

Based on total assets at 31 October 2007of £910.6m (2006 – £839.6m)

	October 2007 Total %	October 2006 Total %
Oil & Gas	**11.5**	**6.2**
Oil & Gas Producers	6.1	4.9
Oil Equipment, Services & Distribution	5.4	1.3
Basic Materials	**4.0**	**2.0**
Chemicals	1.1	0.3
Forestry & Paper	0.3	–
Mining	2.6	1.7
Industrials	**13.4**	**10.0**
Construction & Materials	2.1	2.4
Aerospace & Defence	1.8	0.5
General Industrials	1.3	1.7
Electronic & Electrical Equipment	1.7	1.4
Industrial Engineering	3.3	0.9
Industrial Transportation	–	0.9
Support Services	3.2	2.2
Consumer Goods	**11.7**	**7.1**
Automobiles & Parts	3.3	3.3
Beverages	3.2	1.4
Food Producers	–	0.4
Household Goods	1.5	1.2
Leisure Goods	1.6	–
Personal Goods	1.2	–
Tobacco	0.9	0.8
Health Care	**4.8**	**8.0**
Health Care Equipment & Services	2.3	1.6
Pharmaceuticals & Biotechnology	2.5	6.4
Consumer Services	**9.4**	**11.0**
Food & Drug Retailers	2.8	1.8
General Retailers	2.7	4.5
Media	1.5	3.0
Travel & Leisure	2.4	1.7
Telecommunications	**8.4**	**2.9**
Fixed Line Telecommunications	4.2	1.4
Mobile Telecommunications	4.2	1.5
Utilities	**2.2**	**3.9**
Electricity	0.5	1.5
Gas, Water & Multiutilities	1.7	2.4
Financials	**20.7**	**32.4**
Banks	11.5	16.0
Non-life Insurance	2.6	3.8
Life Insurance	0.8	2.0
Real Estate	1.5	2.3
General Financial	1.2	4.3
Equity Investment Instruments	3.1	4.0
Technology	**5.6**	**5.9**
Software & Computer Services	1.2	2.0
Technology Hardware & Equipment	4.4	3.9
Total Equities	**91.7**	**89.4**
Net Current Assets	**8.3**	**10.6**
Total Assets	**100.0**	**100.0**

At 31 October 2007 the company held no convertible securities (2006 – nil).

List of Investments

Listed holdings

Holding	Country	Market value £'000	Cumulative weight %
China Mobile	Hong Kong	22,672*	
Scottish & Newcastle	UK	20,390*	
BG Group	UK	17,095*	
Fiat	Italy	16,564*	
Esprit Holdings	Hong Kong	16,540*	
BT	UK	15,146*	
Nintendo	Japan	14,470*	
ConocoPhillips	USA	13,897*	
National Oilwell Varco	USA	13,730*	
AT&T	USA	13,678*	19.7
Continental	Germany	13,522	
Tesco	UK	12,686	
Serco	UK	12,558	
Lloyds TSB	UK	12,391	
Keppel Corp	Singapore	12,351	
Smith International	USA	12,296	
ANZ Bank	Australia	11,755	
Hon Hai Precision Industry	Taiwan	11,655	
Vodafone	UK	11,540	
Barclays	UK	11,508	34.3
HSBC Holdings	UK	11,103	
Nokia	Finland	11,062	
BHP Billiton	UK	10,866	
De La Rue	UK	10,745	
Royal Bank of Scotland	UK	10,369	
Diamond Offshore Drilling	USA	10,201	
Monsanto	USA	10,108	
FirstGroup	UK	10,038	
McKesson	USA	10,028	
Fresenius Medical Care	Germany	10,004	46.8
UniCredit	Italy	9,907	
Persimmon	UK	9,900	
HgCapital Trust	UK	9,864	
Société Générale	France	9,843	
Suncor Energy	Canada	9,737	
Flir Systems	USA	9,658	
Allianz	Germany	9,513	
Oshkosh Truck	USA	9,348	
Gilead Sciences	USA	9,227	
Telefónica	Spain	9,186	58.3
Cisco Systems	USA	9,085	
Rio Tinto	UK	9,083	
BNP Paribas	France	8,850	
InBev	Belgium	8,825	
Imperial Tobacco	UK	8,726	
PetroChina	China	8,687	
Enodis	UK	8,479	
Apple	USA	8,255	
Informa	UK	8,095	
Murray & Roberts	South Africa	7,703	68.6
Vinci	France	7,484	
Legal & General	UK	7,438	
Roche	Switzerland	7,189	
Psychiatric Solutions	USA	7,164	
HCC Insurance	USA	7,111	
Kookmin Bank	Korea	7,013	
Investor	Sweden	6,976	
CSL	Australia	6,901	
DBS	Singapore	6,885	
Li & Fung	Hong Kong	6,791	77.1

Listed holdings

Holding	Country	Market value £'000	Cumulative weight %
Adobe Systems	USA	6,721	
Pride International	USA	6,650	
Outotec	Finland	6,598	
Hartford Financial	USA	6,597	
Hercules Offshore	USA	6,410	
Meggitt	UK	6,350	
National Grid	UK	6,146	
Guangzhou R & F Properties	China	6,005	
EnCana	Canada	5,983	
Siemens	Germany	5,809	84.7
E.On	Germany	5,795	
Komatsu	Japan	5,665	
MSC Industrial Direct	USA	5,493	
Anglo Irish Bank	Ireland	5,451	
Marks & Spencer	UK	5,282	
East Japan Railway	Japan	5,141	
United Business Media	UK	4,975	
Spectris	UK	4,959	
Rofin-Sinar Technologies	Germany	4,817	
Impax Environmental Markets	UK	4,020	90.8
Whitbread	UK	3,960	
Tenaga Nasional	Malaysia	3,940	
Fletcher Building	New Zealand	3,916	
Tod's	Italy	3,915	
Sage	UK	3,820	
United Utilities	UK	3,807	
Lonmin	UK	3,776	
Desarrolladora Homex	Mexico	3,743	
Zimmer Holdings	USA	3,636	
Nine Dragons Paper	Hong Kong	3,094	95.3
Walgreen	USA	3,033	
Walmex	Mexico	2,974	
Thomas Cook	UK	2,965	
Invista Foundation Property	UK	2,899	
Orix	Japan	2,766	
Invista European Real Estate	UK	2,496	
Standard Life Inv. Property	UK	2,375	
Bharti Airtel	India	2,218	
América Móvil	Mexico	2,105	
Others (under £1m) (1)		55	
Total listed equities		**820,251**	**98.2**

Unlisted holdings

Holding	Country	£'000	
Boston Ventures VI	USA	4,513	
Apax Europe V – B	UK	4,313	
Boston Ventures V	USA	1,564	
Heritable Property & Loans	UK	1,362	
1818 Fund III	USA	875	
Sprout Capital VII	USA	699	
Sprout Capital VIII	USA	656	
Cahill Warnock Strategic Partners	USA	541	
Others (under £0.5m) (7)		583	
Total unlisted equities		**15,106**	**1.8**
Total equities		**835,357**	**100.0**

* Denotes ten largest holdings with an aggregate market value of £164,182,000.

