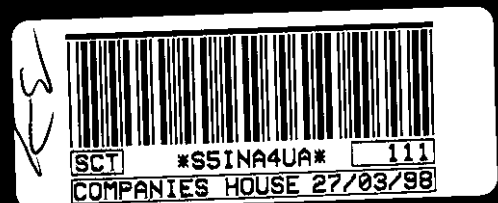


# SAINTS



The Scottish American  
Investment Company P.L.C.

Annual Report 1997



REGISTERED NO: 489B.

# Contents

- 2 Summary
- 3 Chairman's Statement
- 6 Manager's Report
- 14 List of Quoted Equity Investments
- 16 Information for Investors
- 20 The Directors of SAINTS
- 21 The SAINTS Investment Management Team
- 22 Directors' Report
- 23 Directors' Statement on Corporate Governance
- 25 Auditors' Report on Corporate Governance
- 26 Statement of Total Return
- 28 Balance Sheet
- 29 Cash Flow Statement
- 30 Notes on the Accounts
- 38 Auditors' Report
- 39 Notice of Annual General Meeting

## SAINTS

The Scottish American Investment Company P.L.C.

### REGISTERED OFFICE

45 Charlotte Square, Edinburgh EH2 4HW

### MANAGER AND SECRETARY

Stewart Ivory & Company Limited

(Regulated by IMRO)

45 Charlotte Square, Edinburgh EH2 4HW

Telephone 0131 226 3271

### REGISTRAR

The Royal Bank of Scotland plc

8 Bankhead Crossway North, Edinburgh EH11 4BR

Telephone 0131 523 6666

### AUDITORS

Chiene & Tait, CA

3 Albyn Place, Edinburgh EH2 4NQ

Telephone 0131 225 7515

## SAINTS

The Scottish American Investment Company P.L.C. (SAINTS) invests in a broad range of assets both in the UK and internationally. The Company aims to offer private investors a diversified portfolio that achieves a balance between growth of capital and a reasonable level of income. Our strategy emphasises quoted equities, with substantial overseas exposure, but we also hold fixed interest securities, unquoted shares and direct investments in property.

SAINTS was founded in 1873 and has a long history of successful investment. The Company has a large number of individual shareholders, many of whom have acquired their holdings through the SAINTS Savings Scheme, or the SAINTS PEPs.



Throughout the Report and Accounts this hand symbol points to an explanation of what follows and why it is there. It is hoped that this will help to clarify what SAINTS does and the roles and responsibilities of the Directors and the Managers.

## Summary

Asset value rose by 11.7 per cent.

Dividend for the year increased by 3.7 per cent.


£25m debenture issued.

A quarter of the Equities Index Unsecured Loan Stock repaid.

New benchmark established.

£'000	1997	1996	% change
Shareholders' Funds	518,763	464,309	+11.7%
Asset Value per Share	232.0p	207.6p	+11.7%
Dividend per Share	5.37p	5.18p	+3.7%
Share Price at Year End	191.50p	170.75p	+12.2%

# Chairman's Statement

 The Chairman's view on investment performance, corporate strategy and prospects for the coming year.

## SAINTS' SHAREHOLDERS

<i>Share capital held by</i>	%
Individuals	42.2
Trustee / Joint	0.9
Nominees	45.1
Institutions	11.8
<b>Number of shareholders</b>	<b>20,857</b>

## OUR SHAREHOLDERS

SAINTS is for the prudent personal investor who is seeking a secure balance over the long term between consistent growth of capital and income. Our shareholder register reflects the widespread demand for such performance and during recent years the relative success of the SAINTS Savings Scheme and PEPs confirms it. Shareholders include investors setting aside part of their current income to meet future expenditure whether it be school fees, special holidays or celebrations, to repay a house loan or secure their standard of living in retirement.

## THE BOARD – AND THE MANAGER

We were delighted to welcome David Price to the Board during the year. He is a former Deputy Chairman of Mercury Asset Management Group and has a wealth of knowledge and experience of professional investment and of the investment trust industry. He has contributed impressively to the policy review to which I refer below. Under our Articles of Association he retires at the forthcoming Annual General Meeting and is recommended by the Board for formal election by shareholders. Dr Morgan, who retires by rotation, is also recommended for re-election.

John Thomson was appointed Managing Director of Stewart Ivory & Company Limited, our Manager, in December 1997. He was formerly Chief Investment Manager of Standard Life and is now a key member of the SAINTS' Investment Management Team. We are already benefiting from his wide professional experience. He has just completed a review of the investment process within Stewart Ivory and has also contributed to our policy review.

Teddy Tulloch, the Investment Director of Stewart Ivory and David Shaw Stewart have assisted the Board greatly in their recent policy review and, as joint senior managers of SAINTS, have responsibility for leading its implementation.

## POLICY REVIEW

The foundations of the Board's policy and of the Manager's asset allocation and stock selection are consistency and security. We believe that pursuit of these objectives will continue to deliver sound long term returns and to ensure that SAINTS successfully rides the ups and downs of world stock markets.

In the last twelve months, however, the Board's present objectives of a comparatively high and growing dividend combined with an international portfolio have begun to place undue constraints on the Manager. Maintaining income growth at above inflation has been associated with disappointing capital growth. We have therefore taken steps, along with the Manager, to address this for the future to ensure that we continue to position SAINTS as an attractive investment.

The Board has now established an explicit point of reference – a 'benchmark' – which will be helpful to shareholders, potential new shareholders and to the Manager in assessing investment performance.

Our benchmark will be calculated by taking 65 per cent of the UK FT-SE-A All-Share Index and 35 per cent of the FT/S&P-AWI World (ex UK) Index reflecting our focus on total return and international diversification of the portfolio.

SAINTS' actual portfolio will continue to reflect active management of asset allocation and stock selection. There will be no covert index tracking. The Manager understands its obligation to provide long term actual performance better than that benchmark. In doing so, it will exploit management of liabilities, including the existing Equities Index Unsecured Loan Stock, as well as asset management. As described in last year's Report, that Loan Stock is an extremely useful type of borrowing that enables our Manager to re-balance the portfolio quickly and inexpensively by the use of Futures. Its attractions to SAINTS will be enhanced if Advance Corporation Tax (ACT) is changed next year in the way that is currently expected.

We expect that the longer term readjustment of the portfolio explained above will mean that for the next few years we will have to wait for distributable income from the portfolio to grow further. Thanks to past years' accumulated revenue reserves we expect to be able to maintain future dividends at a level no less than that of 1997.

#### RESULTS FOR 1997

The good aspects of 1997 were strong overall portfolio performance over the last six months and an encouragingly satisfactory result for the UK equity portfolio for the whole twelve months, following the reorganisation described in last year's Annual Report. This was, however, offset by a disappointing first half of the year and poor performance overall from our European and North American equity portfolios.

#### CAPITAL PERFORMANCE AGAINST INDICES

Over the year to 31st December 1997

	SAINTS' Performance (%)		Performance of Sterling-adjusted Index (%)	
UK	+19.5	+19.7	FT-SE-A All-Share	
North America	+20.3	+36.2	S & P Composite	
Continental Europe	+7.2	+27.6	FT/S&P-AWI Europe (ex UK)	
Japan	-3.1	-25.9	Tokyo Stock Exchange Index	
Pacific Rim	-27.7	-33.7	MSCI Combined Asia Pacific Free (ex Japan)	
Emerging Markets	+15.0	-10.6	MSCI Emerging Markets Free	

Income again grew strongly, enhanced by special dividends and the benefit of interest differentials between Japanese Yen borrowings and sterling investments. Dividends paid and proposed to SAINTS' shareholders will total 5.37p per share for the year, an increase of 3.7 per cent on those for 1996. This is again ahead of any of the conventional measurements of inflation and takes us through our 11th year of continuous quarterly dividend increases.

The discount to Net Asset Value at which SAINTS' shares trade remains stubbornly and disappointingly high at around 16 per cent.

While one might wish that the market price of SAINTS' shares reflected more fully its strong income performance or its quarterly dividend payments, relative capital performance seems to be a more potent influence on that discount and emphasises the importance of the re-adjusted investment policy.

It would be of considerable benefit to both SAINTS and its shareholders if investment trusts could use their capital to buy in their own shares to hold for possible future issue at a premium. The normal flow of shareholders needing to sell could be absorbed by the Trust at prices that enhanced the asset value attributable to continuing shareholders. In the meantime, of course, the combination of a discount of 16.0 per cent and a yield of 3.2 per cent combine to produce a very attractive opportunity for investors.

The Board continues to be alert to the exploitation of all opportunities which may emerge. 1997 saw changes in gearing and the use of futures and currency borrowing to hedge some portfolio exposures. I can give the assurance on behalf of all my Board colleagues that we will vigorously maintain our focus on securing continuing growth for shareholders.




SIR JOHN SHAW, *Chairman*

18th February 1998

#### OUR REPORT AND ACCOUNTS

Our new style of Annual Report introduced last year was very well received by both shareholders and investment trust analysts. We were delighted to receive a special award for 'Understanding the Investor' from the Association of Investment Trust Companies. We hope that you will find this year's Report equally helpful.

# Manager's Report

 The performance of SAINTS last year and the outlook for the future. Details of the management team are given on page 21 and the investment limits imposed on them on page 24.

## PERFORMANCE

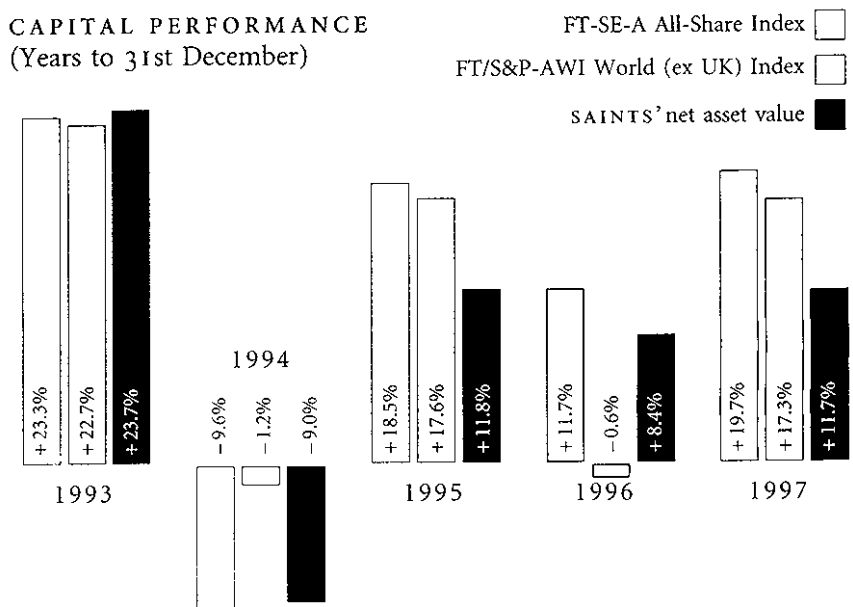
There was considerable divergence in the performance of world equity markets in 1997. Markets in the Western hemisphere enjoyed another year of strong performance, but a spreading financial crisis in Asia led to sharp falls in share prices in the Pacific region.

The net asset value of SAINTS rose by 11.7 per cent during the year. Our overseas investments held back the overall result. Both our North American and European portfolios had a disappointing year, and we also began the year with too much invested in the Far East. For some time we have maintained a very low weighting in Japan but we have kept a significant position in other Pacific equities. We reduced this during the year, and the outperformance of our portfolios also reduced the impact of the collapse of the markets in the region. Our UK portfolio had a satisfactory year, matching the gain in the All-Share Index despite an overweight position in medium and smaller sized companies.

We increased our exposure to quoted UK equities from 50 per cent to 65 per cent of Shareholders' Funds in the course of the year as share valuations looked relatively attractive on an international comparison. We also borrowed Japanese yen in the fourth quarter and converted the proceeds into sterling to benefit from the weakness in the currency. A £9.2m yen liability remained outstanding at the year end. After a poor first half, the changes in asset allocation resulted in an improving second half of the year relative to the performance of world stockmarkets.

