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SAINTS

The Scottish American Investment Company P.L.C.

REGISTERED OFFICE

45 Charlotte Square, Edinburgh EH2 4HW
 Website: www.itssaints.com

MANAGER AND SECRETARY

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 (Regulated by IMRO)
 45 Charlotte Square, Edinburgh EH2 4HW
 Telephone 0131 226 3271

REGISTRAR

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 8 Bankhead Crossway North, Edinburgh EH11 4BR
 Telephone 0870 702 0010
 Website: www.cshare.co.uk

AUDITORS

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 Telephone 0131 558 5800



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, the SAINTS PEPs or ISA.



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 Manager.

Summary

Asset value per share rose by 23.9 per cent in 1999.

The share price gained 27.5 per cent.

Regular dividend for the year increased by 1.1 per cent.

24.5 per cent of the share capital was bought in and cancelled.

£'000	1999	1998	% change
Shareholders' Funds	540,014	577,154	-6.4%
Asset Value per Share	319.9p	258.1p	+23.9%
Dividend per Share	5.51p	5.45p*	+1.1%
Share Price at Year End	267.75p	210.0p	+27.5%

*excludes Special Anniversary Dividend


CAPITAL PERFORMANCE BY SECTOR

Over the year to 31st December 1999

SAINTS' Performance (%) Performance of Sterling-adjusted Index (%)

UK	+20.5	+21.3	FTSE All-Share
North America	+9.0	+23.4	S & P Composite
Continental Europe	+25.8	+17.8	FTSE Europe (ex UK)
Japan	+115.6	+80.2	Tokyo Stock Exchange Index
Pacific Rim	+105.9	+40.5	FTSE Pacific (ex Japan)

Chairman's Statement

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

BENCHMARK

65% UK FTSE All-Share Index
35% FTSE World (ex UK) Index

SAINTS' SHAREHOLDERS

<i>Share capital held by</i>	<i>%</i>
Individuals	51.7
Nominees	33.3
Institutions	15.0
Number of shareholders	18,776

RESULTS FOR 1999

SAINTS' net asset value per share increased by 23.9 per cent. This was just behind the gain of 24.1 per cent in our benchmark and ahead of the FTSE All-Share Index of 21.3 per cent. The increased emphasis on growth companies in the UK produced a particularly strong relative performance in the second half of the year. The Japanese and Pacific Rim portfolios also performed very strongly, but the US was disappointing in the first six months. The Portfolio Manager's Report discusses these results more fully on pages 6 to 13, and explains the main thrust of the changes made during the year.

A modest dividend increase of just over 1 per cent is proposed. The reorganisation of the UK equity portfolio towards growth means that income is slightly less than the dividend but the shortfall is made up by a transfer from Revenue Reserves. I return to this issue later. The proposed final quarterly dividend of 1.38p makes a total dividend for the year of 5.51p per share compared with 5.45p for 1998. Although half-yearly dividends are more common we have always believed that SAINTS shareholders appreciate their quarterly payment which we intend to maintain.

In our Interim Report we explained that our highest priority was to improve SAINTS' investment performance. The Board has taken a number of initiatives and been working very closely with our management team led by John Thomson to achieve this. With our approval, Stewart Ivory appointed Marcus Brooks as investment manager of SAINTS with overall responsibility for recommending and executing investment policy. He has managed the UK portfolio for the last four years and has successfully re-orientated that portfolio to a greater emphasis on capital growth and is now responsible for the whole of our portfolio. Teddy Tulloch continues with responsibility for all other aspects of the management of SAINTS, including managing our share buy-back programme, advising on gearing and managing our balance sheet.

GEARING

I wrote last February about the importance of long-term conventional gearing and its significant contribution to investment trust success, particularly in the 1950s and 1960s. In December we took advantage of conditions in the market for fixed interest securities and made a further issue of our existing 2002 Debenture Stock. Our Manager succeeded in raising £31 million at an all-in cost after expenses of 6 per cent which we regard as very satisfactory. We are able to take advantage of comparatively high interest rates for short-term deposits while searching out opportunities for long-term equity investments.

MANAGEMENT FEE

We have reviewed and renegotiated the basis on which Stewart Ivory's fee is calculated. Details are set out on page 22. We want to reward the management of both the assets and liabilities of the Company and have changed from the former basis of shareholders' funds to a fee calculated on gross assets. With the Manager's

agreement we have introduced an important element dependent on the performance of the investment portfolio and will remunerate secretarial and routine administration tasks separately. These new arrangements mean that with effect from 1st January 2000 the basic fee will be reduced and poor investment performance will reduce that still further, while good investment performance will earn our Manager a total fee greater than what the former basis would have yielded.

SHARE BUY-BACK

You will recall that at our Annual General Meeting in March 1999 the Board was given power to make purchases of SAINTS' own shares within the limits permitted by the Stock Exchange. That authority was extended at an Extraordinary General Meeting in August. Stewart Ivory managed the programme under the Board's policy guidelines and by 31st December 1999 we had bought in a total of 54.8 million shares (24.5 per cent of the share capital) at prices which increased the net asset value of the remaining shares by 7.4p per share. We seek further authority at the forthcoming Annual General Meeting. Although we cannot insulate SAINTS completely from the overall level of discounts that prevails in the general investment trust sector, judiciously managed, as it has been so far, the exercise of this buy-back power does reduce the volatility of our share price and benefits continuing shareholders.

SHAREHOLDERS

At the beginning of 1999 about two-thirds of our shares were owned by individual investors but, because the buy-back has absorbed mainly shares sold by institutions, the proportion of the present share capital now owned by private investors is well over 80 per cent.

