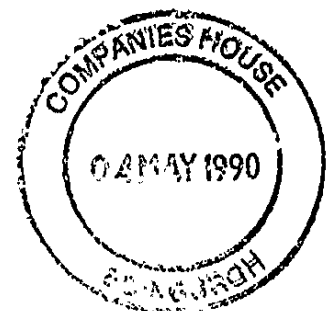


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SAINTS



The Scottish American Investment Co. P.L.C.
Annual Report 1989

1989 Highlights of the Year

During the year, Saints' share price increased by 27.5 per cent.



The Board recommends that the total dividend for the year be increased by 28.4 per cent to 3.3p.



Over five years the dividend has grown at an annual compound rate of 17.1 per cent.



Long term borrowing was introduced for the first time since 1935 with the issue of £60m of Equities Index Linked Loan Stock 2004.



The Saints PEP was launched in July.

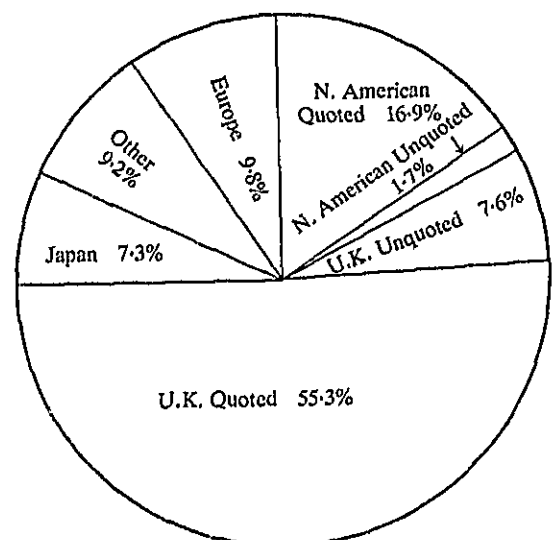


During the year the number of shareholders increased to 14,458.

Twenty Largest Equity Holdings

	Country	Value £000
B.A.T. Industries	U.K.	6,330
Barclays Bank	U.K.	4,830
Godfrey Davis	U.K.	4,799
Powell Duffryn	U.K.	4,668
British Aerospace	U.K.	4,045
Shell	U.K.	3,934
BET	U.K.	3,900
Thorn EMI	U.K.	3,885
Guinness 5.75% Cv. Pref.	U.K.	3,740
British Gas	U.K.	3,555
New Scotland Insurance	U.K.	3,555
Amec 6.50% Cv. Pref.	U.K.	3,540
Hepworth	U.K.	3,400
Value & Income Trust	U.K.	3,400
Lamont	U.K.	3,312
Pilkington	U.K.	3,025
Wolters Kluwer	Netherlands	2,966
Bowater 7.75% Cv. Pref.	U.K.	2,937
Anglo United	U.K.	2,925
Derwent Valley	U.K.	2,880
24.5 per cent of shareholders' funds		75,626

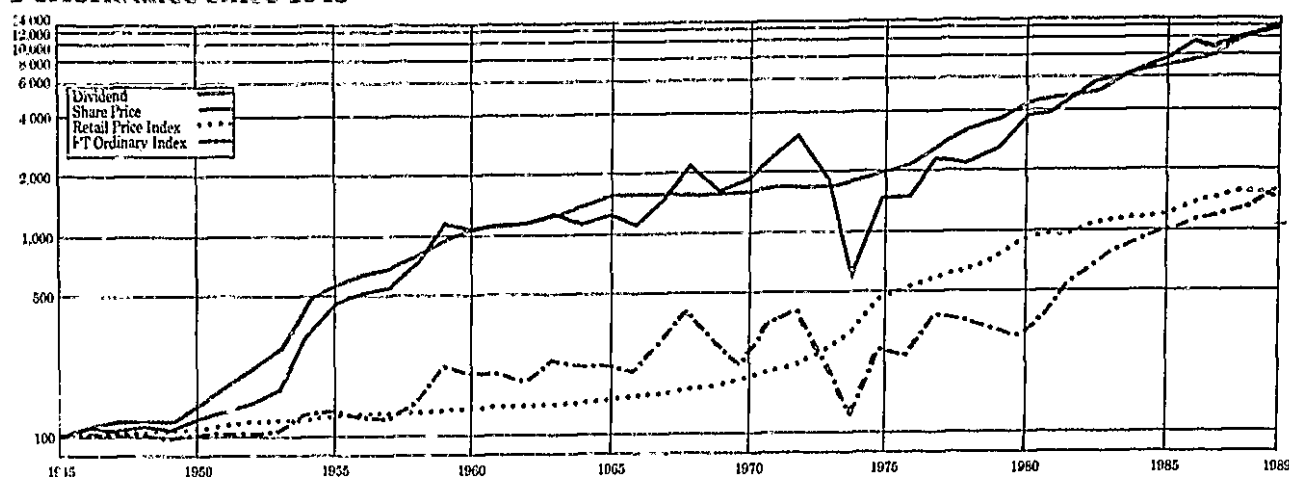
Geographical Distribution



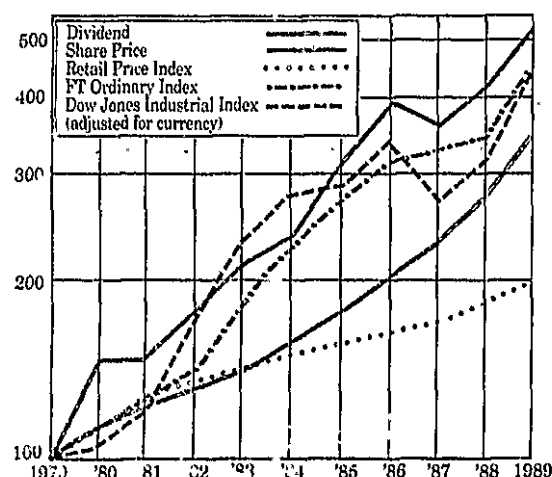
The percentage figures are of shareholders' funds and add up to 107.8 per cent. This total, being more than 100 per cent, reflects the presence of gearing at the year end. The percentage in U.K. quoted equities was 35.9 after deduction of the Equities Index Loan Stock.

Past Record

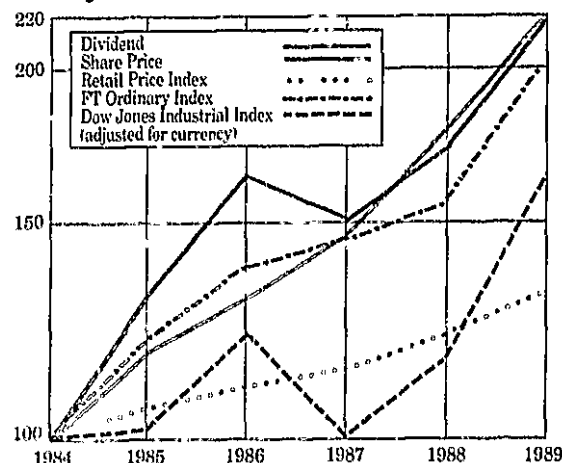
Performance since 1945



Ten-year record



Five-year record



Our business is the long-term management of money. Since 1945, Saints' share price has risen by 122 times and its dividend by 125 times. Over the same time, the FT Ordinary index has risen by only 17 times, approximately the same as the increase in the Retail Price index. Hence there has been no real growth in the FT Ordinary index compared to real growth of seven times in both the Saints' share price and dividend.

In the ten years since 1979, the Saints' share price has outperformed the FT Ordinary index by 14 per cent. Over the same period the dividend has shown real growth of 80 per cent.

Over the five years since 1984, Saints has outperformed the FT Ordinary index and the Dow Jones index in sterling terms.

These past records show that Saints has been an excellent long-term investment.

For many investors the pound cost averaging method of buying Saints' shares (see box below) provides a sound way of improving performance in volatile markets.

Pound cost averaging and The Saints Savings Scheme

If you put a fixed regular sum of money into buying shares, your average cost is lower than the average of the prices. This is known as pound cost averaging. For example if you put £100 into a share when the price is 50p, and another £100 when the price has doubled to 100p, your average cost is not 75p—half-way between 100p and 50p—but instead 66.6p, as your £200 has bought 300 shares. By using the regular saving option in the Saints Savings Scheme you can take advantage of pound cost averaging.

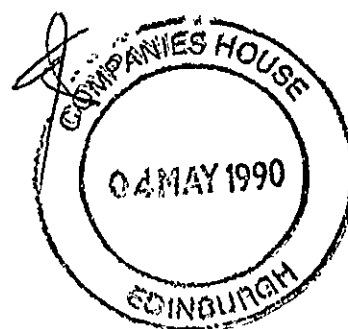
“Our business
is the long-term management
of money. Since 1945 Saints’ share
price has risen by 122 times and our
dividend by 125 times . . .”

489B
—

Annual Report 1989

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Independent Action



pressure to harmonise. Equally there is a danger that the changes instituted by the Securities and Investment Board (SIB) will cause the disappearance from the U.K. of independent advice. Ironically the SIB's stated intention was to do the opposite.

PEP

In conjunction with the Association of Investment Trust Companies we have been trying to persuade the Government of the illogicality of their present stance on PEPs. Saints in common with most other general investment trusts is regarded as a non qualifying investment for PEP purposes. It is unjust to discriminate against investment trusts on the grounds of overseas investments when many other U.K. companies with an even higher level of overseas activities qualify.

Capital Structure

As I reported to you during the course of the year, we made a successful issue of £60 million Equities Index Loan Stock last September. This provided an immediate benefit to our Income Account and also provided a convenient way for institutional investors to match the performance of the FT-A All-Share index. In the longer term it should also enhance further the growth of shareholders' funds.

You will see in the Notice of Meeting on page 23 that we are proposing to increase the authorised share capital. Since the issue of bonus shares in 1986, there has been very little unissued share capital. The present proposal is designed to restore sufficient unissued capital to provide the Company with adequate flexibility.

Jack Shaw Stewart

At the end of June 1989 Jack Shaw Stewart retired as Chairman of Stewart Ivory, our management company. He first came to 45 Charlotte Square in 1961 as assistant manager of Saints,

becoming manager in 1969. He founded the management company, then called Stewart Fund Managers, in 1970, and led it with his own distinct style for the next 19 years. We are most grateful for his unstinting and enthusiastic service to Saints. We wish him a most happy retirement and we are delighted that he has been succeeded by James Ferguson who has had, for many years, a close association with Saints.

Auditors

You will see from the Directors' Report that Chiene & Tait have been appointed in succession to Arthur Young, who merged their practice with Ernst & Whinney last year. We are grateful to Arthur Young for their services over many years and are pleased that our audit will continue to be carried out by Martin Haldane, who was previously a partner with Arthur Young. This continues a connection which stretches back to the first auditor of the Company, James Haldane.

Outlook

We live in exciting if uncertain times. The potential for shocks is great and stockmarkets will be volatile. It is just these circumstances that best demonstrate the advantages of investing in Saints. We have a broad and international portfolio; we have made use of innovative devices such as options and gearing through the Equities Index Loan Stock; and switches within the portfolio are free from capital gains tax. Above all, the determination to achieve continuing growth in our dividend provides comfort in times of fluctuating capital values.

How Haldane to Arthur Young

How Haldane to Arthur Young
14th February 1990

The Saints Savings Scheme

This scheme provides a simple and inexpensive method of buying Saints' shares from as little as £25 per month or £250 as a lump sum investment with the added benefit of dividend reinvestment.

