SAINTS

The Scottish American Investment Company P.L.C.

Annual Report 1998

Contents

SAINTS

The Scottish American Investment Company P.L.C.

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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.

OUR REPORT AND ACCOUNTS

Since its introduction, our style of Annual Report has been very well received by both shareholders and investment trust analysts. For the second year running 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.

Summary

Asset value rose by 11.7 per cent before payment of Special Anniversary Dividend of 1.00p per share.

Regular dividend for the year increased by 1.5 per cent.

£'000	1998	1997	% change
Shareholders' Funds	577,154	518,763	+11.3%
Asset Value per Share	258.1p	232.0p	+11.3%
Dividend per Share*	5.45p	5.37p	+1.5%
Share Price at Year End	210.0p	191.50p	+9.7%

*excluding Special Anniversary Dividend

CAPITAL PERFORMANCE BY SECTOR

Over the year to 31st December 1998

	SAINTS' *Performance (%)*	*Performance of Sterling-adjusted Index (%)*	
UK	+8.5	+10.9	FT-SE-A All-Share
North America	+23.0	+25.3	S & P Composite
Continental Europe	+21.8	+29.3	FT/S&P-AWI Europe (ex UK)
Japan	+9.6	+5.4	Tokyo Stock Exchange Index
Pacific Rim	–5.1	–10.2	FT/S&P-AWI Pacific (ex Japan)
Emerging Markets	–13.8	–28.3	MSCI Emerging Markets Free

Chairman's Statement

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

BENCHMARK

65% UK FT-SE-A All Share Index
35% FT/S&P World (ex UK) Index

SAINTS' SHAREHOLDERS

Share capital held by	%
Individuals	39.0
Nominees	51.4
Institutions	9.6
Number of shareholders	**19,774**

RESULTS FOR 1998

SAINTS' net asset value per share increased by 11.7 per cent, (11.3 per cent after the proposed special dividend), ahead of the rise in the FT-SE-A All-Share Index of 10.9 per cent but behind the 14.2 per cent gain in the benchmark that we set a year ago as our long term target. Our performance was encouraging relative to other general investment trusts and our share price performance better than average for the sector. SAINTS' share price rose to 210p at the end of the year compared to 191.5p a year before and the dividend was increased from 5.37p to 5.45p.

The main reason for being behind our benchmark was a bias still towards medium sized and smaller companies. These can provide some particularly exciting opportunities for sustained growth of earnings. However, the performance of US and European markets was dominated by large companies in 1998, as investors sought safety in internationally recognised companies whose shares were very marketable. Our portfolios in these markets lagged the indices, and we had too little invested in North America at the start of the year. We benefited from increasing our investment in the US during the year and from the strong performance of gilts (another 'safe haven').

DIVIDENDS

You will see from the Notice of our Annual General Meeting that the Board seeks the approval of Shareholders for the payment of a special 125th Anniversary Dividend of 1p out of the accumulated reserves of previous years. If approved, this will be paid on 30th April.

The Board also proposes a regular fourth quarterly dividend for 1998 payable on 1st April at the rate of 1.37p per share. This marginal increase of 0.01p in the quarterly dividend will make the total annual dividend for 1998 5.45p compared with 5.37p for 1997. An element of that final dividend will be paid unusually as a Foreign Income Dividend (FID), as was this year's second interim, to minimise the Company's tax burden. The Board appreciates that, while all shareholders benefit from the increase in net assets, those shareholders who are not liable to tax on their dividend income will have suffered a modest reduction in their total income for 1998/99 because they cannot recover tax on a FID. The special 125th Anniversary Dividend may be especially welcome to such investors.

We would expect to maintain the new quarterly rate of 1.37p for 1999. The release to this year's Income Account of dividend from our subsidiary of its surpluses realised in previous years allows us to finance the special Anniversary Dividend with only a very marginal reduction in the Revenue Reserve carried forward. As explained in last year's Report, we will have to wait a little longer for our annual distributable income to grow strongly.

STRATEGIC LONG TERM INVESTMENT AND GEARING

I described in last year's Report our philosophy of selecting an international portfolio of growth shares, and the changes that we had made to provide growth of our dividend in future years. This continues to be the dominant feature of our investment approach. Our Manager's Report covers the details of the changes in our portfolio in the last year and also gives a view on the immediate outlook for stockmarkets.

Despite the advantages of investment diversification, CGT tax shelter within the portfolio and low expenses, investment trusts generally have recently attracted adverse comment for the level of discount at which their share prices stand relative to their assets. The discount is a function of the balance between demand for a trust's shares from new investors and the desire of existing investors to sell. As explained below, the buying-in of shares at a discount enhances the net asset value for continuing shareholders, but the imbalance of demand for and supply of shares is less directly under the control of the Board and management than is the level of borrowing ('gearing').

With gilt yields now well under 5 per cent, it is easy to forget that interest rates have been consistently at much higher levels for nearly 30 years since the early 1970s. In recent years borrowing has been very expensive, and the adverse effect on the income account made it difficult to justify except in a relatively small way from time to time. If we are about to enter an environment of low economic growth and low interest rates, in which investments yield a higher income than the cost of borrowing, the opportunity for conventional gearing becomes much greater. Such gearing is what made investment trusts so successful in the 1950s and 1960s.

We have already borrowed to finance a portion of our assets: your company's property investments are financed by a debenture issued in April 1997. The average yield on the properties is greater than the interest rate payable on the debenture and the Trust also enjoys increasing capital values of the properties. The Board expects to extend this approach to equity investment because, if executed correctly, the results of this tactic should enhance investment performance and thus contribute to increased demand for SAINTS' own shares, thereby reducing the share price discount.

LOOKING AFTER YOUR MONEY

The Board is very conscious that we are responsible for a part, possibly a substantial part, of your wealth and that generally you want us to be fully invested when markets are going up and to take action to protect your investments as far as possible when markets are falling.

For a considerable number of years most stockmarkets have grown strongly. The total return for the UK equity market since 1982 has grown at a compound rate of 17 per cent per annum and similar rates of growth have been achieved in most major equity markets, with the recent exception of Japan. Investors have grown accustomed to this sort of result, but we must recognise that we may be about to enter an era where much lower rates of growth will be the norm. Two factors will contribute to this: first, there will be much smaller rises, and even falls, in the general level of prices in most major economies, and secondly the present rating of many of the world's stockmarkets is unsustainably high.

With more modest growth of investment values the level of investment management charges assumes greater importance alongside the other advantages referred to above—gearing opportunities and capital gains tax treatment. A general investment trust such as SAINTS provides international investment management at a fraction of the cost of other comparable collective savings media. If annual results revert to average annual increases of single figures, which one might now expect, the compounded benefit of low management fees becomes much more significant.

BUYING IN OUR OWN SHARES

You will see from the Notice of Meeting on page 38 that the Board is seeking power to buy in SAINTS' shares when attractive opportunities appear. We believe that this will assist us to manage SAINTS to your advantage by allowing us to act when it appears that our own shares are the best investment purchases we can make. Since such shares will only be bought when the share price is below net asset value and are then cancelled, any purchase automatically enhances the net asset value attributable to the remaining shares. And the presence in the market of another purchaser for shares available for sale may well help to contain the level of discount.

ISA

PEPs will cease to be an active form of saving on 5th April 1999 but the government is then introducing a new tax exempt form of saving called Individual Savings Account (ISA). The SAINTS PEP has proved attractive to many investors who collectively held some 11.1 per cent of our shares at the end of 1998. SAINTS will be introducing an ISA and we will be writing to all existing PEP holders with details, encouraging them to continue to invest with us. Anyone who is not a PEP holder and would like to learn about our ISA should contact Penny Marchant at Stewart Ivory, as should anyone who has not yet taken out a 1998/99 PEP.

125th ANNIVERSARY

SAINTS was established in 1873 and was the first investment trust in Edinburgh. I have already referred to the Special Dividend that we propose to mark this milestone. We have also contributed to the new Museum of Scotland, opened by the Queen last November, sponsoring a section called 'The Scottish Homeland'. Among other things, this illustrates the important role of investment trusts in the financing of new capital projects in the latter part of the 19th Century. In addition, we are making a modest donation to replace some elderly trees in Charlotte Square, where we have long had our office.

LOOKING AHEAD

Last year was a turbulent year in financial markets worldwide, and 1999 has opened in a similarly unsettled atmosphere. The encouraging result achieved by SAINTS in 1998 provides confidence for the future as we pursue successful long term investment in the midst of short term attitudes and sheeplike behaviour prevailing elsewhere among institutional investors.