Those of you who have been shareholders for a number of years will know that early in the 1980s we defined our corporate objective as being to serve the investment needs of private shareholders: precisely the investors for whom general investment trusts were designed. SAINTS offers its shareholders the very considerable benefits of freedom from capital gains tax and tax-deductible low management expenses and costs of borrowing. In our continuing search for ways to improve or extend the services we provide, we aim to exploit opportunities created by our own dedicated website, www.itssaints.com, and take advantage of the favourable publicity created to date by the "its" campaign launched by the Association of Investment Trust Companies, to which we have subscribed.

LOOKING AHEAD FOR SAINTS

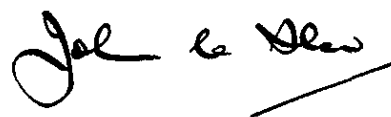
In recent Annual Reports I have explained that a re-orientation of our portfolio towards capital growth has implications for growth of income, and thus for our own dividend. The situation in most of the world's equity markets is that income yields are now low relative to share prices. The consequence for SAINTS is that, under our current investment and accounting policies, our dividend payments cannot be continued at levels which were high compared with the yields available from other general investment trust portfolios.

This year, the dividend shortfall was made good from the accumulated Revenue Reserves built up in previous years (at 31st December 1999, £8.4 million equivalent to 5p per share). We can continue to draw on Reserves for a short period but I have warned in earlier Reports that we cannot now prudently increase each quarterly payment but expect to maintain the current level. Dividend growth could only be achieved in the longer term at a cost in capital terms, either because of less good long-term investment performance resulting from a different investment policy searching for income, or by a direct transfer from capital to income, for example, by changing our accounting policy to charge some appropriate element of expenses to capital. We remain determined to meet the needs of shareholders and will decide how best to reconcile the interlinked policy issues of growth of portfolio value and dividend payments with the most relevant accounting policies.


INVESTMENT OUTLOOK

The general economic outlook around the world appears relatively benign, but not free from risk. Some equity markets look fully valued and, although the US economy has remained robust, rising interest rates there will eventually moderate growth. Economic growth is accelerating encouragingly in both Europe and Asia so our present investment strategy is to emphasise these areas. We look forward to being able to report further encouraging performance.

SIR JOHN SHAW, *Chairman*
9th February 2000

A handwritten signature in black ink, appearing to read 'John Shaw', with a horizontal line underneath.

Portfolio 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 our investment limits are set out on page 24.

PERFORMANCE





SAINTS' total return per share (growth in net asset value plus net income received) was a healthy 26.1 per cent, benefiting both from strong markets and the effects of buying back shares. Bond and equity market performance diverged significantly during the year which was also notable for very substantial recoveries in Japan and other Far Eastern markets.

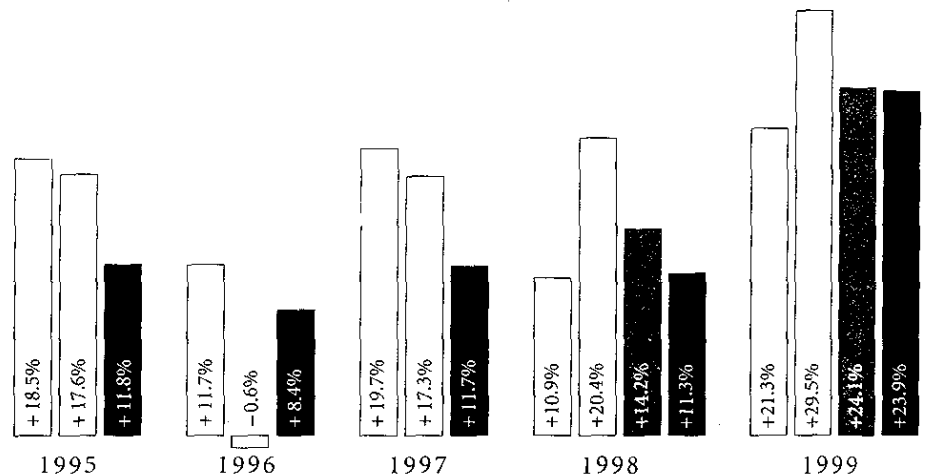
Volatility was a feature of the US and European markets during the year with most of the gains being made in the first and fourth quarters but for different reasons. In the first quarter, once it became apparent that the world economy was not going into recession, cyclical stocks, which had been weak in anticipation of this eventuality, staged a recovery and markets reached new highs in May. The most obvious manifestation of this was the performance of oil shares, which reacted positively to a rebound in the oil price brought about primarily by upgrades to forecasts for global GDP growth although the increased discipline by OPEC as regards sticking to production quotas was also helpful. Other commodity and industrial cyclical shares also participated in the rally.

In the middle six months of the year western markets traded in a fairly wide range, torn between the positive impact of an acceleration in corporate earnings caused by better economic news and the negative theme of rising bond yields, reflecting worries over a build up of inflationary pressure.

It was not until the final quarter that markets broke out of this range decisively, propelled by a re-rating of growth shares primarily in the information technology and telecommunications sectors. It was these sectors that made the greatest contribution to the overall return of most markets during the year.