Business Review

Investment policy

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.

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

The company's portfolio is actively managed and, as a result, is relatively concentrated 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 measured 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 should 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 stockholders. 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 liability partnerships, structured products, cash and liquid resources. The company may use derivatives for hedging or tactical investment purposes with the prior authorisation of the board. However, it is the policy of the company not to trade in such instruments. In any case, no derivative transactions may take place without 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 (as at the last audited balance sheet) may be used to make investments of up to a maximum of 8% of the value of total assets in any one company, at the time the investment is made. Thereafter, individual investments may not exceed 3% of the value of total assets, at the time the investment is made.
- The levels of effective and potential gearing are monitored closely by the board and manager. The company applies a ceiling on effective gearing of 120%. While effective gearing will be employed in a typical range of 100% to 120%, the company retains the ability to lower equity exposure below 100% if deemed appropriate.
- The company has a policy not to invest more than 15% of gross assets in other UK listed investment companies.
- The company may not make investments in respect of which there is unlimited liability.

Investment policy – implementation

During the year under review, the assets of the company were invested in accordance with the company's investment policy. For details of how the company's absolute performance and relative performance compared to its comparator indices were achieved, please refer to the Management Review on pages 8 to 15.

A full list of holdings is disclosed on page 17 and detailed analyses of the spread of investments by geographic region and industry sector are shown on pages 11 and 16. Further analysis of changes in asset distribution by industry sector over the year and the sources of gain and loss is shown on page 11. An attribution of NAV relative performance against a global equity index is also shown on page 10.

At the year end the number of listed holdings was 100 including two holdings which were held within the company's unlisted portfolio.

The top 10 holdings comprise 18.0% of total assets (2006: 15.8%).

Directors' Report

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 8 to 15.

Additional limitations on borrowings
Under the company's articles of association, the directors are to restrict the company's borrowings, and are to control the borrowings of the company's subsidiaries, to secure that the aggregate amount of all group borrowings (excluding intra-group borrowings) do not, unless approved by an ordinary resolution of holders of ordinary stock units, exceed the aggregate of the issued and fully paid share capital, share premium account and reserves of the company and its subsidiaries, as published in the latest accounts (excluding any part of any reserve arising out of unrealised capital profits). 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 and fully paid 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

These and other risks facing the company are reviewed regularly by the audit committee and the board. Further information is given in note 18 to the accounts on page 41.

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

Key Performance Indicators including the following are used:

- NAV total return
- NAV total return against comparators
- NAV and stock price total return against peers
- Discount with debt at market value
- Dividend growth against RPI
- Total expense ratio

Dividend

The directors recommend a final dividend of 4.80p and a special dividend of 2.00p per ordinary stock unit, both payable on 7 February 2008. With the interim dividend of 4.30p already paid, this makes a total of 11.10p for the year. The total dividend absorbs £15,104,000.

Status

The company is a self-managed investment trust and is an investment company within the meaning of the Companies Act 1985.

HM Revenue & Customs has approved the company as an investment trust for the purposes of S842, Income and Corporation Taxes Act 1988 up to the accounting period ending 31 October 2006. This approval is subject to any subsequent enquiry by HM Revenue and Customs under Schedule 18 Finance Act 1998. The company continues to satisfy the conditions for such approval.

Stock Buybacks

Under the company's stock buyback policy, which was introduced in January 2006, the company actively seeks to buy back stock with the aim, in normal market conditions, of maintaining a discount to NAV of 9% or less. 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 stock will take into account changes in the value of the borrowings brought about by movements in long-term interest rates. The company has, during the year ended 31 October 2007, bought back for cancellation a total of 8,880,100 ordinary stock units representing 6.2% of ordinary stock units in issue at 31 October 2006, at a cost of £44,234,000, utilising 5.89 percentage points of the 14.99% authority renewed at the January 2007 AGM.

Directors

Hamish Leslie Melville retired as a director on 26 January 2007. The directors of the company at 31 October 2007 and their biographical details are shown on page 6.

The following table shows the attendance of directors at board and committee meetings during the year to 31 October 2007.

	Board	Audit	Remuneration	Nomination
Number of meetings	8	3	3	1
D C P McDougall	8	3	3	1
Sir George Mathewson	8	n/a	n/a	1
D F K Finlay	7	n/a	n/a	1
H N Buchan	8	3	3	1
J S MacLeod	8	3	2	1
I H Leslie Melville	2	n/a	1	n/a

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

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

The appointments of Douglas McDougall, Sir George Mathewson and Francis Finlay as directors run for one year at a time. Hamish Buchan was appointed in November 2003 and Jim MacLeod was appointed in September 2005 both for initial terms of three years. Hamish Buchan's appointment was renewed in November 2006. Directors' letters of appointment will be available for inspection at the AGM.

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

Directors' Interests

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

	Ordinary stock units of 25p	
	31 October	1 November
Beneficial interests	2007	2006
D C P McDougall	60,000	60,000
Sir George Mathewson	65,383	57,983
D F K Finlay	60,000	60,000
H N Buchan	20,000	20,000
J S MacLeod	21,216	15,000
Non-beneficial interests		
Sir George Mathewson	26,500	26,500

There have been no other changes in the directors' interests between 31 October 2007 and 10 December 2007.

Corporate Governance

Compliance

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

Directors

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

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

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

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

All directors have been appointed for fixed terms not exceeding three years. All directors are required to retire by rotation at their first AGM and at intervals of not more than three years thereafter. In addition, the company's articles of association provide that a director is to vacate office if he becomes bankrupt, ceases to have legal capacity, is absent from board meetings for a continuous period of six months without special leave of absence, resigns or is removed in accordance with applicable legislation. No compensation is payable to a director who leaves the board before the expiry of his term of office. No director has a service contract with the company. No contract or arrangement entered into by the company in which any director is interested has subsisted during the year.

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

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

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

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

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

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

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 and stockholders.

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

Relations with stockholders

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

Accountability and audit

The respective responsibilities of the directors and the auditors in respect of the financial statements are given below and on page 27.

The audit committee has written terms of reference which are shown on the company's website. Its duties include risk assessment, reviewing internal controls, the company's accounting policies, financial statements prior to their release and the company's procedures on whistleblowing. The committee is also responsible for all aspects of the company's relationship with its external auditors including reviewing the scope and effectiveness of the annual audit, the auditors' remuneration, the terms of engagement and the level of non-audit work, if any, carried out by the auditors. The committee will also ensure that the level of non-audit work does not compromise the auditors' independence.

