

Management Review

Investment Philosophy

- *To pursue a flexible investment policy avoiding any permanent specialisation.*
- *To focus on fundamental value and employ a disciplined investment approach.*
- *To invest in well-managed companies in established stock markets around the world.*
- *To enhance performance in rising markets by prudent use of borrowed money.*
- *To provide simple, low-cost investment and savings products for investors.*

Market Performances

Year to 31 October 2005

	Currency Adjusted %	In Local Terms %
UK	+16.0	+16.0
Europe (ex UK)	+18.7	+22.2
US	+12.0	+8.2
Japan	+25.4	+32.8
Pacific (ex Japan)	+22.8	+17.1
Benchmark	+16.3	

Performance Attribution Analysis

Year to 31 October 2005

	%
Increase in NAV	+21.21
Increase in benchmark index	+16.27
Relative performance	+4.94
Asset allocation	+0.27
Stock selection	+3.95
Gearing	+1.24
Interest and expenses charged to capital less retained earnings	-0.44
Residual	-0.08
Relative performance	+4.94

The attribution analysis shows how the overall performance of the company's NAV (with borrowings at par) relative to the benchmark has been achieved.

Performance Attribution

The company's 50/50 benchmark rose 16.3% during the year led by overseas markets. Local currency returns ranged from +8.2% for the US to +32.8% for Japan. Sterling returns after adjusting for currency produced a narrower range of returns from +12.0% for the US to +25.4% for Japan. The NAV (with borrowings at par) increased 21.2%.

Relative NAV outperformance was attributable to positive contributions from geographic asset allocation, stock selection and gearing.

Geographical asset allocation added 0.27% to performance with the result benefiting from being underweight in the US stockmarket which underperformed and being overweight in the Pacific (ex Japan) and Europe (ex UK) regions which outperformed. However, we did miss out on some strong performance by smaller emerging markets.

Due to our investments now being managed as a single global portfolio, regional relative performance statistics are not meaningful.

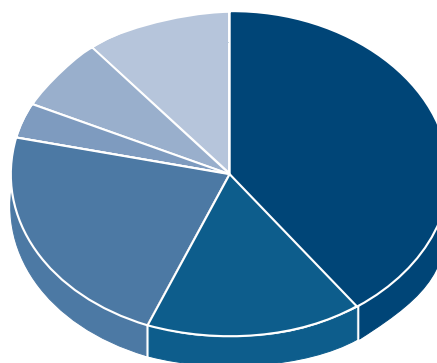
Consequently, portfolio performance will be analysed by industrial sector. Stock selection added 3.95% to NAV performance and benefited from generally good sector positioning and individual share selection as the listed portfolio outperformed for the second consecutive year. In particular, we had an excellent performance by our North American oil selections which were built up by switching out of the UK oil majors. Our unlisted portfolio is maturing and rewarded us

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with a number of material realisations and a very strong performance. Full details of the portfolio performance and stock selection outcome follow in the Portfolio Performance and Activity section.

The global equity portfolio has outperformed over the twenty-one months since the portfolio was restructured. Against a benchmark which has increased by 19.9% over this period, the NAV rose 23.1%, despite the 3.1% impact from early repayment of debentures in July 2004. Stock selection from the listed portfolio has been a major factor in the outperformance of this period, accompanied by a good contribution from unlisted.

Distribution of Total Assets
At 31 October 2005



	2005 %	2004 %
UK	39.1	43.6
Europe (ex UK)	16.6	12.6
North America	23.2	22.5
Japan	3.9	3.5
Pacific (ex Japan)	7.2	6.5
Net current assets	10.0	11.3
Total assets	100.0	100.0

Changes in Asset Distribution

Year to 31 October 2005

	Opening Valuation £m	Net Purchases (Sales) £m	Appreciation (Depreciation) £m	Closing Valuation £m
UK	356.0	(21.4)	43.3	377.9
Europe (ex UK)	111.3	33.0	27.7	172.0
North America	184.8	4.2	39.5	228.5
Japan	31.0	(0.5)	10.0	40.5
Pacific (ex Japan)	57.9	(1.6)	17.9	74.2
Unlisted portfolio	40.6	(21.3)	20.4	39.7 ¹
Total equities	781.6	(7.6)	158.8	932.8
Net current assets	99.7	1.6	2.9 ²	104.2
Total assets	881.3	(6.0)	161.7	1,037.0
Borrowings	(147.8)	(0.2)	0.0	(148.0)
Stockholders' funds	733.5	(6.2) ³	161.7	889.0

¹ Includes £9.8m of investments which are listed.