The Saints PEP Mortgage

Bank of Scotland is offering mortgage finance linked to the Saints PEP.

The Saints PEP

We have taken advantage of the recent changes in the PEP rules to sponsor the launch of a PEP based on Saints which will be run by Stewart Ivory. There is a special opportunity to invest the first £2,400 of the PEP into Saints before 5th April 1990.

Further details of all these products are in the loose leaflet enclosed in this Report, together with information on the Stewart Ivory Managed Cash Fund, which is topical in view of the imminence of separate taxation for husbands and wives.

1944-1945

1946-1947

1948-1949

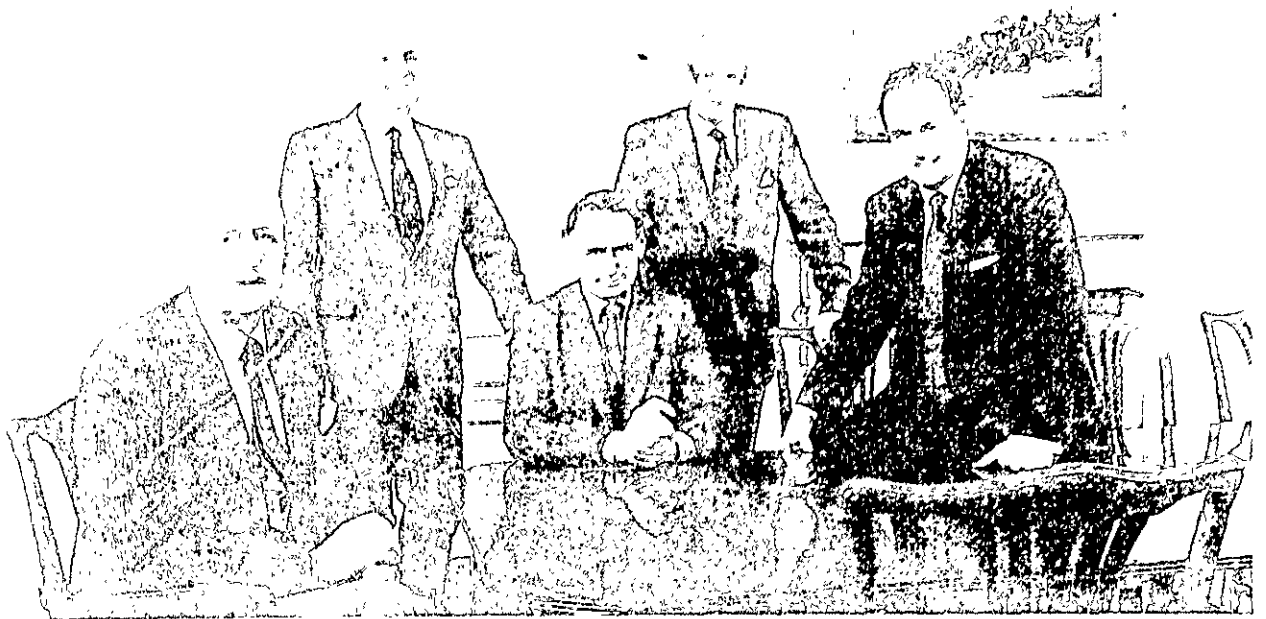
1950-1951

1952-1953

1954-1955

1956-1957

1958-1959



Management Report

Summary of the year	1989	1988
	£000	£000
Valuation of Investments	338,063	247,902
Shareholders' Funds	308,585	250,522
Net Income	8,075	6,287
Asset Value per Share	138.0p	112.0p
Earnings per Share	3.61p	2.81p
Dividend per Share	3.30p	2.57p
Share Price at Year End	116.0p	91.0p

Results

1989 was an excellent year for equity investment, both for capital gain and growth of income. Saints' income after tax was up by 28.5 per cent. The proposed dividend is 28.4 per cent greater than last year's and the asset value per share rose by 23.2 per cent to 138p.

The companies in which we are invested have been increasing their dividends rapidly, and we have taken measures during the year to increase the income further. This is discussed later in this section under 'Equities Index: Loan Stock'. The Board is recommending a final dividend of 0.9p, making a total for 1989 of 3.3p per share.

The dividend is well covered by income. However, the cash held for part of the year has been earning a high level of interest on deposit. When this money is reinvested in shares, the income return will be smaller. The level of dividend recommended is such that the rate of dividend payment should at least be maintained in 1990, and may be raised further during the year.

The asset value was up less than the 30 per cent gain in the FT-A All-Share index. This was due to our emphasis on smaller companies in the U.K.

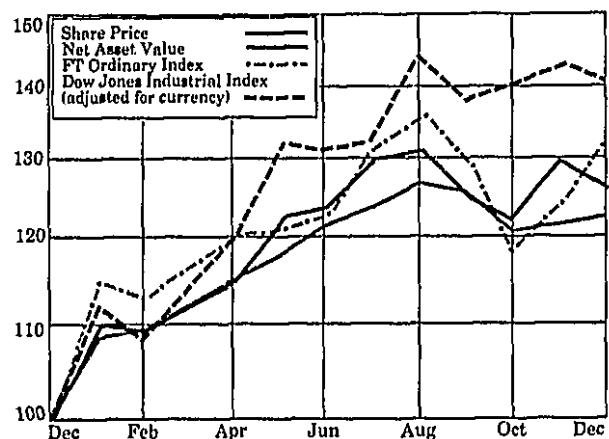
World Markets

Most equity markets ended the year close to record levels. In general, stockmarkets were strong in the first half of the year, corrected sharply in early October and then recovered again to their peak levels. Interest rates have risen in most countries in response to strong economic growth and a pick up in the rate of inflation. The main exception to this is the U.S.A., where interest rates have declined since March 1989.

The sharp fall in share prices in October was triggered by the U.S. market. It was the last minute refusal by Japanese banks to put up finance for the leveraged buy out of the U.S. parent

company of United Airlines that threw the financial markets into confusion. Leveraged buy outs, where a group of investors often including the company's management buy the equity of a company and replace it largely with high interest debt, have been a feature of the U.S. market in recent years.

One-year record



There were fears that the brief, but sharp, fall in share prices in October was the start of another crash like October 1987, but stockmarkets recovered quickly towards the year end. There was a considerable divergence of performance between stockmarkets. The best performing were some of the smaller markets in the Pacific Basin, and the main continental European markets, with Germany and France for example both up over 30 per cent. The European markets were particularly strong towards the end of the year as the dramatic events in Eastern Europe began to unfold.

Sterling declined in value against most currencies over the year, helping the performance of foreign shares when converted into sterling. The main exception was the yen against which sterling rose in value by 2.5 per cent.

Management Report

continued

Equity Investments at 31st December 1989
amounted to 109.5 per cent of shareholders' funds

Per cent of
shareholders' funds

	U.K.	North America	Europe	Japan	Australasia	Other	1989	1988
Capital Goods	21.9	3.2	1.0	2.7	—	0.9	29.1	25.4
Consumer Goods	14.9	7.6	7.0	1.5	0.9	0.8	32.7	28.3
Other Groups	10.1	5.0	1.1	1.1	0.4	1.2	18.9	14.2
Oil and Gas	2.8	0.9	—	—	—	—	3.7	2.7
Financial	12.4	1.6	0.7	2.0	—	3.6	20.3	14.2
Commodities	0.8	0.3	—	—	1.1	0.3	2.5	2.4
Options	0.3	0.2	—	—	—	—	0.5	—
Subsidiaries	1.2	—	—	—	—	—	1.2	0.7
1989	64.4	18.8	9.8	7.3	2.4	6.8	109.5	
1988	51.1	17.9	7.6	5.8	1.2	4.3		87.9

Equities Index Loan Stock

In the first week of September we issued £60 million of Equities Index Loan Stock 2004. This is the first issue of long term debt by the Company since 1935, although we have from time to time used short term borrowings to take advantage of particular opportunities. The high level of long term interest rates has made it unattractive to issue a conventional long term debenture. The Equities Index Loan Stock overcomes the problem of high interest rates, because the interest payable on the debt is the same as the yield on the FT-A All Share index. Unlike a normal debenture where the liability is fixed, the liability of the Equities Index Loan Stock moves up and down in line with the performance of the All Share index. There is, therefore, considerably less risk compared to conventional gearing as long as the investments and the liability are not significantly mismatched.

Our U.K. portfolio has a higher yield than the All-Share index and the shares bought with the proceeds of the issue have continued our policy of seeking an overall yield greater than that of the index. The immediate consequence of the issue is an increase in the Company's annual income of about 8 per cent. This makes it possible to pay a higher dividend to shareholders than would otherwise be the case. Our U.K. portfolio has outperformed the index over the long term and we are confident this will continue. Over time we expect to make an additional capital gain for shareholders through the issue of the Loan Stock.

The overall cost of issuing the Equities Index Loan Stock, including the cost of investing the

proceeds, was £3.2 million, about 1 per cent of shareholders' funds. We were fortunate in issuing the Loan Stock in the first week of September, which was a peak in the U.K. market. By using futures and options we were able to reduce the risk of the stockmarket moving up sharply before the money was invested. We were, therefore, able to buy into a falling market, enabling us to recoup part of the issuing cost.

The Portfolio

In the interim report we expressed caution for the second half of the year and used the issue of the Equities Index Loan Stock in September to go more liquid by not fully investing the money raised. While the size of the U.K. portfolio was apparently increased by the investment of the proceeds of the Loan Stock, the commitment to the U.K., net of the Loan Stock liability was slightly reduced during the year. We also made a reduction in our investment in the U.S.A., but increased our holdings in the Far East. This was in spite of selling most of our Hong Kong shares just before the political disturbances in China which sent the Hong Kong market down sharply. We also sold our remaining investment in Brazil, but made an initial investment in Chile.

In the U.K. our portfolio underperformed the index. This is due to our emphasis on smaller companies whose share prices underperformed during the year. The Hoare Govett Smaller Companies index rose only 6.7 per cent compared to the 30 per cent gain in the All-Share index. We had

Summary of Valuation at 31st December		1989		1988	
	£000	£000	%	£000	%
Equities					
U.K.		170,939	55.3*	105,577	42.1
North America		51,675	16.9	40,744	16.3
Europe		30,033	9.8	19,081	7.6
Japan		21,647	7.0	13,464	5.4
Australasia		7,417	2.4	3,005	1.2
Other		21,229	6.8	10,612	4.3
Unquoted: U.K.	23,536		7.6	20,837	8.3
North America	5,258		1.7	3,890	1.6
Japan	1,057		0.3	1,114	0.4
		29,851		25,841	
Options		1,605	0.5	115	
Subsidiary companies		3,667	1.2	1,733	0.7
		338,063	109.5	220,172	87.9
Fixed Interest					
U.K. Government	—			17,491	
U.S. Government	—			10,239	
Net Current Assets	30,745			3,096	
		30,745	10.0	30,826	12.3
		368,808	119.5	250,998	100.2
Less:					
Equities Index Loan Stock 2004	59,747			—	
Debenture Stock	476			476	
		60,223	19.5	476	0.2
Shareholders' Funds		308,585	100.0	250,522	100.0

*The percentage in U.K. quoted equities after deduction of the Equities Index Loan Stock is 35.9 per cent.

moved away from being almost entirely in small companies and so avoided a greater underperformance. Over the longer term, we continue to believe in the attractions of small companies compared to larger ones. Once the degree of the slow down in the U.K. economy becomes clear, we expect smaller companies to do well again.