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

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

The board is responsible for ensuring that the company has in place an effective system of internal controls designed to maintain the integrity of accounting records and to safeguard the company's assets.

The board has applied Principle C.2 of the Combined Code by establishing a continuous process for identifying, evaluating and managing the significant risks the company faces. This process, which has been in place throughout the year and up to and including the date of approval of this report, is in accordance with Internal Control: Revised Guidance for Directors on the Combined Code published in October 2005 (The Turnbull Guidance).

In compliance with Provision C.2 of the Combined Code, the board reviews the effectiveness of the company's system of internal control at six-monthly intervals. The board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management and considering whether significant risks are identified, evaluated, managed and controlled, and whether any significant weaknesses are promptly remedied or indicate a need for more extensive monitoring. During the course of its review of the system of internal control, the board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate. The audit committee assists the board in discharging its review responsibilities.

Detailed procedures are in place to ensure that:

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

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

Directors' responsibilities

United Kingdom company law requires the directors to prepare financial statements for the year to 31 October 2007 which give a true and fair view of the state of affairs of the company and of the revenue and cash flows for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

- it has approved the financial statements for the year to 31 October 2007;
- it has reviewed the effectiveness of the company's internal controls and risk management;
- it has reviewed the need for a separate internal audit function;
- it has recommended to the board that a resolution be proposed at the AGM for the reappointment of the external auditors and it has considered the proposed terms of their engagement;
- it has satisfied itself as to the independence of the external auditors; and
- it has satisfied itself that the terms of the business review are consistent with the accounts.

Substantial Stockholdings

At 10 December 2007 the company had been notified of the following holdings in excess of 3% of its ordinary stock.

	Ordinary stock units	% of issue
AXA Group	15,112,914	11.3
Legal & General	5,478,401	4.1
D C Thomson	5,200,000	3.9

Annual General Meeting

A resolution relating to the following item of special business will be proposed at the forthcoming annual general meeting:

Repurchase of the company's own ordinary stock units.

Resolution number 9 set out in the notice of the annual general meeting on page 45 seeks to renew the authority to repurchase ordinary stock units until 30 April 2009. The principal reasons for such repurchases are to enhance the net asset value of the ordinary stock by repurchasing ordinary stock units at prices which, after allowing for costs, represent a discount to the prevailing net asset value and to allow implementation of the company's stock 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 ordinary stock units over the five business days immediately preceding the date of purchase, (ii) the price of the last independent trade and (iii) the highest current independent bid. The minimum price which may be paid is 25p per ordinary stock unit.

The directors consider that it is in the best interests of the company and of stockholders as a whole to renew the authority to repurchase ordinary stock units and recommend that stockholders vote in favour of the resolution. The directors also consider that the resolutions constituting ordinary business are all in such best interests, and recommend that stockholders vote in favour of them.

Voting Policy

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

Socially Responsible Investing

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

Auditors

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

Disclosure of Information to Auditors

It is the company's policy to allow the auditors unlimited access to its records. The directors confirm that, so far as each of them is aware, there is no relevant audit information of which the company's auditors are unaware and that they have taken all the steps which they should have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Payment of Creditors

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

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

Donations

No charitable or political donations were made during the year.

By order of the board

Steven Hay

Steven Hay
Secretary
10 December 2007

Appendix to Directors' Report

Rights Attaching to Shares in the Company

General
The company had 134,267,515 ordinary stock units in issue at 31 October 2007. There are no other classes of ordinary stock in issue. The rights attaching to ordinary stock units in the company are set out in the company's articles of association and they are also supplemented by (and are subject to) relevant provisions of the Companies Act 1985, the Companies Act 2006 and other legislation applying to the company from time to time (the 'Statutes'). In accordance with the Statutes, the company's articles of association may be amended by the passing of a special resolution of holders of ordinary stock; that is, by the approval of a majority of not less than 75%.

Dividends
The holders of ordinary stock units are entitled to all surplus income or revenue. The company may declare dividends, including interim dividends, in general meeting but no dividend is payable except out of the company's profits 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.

Rights to the capital of the company on winding up
The holders of ordinary stock units would be entitled to the assets of the company in the event that the company were to be wound up (after the company's other liabilities have been satisfied).

Voting
On a show of hands, every holder of ordinary stock units 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 complete £1 nominal of stock held.

Deadlines for exercising voting rights
If a holder of ordinary stock wishes to appoint a proxy to attend, speak and vote at a meeting on his behalf, a valid appointment is made if 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 not less than 48 hours before the start of the meeting or adjourned meeting at which the proxy is appointed to vote.

Limitations on the holding of ordinary stock units
Except as required by the Statutes (or by court order), the company is not bound to recognise any person as holding ordinary stock units on trust nor is the company bound to recognise any equitable, contingent, future or partial interest in any ordinary stock units, or any interest in any fractional part of an ordinary stock unit, other than the absolute right of a registered holder to the entirety of an ordinary stock unit.

Restrictions on the rights attaching to ordinary stock units
In relation to ordinary stock units held in certificated form, the directors have a discretionary right to decline to register their transfer unless the instrument of transfer is deposited at the company's registrars accompanied by the relevant stock certificate(s) and any other evidence reasonably required by the directors to show the right of the transferor to make the transfer (and, if the instrument of transfer is executed by someone on behalf of the registered holder, evidence of that person's signing authority).

Directors' Remuneration Report

This report has been prepared in accordance with the requirements of Schedule 7A to the Companies Act 1985 incorporating the Directors' Remuneration Report Regulations 2002. An ordinary resolution for the approval of the report will be put to stockholders at the AGM on 25 January 2008.

Remuneration Committee

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

The remuneration committee met on 26 May 2006 and considered the level of directors' fees. The committee proposed an increase in directors' fees to the level recommended by external consultants, MacDonald Kinnaird, namely £40,000 per annum for the chairman and £24,000 per annum for other directors. This proposal was approved by stockholders at the AGM held on 26 January 2007.

Policy on Directors' Fees

At the year end the board consisted of five directors, all of whom are non-executive. Directors' fees are set with a view to attracting individuals of appropriate calibre and experience, taking into account the time commitment required and the level of fees paid by similar investment trusts. It is intended that this policy will apply for the year to 31 October 2008 and to subsequent years. The directors do not receive bonuses, share options, long-term incentives, pension or other benefits.