² Includes retained earnings.

³ Interest, expenses and tax relief apportioned to capital.

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Changes in Distribution

After having reduced effective gearing from the relatively high levels employed as markets bottomed in 2003, this was maintained in a range of 105-107% over the year and ended the year at 104.9% (2004 – 106.6%). The potential gearing ratio if all borrowings were invested in equities would be 116.6% (2004 – 120.2%). The average interest cost of borrowings, all of which are fixed rate and long-term, is 5.9% (2004 – 5.9%). We have net current assets of £104.2m or 10.0% of total assets (2004 – 11.3%).

We made net sales of £7.6m from total equities over the year. Exposure to listed equities was increased by £13.7m, with additions to Europe (ex UK) and North America funded by significant sales from the UK listed segment of £21.4m and distributions from unlisted of £21.3m. In relative terms, the overweighting of Europe (ex UK) was increased as was the underweighting of the UK.

Unlisted Portfolio and Largest Unlisted Investment

The unlisted portfolio appreciated in value by 69.7% reflecting strong performances by a number of investments including Aberforth Limited Partnership 1B, HG Capital Trust, Apax Europe V and Boston Ventures VI. Unlisted performance also reflected a change to the accounting treatment of Aberforth Limited Partnership 1B after we received full repayment of our initial investment. A change in the basis of accounting by Apax Partners also increased the value of Apax Europe V.

The largest unlisted investment is Aberforth Limited Partnership 1B which holds stakes in small listed UK companies.

Largest Unlisted Holdings

At 31 October 2005

		£m
Aberforth LP 1B	Investment in small UK listed companies	8.0
Boston Ventures Funds	Venture capital, US	7.4
Apax Europe V	Venture capital, Europe	6.3
Sprout Group Funds	Venture capital, US	3.0
Close Investment Funds	Venture capital, UK	2.0
		26.7

The unlisted portfolio is maturing and as a consequence, we received distributions of £21.3m. We did not enter into any new partnerships during the year. At year end, our commitments to invest in partnerships totalled £4.1m (2004 – £8.1m) and we expect that these will be met from distributions from existing holdings.

The unlisted portfolio was valued at a total of £39.7m which is equivalent to 4.5% (2004 – 5.5%) of stockholders' funds. Included in this figure is £9.8m which is invested in listed funds which specialise in unlisted investments.

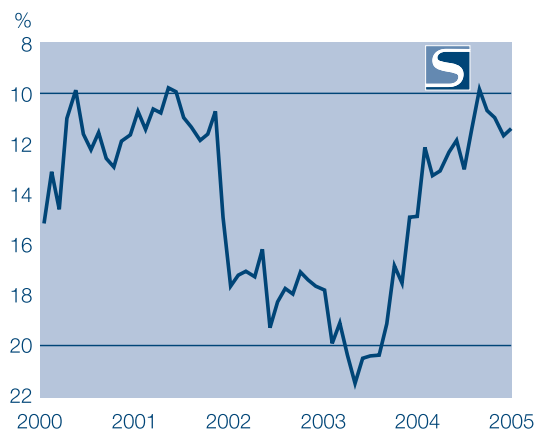
Holdings in Listed Funds

Our holdings include investments in listed investment funds of £30.0m (2004 – £28.4m). These are held to provide exposure to smaller companies in the UK and Japan and also the UK property sector. Of these listed funds £9.8m (2004 – £6.7m) specialise in unlisted investments and are included in the unlisted portfolio valuation of £39.7m (2004 – £40.6m).