In the U.S.A., the shares of smaller companies also underperformed but we have not been invested in them for some time, and so had a good performance in line with the S & P Composite index. In Europe and the Far East we had excellent performances, outperforming the local indices in each area.

The unquoted portfolio also had a useful gain in value over the year of 21.6 per cent.

Use of Options

We believe prospects for 1990 are less certain than they have been for some time. We have instituted a major hedging strategy as an insurance policy, using index put options. Put options have

been acquired in the U.K., U.S.A. and Japan with various expiry dates running from the end of March to the end of October. If markets fall between 5 and 15 per cent below year end closing levels, the options will become exercisable. About half the quoted equity portfolio has been insured at a cost of £4.4 million (1.4 per cent of shareholders' funds). Therefore, if a significant decline in share prices occurs, the portfolio will benefit from the protection of the put options. If markets continue to rise, the options will expire worthless, but there is no further liability on Saints and the asset value per share will benefit from the rise in Saints' existing equity portfolio.

Outlook

We start 1990 with some liquidity and a large insurance policy in the form of put options. After such a good year as 1989, a degree of caution is warranted, but there are a number of other reasons for some concern.

The main one is the level of debt in the

Management Report

continued

Currency Exposure at 31st December

	1989		1988	
	£000	%	£000	%
U.K.	200,120		147,732	
Less borrowings	60,223		—	
	139,897	45.3	147,732	59.0
U.S.A.	78,302	25.4	52,301	20.9
Canada	4,040	1.3	2,814	1.1
Europe	33,733	10.9	19,124	7.6
Japan	23,736	7.7	14,611	5.8
Australasia	7,618	2.5	3,319	1.3
Other	21,259	6.9	10,621	4.3
	308,585	100.0	250,522	100.0

Western financial system. This is also a major problem for the Eastern European countries. The financial bankruptcy of these countries has contributed in a major way to dissatisfaction with communism. It already looks likely that severe austerity programmes will be the initial introduction to greater democracy for some of these countries, as they try to overcome rampant inflation and huge international borrowings.

In the U.S.A. the large number of leveraged buy outs and the effect of companies borrowing to buy in their own shares has resulted in an enormous increase in corporate debt. The level of debt is such as to put in jeopardy the entire financial system. If the economy suffers a recession, corporate profitability will decline sharply.

The financial position of U.K. companies has also deteriorated significantly as companies have invested in new plant and in taking over other companies. Over the last two years this investment has been increasingly financed by bank borrowings. In general the high level of interest rates and declining level of demand make U.K. company profits vulnerable.

It is hoped that, as the U.K. and U.S. economic growth rates moderate, other countries, particularly those in a strong financial condition such as Japan and Germany will pick up the slack and grow faster. However, their economies are already very strong and interest rates were raised steadily through 1989 as inflation began to pick up.

Against these concerns are some positive developments. The dramatic events in Eastern Europe are as exciting from a social and political point of view as they are for the long term potential to enhance economic growth within the whole of Europe. Also encouraging is the liberalisation of trade within the E.C. in 1992.

It is still possible for both the U.K. and U.S.A. to avoid a recession but the excessive debt has increased the potential risk. We expect some sharp moves both "up and down" in share prices during 1990. We believe that Saints' portfolio will benefit from further gains in world markets, but its defensive strategy makes it soundly placed for the year ahead.

Teddy Tulloch

J.G. Ferguson

14th February 1990



Teddy Tulloch, James Ferguson

U.K. Portfolio

The U.K. market was notable for its strong prejudice against smaller companies which, relative to larger stocks, had their worst year since 1975. This prejudice, frequently at odds with corporate prospects, held back the U.K. portfolio although the effect was limited by a timely but partial switch into larger companies. Having been net investors over the first six months, we raised cash in the second half and ended the year with overall sales of £2 million. As a percentage of shareholders' funds, the U.K. portfolio was 55.3 per cent or 35.9 per cent after deduction of the Equities Index Loan Stock.

Of the four new names in the largest holdings list shown below, only British Aerospace is new to the portfolio. There is a deliberate emphasis on larger companies in the list this year, only two of the names having a market capitalisation under £1 billion. As in 1988, an above average yield has been a strong influence in stock selection.

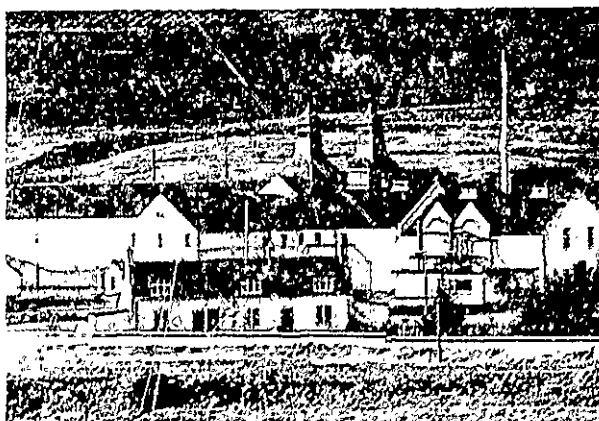


Barry McCorkell, James Ferguson and Jean Matterson

The outlook for the stock market is dominated by concerns about the persistently high level of inflation and interest rates. We expect a volatile year but the high level of institutional cash should act as a powerful support to the market.

Percentage of shareholders' funds

	1989	1988
Quoted Equity Investments		
Capital Goods	19.6	14.6
Consumer Goods	14.3	13.2
Other Groups	9.5	6.5
Oil and Gas	2.5	1.9
Financial	8.9	5.1
Commodities	0.5	0.8
	55.3	42.1



United Distillers' Dalwhinnie distillery
(courtesy of Guinness PLC)

Ten Largest Holdings

	Value £000	
B.A.T. Industries	6,330	Tobacco, retail, financial services
Barclays Bank	4,830	Bank
Godfrey Davis	4,799	Ford distributor, laundries, residential parks
Powell Duffryn	4,668	Fuel distributor, engineering, shipping
British Aerospace	4,045	Aerospace, engineering, defence
Shell	3,934	Integrated oil company
BET	3,900	Industrial services
Thorn EMI	3,885	Consumer electronics
Guinness 5.75% Cv. Pref.	3,740	Brewing, distilling
British Gas	3,555	Gas utility
	43,686	14.2 per cent of shareholders' funds

North American Portfolio



Karen Chapman and Teddy Tulloch

U.S. equities enjoyed an excellent year. However, it was a difficult year in which to match the indices as the rise was very narrowly based, particularly in the second half of the year. Consequently, we were pleased that our portfolio rose in

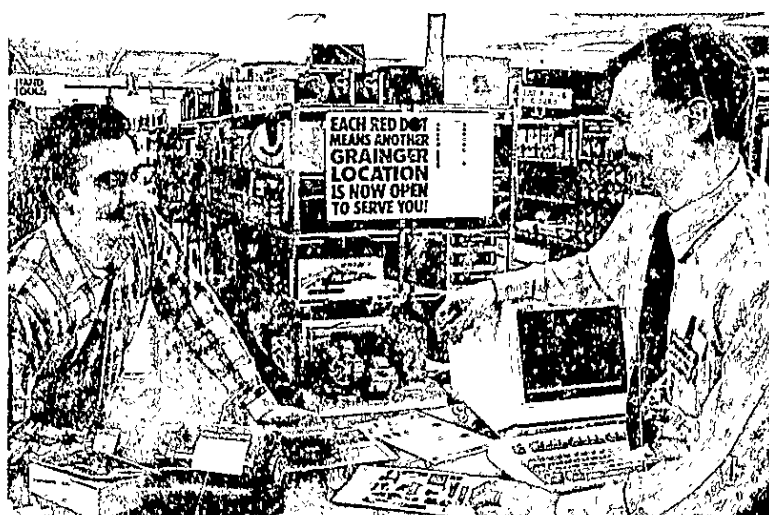
Percentage of shareholders' funds

	1982	1988
Quoted Equity Investments		
Capital Goods	3.2	3.8
Consumer Goods	7.6	7.4
Other Groups	4.1	3.4
Oil and Gas	0.3	0.1
Financial	1.4	1.2
Commodities	0.3	0.4
	16.9	16.3

line with the indices. As we anticipated a year ago, quality growth stocks performed particularly well in the uncertain economic environment. Their solid gains in earnings stood out against the disappointments in profits experienced by many of the more cyclical companies.

There is a risk that slow growth could turn into recession in the year ahead. In this event the profitability of those companies with heavy debt burdens will come under increasing pressure. The recent difficulties experienced by some of the leveraged buy outs, highlight our concern. However, if the U.S.A. avoids recession and experiences the 'soft landing' most economists are predicting, then U.S. shares offer reasonable value.

Our emphasis continues to be on well capitalised companies which have proved that they are capable of growing at a steady pace regardless of the economic situation.



A Grainger branch located in Chicago
(courtesy of W. W. Grainger)

Ten Largest Holdings

	Value £000	
W. W. Grainger	2,395	Industrial products distributor
Illinois Tool Works	2,087	Industrial components
Philip Morris	2,065	Cigarettes, food
G.T.E.	1,952	Telephone network
Syntex	1,870	Pharmaceutical products
General Electric	1,798	Electrical and engineering products
McDonalds	1,721	Fast food restaurants
Abbott	1,685	Health care products
American Cyanamid	1,663	Pharmaceutical, agricultural and chemical products
R. R. Donnelley	1,589	Commercial printer
	18,825	6.1 per cent of shareholders' funds

European Portfolio

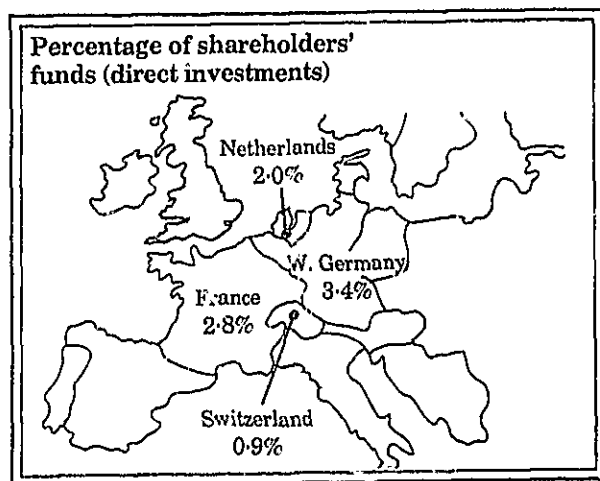


Anne Barker and David Shaw Stewart

The European markets performed strongly during the year with economic growth above expectations and our stock selection beat local indices. Although inflation is now high by historic standards, in most European countries it remains relatively low on a global comparison. Takeover activity continues as the 1992 European Single Market approaches.

Towards the end of the year the markets received fresh impetus from the exciting developments in Eastern Europe. The prospect of establishing market economies in the East offers long term opportunities for many European companies and West German firms are particularly well placed to take advantage of the new situation, especially if the moves towards German unity continue to gather pace.

Markets may fluctuate sharply in the short term as political progress in the Soviet Bloc is unlikely to be smooth. However, the long term outlook for investment in Continental Europe is promising and we continue to favour soundly financed growth companies.