SIR JOHN SHAW, *Chairman*
10th February 1999

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

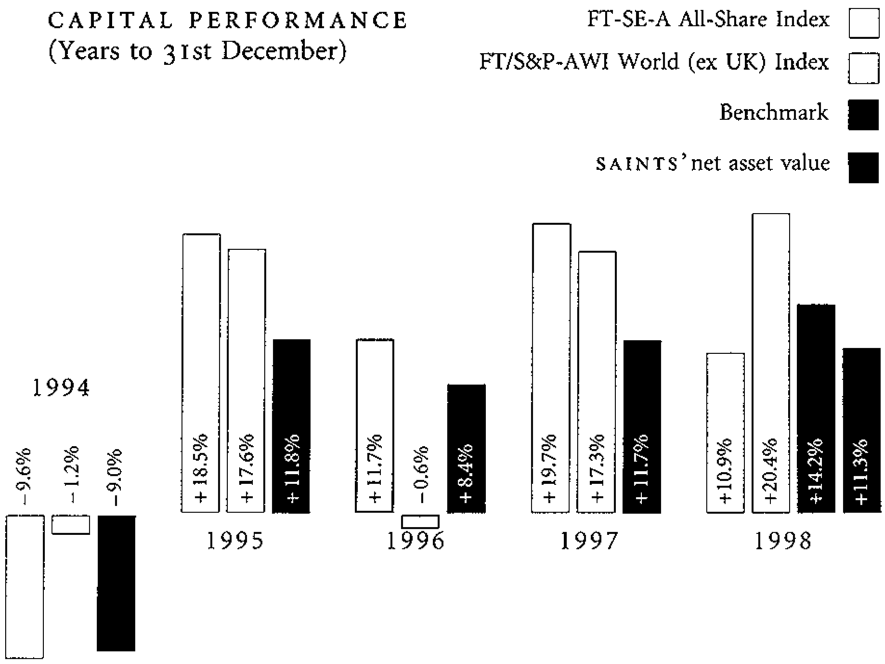
SAINTS' total return (growth in net asset value plus net income received) was 14.0 per cent in a volatile year for investment. Western stockmarkets all performed well with a useful gain in the UK; the greatest rises were in Continental Europe and North America.

However, it was not a year of steady progress. After a strong first half, equities fell sharply in the third quarter as the spread of deflation in Asia appeared to herald worldwide recession, while debt default in Russia and the collapse of a major US investment fund threatened to undermine the integrity of the banking system. By early October markets had lost all the ground gained earlier in the year. However, following two reductions in US interest rates in quick succession, virtually every other central bank also cut rates, fuelling a dramatic recovery in share prices.

Asian equity markets were weak in the first half of the year, but they reduced earlier losses significantly in the final quarter. In fact, the strength of the yen even resulted in a positive return for the year from the Japanese stockmarket expressed in sterling terms.

While the performance of markets diverged between East and West, so too did the performance of larger and smaller companies. Virtually everywhere, the share prices of the largest companies were strongest, and sheer size became a fundamental criterion for investment. In the UK, the FTSE 250 mid-size company index was up only 1.4 per cent in 1998, while in the US the Russell 2000, a small company index, actually declined by 3.4 per cent. Historically, our investment approach has tended to identify the potential for outstanding growth of earnings in medium and smaller companies. Given our bias towards these sectors, it is reassuring that the

CAPITAL PERFORMANCE
(Years to 31st December)



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

	1998	1997
	%	%
Services	26	20
Financials	19	20
Consumer Goods	19	15
General Industrials	10	15
Fixed Interest	8	7
Mineral Extraction	5	6
Utilities	5	7
Properties	3	3
Investment and Unit Trusts	3	4
Other	2	3

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

performance of the UK and particularly the US portfolios was only just over 2 percentage points behind the respective country indices. In Continental Europe our results were more disappointing, but this was partly balanced by relatively strong performance from Japan, the Pacific Rim and Emerging Markets.

The major bond markets also delivered good returns in 1998, and in many cases better than equity markets. Our fixed interest portfolio of UK gilts increased in value by 17.6 per cent, while our property portfolio also increased in value. We continued to make use of FTSE index futures to hedge part of the liability of the Equities Index Unsecured Loan Stock. This effectively increased the level of investment in the UK market and produced an additional capital profit of £2.4m over the year.

During the year, we added to the portfolio of US equities, reducing the exposure to Asian markets, and we also sold the last remaining direct investment in Latin America. At the year end, 19.2 per cent of Shareholders' Funds was invested in North America, compared to 12.1 per cent at the start of the period.

We have transferred £2.4m from a subsidiary to SAINTS itself. This amount represents the proceeds of a trading gain made some years ago, and from an accounting point of view is treated as income. Even with this transfer, earnings did not cover the total dividend payments, including the special dividend. Revenue reserves were used to make up the small shortfall. Without the transfer from the subsidiary and the special dividend there would still have been a deficit in the income account. This is a result of our policy of putting greater emphasis on capital growth than on income, a successful strategy as most higher yielding shares have underperformed the UK market over the last three years.

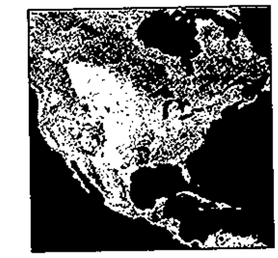
UK PORTFOLIO

The outlook for the UK economy became much more difficult in 1998, with manufacturing industry slipping into recession, and, by the end of the year, increasing signs of slowdown in the consumer and service sectors. In common with authorities in other countries, the Monetary Policy Committee of the Bank of England responded by cutting interest rates in the second half of the year. Share prices reacted very positively and also benefited from the strength of the gilt market, as any inflationary pressures remained subdued, and the Government showed increasing enthusiasm for the UK's early participation in the euro.

The large pharmaceutical and telecommunications stocks dominated the market as investors focused on visible earnings growth and trading liquidity. Sterling remained strong throughout the year, penalising industrial manufacturers already facing deteriorating market conditions, especially in the Far East.

Our continuing tilt towards medium sized growth companies and an underweight position in telecommunications for most of the year held back the return from our UK equity holdings relative to the overall market, but the portfolio looks well positioned for the coming year.

NORTH AMERICAN PORTFOLIO



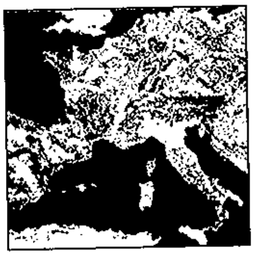
North American stockmarkets had another excellent year. The US economy showed remarkable resilience, shrugging off the financial crisis in Asia and a domestic manufacturing recession. Retail spending underpinned this robust growth, buoyed by low levels of unemployment and, latterly, falling interest rates. Indeed the level of personal savings declined throughout the year, and by the end of the period consumers were borrowing to finance continuing expenditure.

Large companies led the way for the second consecutive year with many smaller companies enduring a bear market for much of 1998. Extremes in relative valuations seemed irrelevant to investors as the excess liquidity from a rapidly growing money supply poured into the largest stocks. Here too a bias towards medium sized companies hampered our relative result, but we have continued to broaden the portfolio and performance improved steadily through the year.

% OF SHAREHOLDERS' FUNDS

	1998	1997
Denmark	0.5	—
Finland	0.1	—
France	1.3	1.5
Germany	0.7	1.5
Ireland	0.2	—
Italy	1.5	1.2
Netherlands	1.1	1.6
Spain	0.5	0.3
Sweden	0.3	0.2
Switzerland	1.0	1.4
Unit Trust	0.8	0.8
Total	**8.0**	8.5

CONTINENTAL EUROPEAN PORTFOLIO



The arrival of the European single currency dominated markets during the year, and the alignment of the participating currencies resulting in falling interest rates across the Continent. Relatively strong economic growth also stimulated stockmarkets together with increased levels of local investment and corporate restructuring.

As with other markets, outperformance was concentrated in the largest stocks and returns from our European investments proved relatively disappointing. Our portfolio tended to be too defensive, and indeed we had a good third quarter against a weak market, but, in a more difficult environment, reliability of earnings looks set to be the principal investment theme in Europe in the year ahead.

JAPANESE PORTFOLIO

The Japanese economy continued to contract during the year. The appreciation of the yen in the second half and a precipitous decline in the bond market undermined the government's attempts to stimulate a revival by increasing fiscal expenditure. Against this gloomy background, the relative outperformance of our own Japanese portfolio stemmed from an emphasis on companies with strong balance sheets and secure profits, avoiding more volatile sectors.

PACIFIC RIM AND EMERGING MARKETS

IMF sponsored economic support packages failed to prevent Asian and other emerging markets dropping sharply during 1998, but falling interest rates and growing current account surpluses, particularly in Asia, resulted in some recovery by the year end. While Korea and Thailand recorded positive returns for the year, other Asian markets lost ground. We no longer have any exposure to Latin America. As in Japan, a focus on soundly financed companies and an aversion to leveraged businesses in a difficult environment proved a relatively successful strategy.

% OF SHAREHOLDERS' FUNDS

	1998	1997
Asia	0.6	2.2
Australasia	0.2	0.5
Eastern Europe	0.4	0.7
Latin America	—	0.9
Investment Trusts	0.8	1.2
Unit Trust	—	0.5
Total	**2.0**	**6.0**

UNQUOTED PORTFOLIO

It was an inactive year for our unquoted portfolio. We increased a small holding in the Quantum Fund, which finances research projects at Scottish Universities. Quantum Fund invested £20,000 into both Amoebics and Biopraxis Development on our behalf. A larger unquoted holding is in the International Mezzanine Investment Fund, which provides secondary finance to a range of companies. The Fund completed the investment of its capital during the year and has already made excellent progress.

We added two new properties to our portfolio at a cost of £1.1m. These were a public house in Eastleigh in Hampshire and a bingo hall in Hull which is being converted into a public house. At the year end we had invested £16m of the £25m raised by a debenture in April 1997 in order to fund the property portfolio. This rate of investment has been slower than expected, but OLIM Ltd, which manages the portfolio on our behalf, has been anxious not to compromise the quality of properties purchased or the reliability of the tenants. We have received a satisfactory return through holding the uninvested funds in gilts.