CAPITAL PERFORMANCE (Years to 31st December)

FTSE All-Share Index 
 FTSE World (ex UK) Index 
 Benchmark 
 SAINTS' net asset value 



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

	1999	1998
	%	%
Services	25	23
Financials	19	19
Consumer Goods	11	20
Information Technology	10	4
General Industrials	9	8
Mineral Extraction	7	5
Properties	4	3
Utilities	3	5
Investment and Unit Trusts	2	3
Fixed Interest	—	8
Other	10	2

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

The recovery in cyclical shares and re-rating of growth shares left many sectors, primarily in the defensive and consumer areas, underperforming. Strong recovery in GDP growth has not been accompanied by any upsurge in inflation and many companies in these sectors have found it very difficult to increase prices in very competitive retail environments with the added deflationary impact of the internet. This is a phenomenon we do not expect to change in the coming year.

Equities in Japan and other Far Eastern markets provided the best returns in 1999, which is not surprising given the robust recovery of the economies in the Far East from seemingly near disaster in 1998. Even in these markets similar themes prevailed with stocks connected to new industries, information technology and telecommunications giving the real momentum.

The performance of SAINTS' equity portfolio over the year to a large extent reflects these themes as we now concentrate across the whole portfolio on companies that can deliver high and consistent earnings and dividend growth. We were therefore caught out by the sharp recovery in cyclical shares at the beginning of the year and were well behind our benchmark at the half-year stage but recovered all the lost ground in the second half to finish in line with the benchmark at the year-end. The US portfolio was the only really disappointing geographic area in relative performance terms. We reorganised the US portfolio in the fourth quarter to focus more on larger growth companies. This resulted in more stable performance in that area in the closing months of the year. Elsewhere we finished very significantly ahead of the indices in Japan, the other Far Eastern markets and Continental Europe and almost in line in the UK.

UK PORTFOLIO

The themes influencing the direction and relative sector performance of the UK market were little different from those that prevailed globally. Industrial and resource stocks rebounded sharply in the first few months of the year, helping drive the market to new levels by May. Thereafter rising bond yields and then short term interest rates limited

much further upward movement in the index until the Autumn, despite the anticipated recovery in GDP growth and subdued retail price inflation. Industrial and consumer stocks gave up all the gains made earlier in the year as an inability to raise prices began to result in reduced margins with industrials further constrained by the continued strength of sterling. In contrast companies offering strong and sustainable growth in sectors such as information technology, telecommunications and support services, which had been weak in relative terms in the first part of the year, moved sharply upwards in the fourth quarter helping propel the market to record levels by the year end.

During the course of the year we re-orientated the UK portfolio more towards growth shares as we believe they will continue to prosper in the low inflationary environment which we expect to be sustained. Performance of the UK portfolio in the first half of the year was adversely affected by an underweight position in resource shares and by a lack of exposure to the Far Eastern banks, which recovered strongly in line with the sharp recovery in Far Eastern markets. Performance in the second half improved markedly as the attractions of growth shares re-asserted themselves and overall the UK portfolio finished the year almost in line with its benchmark index.

NORTH AMERICAN PORTFOLIO

North American stockmarkets had another good year buoyed by strong corporate profit growth, valuation expansion and a positive flow of funds into the equity market. The US economy continued to grow at an encouraging rate and inflationary pressures remain subdued. The Federal Reserve Board

followed a cautious policy raising interest rates in the face of economic strength to pre-empt any acceleration in the rate of inflation, and its early action increased investors' confidence. The market, however, continued to be very narrow with a limited number of stocks accounting for most of the gain. Technology and telecommunications equipment sectors contributed most to the positive return of the market and in general large capitalisation stocks continued to outperform. Our concentration on smaller and medium sized companies for most of the year was the main reason for underperformance in the region.

CONTINENTAL EUROPEAN PORTFOLIO

% OF SHAREHOLDERS' FUNDS

	1999	1998
Denmark	—	0.5
Finland	0.6	0.1
France	2.7	1.3
Germany	1.3	0.7
Ireland	0.1	0.2
Italy	0.5	1.5
Netherlands	1.4	1.1
Portugal	0.2	—
Spain	0.8	0.5
Sweden	1.1	0.3
Switzerland	0.7	1.0
Unit Trust	0.8	0.8
Total	10.2	8.0

At the beginning of the year, the negative impact of the crises in Asia and Russia had European economists predicting minimal growth. Although consumer spending remained robust, business sentiment was weak prompting the European Central Bank to cut interest rates in April. Since the Summer, economic growth has begun to accelerate, thanks to a combination of low interest rates, a weak currency, continued strength in the US economy and recovery in Asia. Reflecting the more positive economic outlook the Central Bank began to raise interest rates in November.

Our portfolio has combined companies with excellent long-term growth prospects with some companies more sensitive to the current economic pick-up. Our bias towards the growth areas of telecommunications and information technology was of particular benefit to the portfolio over the year.

JAPANESE PORTFOLIO

The Japanese economy showed a stuttering recovery in 1999 after bottoming at the beginning of the year. The government put in place new measures to aid corporate restructuring and many companies have responded by merging subsidiaries and divesting non-core assets. The stockmarket, encouraged by the economic recovery and by positive signals from the corporate sector, enjoyed its best annual performance for 27 years, rising by 58 per cent in local currency terms. The outperformance of the Japanese portfolio reflects its exposure to the telecommunications and service sectors and to those companies most willing to restructure and focus on shareholder value.

