

Investment Philosophy

- *To pursue a flexible investment policy avoiding any permanent specialisation.*
- *To focus on fundamental value and move funds into those areas offering the most attractive returns.*
- *To invest in well managed companies in established stockmarkets around the world.*
- *To enhance performance in rising markets by prudent use of borrowed money.*
- *To provide simple low cost savings products for investors.*

Market Performances

Year to 31 October 2003

	Currency Adjusted %	In Local Terms %
UK	+9.6	+9.6
Continental Europe	+15.2	+7.6
USA	+9.2	+18.4
Japan	+22.4	+19.1
Pacific (ex Japan)	+21.2	+18.1
Benchmark	+11.5	

Performance Attribution Analysis

Year to 31 October 2003

	%
Increase in NAV	+8.7
Increase in benchmark index	+11.5
Contribution	-2.8
Asset allocation	-0.4
Stock selection	-3.0
Gearing	+2.0
Interest and expenses charged to capital less retained earnings	-1.4
Buybacks	+0.2
Residual	-0.2
Contribution	-2.8

The attribution analysis shows how the overall performance of the company's NAV relative to the benchmark has been achieved. These figures refer to capital performance only and make no allowance for income.

Performance Attribution

Last year world equity markets in currency adjusted terms were led by the Far Eastern markets and by commodity based countries and

emerging areas. The US market also performed very well in local terms but this was significantly diluted by the weakness of the dollar. We benefited relative to our benchmark from being overweight in the Pacific region and light in the US. This was more than offset by the strong performances of commodity based and emerging areas and the effect of a weaker dollar on a significant portion of our unlisted portfolio.

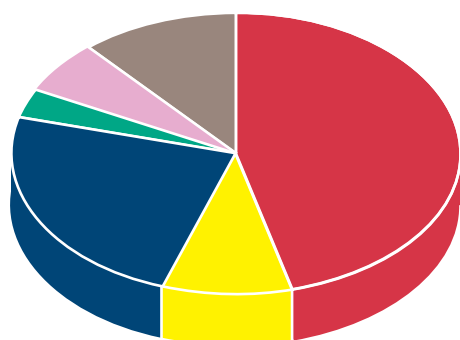
Over the years our stock selection has been consistently strong in most areas other than in the US during the technology bubble period. It is thus a concern that except for the Pacific (ex Japan) we failed to match the regional indices last year. In our portfolios we emphasise companies which are soundly financed and which are capable of generating improving cash flows and strong returns on capital employed in order that they can provide growing dividends for shareholders. Such companies tend to be less affected by swings in the economic cycle. As profit expectations turned there was an exceptional outperformance by depressed recovery situations which included many companies with weak balance sheets many of which had passed or cut their dividends. There are signs that this short term outperformance of lower quality stocks has run its course and we are starting to see good relative value developing among stronger companies whose share prices have recently been left behind.

Last year our borrowings worked slightly to our advantage after taking account of interest costs.

Management Review

Distribution of Total Assets

At 31 October 2003



	2003	2002
UK	45.7	45.8
Continental Europe	9.6	10.1
USA	23.9	24.7
Japan	3.3	3.2
Pacific (ex Japan)	6.1	4.7
Net current assets	11.4	11.5
Total assets	100.0	100.0

Changes in Distribution

We made net sales of investments of £21.9m to maintain net gearing levels after buybacks of £7.9m and interest and expenses charged to capital of £12.5m. Sales were mainly from our UK and Continental Europe portfolios. Having increased our exposure to the Pacific (ex Japan) in our previous year we added a further £3.7m last year increasing the percentage of our assets there to 6.1%.

At the year end effective gearing was 116.0% (2002 – 117.8%) of stockholders' funds. The potential gearing ratio if we were to invest all borrowings in equities would be 130.9%. The average interest cost of borrowings, all of which are fixed rate and long term, is 6.9%. We have net current assets of £107.7m.

Changes in Asset Distribution

Year to 31 October 2003

	Opening Valuation £m	Net Purchases (Sales) £m	Appreciation (Depreciation) £m	Closing Valuation £m
UK	384.2	(11.5)	29.6	402.3
Continental Europe	90.3	(7.0)	7.0	90.3
USA	202.9	(2.8)	8.5	208.6
Japan	28.8	(1.6)	3.9	31.1
Pacific (ex Japan)	41.9	3.7	12.0	57.6
Unlisted portfolio	42.9	(2.7)	4.3	44.5 ¹
Total equities	791.0	(21.9)	65.3	834.4
Net current assets	102.9	1.5	3.3 ²	107.7
Total assets	893.9	(20.4)	68.6	942.1
Borrowings	(222.5)	–	(0.1)	(222.6)
Equity stockholders' funds	671.4	(20.4)³	68.5	719.5

¹ includes £6.0m of investments which are now listed

² retained earnings

³ ordinary stock units repurchased and interest and expenses charged to capital

Unlisted Portfolio and Largest Unlisted Investment

The unlisted portfolio appreciated in value by 10.0%.

The largest unlisted investment is Aberforth Limited Partnership 1B which holds stakes in small listed UK companies. At 31 December 2002, the date to which the last audited partnership accounts were prepared, the net assets attributable to our investment were £11.0m. At 31 October 2003 the cost of our 27.1% interest was £12.6m and the valuation was £14.9m. The partnership does not compute earnings per share or pay a dividend.