We had expected that the level of income from the portfolio would not cover the total dividend paid to shareholders as in the previous year, but a number of special dividends coupled with the additional UK dividends from the increased level of investment in the UK covered the potential shortfall. In the longer term we expect

## CAPITAL PERFORMANCE (Years to 31st December)



## TWENTY LARGEST EQUITY HOLDINGS

<i>Company</i>	<i>Value £'000</i>	<i>Main Activity</i>
Lloyds TSB	18,101	Banking & financial services
Independent Insurance Group	17,212	Insurance
Shell Transport & Trading	14,960	Integrated oil company
Barclays Bank	13,106	Banking & financial services
Glaxo Wellcome	10,368	Pharmaceuticals
Value & Income Trust	10,104	Specialist investment trust
British Telecom	9,211	Telecommunications
British Petroleum	8,800	Integrated oil company
SmithKline Beecham	8,253	Pharmaceuticals
Zeneca	7,479	Pharmaceuticals
Unilever	7,301	Consumer products
South West Water	6,956	Water utility
Derwent Valley Holdings	6,852	Property
Bank of Scotland	6,720	Banking & financial services
Tesco	6,435	Food retailer
Scottish Power	6,150	Electricity utility
United Utilities	6,017	Water & electricity utility
National Westminster	5,920	Banking & financial services
Hays	5,887	Specialist business services
United News & Media	5,766	Media group
<b>35.0 per cent of shareholders' funds</b>	<b>181,598</b>	

that our shift to holding faster growing companies in the UK will produce steady growth of income from the portfolio. Such companies tend to raise dividends more rapidly than those that have higher initial yields.

ALLOCATION OF PORTFOLIO BY INDUSTRY SECTOR  
AS % OF TOTAL ASSETS LESS CURRENT LIABILITIES

	1997	1996
	%	%
Financials	20	15
Services	20	25
Consumer Goods	15	14
General Industrials	15	20
Utilities	7	7
Fixed Interest	7	6
Mineral Extraction	6	4
Investment and Unit Trusts	4	5
Properties	3	1
Other	3	3

'Other' includes unquoted equities, subsidiaries, futures and net current assets.

## UK PORTFOLIO

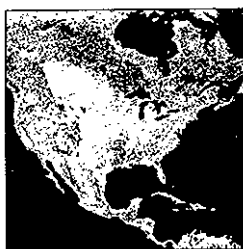


The UK economy continued to grow strongly in 1997, with consumption boosted by windfall receipts from the demutualisations of building societies. The markets responded with great enthusiasm to the key decision to grant operational independence to the Bank of England. Investors were also encouraged by the commitment to join a 'sustainable'

European monetary union, as this offers the prospect of UK yields converging towards the lower levels available on German long term bonds.

Large companies led the UK market, in particular financials, utilities and pharmaceuticals, as investors focused on the reliability of profits growth at a time when the strength of sterling was handicapping industrial manufacturers. We do have significant weightings in these three critical sectors, but we also have an important bias towards medium sized growth companies, and it was pleasing that some of the best performing individual companies in the UK portfolio were relatively small, such as Independent Insurance, Greggs, Cattles Holdings and Yates Brothers Wine Lodges.

## NORTH AMERICAN PORTFOLIO



North American stock markets had another excellent year in a remarkably benign economic environment with both growth higher and inflation lower than originally forecast. Gains in productivity neutralised the inflationary effects of falling unemployment and rising earnings, and the financial crisis in Asia also reduced the pressure for a further rise

in short term interest rates. Our own emphasis on medium sized companies with primarily domestic earnings held back performance, particularly during the first quarter, but we have broadened the portfolio to reduce the level of sector risk.

## CONTINENTAL EUROPEAN PORTFOLIO



The movement towards monetary union continues to be the dominant theme in Continental Europe, and the low level of interest rates required to stimulate the core economies has provided firm support for investments across the region. In France and Germany domestic consumption has remained dull and it is increased export

demand that has generated a revival in economic growth. After two years of excellent outperformance, our own European portfolio was well behind the gain in the index in 1997, and we have readjusted our holdings to obtain a better balance between an historic focus on growth companies and the restructuring opportunities that are now leading markets.

## % OF SHAREHOLDERS' FUNDS

	1997	1996
Denmark	—	0.2
France	1.5	3.3
Germany	1.5	0.9
Italy	1.2	0.7
Netherlands	1.6	2.0
Spain	0.3	0.3
Sweden	0.2	1.3
Switzerland	1.4	0.6
Unit Trust	0.8	0.9
<b>Total</b>	<b>8.5</b>	<b>10.2</b>

## JAPANESE PORTFOLIO



A difficult investment environment deteriorated markedly as economic instability spread across Asia. Events have overtaken the Japanese government's original priority of reducing the excessive budget deficit by raising taxation, and the subsequent measures to revive demand have appeared inadequate. Our Japanese exposure has fared much better than the market through a heavy concentration on exporting companies which have benefited from the weakness of the yen. We have taken a more selective approach in the second half of the year as competition has sharpened with the devaluations elsewhere.

## PACIFIC RIM AND EMERGING MARKETS



## % OF SHAREHOLDERS' FUNDS

	1997	1996
Asia	2.2	8.2
Australasia	0.5	2.3
Eastern Europe	0.7	0.4
Latin America	0.9	0.3
Investment Trusts	1.2	2.6
Unit Trust	0.5	1.1
<b>Total</b>	<b>6.0</b>	<b>14.9</b>

Currency instability resulting from excessive investment financed by US dollar borrowings led to a traumatic year in Asia. The initial crisis in Thailand extended across the region, bringing sharp increases in interest rates to shore up plunging currencies and threatening a wave of bankruptcies. Large declines in share prices were experienced across the region. Our own portfolio performed better than the index, and the reduction in our weighting in the course of the year limited the damage in the final quarter.

Other emerging markets also fell back in this climate but recovered to some extent as Wall Street and European markets stabilised. Our Emerging Markets holdings also performed well despite the volatile markets.

## UNQUOTED PORTFOLIO

It was a profitable year for our unquoted portfolio. Our holding in Noble Grossart, the Edinburgh based merchant bank was sold for £3,000,000, a substantial profit over the cost of £52,000. SAINTS was a founder shareholder in the bank and has enjoyed a long and profitable relationship. SAINTS was the last remaining institution with a holding and, consistent with our policy of reducing the unquoted portfolio, we took the opportunity to sell this investment. QF Realisations, a fund established to back research projects at Edinburgh University, was liquidated after the shares in the now quoted Vision Group were transferred to SAINTS. A small investment was made in a successor project, Quantum Fund, to back research projects at Scottish Universities generally.

A further £3m was invested in the International Mezzanine Investment Fund which provides secondary finance to small companies. This completes our commitment of £6.1m to the Fund.

## SAINTS' UNQUOTED EQUITY PORTFOLIO

<i>Company</i>	<i>% held</i>	<i>Cost £'000</i>	<i>Value £'000</i>	<i>Main Activity</i>
IMI 8% 2003 Loan Stock	4.4‡	{ 6,117	6,077	Mezzanine finance
IMI Common Stock [NOTE 1]	4.4‡			
Stewart Ivory Holdings 'C' Ord [NOTE 2]	100†	1,100	3,000	Investment managers
Martenby Ordinary	43.5†	{ 879	876	Hotel owner
Martenby Preference	42.2†			
NIF No. 8 Units	3.8*	538	500	Japanese venture capital fund
The Quantum Fund	33.3†	67	67	Venture capital
Scottish Knowledge	1.4†	30	30	Educational products
		8,731	10,550	2.0 per cent of shareholders' funds

NOTE 1: Cost of investment at 31st December 1996 £2,911,000; value £2,734,000

NOTE 2: Represents 24.2 per cent of total issued share capital

Registered or Incorporated in: † Scotland ‡ Netherlands Antilles \* Japan

Three new property investments were made at a total cost of £8.5m. One investment was in Scotland and two in England. The portfolio was revalued at the year end providing an uplift of 8 per cent. The portfolio is managed by OLIM Ltd, with whom SAINTS has had a long term connection through our holding in Value and Income Trust, which is managed by OLIM. It had always been our intention to fund the properties with a debenture and this we did in April.

## SAINTS' PROPERTY PORTFOLIO

<i>Address</i>	<i>Type</i>	<i>Tenant</i>
Alnwick – 24 Bondgate	Bank	Lloyds Bank plc
Chard – 27 Fore Street	Bank	Lloyds Bank plc
Crediton – 30 High Street	Bank	Lloyds Bank plc
Dundee – Reform Street/Albert Square	Public House	J D Wetherspoon plc
Edinburgh – 44/45 Charlotte Square	Office	Stewart Ivory & Company Limited
Kettering – 2 Market Street	Bank	Lloyds Bank plc
Milton Keynes – The Approach	Hotel	Friendly Hotels plc
Monmouth – 18 Monnow Street	Bank	Lloyds Bank plc
Newquay – 10 Central Square	Bank	Lloyds Bank plc
Nottingham – Exchange Bar Diner	Public House/ Restaurant	Morland plc
Oswestry – 32 Church Street	Bank	Lloyds Bank plc
Portsmouth – 2 Guildhall Walk	Public House	J D Wetherspoon plc
Reading – 12 Queen Victoria Street	Restaurant	Brightreasons Ltd (Pizzaland)
Tonbridge – 121 High Street	Bank	Lloyds Bank plc
Torquay – The Willows	Public House	Allied Domecq plc (Ind Coope)
Weybridge, Surrey – 2 Hanger Hill	Restaurant	City Centre Restaurants Limited
Winchester – 1 High Street	Public House	Luminar plc

## BORROWINGS

In April, we borrowed £25m through the issue of a 25 year debenture stock at a yield of 8.05 per cent. The proceeds are being used to fund the property portfolio. Over the last 18 months £15m has been invested in property. The balance is invested in conventional gilts, while awaiting favourable investment opportunities in property.

This is the first long term borrowing we have made since the issue of £60m of Equities Index Unsecured Loan Stock in 1989. The capital and 'interest' due on the Equities Index Unsecured Loan Stock move in line with the All-Share Index. As we have invested the funds raised in UK equities, the effective risk in the borrowing is low.

The changes made to tax credits on dividends in the July 1997 Budget made the existence of the Loan Stock less attractive, and we took the opportunity to buy in 24 per cent of the outstanding Loan Stock for £27m. In due course, in the November green paper, the Chancellor reduced the overall effect of these changes by proposing to abolish ACT from April 1999. From April 1999 the rate of interest on the Loan Stock will therefore be based on the All-Share net dividend yield, with no grossing up. As a result the remaining Loan Stock represents an efficient form of borrowing for SAINTS.

During the year we made use of the existence of the Loan Stock to increase the effective exposure to the UK equity market by matching part of the liability with an FT-SE future contract. At the year end we held an FT-SE future contract matching about 30 per cent of the liability. This raised the effective exposure to the UK market by an amount equivalent to 5 per cent of shareholders' funds, introducing a further small amount of direct gearing.


## CURRENCY EXPOSURE AT 31st DECEMBER 1997

	1997 %	1996 %
UK (less borrowings)	71.7	57.9
North America	12.1	10.2
Continental Europe	9.7	10.8
Japan (less borrowings)	0.5	3.0
Pacific Rim/Emerging Markets	6.0	18.1
<b>Shareholders' Funds</b>	<b>100.0</b>	<b>100.0</b>

## INVESTMENT POLICY

Stewart Ivory made a significant appointment at the end of 1997 with the recruitment of John Thomson as our Managing Director. Following an initial review of our investment process, he has reaffirmed our belief that a strategy of selecting companies which have the ability to sustain above average growth of profits can deliver long term outperformance. However, he is also concerned that we should ensure that our definition of such stocks does not become too narrow in terms of sector or size of company.

In managing SAINTS we are aware that it is becoming increasingly difficult to reconcile the payment of a relatively high and growing dividend with good capital performance from a diversified

 Details of the revised policy and performance benchmark to be adopted by the Manager.

portfolio of international shares. In recognition of this the Board of SAINTS has asked us to ensure that the prospects for growth of capital are not sacrificed to the demands of maintaining an over ambitious level of income. Over the last two years we have already substantially reorganised our portfolio of UK equities to place a greater emphasis on companies with above average prospects for growth of earnings, and the alleviation of the income requirements from the portfolio will enable us to take this process further.

The new benchmark for performance which the Board has established reflects this shift in policy, while providing an appropriate spread of assets for a typical private investor. We will in no way feel bound to mirror the benchmark in determining the breakdown of our allocation of assets between different markets, but it will provide our investors with a good indication of the thrust of our strategy, and the target of our investment policy.

#### SAINTS' NEW BENCHMARK

65% UK FT-SE-A ALL-SHARE INDEX	35% FT/S&P-AWI WORLD (EX UK) INDEX
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#### OUTLOOK

Equities are vulnerable to any economic setback that impacts earnings, and it is not surprising that investors have shown considerable anxiety that Far Eastern deflation will spread to other geographical regions. The problems in Asia will certainly reduce the overall growth in the world economy this year but should also hold down inflation. The strength of bonds in such an environment will offer support to equity valuations where companies are able to deliver reasonable growth of earnings.