PACIFIC RIM AND EMERGING MARKETS

% OF SHAREHOLDERS' FUNDS

	1999	1998
Asia	1.6	0.6
Australasia	0.2	0.2
Eastern Europe	0.8	0.4
Investment Trusts	1.7	0.8
Total	4.3	2.0

Strong export growth, financial sector reform, increasing external interest and finally a recovery of domestic consumption, resulted in a powerful economic recovery and favourable stockmarket performances across Asia. Australasia performed less well. Most emerging markets outside Asia produced excellent returns with investors' appetite for risk generally rising over the period. As elsewhere, interest centred on telecommunications and e-commerce/internet related businesses and we have held a number of such companies. Many of our smaller companies held both directly and indirectly through The Scottish Oriental Smaller Companies Trust also performed strongly and contributed to the good overall result for the year.

SAINTS' UNQUOTED EQUITY PORTFOLIO

<i>Company</i>	<i>% held</i>	<i>Cost £'000</i>	<i>Value £'000</i>	<i>Main Activity</i>
IMI 8% 2003 Loan Stock	4.4‡	{ 5,074	6,104	Mezzanine finance
IMI Common Stock [NOTE 1]	4.4‡			
Stewart Ivory Holdings 'C' Ord [NOTE 2]	100†	1,100	3,000	Investment managers
Martenby Ordinary	43.5†	{ 828	825	Hotel ownership
Martenby Preference	42.2†			
NIF No. 8 Units	3.8*	63	273	Japanese venture capital fund
The Quantum Fund	33.3†	100	1	Venture capital
Amoebics	21.4†	23	1	Antibiotics
Antibacterial Discovery	19.0†	20	1	Antibiotics
Biopraxis Developments	17.0§	20	1	Iron sulphide production
Bioresins	20.0§	20	1	Pharmaceutical resins
Stirling Hearing Systems	21.5†	20	1	Hearing aids
		7,268	10,208	1.9 per cent of shareholders' funds

NOTE 1: Cost of investment at 31st December 1998 £6,117,000; value £6,611,000

NOTE 2: Represents 21.7 per cent of total issued share capital

Registered or Incorporated in: † Scotland ‡ Netherlands Antilles * Japan § England & Wales

SAINTS' PROPERTY PORTFOLIO

<i>Address</i>	<i>Type</i>	<i>Tenant</i>
Alnwick – 24 Bondgate	Bank	Lloyds TSB Bank plc
Ashford – 70/72 High Street	Shop	W H Smith Limited
Beckenham – 172 High Street	Shop	W H Smith Limited
Chard – 27 Fore Street	Bank	Lloyds TSB Bank plc
Dundee – Reform Street/Albert Square	Public House	J D Wetherspoon plc
Dunfermline – 105/111 High Street	Shop	W H Smith Limited
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
Kent – Romney Sands	Holiday Village	Leisure Great Britain plc
Kirkcaldy – 183/187 High Street	Shop	W H Smith Limited
Milton Keynes – The Approach	Hotel	Friendly Hotels plc
Monmouth – 18 Monnow Street	Bank	Lloyds TSB Bank plc
Newcastle Under Lyme – 76 High Street	Shop	W H Smith Limited
Newquay – 10 Central Square	Bank	Lloyds TSB Bank plc
Nottingham – Exchange Bar Diner	Public House/ Restaurant	Morland plc
Oban – 44/46 George Street	Shop	W H Smith Limited
Portsmouth – 2 Guildhall Walk	Public House	J D Wetherspoon plc
Reading – 12 Queen Victoria Street	Restaurant	Brightreasons Ltd
St Andrews – 90/92 South Street	Shop	W H Smith Limited
Tonbridge – 121 High Street	Bank	Lloyds TSB Bank plc
Torquay – The Willows	Public House	Allied Domecq plc
Weybridge – 2 Hanger Hill	Restaurant	City Centre Restaurants Limited
Winchester – 1 High Street	Public House	Luminar plc

TWENTY LARGEST EQUITY HOLDINGS

<i>Company</i>	<i>Value £'000</i>	<i>Main Activity</i>
Vodafone Airtouch	28,374	Telecommunications
BP Amoco	24,526	Integrated oil company
British Telecom	21,560	Telecommunications
Lloyds TSB	17,814	Banking & financial services
Glaxo Wellcome	17,500	Pharmaceuticals
Shell Transport & Trading	17,493	Integrated oil company
SmithKline Beecham	16,993	Pharmaceuticals
HSBC Holdings	16,397	Banking & financial services
Sage	15,110	Software & computer services
Energis	14,870	Telecommunications
Barclays Bank	12,474	Banking & financial services
Hays	11,635	Specialist business services
Bowthorpe	10,825	Electronic components
Scottish Oriental Smaller Cos. Trust	9,070	Far East investment trust
Bank of Scotland	8,628	Banking & financial services
United Utilities	8,366	Water & electricity utility
Logica	7,985	Software & computer services
Dixons	7,941	Electrical retailing
Value & Income Trust	7,883	Specialist investment trust
Independent Insurance Group	7,757	Insurance company
52.4 per cent of shareholders' funds	283,201	

PROPERTY AND UNQUOTED PORTFOLIO

We added a further nine freehold properties to our property portfolio at a cost of £10.6m with an initial yield averaging 8.3 per cent. All were sale and leaseback transactions, eight shops on fifteen year leases to W H Smith and a caravan park in Kent on a thirty five year lease. Four properties were sold during the year, three Lloyds TSB Bank branches and one W H Smith retail store, raising a total of £1.7m.

The purchases complete the investment of the money raised by the issue of £25m of debenture stock in 1997. The uninvested part of the money raised was invested in the long end of the UK gilt market. As suitable properties were found, the gilts were sold to finance the acquisitions. The gain in the property portfolio over the year, including the profit on sales, amounted to £1.6m.