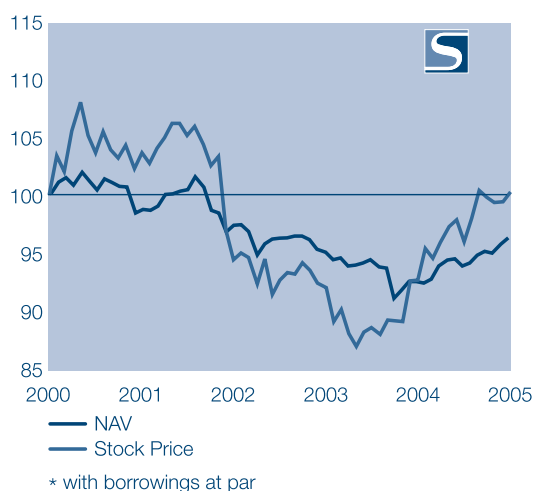
The company has a policy not to invest more than 15% of gross assets in other UK listed investment companies.

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Discount to NAV with borrowings at par 5 years to 31 October 2005



NAV* and Stock Price relative to Benchmark 5 years to 31 October 2005



Portfolio Turnover

Total purchases of investments amounted to £399.2 (2004 – £288.1m) and sales were £406.8m (2004 – £390.1m). Investment sales were 42.4% (2004 – 42.8%) of average total assets. Turnover levels were again high during the year due to the process of reducing the number of holdings within a single global portfolio. Dealing expenses during the restructuring process were minimised by using low-cost dealing programmes and dealing arrangements. Commission paid to brokers on purchases and sales during the year was £1,257,000 (2004 – £1,125,000).

No use was made of investment derivatives or currency hedges during the year for assets or liabilities. We used a forward contract to guarantee an exchange rate for a portion of our US dollar denominated dividend income.

Analysis of Stock Register

At 31 October 2005

Category of holder	Number	Ordinary Capital %
Individuals	29,930	48.2
Investment companies	53	25.8
Insurance companies	17	15.8
Pension funds	31	5.2
Other	139	5.0
Total	30,170	100.0

Services to Investors

Individuals hold 48.2% of SIT's stock, including 13.4% held in SIT Savings' products.

Our savings and investment schemes allow quick and easy access to SIT stock. Simple to use, they are low-cost, transparent and flexible. The schemes are appropriate for the long-term investor.

Our website www.sit.co.uk has been redesigned to improve ease of access and navigation. It provides a wide range of regularly updated information on the company and is a quick and easy way of obtaining information on and application forms for SIT's products. It is also the gateway for certificated stockholders and for PEP and ISA investors to obtain current valuations of their holdings online.

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GLOBAL ECONOMIC REVIEW

After the strong growth achieved by the world economy in 2004, global economic growth slowed over 2005. The World Bank estimates that global GDP increased by 3.2% in real terms during 2005, lower than the 3.8% achieved in 2004. The reasons for the deceleration include emerging pressures on industrial production capacity together with higher oil and commodity prices.

2005 growth benefited from a resilient performance by the US economy and further strong growth in developing regions, particularly Asia and the Pacific, with China's economy continuing to expand rapidly.

A key feature of the year was the strength of oil and commodities prices. Oil prices rose by 20% over our financial year to \$58 per barrel, having peaked at around \$67 per barrel in September. The effect on oil prices of strong global demand and concerns over security of supply were compounded by refining and production bottlenecks in the US. These were further exacerbated by Hurricane Katrina which hit the US Gulf Coast in August. From the low in December to the peak in September, oil prices rose approximately 80% before easing back.

Commodity prices rose steeply over the year with demand from China being the principal driver. The gold price increased towards the end of our year reflecting growing inflation fears.

Political developments over the year included general elections in four of the world's largest economies – USA, Japan, Germany and UK. Of the incumbent leaders, the only one with a clearly positive outcome from the elections was Junichiro Koizumi in Japan who won a mandate for further reform.

Global imbalances in the world economy remained unchecked with concerns over the US trade deficit prompting weakness in the US dollar over the earlier part of our year. The dollar reached an all-time low against the euro at an exchange rate of 1.36. Subsequently, the dollar has confounded sceptics by strengthening against principal currencies, reflecting widening interest rate differentials in favour of the dollar and a relatively strong economy.