Comptoirs Modernes specialises in providing a wide range of fresh produce in its supermarkets and shops (courtesy of Comptoirs Modernes)

Ten Largest Holdings

	Country	Value £000	
Wolters Kluwer	Netherlands	2,966	Publisher
Rheinelektra	Germany	2,444	Utility; printing machinery
LVMH	France	2,367	Luxury goods
Comptoirs Modernes	France	2,229	Food retailer
Carrefour	France	2,075	Hypermarket retailer
Stewart Ivory European Fund	Europe	2,054	Investment in European small companies
AVA	Germany	2,015	Discount retailer
Douglas	Germany	1,832	Specialty retailer
Damart	France	1,810	Mail order clothing
Polynorm	Netherlands	1,301	Metal processing

21,093 6.8 per cent of shareholders' funds

Pacific Area Portfolio



Angus Tulloch, John Wright and James Alexandroff

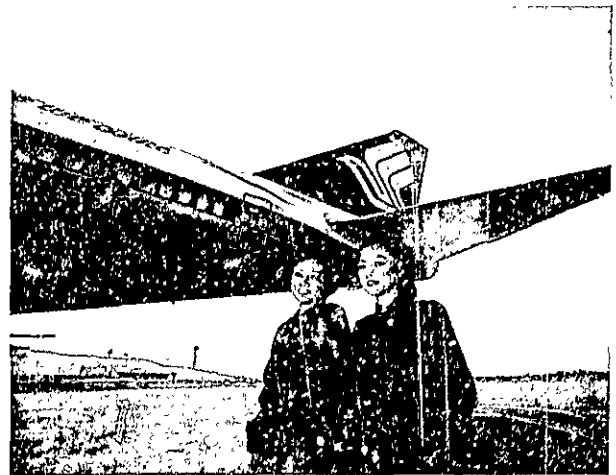
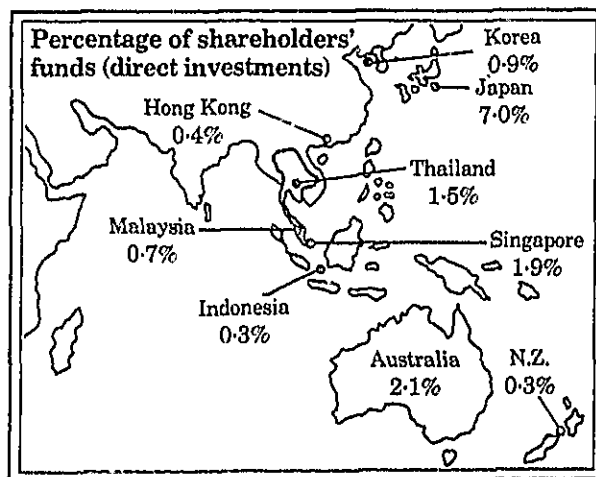
There were significant gains in the smaller Far Eastern markets during the year. The exception was Hong Kong, which suffered in consequence of events in China.

In contrast with previous years Japan did less well, although smaller companies outperformed the market significantly.

A number of managed funds are included in our portfolio. This is to achieve a reasonable spread of investments in areas where marketability is restricted, or where there are limitations on foreign investors.

This year holdings in Thailand, Singapore and Malaysia feature among our main holdings. These countries have seen a major expansion of their manufacturing and service industries in recent years. Inward investment from other countries, particularly Japan, has been attracted by low labour and land costs as well as improving political stability. This has reduced the region's dependence on commodity-based exports, and has contributed to growing prosperity throughout the area.

The long term investment outlook for the Pacific Region is considered to be outstanding.



Tailfin of B747 and cabin staff (courtesy of Singapore Airlines).

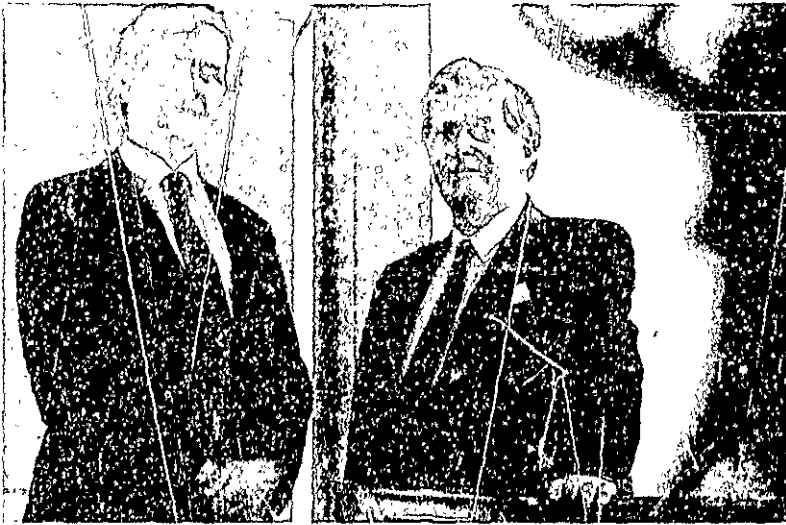
Ten Largest Holdings

	Country	Value £000	
Siam Cement	Thailand	2,736	Cement
Stewart Ivory New Pacific Fund	Far East	2,533	Investment in Pacific (Ex Japan)
JF Japan Smaller Cos. Trust	Japan	1,925	Investment in Japanese smaller companies
E... Fund	Thailand	1,798	Investment in Thailand
S... Airlines	Singapore	1,657	Airline
OB... d	Singapore	1,639	Property
CT R... g	Australia	1,518	Coal
... fund	Korea	1,497	Investment in Korea
... Chinese Banking	Singapore	1,436	Banking
Perlis Plantations	Malaysia	1,432	Food processing, services

18,171 5.9 per cent of shareholders' funds

Unquoted Portfolio

(9.7 per cent of shareholders' funds)



Pat Campbell Fraser and John Murray

The unquoted portfolio had another satisfactory year, showing £5.6 million of appreciation over the year. In unquoted stocks, it is usually only on flotation or sale that really significant appreciation is achieved since one is bound to value an unquoted at a discount to a quoted equivalent. Only one of our investments obtained a quotation during the year. Fortunately, this was the biggest one, National Freight Consortium. This was transferred to the quoted portfolio at the price at the end of the first day's dealing on the Stock Exchange which valued it at £2.98 million against its end-1988 value of £2.22 million and its cost when purchased in 1986 of £945,000.

In terms of appreciation, the best performer was New Scotland Insurance where the valuation was increased by £1.54 million during the year. This company under the new management brought in 3 years ago after a five year period when its operating subsidiary had lost £27 million has staged a remarkable turnaround. In 1987, it lost £482,000; in

1988 it made a profit of £4.8 million and it looks as if it will report a profit of over £8 million for 1989.

The next biggest contributor was Kelvin Shipholdings which showed appreciation of £1.18 million. After that came Whelmar Group with appreciation of £798,000. Whelmar was originally based in Chester but merged a year ago with two other housebuilding companies both operating in Lancashire. The merger has gone well and despite the current gloom in the housing market Whelmar expects pre-tax profits of £10 million in the twelve months to the end of March 1990. Unfortunately, Whelmar's surge in profit has coincided with the collapse of the ratings

accorded to housebuilders and, at our valuation, it is on less than 4 times prospective earnings.

Our Japanese and U.S. limited partnerships were sellers during the year and Technophone in May 1989 redeemed its Convertible Preference of which we held £1.045 million. In addition Noble Grossart Holdings bought in the shares of its Noble Grossart Investments subsidiary.

The unquoted portfolio has in the past been managed to produce capital gain rather than income. Our policy has now changed to some extent and new investments are structured, where possible, to produce income as well. However, we have not participated in leveraged buy outs and in recent years have felt that many unquoted propositions were highly valued. We would expect that the present level of interest rates and the feeling of uncertainty in the quoted markets will tend to produce more attractive opportunities in our field.

Ten Largest Holdings

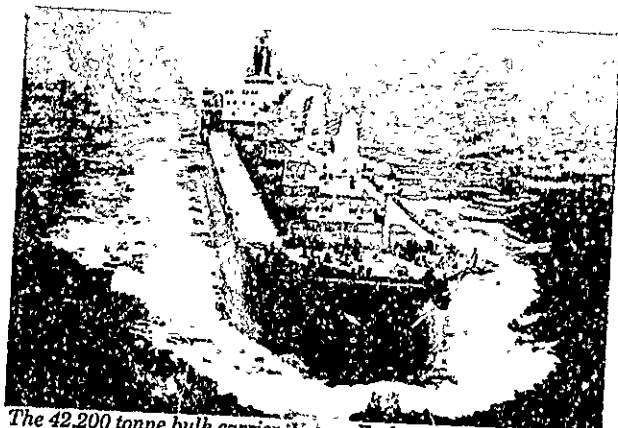
	Value	
	£000	
New Scotland Insurance	3,555	General insurance
Kelvin Shipholdings (Bermuda)	2,742	Operates bulk carriers
Noble Grossart Holdings	2,370	Merchant and investment bankers
Celltech	2,000	Biotechnology
Whelmar Group	1,824	Housebuilders
Ling Group	1,500	Building and contracting
Soco Holdings	1,442	Oil exploration
Brown Group International	1,396	Construction equipment, contractor plant
Stewart Ivory Holdings	1,172	Investment management
Technophone	1,000	Cellular radio telephones
	19,000	6.2 per cent of shareholders' funds

Unquoted Portfolio

continued

Kelvin Shipholdings

Kelvin was set up in Bermuda in 1987 to operate and deal in bulk carriers and was financed by a number of institutional investors. It has proved very successful, particularly over the last year. Shareholders' funds increased from \$12 million to \$17.8 million in the course of 1989 as trading profits were augmented by the profits on the sale of the 'Perlas' in February and the 'Kelvin Endeavour' in October. In November Kelvin acquired another similar vessel.



The 42,200 tonne bulk carrier 'Kelvin Endeavour'.
(courtesy of Kelvin Shipholding.)

Company (% held)	Cost £000	Valuation £000	
General			
Brown Group International* Ord. and Pref. Ord. (9.5% of total equity)	873	1,395	Manufactures and distributes Moxy dump trucks, roller stone crushing equipment, and Broyt and Hymac excavators.
Cardiac Control Systems# (Incorporated in U.S.A.) Common (2.1%)	443	40	Development and production of heart pacemakers.
Celltech* Ord. (1.7%)	1,721	2,000	Biotechnological production of pharmaceutical products.
Information Asset Systems† Ord. (50%) Loan (100%)	1,000	250	Holding company for computer investment.
Kelvin Shipholdings (Incorporated in Bermuda) Ord. (23.3%) Red. Pref. (26%)	1,755	2,742	Owens, operates and deals in bulk carriers.
Ling Group* 'A' Ord (35%) Convertible Loan Stock (80.7%)	1,485	1,500	Contracting and civil engineering.
Local Stores (Registered in Republic of Ireland) Ord. (11.3%) Loan Stock (19%)	863	985	Licencee for Ireland for the '7-Eleven' stores.
Measurement Devices† Ord. (13.6%) Conv. Loan Stock (98%)	528	533	Electronic survey, positioning and measuring systems.
New Scotland Insurance† Ord. (8.2%) 8% CULS (9.5%)	996	3,555	General (non-life) insurance.
Professional and Business Information* Ord (16.7%) Convertible Loan Stock (100%)	250	250	Technical publishing.
Programme Technical Services* Ord. (12.6%) Loan and CULS (100%)	753	653	Programme packaging and control services for cable and satellite TV.
Quantum Fund† Ord. (22.2%) Pref. (33.3%)	31	31	Commercial application of research at Edinburgh University.
Stirling Quantum Fund† Ord (37.5%) Pref (50%)	38	38	Commercial application of research at Stirling University.
Strontian Minerals† Ord (25%)	1,000	1,000	Mining for barytes and calcium carbonate.