It was an inactive year in our unquoted portfolio. Our largest unquoted holding, International Mezzanine Investment Fund, made good progress. The Fund provides secondary finance to small and medium sized companies. The trade sale of one of its major investments resulted in it returning £1m of capital to us. The Quantum Fund made a further three investments on our behalf. These are all early stage investments funding research projects that may develop into marketable products in due course.

OUTLOOK

Global economic growth should continue to accelerate in 2000 but we expect growth in the US to slow with the momentum picked

up by Europe and the Far East where economies are further behind in the economic cycle. Provided investors feel that interest rate rises are pre-emptive and that inflation will, therefore, be kept under control, markets can continue to make progress, although valuations in many markets are stretched and vulnerable to a correction.

As in 1999 the US market is likely to hold the key to returns in 2000. The economy should continue to expand but the rate of growth needs to moderate to more sustainable levels if inflation is not to become a problem. Corporate earnings will continue to grow at a reasonable rate but, with bonds weak in the closing months of 1999, equities now look very overvalued relative to bonds. Alan Greenspan, Chairman of the Federal Reserve has made it clear that it is not targeting asset prices when setting monetary policy but there is a clear correlation between the strength of retail sales and levels of the stock market. At the very least the Federal Reserve is likely to claw back liquidity released to allow for any Y2K problems and will want to implement any interest rate rises early in the year so as not to be seen as acting politically during a presidential election. This will make it difficult for US equities to make progress in the short-term and explains our cautious overall stance.

The UK economy is still performing well with GDP growth at the highest level for two years led by the service sector. House prices have increased sharply, however, and equity withdrawal is rising, while manufacturing, one hitherto weak area of the economy, is now showing signs of recovery despite the strength of sterling. Inflation remains below the government's target but further interest rate rises

SUMMARY OF VALUATION AT 31st DECEMBER 1999

	1999 %	1998 %
<i>Equities</i>		
UK	78.8*	74.5*
North America	13.2	19.2
Continental Europe	10.2	8.0
Japan	6.5	2.3
Pacific Rim/Emerging Markets	4.3	2.0
Unquoted	1.9	1.9
	114.9	107.9
Fixed Interest	—	9.6
Properties	5.6	3.4
Subsidiary Companies	0.1	0.1
Margin on Futures	0.7	0.8
Net Current Assets	11.3	—
	132.6	121.8
<i>Less:</i>		
Equities Index Unsecured Loan Stock	-22.2	-17.4
Debenture Stocks	-10.4	-4.4
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 63.0% of Shareholders' Funds (66.3% in 1998).

CURRENCY EXPOSURE AT 31st DECEMBER 1999

	1999 %	1998 %
UK (less borrowings)	67.5	69.0
North America	15.0	20.3
Continental Europe	9.3	7.2
Japan	6.5	2.4
Pacific Rim/Emerging Markets	1.7	1.1
Shareholders' Funds	100.0	100.0

are likely in coming months and this may limit the market's rise. In the second half of last year, the UK stockmarket saw a spectacular switch into growth stocks. We have been concentrating much more on growth stocks within the portfolio and although they may give up some ground in relative terms in the short-term after such a strong run, the conditions favouring companies that can increase their earnings consistently remain in place.

Economic growth is now accelerating in Europe with recovery beginning to take hold in Germany and Italy. Inflation remains low despite the weakness of the euro and although interest rates will rise further it is from low levels and is unlikely to compromise growth prospects. There are some signs that political attitudes are becoming less positive for business but there has been little evidence of any substantive change in policy. More importantly, however, proposed tax changes in Germany to facilitate the sale of share stakes would be positive for the stockmarket, and Vodafone's acquisition of Mannesmann could prove an important precedent. With hostile takeovers now feasible across Continental Europe, the prospect of significant corporate activity should provide a powerful boost to stockmarkets.

Despite a very different economic environment, many of the same themes as in the US and Europe have been evident in the Japanese stockmarket. Investors have focused relatively narrowly on the so-called 'new Japan stocks', notably telecommunications and internet businesses. The government has publicly supported the concept of foreign takeovers and encouraged the unwinding of the extensive network of cross holdings in Japanese companies. We expect the market to make further progress, although any further strengthening of the yen would be a matter of some concern.

Other Asian markets also look attractive, with relatively favourable valuations on a global comparison and increasing support from retail investors.

Relative to our benchmark we are overweight Continental Europe, Japan and the Far East and underweight North America. We are marginally underinvested in equities and have yet to invest the proceeds of the debenture issue but will use any setback in markets to do so as we feel 2000 will ultimately prove another rewarding year for equity investment.