SAINTS' UNQUOTED EQUITY PORTFOLIO

Company		*% held*	*Cost £'000*	*Value £'000*	*Main Activity*
IMI 8% 2003 Loan Stock IMI Common Stock	[NOTE 1]	4.4‡ 4.4‡	{ 6,117	6,611	Mezzanine finance
Stewart Ivory Holdings 'C' Ord	[NOTE 2]	100†	1,100	3,000	Investment managers
Martenby Ordinary Martenby Preference		43.5† 42.2†	{ 879	876	Hotel owner
NIF No. 8 Units		3.8*	297	448	Japanese venture capital fund
The Quantum Fund		33.3†	160	160	Venture capital
Amoebics		21.4†	20	20	Antibiotics research
Biopraxis		17.0§	20	20	Iron sulphide production
			8,593	**11,135**	**1.9 per cent of shareholders' funds**

NOTE 1: Cost of investment at 31st December 1997 £6,117,000; value £6,077,000
NOTE 2: Represents 24.2 per cent of total issued share capital
Registered or Incorporated in: † Scotland ‡ Netherlands Antilles * Japan § England & Wales

SAINTS' PROPERTY PORTFOLIO

Address	*Type*	*Tenant*
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
Eastleigh – 3 High Street	Public House	BAJ (Guernsey) Ltd
Edinburgh – 44/45 Charlotte Square	Office	Stewart Ivory & Company Limited
Hull – 386 Beverley Road	Public House	Whitbread plc
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

TWENTY LARGEST EQUITY HOLDINGS

Company	*Value £'000*	*Main Activity*
Glaxo Wellcome	26,470	Pharmaceuticals
Lloyds TSB	19,665	Banking & financial services
British Petroleum	17,501	Integrated oil company
British Telecom	17,431	Telecommunications
Shell Transport & Trading	12,555	Integrated oil company
SmithKline Beecham	11,127	Pharmaceuticals
Cable & Wireless Communications	10,980	Telecommunications
Independent Insurance Group	10,816	Insurance
Vodafone	10,736	Telecommunications
Barclays Bank	10,498	Banking & financial services
Unilever	9,457	Consumer products
CGU	9,236	Insurance
Zeneca Group	9,160	Pharmaceuticals
Pennon Group	8,715	Water utility
Bank of Scotland	8,604	Banking & financial services
Boots	8,188	Pharmaceuticals & retailing
Hays	7,649	Specialist business services
Value & Income Trust	7,539	Specialist investment trust
Cattles Holdings	7,274	Consumer finance
Scottish Power	7,059	Electricity utility
40.0 per cent of shareholders' funds	**230,660**	

OUTLOOK

We expect the rate of global economic growth to slow in 1999. As a result we are also anticipating continuing downward revisions to estimates for corporate profits already beset by excess capacity, particularly in manufacturing sectors. Nevertheless, there should be some encouragement for investors as central bankers take action to stimulate economic growth by reducing interest rates.

The strength of the US economy has sustained other regions, but looks unlikely to escape the impact of worsening international conditions. The rising trade deficit is evidence of the strain between a continuing boom in consumer demand and the travails of the industrial sectors. Falling interest rates have supported the market, but valuations could become unsustainable as money supply continues to grow and we may need to take a more defensive stance towards US investment during the coming year.

The UK has had a similar pattern of economic growth led by consumption, but this deteriorated in the last few months of 1998. Interest rates appear too high for a country now in danger of slipping into recession, and the prospect of further rate cuts should support a stockmarket that is reasonably attractively valued relative to gilts and relatively cheap compared to other major markets.

The successful introduction of the euro caused an initial bout of euphoria in Continental European markets, but economic growth is slowing there too, and there is less scope for reducing already low interest rates. In any event, the introduction of the euro in an environment of falling rates should ease any internal pressures from the application of a single monetary policy across the whole of the continent, and we expect that the regional areas that have been growing rapidly will continue to outperform.

The environment in Japan is very different from that in the West, but we are convinced that the yen will have to decline again for any sustained recovery. Further weakness in the stockmarket may well trigger a more consistent effort by the government to reflate the economy. The Japanese bear market has now been in progress for nine years and the stockmarket is now over 60 per cent below its peak level, but we believe that later in the year it may represent a very attractive investment opportunity.

We are also relatively positive about the outlook for the other Asian markets, as signs of economic revival become more encouraging, but in the wake of the devaluation in Brazil, are cautious about any renewed exposure to Latin America.

Equities remain volatile, stretched between the positive momentum generated by falling interest rates and the negative impact of disappointing corporate results. The high valuation placed on many leading shares leaves little cushion for any unexpected

SUMMARY OF VALUATION AT 31st DECEMBER 1998

	1998 %	1997 %
Equities		
UK	74.5*	77.1*
North America	19.2	12.1
Continental Europe	8.0	8.5
Japan	2.3	2.2
Pacific Rim/Emerging Markets	2.0	6.0
Unquoted	1.9	2.0
	107.9	**107.9**
Fixed Interest	9.6	9.1
Properties	3.4	3.4
Subsidiary Companies	0.1	0.6
Futures	0.8	0.3
Net Current Assets	—	0.9
	121.8	**122.2**
Less:		
Equities Index Unsecured Loan Stock	–17.4	–17.4
Debenture Stocks	–4.4	–4.8
Shareholders' Funds	**100.0**	**100.0**

*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 66.3% of shareholders' funds (64.6% in 1997).

CURRENCY EXPOSURE AT 31st DECEMBER 1998

	1998 %	1997 %
UK (less borrowings)	69.0	71.7
North America	20.3	12.1
Continental Europe	7.2	9.7
Japan (less borrowings)	2.4	0.5
Pacific Rim/Emerging Markets	1.1	6.0
Shareholders' Funds	**100.0**	**100.0**

shocks. However, it would be wrong to underestimate the power of lower rates to move share prices higher, and there is still substantial potential for further reductions in both the UK and USA. In this environment we have retained a fairly full exposure to quoted equities, but do not feel that a further increase through additional borrowing is an appropriate strategy at present. We start the year with a relatively optimistic view of markets, but aware that we may have to make significant shifts in our approach as the year progresses.

TEDDY TULLOCH
DAVID SHAW STEWART
10th February 1999

List of Quoted Equity Investments AT 31ST DECEMBER 1998

Value £'000

UNITED KINGDOM 74.5%

OIL, INTEGRATED 5.2%	
British Petroleum	17,501
Shell Transport & Trading	12,555
OIL EXPLORATION & PRODUCTION 0.2%	
Expro International	1,198
BUILDING & CONSTRUCTION 1.1%	
Amec 6.5% Cv. Pref. 2009	3,815
Redrow	2,581
BUILDING MATERIALS & MERCHANTS 0.1%	
Craig & Rose*	257
CHEMICALS 0.4%	
Laporte	2,097
DIVERSIFIED INDUSTRIALS 0.7%	
Tomkins	4,252
ELECTRONIC & ELECTRICAL EQUIPMENT 1.7%	
Bowthorpe	3,485
GEC	5,425
Vision	667
ENGINEERING 2.9%	
Domnick Hunter	1,131
Halma	1,756
McKechnie	2,188
Rotork	3,850
Smiths Industries	5,574
Spirax-Sarco Engineering	2,332
FOOD PRODUCERS 2.7%	
Cadbury Schweppes	6,150
Unilever	9,457
HOUSEHOLD GOODS & TEXTILES 1.5%	
Peter Black Holdings	3,270
Lamont Holdings*	505
Reckitt & Colman 9.5% Cv. 2005	4,887
HEALTH CARE 1.9%	
Alliance UniChem	5,372
Seton Scholl Healthcare	5,444
PHARMACEUTICALS 8.2%	
Glaxo Wellcome	26,470
William Ransom & Son*	795
SmithKline Beecham	11,127
Zeneca	9,160
TOBACCO 0.4%	
British American Tobacco	2,643
DISTRIBUTORS 0.4%	
Pendragon	1,535
Time Products	809
MEDIA 0.6%	
EMAP	3,399

	Value £'000
RETAILERS, FOOD 2.4%	
Greggs	4,343
Wm. Morrison Supermarkets	2,790
Tesco	6,679
RETAILERS, GENERAL 3.5%	
Boots	8,188
N Brown	3,201
Dixons 5% Cv. Pref. 2003/07	4,490
Kingfisher	4,176
TELECOMMUNICATIONS 6.8%	
British Telecommunications	17,431
Cable & Wireless Communications	10,980
Vodafone	10,736
BREWERIES, PUBS & RESTAURANTS 2.3%	
Scottish & Newcastle	4,537
Whitbread	4,617
Yates Bros. Wine Lodges	3,956
SUPPORT SERVICES 4.4%	
Davis Service	6,192
Hays	7,649
ITNET	2,731
Sage	4,318
Stat-Plus Group*	1,210
Williams Holdings	3,150
TRANSPORT 1.7%	
BAA	6,840
Peninsular & Orient Dfd.	2,842
ELECTRICITY 2.3%	
British Energy	3,438
National Grid	3,118
Scottish Power	7,059
GAS DISTRIBUTION 0.8%	
BG	4,685
WATER 2.6%	
Pennon	8,715
United Utilities	6,426
BANKS, RETAIL 9.1%	
Bank of Scotland	8,604
Barclays Bank	10,498
Lloyds TSB	19,665
National Westminster Bank	6,780
Northern Rock	7,025
INSURANCE 3.5%	
CGU	9,236
Independent Insurance*	10,816
LIFE ASSURANCE 2.4%	
Legal & General	6,829
Prudential Corporation	6,806
OTHER FINANCIAL 1.3%	
Cattles	7,274
PROPERTY 2.0%	
Capital & Regional Properties	741
Derwent Valley Holdings*	5,448
Great Portland Estates	2,274
Pillar Property	3,289
INVESTMENT TRUSTS 1.4%	
Henderson Smaller Cos. Inv. Trust	226
Reabourne Merlin Life Sciences	613
Value & Income Trust* (13.7% of class)	7,539