We did not enter into any new partnerships during the year. At year end our commitments to invest in partnerships were £12.0m (2002 – £17.7m) and we anticipate that these will be met from distributions from existing holdings.

The unlisted portfolio is valued at a total of £44.5m which is equivalent to 6.2% (2002 – 6.4%) of stockholders' funds. Included in this figure is £5.8m which is invested in listed funds which specialise in unlisted investments.

Largest Unlisted Holdings

At 31 October 2003

		£m
Aberforth Limited Partnership 1B	Investment in small UK listed companies	14.9
Boston Ventures limited partnerships	Venture capital, US	7.2
HG Capital Trust (Listed)	Private equity, UK	4.4
Sprout Group limited partnerships	Venture capital, US	3.7
1818 Fund	Growth capital, US	3.6
		33.8

Holdings in Listed Funds

Our holdings include investments in listed investment funds of £16.1m (2002 – £19.9m). These are held mainly to provide exposure to smaller companies in the UK and Japan. In addition, £5.8m (2002 – £6.1m) of listed funds which specialise in unlisted investments are included in the unlisted portfolio valuation of £44.5m (2002 – £42.9m).

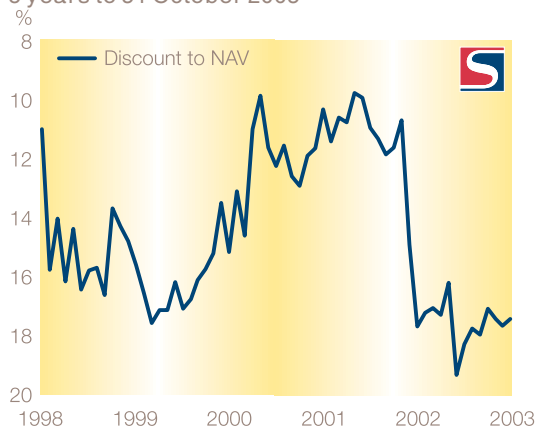
The board has a policy not to invest more than 15% of gross assets in other UK listed investment companies.

Portfolio Turnover

Total purchases of investments amounted to £154.7m (2002 – £241.2m) and sales were £176.6m (2002 – £291.0m). Investment sales were 19.2% (2002 – 28.8%) of average total assets. No use was made of investment derivatives or currency hedges during the year. Commission paid to brokers on purchases and sales during the year was £659,000 (2002 – £1,090,000).

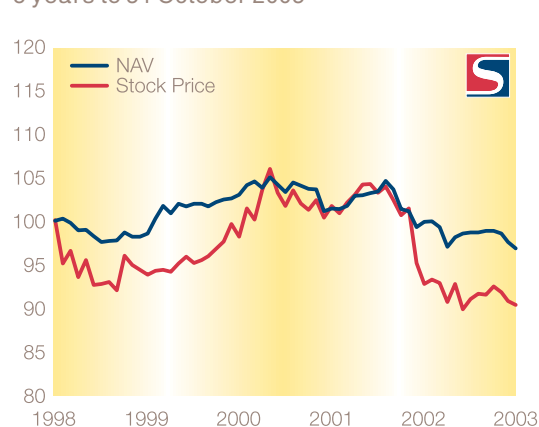
Discount to NAV

5 years to 31 October 2003



NAV and Stock Price relative to Benchmark

5 years to 31 October 2003



Analysis of Stock Register

At 31 October 2003

Category of holder	Number	Ordinary Capital %
Individuals	34,778	54.8
Insurance companies	26	19.8
Pension funds	46	7.9
Other	235	17.5
Total	35,085	100.0

Services to Investors

Sales of our savings products fell last year in line with industry experience. However over the last five years we have increased the number of investors by 17.7% to over 35,000. Individuals now hold 54.8% of SIT's stock including 13.9% held in SIT Savings' products.

Our STOCKPLAN savings scheme, ISA and PEP have very low costs and we believe it is important for investors to be able to invest in SIT on economic terms. We are promoting our investing for children product STOCKPLAN: A Flying Start and are very encouraged by the response.

Our website www.sit.co.uk is being continually developed. It provides regularly updated information on the company and is a simple way of obtaining application forms for SIT products.

Glossary

Total assets means total assets less current liabilities.

NAV is net asset value per ordinary unit after deducting borrowings at book value.

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

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

GDP references are to gross domestic product in real terms.

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

Ordinary stock performance figures, unless otherwise stated, are based on mid price to mid price before expenses of purchase and sale.

Future Strategy

After three years of bad news the background for equities has finally turned more favourable. The prospect of deflation in the US and some Eurozone economies has receded. The US economy is now growing more strongly than was anticipated a few months ago. China is growing very rapidly and these two economies are pulling up some of the slower growing areas such as Japan and the Eurozone. Company profits in the US and elsewhere started to grow again towards the end of 2002 and are now accelerating. In many areas companies have cut their borrowings and costs and are now benefiting significantly from a modest improvement in turnover.

Against this background we intend to maintain our present level of gearing. Many good quality equities have lagged markets recently and we are seeing some attractive opportunities.

Nevertheless we remain aware of the many risks which may impede market progress, including further dollar weakness, terrorism and the likelihood of rising interest rates.

We are overweight in the Pacific (ex Japan) where we see companies benefiting from growth in China and the US. We have recently added to Europe where economies are starting to catch up and where there is scope for further profits recovery.