MARCUS BROOKS
9th February 2000

List of Quoted Equity Investments AT 31ST DECEMBER 1999

Value £'000	Value £'000	Value £'000
	TELECOMMUNICATION SERVICES 13.7%	STEEL & OTHER METALS 0.1%
	British Telecom 21,560	Alcoa 592
	Cable & Wireless 3,672	
	Energis 14,870	DIVERSIFIED INDUSTRIALS 0.3%
	Kingston Communications 5,544	Tyco International 1,670
	Vodafone Airtouch 28,374	
	ELECTRICITY 0.6%	ELECTRONIC & ELECTRICAL EQUIPMENT 0.2%
	National Grid Group 3,062	Honeywell International 671
		Lucent Technologies 698
	GAS DISTRIBUTION 0.8%	ENGINEERING & MACHINERY 0.9%
	BG 4,392	General Electric 3,553
		Illinois Tool Works 1,207
	WATER 2.3%	AUTOMOBILES 0.1%
	Pennon Group 3,967	Ford Motor Company 314
	United Utilities 8,366	
	BANKS 10.2%	HOUSEHOLD GOODS 0.4%
	Bank of Scotland 8,628	Home Depot 2,240
	Barclays Bank 12,474	
	HSBC Holdings 16,397	FOOD PRODUCERS & PROCESSORS 0.4%
	Lloyds TSB 17,814	Pepsi Bottling Group 863
	INSURANCE 1.4%	Sara Lee 1,136
	Independent Insurance Group 7,757	
	LIFE ASSURANCE 1.9%	HEALTH 0.6%
	Legal & General 5,898	Johnson & Johnson 1,620
	Prudential 4,585	Medtronic 1,379
	INVESTMENT COMPANIES 1.5%	PERSONAL CARE & HOUSEHOLD PRODUCTS 0.3%
	Value & Income Trust* (13.7% of class) 7,883	Procter & Gamble 1,733
	REAL ESTATE 1.6%	PHARMACEUTICALS 0.7%
	Derwent Valley Holdings 5,425	American Home Products 1,607
	Pillar Property 3,498	Bristol-Myers Squibb 538
	SPECIALITY & OTHER FINANCE 2.1%	Pfizer 1,530
	Amvescap 3,600	GENERAL RETAILERS 0.4%
	Cattles Holdings 7,556	Kohl's 672
	INFORMATION TECHNOLOGY HARDWARE 1.9%	Wal-Mart Stores 1,565
	Arm Holdings 5,430	LEISURE, ENTERTAINMENT & HOTELS 0.3%
	Filtronic 4,642	Cablevision Systems 1,077
	SOFTWARE & COMPUTER SERVICES 6.5%	Carnival 742
	Baltimore Technologies 7,687	MEDIA & PHOTOGRAPHY 0.5%
	Freeserve 531	AT & T-Liberty Media 2,468
	Kewill Systems 2,113	RESTAURANTS, PUBS & BREWERIES 0.2%
	Logica 7,985	McDonald's 976
	London Bridge Software 1,901	FOOD & DRUG RETAILERS 0.4%
	Sage 15,110	Safeway 976
		Walgreen 1,107
		TELECOMMUNICATION SERVICES 0.8%
		MCI Worldcom 2,344
		SBC Communications 2,087
		ELECTRICITY 0.3%
		Enron 1,886
		BANKS 1.1%
		Bank of America 1,417
		Chase Manhattan 1,046
		Citigroup 2,021
		Wells Fargo 1,731
		INSURANCE 0.4%
		American International Group 2,214
		SPECIALITY & OTHER FINANCE 0.2%
		American Express 1,083
		INFORMATION TECHNOLOGY HARDWARE 1.4%
		Cisco Systems 2,758
		Dell Computer 822
		Intel 1,812
		International Business Machines 2,175
		FORESTRY & PAPER 0.1%
		International Paper 508
UNITED KINGDOM 78.8%		
OIL & GAS 7.8%		
BP Amoco 24,526		
Shell Transport & Trading 17,493		
CONSTRUCTION & BUILDING MATERIALS 1.3%		
Amec 6.5% Cv. Pref. 2009 3,100		
Redrow 3,980		
AEROSPACE & DEFENCE 0.7%		
Smiths Industries 3,700		
ELECTRONIC & ELECTRICAL EQUIPMENT 2.0%		
Bowthorpe 10,825		
ENGINEERING & MACHINERY 1.5%		
BBA Group 5,000		
Rotork 3,125		
HOUSEHOLD GOODS 0.1%		
Lamont Holdings* 255		
FOOD PRODUCERS & PROCESSORS 0.7%		
Unilever 3,660		
HEALTH 0.9%		
SSL International 5,093		
PERSONAL CARE & HOUSEHOLD PRODUCTS 0.7%		
Peter Black Holdings 3,900		
PHARMACEUTICALS 7.9%		
AstraZeneca 7,190		
Glaxo Wellcome 17,500		
William Ransom & Son* 898		
SmithKline Beecham 16,993		
GENERAL RETAILERS 3.6%		
N Brown Group 6,814		
Dixons 7,941		
Kingfisher 4,411		
MEDIA & PHOTOGRAPHY 0.5%		
Columbus Group 486		
Reuters Group 2,124		
RESTAURANTS, PUBS & BREWERIES 1.1%		
Scottish & Newcastle 2,800		
Yates Bros. Wine Lodges 3,325		
SUPPORT SERVICES 3.7%		
Capita Group 4,543		
Davis Service Group 2,645		
Hays 11,635		
Stat-Plus Group* 1,172		
TRANSPORT 0.4%		
Firstgroup 2,250		
FOOD & DRUG RETAILERS 1.4%		
Greggs 3,443		
Wm. Morrison 3,990		
	NORTH AMERICA 13.2%	
	OIL & GAS 0.8%	
	Conoco 849	
	Exxon Mobil 2,749	
	Schlumberger 592	
	CHEMICALS 0.1%	
	EI Du Pont De Nemours 777	
	FORESTRY & PAPER 0.1%	
	International Paper 508	

	Value £'000
SOFTWARE & COMPUTER SERVICES 2.2%	
America Online	1,224
BMC Software	1,983
EMC	1,898
Microsoft	3,621
Motorola	1,005
Nortel Networks	1,128
Sun Microsystems	884

CONTINENTAL EUROPE 10.2%

FINLAND 0.6%; FRANCE 2.7%; GERMANY 1.3%; IRELAND 0.1%; ITALY 0.5%; NETHERLANDS 1.4%; PORTUGAL 0.2%; SPAIN 0.8%; SWEDEN 1.1%; SWITZERLAND 0.7%; UNIT TRUST 0.8%