Value £'000

NORTH AMERICA 19.2%

EXTRACTIVE INDUSTRIES 0.4%	
Schlumberger	2,090
BUILDING MATERIALS & MERCHANTS 0.3%	
Sherwin-Williams	1,589
ELECTRONIC & ELECTRICAL EQUIPMENT 2.4%	
Cisco Systems	5,022
Emerson Electric	1,091
General Electric	2,452
Linear Technology	2,691
Molex Class 'A'	2,506
ENGINEERING 0.5%	
Illinois Tool Works	3,068
ENGINEERING, VEHICLES 0.5%	
Snap-on	2,699
PAPER, PACKAGING & PRINTING 0.3%	
Bemis	1,710
FOOD PRODUCERS 0.3%	
Ralston Purina	1,931
HEALTH CARE 3.6%	
Cardinal Health	4,446
Guidant	2,777
HCR Manor Care	2,295
Medtronic	2,679
Omnicare	2,297
Procter & Gamble	2,195
Quintiles Transnational	2,373
Steris	1,880
PHARMACEUTICALS 1.2%	
American Home Products	2,643
Johnson & Johnson	2,117
Pfizer	2,404
TOBACCO 0.5%	
Philip Morris	2,605
DISTRIBUTORS 0.5%	
US Foodservice	2,651
RETAILERS, FOOD 0.4%	
Safeway	2,564
RETAILERS, GENERAL 3.4%	
AutoZone	1,782
Cendant	1,857
Consolidated Stores	1,577
Home Depot	4,413
Kohls	2,585
Office Depot	3,230
Walgreen	3,872
TELECOMMUNICATIONS 0.6%	
SBC Communications	3,610

	Value £'000
SUPPORT SERVICES 1.9%	
BMC Software	2,412
Cintas	2,454
Microsoft	1,667
Oracle	2,075
ServiceMaster	2,387
BANKS, RETAIL 1.5%	
Bank of New York	3,629
Bank One	2,425
Wells Fargo	2,880
INSURANCE 0.4%	
Chubb	2,102
LIFE ASSURANCE 0.5%	
SunAmerica	2,957

CONTINENTAL EUROPE 8.0%

DENMARK 0.5%; FINLAND 0.1%; FRANCE 1.3%; GERMANY 0.7%; IRELAND 0.2%; ITALY 1.5%; NETHERLANDS 1.1%; SPAIN 0.5%; SWEDEN 0.3%; SWITZERLAND 1.0%; UNIT TRUST 0.8%

	Value £'000
OIL, INTEGRATED 0.3%	
Total 'B'	1,827
BUILDING MATERIALS & MERCHANTS 0.2%	
St. Gobain	1,019
ELECTRONIC & ELECTRICAL EQUIPMENT 0.1%	
Nokia 'A'	883
ENGINEERING, VEHICLES 0.1%	
Valeo	697
FOOD PRODUCERS 0.6%	
Danone	861
Nestlé	1,308
Nutreco Holding	1,185
HEALTHCARE 0.4%	
Luxottica ADS	2,524
PHARMACEUTICALS 0.8%	
Novartis	4,372
DISTRIBUTORS 0.2%	
Manutan	1,296
MEDIA 0.6%	
Wolters Kluwer	3,217
TELECOMMUNICATIONS 1.1%	
Mannesmann	1,391
Tele Danmark	2,839
Telecom Italia	1,670
Telefonica SA	546
SUPPORT SERVICES 0.2%	
SAP Non Vtg. Pref.	866
ELECTRICITY 0.1%	
Endesa	478
BANKS, RETAIL 1.5%	
Banco Popular	1,816
Bayer Hypo-Vereinsbank	1,784
Nordbanken Holding AG	1,542
San Paolo IMI	2,503
Unicredito Italiano	1,071
INSURANCE 0.2%	
Generali Assicurazioni	905
LIFE ASSURANCE 0.2%	
Irish Life	1,246
OTHER FINANCIAL 0.6%	
AXA-UAP	1,743
ING Groep	1,834
UNIT TRUST 0.8%	
Stewart Ivory European Smaller Companies Fund	4,903

JAPAN 2.3%

	Value £'000
ELECTRONIC & ELECTRICAL EQUIPMENT 0.7%	
Matsushita Communications Ind'l.	1,108
Sony	746
Taiyo Yuden	684
TDK	661
Toshiba	516
ENGINEERING 0.1%	
Bridgestone	533
ENGINEERING, VEHICLES 0.1%	
Suzuki Motor	643
HEALTH CARE 0.2%	
Terumo	1,162
PHARMACEUTICALS 0.2%	
Takeda Chemical	1,368
RETAILERS, FOOD 0.2%	
Ito Yokado	842
TELECOMMUNICATIONS 0.5%	
NTT	725
NTT Mobile Comms. Network	2,032
SUPPORT SERVICES 0.1%	
Fujitsu Support & Services	651
ELECTRICITY 0.1%	
Tokyo Electric Power	654
OTHER FINANCIAL 0.1%	
Promise	780

PACIFIC RIM/ EMERGING MARKETS 2.0%

AUSTRALIA 0.2%; CROATIA 0.2%; HONG KONG 0.4%; HUNGARY 0.2%; SINGAPORE 0.1%; THAILAND 0.1%; INVESTMENT TRUST 0.8%

	Value £'000
ELECTRONIC & ELECTRICAL EQUIPMENT 0.3%	
VTech Holdings	1,704
FOOD PRODUCERS 0.1%	
Thai President Food	685
PHARMACEUTICALS 0.4%	
Gedeon Richter GDS	1,256
Pliva GDR	998
RETAILERS, GENERAL 0.1%	
Dickson Concepts	266
TRANSPORT 0.2%	
Brambles Industries	571
TIBS Holdings	566
OTHER FINANCIAL 0.1%	
Lend Lease	487
INVESTMENT TRUST 0.8%	
The Scottish Oriental Smaller Companies Trust* (39.3% of class)	4,550
The Scottish Oriental Smaller Companies Trust Warrants	250

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 quoted on the Stock Exchange, they have to comply with the London Stock Exchange Listing Rules and the Combined Code of Best Practice on 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, PEPs or, from 6th April 1999, the SAINTS ISA.

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

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 for new investors is £100 and the minimum lump sum investment is £250.

THE SAINTS PEPs

The Company satisfies the requirements for investment of up to £6,000 in a Personal Equity Plan (PEP) in the tax year 1998/99. 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.

As you may be aware, you have until 29th March 1999 to make an investment into a SAINTS PEP. Whilst you will not be able to make any further investments after this date you will not be required to sell or transfer any of your existing PEP holdings which will retain the same tax advantages.

You can 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

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.

a portfolio of shares in smaller 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. There is also a monthly investment facility with a minimum subscription of £50.

THE SAINTS ISA

An Individual Savings Account (ISA) is a new tax-efficient investment product which will be introduced on 6th April 1999 to replace PEPs. Like the PEP, any capital returns or income received within an ISA are free from all taxation.

The SAINTS ISA will be a Maxi ISA offering the stock and shares element only. This means that you can invest up to £7,000 in SAINTS shares in 1999/2000 and £5,000 each year thereafter, until 2009. Investors will be able to choose between lump sum investment, minimum £1,000, and regular monthly savings, minimum £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 9.7 per cent. As the discount widened slightly from 17.5 per cent to 18.6 per cent, this was a little lower than the growth in the net asset value of 11.3 per cent, which represents the capital return as shown on page 27 less the reduction in revenue reserve.

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 1998 are shown in the accompanying table.

DIVIDEND PAYMENTS FOR 1998

	Net	Gross
First interim	1.36p	1.70p
Second interim*	1.36p	1.36p
Third interim	1.36p	1.70p
Final *payable 1.4.99*†	1.37p	1.53p
Total	**5.45p**	**6.29p**
Special *payable 30.4.99*	1.00p	1.11p

* paid as a Foreign Income Dividend.
† payable as part Conventional Dividend (0.64p net), part Foreign Income Dividend (0.73p net).

HOW YOU ARE TAXED

1: CAPITAL

Taxation of capital gains from your investment.

As an investment trust, SAINTS 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 £6,800. But any gains in excess of £6,800 are chargeable at your highest rate of tax, a maximum 40 per cent. These figures apply for the fiscal year ending 5th April 1999.

Up to 5th April 1998 the cost of investments for capital gains tax purposes was adjusted in line with inflation. However, this indexation allowance was frozen at 5th April 1998 and has been replaced by a taper relief. Therefore, from 6th April 1998, chargeable gains will be reduced according to how long the investment has been held.

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.

Shareholders are recommended to consult their professional adviser if they are in any doubt as to their tax position.

2: INCOME

Taxation of dividends from SAINTS

The dividends you receive from your SAINTS shares, whether paid as a conventional dividend or as a foreign income dividend, 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), you will be liable to a further amount of tax. The conventional dividend, including the relevant tax credit, and the foreign income dividend, including the income tax treated as paid, should be declared on your Tax Return. If you do not pay tax on income, only the tax suffered on conventional dividends paid before 6th April 1999 may be recovered from the Inland Revenue. Non-taxpayers will therefore be unable to recover the tax credit accompanying the special dividend.