Although there are grounds for some caution in assessing earnings' prospects, the UK market does not appear overvalued in an international context. Corporate activity and share buy backs should reinforce the high levels of liquidity in institutional portfolios, limiting the extent of any market weakness. The concentration of outperformance in the very largest stocks and a limited number of sectors last year has left many medium sized and smaller companies attractively valued.

The growth of profits in the US has provided much of the impetus for the performance of equities, and we expect any disappointments to prove to be more specific to individual companies than to the market as a whole. Corporate activity may not reach last year's heights but the outlook for bonds is encouraging as inflationary pressures remain subdued. The low bond yields should support a market that could be considered overvalued in terms of historic price earnings multiples.

European equities are also favoured by a positive economic background, despite sustained fiscal tightening to meet the criteria for monetary union. Peripheral markets are continuing to benefit from the trend towards converging bond yields and restructuring, combined with the realisation of shareholder value, looks set to remain the principal investment theme.

## SUMMARY OF VALUATION AT 31st DECEMBER 1997

	1997 %	1996 %
<i>Equities</i>		
UK	77.1*	71.4*
North America	12.1	10.2
Continental Europe	8.5	10.2
Japan	2.2	2.9
Pacific Rim/Emerging Markets	6.0	14.9
Unquoted	2.0	2.3
	<b>107.9</b>	<b>111.9</b>
Fixed Interest	9.1	7.1
Properties	3.4	1.7
Subsidiary Companies	0.6	0.6
Futures	0.3	0.2
Net Current Assets	0.9	0.1
	<b>122.2</b>	<b>121.6</b>
<i>Less:</i>		
Equities Index Unsecured Loan Stock	-17.4	-21.5
Debenture Stocks	-4.8	-0.1
<b>Shareholders' Funds</b>	<b>100.0</b>	<b>100.0</b>

\*The level of investment in UK equities net of the Equities Index Unsecured Loan Stock and the FTSE futures hedge of part of the Loan Stock was 64.6% of shareholders' funds (50.1% in 1996).

In Japan, a faltering economic revival has hinged on maintaining export growth. Clearly demand for Japanese products has fallen sharply in the rest of Asia, and at the same time competitive pressures have risen from devalued currencies across the region. The reversal of such a deep rooted deflationary trend would require a very substantial stimulative package and we would not anticipate any increase in our Japanese weightings until we see some prospect of this.

Other Pacific markets remained beset by the financial difficulties that enveloped them in the second half of last year. There is likely to be a significant rally at some stage after such precipitate falls, but there seems to be no immediate need to rebuild long term positions, either in Asia or indeed in other emerging markets tainted by the prospect of similar problems.

Our overall outlook at this stage remains fairly cautious. We have retained a relatively defensive allocation of assets, but the prospect of some modest gains remains reasonable, and we do not anticipate increased weightings in bonds and cash holdings unless equities move strongly ahead in the first half. We favour the UK market on an international comparison, and in particular those companies which have the capacity to deliver sustained growth of earnings in a volatile and uncertain environment.

TEDDY TULLOCH  
DAVID SHAW STEWART  
18th February 1998

# List of Quoted Equity Investments AT 31ST DECEMBER 1997



## UNITED KINGDOM 77.1%

	Value £000
<b>EXTRACTIVE INDUSTRIES 0.5%</b>	
RTZ Corporation	2,621
<b>OIL, INTEGRATED 4.6%</b>	
British Petroleum	8,800
Shell Transport & Trading	14,960
<b>BUILDING &amp; CONSTRUCTION 1.0%</b>	
Amec 6.5% Cv. Pref. 2009	3,220
Redrow	1,812
<b>BUILDING MATERIALS AND MERCHANTS 1.2%</b>	
Craig & Rose*	161
RMC Group	2,550
Wolseley	3,622
<b>CHEMICALS 1.0%</b>	
Allied Colloids	1,675
Amber Industrial*	639
Laporte	3,008
<b>DIVERSIFIED INDUSTRIALS 1.5%</b>	
Tomkins	4,365
Williams Holdings	3,380
<b>ELECTRONIC AND ELECTRICAL EQUIPMENT 2.5%</b>	
Bowthorpe	3,750
Dowding & Mills	1,672
Fairey Group	1,795
GEC	3,945
TLG	1,106
Vision Group	768
<b>ENGINEERING 3.9%</b>	
Carclo Engineering	2,643
Domnick Hunter	1,722
Halma	1,648
McKechnie	3,224
Rotork	2,700
Servomex	757
Smiths Industries	5,512
Spirax-Sarco Engineering	1,843
<b>PAPER, PACKAGING AND PRINTING 0.5%</b>	
Bemrose	2,431
<b>TEXTILES &amp; APPAREL 0.3%</b>	
Lamont Holdings*	1,380
<b>ALCOHOLIC BEVERAGES 0.5%</b>	
Diageo	2,574
<b>FOOD PRODUCERS 2.8%</b>	
Cadbury Schweppes	3,681
Tate & Lyle	3,514
Unilever	7,301
<b>HOUSEHOLD GOODS 1.7%</b>	
Peter Black	3,144
Reckitt & Colman 9½% Cv. 2005	5,515
<b>HEALTH CARE 0.6%</b>	
UniChem	3,344
<b>PHARMACEUTICALS 5.7%</b>	
Celltech	671
Galen Holdings	1,709
Glaxo Wellcome	10,368

Value £000

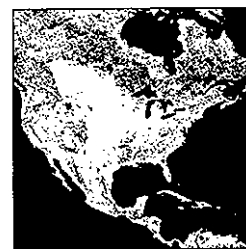
## PHARMACEUTICALS (CONTINUED)

William Ransom & Son*	1,102
SmithKline Beecham 'A'	8,253
Zeneca Group	7,480
<b>TOBACCO 1.1%</b>	
B.A.T. Industries	5,540
<b>DISTRIBUTORS 2.0%</b>	
Brammer	2,885
BSS Group	2,270
Pendragon	2,637
Time Products	2,230
<b>LEISURE AND HOTELS 0.8%</b>	
Granada Group 7½% Cv. Pref.	4,010
<b>MEDIA 2.2%</b>	
EMAP	2,722
EMI	1,280
Reuters Holdings	1,662
United News and Media	5,766
<b>RETAILERS, FOOD 2.5%</b>	
Greggs	3,618
J Sainsbury	3,021
Tesco	6,435
<b>RETAILERS, GENERAL 2.5%</b>	
Argos	1,539
Boots	4,382
N Brown Group	2,513
Dixons 5% Cv Prf 03/07	1,625
Marks & Spencer	2,995
<b>BREWRIES, PUBS AND RESTAURANTS 2.5%</b>	
Greenalls Group	3,073
Whitbread	5,346
Yates Bros. Wine Lodges	4,762
<b>SUPPORT SERVICES 4.3%</b>	
Aggreko	1,186
Davis Service Group	5,598
Dawson Holdings*	4,751
Hays	5,887
National Parking Corporation	2,875
Christian Salvesen	748
Stat-Plus Group*	1,250
<b>TRANSPORT 0.7%</b>	
BAA	996
Peninsular & Orient Dfd.	2,770
<b>ELECTRICITY 2.0%</b>	
British Energy	4,230
Scottish Power	6,150
<b>GAS DISTRIBUTION 0.9%</b>	
British Gas	3,385
Centrica	1,253
<b>TELECOMMUNICATIONS 2.3%</b>	
British Telecom	9,211
Cable & Wireless	2,675
<b>WATER 2.5%</b>	
South West Water	6,956
United Utilities	6,017
<b>BANKS, RETAIL 9.8%</b>	
Bank of Scotland	6,720
Barclays Bank	13,106
Halifax	2,521
Lloyds TSB	18,101
National Westminster	5,920
Northern Rock	4,619
<b>INSURANCE 4.9%</b>	
Commercial Union	4,670
General Accident	3,692
Independent Insurance Group*	17,212

Value £000

## LIFE ASSURANCE 2.0%

Legal & General	4,655
Prudential	5,505
<b>OTHER FINANCIAL 0.8%</b>	
Cattles Holdings	4,050
<b>PROPERTY 2.7%</b>	
Capital & Regional	1,122
Derwent Valley Holdings*	6,852
Great Portland Estates	2,798
Pillar Property	3,562
<b>INVESTMENT TRUSTS 2.3%</b>	
Electra Investment Trust	1,063
OLIM Convertible Trust	190
Reabourne Merlin Life Sciences	840
Value & Income Trust* (13.7% of class)	10,104



## NORTH AMERICA 12.1%

<b>EXTRACTIVE INDUSTRIES 0.4%</b>	
Schlumberger	2,153
<b>OIL EXPLORATION AND PRODUCTION 0.3%</b>	
Noble Affiliates	1,542
<b>BUILDING MATERIALS AND MERCHANTS 0.3%</b>	
Sherwin-Williams	1,518
<b>ELECTRONIC AND ELECTRICAL EQUIPMENT 1.0%</b>	
Cisco Systems	2,035
Linear Technology	1,189
Molex Class 'A'	2,212
<b>ENGINEERING 0.6%</b>	
Illinois Tool Works	3,216
<b>ENGINEERING, VEHICLES 0.6%</b>	
Snap-on	3,420
<b>PAPER, PACKAGING AND PRINTING 0.3%</b>	
Bemis	1,486
<b>HEALTH CARE 2.1%</b>	
Cardinal Health	3,881
Health Care & Retirement	3,180
Steris	1,621
Stryker	2,037
<b>PHARMACEUTICALS 0.5%</b>	
Johnson & Johnson	1,682
Merck	775
<b>TOBACCO 0.4%</b>	
Philip Morris	2,228
<b>DISTRIBUTORS 0.4%</b>	
Viking Office Products	2,003
<b>RETAILERS, GENERAL 1.9%</b>	
AutoZone	1,410
Cendant	2,662
Home Depot	3,972
Walgreen	1,716

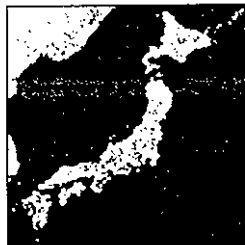
	Value £000
<b>SUPPORT SERVICES 1.1%</b>	
BMC Software	1,195
Cintas	1,709
First Data	2,047
Oracle	1,083
<b>TELECOMMUNICATIONS 0.3%</b>	
SBC Communications	1,336
<b>BANKS RETAIL 0.7%</b>	
BankAmerica	1,996
Bank of New York	1,581
<b>INSURANCE 0.4%</b>	
Chubb	2,160
<b>LIFE ASSURANCE 0.5%</b>	
SunAmerica	2,468
<b>OTHER FINANCIAL 0.3%</b>	
Green Tree Financial	1,401



### CONTINENTAL EUROPE 8.5%

FRANCE 1.5%; GERMANY 1.5%; ITALY 1.2%; NETHERLANDS 1.6%; SPAIN 0.3%; SWEDEN 0.2%; SWITZERLAND 1.4%; UNIT TRUST 0.8%	
<b>OIL INTEGRATED 0.3%</b>	
Total B	1,323
<b>BANKS, RETAIL 1.3%</b>	
Banco Popular	1,699
Bayer Vereinsbank	1,176
Credito Italiano	1,125
Istituto Mobiliare Italiano	1,624
Nordbanken Holding AG	905
<b>OTHER FINANCIAL 0.2%</b>	
ING Groep	1,280
<b>CHEMICALS 0.7%</b>	
CIBA Speciality Chemicals	1,088
SKW Trostberg	2,625
<b>ENGINEERING 0.4%</b>	
Linde	2,028
<b>ELECTRICITY 0.2%</b>	
Veba AG	1,242
<b>FOOD MANUFACTURE 0.2%</b>	
Nutreco Holding	1,039
<b>HOUSEHOLD GOODS 0.3%</b>	
SEB	1,695
<b>HEALTHCARE 0.5%</b>	
Luxottica ADS	2,659
<b>PHARMACEUTICALS 1.2%</b>	
Novartis	3,662
Roche Holdings	2,418
<b>DISTRIBUTORS 0.3%</b>	
Manutan	1,455
<b>MEDIA 0.9%</b>	
Wolters Kluwer	4,711
<b>RETAILERS, FOOD 0.7%</b>	
Comptoirs Modernes	3,423
<b>SUPPORT SERVICES 0.1%</b>	
SAP Non Vtg Prf	691