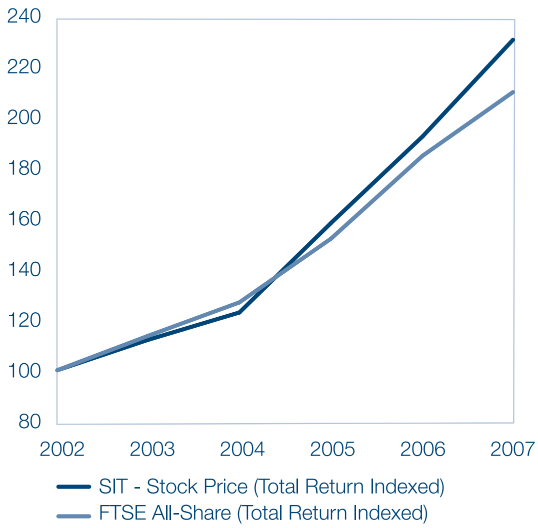
Service Contracts

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

Company Performance

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

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



Directors' Emoluments for the Year to 31 October 2007 (audited)

Fees	2007 £	2006 £
DCP McDougall	40,000	35,000
Sir George Mathewson	24,000	20,000
DFK Finlay	24,000	20,000
HN Buchan	24,000	20,000
JS MacLeod	24,000	20,000
IH Leslie Melville	6,000	20,000
	142,000	135,000

Hamish Leslie Melville retired from the board on 26 January 2007. His fees were paid to Credit Suisse Securities (Europe) Limited. The other directors received their fees personally.

Approval

The directors' remuneration report was approved by the board on 10 December 2007 and signed on its behalf by the chairman of the remuneration committee.

Hamish Buchan
10 December 2007

Independent Auditors' Report

To The Members of The Scottish Investment Trust PLC

We have audited the financial statements of The Scottish Investment Trust PLC for the year ended 31 October 2007 which comprise the Income Statement, Balance Sheet, Reconciliation of Movements in Stockholders' Funds, Statement of Total Recognised Gains and Losses, Cash Flow Statement, Accounting Policies and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report described to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 October 2007 and of its total return for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Edinburgh
United Kingdom
10 December 2007

Income Statement

for the year to 31 October 2007

	Notes	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000
Net gains on investments and currencies	15	–	118,591	118,591	–	139,610	139,610
Income	1	23,704	–	23,704	23,755	–	23,755
Expenses	2	(2,779)	(1,930)	(4,709)	(2,645)	(1,836)	(4,481)
Net Return before Finance Costs and Taxation		20,925	116,661	137,586	21,110	137,774	158,884
Premium on repayment of secured bonds		–	–	–	–	(9,908)	(9,908)
Interest payable	5	(3,213)	(3,213)	(6,426)	(3,598)	(3,598)	(7,196)
Return on Ordinary Activities before Tax		17,712	113,448	131,160	17,512	124,268	141,780
Tax on ordinary activities	6	(2,346)	1,501	(845)	(2,251)	1,339	(912)
Return attributable to Equity Stockholders		15,366	114,949	130,315	15,261	125,607	140,868
Return per Ordinary Stock Unit		11.02p	82.43p	93.45p	9.39p	77.24p	86.63p
Weighted average number of Ordinary Stock Units in issue during the year			139,446,127			162,609,310	

	2007 £'000	2006 £'000
Dividends paid and proposed (note 7):		
Interim dividend 2007 – 4.30p (2006 – 4.15p)	5,974	6,018
Final dividend 2007 – 4.80p (2006 – 4.57p)	6,445	6,531
Special dividend 2007 – 2.00p (2006 – 2.00p)	2,685	2,860
	15,104	15,409

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 2007

	Notes	2007 £'000	2006 £'000
Fixed Assets			
Equity investments	8	835,357	750,870
Current Assets			
Debtors	11	3,832	1,091
Current asset investments	8	–	5,000
Cash and deposits	8	72,523	83,829
		76,355	89,920
Creditors: amounts falling due within one year	12	(1,138)	(1,149)
Net Current Assets		75,217	88,771
Total Assets less Current Liabilities		910,574	839,641
Creditors: amounts falling due after more than one year			
Long-term borrowings at par	13	(107,372)	(107,252)
Net Assets: excluding pension liability		803,202	732,389
Pension liability	4	(849)	(1,795)
Net Assets: including pension liability		802,353	730,594
Capital and Reserves			
Called-up share capital	14	33,567	35,787
Share premium account	15	39,922	39,922
Other reserves	15		
Capital redemption reserve		37,294	35,074
Capital reserve – realised		417,412	374,270
Capital reserve – unrealised		230,263	202,262
Revenue reserve		43,895	43,279
Equity Stockholders' Funds		802,353	730,594
Net Asset Value per Ordinary Stock Unit with borrowings at par		597.6p	510.4p
Number of Ordinary Stock Units in issue at year end	14	134,267,515	143,147,615

The financial statements on pages 28 to 41 were approved by the board of directors on 10 December 2007 and were signed on its behalf by:

Douglas McDougall.

Douglas McDougall

Director

The accompanying notes are an integral part of this statement.

Statement of Total Recognised Gains and Losses

for the year to 31 October 2007

	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000
Return attributable to equity stockholders	15,366	114,949	130,315	15,261	125,607	140,868
Actuarial gains (note 4)	615	428	1,043	159	110	269
Total recognised gains for the year	15,981	115,377	131,358	15,420	125,717	141,137
Total recognised gains per ordinary stock unit	11.46p	82.74p	94.20p	9.48p	77.31p	86.79p

Reconciliation of Movements in Stockholders' Funds

for the year to 31 October 2007

	2007 £'000	2006 £'000
Opening equity stockholders' funds as previously reported	730,594	894,412
Total recognised gains	131,358	141,137
Dividend payments	(15,365)	(15,105)
Ordinary stock repurchases	(44,234)	(288,891)
Tender offer expenses	–	(959)
	802,353	730,594

Cash Flow Statement

for the year to 31 October 2007

	Notes	2007 £'000	2006 £'000
Net Cash Inflow from Operating Activities		17,986	18,581
Servicing of Finance			
Premium on repayment of borrowings	13	–	(8,778)
Tender offer expenses		–	(959)
Interest paid		(6,305)	(7,157)
Net cash outflow from servicing of finance		(6,305)	(16,894)
Taxation			
Net cash inflow from taxation (overseas tax recovered)		170	135
Investing Activities			
Purchases of investments		(387,957)	(238,312)
Disposals of investments		419,530	554,687
Net cash inflow from investing activities		31,573	316,375
Equity dividends paid		(15,365)	(15,105)
Net cash inflow before use of liquid resources and financing		28,059	303,092
Management of Liquid Resources			
Decrease in current asset investments and short term deposits	16	18,000	22,000
Financing			
Repayment of secured bonds	13	–	(41,985)
Stock buybacks	14	(44,365)	(288,235)
Net cash outflow from financing		(44,365)	(330,220)
Increase/(Decrease) in Cash	16	1,694	(5,128)

Reconciliation of Net Revenue before Finance Costs and Taxation to Net Cash Inflow from Operating Activities

	2007 £'000	2006 £'000
Net revenue before finance costs and taxation	20,925	21,110
Expenses charged to capital	(1,930)	(1,836)
Scrip dividends	(83)	(106)
(Increase)/Decrease in accrued income	(228)	416
Increase/(Decrease) in other creditors	120	(85)
Decrease in other debtors	21	44
Adjustment for pension funding	97	133
Tax on investment income	(936)	(1,095)
Net Cash Inflow from Operating Activities	17,986	18,581

The accompanying notes are an integral part of this statement.