QUARTERLY DIVIDEND DATES FOR 1999

Information on dates of dividends and publication of results.

	Final 1998	*Special 1998*	*First Interim**	*Second Interim**	*Third Interim**
Dividend announced	10.2.99	10.2.99	14.4.99	14.7.99	20.10.99
Ex-dividend date	1.3.99	22.3.99	24.5.99	31.8.99	22.11.99
Record date	5.3.99	26.3.99	28.5.99	6.9.99	26.11.99
Dividend paid	1.4.99	30.4.99	2.7.99	4.10.99	5.1.00

**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 will shortly provide up-to-date information on the share price, net asset value and discount as well as full information on the Savings Scheme, PEPs and ISA. We hope you will visit the site and pass on any comments to us to provide the service you are looking for at: www.stewartivory.co.uk/saints

FURTHER INFORMATION

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

HISTORICAL PERFORMANCE

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

	TOTAL INVEST-MENTS £000	SHARE-HOLDERS' FUNDS £000	NET ASSETS PER SHARE P	SHARE PRICE P	EARNINGS PER SHARE (GROSS) P	DIVIDEND PER SHARE (GROSS) P	DIVIDEND PER SHARE (NET) 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
1998	702,681	577,154	258.1	210.0	7.99	7.40*	6.45*

**Includes special dividend (1.11p gross; 1.00p net)*

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 (66) 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 (53) 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 (59) 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 (63) 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 (66) 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 (51) joined the Board in 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 eighteen 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 nine 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 1997 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 1.37p (1997: 1.36p) payable on 1st April 1999. In addition, a special dividend of 1.00p is proposed payable on 30th April 1999.

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 current Articles of Association and the Combined Code on Corporate Governance, Sir Colin McColl, Sir John Shaw and Mr Barry Sealey retire from office by rotation at the Annual General Meeting and the Board recommends their re-election. The Directors who served during the year notified their interests in the share capital of the Company at 31st December 1998 as shown in the accompanying table. Changes to these holdings between that date and 10th February 1999 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.

DIRECTORS' INTERESTS

Shares of 25p	*1998*	*1997*
William Berry	53,632	52,444
—as Trustee	188,425	222,137
Sir Colin McColl	2,343	2,343
Dr Janet Morgan	9,423	9,423
D. W. J. Price	10,000	10,000
B. E. Sealey	34,697	32,386
Sir John Shaw	18,627	18,044

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 10th February 1999 the Company had been notified of one beneficial interest exceeding 3 per cent of its issued Ordinary share capital: Credit Suisse First Boston – 5.91 per cent.

CHARITABLE DONATION

During the year a contribution of £50,000 was made to the Museum of Scotland to mark the Company's 125th Anniversary.

ANNUAL GENERAL MEETING

At the Annual General Meeting of the Company, to be held on 24th March 1999, three resolutions will be proposed as "Special Business". These are explained in full in the Explanatory Notes to the Notice of Meeting beginning on page 43.

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
10th February 1999

Directors' Statement on Corporate Governance

The Directors' responsibilities for the stewardship of your investment.

DELEGATION

Investment management:
Stewart Ivory

Safeguarding of assets:
RBS Trust Bank
The Bank of New York

Accounting & company secretarial:
Stewart Ivory

Property portfolio management:
OLIM

Savings scheme administration:
RBS Trust Bank

PEP/ISA scheme administration:
Henderson Administration

Share registration services:
Computershare Services

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 therefore review our control and reporting systems to ensure that they are both appropriate and effective 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 and which follow the principles set out in the new Combined Code on Corporate Governance 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 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 review the quality and effectiveness of the accounting records, management information and financial controls maintained on behalf of the Company. As all members of the Board are non-executive we do not have an Audit Committee.
- We monitor the quality and cost of services provided by third parties.
- We receive reports on the safe custody policies and procedures employed by RBS Trust Bank and The Bank of New York and the results of their respective auditors' reports on these activities.
- We require Stewart Ivory to ensure that all systems on which we rely to safeguard the Company's assets will be Year 2000 compliant by 30th June 1999.

YEAR 2000 COMPLIANCE

As at 31st December 1998, Stewart Ivory's core in-house investment management and accounting systems were compliant. The Managers undertook that other in-house electronic systems would also be compliant by 30th June 1999. They are actively reviewing those of other external service providers to ensure similar compliance.

The Company bears no direct costs relating to Year 2000 compliance.

4. RESULTS OF REVIEW & 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, with one technical exception, complied throughout the year with all material aspects of the Combined Code on Corporate Governance which we believe are suitable for an investment trust. The exception is a technical matter in relation to the re-appointment of Directors as explained in the Explanatory Notes to the Notice of Annual General Meeting on pages 43 and 44.

On Behalf of the Board
Sir John Shaw, *Chairman*
10th February 1999

Auditors' Report

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

We have audited the Accounts on pages 26 to 37 which have been prepared under the historical cost convention, as modified to include the revaluation of the investments, and on the basis of the accounting policies set out on page 30.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the Annual Report, including as described on page 23, the Accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion on whether the Accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the Accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on pages 23 and 24 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We draw attention to the fact that the Directors' Review of the system of internal control has been undertaken before formal guidance has been issued as to the scope of such a review and the procedures to be undertaken and may not, therefore, constitute a review for the purposes of the Combined Code as ultimately interpreted. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited Accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Accounts.

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 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 1998 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

CHIENE & TAIT CA, *Registered Auditors*
61 Dublin Street, Edinburgh EH3 6NL
10th February 1999

Statement of Total Return

FOR THE YEAR ENDED 31ST DECEMBER 1998

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

	1998		1997	
	£'000	£'000	£'000	£'000
Income [NOTE 2]				
Dividends from UK companies	13,908		15,608	
Dividends from overseas companies	2,166		2,055	
Dividends from subsidiary companies	2,400		—	
Interest from UK securities	3,517		2,259	
Interest from overseas securities	366		1,081	
Interest on deposits	1,176		1,314	
Rental income	1,510		1,171	
Underwriting commission	23		54	
Other income	4		3	
Total income		**25,070**		**23,545**
Expenses [NOTES 1F & 3]				
Investment management fee	(2,120)		(1,810)	
Other administrative expenses	(894)		(886)	
Total expenses		(3,014)		(2,696)
Income before interest payable and tax		22,056		20,849
Interest payable [NOTE 4]		(5,251)		(4,937)
Income on ordinary activities before tax		16,805		15,912
Tax [NOTE 5]		(2,515)		(3,066)
Income attributable to shareholders		**14,290**		**12,846**
Dividends (5.45p per share; 1997 – 5.37p) [NOTE 6]		(12,186)		(12,008)
Surplus prior to special dividend		2,104		838
Special dividend (1.00p per share) [NOTE 6]		(2,236)		—
Transfer (from)/to revenue reserve		(132)		**838**
INCOME RETURN PER SHARE [NOTE 7]		**6.39p**		**5.74p**

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

Statement of Total Return

FOR THE YEAR ENDED 31ST DECEMBER 1998

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 by way of dividend payments.

Capital Return

	1998	1997
	£'000	£'000
Capital profits / losses		
Realised gains on investments	24,926	33,940
Realised losses on Equities Index Unsecured Loan Stock 2004	—	(13,067)
Realised gains on foreign currency loan	46	1,259
Unrealised gains on investments	43,479	36,840
Increase in value of Equities Index Unsecured Loan Stock 2004	(9,858)	(5,171)
Unrealised losses on foreign currency loan	—	(57)
Currency losses	(70)	(128)
Capital profits attributable to shareholders	**58,523**	**53,616**
CAPITAL RETURN PER SHARE [NOTE 7]	**26.17p**	**23.98p**

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

	1998	1997
	£'000	£'000
Income attributable to shareholders	14,290	12,846
Capital profits attributable to shareholders	58,523	53,616
Total return attributable to shareholders	72,813	66,462
TOTAL RETURN PER SHARE [NOTE 7]	**32.56p**	**29.72p**

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

Balance Sheet

AT 31ST DECEMBER 1998

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.

	1998		1997	
Investments [NOTES 8, 9, 10 & 11]	£'000	£'000	£'000	£'000
Equity				
UK		429,847		400,057
North America		110,689		62,915
Continental Europe		46,350		43,895
Japan		13,200		11,568
Pacific Rim / Emerging Markets		11,334		31,326
Unquoted		11,135		10,550
Futures		4,875		1,568
Subsidiary Companies [NOTE 12]		392		2,915
		627,822		564,794
Fixed Interest:				
UK Government		55,239		46,989
Property		19,620		17,755
		702,681		629,538
Current Assets				
Debtors [NOTE 13]	3,916		3,773	
Cash and Deposits	6,272		18,615	
	10,188		22,388	
Current Liabilities due within one year				
Creditors [NOTE 14]	4,992		14,569	
Recommended Final and Special Dividend [NOTE 6]	5,299		3,041	
	10,291		17,610	
Current Assets less Current Liabilities		(103)		4,778
Total Assets less Current Liabilities		702,578		634,316
Less **Creditors due after one year** [NOTE 15]				
Equities Index Unsecured Loan Stock 2004	100,258		90,400	
8 per cent Debenture Stock 2022	24,690		24,677	
4 per cent Irredeemable Debenture Stock	476		476	
		125,424		115,553
EQUITY SHAREHOLDERS' FUNDS [NOTE 16]		**577,154**		**518,763**
Share Capital and Reserves				
223,608,000 Ordinary 25p shares [NOTE 17]				
Issued and fully paid		55,902		55,902
Capital Reserve-Realised [NOTE 18]		352,976		328,074
Capital Reserve-Unrealised [NOTE 18]		158,869		125,248
Revenue Reserve [NOTE 19]		9,407		9,539
		577,154		**518,763**
NET ASSET VALUE PER SHARE		**258.1p**		**232.0p**

These Accounts were approved by the Board on 10th February 1999 and were signed on its behalf by: SIR JOHN C. SHAW, *Director* SIR COLIN MCCOLL, *Director*

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

Cash Flow Statement

FOR THE YEAR TO 31ST DECEMBER 1998

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.