	Value £000
<b>ELECTRONICS &amp; ELECTRICAL EQUIPMENT 0.2%</b>	
Philips Electronic	948
<b>TELECOMMUNICATIONS 0.2%</b>	
Telecom Italia	971
<b>UNIT TRUST 0.8%</b>	
Stewart Ivory European Smaller Companies Fund	4,108



### JAPAN 2.2%

<b>ENGINEERING 0.4%</b>	
Bridgestone	516
Kurita Water Industries	403
Nitto Kohki	200
Sumitomo Electric Inds	832
<b>ELECTRONIC AND ELECTRICAL EQUIPMENT 0.9%</b>	
Hirose Electric	655
Hoya Corp	402
Keyence	1,092
Omron	544
Ricoh	644
Sony	922
TDK	552
<b>ENGINEERING, VEHICLES 0.1%</b>	
Suzuki Motor Corporation	496
<b>HOUSEHOLD GOODS 0.1%</b>	
Rinnai	349
<b>PHARMACEUTICALS 0.2%</b>	
Takeda Chemical	1,026
<b>TELECOMMUNICATIONS 0.2%</b>	
NTT	1,047
<b>BANKS RETAIL 0.2%</b>	
Bank of Tokyo - Mitsubishi	589
Sanwa Bank	457
<b>OTHER FINANCIAL 0.1%</b>	
Promise	843



### PACIFIC RIM/ EMERGING MARKETS 6.0%

ARGENTINA 0.2%; AUSTRALIA 0.4%; CHILE 0.3%; HONG KONG 1.3%; HUNGARY 0.4%; KOREA 0.2%; MALAYSIA 0.1%; MEXICO 0.4%; NEW ZEALAND 0.1%; PHILIPPINES 0.2%; RUSSIA 0.3%; SINGAPORE 0.3%; THAILAND 0.1%; INVESTMENT TRUSTS 1.2%; UNIT TRUST 0.5%	
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	Value £000
<b>EXTRACTIVE INDUSTRIES 0.1%</b>	
Fletcher Challenge Forest Division	694
<b>DIVERSIFIED INDUSTRIALS 0.6%</b>	
Haw Par Ltd	1,258
Perlis Plantations	558
Quinenco ADR	1,573
<b>ELECTRONICS &amp; ELECTRICAL EQUIPMENT 0.4%</b>	
Samsung Electric GDR	302
V Tech Holding	1,577
<b>FOOD PRODUCTS 0.1%</b>	
Thai President Food	594
<b>PHARMACEUTICALS 0.4%</b>	
Gedeon Richter GDS	2,120
<b>ALCOHOLIC BEVERAGES 0.0%</b>	
Southcorp Holdings	128
<b>PAPER, PACKAGING AND PRINTING 0.5%</b>	
Kimberly Clark De Mexico ADR	1,962
New Island Printing Holdings	604
<b>BREWERS 0.3%</b>	
Quinsa Prf ADR	329
Quinsa	984
<b>LEISURE AND HOTELS 0.3%</b>	
CDL Hotels	1,659
<b>MEDIA 0.4%</b>	
South China Morning Post	855
Television Broadcasting	1,335
<b>RETAILERS, GENERAL 0.1%</b>	
Dickson Concepts	620
<b>TRANSPORT 0.3%</b>	
Brambles	904
Tibs Holdings	411
<b>ELECTRICITY 0.3%</b>	
UES GDR	1,459
<b>TELECOMMUNICATIONS 0.2%</b>	
SK Telecom ADR	1,011
<b>OTHER FINANCIAL 0.3%</b>	
Benpres GDR	895
Lend Lease	891
<b>INVESTMENT TRUSTS 1.2%</b>	
The Scottish Oriental Smaller Companies Trust* (39.3% of class)	5,525
The Scottish Oriental Smaller Companies Trust Warrants	310
Sri Lanka Growth Fund	251
<b>UNIT TRUST 0.5%</b>	
Stewart Ivory Emerging Markets Fund	2,467

#### NOTES

- (1) Percentages indicate the proportion of shareholders' funds.
- (2) Holdings of under £100,000 have been omitted.
- (3) Holdings in UK companies of 3 per cent, or over, of class are indicated by an asterisk\*.
- (4) Holdings in Investment Funds of 10 per cent, or over, of class are given in brackets.

## Information for Investors



Advantages of investing in an investment trust.

The purpose of investment trusts is to invest in other companies and to earn a better return in terms of capital and income than investors would be able to achieve on their own. Investment trusts are managed by professional fund managers who are under the control of a Board of Directors. The fund managers make the investment decisions on behalf of the shareholders and have the resources to monitor the performance of companies and the behaviour of markets. The larger international investment trusts, such as SAINTS, can therefore build up a portfolio of shares in different regions of the world and in a variety of companies in order to diversify risk.

Investment trusts have to comply with Companies Act requirements and must have their Annual Accounts audited by independent auditors. As investment trusts are themselves quoted on the Stock Exchange they have to comply with the London Stock Exchange Listing Rules and the Cadbury Code of Best Practice for Corporate Governance.

A detailed explanation of the steps taken by your Directors to comply with these regulations is given on pages 23 and 24.

SAINTS is a member of the Association of Investment Trust Companies (AITC) which produces a range of booklets and monthly statistics on investment trusts. These can be obtained by contacting: AITC, Durrant House, 8-13 Chiswell Street, London EC1Y 4YY  
Tel: 0171 282 5555.



How you can invest in SAINTS and what you can expect from this investment.

You can buy shares in SAINTS by the same means as any other listed company. You may ask a stockbroker or instruct a professional adviser (eg. a lawyer or accountant) to purchase shares on your behalf. Alternatively, you may wish to invest directly through the SAINTS Savings Scheme or PEPs.

A brief explanation of these products is given below; detailed brochures on both are available from Stewart Ivory.

### RISK WARNING

Please bear in mind that the value of shares and the income that they produce can fluctuate and that changes in currency rates may cause the value of your investment to fall or rise. Past performance is not necessarily a guide to future performance and it is possible that if the share price falls, you may not recover all of your original investment. Similarly, tax rates and reliefs as well as the tax treatment of PEPs are subject to change by future legislation.

### THE SAINTS SAVINGS SCHEME

The Scheme is designed to be a simple and flexible way of investing in SAINTS, allowing both regular saving and lump sum investment. The minimum monthly investment is £50 and the minimum lump sum investment is £500.

### THE SAINTS PEPs

The Company satisfies the requirements for investment of up to £6,000 in a Personal Equity Plan (PEP) in each tax year. Any capital returns or income received within a PEP scheme are free from all taxation. It is the present intention of the Directors that the Company should continue to qualify for this status.

The Government announced its intention in the July 1997 Budget to introduce Individual Savings Accounts (ISAs) and it is likely that PEPs will cease to be available from April 1999. Once the consultation process is completed and final details of the new ISAs

are published we will write to all PEP holders outlining the options available to them.

You can currently choose between two separate PEPs: the New SAINTS PEP and the SAINTS Mixed PEP. With the New SAINTS PEP your investment is placed entirely in SAINTS' shares. The SAINTS Mixed PEP offers the opportunity to combine shares in SAINTS itself with a portfolio of shares in UK companies which are chosen by Stewart Ivory. The minimum lump sum investment in the PEPs is £1,000 and the maximum is £6,000 in each tax year. There is also a monthly investment facility with a minimum subscription of £50.



Explanation of the relationship between the share price and net asset value.

#### SHARE PRICE AND NET ASSET VALUE

The difference between the share price of SAINTS and the Net Asset Value (NAV) of the underlying assets could affect your capital return. In contrast to a unit trust where the cost and value of an investment is determined directly by the underlying assets, the share price of an investment trust such as SAINTS is affected by market sentiment towards the company and the markets in which it invests – not just by the actual value of its assets. This means that the investor is often able to buy shares for less than their underlying net asset value (if the shares are trading at what is known as a discount to that net asset value).

If you buy SAINTS' shares when they are at a discount, the value of the assets which are working for you is greater than the price you pay for them. If the discount on SAINTS' shares narrows after purchase, you will benefit as the return which you receive if you sell your shares will be greater than the increase in net asset value over the period you held your shares. However, if the discount widens, the converse will apply.

#### WHAT YOU CAN EXPECT FROM YOUR INVESTMENT

The objective of the Company is to achieve capital growth in the value of shareholders' investments and at the same time to maintain a reasonable level of income.

The return in terms of the value of your investment in any one year will be the difference between the share price at the end of that year compared to the price at the start. This will reflect the investment performance of the underlying assets held by the Company but also any movement in the discount. The share price return in percentage terms for the current year was 12.2 per cent, aided slightly by a reduction in the discount from 17.8 per cent to 17.5 per cent. Over the same period net asset value grew by 11.7 per cent. This represents the capital return as shown on page 27 together with the revenue retained for the year.


Income return is measured in terms of the dividends received by you during the year. Unlike most other UK companies which pay dividends once or twice a year, SAINTS makes quarterly distributions to its shareholders. This gives SAINTS' shareholders the benefit of a regular income stream and the advantage of receiving their dividend more frequently and earlier than the norm. The dividend details for 1997 are shown in the accompanying table.

#### DIVIDEND PAYMENTS FOR 1997

	Net	Gross
First interim	1.32p	1.65p
Second interim	1.34p	1.67p
Third interim	1.35p	1.69p
Final payable 3.4.98	1.36p	1.70p
<b>Total</b>	<b>5.37p</b>	<b>6.71p</b>

## HOW YOU ARE TAXED

## 1: CAPITAL

 Taxation of capital gains from your investment.

As an investment trust, SAINTS itself pays no capital gains tax. This means that, while assets remain invested in SAINTS, they are managed free of such tax. However, should you decide to sell your SAINTS' shares, you may be subject to capital gains tax. As an individual, you pay no capital gains tax on the total net gains from all sources in any one year up to £6,500. But any gains in excess of £6,500 are chargeable at your highest rate of tax, a maximum 40 per cent. These figures apply for the fiscal year ending 5th April 1998.

The cost of investments for capital gains tax purposes is adjusted in line with inflation. The basis of the calculation is the change in the Retail Price Index (RPI) from the time of purchase to the time of sale.


If you buy shares on a monthly basis through the SAINTS Savings Scheme, you may treat the shares you have acquired over the calendar year as if they had all been bought at the July purchase date, using the price paid at that time.

If you held SAINTS' shares or the debenture stock prior to 1st April 1982 you can currently choose to substitute the 31st March 1982 market value for your original purchase cost if this would reduce your capital gains tax liability. The following market values at 31st March 1982 may therefore be helpful in calculating your capital gains tax liability:

ORDINARY SHARES: 33.125P *Adjusted for present capital.*


DEBENTURE STOCK: £23.25.

## 2: INCOME

 Taxation of dividends from SAINTS

The dividends you receive from your SAINTS' shares are taxed as income. If you are a lower (20 per cent) or a basic rate (23 per cent) tax payer you will have no further liability to tax. This is because the dividend you receive will already have had the necessary amount of tax deducted from it. If you pay tax at the higher rate (40 per cent), your dividends should be declared on your Tax Return and you will be liable to a further amount of tax. If you do not pay tax on income, you may be entitled to a tax refund, and this can currently be recovered from the Inland Revenue.

## QUARTERLY DIVIDEND DATES FOR 1998

 Information on dates of dividends and publication of results.

	<i>Final 1997</i>	<i>First Interim*</i>	<i>Second Interim*</i>	<i>Third Interim*</i>
Dividend announced	11.2.98	15.4.98	15.7.98	21.10.98
Ex-dividend date	2.3.98	26.5.98	1.9.98	23.11.98
Record date	6.3.98	1.6.98	7.9.98	27.11.98
Dividend paid	3.4.98	3.7.98	5.10.98	6.1.99

\*Anticipated dates

The *ex-dividend* date is the date on which entitlement to receive the next dividend is established. The *record date* is the date on which shares must be registered following purchase to receive the dividend direct. Otherwise you will have to claim it from the agent through whom you purchased your shares.

## INTEREST

Interest is paid on the Equities Index Unsecured Loan Stock in April, July, October and January. Interest on the 4 per cent Debenture Stock is paid in May and November and on the 8 per cent Debenture Stock in April and October.

## ANNOUNCEMENTS OF RESULTS AND REPORTS

SAINTS' results for the half year to 30th June will be announced in mid July and the results for the year to 31st December will be announced in mid February. The Interim Report will be posted to shareholders in July of each year and the Annual Report in February.

