Chairman's Statement

We believe that this has been a year of achievement reflecting successes on both sides of our balance sheet.

In the spring we decided that long gilt yields in the UK were at a low point and that there was a compelling case for raising long term debt. We therefore issued £150m of 30 year secured bonds with a coupon of $5\frac{3}{4}$% priced at £98.288 per £100 nominal. After all expenses the cost to the company is just under 6% per annum. Over the years we have achieved a total return on stockholders' funds well in excess of the annual cost of this new borrowing. We believe that over the long term we will be able to employ the proceeds of the issue to the considerable benefit of our ordinary stockholders. This is now the largest investment trust bond in issue and has the lowest all-in cost achieved in recent years.

The other feature of the year was our good investment performance. As a result of that and our successful bond issue we raised net asset value by 15.5%, the sixth consecutive annual increase. This compares very well with our benchmark index which rose by 10.8% over the year and the FTSE Actuaries UK All-Share Index which rose by 6.0%.

Over the last five years our share price has appreciated by 88.5% reflecting the good progress of our net asset value. Adding reinvested net dividends the average annual return has been 15.4% before any expenses of buying and selling. This compares well with other large international investment trusts and is well ahead of the averages of comparable equity based products such as unit trusts and insurance funds. The benefits to investors of the relative stability and flexibility of a carefully diversified trust such as SIT have again been highlighted by events. High volatility in stockmarkets and rapid sector movement over the last year have led to many investors being caught in the wrong areas.

The board has declared in lieu of a final dividend a second interim dividend of 4.63p making a total for the year of 6.90p. This is an increase of 3.8% on last year and compares with UK inflation of 3.1%. We have increased our regular dividend level in each of the last seventeen years.

In our last annual report we indicated that our move into lower yielding growth and overseas equities would have an effect on our level of income. This became apparent during the year and our total income declined by 3.5%. There has been a worldwide trend among companies to pay out less of their profits in dividends and to reward shareholders in different ways such as special payments and share buybacks. Over the years, the proportion of returns derived from investing in equities has been heavily weighted towards capital growth rather than dividends. In order to reflect these circumstances the board decided to change accounting policy. As from 1 November 1999 two-thirds of interest and eligible expenses have been charged to capital reserves and the comparative figures for last year restated accordingly. Previously all interest and expenses were charged to revenue. This change will preserve the company's dividend paying capacity and the ability to move between different geographical areas and to employ borrowings.

Equity markets started our new financial year enthusiastically. Most markets rose sharply over the first two months and peaked at the end of December. They entered the new millennium with a setback but another surge in the fashionable technology, media and telecommunications sectors pushed the US, European and Japanese markets to new highs in February and March. The subsequent realisation by investors that these important sectors had become seriously overvalued led to sharp falls in many such shares over succeeding months. A side effect of the technology boom was that "old economy" stocks were sold heavily in the rush to buy into the "new economy". This situation changed round 180 degrees in the second half of our year and recovery in the lowly rated sectors broadly offset weakness in technology in most markets with the notable exception of Japan.

Over the year the US was the best performing market rising by 19.4% in sterling terms. However, most of this was due to the strength of the dollar. European markets performed the best in local terms and produced a satisfactory 14.6% increase in sterling terms while the UK could only manage a rise of 6.0%. Japan registered a small decline while other Pacific markets rose by 1.9%.

We had very good performances in our European, UK and Pacific (ex Japan) portfolios. In the US we missed out to some extent on the first half technology boom but recovered most of this with a very good performance in our second half. The opposite was true in Japan.

Our unlisted portfolio performed very strongly and several of the venture capital partnerships in which we are invested were able to float a number of their holdings. Over the year this portfolio appreciated by 41.5% and at year end was valued at £73.0m equivalent to 5.4% of stockholders' funds. This portfolio is well spread and is valued on a conservative basis.

During the year we took advantage of the sharp sell off in "old economy" stocks to invest £114.3m of the proceeds of our bond issue in this area. £91.0m was invested in the UK and £23.3m in the US. At our year end these portfolios were valued at £129.5m and in addition they had generated income of £2.7m.

Over the year we took the opportunity to buy back 24.1m ordinary stock units at a discount to net asset value. This has added an estimated 7.8p to our 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.

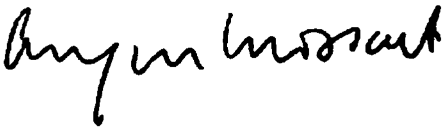
It is important that we are able to attract non-executive directors of high calibre and that the fees reflect the increasing responsibilities of directors. A proposal to increase directors' fees will be put before the annual general meeting.

SIT is a supporter of the marketing campaign sponsored by the Association of Investment Trust Companies to promote the awareness and advantages of investment trusts to individual investors. This, combined with our own increased marketing efforts, has resulted in our sales of STOCKPLAN saving schemes and ISAs being well ahead of the previous year. Our redesigned website (www.sit.co.uk) on which we are now publishing weekly net asset values, is proving popular and our newsletters to investors have been well received. We are introducing a new charging structure for our ISA which will cap charges at a maximum of only £30 p.a. This is a very competitive rate which applies no matter how many years' ISAs an investor has with SIT.

OUTLOOK

Developments in the United States continue to drive the direction of global financial markets. In response to higher interest rates and oil prices, economic expansion and corporate profits growth are slowing to more moderate and sustainable rates. Underlying inflationary pressures are muted providing support for a more relaxed monetary stance to be taken by the Federal Reserve next year. Similar trends are evident in other leading nations.

We believe that the pronounced swing away from high priced "new economy" sectors towards the more realistically valued traditional areas which began earlier this year has further to run. Our portfolios should benefit from this trend, particularly those that we have structured with the proceeds from our bond issue. Our perception of the growth which might be sought extends to opportunities where the growth may be in share price as well as in economic terms. Overall equity valuations have been restored to more reasonable levels, but the unsettled stockmarket behaviour over the last several weeks may continue until investors finally come to terms with recent reductions in profit forecasts. We are still operating in a disinflationary environment which is positive for equities over the long term.



Sir Angus Grossart
18 December 2000