The UK economy decelerated sharply with growth in Q3 2005 of just 1.6% year on year. While consumer price inflation remains just above the authorities' target rate, UK house price inflation has slowed considerably and retail sales have been lacklustre. In August the Bank of England lowered interest rates for the first time in two years by 0.25% to 4.5% – possibly a precautionary measure to guard against a further slowdown. We expect official UK interest rate movements to be on hold for the time being. Devastating terrorist attacks on the London transport

system in July appeared to be targeted to coincide with the G8 meeting at Gleneagles.

Continental Europe took on Japan's mantle as the most disappointing of the major economies. Eurozone growth fell to around 1% year on year with consumption noticeably weak. Structural reforms do not appear to be emerging and the growth potential of Western Europe is likely to be below that of other regions. European political integration received a setback during the year with the electorates of France and the Netherlands rejecting the proposed EU Constitution. There are signs that the European economy is picking up from low levels although the area of strength remains the export segment. Prospects for reform in Germany appear to have stalled as the closely fought election in September produced a coalition government.

In the US, George W Bush was re-elected for a second term in another close campaign in November 2004. The Federal Reserve increased interest rates by 0.25% on eight separate occasions during the year with a further 0.25% increase in November 2005 taking official interest rates to 4.0%. With the US consumer price index increasing 1.2% in September alone, inflationary pressure is the main reason behind the latest increases and the authorities may be looking to restore short rates back to nearer 5.0%.

We noted last year that the economic outlook for Japan had improved in 2004 and the picture continued to brighten across 2005. Japanese GDP growth accelerated over the year, reflecting strong demand for exports. Domestic consumption picked up with retail sales improving against a backdrop of falling unemployment.

Prime Minister Koizumi won a snap election in September on the question of reform of the postal system. With a larger majority, his prospects for further reform in Japan look brighter. While deflation has not been eliminated, the banking system appears more solid and loan growth has recommenced. On the basis of leading indicators and survey evidence, Japan appears set to sustain a recovery into 2006.

In the Pacific, growth levels were below 2004 with notable weaknesses from South Korea where consumer sentiment and high personal debt levels acted as a drag on consumption. As China's trade balance surplus increased over the year, so did pressure to revalue its currency. In response, the Chinese authorities allowed a modest increase in the value of the yuan against the US dollar to which it had been pegged. Further appreciation is expected although the timing of it is unpredictable.

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GLOBAL EQUITY MARKET REVIEW

The company's financial year started positively with markets rising steadily between November 2004 and February 2005. Despite US rates being increased regularly over the year from the extraordinarily low levels of 1% reached in 2003, a combination of generally good economic news and continued growth in corporate profits enabled equity markets to progress. The outlook for the US dollar was the main concern over the first quarter. We opted not to hedge dollar assets despite widespread expectations that the dollar was likely to depreciate. These fears were compounded in February by rumours that Asian central banks were set to diversify their holdings out of dollars. The dollar subsequently recovered over the rest of the year.

Sustained high oil prices and strong demand for commodities and metals meant that the Resources sector performed very well over the year. On a global basis, Resources outperformed the rest of the global market by a wide margin. Other than Utilities, which was also a strong sector, returns from the other parts of the market were within a relatively narrow range. The influence of oil and mining stocks fed through into aggregate corporate profits which reached new highs in 2005. However, the rate of growth in corporate profits slowed compared to 2004. After three years of improved cashflows, corporate balance sheets appear to have been strengthened.

A combination of low interest rates, strong balance sheets and a well-financed private equity sector provided the conditions for higher merger and acquisition (M&A) activity over the year. The flurry of transactions in the UK towards the end of the year suggests that the pace of activity is still accelerating. M&A was a feature in most industrial sectors over the year and the portfolio was a beneficiary of a number of actual and potential bids.

Most of the gains from equity markets came in the second half of the year as investors perceived inflation to be under control. While interest rates were being increased in the US, corporate profits were still increasing, dividend payouts were strong and the growth outlook appeared sound.