## WHERE TO FIND SAINTS' SHARE PRICE

SAINTS' share price appears daily in the Investment Trust Sector of the following newspapers under the abbreviation 'Scot.Amer': the *Financial Times*, *The Guardian*, *The Times*, *The Independent*, *The Scotsman*, *The Herald*, *The Daily Telegraph* and the *Daily Mail*.


## THE INTERNET

SAINTS' site on the Internet provides up-to-date information on the current share price, net asset value and discount as well as full information on the Savings Scheme and PEPs. We hope you will visit the site and pass on any comments to enable us to provide the service you are looking for: [www.stewartivory.co.uk](http://www.stewartivory.co.uk)

## FURTHER INFORMATION

If you require any further information please contact:  
Ivan Blair or James Ayling, Stewart Ivory & Company Limited  
45 Charlotte Square, Edinburgh EH2 4HW  
Telephone 0131 226 3271  
Fax 0131 226 5120

## HISTORICAL PERFORMANCE DATA

 This data is given for shareholders and others who wish to track the progress of the Company over a number of years.

	TOTAL INVESTMENTS £000	SHARE-HOLDERS' FUNDS £000	NET ASSETS PER SHARE P	SHARE PRICE P	EARNINGS PER SHARE (GROSS) P	DIVIDEND PER SHARE (GROSS) (NET) P P
1960	25,663	20,759	9.3	9.8	0.48	0.39 0.24
1965	34,724	29,329	13.1	11.6	0.69	0.57 0.33
1970	49,281	39,058	17.4	16.0	0.59	0.58 0.34
1975	47,916	38,160	17.1	14.5	0.71	0.69 0.45
1980	97,146	91,031	40.7	32.5	1.48	1.43 1.00
1985	187,256	191,005	85.4	69.8	2.55	2.34 1.64
1990	293,221	252,877	113.1	95.5	5.89	5.07 3.80
1991	329,204	294,567	131.7	115.5	5.79	5.49 4.12
1992	402,542	340,249	152.2	134.5	6.31	5.80 4.35
1993	497,899	421,077	188.3	170.5	5.76	5.79 4.63
1994	461,791	383,318	171.4	154.5	6.08	6.02 4.82
1995	503,007	428,471	191.6	163.0	6.68	6.25 5.00
1996	564,147	464,309	207.6	170.8	6.25	6.48 5.18
1997	629,538	518,763	232.0	191.5	7.18	6.71 5.37

Loan capital has been deducted at repayment value in calculating net assets per share. Figures for net assets, share price, earnings per share and dividend per share have been adjusted for past changes in share capital.

# The Directors of SAINTS



*left to right*

Dr Janet Morgan, Sir John Shaw  
*Chairman*, William Berry,  
Barry Sealey, Sir Colin McColl,  
David Price

**SIR JOHN SHAW, CBE, CA**

*Chairman*

Sir John (65) joined the Board in 1986. He is Deputy Governor of Bank of Scotland and a director of other companies. He is a past president of the Institute of Chartered Accountants of Scotland.

**JANET MORGAN, D. PHIL.**

Dr Morgan (52) joined the Board in 1991. She is a director of Cable & Wireless, The Scottish Life Assurance Company and other companies. She is a writer and was a member of the Cabinet Office's Central Policy Review staff for both Labour and Conservative governments (1978-1981).

**WILLIAM BERRY, WS**

Mr Berry (58) joined the Board in 1974. He is senior partner of the Edinburgh legal firm of Murray Beith Murray, WS, Chairman of The Scottish Life Assurance Company and a director of Alliance Trust, Fleming Continental European Investment Trust and other companies.

**BARRY E SEALEY, CBE**

Mr Sealey (62) joined the Board in 1985. He is a director of Scottish

Equitable and other companies. He was formerly Managing Director of Christian Salvesen.

**SIR COLIN MCCOLL, KCMG**

Sir Colin (65) joined the Board in 1996. Formerly head of MI6, the Government's foreign intelligence agency, Sir Colin has broad experience of international affairs and personal knowledge of south-east Asia and Eastern Europe.

**DAVID W J PRICE**

Mr Price (50) joined the Board on 19th November 1997. He is a director of the Equitable Life Assurance Society, Booker, Mercury European Privatisation Trust, Govett Oriental Investment Trust and other companies. He was previously Deputy Chairman of Mercury Asset Management Group.

# The SAINTS Investment Management Team

SAINTS' Investment Manager is Stewart Ivory & Company Limited, which has £2.7 billion of funds under management. The Chairman of Stewart Ivory is James Ferguson who is currently a Deputy Chairman of the Association of Investment Trust Companies (AITC). Those within Stewart Ivory who have responsibility for SAINTS are as follows:

*left to right*

Anja Balfour, David Shaw Stewart, Teddy Tulloch, Marcus Brooks, Jimmy Burns, John Thomson, Angus Tulloch, Frances Mullan

JOHN THOMSON, BA  
*Managing Director of Stewart Ivory*  
Formerly Chief Investment Manager of Standard Life Assurance. Joined Stewart Ivory as managing director in January 1998.

TEDDY TULLOCH, BSC  
*Director of Stewart Ivory*  
Joined the Company in 1972. He is Investment Director of Stewart Ivory responsible for setting overall investment policy and is jointly responsible with David Shaw Stewart for the management of SAINTS.

DAVID SHAW STEWART, MA, ACA  
*Director of Stewart Ivory*  
After qualifying as a Chartered Accountant, he worked in industry before joining Stewart Ivory in 1984. He was responsible for SAINTS' European investments for eight years before becoming jointly responsible for the overall management of SAINTS.

ANGUS TULLOCH, BA  
*Director of Stewart Ivory*  
Has been involved in Pacific Rim/ Emerging Market investment for over seventeen years, including three years' experience as a regional analyst based in Hong Kong. He joined Stewart

Ivory in 1988 and is responsible for the management of SAINTS' Pacific Rim and Emerging Markets portfolios.

JIMMY BURNS, BA, MSI  
*Director of Stewart Ivory*  
Has been involved in European investment for eight years and joined Stewart Ivory in 1990. He is responsible for the management of SAINTS' European portfolio.


ANJA BALFOUR, BSC, AIIMR, MSTA  
*Investment Manager*  
Joined Stewart Ivory in 1991 as a Japanese specialist and is now responsible for the management of SAINTS' Japanese portfolio.

MARCUS BROOKS, BA, AIIMR  
*Investment Manager*  
Joined Stewart Ivory in 1994 as a UK Equities specialist following seven years' experience in London and now manages SAINTS' UK portfolio.

FRANCES MULLAN, BCOM, AIIMR  
*Investment Manager*  
Joined Stewart Ivory in 1992 after seven years' investment experience and is now responsible for the management of SAINTS' US portfolio.



# Directors' Report

 Information the Directors are obliged to provide on matters concerning the activities, status and management of the Company.

## PRINCIPAL ACTIVITY AND STATUS OF THE COMPANY

The Company is an investment company within the meaning of the Companies Act 1985. The Inland Revenue has approved the Company's status as an investment trust for the purposes of the Income and Corporation Taxes Act 1988 for the year ended 31st December 1996 and the Company manages its affairs to maintain such approval. A note of the PEP status of the Company is given on page 16.

There is a review of the Company's business in the Chairman's Statement on pages 3 to 5 and in the Manager's Report on pages 6 to 13.

A final dividend is proposed of 1.36p (1996: 1.31p) payable on 3rd April 1998.

## DIRECTORS OF THE COMPANY

No Director had any material interest in any contract with the Company during the year. In accordance with the Company's Articles of Association, one third of the Directors retire by rotation every year. This year, Dr Morgan retires from office by rotation at the Annual General Meeting and the Board recommends her re-election. David Price was appointed as a Director on 19th November 1997 and the Board also recommends his re-election at the Annual General Meeting. The Directors who served during the year notified their interests as shown in the accompanying table in the share capital of the Company at 31st December. Changes to these holdings between 31st December 1997 and 18th February 1998 were as follows: (1) Regular monthly investments made by Mr Sealey and Sir John Shaw through the SAINTS Savings Scheme. (2) Dividends and interest reinvested on behalf of Sir John Shaw and Mr Berry through their SAINTS PEP Accounts. (3) Mr Berry ceased to be interested as Trustee in 26,166 shares and ceased to be a Trustee of a Trust which held 30,000 shares.

### DIRECTORS' INTERESTS

Shares of 25p	1997	1996
William Berry	52,444	51,242
—as Trustee	222,137	277,209
Sir Colin McColl	2,343	2,343
Dr Janet Morgan	9,423	9,423
D. W. J. Price	10,000*	—
B. E. Sealey	32,386	29,862
Sir John Shaw	18,044	17,421

\*Mr Price did not hold any SAINTS shares at the date of his appointment.

## INVESTMENT MANAGER & SECRETARY TO THE COMPANY

Stewart Ivory & Company Limited is employed as Investment Manager & Secretary of SAINTS. Details of the contract with Stewart Ivory are given in Note 3 of the Accounts.

## SUBSTANTIAL SHAREHOLDERS

At 18th February 1998 the Company had not been notified of any beneficial interest exceeding 3 per cent of its issued Ordinary share capital.

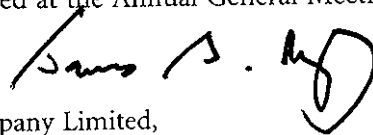
## ANNUAL GENERAL MEETING

At the Annual General Meeting of the Company to be held on 25th March 1998 one resolution will be proposed as "Special Business". This is explained in full in the explanatory narrative to the Notice of Meeting on page 39.


## AUDITORS

A resolution to re-appoint Chiene & Tait, CA, as auditors of the Company will be proposed at the Annual General Meeting.

By Order of the Board,  
 JAMES AYLING  
 for Stewart Ivory & Company Limited,  
 Secretary  
 18th February 1998



# Directors' Statement on Corporate Governance

 The Directors' responsibilities for the stewardship of your investment.

## DELEGATION

*Investment management:*  
Stewart Ivory

*Safeguarding of assets:*  
Bank of Scotland  
The Bank of New York

*Accounting & company secretarial:*  
Stewart Ivory

*Property portfolio management:*  
OLIM

*Savings scheme administration:*  
The Royal Bank of Scotland

*PEP scheme administration:*  
Bank of Scotland

*Share registration services:*  
The Royal Bank of Scotland

By investing your money in SAINTS, you have entrusted us with the task of caring for your savings through professional investment management and the pooling of your resources with those of other investors.

In turn, we have a responsibility to employ procedures and controls to safeguard your investment from the consequences of any negligence or fraud. Such controls can provide only reasonable and not absolute assurance against material misstatement or loss.

While retaining this overall responsibility, we have delegated our key operational activities. We must therefore ensure that there are appropriate control and reporting systems in order that we can be satisfied that the Company's affairs, and your interest in them, are being properly managed. This is a feature of sound management and also forms part of our statutory reporting obligations.

The most important controls which we employ are as follows:

### 1. DIRECTORS

- We are all non-executive and independent of Stewart Ivory, which means that we have no conflicts of interest with the Investment Manager in directing the affairs of the Company.
- Our appointment and remuneration are subject to shareholder approval, based upon the recommendations of the full Board.

### 2. OUR RESPONSIBILITIES

- We accept responsibility for ensuring that the Company has effective investment, financial and operational controls. Although we have delegated the day-to-day administration of certain aspects of the Company's affairs as noted above, we retain ultimate responsibility for:
  - a) Determining investment policy and monitoring investment performance.
  - b) Ensuring that the assets of the Company are safeguarded at all times.
  - c) Ensuring that proper accounting records are maintained and that financial information used in the management of the Company and for external publication is reliable.
  - d) Preparing Accounts which give a true and fair view of the state of the affairs of the Company at the end of each financial year and of the income surplus or deficit for that year.
  - e) Preventing and detecting fraud and other irregularities.
- We confirm that suitable accounting policies, applied consistently and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the Accounts and that applicable accounting standards have been followed.

## 3. MONITORING PROCEDURES

We use the following procedures to monitor the agents to whom we have delegated our operational activities:

- We review investment policy and performance at our monthly Board meetings.
- We have imposed certain investment limits on Stewart Ivory in managing the portfolio. These include:

*The Board must approve any investment which exceeds 3 per cent of shareholders' funds.*

*Any investment which rises in value to an amount in excess of 3 per cent of shareholders' funds in valuation terms must be reported to the Board.*

*The cost of any unquoted investment must not exceed 1 per cent of shareholders' funds at time of purchase without our prior approval.*

*The Board limits the use of derivatives.*

*Short term borrowing, including hedging the Equities Index Unsecured Loan Stock, must not exceed 15 per cent of shareholders' funds.*

*Long term borrowing must have prior Board approval.*

The Investment Manager can propose alterations to these limits.