Accounting Policies

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

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

(b) Valuation of Investments
Listed investments are valued at fair value through profit or 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 British Venture Capital Association for the valuation of unlisted investments. Heritable property is included at a professional valuation. Depreciation is not charged on heritable property as it is not material.

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

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

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

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

Where the company receives dividends in the form of additional shares rather than in cash, the amount of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash is recognised in capital reserves.

(d) Expenses
All expenses are accounted for on an accruals basis.

Eligible investment expenses have been charged one-half to revenue reserve and one-half to capital reserve-realised in line with the directors' expectations of the nature of long-term future returns from the company's investments (2006 – same).

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

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

(e) Finance Costs
Interest payable has been charged one-half to revenue reserve, one-half to capital reserve-realised in line with the directors' expectations of long-term future returns from the company's investments (2006 – same). Tax relief applicable to those charges is allocated between revenue and capital using the marginal basis.

The premium paid in 2006 on the partial repayment of the secured bonds due 2030 has been charged to capital in the income statement.

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

(f) Taxation
Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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

(g) Foreign Currency
Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates at the date of the transaction or, where appropriate, at the rate of exchange in a related forward contract. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the

year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in capital reserve or in the revenue account depending on whether the gain or loss is of a capital or revenue nature respectively.

(h) Capital Reserves

Capital Reserve – Realised

The following are accounted for in this reserve:

–gains and losses on the realisation of investments

–realised exchange differences of a capital nature

–realised gains and losses on transactions undertaken to hedge an exposure of a capital nature

–the funding of ordinary stock repurchases

–expenses, interest and tax charged to capital.

Capital Reserve – Unrealised

The following are accounted for in this reserve:

–increases and decreases in the valuation of investments held at the year end

–unrealised exchange differences of a capital nature

–unrealised gains and losses on transactions undertaken to hedge an exposure of a capital nature

–increases and decreases in the valuation of the pension fund surplus or deficit.

(i) Pensions

Information on the company's pension scheme is contained in note 4 to the Financial Statements on page 35.

Notes to the Financial Statements

for the year to 31 October 2007

1. INCOME	2007 £'000	2006 £'000
UK franked income including special dividends of £353,000 (2006– £197,000)	9,413	9,902
Income from other UK listed investments	762	701
Income from UK unlisted investments	3	308
Overseas dividends including special dividends of £218,000 (2006 – £124,000)	8,409	8,016
Income from overseas unlisted investments	–	202
Scrip dividends	83	106
Deposit interest	4,951	4,378
Forward sales of US dollars	83	142
	23,704	23,755
Income includes:		
Listed UK	10,175	10,603
Listed overseas	8,492	8,122
Unlisted	3	510
	18,670	19,235

2. EXPENSES	2007 £'000	2006 £'000
Staff costs (Note 3)	2,781	2,741
Auditors' remuneration for audit services	27	26
Pension scheme audit	3	3
Auditors' remuneration for non-audit services	4	4
Other financial advisory services	1	1
Other expenses	1,893	1,706
	4,709	4,481

Eligible investment expenses have been charged one-half to revenue reserve and one-half to capital reserve-realised (2006 – same).

3. STAFF COSTS	2007 £'000	2006 £'000
Remuneration	2,078	1,965
Social security costs	237	229
Pensions and post-retirement benefits	466	547
	2,781	2,741

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

	2007 Number	2006 Number
Investment	11	10
Administration	11	11
	22	21

Directors' remuneration:		
Fees for services as directors	£142,000	£135,000

4. PENSION SCHEME

The company's defined benefit pension scheme based on final salary is now closed to new entrants. The assets of the scheme are held separately from those of the company. The fund is under the control of trustees and is administered by 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 during the year which disclosed a scheme deficit of £2,006,000 on 31 July 2007. The company has agreed to meet this deficit over nine years by equal instalments. It should be noted that this deficit differs from that disclosed by Financial Reporting Standard 17 (FRS17) which is set out below and which is the liability required to be shown in the financial statements. The main reason for the difference is that FRS17 requires future liabilities to be calculated actuarially using a rate of return based on the yield from investment grade corporate bonds which is lower than the expected rate of return on the equities in which the scheme is invested. The FRS17 liability is separately disclosed in the balance sheet.

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

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

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

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

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

	2007 %	2006 %	2005 %	2004 %	2003 %
Rate of increase in salaries	5.2	4.9	4.9	4.9	2.5/4.5
Rate of increase in pensions in payment	3.5	3.5	3.5	3.8	2.5
Discount rate	5.8	5.0	5.0	5.5	5.4
Inflation	3.2	2.9	2.9	2.9	2.5

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

	Expected rate of return				
	2007 %	2006 %	2005 %	2004 %	2003 %
Equities	7.7	7.2	7.3	7.7	8.2
Bonds	4.7	4.2	4.3	4.7	4.8
With-profit policies	5.8	4.7	4.7	4.7	4.8
Cash	5.8	4.8	4.5	4.8	–

4. PENSION SCHEME (continued)

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

	Fair value				
	2007 £'000	2006 £'000	2005 £'000	2004 £'000	2003 £'000
Equities	3,311	2,994	2,494	3,252	3,470
Bonds	104	100	71	93	907
With-profit policies	1,223	1,054	1,262	2,121	2,529
Cash	1,984	1,627	999	897	–
Total fair value of assets	6,622	5,775	4,826	6,363	6,906
Present value of scheme liabilities	(7,471)	(7,570)	(6,757)	(7,793)	(8,080)
Net pension liability	(849)	(1,795)	(1,931)	(1,430)	(1,174)

Analysis of amount chargeable to operating profit during the year:

	2007 £'000	2006 £'000	2005 £'000	2004 £'000	2003 £'000
Current service cost	484	446	363	424	435
Settlement/curtailments	–	–	–	(1,530)	–
Total operating charge	484	446	363	(1,106)	435
Employee contribution to be set off	(41)	(37)	(35)	(49)	(58)
Analysis of amount credited to other finance income:					
Expected return on assets	355	298	360	430	426
Interest on liabilities	(388)	(347)	(370)	(423)	(389)
Net return	(33)	(49)	(10)	7	37
Movement in deficit during year:					
Deficit at beginning of year	(1,795)	(1,931)	(1,430)	(1,174)	(2,119)
Movement in year:					
Current service cost	(484)	(446)	(363)	(424)	(435)
Contributions for year	420	362	314	303	496
Contributions prepaid	–	–	–	–	620
Settlements/curtailments	–	–	–	1,530	–
Net return from other finance income	(33)	(49)	(10)	7	37
Actuarial gain/(loss) in statement of total recognised gains and losses	1,043	269	(442)	(1,672)	227
Deficit at end of year	(849)	(1,795)	(1,931)	(1,430)	(1,174)

4. PENSION SCHEME (continued)

	2007 £'000	2006 £'000	2005 £'000	2004 £'000	2003 £'000
Analysis of the actuarial deficit in the statement of recognised gains and losses:					
Actual return less expected return on assets	137	365	256	(376)	285
Experience gains/(losses) on liabilities	363	(96)	(153)	(988)	(142)
Change in assumptions	543	–	(545)	(308)	84
Actuarial gain/(loss) in statement of total recognised gains and losses	1,043	269	(442)	(1,672)	227

History of experience gains and losses	2007 %	2007 £'000	2006 %	2006 £'000	2005 %	2005 £'000	2004 %	2004 £'000	2003 %	2003 £'000
Difference between actual and expected return on assets	*2*	137	*6*	365	*5*	256	*6*	(376)	*4*	285
Experience gains/(losses) on liabilities	*5*	363	*1*	(96)	*2*	(153)	*13*	(988)	*2*	(142)
Total amount recognised on statement of total recognised gains and losses	*14*	1,043	*4*	269	*7*	(442)	*21*	(1,672)	*3*	227

The pension cost of operating the defined contribution scheme amounted to £52,000 (2006 – £38,000).

5. INTEREST PAYABLE

	2007 £'000	2006 £'000
On secured bonds, debentures, bank loans, overdrafts and other loans	6,306	7,061
Amortisation of secured bond issue expenses	120	135
	6,426	7,196

Interest payable has been charged one-half to revenue reserve and one-half to capital reserve-realised (2006 – same).

6. TAX ON ORDINARY ACTIVITIES

	2007 £'000	2006 £'000
Tax on ordinary activities		
Overseas tax	845	919
Deferred tax	–	(7)
	845	912
The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK of 30% (2007 – 30%) The differences are explained below:		
Income	23,704	23,755
Expenses	(4,709)	(4,481)
Interest payable	(6,426)	(7,196)
Profit on ordinary activities before tax	12,569	12,078
Tax at 30% thereon	(3,771)	(3,623)
Effects of:		
UK dividend income	2,824	2,971
Scrip dividends	25	32
Foreign tax charge	(845)	(912)
Management expenses	922	613
	(845)	(919)

6. TAX ON ORDINARY ACTIVITIES (continued)

There are unrelieved management expenses at 31 October 2007 of £54,069,027 (2006 – £29,283,000) but the related deferred tax asset at 30% 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	2007 £'000	2006 £'000
Dividends on ordinary stock recognised in the year:		
Previous year final of 4.57p per unit (2006 – 4.35p)	6,531	9,087
Previous year special of 2.00p per unit (2006 – nil)	2,860	–
Interim paid of 4.30p per unit (2006 – 4.15p)	5,974	6,018
	15,365	15,105

8. INVESTMENTS	2007 £'000	2006 £'000
Investments listed on a recognised investment exchange	820,251	728,668
Unlisted investments	15,003	22,099
Subsidiary undertakings (Note 9)	103	103
	835,357	750,870

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total 2007 £'000
Opening book cost	202,872	329,741	14,837	547,450
Opening unrealised appreciation	105,345	90,710	7,365	203,420
Opening valuation	308,217	420,451	22,202	750,870
Movements in the year:				
Purchases at cost	72,294	315,043	857	388,194
Sales – proceeds	(123,605)	(284,698)	(13,686)	(421,989)
– realised gains on sales	43,892	38,362	8,455	90,709
Increase/(decrease) in unrealised appreciation	(14,892)	45,187	(2,722)	27,573
Closing valuation	285,906	534,345	15,106	835,357
Closing book cost	195,453	398,448	10,463	604,364
Closing unrealised appreciation	90,453	135,897	4,643	230,993
	285,906	534,345	15,106	835,357

The purchases at cost and sales proceeds figures include transaction costs of £1,840,000 (2006 – £1,381,000), comprising commissions, government stamp duty and other exchange fees.

	2007 £'000	2006 £'000
Realised gains on sales	90,709	149,902
Increase/(decrease) in unrealised appreciation	27,573	(9,803)
Gains on investments	118,282	140,099

Unlisted investments include heritable property valued at £1,230,000 (2006 – £1,230,000). The property was valued on an open market basis by Ryden, chartered surveyors, on 30 October 2006.

8. INVESTMENTS (continued)

Financial assets – cash, deposits and current asset investments

	2007 Fixed £'000	2007 Floating £'000	2007 Total £'000	2006 Fixed £'000	2006 Floating £'000	2006 Total £'000
Sterling	69,000	1,502	70,502	82,000	5,130	87,130
Euro	–	12	12	–	86	86
US dollar	–	1,985	1,985	–	1,572	1,572
Other	–	24	24	–	41	41
	69,000	3,523	72,523	82,000	6,829	88,829

The maximum period for fixed rate deposits outstanding at the year end was 34 days (2006 – 21 days). The weighted average fixed interest rate at the year end was 5.90% (2006 – 4.85%). Floating interest rates vary in relation to short term rates in the currencies in which deposits are held.

Included within current asset investments and financial assets above is an amount of £nil (2006 – £5,000,000) representing a money market fund listed in Dublin held at the end of the year.

9. SUBSIDIARY UNDERTAKINGS

The company has investments in the following subsidiary undertakings:

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

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

10. SIGNIFICANT INTERESTS

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

Name of undertaking	Country of incorporation and operation	Description of shares held	Percentage held	Aggregate capital and reserves £'000	Profit after tax for year £'000
Sprout Growth Limited	Cayman Islands operating in USA	Ordinary and participating	49.7	243	0

11. DEBTORS

	2007 £'000	2006 £'000
Amounts due from brokers	2,614	–
Overseas tax recoverable	102	182
Prepayments and accrued income	1,116	909
	3,832	1,091

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 £'000	2006 £'000
Amounts due to brokers	524	656
Other creditors	614	493
	1,138	1,149

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

	2007		2006	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
4% perpetual debenture stock	350	270	350	304
4¼% perpetual debenture stock	700	576	700	649
5% perpetual debenture stock	1,009	972	1,009	1,064
5¾% secured bonds due 17/4/2030	105,313	110,431	105,193	120,505
	107,372	112,249	107,252	122,522

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

The debenture stocks and secured bonds are stated in the balance sheet at book value. Restating them at estimated market value of £112.2m (2006 – £122.5m) has the effect of reducing the year end NAV per ordinary stock unit from 597.6p to 593.9p (2006 – 510.4p to 499.7p). Estimated market value is the fair value of the company's secured bonds and debenture stocks.