	1998		1997	
	£'000	£'000	£'000	£'000
Balances at the start of the year: Cash	7,615		4,605	
Deposits	11,000		—	
Cash and deposits at the start of the year		**18,615**		**4,605**
Income				
Dividends received	16,039		14,920	
Interest received	4,695		4,632	
Underwriting commission and other income	1,558		1,356	
Administrative expenses paid	(2,962)		(2,713)	
Income less administrative expenses		19,330		18,195
Interest paid on borrowings	(5,219)		(4,625)	
Dividends paid to shareholders	(12,142)		(11,784)	
Cash paid in respect of interest and dividends		(17,361)		(16,409)
Total tax paid		(743)		(9)
Capital				
Purchases of investments	(194,290)		(172,518)	
Sales of investments	189,956		177,504	
	(4,334)		4,986	
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)		9,154	
Currency losses	(70)		(128)	
Cash (paid) / received in respect of capital transactions		(13,558)		10,974
Currency (loss) / gain on foreign currency loans		(11)		1,259
(Decrease) / increase in the year: Cash	(1,343)		3,010	
Deposits	(11,000)		11,000	
(Decrease) / increase in cash and deposits in the year		(12,343)		14,010
Balances at the end of the year: Cash	6,272		7,615	
Deposits	—		11,000	
Cash and deposits at the year end		**6,272**		**18,615**

Notes on the Accounts

FOR THE YEAR TO 31ST DECEMBER 1998

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 estimated by DTZ Debenham Thorpe. 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 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.

2 Income

	1998 £'000	1997 £'000
Total income comprises:		
Income from securities	22,357	21,003
Deposit interest	1,176	1,314
Other income	1,537	1,228
	25,070	23,545
Income from securities comprises:		
Securities listed in the UK	16,654	16,836
Securities listed overseas	2,532	3,136
Unlisted securities	3,171	1,031
	22,357	21,003

Dividends from UK companies includes £2,481,000 received as foreign income dividends (1997 – £1,650,000).

3 Expenses

	1998 £'000	1997 £'000
Investment management fee comprises:		
Investment management fee	1,889	1,666
Irrecoverable VAT	231	144
	2,120	1,810

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.

	1998 £'000	1997 £'000
Other administrative expenses comprise:		
Auditors' remuneration: audit	11	10
Auditors' remuneration: other fees	7	15
Directors' fees	65	56
PEP administration costs paid to Stewart Ivory & Company Ltd	33	39
Bank charges, custody fees and other expenses	724	699
Irrecoverable VAT	54	67
	894	886

During the year the Chairman's emoluments amounted to £15,000 (1997 – same).
Each other Director received fees at a rate of £10,000 per annum (1997 – same).

4 Interest Payable

	1998 £'000	1997 £'000
Debenture and loan stocks	5,188	4,908
Bank overdrafts	4	5
Foreign currency loans	59	24
	5,251	4,937

5 Tax

	1998 £'000	1997 £'000
Tax on franked investment income	2,229	2,792
Overseas tax	279	165
	2,508	2,957
Deferred tax	7	—
Prior year adjustment	—	109
	2,515	3,066

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

	1998 £'000	1997 £'000
First interim of 1.36p per share (1997 – 1.32p)	3,041	2,952
Second interim of 1.36p per share (1997 – 1.34p)	3,041	2,996
Third interim of 1.36p per share (1997 – 1.35p)	3,041	3,019
	9,123	8,967
Recommended final of 1.37p per share (1997 – 1.36p)	3,063	3,041
Recommended special of 1.00p per share	2,236	—
	14,422	12,008
Total dividend per share for the year	6.45p	5.37p
Total dividend per share for the year including tax credit	7.40p	6.71p

The total dividend per share for the year of 7.40p (including tax credit) does not include the notional tax credit attached to Foreign Income Dividend payments.

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 (1998 – 223,608,000; 1997 – 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 31.12.97	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
Valuation at 31.12.97	**535,560**	**27,666**	**46,989**	**1,568**	**17,755**	**629,538**
Purchases at cost	166,060	133	15,111	11,565	1,095	193,964
Sales proceeds	(155,521)	(7,693)	(15,321)	(10,691)	—	(189,226)
Realised gains on sales	19,257	2,402	2,940	327	—	24,926
Change in unrealised gains in the year	41,162	(6,079)	5,520	2,106	770	43,479
Valuation at 31.12.98	**606,518**	**16,429**	**55,239**	**4,875**	**19,620**	**702,681**
Book cost at 31.12.98	407,137	13,375	46,614	2,703	17,222	487,051
Unrealised gains at 31.12.98	199,381	3,054	8,625	2,172	2,398	215,630

Listed and unlisted securities includes securities with an equity element valued at £13,535,000 (1997 – £14,736,000).

9 Changes in investments

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

	Valuation at 31.12.97 £'000	Net purchases (sales) £'000	Increase (decrease) in value £'000	Valuation at 31.12.98 £'000
Listed Equities				
United Kingdom	392,431	2,298	35,118	429,847
North America	62,915	28,113	19,661	110,689
Continental Europe	39,787	(5,594)	7,255	41,448
Japan	11,568	212	1,420	13,200
Pacific Rim / Emerging Markets	28,859	(14,490)	(3,035)	11,334
Total Listed Equities	535,560	10,539	60,419	606,518
Unlisted Equities	27,666	(7,560)	(3,677)	16,429
Fixed Interest	46,989	(210)	8,460	55,239
Futures	1,568	874	2,433	4,875
Properties	17,755	1,095	770	19,620
Total Investments	629,538	4,738	68,405	702,681

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 %	1998 Total %	1997 Total %
Quoted Equities							
Mineral extraction	4.4	0.3	0.3	—	—	5.0	6.2
General industrials	5.6	3.3	0.4	0.7	0.2	10.2	14.4
Consumer goods	12.1	4.6	1.5	0.4	0.4	19.0	14.9
Services	18.1	5.6	1.6	0.6	0.2	26.1	19.8
Utilities	4.7	—	0.1	0.1	—	4.9	7.4
Financials	14.9	2.0	2.0	0.1	0.1	19.1	19.9
Investment trusts	1.2	—	—	—	0.7	1.9	2.9
Total Quoted Equities	**61.0**	**15.8**	**5.9**	**1.9**	**1.6**	**86.2**	**85.5**
Unit trusts	—	—	0.7	—	—	0.7	1.1
Unquoted Equities	0.6	—	0.8	0.1	—	1.5	1.7
Subsidiaries	0.1	—	—	—	—	0.1	0.5
Fixed Interest	7.8	—	—	—	—	7.8	7.4
Futures	0.7	—	—	—	—	0.7	0.2
Properties	2.7	—	—	—	—	2.7	2.8
Net current assets	0.3	—	—	—	—	0.3	0.8
Total assets less current liabilities	**73.2**	**15.8**	**7.4**	**2.0**	**1.6**	**100.0**	**100.0**
1997 Total	75.4	9.9	7.9	1.9	4.9		100.0
Financed by:							
Equities Index Unsecured Loan Stock	14.3	—	—	—	—	14.3	14.2
Debenture Stock	3.6	—	—	—	—	3.6	4.0
Shareholders' funds	55.3	15.8	7.4	2.0	1.6	82.1	81.8
Total investments	**73.2**	**15.8**	**7.4**	**2.0**	**1.6**	**100.0**	**100.0**

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%)	1,747	154
	Cum. Red. Pref. £1 (42.2%)		
Stewart Ivory Holdings†	'C' Ord. £1 (100%)	8,743	1,124
The Scottish Oriental Smaller Companies Trust†	Ord. 25p (39.3%)	11,628	103
The Quantum Fund†	Def'd. £1 (33.3%)	—	—
Amoebics†	Ord. 1p (21.4%)	—	—

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.

Aggregate Revenue Account for the year to 31st December	1998 £'000	1997 £'000
Interest on deposits	195	173
Expenses	(51)	(5)
Profit before tax	144	168
Tax (payable) / receivable	(33)	36
Profit after tax	111	204
Dividend paid	(2,400)	—
(Loss) / profit for the year	(2,289)	204
Aggregate extracts from the Balance Sheets at 31st December		
Investments	—	235
Debtors	—	6
Cash and deposits	468	2,804
	468	3,045
Creditors due within one year	(76)	(130)
Parent company's interest	392	2,915

Accounting Policies: (a) Interest and expenses are dealt with on an accruals basis (b) Investments are shown at market value. Neither subsidiary held any investments at 31st December 1998.