Company (% held)	Cost £000	Valuation £000	
Technophone* Ord. (4.5%) Pref. (11.3%)	373	1,000	Designer and manufacturer of cellular radio telephones.
Waterside Inns† Ord. (29.3%)	453	483	Owens and operates hotels in Aberdeen and Peterhead.
Whelmar Group* Ord. (6%) Pref. (17.1%)	855	1,824	Housebuilding company in Cheshire and Lancashire.
Financial			
Noble Grossart† Ord. (7.4%) Loan Notes 1991/92 (28.1%)	287	2,370	Merchant and investment bank based in Edinburgh.
SM Holdings* Ord. (18.1%)	178	95	Investment and finance company based in Ipswich.
Stewart Ivory Holdings† 'A' Ord. (6.2%) 'C' Ord. (100%)	1,172	1,172	Investment management company.
Investment Companies			
Advent IV# Units (1.7%)	—	471	A U.S. limited partnership formed in 1980 to invest in high technology U.S. companies.
Advent Atlantic Partnership# Units (1.7%)	—	316	A U.S. limited partnership which effectively follows on from Advent IV and is managed by the same team.
Advent Technology† Ord. (4%)	34	250	Formed in 1981 to invest in high technology companies and assist in transfer of technology from the U.S.A.
JF Japan Venture 1‡ Units (2.3%)	333	475	Specialist investment fund for unquoted Japanese companies.
Nippon Investment & Finance No. 1‡ Units (3.1%)	190	247	Specialist investment fund for unquoted Japanese companies.
Nippon Investment & Finance No. 4‡ Units (2.4%)	271	335	Specialist investment fund for unquoted Japanese companies.
Venture Founders Fund (Registered in Guernsey) Ord. (1.3%) Red. Pref. (1.7%)	180	135	Investment in new and developing companies in the U.K.
Venture Link M4 Syndicate* Units (5%)	595	550	High technology investments mainly in the Newbury area.
Oil Exploration			
Euromin Canada (Incorporated in Canada) Ord. (20.4%) Loan (100%)	809	192	Oil exploration in North America and Europe.
Euromin International (Incorporated in Liechtenstein) Shares (20%)	82	15	Holds 2.5 million shares, representing 25.8 per cent of Euromin Canada.
Pittenerieff Petroleum† Preference (14.6%)	360	369	Oil production in U.S.A.
Seaxe Oil (Registered in Jersey) Ord. (19.0%)	278	40	Oil investment holding company.
Soco Holdings# Common (4.2%)	513	1,442	Holding company for Snyder Oil Corp. operating mainly in Rocky Mountains area of U.S.A.
Union Jack Oil* Ord. (1.8%)	404	600	Holds interests in a number of exploration blocks in the North Sea and also 0.5 per cent interest in the Forties Field.
Property			
Freehold Office Premises	1,207	2,500	44/45 Charlotte Square, Edinburgh.

*Registered in England and Wales †Registered in Scotland #Incorporated in U.S.A. \$Incorporated in Japan

List of Quoted Equity Investments at 31st December 1989

(Percentage of Shareholders' Funds)

	Value £000		Value £000		Value £000
UNITED KINGDOM (55.3%)		Health and Household (0.3%)		Investment Trusts (3.3%)	
Building and Construction (7.2%)		William Ransom*	1,040	Derby-Income*	1,669
Abbey	945	Leisure (2.9%)		General Consolidated Inc.	663
Allied Partnership*	2,320	Bluebird Toys*	897	Olim Convertible Trust*	1,840
Amec 6.5% Cv. Pref.	3,540	Granada 7.5% Cv. Pref.	793	Sphere Income	1,710
Anglo United	2,925	Mecca 7.25% Cv. Pref.	1,001	Throgmorton Dual Income	957
Blue Circle 7.63% Cv. Pref.	1,020	Thorn EMI	3,885	Value & Inc. 6.25% Cv. Pref.*	3,328
CALA	805	TVS Entertainment	1,464		
F. Copson	346	Yates Bros. Wine Lodges	955	Property (1.6%)	
Craig & Rose*	432	Publishing and Printing (0.5%)		Bradford Property	2,081
Hepworth	3,400	Stat-Plus Group	1,538	Derwent Valley Holdings*	2,880
NSM 8.5% Cv. Pref.*	2,771	Packaging and Paper (2.6%)		Plantations (0.5%)	
Pilkington Bros.	3,025	Bowater Inds 7.75% Cv. Pref.	2,937	Chillington Corp. Pref.*	105
Raine Industries	782	Bunzl	1,674	Chillington Corp.	1,540
Electricals and Electronics (2.3%)		Bunzl 7% CULS	886		
Cray Electronics	796	MB Group	2,525	NORTH AMERICA (16.9%)	
Dowding & Mills	1,104	Stores (1.0%)		U.S.A. (15.7%)	Canada (1.2%)
Emess 6.25% Cv. Pref.	2,291	A Goldberg	815	Building Materials (0.2%)	
National Telecom	599	Sears Holdings	2,180	Masco	605
Oceonics	982	Textiles (2.5%)		Electricals (1.7%)	
Prestwick 7.25% Cv. Pref.*	455	Coats Viyella	1,430	Emerson Electric	1,217
Rodime*	887	Hollas Group	451	General Electric	1,798
Engineering (5.6%)		Lamont Holdings*	3,312	Grainger	2,395
Beauford 7% Cv. Pref.	486	Readicut International	1,413	Engineering (0.8%)	
BM Group 4.6% Cv. Pref.	1,250	Stoddard Sekers*	1,260	Dover Corp	447
Brammer	2,090	Chemicals (0.5%)		Illinois Tool Works	2,087
British Aerospace	1,210	ICI	1,571	Motors (0.5%)	
British Aero. 7.75% Cv. Pref.	2,835	Shipping and Transport (1.8%)		Snap-on Tools	1,405
BSS Group	1,616	P & O 6.75% Cv. Pref.	941	Brewers and Distillers (0.5%)	
Carclo Engineering	1,090	Powell Duffryn	4,668	Anheuser-Busch	1,430
Eadie Holdings*	704	Other Groups—Misc. (5.8%)		Food (1.4%)	
IMI	1,591	B.A.T. Industries	6,330	McDonald's	1,721
Ricardo*	1,243	B.E.T.	3,900	PepsiCo	1,191
Senior Engineering	435	Godfrey Davis	4,799	Super Valu Stores	1,433
Sterling Industries	1,260	Microgen	800	Health and Household (2.4%)	
Triplex Lloyd	1,305	Relyon Group*	1,103	Abbott Laboratories	1,685
Motors (1.7%)		Ropner 'A' Ord.*	947	American Cyanamid	1,663
BBA 6.75% Cv. Pref.	2,677	Utilities (0.9%)		Bristol-Myers Squibb	1,391
Pendragon*	924	British Telecom	2,781	Eli Lilly	634
T & N	1,656	Water (0.5%)		Syntex	1,870
Other Industrial Materials (2.8%)		Anglian Water P/P	166	Publishing and Printing (0.8%)	
Amber Industrial	533	North West Water P/P	300	Donnelley	1,589
Coated Electrodes Int'l	180	Water Board Package P/P	937	Dun & Bradstreet	858
English China Clays	2,280	Oil and Gas (2.5%)		Packaging and Paper (0.6%)	
Norcross	1,796	British Gas	3,555	Mead	681
Tomkins 6.25% Cv. Pref.	1,100	Century Oils	270	Scott Paper	1,197
Williams 8% Cv. Pref.	975	Shell Transport	3,934	Stores (0.8%)	
Williams Holdings	1,869	Banks (2.6%)		Walgreen	1,158
Brewers and Distillers (2.0%)		Barclays Bank	4,831	Wal-Mart Stores	1,384
Guinness 5.75% Cv. Pref.	3,740	Leopold Joseph*	1,232		
Whitbread 'A'	2,346	National Westminster	1,856		
Food (2.5%)		Insurance (1.4%)			
Dalgety	2,633	Prudential	2,065		
Rank Hovis McDougall	1,281	Sedgwick Group	2,205		
Christian Salvesen	2,175				
Watson & Philip*	1,600				

	Value £000
Tobaccos (1.1%)	
Imasco	1,415
Philip Morris	2,065

Other Groups—Misc. (2.5%)	
Britmar	140
Browning-Ferris Ind	1,202
Fuel Tech	642
Laidlaw	1,769
Minnesota Mining & Mfg.	1,481
Sherwin Williams	1,490
Waste Management	1,085

Utilities (1.6%)	
Arkla	845
DPL	566
GTE	1,952
US West	1,490

Oil and Gas (0.3%)	
USX	885

Banks (0.2%)	
National City	727

Other Financial (1.2%)	
American Express	1,295
First Financial Mngt	1,070
Student Loan Marketing	1,116

Overseas Traders (0.3%)	
Canarchon Holdings*	803

EUROPE (9.8%)	
France (2.8%); Germany (3.4%); Netherlands (2.0%); Switzerland (0.9%); European Trusts (0.7%).	

Engineering (1.0%)	
Phoenix Mecano	880
Polynorm	1,301
Traub	1,066

Food (0.3%)	
Van Melle	806

Health & Household (0.4%)	
Henkel	1,075

Publishing & Printing (1.3%)	
Linotype	1,213
Wolters Kluwer	2,966

Stores (3.2%)	
AVA	2,015
Carrefour	2,075
Comptoirs Modernes	2,229
Douglass	1,832
Fust	985
Pick Pay	868

	Value £000
Textiles (1.0%)	
Damart	1,810
Gamma Holdings	1,140

Other Consumer (0.8%)	
LVMH	2,367

Other Groups—Misc. (1.1%)	
Oppermann Versand	907
Rheinelektra	2,444

Unit Trust (0.7%)	
Stewart Ivory European Fund	2,054

PACIFIC (16.2%)	
Australasia (2.4%); Chile (0.3%); Hong Kong (0.4%); Indonesia (0.3%); Japan (7.0%); Korea (0.9%); Malaysia (0.7%); Singapore (1.9%); Thailand (1.5%); Far East Trust (0.8%).	