- All transactions are reported to the Board.
- We review the credit ratings and other criteria used in selecting deposit taking institutions and banks through which money market and foreign exchange transactions are effected.
- We review the terms and conditions of the Investment Manager's appointment annually.
- The Board considers in detail the Auditors' Report on the Statutory Accounts. We do not have an Audit Committee as all members of the Board are non-executive. We review the quality and effectiveness of the accounting records, management information and financial controls maintained on behalf of the Company.
- We monitor the quality and cost of services provided by third parties.
- We receive reports on the safe custody policies and procedures employed by the Bank of Scotland and The Bank of New York and the results of their respective auditors' reports on these activities.

## 4. RESULTS OF REVIEW &amp; MONITORING OF SAFEGUARDS

- We are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, we continue to adopt the going concern basis in preparing the Accounts.
- We can state that the Company has complied with all material aspects of the Cadbury Code of Best Practice on the Financial Aspects of Corporate Governance throughout the year.

On Behalf of the Board

SIR JOHN SHAW, *Chairman*

18th February 1998



## YEAR 2000 COMPLIANCE


The ability of computer systems to cope with the change to a new millennium has recently attracted publicity.

As this problem could potentially affect the integrity of the Company's accounting records we have sought assurances from Stewart Ivory that its systems will be Year 2000 compliant.

Stewart Ivory is planning to have all of its in-house electronic systems Year 2000 compliant by 31st December 1998. The ability of external service providers to cope with Year 2000 is also being assessed.

## Auditors' Report on Corporate Governance

TO THE SCOTTISH AMERICAN INVESTMENT  
COMPANY P.L.C.

 Auditors' Report on the internal controls and safeguards established by the Board.

In addition to our audit of the Accounts, we have reviewed the Directors' statement (which is within their Statement on Corporate Governance matters on pages 23 and 24) on the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to any non-compliance with Listing Rules 12.43(j) and 12.43(v).

### BASIS OF OPINION

We carried out our review in accordance with guidance issued by the Auditing Practices Board. This guidance does not require us to perform the additional work necessary to, and we do not, express any opinion either on the effectiveness of the Company's system of internal financial control or its corporate governance procedures or on the ability of the Company to continue in operational existence.

### OPINION

With respect to the Directors' statements on internal control and going concern, within their Statement on Corporate Governance matters on pages 23 and 24, in our opinion the Directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the Accounts.

Based on enquiry of certain Directors and Officers of the Company, and examination of relevant documents, in our opinion the Directors' Statement on Corporate Governance matters on pages 23 and 24 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

CHIENE & TAIT CA, *Registered Auditors*  
3 Albyn Place, Edinburgh EH2 4NQ

18th February 1998

*Chiene & Tait CA*

## Statement of Total Return

FOR THE YEAR ENDED 31ST DECEMBER 1997



We have set out the Statement of Total Return on this and the facing page in a format that is different from that recommended by the Statement of Recommended Practice for Investment Trusts issued by the Association of Investment Trust Companies. However, this statement contains all the required information and we believe that this style and wording produce a clearer presentation of the results of the Company than would be achieved by following the recommended guidelines. The statement on this page is the income account of the Company, showing the income and expenses of the Company over the year, and providing details of dividends paid to shareholders.

Income Return	1997		1996	
	£'000	£'000	£'000	£'000
<b>Income</b> [NOTE 2]				
Dividends from UK companies	15,608		13,973	
Dividends from overseas companies	2,055		2,300	
Interest from UK securities	2,259		1,682	
Interest from overseas securities	1,081		1,441	
Interest on deposits	1,314		633	
Rental income	1,171		491	
Underwriting commission	54		117	
Other income	3		1	
<b>Total income</b>		<b>23,545</b>		<b>20,638</b>
<b>Expenses</b> [NOTES 1 F & 3]				
Investment management fee	(1,810)		(1,805)	
Other administrative expenses	(886)		(848)	
<b>Total expenses</b>		<b>(2,696)</b>		<b>(2,653)</b>
<b>Income before interest payable and tax</b>		<b>20,849</b>		<b>17,985</b>
Interest payable [NOTE 4]		(4,937)		(4,133)
<b>Income on ordinary activities before tax</b>		<b>15,912</b>		<b>13,852</b>
Tax [NOTE 5]		(3,066)		(2,682)
<b>Income attributable to shareholders</b>		<b>12,846</b>		<b>11,170</b>
Dividends (5.37p per share; 1996 – 5.18p) [NOTE 6]		(12,008)		(11,583)
<b>Transfer to / (from) Revenue reserve</b>		<b>838</b>		<b>(413)</b>
<b>INCOME RETURN PER SHARE</b> [NOTE 7]		<b>5.74p</b>		<b>5.00p</b>

The notes on pages 30 to 37 form part of these Accounts.

## Statement of Total Return

FOR THE YEAR ENDED 31ST DECEMBER 1997



The Capital Return Statement details changes in value and gains and losses on investments and currency in the year, together with other capital items. The capital profits and losses attributable to ordinary shareholders are transferred to capital reserves. Investment trust companies are not permitted to distribute capital profits.

Capital Return	1997	1996
	£'000	£'000
<b>Capital profits / losses</b>		
Realised gains on investments	33,940	17,782
Realised losses on Equities Index Unsecured Loan Stock 2004	(13,067)	—
Realised gains on foreign currency loan	1,259	—
Unrealised gains on investments	36,840	29,206
Unrealised losses on foreign currency loan	(57)	—
Currency losses	(128)	(268)
Increase in value of Equities Index Unsecured Loan Stock 2004	(5,171)	(10,469)
<b>Capital profits attributable to shareholders</b>	<b>53,616</b>	<b>36,251</b>
<b>CAPITAL RETURN PER SHARE</b> [NOTE 7]	<b>23.98p</b>	<b>16.21p</b>



The Total Return Statement is the sum of the income and capital returns. The total return per share is calculated by adding the income and capital returns attributable to shareholders, and dividing by the number of shares in issue during the year. This gives a measure of the total return achieved by the Company over the year. However, the total return received by shareholders depends on their individual tax rate and on the movement in share price over the year. It should also be noted that the income return will be relatively consistent from one year to the next but the capital return can fluctuate considerably.

Total Return	1997	1996
	£'000	£'000
Income attributable to shareholders	12,846	11,170
Capital profits attributable to shareholders	53,616	36,251
Total return attributable to shareholders	66,462	47,421
<b>TOTAL RETURN PER SHARE</b> [NOTE 7]	<b>29.72p</b>	<b>21.21p</b>

The notes on pages 30 to 37 form part of these Accounts.

# Balance Sheet

AT 31ST DECEMBER 1997



This statement shows the value of the Company's assets and liabilities at the Company's year end. The net asset value per share is calculated by dividing the value of equity shareholders' funds by the number of shares in issue at the year end.

	1997		1996	
	£'000	£'000	£'000	£'000
<b>Investments</b> [NOTES 8, 9, 10 & 11]				
<i>Equity</i>				
UK		400,057		331,455
North America		62,915		47,278
Continental Europe		43,895		47,498
Japan		11,568		13,533
Pacific Rim / Emerging Markets		31,326		69,107
Unquoted		10,550		10,652
Futures		1,568		907
Subsidiary Companies [NOTE 12]		2,915		2,852
		<u>564,794</u>		<u>523,282</u>
<i>Fixed Interest:</i>				
UK Government	46,989		18,007	
Australasian Government and Corporate	<u>—</u>		<u>14,813</u>	
		46,989		32,820
Property		<u>17,755</u>		<u>8,045</u>
		<u>629,538</u>		<u>564,147</u>
<b>Current Assets</b>				
Debtors [NOTE 13]	3,773		2,871	
Cash and Deposits	<u>18,615</u>		<u>4,605</u>	
		22,388		7,476
<b>Current Liabilities due within one year</b>				
Creditors [NOTE 14]	14,569		4,243	
Recommended Final Dividend [NOTE 6]	<u>3,041</u>		<u>2,929</u>	
		17,610		7,172
Current Assets less Current Liabilities		<u>4,778</u>		<u>304</u>
<b>Total Assets less Current Liabilities</b>		634,316		564,451
<i>Less Creditors due after one year</i> [NOTE 15]				
Equities Index Unsecured Loan Stock 2004	90,400		99,666	
8 per cent Debenture Stock 2022	<u>24,677</u>		<u>—</u>	
4 per cent Irredeemable Debenture Stock	476		476	
		<u>115,553</u>		<u>100,142</u>
<b>EQUITY SHAREHOLDERS' FUNDS</b> [NOTE 16]		<u>518,763</u>		<u>464,309</u>
<b>Share Capital and Reserves</b>				
223,608,000 Ordinary 25p shares [NOTE 17]		55,902		55,902
Issued and fully paid		328,074		306,070
Capital Reserve-Realised [NOTE 18]		125,248		93,636
Capital Reserve-Unrealised [NOTE 18]		9,539		8,701
Revenue Reserve [NOTE 19]		<u>—</u>		<u>—</u>
		<u>518,763</u>		<u>464,309</u>
<b>NET ASSET VALUE PER SHARE</b>		<u>232.0p</u>		<u>207.6p</u>

These Accounts were approved by the Board on 18th February 1998 and were signed on its behalf by: **SIR JOHN C. SHAW, Director** **BARRY E. SEALEY, Director**

The notes on pages 30 to 37 form part of these Accounts.

# Cash Flow Statement

FOR THE YEAR TO 31ST DECEMBER 1997



This statement details the changes in cash and deposits during the year. The figures differ from those used in the Statement of Total Return as they record the actual movement of cash in the year. Our presentation of this statement does not conform to the relevant accounting standard (FRS1 revised), which requires that certain activities be grouped under prescribed headings and be shown in a prescribed order. We believe that the following presentation achieves greater clarity. Note 20a to the Accounts reconciles the income accounted for in the Statement of Total Return to the income less administrative expenses in the Cash Flow Statement. Note 20b shows separate movements in cash, deposits and debt over the year.

	1997		1996	
	£'000	£'000	£'000	£'000
Balances at the start of the year: Cash	4,605		9,395	
Deposits	—		13,000	
<b>Cash and deposits at the start of the year</b>		<b>4,605</b>		<b>22,395</b>
<b>Income</b>				
Dividends received	14,920		13,294	
Interest received	4,632		3,824	
Underwriting commission and other income	1,356		651	
Administrative expenses paid	(2,713)		(2,667)	
Income less administrative expenses		18,195		15,102
Interest paid on borrowings	(4,625)		(4,346)	
Dividends paid to shareholders	(11,784)		(11,404)	
Cash paid in respect of interest and dividends		(16,409)		(15,750)
Total tax paid		(9)		(768)
<b>Capital</b>				
Purchases of investments	(172,518)		(131,766)	
Sales of investments	177,504		115,660	
	4,986		(16,106)	
Issue of 8 per cent Debenture Stock 2022	24,667		—	
Repayment of Equities Index Unsecured Loan Stock 2004	(27,705)		—	
Foreign currency loan	9,154		—	
Currency losses	(128)		(268)	
Cash received / (paid) in respect of capital transactions		10,974		(16,374)
Currency gain on foreign currency loans		1,259		—
Increase / (decrease) in the year: Cash	3,010		(4,790)	
Deposits	11,000		(13,000)	
Increase / (decrease) in cash and deposits in the year		14,010		(17,790)
Balances at the end of the year: Cash	7,615		4,605	
Deposits	11,000		—	
<b>Cash and deposits at the year end</b>		<b>18,615</b>		<b>4,605</b>

# Notes on the Accounts

FOR THE YEAR TO 31ST DECEMBER 1997



The Notes on the Accounts on pages 30 to 37 provide a detailed explanation of certain items included in the Company's Accounts. The regulations which govern the format of the Accounts and the individual accounting policies which we have applied in producing them are shown in Note 1 below.

## 1 Accounting Policies

### A BASIS OF ACCOUNTING

The Accounts have been prepared in accordance with the applicable accounting standards except FRS1 revised as noted on page 29, the Companies Act 1985 and, unless otherwise stated, the Investment Trust Statement of Recommended Practice (SORP). We have departed from recommended practice in certain areas to make the Accounts easier to understand and analyse.