13 Debtors

	1998 £'000	1997 £'000
Sales of investments	—	729
Income accounted for but not received	2,686	2,174
Other debtors	1,189	829
Group relief	41	41
	3,916	3,773

14 Creditors

	1998 £'000	1997 £'000
Purchases of investments	—	326
Third interim dividend	3,041	3,019
Corporation tax	—	174
Group relief	201	201
Deferred tax	24	17
Income tax	377	344
Interest payable	1,010	991
Foreign currency loan	—	9,211
Other creditors	339	286
	4,992	14,569

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 1998 (1997 – same). The repayment value at 31st December 1998 was £2.67392 (1997 – £2.41100) 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 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	(333)
Proceeds received (including gain on option)	24,667
Charge to revenue in prior year	10
Charge to revenue for the year	13
Carrying value of Stock at end of the year	24,690

16 Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Shareholders' funds at the start of the year	518,763	464,309
Realised capital gains	24,902	22,004
Unrealised capital gains	33,621	31,612
(Income deficit)/retained income for the year	(132)	838
Shareholders' funds at the end of the year	577,154	518,763

17 Authorised Capital

The authorised capital is £70 million represented by 280,000,000 Ordinary 25p shares (1997 – same).

18 Capital Reserves

Capital Reserve – Realised:

	1998 £'000	1997 £'000
Balance at the start of the year	328,074	306,070
Realised gains on investments	24,926	33,940
Currency losses	(70)	(128)
Realised losses on Equities Index Unsecured Loan Stock 2004	—	(13,067)
Realised gains on foreign currency loan	46	1,259
	352,976	328,074

Capital Reserve – Unrealised:

	1998 £'000	1997 £'000
Balance at the start of the year	125,248	93,636
Unrealised gains on investments	43,479	36,840
Increase in value of Equities Index Unsecured Loan Stock	(9,858)	(5,171)
Unrealised losses on foreign currency loan	—	(57)
	158,869	125,248

19 Revenue Reserve

	1998 £'000	1997 £'000
Balance at the start of the year	9,539	8,701
Retained income for the year prior to special dividend	2,104	838
Special dividend	(2,236)	—
	9,407	9,539

20 Cash Flow Statement

(a) Reconciliation of total income as shown in the Statement of Total Return to income less administrative expenses in the Cash Flow Statement

	1998 £'000	1997 £'000
Total income per the Statement of Total Return	25,070	23,545
Total expenses per the Statement of Total Return	(3,014)	(2,696)
(Increase) / decrease in dividends accounted for but for which the cash had not been received at the year end	(175)	26
Increase in other debtors	(375)	(5)
Increase in creditors	53	117
Tax credits suffered on UK dividends	(2,229)	(2,792)
Income less administrative expenses per Cash Flow Statement	19,330	18,195

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	7,615	(1,343)	—	—	6,272
Short term deposits	11,000	(11,000)	—	—	—
	18,615	(12,343)	—	—	6,272
Foreign currency loan	(9,211)	9,154	57	—	—
Equities Index Unsecured Loan Stock 2004	(90,400)	—	—	(9,858)	(100,258)
8% Debenture Stock 2022	(24,677)	—	—	(13)	(24,690)
4% Irredeemable Debenture Stock	(476)	—	—	—	(476)
Net Debt	(106,149)	(3,189)	57	(9,871)	(119,152)

21 Commitments and Contingent Liabilities

	1998 £'000	1997 £'000
There are liabilities in respect of:		
Monies due after year end on nil-paid and partly-paid investments	—	133
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	481	—
	481	133

Notice of Annual General Meeting

Notice is hereby given that the One Hundred and Twenty Sixth Annual General Meeting of The Scottish American Investment Company P.L.C. will be held at 45 Charlotte Square, Edinburgh on 24th March 1999 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 1998.

2 To declare a final dividend.

3 To declare a special 125th Anniversary dividend.

4 To re-elect Sir Colin McColl as a Director.

5 To re-elect Sir John Shaw as a Director.

6 To re-elect Mr B. Sealey as a Director.

7 To re-appoint Chiene & Tait, CA as auditors and to authorise the Directors to fix their remuneration.

SPECIAL BUSINESS

Notes explaining Resolutions 8, 9 and 10 are given on pages 43 and 44.

To consider and, if thought fit, to pass the following special resolutions:

8 'THAT the Directors of the Company, pursuant to and in accordance with its Articles of Association, be and are hereby generally authorised and empowered in accordance with Section 166 of the Companies Act 1985 (as amended) ("the Act") to make market purchases (within the meaning of Section 163(3) of the Act) of Ordinary shares of 25p each in the Company ("Shares") provided that:

(i) the maximum number of Shares hereby authorised to be acquired shall be 33,518,839;

(ii) the minimum price (exclusive of expenses), which may be paid for any Share is 25p per share, being the nominal value;

(iii) the maximum price, (exclusive of expenses) which may be paid for a Share shall be 5% above the average middle market quotations (as derived from the Daily Official List of the London Stock Exchange Limited) for the Shares for the five business days immediately preceding the day on which the Share is contracted to be purchased; and

(iv) unless previously varied, revoked or renewed, the authority hereby conferred shall expire at the Annual General Meeting of the Company to be held in 2000, save that the Company may, prior to such expiry, enter into a contract to purchase Shares under such authority which will or might be executed wholly or partly after the expiry of such authority and may make a purchase of Shares pursuant to any such contract.'

9 'THAT the Articles of Association of the Company (the "Articles") be amended as follows:

(i) by adding at the end of the first sentence of Article 39 the words "unless such share is listed on the London Stock Exchange Limited, in which case the Directors may impose only such restrictions on transfer as do not prevent dealings in the shares taking place on an open and proper basis";

(ii) by adding at the end of Article 43 the words ", nor shall a register of a participating security be closed without the consent of the Operator (such terms having the meanings defined in the Uncertificated Securities Regulations 1995)";

(iii) by adding after the word "dividend" in the second line of Article 75(B)(2)(a) the words "including shares in lieu of dividend" and by the insertion of a new Article 75(F):

"(F) Any Direction Notice shall have effect in accordance with its terms until seven days after the earlier of:

(i) receipt by the Company of notice that the Default Shares have been transferred by such member by means of an approved transfer; and

(ii) due compliance, to the satisfaction of the Board, with the Statutory Notice.

The Directors may at any time give notice cancelling a Direction Notice. If, while any of the restrictions referred to in this Article apply to a Default Share, another share is allotted in right of it, the same restrictions shall apply to that share as if it were a Default Share.";

(iv) by deleting Articles 96(A) and 96(B) and replacing them with the words:

"96(A) Save as herein provided, a Director shall not vote on any resolution concerning any contract, arrangement, transaction or any other proposal whatsoever in which he has an interest which (together with any interest of any person connected with him within the meaning of Section 346 of the Companies Act 1985 ("the Act")) is to his knowledge a material interest otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company. A Director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.

(B) Subject to the Statutes, a Director shall (in the absence of some material interest other than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:

(i) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of, or for the benefit of, the Company or any of its subsidiaries;

(ii) the giving of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;

(iii) any contract, arrangement, transaction or proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiaries for subscription or purchase in which offer he is, or may be, entitled to participate as a holder of securities or as a participant in the underwriting or sub-underwriting thereof;

(iv) any contract, arrangement, transaction or proposal concerning any other company in which he and any persons connected with him (within the meaning of Section 346 of the Act) do not, to his knowledge, hold an interest in shares (as that term is used in Sections 198 to 211 of the Act) representing one per cent. or more of either any class of the equity share capital or of the voting rights available to members of the relevant company;

(v) any contract, arrangement, transaction or proposal relating to an arrangement for the benefit of the employees of the Company or any of its subsidiaries which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; and

(vi) any contract, arrangement, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of Directors or for the benefit of persons including Directors.";

(v) by adding at the end of Article 100 the words:

"In addition to the foregoing requirement a Director shall retire from office when necessary to ensure that he offers himself for re-election at intervals no greater than those required by any relevant codes of corporate governance; any Director who retires in accordance with this provision may offer himself for re-election.", and by adding in the first line of Article 101, between the words "to retire" and "in each year", the words "by rotation";

(vi) by deleting in the fourth line of Article 104 the word "twenty-one" and replacing it with the word "forty-two" and by adding after the word "days" the words "inclusive of the date on which the notice is given";

(vii) by the insertion of a new Article 123A:

123A "If the Directors shall at any time determine that the Company should cease to carry on business as an investment company within the meaning of Section 266 of the Companies Act 1985 ("the Act") then, upon the date of the notice given by the Company to the registrar of companies in the prescribed form in accordance with Section 266(3) of the Act, and for such period as the Company is not an investment company and until the Directors determine that the Company should carry on business as an investment company as provided below and the Company has given notice to that effect to the registrar of companies in the prescribed form, Article 123 shall have effect as if the words "(as defined by Section 263(2) of the Act) or be applied in paying" were replaced by the words "by way of". The Directors may at any time when the Company is not an investment company within the meaning of Section 266 of the Act determine that the Company should carry on business as an investment company and, upon the date of the notice given by the Company to the registrar of companies in the prescribed form in accordance with Section 266(1) of the Act, and for such period as the Company is an investment company, Article 123 shall apply as if the said replacement had not been made.";

(viii) by adding in line eighteen of Article 130 after the word "order" the words "or the transfer by way of direct debit or bank transfer by the bank so instructed by the Company" and by adding a new sentence between the words "Company." and "Any" in line nineteen reading "If any such cheque, warrant or order has or shall be alleged to have been lost, stolen or destroyed the Directors may, at the request of the person entitled thereto, issue a replacement cheque, warrant or order subject to compliance with such conditions as to evidence and indemnity and the payment of such out-of-pocket expenses incurred by the Company in connection with the request as the Directors may think fit" and by adding in line twenty six after the word "valid" the words "or following one such occasion reasonable enquiries have failed to establish any new address for the member or other person entitled thereto";

(ix) by deleting in the fourth and fifth lines of Article 132 the words "after having been declared" and replacing them with the words "from the date it was declared or became due for payment, whichever is the later";

(x) by deleting in the fifth and sixth lines of Article 144(B) the words "two national daily newspapers with appropriate circulation" and replacing them with the words "one national newspaper";

(xi) by deleting in the second and third lines of Article 153(A)(ii) the words "leading London daily" and replacing them with the word "national";

(xii) by adding at the end of the existing Article 147 the words:

"The Directors may determine that the persons entitled to receive notices of meetings are those persons entered on the register of members at the close of business on a day determined by the Directors being not more than 21 days before the day that the notices are sent. No change in the register of members after that time shall invalidate that service or delivery. The Board may specify in the notice of the meeting a time, not more than 48 hours before the time fixed for the meeting, by which a person must be entered on the register of members in order to have the right to attend and/or vote at the meeting. Changes to entries on the register of members after the time so specified shall be disregarded in determining the rights of any person to attend and/or vote at the meeting.".'