Building and Construction (1.1%)	
Sekisui House	632
Siam Cement	2,736

Electricals and Electronics (1.4%)	
Dai Nippon Screen	746
Hitachi	754
Matsushita Electric Industrial	731
Matsushita Electric Works	909
Sony	1,009

Engineering (1.1%)	
Komori Printing	1,133
Kurita Water Industries	1,124
Toyo Sash	1,210

Food (1.1%)	
Burns Philp 9.5% Sub. Cv.	776
Fraser & Neave	977
Perlis Plantations	1,432

Health and Household (0.2%)	
Dai-ichi Pharmaceutical	746

Packaging and Paper (0.6%)	
Carter Holt 5.5% Sf. Cv.	1,011
Fletcher Challenge	868

Stores (1.0%)	
Joshin Denki	906
Seven-Eleven Japan	1,424
York Benimaru	827

Textiles (0.3%)	
Teijin	827

Office Equipment (0.3%)	
Kokuyo	1,012

	Value £000
Shipping and Transport (1.6%)	
Brambles	1,241
Hankyu	1,080
Malaysian Intl. Shipping	836
Singapore Airlines	1,657

Other Groups—Misc. (0.6%)	
C. Itoh	677
Swire Pacific	1,295

Utilities (0.2%)	
Osaka Gas	775

Banks (1.0%)	
Mitsubishi Trust & Bank	
2.75% Cv.	807
OCBC	1,436
Sumitomo Bank 3.125% Cv.	733

Insurance (0.4%)	
Sumitomo Marine & Fire	1,098

Investment Trusts (2.6%)	
Bangkok Fund	1,798
Genesis Chile Fund	1,000
Japan Warrant Fund	557
JF Japan Smaller Co. Trust	1,925
Korea-Europe Fund IDRs	1,497
Korea Fund	1,337

Property (0.5%)	
DBS Land	1,639

Unit Trusts (0.8%)	
Stewart Ivory New Pacific	2,533

Mining Finance (1.1%)	
CRA	1,295
First National Resources	707
QCT Resources 12% Cv.	1,519

Plantations (0.3%)	
Anglo Eastern Plantations	966

Holdings of under £100,000 have been omitted.

*Holdings of 5%, or over, of class.

In the 1870s Scotland was one of the most wealthy and advanced industrial nations in the world. This wealth derived from the development of coal mining, shipbuilding, engineering, railways, metal refining and textiles.

Finding a safe haven with a good return for surplus capital was not an easy task. The yield on investments in the U.K. at that time was low. Some of the most interesting high yielding opportunities were then to be found in North America, which was underdeveloped but growing at a fast pace. William Menzies, a Scots lawyer, had been out to the United States on several occasions, and saw the potential. In March 1873 he formed The Scottish American Investment Company to take advantage of the "growth of America in population, resources and wealth". Not only was it the first investment company to be formed in Edinburgh, but also the first to invest exclusively in the United States. It is generally referred to in

the stock market as 'Saints'.

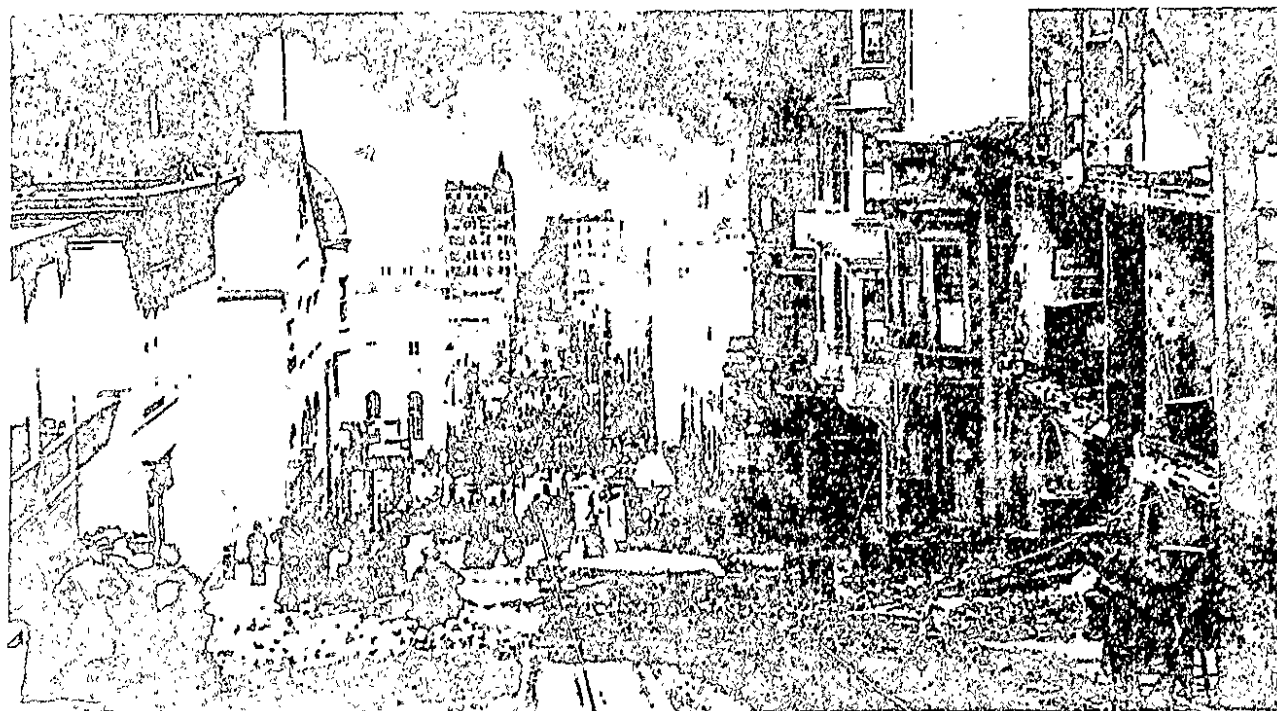
Saints' original investors were for the most part from Edinburgh, with significant minorities from the Borders and Fife. Members of the legal profession were the largest group represented, followed by merchants, bankers, ministers of religion, clerks and manufacturers. The majority of shareholders had made their money in the professions or in commerce.

Originally the Company invested entirely in bonds, but this gradually changed, and from the 1920s onwards the portfolio was invested predominantly in equities. Until 1939 or a half of the portfolio was invested in North America, but the emergency controls imposed during the Second World War brought the proportion down to less than 10 per cent in 1945. The rebuilding of the international portfolio was hampered by exchange controls, double taxation of foreign dividends and the dollar premium, but by 1972 sixty

per cent of the Company's funds were again invested abroad.

In the difficult years immediately after the war, stock markets in Britain showed little growth and the Company made only limited progress. However, during the decade of the 1950s markets were more favourable and Saints' net assets increased more rapidly, rising from £7.3 million to £20.7 million between 1950 and 1960. In the following decade the Company continued to grow, with shareholders' funds nearly doubling to £39 million in 1970. Although the market collapse of 1974 signalled a pause in the long post-war boom in stock markets, shareholders' funds have grown eight times since 1970.

Saints' appeal to the long term private investor has widened considerably since the Company's early days. Local Edinburgh investors now represent about 10 per cent of the total, while the rest of the shares are held all over the United Kingdom and abroad.



The photograph shows the ruins of San Francisco after the earthquake and fire of April 18, 1906. The fire, which resulted in a fire, devastated 3,000 acres in the city, leaving only the ruins of the city. An estimated 500 people died and thousands were made homeless. The photograph is a historical record of the disaster.

Information for Saints Investors

Investment Trusts

An investment trust company is a public company which manages investments, principally in the shares of other companies.

Investment trusts have a distinct advantage over unit trusts in that investment trusts have a permanent capital structure, and can take a long-term view of any particular investment. Managers of unit trusts, on the other hand, have to guard against a 'run on the bank', since holders can cash in their units at any time. Thus it is often more difficult for unit trusts to invest in less marketable or unquoted investments.

Because Saints is an investment trust, it is able to raise additional money through borrowing. It can invest more money on behalf of its shareholders, and have its borrowings allowed for tax. In a rising market, this significantly increases, or 'gears-up', the growth of investors' funds.

If the market price of a share stands at less than its net asset value, the difference is known in stock market terms as the 'discount'. If the share price runs ahead of net asset value, the difference is described as the 'premium'. Investment trust shares normally trade on the stock market at a discount to the net asset value.

This means that when you buy investment trust shares, you obtain the benefit of a greater value of assets working for you than the cost of your investment. Thus an investment in Saints' shares standing at a discount will normally provide you with a higher level of income than the same amount invested directly, or indirectly through a unit trust, in the same portfolio of investments.

Income

Saints' dividends are paid quarterly, with three interim payments in July, October and January, and a final dividend in

April. These payments are like the dividends paid by any U.K. company. The shareholder receives an amount which has already paid income tax at the standard rate. Anybody liable to tax at the basic rate only will have no further tax to pay. If the shareholder is entitled to a tax refund, the difference can be recovered from the Inland Revenue.

Capital Gains Tax

In the 1989/90 tax year, all taxpayers may realise £5,000 free of capital gains tax with the gains above that figure charged at their top rate of tax. Within Saints, however, no capital gains tax is payable, so that capital gains are realised and the proceeds reinvested without any tax penalty.

Therefore, the assets of individual investors are managed free of capital taxes, and they can realise gains from a holding of Saints' shares to the extent of £5,000 each year (assuming no other gains are realised) without suffering tax.

Buying Saints

Investors who wish to buy can make use of the Saints Savings Scheme described in the leaflet enclosed in this Report. Alternatively you can always buy through a stockbroker, or instruct a professional adviser such as a solicitor or an accountant to act on your behalf.

The Association of Investment Trust Companies (AIRC) publishes a list of stockbrokers, who are interested in taking on new clients. It has available more information about investment trusts generally, and its address is 16 Finsbury Circus, London EC2M 7JJ. Telephone: 01-588 5947.

The Saints Savings Scheme

This scheme makes it simple and inexpensive for both shareholders and new investors to accumulate Saints' shares.

There is also a facility to invest your dividends from both Saints and other companies into Saints shares.

The Saints PEP

Stewart Ivory has launched a Personal Equity Plan based on Saints.

The Saints PEP Mortgage

Bank of Scotland is offering mortgage finance linked to the Saints PEP.

Further details of all these products are in the leaflet enclosed in this Report.

The Saints Personal Pension Plan

Existing members may continue to add to their investment provided that they are self-employed or in non-pensionable employment. New entrants cannot be accepted into this Plan because of the recent changes in pension legislation.

Any further information about Saints can be obtained from the Company Secretary of Stewart Ivory, W. H. E. Walker, 45 Charlotte Square, Edinburgh EH2 4HW. Telephone: 031-226 3271.



Bill Walker and Derek Whigham

Analysis of Shareholders

Per cent of share capital held by:	January 1986	1987	1988	1989	1990
Individuals	37.6	36.8	36.4	35.9	35.5
Trustee/Joint	3.5	3.1	2.9	2.6	2.4
Nominees	31.9	37.0	39.9	42.7	43.5
Institutions	27.0	23.1	20.8	18.8	18.6
Number of shareholders	10,513	11,213	12,935	13,486	14,458

Comparative Statement

For years ended 31st December	Valuation of Investments £000	Ordinary Shareholders' Funds £000	Gross Income £000	Net Assets per Share p	Share Price p	Earned per Share (gross) p	Paid per Share (gross) p
1955	16,623	12,028	942	6.0	4.5	0.30	0.21
1960	25,663	20,759	1,429	9.3	9.8	0.48	0.39
1965	34,724	29,329	1,955	13.1	11.6	0.69	0.57
1970	49,281	39,058	2,238	17.4	16.0	0.59	0.58
1975	47,916	38,160	2,751	17.1	14.5	0.71	0.69
1980	97,146	91,031	5,238	40.7	32.5	1.48	1.43
1981	101,559	100,453	5,202	44.9	33.0	1.59	1.57
1982	137,617	116,949	5,723	52.3	38.8	1.70	1.65
1983	184,439	145,274	7,221	65.0	48.0	1.63	1.73
1984	160,048	165,977	6,376	74.2	53.3	2.03	2.00
1985	187,256	191,005	6,935	85.4	69.8	2.55	2.34
1986	235,821	227,007	7,052	101.5	87.0	2.50	2.57
1987	227,045	228,434	8,818	102.2	80.0	2.95	2.86
1988	247,902	250,522	10,382	112.0	91.0	3.75	3.43
1989	338,063	308,585	14,287	138.0	116.0	4.81	4.40

Prior charges have been deducted at par in calculating net assets per share. Figures for net assets, share price, amount earned and amount paid per share have been adjusted for capital changes.