### B INVESTMENTS

Listed investments are those investments which are listed on a recognised investment exchange; all other investments are classified as unlisted. Some of these unlisted investments do not have a readily available market and therefore for the purposes of these Accounts these securities are described as 'unquoted investments'. Where market quotations are available the Directors value investments on a mid-market basis. The Board values unquoted investments on the basis of stockbrokers' valuations and other available information. Equities include ordinary shares, warrants and stocks which are convertible into ordinary shares. The valuation of property held at the year end has been estimated by professional valuers, Kitchen La Frenais Morgan with the exception of 44/45 Charlotte Square, Edinburgh which was valued by DTZ Debenham Thorpe at 31st December 1996. The Directors have not provided for depreciation or amortisation as required by the Companies Act 1985. We consider that it is not possible to isolate and quantify the effect of these elements in particular on the property valuation as a whole, given the many other factors involved. We believe that the policy adopted is the best way of showing a true and fair view.

### C INCOME FROM SECURITIES

Dividends on securities are included on the basis of the date when the entitlement to receive the dividend is established (ex-dividend date basis) rather than when that income is actually received. Interest on securities is included for the period that each stock is held.

Dividends paid by UK companies (franked investment income) include the relevant tax credit where appropriate. Where a company elects to pay a scrip or enhanced scrip dividend, the amount of the equivalent declared cash dividend is treated as income, and the remainder is treated as capital.

### D OVERSEAS INVESTMENTS AND CURRENCIES

The Directors value overseas investments and currencies using year end foreign exchange rates. Income from overseas investments and currencies is recorded at the rates of exchange ruling at the date of receipt, and income accrued on overseas investments and currencies is included on the basis of the year end foreign exchange rates.

### E GAINS AND LOSSES ON INVESTMENTS AND CURRENCIES

Gains and losses on sales of investments are included in Capital Reserve-Realised, while gains and losses on investments which are held at the year end are included in Capital Reserve-Unrealised. Gains and losses on currency are included in Capital Reserve-Realised; gains and losses on currency borrowings at the year end are included in Capital Reserve-Unrealised.

### F INTEREST AND EXPENSES

We have applied the accruals basis for the purpose of calculating bank interest receivable, interest payable and management and administration expenses. This means that monies due to be paid or received are included in the Accounts, whether or not the actual cash amount has been received or paid.

Investment management and secretarial fees are charged in full to income.

### G EQUITIES INDEX UNSECURED LOAN STOCK

The Equities Index Unsecured Loan Stock is included as a liability in the Balance Sheet (as required by the Trust Deed), the value of which is determined by the level of the FT-SE-A All-Share Index. The change in the value of the liability over the period is taken to Capital Reserve-Unrealised, while the interest payable is charged to income. The Directors believe that this policy, whilst not complying fully with the SORP, is necessary in order to match the cost of the borrowing against the benefits derived from it.

### H 8 PER CENT DEBENTURE STOCK 2022

The interest payable on this Stock is charged fully to income. In addition, the difference between the repayable value on maturity and the proceeds received on issue is charged to income on a time apportioned basis over the life of the stock.

	1997 £'000	1996 £'000
<b>2 Income</b>		
<i>Total income comprises:</i>		
Income from securities	21,003	19,396
Deposit interest	1,314	633
Other income	1,228	609
	<u>23,545</u>	<u>20,638</u>
<i>Income from securities comprises:</i>		
Securities listed in the UK	16,836	14,916
Securities listed overseas	3,136	3,741
Unlisted securities	1,031	739
	<u>21,003</u>	<u>19,396</u>

Dividends from UK companies includes £1,650,000 received as foreign income dividends (1996 – £660,000).

<b>3 Expenses</b>	<i>Investment management fee comprises:</i>		
	Investment management fee	1,666	1,605
	Irrecoverable VAT	144	200
		<u>1,810</u>	<u>1,805</u>

Stewart Ivory & Company Limited is employed as Investment Manager and Secretary under a contract which may be terminated by either party on giving one year's notice. An annual fee, based on the aggregate of 0.25 per cent of shareholders' funds plus 3.5 per cent of total income less borrowing costs as shown in the previous year's Accounts, is payable to Stewart Ivory in respect of these services. Shareholders' funds, for the purpose of calculating management fees, exclude holdings in funds managed by Stewart Ivory. Similarly, income generated from these funds is deducted from total income for the calculation of that part of the management fee.

	<i>Other administrative expenses comprise:</i>		
	Auditors' remuneration: audit	10	10
	Auditors' remuneration: other fees	15	2
	Directors' fees	56	57
	PEP administration costs paid to Stewart Ivory & Company Ltd	39	50
	Bank charges, custody fees and other expenses	699	679
	Irrecoverable VAT	67	50
		<u>886</u>	<u>848</u>

During the year the Chairman's emoluments amounted to £15,000 (1996 – same).

Each other Director received fees at a rate of £10,000 per annum (1996 – same).

<b>4 Interest Payable</b>		
Debenture and loan stocks	4,908	4,128
Bank overdrafts	5	5
Foreign currency loans	24	—
	<u>4,937</u>	<u>4,133</u>

		1997 £'000	1996 £'000
5 Tax	Tax on franked investment income	2,792	2,663
	Overseas tax	165	221
		<u>2,957</u>	<u>2,884</u>
	Deferred tax	—	(202)
	Prior year adjustment	109	—
	<u>3,066</u>	<u>2,682</u>	

The prior year adjustment has arisen from a change in the treatment of tax on Malaysian and Singaporean income and additional group relief surrendered to Scottish American Market Operations Limited (see Note 12).

No provision has been made for advance corporation tax on the proposed final dividend as in the opinion of the Directors such tax will be fully relieved.


## 6 Dividends

First interim of 1.32p per share (1996 – 1.28p)	2,952	2,862
Second interim of 1.34p per share (1996 – 1.29p)	2,996	2,885
Third interim of 1.35p per share (1996 – 1.30p)	3,019	2,907
	<u>8,967</u>	<u>8,654</u>
Recommended final of 1.36p per share (1996 – 1.31p)	3,041	2,929
	<u>12,008</u>	<u>11,583</u>
Total dividend per share for the year	5.37p	5.18p
Total dividend per share for the year including tax credit	6.71p	6.48p

## 7 Return per share

The income return per share is calculated by dividing the income attributable to shareholders by the number of shares in issue during the year (1997 – 223,608,000; 1996 – same). The capital return per share is calculated by dividing the capital profits or losses attributable to shareholders by the number of shares in issue during the year. The total return per share is calculated by dividing the total return attributable to shareholders by the number of shares in issue during the year.

## 8 Investments

 This table shows the gains and losses on investments categorised by listed, unlisted, fixed interest securities, futures and properties.

	LISTED EQUITIES £'000	UNLISTED EQUITIES £'000	FIXED INTEREST £'000	FUTURES £'000	PROPERTIES £'000	TOTAL £'000
Book cost at 31.12.96	370,957	17,210	32,322	707	7,640	428,836
Unrealised gains at 31.12.96	120,911	13,297	498	200	405	135,311
<b>Valuation at 31.12.96</b>	<b>491,868</b>	<b>30,507</b>	<b>32,820</b>	<b>907</b>	<b>8,045</b>	<b>564,147</b>
Purchases at cost	121,800	3,304	34,022	5,231	8,487	172,844
Sales proceeds	(141,847)	(7,957)	(22,799)	(5,630)	—	(178,233)
Realised gains on sales	26,431	5,976	339	1,194	—	33,940
Change in unrealised gains in the year	37,308	(4,164)	2,607	(134)	1,223	36,840
<b>Valuation at 31.12.97</b>	<b>535,560</b>	<b>27,666</b>	<b>46,989</b>	<b>1,568</b>	<b>17,755</b>	<b>629,538</b>
Book cost at 31.12.97	377,341	18,533	43,884	1,502	16,127	457,387
Unrealised gains at 31.12.97	158,219	9,133	3,105	66	1,628	172,151

Listed and unlisted securities includes securities with an equity element valued at £14,736,000 (1996 – £10,698,000). During the year a property was purchased for £5,423,000. At the year end it had a value of £5,800,000.

## 9 Changes in investments



This table shows changes in investments in the year by geographic region and type of security.

	VALUATION AT 31.12.96 £'000	NET PURCHASES (SALES) £'000	INCREASE (DECREASE) IN VALUE £'000	VALUATION AT 31.12.97 £'000
<b>Listed Equities</b>				
United Kingdom	323,917	5,525	62,989	392,431
North America	47,278	6,548	9,089	62,915
Continental Europe	43,033	(6,092)	2,846	39,787
Japan	12,966	(857)	(541)	11,568
Pacific Rim / Emerging Markets	64,674	(25,140)	(10,675)	28,859
<b>Total Listed Equities</b>	<b>491,868</b>	<b>(20,016)</b>	<b>63,708</b>	<b>535,560</b>
Unlisted Equities	30,507	(4,684)	1,843	27,666
Fixed Interest	32,820	11,222	2,947	46,989
Futures	907	(399)	1,060	1,568
Properties	8,045	8,487	1,223	17,755
<b>Total Investments</b>	<b>564,147</b>	<b>(5,390)</b>	<b>70,781</b>	<b>629,538</b>

## 10 Classification of investments



This table shows the geographical and industrial classification of total assets less current liabilities.

	UNITED KINGDOM %	NORTH AMERICA %	CONTINENTAL EUROPE %	JAPAN %	PACIFIC / EMERGING %	1997 TOTAL %	1996 TOTAL %
<b>Quoted Equities</b>							
Mineral extraction	4.2	0.6	0.2	—	0.1	6.2	4.2
General industrials	9.7	2.4	1.1	1.1	1.2	14.4	20.3
Consumer goods	10.1	2.4	1.8	0.2	0.4	14.9	13.6
Services	14.3	2.8	1.6	—	1.1	19.8	25.1
Utilities	6.3	0.2	0.3	0.2	0.4	7.4	6.7
Financials	16.6	1.5	1.2	0.3	0.3	19.9	14.6
Investment trusts	1.9	—	—	—	1.0	2.9	3.8
<b>Total Quoted Equities</b>	<b>63.1</b>	<b>9.9</b>	<b>6.2</b>	<b>1.8</b>	<b>4.5</b>	<b>85.5</b>	<b>88.3</b>
Unit trusts	—	—	0.7	—	0.4	1.1	1.8
Unquoted Equities	0.6	—	1.0	0.1	—	1.7	1.9
Subsidiaries	0.5	—	—	—	—	0.5	0.5
Fixed Interest	7.4	—	—	—	—	7.4	5.8
Futures	0.2	—	—	—	—	0.2	0.2
Properties	2.8	—	—	—	—	2.8	1.4
Net current assets	0.8	—	—	—	—	0.8	0.1
<b>Total assets less current liabilities</b>	<b>75.4</b>	<b>9.9</b>	<b>7.9</b>	<b>1.9</b>	<b>4.9</b>	<b>100.0</b>	<b>100.0</b>
1996 Total	65.4	8.4	8.9	2.4	14.9		100.0
Financed by:							
Equities Index Unsecured							
Loan Stock	14.2	—	—	—	—	14.2	17.7
Debenture Stock	4.0	—	—	—	—	4.0	0.1
Shareholders' funds	57.2	9.9	7.9	1.9	4.9	81.8	82.2
<b>Total investments</b>	<b>75.4</b>	<b>9.9</b>	<b>7.9</b>	<b>1.9</b>	<b>4.9</b>	<b>100.0</b>	<b>100.0</b>

## 11 Significant Interests



Information from the most recent published accounts in respect of holdings in which the Company holds 20 per cent or more of the allotted capital is as follows:

NAME OF COMPANY	CLASS OF SHARE (% HELD)	CAPITAL AND RESERVES £'000	PROFIT RETAINED FOR YEAR £'000
Martenby†	Ord. £1 (43.5%) Cum. Red. Pref. £1 (42.2%)	1,592	217
Stewart Ivory Holdings†	'C' Ord. £1 (100%)	7,138	993
The Scottish Oriental Smaller Companies Trust†	Ord. 25p (39.3%)	27,238	126
The Quantum Fund†	Def'd. £1 (33.3%)	—	—

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

† *Country of operation: UK*

## 12 Subsidiary Companies

There are two wholly-owned, Scottish registered subsidiaries: Scottish American Securities Company Limited (SASCO) and Scottish American Market Operations Limited (SAMOL) which operated as investment companies during the year. Consolidated Accounts have not been prepared, nor have the results been accounted for under the equity method, because the Directors consider that the results of the subsidiaries are not material in relation to the holding company and that the accounting treatment adopted is appropriate in the circumstances. The Report and Accounts of each company will be lodged with Companies House in Edinburgh.

