



After six consecutive years of strong growth I have to report a reduction in net asset value. Over the year our NAV fell by 25.4% and our stock price by 21.4% which compare with the fall in our benchmark of 24.3%. Since the year end there has been some recovery in markets and at 23 November the unaudited NAV was 436.8p, a rise of 8.6% from 31 October. Even after this difficult year our stock price has risen by 30.8% over the last five financial years. Combined with reinvested net dividends the average annual return over this period has been 7.2%.

We have achieved a good performance on our revenue account and our earnings per ordinary unit have risen by 17.7% reflecting the higher yields achieved on the investments made with additional borrowed funds last year. The board is recommending a final dividend of 4.70p making a total for the year of 7.05p. This is an increase of 2.2% on last year and compares with UK inflation of 1.6%. We have increased our regular dividend level in each of the last eighteen years. In addition to the regular dividend the board is also recommending a special dividend of 1.0p out of the high level of income generated last year. This may not be repeated as we wish to have the flexibility to move between higher and lower yielding investments without being restricted by a dividend commitment which is too high. However, it is the board's intention to continue to grow the regular dividend ahead of UK inflation, in line with our objectives.

World stockmarkets, led by the USA, fell persistently throughout our year. Starting in January the US Federal Reserve made a series of interest rate cuts taking short rates down from 6.5% to 3.5% by the end of August. Lower interest rates are normally reassuring to stockmarkets but on this occasion a

collapse in corporate profitability, particularly in the previously over-promoted technology sectors, has weighed heavily on investor sentiment. This weakness spread to other markets so that by the end of August the major western markets had fallen significantly.

The terrorist attacks in New York on 11 September prompted a sharp sell-off much of which was recovered quite quickly but western markets were down by between 21.6% in the UK and 26.8% in the US over the full year. Unusually currencies over the period were remarkably steady and had little influence on these returns. Japan, however, has continued to experience particular problems. While the equity market performed broadly in line with the rest of the world the yen was weak and so Japan was the worst performing market in sterling terms falling by 32.7%.

We achieved good relative performances in our US and European portfolios. In the UK we benefited from the defensive nature of the holdings purchased with some of the proceeds of our £150m secured bond issued in the spring of last year. However, we underperformed in Japan, and in the Pacific region where we were too committed to Hong Kong.

After an excellent performance in the previous year our unlisted portfolio suffered from the sharp setback in technology markets and the value fell by 29.6%. This portfolio is invested mainly in diversified venture capital companies and partnerships and this is the first significant setback for a number of years. We value this portfolio on a conservative basis and believe that the longer term potential remains good.

Over the year we took the opportunity to buy back 26.0m ordinary stock units at a discount to NAV. This has added an estimated 5.4p to the closing NAV. The

company will continue to buy in ordinary stock when there are attractive opportunities to improve the NAV for continuing investors and a resolution to renew the buyback authority will be put to stockholders at the annual general meeting.

Until the end of August our overall NAV performance was ahead of our benchmark but our gearing had an adverse effect after 11 September. In view of the major additional risks to world growth prospects introduced by the terrorist attacks, as markets recovered from the initial shock we reduced our gearing to a level of 12.8% at year end.

We have been very encouraged by the inflows into our STOCKPLAN savings scheme and ISA which in aggregate rose by 11% over the year. In difficult market conditions for investors where even FTSE companies could fall dramatically, the benefits of a well diversified portfolio offered by an investment trust such as SIT become apparent. Investing in equities should not be viewed as a short term commitment and despite last year's setback we have consistently generated positive long term returns.

Our private investor schemes now hold 11.4% of our outstanding shares and individuals account for 55.0% of our total equity. We are promoting our savings vehicle STOCKPLAN : A Flying Start as an ideal medium for parents and grandparents to invest for the benefit of children. Also, we have capped our annual ISA charges at a maximum of £30 (plus VAT) no matter how many years' ISAs an investor has with SIT. These charges are extremely competitive and we are one of the lowest cost ISA providers. Our redesigned website (www.sit.co.uk) provides the most up to date information on SIT and is attracting an increasing number of users.

Ian Russell resigned from the board on 29 May 2001 in order to concentrate on his increased executive commitments. We shall miss his wise counsel, and wide experience, and his contribution was much valued.

OUTLOOK

Economic activity has weakened worldwide particularly in the US which has been the driving force behind global growth in recent years. It is too soon to predict how quickly corporate and consumer confidence can be restored in the US after the tragic events there last September, but aggressive action has been taken by the Federal Reserve in further lowering short term interest rates to 2.0%, a fiscal stimulus is in the making, and there will be beneficial effects from the recent sharp reduction in oil prices.

Over the last few years the patterns within equity markets have moved between the relative extremes of a momentum driven style focusing on technology to a more value based one favouring traditional areas and companies where inherent value has been overlooked. We believe that a more balanced approach is now merited but with a defensive emphasis in the short term.

The outlook for corporate profits next year is uncertain and stockmarket valuations in general are high by historical standards. The foundations are being laid for eventual economic recovery, and 2002 may be a better year for equities, but recent market enthusiasm based on an early and rapid economic recovery may be premature.



Sir Angus Grossart
26 November 2001