OIL & GAS 0.6%	
Repsol	1,146
TotalFina	2,060

CONSTRUCTION & BUILDING MATERIALS 0.3%	
Lafarge	1,438

ELECTRONIC & ELECTRICAL EQUIPMENT 1.3%	
Electrolux	1,554
L M Ericsson	2,066
Nokia	1,679
Philips Electronics	1,512

ENGINEERING & MACHINERY 0.3%	
ABB	1,510

AUTOMOBILES 0.4%	
Bayer Motoren Werke	1,133
Peugeot	981

PHARMACEUTICALS 0.4%	
Roche Holdings Pharmaceutical	1,319
Sanofi-Synthelabo	926

GENERAL RETAILERS 0.4%	
Castorama Dubois	1,033
Pinault Printemps-Redoute	1,402

MEDIA & PHOTOGRAPHY 0.2%	
VNU	974

SUPPORT SERVICES 0.2%	
Securitas	1,342

FOOD & DRUG RETAILERS 0.2%	
Carrefour	1,025

TELECOMMUNICATION SERVICES 1.8%	
Deutsche Telekom	1,912
Kon KPN	2,411
Mannesmann	1,495
Portugal Telecom	1,016
Sonera	1,693
Telefonica	1,496

	Value £'000
BANKS 1.4%	
Argentaria	1,451
Bank of Ireland	835
Banque Nationale de Paris	1,310
BIPOP-CARIRE	1,639
Fortis	1,156
Unicredito Italiano	1,062

INSURANCE 0.5%	
Allianz	1,452
Zurich Allied	1,126

SPECIALITY & OTHER FINANCE 0.9%	
AXA	1,463
DePfa Bank	936
ING Groep	1,305
Nordbanken Holding	1,089

INFORMATION TECHNOLOGY HARDWARE 0.3%	
STMicroelectronics	1,901

SOFTWARE & COMPUTER SERVICES 0.2%	
Cap Gemini	941

UNIT TRUST 0.8%	
Stewart Ivory European Smaller Companies Fund	4,193

JAPAN 6.5%

CONSTRUCTION & BUILDING MATERIALS 0.3%	
Nippon Comsys	1,696

ELECTRONIC & ELECTRICAL EQUIPMENT 1.8%	
Hoya	1,464
Matsushita Communications Ind'l	4,910
Sony	3,123

ENGINEERING & MACHINERY 0.2%	
Bridgestone	955

PHARMACEUTICALS 0.4%	
Takeda Chemical	1,041
Terumo	1,357

GENERAL RETAILERS 0.5%	
Ito Yokado	1,750
Ryohin Keikaku	1,194

SUPPORT SERVICES 0.6%	
Japan Airport Terminal	1,209
Secom	2,182

TELECOMMUNICATION SERVICES 1.2%	
NTT Mobile Communications	6,575

BANKS 0.5%	
Fuji Bank	1,324
Sanwa Bank	1,356

SPECIALITY & OTHER FINANCE 0.5%	
Nomura Securities	1,454
Promise	1,024

SOFTWARE & COMPUTER SERVICES 0.5%	
Esas	2,430

Value £'000

PACIFIC RIM/ EMERGING MARKETS 4.3%

AUSTRALIA 0.2%; CROATIA 0.2%; GREECE 0.2%; HONG KONG 0.8%; HUNGARY 0.4%; INDIA 0.2%; SINGAPORE 0.3%; TAIWAN 0.3%; INVESTMENT TRUST 1.7%

PHARMACEUTICALS 0.4%	
Gedeon Richter	1,303
Pliva	1,010

GENERAL RETAILERS 0.3%	
President Chain Stores	1,508

TRANSPORT 0.1%	
Brambles	513

HOLDING COMPANIES 0.2%	
Swire Pacific	1,230

TELECOMMUNICATION SERVICES 0.6%	
China Telecom	1,939
OTE	1,145

ELECTRICITY 0.2%	
CLP Holdings	1,000

BANKS 0.5%	
DBS Group Holdings	1,596
OTP	1,082

SPECIALITY & OTHER FINANCE 0.1%	
Lend Lease	520


INVESTMENT FUNDS 0.2%	
MSDW India Investment Fund	1,290

INVESTMENT TRUST 1.7%	
The Scottish Oriental Smaller Companies Trust* (39.3% of class)	8,250
The Scottish Oriental Smaller Companies Trust Warrants* (42.1% of class)	820

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 London 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, or the SAINTS ISA.

A brief explanation of these products is given below; further details can be found on SAINTS website at: www.itssaints.com

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 £50 and the minimum lump sum investment is £250.

THE SAINTS ISA AND PEPs

On 6th April 1999, SAINTS launched an Individual Savings Account, the SAINTS ISA, as a successor to its Personal Equity Plans. Whilst further contributions to PEPs are not permitted, investors in the New SAINTS PEP or the SAINTS Mixed PEP do not have to sell or transfer their plans but can continue to hold them as a tax-free investment.

The SAINTS ISA offers the stocks and shares element only and is available as either a Mini or a Maxi ISA. Neither offers the cash or life insurance components, and neither is a CAT Standard ISA.

You can invest up to £7,000 in the SAINTS Maxi ISA in the tax year 1999/2000 and up to £5,000 per tax year thereafter by lump sum or regular savings (minimum £50 per month). If you prefer the Mini ISA, however, the maximum you can invest in any tax year is £3,000.