	1997 £'000	<i>Restated</i> 1996 £'000
<b>Aggregate Revenue Account for the year to 31st December</b>		
Interest on deposits	173	150
Expenses	(5)	(1)
Profit before tax	168	149
Tax receivable / (payable)	36	(36)
Profit after tax	204	113
Dividend paid	—	—
Profit for the year	204	113
<b>Aggregate extracts from the Balance Sheets at 31st December</b>		
Investments	235	184
Debtors	6	118
Cash and deposits	2,804	2,635
	3,045	2,937
Creditors due within one year	(130)	(85)
Parent company's interest	2,915	2,852

It has been agreed with H.M. Inspector of Taxes to treat SAMOL as an investment company, rather than a trading company, with effect from 1st January 1995. The 1996 figures have been restated to reflect this treatment. Amendments to prior year group relief claims have resulted in a £80,000 tax credit to SAMOL's Revenue Account in 1997.

Accounting Policies: (a) Interest and expenses are dealt with on an accruals basis (b) Investments are shown at market value. SASCO has no investments, and the book cost of investments held by SAMOL is £608,427 (1996 restated – same).

	1997 £'000	1996 £'000
<b>13 Debtors</b>		
Sales of investments	729	—
Income accounted for but not received	2,174	2,030
Other debtors	829	841
Group relief	41	—
	<u>3,773</u>	<u>2,871</u>
<b>14 Creditors</b>		
Purchases of investments	326	—
Third interim dividend	3,019	2,907
Corporation tax	174	—
Group relief	201	73
Deferred tax	17	17
Income tax	344	188
Interest payable	991	689
Equities Index Unsecured Loan Stock 2004	—	201
Foreign currency loan	9,211	—
Other creditors	286	168
	<u>14,569</u>	<u>4,243</u>

The Company's Payment Policy is to agree terms of payment before business is transacted, to ensure suppliers are aware of these terms and to settle bills in accordance with them.

## 15 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-SE-A All-Share Index on 30th September 2004. Interest equivalent to the yield on that index is paid quarterly. 37,494,975 units of 5p nominal were outstanding at 31st December 1997 (1996 – 49,494,975 units). 12 million units were purchased on 4th August 1997 at £2.2897 per unit and subsequently cancelled. The repayment value at 31st December 1997 was £2.41100 (1996 – £2.01366) per unit.

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.

The 8% Debenture Stock 2022 was issued by way of placing on 10th April 1997 at a price of £95.566 per £100 nominal. On deciding to issue the 8% Debenture Stock a UK gilt option was acquired to lock in the yield available at that time. The option was exercised when the Debenture Stock was issued resulting in a gain of £985,000 which has been added to the issue proceeds received. Expenses of the issue which included auditors' remuneration of £5,000 and commission amounted to £210,000. Interest is payable on the Debenture Stock in equal half-yearly instalments on 10th October and 10th April in each year and the stock is redeemable at par value on 10th April 2022. It is secured by a floating charge over the property of the Company ranking *pari passu* with the floating charge on the Irredeemable Debenture Stock.

The carrying value of the 8% Debenture Stock has been calculated as follows:

	£'000
Nominal value of 8% Debenture Stock	25,000
Less: Discount and issue expenses	<u>(333)</u>
Proceeds received (including gain on option)	24,667
Charge to revenue for the year	<u>10</u>
Carrying value of Stock at end of the year	<u>24,677</u>

	1997 £'000	1996 £'000
<b>16 Reconciliation of movements in shareholders' funds</b>		
Shareholders' funds at the start of the year	464,309	428,471
Realised capital gains	22,004	17,514
Unrealised capital gains	31,612	18,737
Retained income / (income deficit) for the year	838	(413)
Shareholders' funds at the end of the year	<u>518,763</u>	<u>464,309</u>
 <b>17 Authorised Capital</b>		
The authorised capital is £70 million represented by 280,000,000 Ordinary 25p shares (1996 – same).		
 <b>18 Capital Reserves</b>		
<b>Capital Reserve – Realised:</b>		
Balance at the start of the year	306,070	288,556
Realised gains on investments	33,940	17,782
Currency losses	(128)	(268)
Realised losses on Equities Index Unsecured Loan Stock 2004	(13,067)	—
Realised gains on foreign currency loan	1,259	—
	<u>328,074</u>	<u>306,070</u>
 <b>Capital Reserve – Unrealised:</b>		
Balance at the start of the year	93,636	74,899
Unrealised gains on investments	36,840	29,206
Increase in value of Equities Index Unsecured Loan Stock	(5,171)	(10,469)
Unrealised losses on foreign currency loan	(57)	—
	<u>125,248</u>	<u>93,636</u>
 <b>19 Revenue Reserve</b>		
Balance at the start of the year	8,701	9,114
Retained income / (income deficit) for the year	838	(413)
	<u>9,539</u>	<u>8,701</u>
 <b>20 Cash Flow Statement</b>		
(a) Reconciliation of total income as shown in the Statement of Total Return to income less administrative expenses in the Cash Flow Statement		
Total income per the Statement of Total Return	23,545	20,638
Total expenses per the Statement of Total Return	(2,696)	(2,653)
Decrease / (increase) in dividends accounted for but for which the cash had not been received at the year end	26	(238)
Increase in other debtors	(5)	(16)
Increase in creditors	117	34
Tax credits suffered on UK dividends	(2,792)	(2,663)
Income less administrative expenses per Cash Flow Statement	<u>18,195</u>	<u>15,102</u>

## 20 Cash Flow Statement (continued)

(b) Analysis of changes in net debt

	AT THE START OF THE YEAR £'000	CASH FLOWS £'000	CURRENCY MOVEMENTS £'000	OTHER CHANGES £'000	AT THE END OF THE YEAR £'000
Cash	4,605	3,010	—	—	7,615
Short term deposits	—	11,000	—	—	11,000
	<u>4,605</u>	<u>14,010</u>	<u>—</u>	<u>—</u>	<u>18,615</u>
Foreign currency loan	—	(9,154)	(57)	—	(9,211)
Equities Index Unsecured Loan					
Stock 2004	(99,867)	27,705	—	(18,238)	(90,400)
8% Debenture Stock 2022	—	(24,667)	—	(10)	(24,677)
4% Irredeemable Debenture Stock	(476)	—	—	—	(476)
	<u>(95,738)</u>	<u>7,894</u>	<u>(57)</u>	<u>(18,248)</u>	<u>(106,149)</u>
<b>Net Debt</b>					

## 21 Commitments and Contingent Liabilities

There are liabilities in respect of:

	1997 £'000	1996 £'000
Monies due after year end on nil-paid and partly-paid investments	133	3,109
Share issues which have been underwritten by the Company for which it was unknown at the year end if there would be a requirement to take up shares	—	78
	<u>133</u>	<u>3,187</u>

# Auditors' Report

TO THE MEMBERS OF THE SCOTTISH AMERICAN INVESTMENT  
COMPANY P.L.C. ON THE ACCOUNTS

We have audited the Accounts on pages 26 to 37 which have been prepared on the basis of the accounting policies set out on page 30.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 23, the Company's Directors are responsible for the preparation of the Accounts. It is our responsibility to form an independent opinion, based on our audit, on those Accounts and to report our opinion to you.

## BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Accounts.

As noted on page 29, the Cash Flow Statement does not comply with FRS1 revised. Our opinion is not qualified in this respect.

## OPINION

In our opinion the Accounts give a true and fair view of the state of the Company's affairs as at 31st December 1997 and of its total return for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

CHIENE & TAIT CA, *Registered Auditors*  
3 Albyn Place, Edinburgh EH2 4NQ

18th February 1998

*Chiene & Tait CA*

## Notice of Annual General Meeting

Notice is hereby given that the One Hundred and Twenty Fifth Annual General Meeting of The Scottish American Investment Company P.L.C. will be held at 45 Charlotte Square, Edinburgh on 25th March 1998 at 11.00 am. The following resolutions will be proposed:

### ORDINARY BUSINESS

- 1 To receive the Report and Accounts for the year to 31st December 1997.
- 2 To declare a final dividend.
- 3 To re-elect Mr D. W. J. Price as a Director.
- 4 To re-elect Dr J. P. Morgan as a Director.
- 5 To re-appoint Chiene & Tait, CA as auditors and to authorise the Directors to fix their remuneration.

### SPECIAL BUSINESS



This resolution will, if approved, authorise the Directors to allot a limited number of unissued Ordinary shares comprising 5% of the number of Ordinary shares of the Company in issue on 18th February 1998 for cash without first offering such shares to existing Ordinary shareholders *pro rata* to their existing holdings. The Directors will only issue new shares under this authority to take advantage of opportunities in the market as they arise and only if they believe it is advantageous to the Company's shareholders to do so.

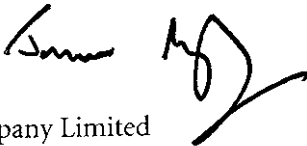
- 6 To consider and, if thought fit, to pass the following special resolution:
 

'That the Directors be and are hereby authorised to allot equity securities (within the meaning of Section 94 of the Companies Act 1985) pursuant to the authority conferred by resolution number 6 passed at the Annual General Meeting of the Company held on 22nd March 1995, as if Section 89 of that Act did not apply to any such allotment, provided that this power shall be limited to:

  - (a) the allotment of equity securities in connection with a rights issue in favour of the holders of Ordinary shares where the equity securities respectively attributable to the interests of all such shareholders are proportionate (as nearly as may be) to the respective number of Ordinary shares held (or deemed or notionally held) by them but subject to such exclusions or other arrangements as the Directors may think fit in relation to fractional entitlements or to deal with problems under the laws, or requirements of, any recognised body or Stock Exchange in any territory; and
  - (b) the allotment (other than pursuant to paragraph (a) of the resolution) of equity securities up to an aggregate nominal value of £2,795,100;


and shall expire on the date of the next Annual General Meeting of the Company after the passing of this resolution, or fifteen months from the date of the passing of this resolution whichever is earlier, save that the Company may,

before such expiry, make any offer or agreement which would or might require equity securities to be allotted after such expiry, and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired'.

By Order of the Board   
 JAMES AYLING  
 for Stewart Ivory & Company Limited  
 Secretary  
 45 Charlotte Square, Edinburgh EH2 4HW  
 27th February 1998

## NOTES

- 1 To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members at close of business on 23rd March 1998 ("the specified time"). If the meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at the time which is 48 hours before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice.
- 2 Holders of ordinary shares who are entitled to attend and vote at the meeting convened by the foregoing notice may appoint one or more proxies (who need not be a member or members) to attend and, on a poll, vote in their place. The instruments appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority must be delivered to the offices of the Company's Registrars, The Royal Bank of Scotland PLC, Securities Services - Registrars, PO Box 457, Owen House, 8 Bankhead Crossway North, Edinburgh EH1 1 0XG, not less than 48 hours before the time appointed for the holding of the meeting. Return of a completed form of proxy will not preclude a member from attending and voting personally at the meeting. A form of proxy is enclosed.
- 3 A separate Voting Instructions Form is enclosed for those holding their shares through either SAINTS PEP.
- 4 There are no service contracts in place between the Company and any of its Directors.

 After the meeting, Teddy Tulloch, one of the directors of Stewart Ivory responsible for SAINTS, will give a short presentation on the results for 1997 and the investment outlook.



## Over a Century of Success

SAINTS was the first investment trust in Edinburgh, founded in 1873 to provide investors with the chance to benefit from the development of North America.

Since then it has been looking after private investors' money through 24 changes of government and two World Wars. Today it is a well diversified international general trust with North American investments representing only 12.1 per cent of shareholders' funds.

SAINTS' success is based on the geographical spread of shareholdings which comes from its manager's knowledge of the world's stockmarkets and its flexibility to invest in any kind of company – large or small.

Some investment trusts cater more for institutional investors, but with its Savings Scheme and Personal Equity Plans, SAINTS is firmly focused on the private individual.

If you require any further information please contact:

Ivan Blair or James Ayling,

Stewart Ivory & Company Limited

45 Charlotte Square, Edinburgh EH2 4HW

Telephone 0131 226 3271

Fax 0131 226 5120

# SAINTS



The Scottish American  
Investment Company P.L.C.