Directors' Report
and
Accounts 1989



Directors' Report

for the year ended 31st December 1989.

Dividends

	Net	Gross
First interim—paid 5th July 1989	0.75p	1.00p
Second interim—paid 5th October 1989	0.80p	1.07p
Third interim—paid 5th January 1990	0.85p	1.13p
Recommended final—payable 5th April 1990	0.90p	1.20p
	3.30p	4.40p
1988	2.57p	3.43p

Principal Activity and Status

The Company is an investment company within the meaning of the Companies Act 1985. Inland Revenue approval as an investment trust for the purposes of the Income and Corporation Taxes Act 1988 has been given for the year ended 31st December 1988 and the Company has subsequently directed its affairs so as to enable it to continue to seek such approval. The 'close company' provisions do not apply to the Company.

A review of the Company's business is to be found in the Chairman's Introduction on pages 2 and 3 and in the Management Report on pages 5 to 8.

Directors

No contract subsisted with the Company either during or at the end of the year in which any Director was materially interested.

Mr Shaw retires from office by rotation at the Annual General Meeting and will be proposed for re-election.

The Directors who served during the year had the following interests in the Share Capital of the Company at 31st December.

	Shares of 25p	
	1989	1988
William Berry	16,000	16,000
William Berry, as Trustee	495,988	473,393
Sir Hew Hamilton-Dalrymple, Bt.	24,000	24,000
Sir James Mellon	8,228	nil*
B. E. Sealey	12,988	11,493
J. C. Shaw	9,203	8,887

*At date of appointment.

Mr Sealey and Mr Shaw are regular monthly investors through the Saints Saving Scheme.

Management

Stewart Ivory & Company Limited is employed as Manager and Secretary under a contract which may be terminated by either party on giving three years' notice. An annual fee, calculated from the previous year's accounts, of 0.25 per cent of shareholders' funds plus 3.5 per cent of total income less borrowing costs is payable to Stewart Ivory in respect of these services.

Substantial Shareholders

At 31st December 1989 the Company had been notified of the following interest exceeding 5 per cent of its Ordinary shares:

Continental & Industrial Trust—26,435,000 shares (11.8 per cent).

Charitable Donations

During the year the Company made a charitable donation of £1,333.

Auditors

The merger of Arthur Young with Ernst & Whinney created a casual vacancy in the office of auditor. The directors appointed Chiene & Tait C.A. to fill the vacancy and a resolution to re-appoint that firm will be proposed at the Annual General Meeting.

14th February 1990

SAINTS

By Order of the Board
STEWART IVORY & COMPANY LIMITED

Secretary

TWENTY-TWO

FOR AND ON BEHALF OF

STEWART IVORY & COMPANY LIMITED

Robert W. Ivory

Report of the Auditors

To the members of The Scottish American Investment Company P.L.C.

We have audited the accounts on pages 24 to 30 in accordance with auditing standards.

In our opinion the accounts give a true and fair view of the state of the Company's affairs at 31st December 1989 and of its net income and source and application of funds for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

CHIENE & TAIT, C.A. *Chien & Tait, C.A.*
Edinburgh, 14th February 1990.

Capital Gains Tax

The Company is not liable to tax on capital gains. Individual shareholders are exempt from tax on the first £5,000 of gains, for the year to 5th April 1990, after indexation adjustments.

For those buying shares each month through The Saints Savings Scheme, the calculation for the liability to capital gains tax can be simplified by treating the cost of all the shares bought in a calendar year as if they had been acquired at the July purchase date.

Shareholders may find the following market values helpful in calculating their liability to Capital Gains Tax:

	6th April 1985	31st March 1982
Ordinary Shares	11.457p*	33.125p*
Debenture Stock	50½ per cent	23¼ per cent

*Adjusted for present capital

Financial Diary

The normal timetable for the Company's financial year, which ends on 31st December, is as follows:

April	Interest on Index Loan Stock
May	Interest on 4 per cent Debenture Stock
July	First interim dividend paid and interim results announced
October	Interest on Index Loan Stock
	Second interim dividend paid
November	Interest on Index Loan Stock
	Interest on 4 per cent Debenture Stock
January	Third interim dividend paid
	Interest on Index Loan Stock
February	Final dividend and preliminary results for year announced. Annual Report and Accounts published
March	Annual General Meeting
April	Final dividend paid (before 6th).

SAINTS

Notice of Meeting

Notice is hereby given that the One Hundred and Seventeenth Annual General Meeting of The Scottish American Investment Company P.L.C. will be held at 45 Charlotte Square, Edinburgh on Wednesday the 28th day of March 1990 at 12.00 noon to transact the following business:

- (1) To receive the Report and Accounts for the year to 31st December 1989.
- (2) To declare a final dividend.
- (3) To re-elect Mr J. C. Shaw as a Director.
- (4) To re-appoint Chiene & Tait, C.A. as Auditors and to authorise the Directors to fix their remuneration.
- (5) To consider and if thought fit, to pass the following ordinary resolution:
 - (i) 'The authorised share capital of the Company be and is hereby increased from £56,000,000 to £70,000,000 by the creation of an additional 56,000,000 Ordinary Shares of 25p each ranking *pari passu* in all respects with the existing Ordinary Shares;
 - (ii) in substitution for any existing power under Section 80 of the Companies Act 1985 ('the Act') the Directors be and are hereby generally and unconditionally authorised pursuant to and in accordance with Section 80 of the Act to exercise all the powers of the Company to allot and to make offers and agreements to allot relevant securities (as defined in Section 80 of the Act) up to an aggregate nominal value of £11,180,400 during the period commencing on the date of the passing of this resolution and expiring on 28th March 1995 (both dates inclusive) but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.'

By Order of the Board
STEWART IVORY & COMPANY LIMITED
Secretary

45 Charlotte Square, Edinburgh EH2 4HW
28th February 1990 *Stewart Ivory* Secretary

Notes: Shareholders are entitled to attend and vote at the above meeting and to appoint proxies to attend and on a poll vote in their stead. A proxy need not be a member of the Company.

If Resolution no. 5 is passed, no issue will be made which would effectively alter the control of the Company without the prior approval of shareholders in general meeting.

The Company has no service contracts with its Directors.

TWENTY-THREE

Income Account

for the year ended 31st December 1989

	Note	1989 £000	1988 £000
INCOME	(1)		
Dividends from U.K. companies		8,400	5,783
Dividends from overseas companies		2,725	2,478
Interest on deposits		1,932	897
Other interest		938	993
Underwriting commission		115	73
Other income		177	158
		14,287	10,382
Expenses			
Interest payable	(2)	915	69
Administrative	(3)	1,812	1,470
		2,727	1,539
Income before tax		11,560	8,843
Tax	(4)	3,485	2,556
INCOME AFTER TAX		8,075	6,287
Dividends			
First interim 0.75p net per share (1988—0.56p)		1,677	1,252
Second interim 0.80p net per share (1988—0.59p)		1,789	1,319
Third interim 0.85p net per share (1988—0.68p)		1,901	1,521
		5,367	4,092
Recommended final 0.90p net per share (1988—0.74p)		2,012	1,655
		7,379	5,747
Surplus (transferred to Revenue Reserve)	(13)	696	540
Earnings per share		3.61p net	2.81p net
equivalent to		4.81p gross	3.75p gross
Dividend per share		3.30p net	2.57p net
equivalent to		4.40p gross	3.43p gross

Earnings and dividends per share are calculated on 223,608,000 shares.
The notes on pages 27 to 30 form part of these accounts.

Balance Sheet

at 31st December 1989

	Note	1989 £000	1988 £000
INVESTMENTS	(5) (6)		
Equities			
U.K.		170,939	105,577
North America		51,675	40,744
Europe		30,033	19,081
Japan		21,647	13,464
Australasia		7,417	3,005
Other		21,229	10,612
Unquoted		29,851	25,841
Options		1,605	115
Subsidiary companies	(7)	3,667	1,733
		<u>338,063</u>	<u>200,172</u>
Fixed Interest			
U.K. Government		—	17,491
U.S. Bonds		—	10,239
			<u>27,730</u>
		<u>338,063</u>	<u>247,902</u>
Current Assets			
Debtors	(8)	1,668	1,498
Cash and deposits		35,669	10,359
		<u>37,337</u>	<u>11,857</u>
Current Liabilities (due within one year)			
Creditors	(9)	4,580	7,106
Recommended final dividend		2,012	1,655
		<u>6,592</u>	<u>8,761</u>
Net Current Assets (Liabilities)		<u>30,745</u>	<u>3,096</u>
Total Assets less Current Liabilities		<u>368,808</u>	<u>250,998</u>
<i>Less</i>			
Creditors due after one year	(10)		
Equities Index Unsecured Loan Stock 2004		59,747	—
4 per cent Irredeemable Debenture Stock		476	476
		<u>60,223</u>	<u>476</u>
SHAREHOLDERS' FUNDS		<u>308,585</u>	<u>250,522</u>
Equivalent to 138.0p per share (1988—112.0p)			
<i>Represented by:</i>			
Share Capital and Reserves			
223,608,000 Ordinary 25p shares			
Issued and fully paid	(11)	55,902	55,902
Capital Reserve	(12)	249,588	192,221
Revenue Reserve	(13)	3,095	2,399
		<u>308,585</u>	<u>250,522</u>

Heu Hamilton-Dalrymple

HEW HAMILTON-DALRYMPLE, *Director*

J. C. SHAW, *Director*

PRINTS

TWENTY-FIVE

Source and Application of Funds

for the year to 31st December 1989

	1989		1988	
	£000	£000	£000	£000
Liquid Funds at the beginning of year				
Made up of:				
Cash, deposits and overdraft		10,359		4,448
Debtors including sales for future settlement		1,496		1,106
Creditors including purchases for future settlement		(5,228)		(1,785)
		6,627		3,769
Source of Funds				
Revenue (before taxation)	11,561		8,843	
Capital: sales of investments	113,342		113,327	
foreign exchange profits	805		—	
other capital receipts	—		27	
issue of Index Loan Stock	60,000		—	
		185,708		122,197
		192,335		125,963
<i>Less</i>				
Application of Funds				
Revenue: taxation	2,894		1,907	
dividends paid	6,641		4,936	
Capital: purchases of investments	146,351		111,667	
foreign exchange losses	—		718	
other capital expenses	—		—	
Loan Stock issue expenses	1,789		—	
		157,675		119,339
		34,660		6,627
Liquid Funds at the year end				
Made up of:				
Cash, deposits and overdraft		35,669		10,359
Debtors including sales for future settlement		1,617		1,496
Creditors including purchases for future settlement		(2,626)		(5,228)
		34,660		6,627

Changes in Investments

	Valuation at 31st Dec. 1988 £000	Exchanges: Unquoted/ Quoted £000	Purchases £000	Sales £000	Appreciation (Depreciation) £000	Valuation at 31st Dec. 1989 £000
Equity Investments						
U.K.	105,577	2,976	92,459	37,442	7,369	170,939
North America	40,744	(133)	8,739	15,320	17,645	51,675
Europe	19,081	—	4,748	5,442	11,646	30,033
Japan	13,464	—	11,024	9,744	6,903	21,647
Australasia	3,005	—	3,836	740	1,316	7,417
Other	10,612	—	13,129	13,573	11,061	21,229
Unquoted: U.K.	20,837	(2,801)	4,411	2,469	3,558	23,536
North America	3,890	(42)	462	527	1,475	5,258
Japan	1,114	—	—	595	538	1,057
Options: U.K.	115	—	3,965	244	(2,807)	1,029
U.S.	—	—	913	37	(367)	509
Japan	—	—	285	—	(218)	67
Futures U.K.	—	—	236	—	(236)	—
Subsidiary companies	1,733	—	2,041	—	(107)	3,667
Fixed Interest Investments						
U.K. Government	17,491	—	103	17,059	(535)	—
U.S. Government	10,239	—	—	10,150	(89)	—
	247,902	—	146,351	113,342	57,152	338,063

Accounting Policies

Listed investments include all investments listed on a recognised stock exchange; all other investments are classified as unlisted. For the purposes of these Accounts the term unquoted investments is used for those unlisted investments where no dealing facility exists.