Examining returns in geographic terms, the strongest returns among the major regions came from Japan followed by Europe (ex UK) and the Pacific (ex Japan) with the US market being a clear laggard. Sterling exchange rate movements contrived to lower the returns from Europe (ex UK) and Japan and increase the returns from the US and Pacific (ex Japan).

A major feature of the year was the impressive performance by the Japanese stock market. After a prolonged spell of poor and then, more recently, indifferent performance, the Japanese market responded to renewed interest from overseas investors. The domestic economy showed signs of recovery during 2005 from economic problems which included price deflation and a weak banking system. A further catalyst for the improved stock market performance came from the convincing re-election of the Japanese prime minister.

Continental European stockmarkets were able to perform well against a weak domestic economy due in large part to the strength of export demand. European valuations were also relatively attractive. The Pacific (ex Japan) region also performed well, although the sterling return of +22.8% masked divergent performances among individual countries reflecting differing local fundamentals. Korea rose 47.8% while Taiwan increased only 3.8% over the year in sterling terms.

The US stock market underperformance despite a strong economic background may have reflected its relatively high valuation and domestic investor demand for non-US equities. The valuation gap between the US and other regions is narrowing and the US market is at an eight year price-relative low for sterling investors. The UK market provided competitive returns although the strong showing by the large Oil & Gas sector was offset in part by the underperformance of the even larger UK Banks sector which rose only 4.1% over the year.

PORTFOLIO PERFORMANCE AND ACTIVITY

The global portfolio outperformed over the year by 4.4%, reflecting strong performances from both listed and unlisted portfolios.

Following a board level review of strategy in 2003, the regional portfolio structure was replaced with a single global portfolio. To increase the performance potential of the company, the number of listed holdings was reduced in 2004 from over 200 to 150 by October 2004. Encouraged by early signs of improvement, the process continued in the year to October 2005 and the number of listed holdings was reduced further to 116 by the year end. Under the new structure, the index weight of any stock is not a factor in deciding how much the company will invest.

The fund remains diversified by industrial sector and geography and it was encouraging therefore that the

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listed portfolio outperformed in eight of the ten industrial sectors. There were good results in Cyclical Services, Resources and Information Technology. The two underperforming areas were Non-Cyclical Consumer Goods and Non-Cyclical Services where our stock selection let us down.

In making changes to the portfolio, we have been adding to 'growth' stocks over the last year which appear to be at reasonable valuations relative to the wider market. 'Growth' stocks are widely perceived to have lagged 'value' stocks in recent years.

Sector performance figures in the following paragraphs refer to the FTSE World Index™ sector returns.

RESOURCES

Mining/Oil & Gas

Our Resources holdings appreciated by £34.1m over the year as the sector outperformed by 16.7%.

In Mining, we sold Anglo American to focus on our two remaining mining companies, Rio Tinto (UK) and BHP Billiton (UK), both of which performed well and provided solid sector exposure.

However, for a second consecutive year it was in Oil & Gas that we generated the largest absolute portfolio gains. Relative performance also benefited considerably from good stock selection within this sub-sector.

We built up further our North American Oil & Gas holdings. We added to Suncor Energy (Canada) and took a new holding in Todco (US), both of which performed very well with the latter doubling in value since purchase. Our sole US oil major, ConocoPhillips, generated the single largest gain (£7.3m) in the listed portfolio. The increase in North American oil stocks was financed by selling down BP (UK) which turned out to be a relatively poor performer within the sector. Towards the end of the year, we sold a large holding in Royal Dutch (UK) outright and reinvested in BG Group (UK) and Cairn Energy (UK) where we saw more potential value.

BASIC INDUSTRIES

Chemicals/Construction & Building Materials/Forestry & Paper/Steel & Other Metals

The Basic Industries sector outperformed narrowly by 1.9% over the year. We maintained a relatively large exposure to the Construction & Building Materials sub-sector and benefited from its strong performance.

We sold Ecolab (US), our sole holding in Chemicals and reinvested in preferred Building & Construction names Fletcher Building (NZ), Rinker (AUS) and

Wolseley (UK). While we trimmed our holding in Persimmon (UK) as a precaution against further deterioration in the UK housing market, we made a good gain on the holding overall.