10 '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

24th February 1999

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 by no later than close of business on 22nd March 1999 ("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 instrument 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, Computershare Services PLC, PO Box 457, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 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 of the SAINTS PEPs or the SAINTS Savings Scheme.

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 1998 and the investment outlook.

EXPLANATORY NOTES TO NOTICE OF ANNUAL GENERAL MEETING

This section explains the proposal that the Board be given authority to buy back a specified number of SAINTS shares and gives details on the resolution to update the Articles generally as set out in resolutions 8 and 9.

At the Annual General Meeting, to be held on 24th March 1999, two resolutions will be proposed as Special Business in order to enable the Company to buy its own shares and in order to update the Articles generally. These are resolutions 8 and 9 contained in the Notice of Meeting.

To date the main barrier preventing investment trusts from buying-in their ordinary shares has been the existence of Advance Corporation Tax ("ACT"). From 6th April 1999 this will no longer be the case as ACT is to be abolished in relation to distributions.

The Companies Act 1985 provides that a public company may only purchase its own shares out of distributable profits or out of the proceeds of a fresh issue of shares made for the purposes of the purchase. As an investment trust, the Company may not retain more than 15 per cent of the income it derives from shares or securities in any accounting period. The Company is, therefore, unable to retain sufficient distributable profits to buy a significant number of its own Ordinary shares. Further, being an investment company, as defined by the Companies Act 1985, the Company is prohibited by its Articles of Association from distributing its capital profits.

Your Directors propose that the Articles of Association of the Company ("the Articles") are altered in order that the Capital Reserve-Realised (amounting to £352.9 million at 31st December 1998) may be used to fund purchases by the Company of its own shares. As a result of the change to the restriction on the use of capital profits in the Articles, the Company will cease to be an investment company within the meaning of Section 266 of the Companies Act 1985. The Company has, however, received assurance from Ernst & Young, its tax advisers, that this will not affect the Company's status as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988. By ceasing to be an investment company, the Company will become subject to more restrictive rules for the calculation of distributable profits for dividend purposes. However, the Directors do not believe that the application of these rules should have any practical impact on the ability of the Company to pay dividends.

An amendment to the Articles will enable the Directors to change the status of the Company from an investment company and back again as may be in the best interests of the Company, without requiring a further resolution of the shareholders.

The other changes to the Articles will update them generally to comply with the detailed requirements of the London Stock Exchange which have changed since the Articles were adopted, to take account of two points arising from CREST, and to require that each Director retires at intervals of no more than three years in accordance with the requirements of the Combined Code on Corporate Governance matters.

In terms of the above proposal, the Directors are recommending that the Company be authorised to purchase in the market up to 33,518,839 Ordinary shares (currently 14.99 per cent of its Ordinary share capital in issue, being the maximum permitted under the Listing Rules of the London Stock Exchange in respect of a general authority granted by shareholders without the requirement to make a tender or partial offer). Ordinary shares which are purchased by the Company will be automatically cancelled, thereby reducing the Company's issued share capital. Under the Listing Rules of the London Stock Exchange, the maximum price which may be paid on any exercise of the own share purchase authority must not exceed 105 per cent of the average of the middle market quotations for the Ordinary shares for the 5 business days immediately preceding the date of purchase.

Purchases by the Company of its own Ordinary shares will only be made at a level which enhances the net asset value per share, and when the Board considers it is in the best interests of the shareholders; the further objective of any such purchase will be to address any imbalance between the supply of and demand for the Company's shares. Accordingly, it is the Board's intention to use the share purchase facility within guidelines established from time to time by the Board. In making purchases the Company will deal through the market.

The authority to purchase its own shares will expire at the Company's Annual General Meeting to be held in 2000, and the Directors will consider seeking shareholder approval for its renewal at that meeting.

Your Directors consider that the above proposal is in the best interests of the Company and its shareholders taken as a whole. Accordingly, your Directors unanimously recommend all shareholders to vote in favour of resolutions 8 and 9 to be proposed at the Annual General Meeting, as they intend to do in respect of their own beneficial shareholdings of 100,251 Ordinary shares.

This section explains the renewal of the authority to allot shares set out in resolution 10.

A further special resolution will be proposed at the Annual General Meeting. Resolution 10 will, if approved, renew the authority of the Directors to allot a limited number of unissued Ordinary shares comprising 5 per cent of the number of Ordinary shares of the Company in issue on 10th February 1999 for cash without first offering such shares to existing Ordinary shareholders *pro rata* to their existing holdings. Whilst the Board is looking closely at the circumstances to buy-in the Company's Ordinary shares, it also wishes to retain the flexibility to 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.

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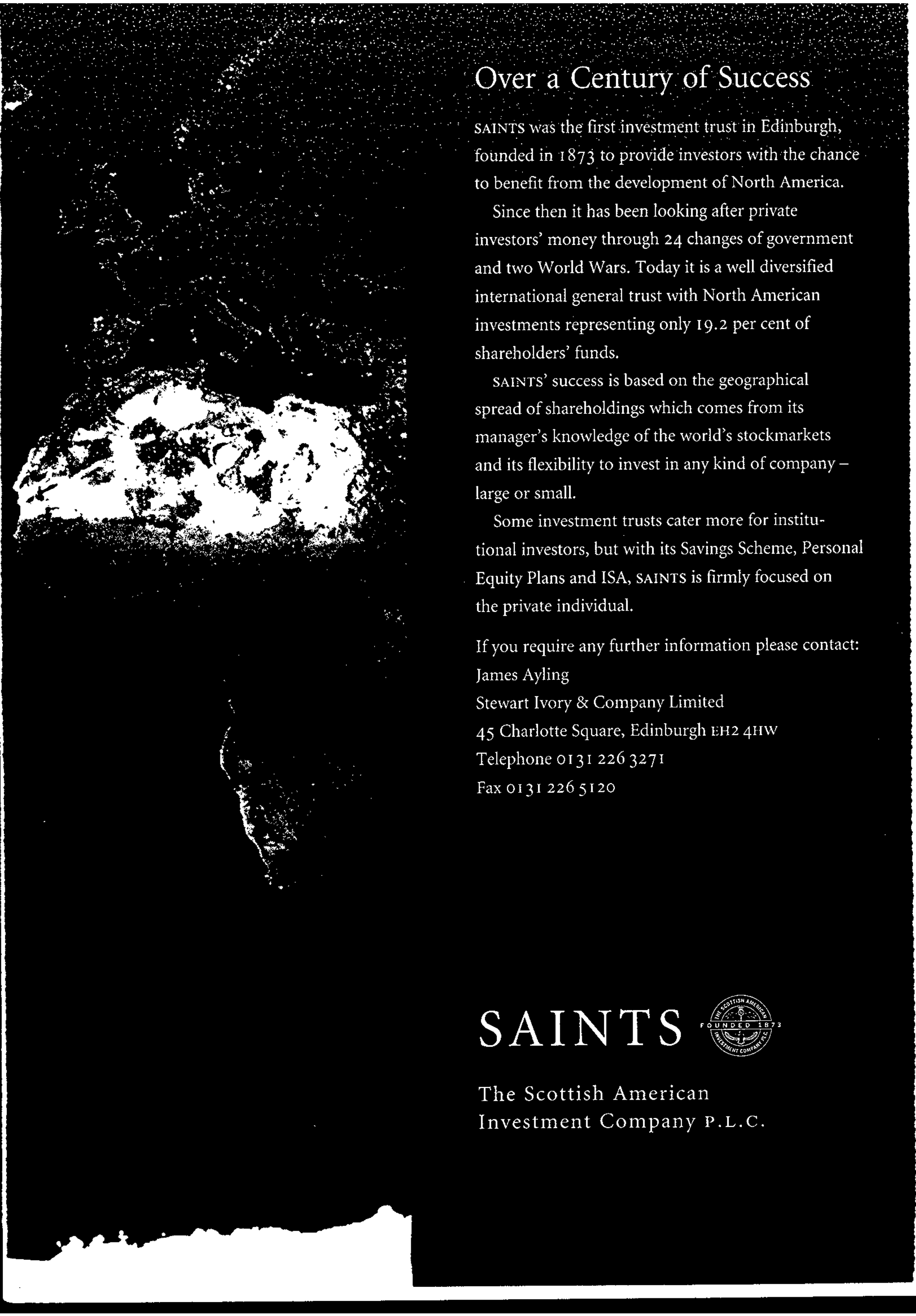
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SAINTS
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