During the year ended 31 October 2006 a total of £41,985,000 nominal secured bonds due 2030 were repurchased at a cost of £51,776,000. The difference of £9.8m was charged to capital against which a gain of £1m was offset following the termination of an interest rate swap to hedge against movements in interest rates.

14. CALLED-UP SHARE CAPITAL

	Authorised		Issued	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Ordinary stock units of 25p	85,500	85,500	33,567	35,787
Number of ordinary stock units in issue			134,267,515	143,147,615

8,880,100 ordinary stock units were repurchased in the stockmarket during the year to 31 October 2007. 306,500 ordinary stock units were repurchased between 31 October 2007 and 7 December 2007.

15. RESERVES

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
At 1 November 2006	39,922	35,074	374,270	202,262	43,279
Exchange difference	–	–	309	–	–
Net gain on realisation of investments	–	–	90,709	–	–
Increase in unrealised appreciation	–	–	–	27,573	–
Ordinary stock repurchased	–	2,220	(44,234)	–	–
Actuarial gain relating to pension scheme	–	–	–	428	615
Interest, expenses and tax charged to capital in current year	–	–	(3,642)	–	–
Revenue return on ordinary activities after tax	–	–	–	–	15,366
Dividends paid during the year	–	–	–	–	(15,365)
At 31 October 2007	39,922	37,294	417,412	230,263	43,895

16. ANALYSIS OF CHANGES IN NET DEBT DURING THE YEAR

	1 November 2006 £'000	Cash flows £'000	Non-cash movements £'000	31 October 2007 £'000
Current asset investments	5,000	(5,000)	–	–
Cash at bank	1,829	1,694	–	3,523
Short term deposits	82,000	(13,000)	–	69,000
Borrowings due after one year	(107,252)	–	(120)	(107,372)
	(18,423)	(16,306)	(120)	(34,849)

17. CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS

	2007 £'000	2006 £'000
Contingencies, guarantees and financial commitments of the company at the year end, which have not been accrued, are as follows:		
Commitments to provide additional funds to investees	1,872	3,104

18. FINANCIAL INSTRUMENTS

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

- Investment and market price risk. The holding of securities and investing activities involve certain inherent risks. Events may occur within the underlying investments which affect their value and they are also sensitive to movements in market levels. The company holds a portfolio which is well diversified across industrial and geographical areas to help minimise these risks. It may also use derivatives. Trading in derivatives is not within the normal activities of an investment trust nor is it the company's policy to trade in such instruments. However, from time to time the company may wish to use such instruments in order to protect against a specific risk or to facilitate a change in investment 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.

- Interest rate risk. The company finances its operations through a combination of investment realisations, retained revenue reserves, bank credit facilities, debenture stocks and secured bonds. All of the existing debenture stocks and secured bonds are at fixed rates. The company has undrawn short-term multicurrency line of credit facilities which can be drawn at variable rates of interest. Details of interest rates on financial assets are included in note 8. Details of interest rates on financial liabilities are included in note 13.

- Liquidity risk. The majority of the company's assets comprise listed securities which represent a ready source of funds. In addition the company has access to short-term borrowing facilities. The liquidity profile of the company's borrowings is included in note 13.

- Foreign currency risk. Approximately half of the company's assets are invested overseas which gives rise to a currency risk. This risk is monitored by the managers on a daily basis and by the board monthly. From time to time specific hedging transactions are undertaken. The company's overseas income stream is subject to currency movements. During the year US dollar dividend income was hedged by forward sales of US dollars. The currency profile of the company's monetary assets and liabilities is set out in notes 8 and 13. In accordance with FRS 13, short-term debtors and creditors have been excluded from the disclosures.

- All financial assets are carried at their market value, which in the opinion of the directors, approximates to their fair value. The estimated market values of the company's borrowings are set out in note 13.

Investor Information

The company's wholly-owned subsidiary, SIT Savings Ltd, promotes awareness of the investment schemes available. A priority is to offer low-cost, simple, transparent investment products with the flexibility and accessibility to fulfil investor requirements.

How to Invest

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

The SIT SIPP allows investment into SIT through a cost-effective, flexible self-invested personal pension. The wide choice of investments available, including SIT, enables you to tailor the investment combination in your pension 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.

STOCKPLAN, SIT's investment trust savings scheme, is one of the lowest charging available. Extremely flexible, it 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 start at any time.

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

The SIT ISA is one of the most competitively priced stocks and shares ISAs on offer. There is no initial plan charge, other than stamp duty, nor are there closure or withdrawal charges. The annual management fee of 0.6% of the value of the investment is capped at £30+VAT regardless of how much your ISA investment grows or how many years' ISA allowances you invest with SIT.

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

ISAs and PEPs

The maximum annual investment limit of a stocks and shares Mini ISA has been increased and it is now possible to invest up to £4,000 in the current tax year. The maximum annual investment in a Maxi ISA is £7,000 in the current tax year. The SIT ISA is a stocks and shares ISA and can be held as either a Mini or a Maxi ISA.

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

Please note there are significant changes to PEP and ISA investing from 6 April 2008.

The changes will include:

- Existing PEP accounts will be re-designated as stocks and shares ISAs
- The overall ISA annual investment limit will increase to £7,200 (up to £3,600 in cash and the balance, or full amount, in stocks and shares)
- The distinction between Mini and Maxi ISAs will be abolished.

Contract Notes

As a result of new legislation which came into force on 1 November 2007, known as the Markets in Financial Instruments Directive (MiFID), it is no longer possible to suppress contract notes. Investors in SIT schemes will receive contract notes for every transaction on their account.

SIT Schemes' Contact/Helpline Number

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

- account queries,
- requests for valuations,
- information about your scheme,
- instructing a sale,
- making an investment using a debit card,
- giving change of address details,
- help with accessing STOCKPLAN, ISA and PEP information on line.

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

Dividends

The following dividends have been paid or proposed during 2007:

Dividends	Amount	XD date	Record date	Payment date
Final and Special 2006	6.57p	3 January 2007	5 January 2007	9 February 2007
Interim 2007	4.30p	6 June 2007	8 June 2007	16 July 2007
Final and Special 2007	6.80p	2 January 2008	4 January 2008	7 February 2008

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

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

How Can I Monitor My Investment?