GENERAL INDUSTRIALS

Aerospace & Defence/Diversified Industrials/Electronic & Electrical Equipment/Engineering & Machinery

General Industrials performed broadly in line with global markets. Within the sector, we had helpful performances from Meggitt (UK), Hong Kong trading group Swire Pacific and made good profits in two companies which we had built up earlier in the year, electronics manufacturer Hon Hai Precision Instruments (Taiwan) and industrial supplies wholesaler, MSC Industrial Direct (US). We made outright sales in Ricoh (Japan), Schneider Electric (France) and Venture (Singapore), adding two new holdings later in the year – instrumentation and controls group, Spectris (UK) and German laser technology group Rofin-Sinar Technologies.

CYCLICAL CONSUMER GOODS

Automobiles & Parts/Household Goods & Textiles

Cyclical Consumer Goods underperformed global markets by 4.3% over the year. However, our holdings more than offset the sector's underperformance. The automobile industry is suffering from overcapacity and high oil prices with US manufacturers particularly badly hit. We made reductions of £15.1m to our auto industry exposure, selling BMW (Germany), Harley-Davidson (US), Hyundai Motor (Taiwan) and Johnson Controls (US). We were confident that the outlook was brighter for German tyre and brake specialist Continental and added significantly to this holding which enjoyed another good year.

In Household Goods, we benefited from a sound performance by sports goods manufacturer adidas-Salomon which acquired US rival Reebok during the year. We added two new holdings, supply chain manager Li & Fung (Hong Kong) and luxury leather goods specialist Tod's (Italy).

NON-CYCLICAL CONSUMER GOODS

Beverages/Food Producers & Processors/Health/Personal Care & Household Products/Pharmaceuticals & Biotechnology/Tobacco

While we were correctly positioned being relatively light in this sector, stock selection let us down within the Health sub-sector. This was an area we had correctly identified as promising as it outperformed by 30.4% over the year. By contrast we have long been pessimistic about the scope of pharmaceutical companies to withstand competitive and regulatory

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pressures and this area was again a lacklustre performer. We continue to believe the health and medical technologies industries offer a better combination of growth and profitability than the pharmaceuticals industry.

We added a net £8.2m to the Health sub-sector and had mixed results. Our main disappointment was a new holding, orthopaedics group Zimmer (US). Pricing pressure has started to bear more heavily on this area causing downward adjustments to valuations. However, there was an excellent performance from Swiss dental implants group Nobel Biocare which we sold towards the end of the year after our valuation expectations had been exceeded. We also benefited from a bid for US dialysis group Renal Care from Fresenius Medical Care (Germany) and subsequently bought back into this industry via Fresenius Medical Care. Our largest absolute return in Health was made by new holding Wellpoint (US) which generated gains of £2.8m.

In Tobacco, our lack of exposure to the US sector cost us some relative performance as it rallied after news on the litigation outlook. In Pharmaceuticals, we exited two large holdings, Pfizer (US) and Sanofi-Aventis (France) to focus on preferred holdings. Our stock selection here was generally reasonable and we benefited from a strong performance at Roche (Switzerland) and CSL, an Australian blood specialist acquired during the year.

CYCLICAL SERVICES

Retailers-General/Leisure & Hotels/Media & Entertainment/Support Services/Transport

We generated our strongest contribution to relative performance in this sector which proved to be the weakest part of the market, underperforming by 7.5%. Wary of a downturn in consumer sentiment in western economies, we reduced our presence in the Retail, Media & Leisure sub-sectors by £16.9m. In Retailing, we lowered our exposure early in the year, selling Next (UK) and Target (US) outright. Our strong relative performance was achieved by the excellent share price gains made by Hong Kong based clothing retailer, Esprit Holdings and Japanese electrical goods retailer, Yamada Denki. The latter outperformed global markets by over 100% and generated a gain of £6.0m.

The Media industry is struggling with a raft of competitive issues and our decision to sell four Media holdings proved timely. We added a new investment in professional publisher, Informa (UK).

We added £7.2m to Support Services and benefited from outperformance by outsourcing group Serco (UK)

and education group Laureate (US), a new holding during the year. Within Transport, ports operator P&O generated a gain of £2.9m after a bid approach in October.