Income Account

- (a) Dividends and interest on securities are included on the basis of the receivable date, except in those instances of interest covered by the Accrued Interest Scheme provisions of the Income and Corporation Taxes Act 1988 in which case an adjustment is made for accrued interest on sales and purchases.
- (b) Franked income is included with the addition of the relevant tax credit.
- (c) Overseas income is recorded at rates of exchange ruling at the dates of receipt.
- (d) Bank interest receivable, interest payable and expenses of management are dealt with on an accrual basis.

Balance Sheet

- (a) Listed investments have been valued on the basis of market quotations. Unlisted investments have been valued by the Directors on the basis of stockbrokers' and other independent valuation and published information.
- (b) Equities include ordinary shares and convertible stocks.
- (c) All foreign currencies have been translated at year end exchange rates.
- (d) Exchange differences and differences in the value of forward exchange contracts are included in Capital Reserve.
- (e) The Equities Index Loan Stock is included at the capital value as defined in the Trust Deed and determined by the level of the FT-Actuaries All-Share Index. The change in value over the period is taken to Capital Reserve

Notes on the Accounts

1 Income	1989	1988
Dividends and interest on:	£000	£000
Listed Investments	10,695	8,663
Unlisted Investments	1,368	591
Other	2,224	1,128
	<u>14,287</u>	<u>10,382</u>
2 Interest Payable		
Debenture and Loan Stock	820	19
Bank overdrafts	95	50
	<u>915</u>	<u>69</u>
3 Administrative Expenses		
Auditors' remuneration	9	9
Directors' emoluments	35	27
Management fee	1,057	851
VAT	(4)	108
Other	715	475
	<u>1,812</u>	<u>1,470</u>

During the year the Chairman's emoluments amounted to £10,000 (1988—£9,000). Each other Director received fees at a rate of £6,000 per annum (1988—£5,500). In addition one Director received a separate consultancy fee of £1,500.

Notes on the Accounts

continued

	1989	1988
	£000	£000
4 Taxation on Income		
Corporation tax at 35 per cent	1,352	1,047
Less: relief for overseas tax	329	306
	<u>1,023</u>	<u>741</u>
Tax on franked investment income	2,100	1,473
Overseas tax	362	342
	<u>3,485</u>	<u>2,556</u>

No provision has been made for advance corporation tax on the proposed final dividend as it appears that such tax will be fully relieved.

5 Investments

U.K. equity investments include securities listed on The International Stock Exchange valued at £168,171,000 (1988—£102,748,000), and securities traded on the Unlisted Securities Market or other markets valued at £2,768,000 (1988—£2,829,000). All other investments, except the Subsidiaries and those shown as unquoted, are listed on a recognised stock exchange.

The overall cost of investments was £262,270,000 (1988—£213,302,000). Equities include securities, having an equity element, valued at £43,373,000 (1988—£23,372,000).

6 Significant Interests

A. Quoted companies in which the Company holds more than 10 per cent of either the total allotted or the equity capital. The statutory information in respect of unquoted companies is given on pages 13 to 15:

	Country of registration or incorporation	Total allotted	Equity
<i>Ordinary Shareholdings</i>			
Canarchon Holdings	Canada	15.2	15.2
Craig & Rose	Scotland	6.5	13.0
Prestwick Holdings	England & Wales	16.2	—
William Ransom & Son	England & Wales	10.4	10.4
Value & Income Trust	Scotland	18.2	9.1

B. Latest available information in respect of holdings in which the Company holds 20 per cent or more of the allotted capital.

	Principal Country of Operation	Share and Loan Capital	Reserves £000	Profit after tax £000
Euromin Canada	Canada	9,034,001 Com.	Can\$(2)	—
Euromin International	Italy	70,000 Shares of US\$1	US\$453	US\$196
Information Assets Systems	U.K.	2 Ord. £1	(791)	(269)
Kelvin Shipholdings	Bermuda	18,079 Ord. 12,000,000 Red. Pref. 5c	US\$16,228	US\$2,649
Ling Group	U.K.	2,052,000 Ord. £1 1,000 'A' Ord. 10p 1,859,000 13% CULS 1999	267	110
Programme Technical Services	U.K.	7,912,700 Ord. 10p £430,000 5% CULS 1993 £280,000 5% CULS 1994	(513)	55
Quantum Fund	U.K.	6,000 'A' Ord. £1 12,000 'B' Ord. £1 82,000 10% Red. Pref. £1	(79)	(21)
Stewart Ivory Holdings	U.K.	98,016 'A' Ord. £1 126,984 'B' Ord. £1 75,000 'C' Ord. £1	1,701	342

	<i>Principal Country of Operation</i>	<i>Share and Loan Capital</i>	<i>Reserves £000</i>	<i>Profit after tax £000</i>
Stirling Quantum Fund	U.K.	40,000 Ord. £1 120,000 5% 'A' Red. Pref. 45,000 'B' Red. Pref.	—	—
Strontian Minerals	U.K.	£1,000,000 15% Cum. Pref. £1 £3,000,000 Ord. £1 1,668,182 Def. £1	(1,631)	(352)
Waterside Inns	U.K.	825,000 Ord. £1	1,003	9

The Directors consider that in view of the current investment objectives of the Company it would be inappropriate to treat any investments as associated or related companies.

7 Subsidiary Companies

There are two wholly-owned subsidiaries, Scottish American Securities Company and Scottish American Market Operations, both trading in options, futures and similar financial instruments. Consolidated accounts have not been prepared, because the Directors consider that to do so would be misleading as the subsidiary companies are engaged in a different type of business to the holding company. The Report and Accounts of each company will be lodged with The Registrar of Companies in Edinburgh.

Aggregate Profit and Loss Account for the year to 31st December:

	1989 £000	1988 £000
Trading profit/(loss)	(256)	(452)
Interest on deposits	229	203
	(27)	(249)
<i>Less: Expenses</i>	1	1
Profit/(loss) before tax	(28)	(250)
Tax	(79)	(87)
Profit/(loss) after tax retained	(107)	(163)

Aggregate extracts from the Balance Sheets at 31st December:

Current Assets		
Investments	1,753	60
Debtors	25	94
Cash and deposits	1,980	1,579
	3,758	1,733
Current Liabilities (due within one year)		
Creditors	91	—
Parent company's interest	3,667	1,733

Accounting Policies:

- Interest and expenses are dealt with on an accruals basis.
- Investments are shown at the lower of cost and market value. The overall cost of investments was: Scottish American Securities Company £2. Scottish American Market Operations £2,041,298.

8 Debtors

	1989 £000	1988 £000
Sales of investments	1,071	702
Accrued income	234	188
Tax recoverable	—	2
Other debtors	363	606
	1,668	1,498

Notes on the Accounts

continued

9 Creditors (due within one year)

	1989	1988
	£000	£000
Purchases of investments	1,782	5,201
Third interim dividend	1,901	1,521
Taxation payable	53	—
Deferred taxation on accrued income	—	318
Other creditors	41	64
Accrued interest payable	803	2
	<u>4,580</u>	<u>7,106</u>

10 Creditors (due after one year)

The Equities Index Unsecured Loan Stock 2004 will be redeemed at an amount to be determined by the level of the FT-Actuaries All-Share Index on 30th September 2004. Interest equivalent to the yield on that Index is paid quarterly. At 31st December 1989 there were outstanding 49,594,975 units of 5p nominal.

The 4 per cent Irredeemable Debenture Stock is only repayable at par at the option of the Company and there is no fixed final redemption date.

11 Authorised Capital

The authorised capital is £56 million represented by 224,000,000 Ordinary 25p shares (1988—same).

12 Capital Reserve

	1989		1988	
	£000	£000	£000	£000
Balance at previous year end		192,221		170,673
Realised gains on investments	15,962		14,327	
Realised gains/(losses) on currency	806		(718)	
Unrealised gains on investments	41,190		8,190	
Unrealised gains on Loan Stock	253		—	
Accrued income adjustment	318		(278)	
Other capital receipts/(expenses)	—		27	
Loan Stock issue expenses (after tax)	<u>(1,162)</u>		<u>—</u>	
		<u>57,367</u>		<u>21,548</u>
		<u>249,588</u>		<u>192,221</u>

13 Revenue Reserve

	1989	1988
	£000	£000
Balance at previous year end	2,399	1,859
Surplus from Income Account	696	540
	<u>3,095</u>	<u>2,399</u>

14 Commitments and Contingent Liabilities

There are liabilities in respect of:

Commitments and partly-paid investments

Underwritings and contingent liabilities

	1989	1988
	£000	£000
Commitments and partly-paid investments	1,879	799
Underwritings and contingent liabilities	1,891	1,986
	<u>3,770</u>	<u>2,785</u>

These accounts were approved by the Board of Directors on 14th February 1990.

The Scottish American Investment Company P.L.C.

Form of Proxy

(For use by Shareholders only)

I/We

(Block letters please)

of

being a member(s) of the above-named Company, hereby appoint the Chairman of the Meeting* or

as my/our proxy to attend and vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Wednesday the 28th day of March 1990 and at any adjournment thereof.

* An alternative proxy may be named if desired.

I/We direct my/our proxy to vote as follows:

Annual General Meeting		
Resolutions	For	Against
1 To approve the Report and Accounts for the year to 31st December 1989		
2 To declare a Final Dividend		
3 To re-elect Mr J. C. Shaw as a Director		
4 To re-appoint the Auditors and authorise the Directors to fix their remuneration		
5 To increase the authorised share capital		

Please indicate with an 'X' in the appropriate spaces how you wish your votes to be cast. Unless otherwise instructed, the proxy will vote or abstain from voting as he thinks fit.

Dated this day of 1990

Signature

Notes

- 1 To be effective this form and the power of attorney or other authority, if any, under which it is signed must be lodged with The Registrars Department, The Royal Bank of Scotland plc, P.O. Box 435, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 4BR, not later than forty-eight hours before the time of the meeting.
- 2 In the case of joint holdings the vote of the senior who tenders a vote will be accepted to the exclusion of the vote of the other joint holders. Seniority for this purpose will be determined by the order in which the names stand in the Register of Members.
- 3 Execution by a Corporation must be either under seal or under the hand of an officer or attorney duly authorised.