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

Investor Information

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

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

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

Accessing Your Account Online

STOCKPLAN, STOCKPLAN: A Flying Start designated scheme, ISA and PEP investors
The above scheme investors may view their accounts online by registering with halifax-online. This can be accessed through the links in the various product sections in the private investor part of our website **www.sit.co.uk** or by visiting **www.halifax.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, Halifax Share Dealing, on 0845 850 0181.

SIPP investors can also set up monthly payments, pay lump sums, buy and sell stock and manage their account online.

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

Alternatively, by registering for the Investors' Centre facility on Computershare's website, investors can view details of all their holdings for which Computershare is Registrar, as well as access additional facilities and documentation.
Please see **www-uk.computershare.com/investor** for further information.

Electronic Communications

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

Stockholders' Meetings

Investors whose names appear on the main stock register (i.e. not in the STOCKPLAN, ISA or PEP schemes, nor in a broker's nominee) are entitled to attend and vote at the AGM and other general meetings. Notices of meetings and proxy cards are sent to their registered addresses.

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

The AGM will be held at the Roxburghe Hotel, Charlotte Square, Edinburgh on 25 January 2008 at 10.00am.

Electronic Voting

Name on register stockholders in their own right (ie not in one of our schemes, nor in a broker's nominee) are able to submit proxy votes electronically for our AGM. Please follow the instructions on your proxy card.

Personal Taxation

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

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

Capital Gains Tax (CGT)
Investment trusts currently pay no CGT on gains made within the portfolio. When investors sell all or part of their holdings, they may be liable to CGT. Currently, the first £9,200 pa of such gains from all sources is exempt.

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

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

ISA and PEP investments continue to remain exempt from CGT.

Please remember that we are unable to offer individual investment or taxation advice. If you require such advice, you should consult your professional adviser. SIT Savings Limited is authorised and regulated by the Financial Services Authority (FSA), 25 The North Colonnade, Canary Wharf, London E14 5HS.

Risk Warning

The capital value of stock units and the income from them can go down as well as up as a result of market and currency fluctuations and cannot be guaranteed. That means you may not get back the amount you originally invested. Past performance may not be repeated and is no indicator of future performance. The Scottish Investment Trust PLC has a long-term policy of borrowing money to invest in equities in the expectation that this will improve returns for stockholders. However, if markets fall, these borrowings will magnify any losses. Investment in SIT is intended as a long-term investment. Taxation levels, bases and reliefs are subject to change and may depend on individual circumstances.

Further Details

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

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

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

Financial Calendar 2008

Dividend and Interest Payments

Ordinary stock final and special for the financial year to 31 October 2007	7 February 2008
Ordinary stock interim	July
Secured bonds	17 April, 17 October

Announcement of Results

NAV	Weekly
NAV & Monthly Statement	Monthly
Interim Management Statement	February, August
Interim figures	May
Preliminary final figures	November
Annual report & accounts	December
Annual general meeting (AGM)	25 January 2008

Useful Addresses

Registered Office
6 Albyn Place
Edinburgh
EH2 4NL
Registered no. SCO 01651
Telephone 0131 225 7781
Facsimile 0131 226 3663
Brochure Request Line
0800 42 44 22
website **www.sit.co.uk**
email heather@sit.co.uk

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

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

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

Association of Investment Companies
SIT is a member of the Association of Investment Companies (AIC) which publishes a number of useful free booklets and explanatory leaflets for investors interested in investment trusts. Their address is:
AIC
9th Floor
24 Chiswell Street
London
EC1Y 4YY
Telephone 020 7282 5555
website **www.theaic.co.uk**

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

Registrar
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 7NH
Helpline 0870 703 0195
website **www-uk.computershare.com**

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

Notice of Meeting

Notice is hereby given that the one hundred and twentieth annual general meeting of The Scottish Investment Trust PLC will be held at the Roxburghe Hotel, Charlotte Square, Edinburgh, on 25 January 2008 at 10.00 am, for the purpose of transacting the following:

As Ordinary Business:

1. To receive and consider the directors' report and statement of accounts for the year to 31 October 2007.
2. To approve the directors' remuneration report for the year to 31 October 2007.
3. To declare a final dividend of 4.80p per ordinary stock unit.
4 To declare a special dividend of 2.00p per ordinary stock unit.
5. To re-elect Mr Douglas McDougall as a director.
6. To re-elect Sir George Mathewson as a director.
7. To re-elect Mr Francis Finlay as a director.
8. To re-appoint Deloitte & Touche LLP as auditors and to authorise the directors to fix their remuneration.

As Special Business:

9. To authorise the Company, in accordance with section 166 of the Companies Act 1985 (the 'Act') and in substitution for any pre-existing such authority, to make market purchases (within the meaning of section 163(3) of the Act) of ordinary stock units of 25p each ('ordinary stock units'), provided that:

(a) the maximum number of ordinary stock units hereby authorised to be purchased shall be 14.99% of the issued ordinary stock on the date this resolution is passed;

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

(c) the maximum price (exclusive of expenses) which may be paid for an ordinary stock unit shall be the higher of (i) 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out;

(d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 30 April 2009, save that the Company may, prior to such expiry, enter into a contract to purchase ordinary stock units under such authority which will or might be executed wholly or partly after the expiration of such authority and may make a purchase of ordinary stock pursuant to any such contract.

All resolutions are ordinary resolutions except number 9 which is a special resolution.

Steven Hay
Secretary
14 December 2007

Notes

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

Registered stockholders whose names appear on the company's register of members at 10.00 am on 23 January 2008 are entitled to attend and vote at the meeting in respect of ordinary stock registered in their names at that time. Changes to entries on the register of members after that time shall be regarded in determining the rights of any person to attend and vote at the meeting.

A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, speak and vote on his or her behalf. If a stockholder wishes to appoint more than one proxy, each proxy must be appointed to exercise rights attaching to different ordinary stock units held by the stockholder. A proxy need not be a member of the company. Proxy forms must be lodged with the company's registrars not less than 48 hours before the meeting.

STOCKPLAN, STOCKPLAN: A Flying Start, PEP and ISA investors are welcome to attend and may vote on a poll by completing the Form of Direction enclosed with this report. This must be returned to the company's registrar no later than 18 January 2008. Other investors whose holdings are in nominee names and who wish to attend and vote are advised to contact their nominee before 18 January 2008.

The final and special dividends, if approved, will be paid on 7 February 2008 to stockholders registered at the close of business on 4 January 2008.

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

The register of directors' interests maintained by the company will be available for inspection at the meeting together with copies of directors' appointment letters.