NON-CYCLICAL SERVICES

Food & Drug Retailers/Telecommunication Services

Non-Cyclical Services' underperformance of 5.6% reflected weakness in the Telecommunications sub-sector which is suffering from intense competition with cost and pricing pressures negating the growth potential of broadband, mobile and data services. We exited three telecoms holdings including TIM (Italy) which was fully consolidated within its parent, Telecom Italia. Our stock selection was disappointing however. While BT outperformed the sector, we missed out on some of the consolidation within the industry in the UK and our holding in Deutsche Telekom underperformed following disappointing trading results.

The largest single move we made over the year was to reduce our holding in Vodafone (UK). Vodafone started the year as our second largest holding worth £27.5m. Following initial sales in June 2005, we halved our subsequent holding selling £12.1m in October, less than a month before a sharp fall in the share price. In total, we reduced our telecommunications holdings by £21.7m over the year.

UTILITIES

Electricity/Utilities – Other

The combination of attractive dividend yields and M&A activity within the sector explains the good performance of Utilities which outperformed by 4.5%. Within Electricity, we added to ScottishPower (UK) which outperformed, reflecting general approval of the disposal of its US business and also bid interest from competitors. Our water utility, AWG (UK), generated good gains following positive regulatory reviews while a new holding in the US, power distributor Sempra Energy, also performed strongly.

FINANCIALS

Banks/Insurance/Life Assurance/Investment Companies/Real Estate/Speciality & Other Finance

Financials as a group performed in line with the market. The Banks sub-sector trailed the Insurance, Investment Companies, Real Estate and Speciality & Other Finance sub-sectors, all of which benefited from more favourable industrial trends.

In Banks, we consolidated our holdings, selling large positions in Citigroup (US) and, after a spell of good performance, HBOS (UK), together with a number of

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smaller overseas holdings. In January, we also sold £15.8m of HSBC Holdings (UK) due to valuation concerns. However, at the end of the year we have been re-investing in this holding following a spell of marked underperformance. The largest gain in Banks came from rapidly growing Anglo Irish (Ireland), a holding we boosted materially in January. We added to Insurance to take advantage of recovering life-market conditions and attractive valuations. Our Insurance holdings were strong performers, including new holding Allianz (Germany) and US specialist insurer HCC, while the largest gains came from AXA (France) and Hartford (US). We sold AIG (US) in full ahead of a sharp fall in its share price relating to a regulatory investigation.

In the belief that the spell of small company outperformance was coming to an end, we continued to sell down our small-cap UK investment trusts which had served us well for a number of years. Our Real Estate exposure is now achieved through UK listed property investment trusts.

We added materially to speciality finance companies including Moody's (US) and a new holding, Lehman Brothers (US), both of which performed strongly and generated gains in excess of £3m each.

INFORMATION TECHNOLOGY

Information Technology Hardware/Software & Computer Services

Our stock selection in Information Technology was helpful to performance despite the 5.0% underperformance of the sector. In Information Technology Hardware, we added to the area, building up holdings in Taiwanese computer manufacturer Acer which is winning market share globally, together with a new holding in graphics and digital media processor group Nvidia (US) which was also strong. We made a useful sale of our holding in printer company Lexmark (US) before its stock price collapsed in October.

In Software, we saw reasonable investment returns with good gains from Sage (UK) and a new holding, security software group Symantec (US), which we bought after a spell of underperformance.

UNLISTEDS

It was a vintage year for our unlisted portfolio. As the funds in which we are invested mature, we are seeing a number of good realisations to the benefit of performance. The unlisted portfolio returned 69.7% although this was flattered by a change in the valuation basis for Aberforth Limited Partnership 1B after our initial capital had been returned in full. There was also an uplift from a change in accounting by Apax Europe V.

Aberforth Limited Partnership 1B generated substantial gains in value and returned cash of £16.8m over the year. We also saw good uplifts in valuation from Apax Europe V, HG Capital Trust and Boston Ventures VI.

GLOSSARY

Total assets means total assets less current liabilities.

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

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

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 adjusted for inflation.

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