The SAINTS ISA is free of annual administration charges until April 2001.

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. The SAINTS ISA is not a CAT Standard ISA. The tax advantages of ISAs may be subject to future change. Eligibility to invest in an ISA and the value of tax savings will depend on individual circumstances.

SAINTS shares are qualifying investments for the stocks and shares component of an ISA and for a general Personal Equity Plan. It is the present intention of the Directors that the Company should continue to maintain its ISA and PEP status.



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 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 27.5 per cent. As the discount narrowed slightly from 18.6 per cent to 16.3 per cent, this was greater than the growth in the net asset value of 23.9 per cent.

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 dividend payments 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 1999 are shown in the accompanying table.

DIVIDEND PAYMENTS FOR 1999

	Net	Gross
First interim	1.37p	1.52p
Second interim	1.38p	1.53p
Third interim	1.38p	1.53p
Final payable 3.4.00	1.38p	1.53p
Total	5.51p	6.12p



Taxation of capital gains from your investment.

HOW YOU ARE TAXED

1: CAPITAL

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 £7,100. But any gains in excess of £7,100 are chargeable at your highest rate of tax, a maximum 40 per cent. These figures apply for the fiscal year ending 5th April 2000.


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 are reduced according to how long the investment has been held.

If you held SAINTS shares or the 4 per cent Irredeemable 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.*


4 PER CENT IRREDEEMABLE DEBENTURE STOCK: £23.25.

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

 Taxation of dividends from SAINTS

2: INCOME

The dividends you receive from your SAINTS shares are taxed as income. If you pay tax at the starting (10 per cent), lower (20 per cent) or basic (23 per cent) rates 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. Dividends received including the relevant tax credits should be declared on your Tax Return.

 Information on dates of dividends and publication of results.

QUARTERLY DIVIDEND DATES FOR 2000

	<i>Final 1999</i>	<i>First Interim*</i>	<i>Second Interim*</i>	<i>Third Interim*</i>
Dividend announced	9.2.00	12.4.00	19.7.00	18.10.00
Ex-dividend date	28.2.00	22.5.00	29.8.00	20.11.00
Record date	3.3.00	26.5.00	4.9.00	24.11.00
Dividend paid	3.4.00	3.7.00	2.10.00	4.1.01

*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 Irredeemable Debenture Stock is paid in May and November and on the 8 per cent Debenture Stock in April and October.

ANNOUNCEMENTS OF RESULTS AND REPORTS

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

WHERE TO FIND SAINTS' SHARE PRICE

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


THE INTERNET

SAINTS' site on the internet provides up-to-date information on the share price, net asset value and discount as well as full information on the Savings Scheme 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.itssaints.com

By quoting the reference number on their share certificate, investors who hold Ordinary shares in their own name can check their holding at our Registrar's web site: www.cshare.co.uk

FURTHER INFORMATION

If you require any further information please contact:
Penny Marchant, Stewart Ivory & Company Limited
45 Charlotte Square, Edinburgh EH2 4HW
Freephone 0800 731 9548
Fax 0131 226 5120

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

HISTORICAL PERFORMANCE

	TOTAL INVESTMENTS £000	SHARE-HOLDERS' FUNDS £000	NET ASSETS PER SHARE P	SHARE PRICE P	EARNINGS PER SHARE (GROSS) P	DIVIDEND PER SHARE (GROSS) (NET) P P
1960	25,663	20,759	9.3	9.8	0.48	0.39 0.24
1965	34,724	29,329	13.1	11.6	0.69	0.57 0.33
1970	49,281	39,058	17.4	16.0	0.59	0.58 0.34
1975	47,916	38,160	17.1	14.5	0.71	0.69 0.45
1980	97,146	91,031	40.7	32.5	1.48	1.43 1.00
1985	187,256	191,005	85.4	69.8	2.55	2.34 1.64
1990	293,221	252,877	113.1	95.5	5.89	5.07 3.80
1991	329,204	294,567	131.7	115.5	5.79	5.49 4.12
1992	402,542	340,249	152.2	134.5	6.31	5.80 4.35
1993	497,899	421,077	188.3	170.5	5.76	5.79 4.63
1994	461,791	383,318	171.4	154.5	6.08	6.02 4.82
1995	503,007	428,471	191.6	163.0	6.68	6.25 5.00
1996	564,147	464,309	207.6	170.8	6.25	6.48 5.18
1997	629,538	518,763	232.0	191.5	7.18	6.71 5.37
1998	702,681	577,154	258.1	210.0	7.99	7.40* 6.45*
1999	654,806	540,014	319.9	267.8	5.03	6.12 5.51

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.

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

The Directors of SAINTS

JANET MORGAN, D. PHIL.

Dr Morgan (54) 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).

SIR JOHN SHAW, CBE, CA

Chairman

Sir John (67) joined the Board in 1986. He is Governor of Bank of Scotland and a director of other companies. He is a past president of the Institute of Chartered Accountants of Scotland.

BARRY E SEALEY, CBE

Mr Sealey (64) joined the Board 1985. He is a director of Stagecoach Holdings and other companies. He was formerly Managing Director of Christian Salvesen.

SIR COLIN MCCOLL, KCMG

Sir Colin (67) 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.

WILLIAM BERRY, WS

Mr Berry (60) joined the Board in 1974. He is Chairman of the Edinburgh legal firm of Murray Beith Murray, ws, and a director of the Alliance Trusts, Fleming Continental European Investment Trust, The Scottish Life Assurance Company and other companies.

DAVID W J PRICE

Mr Price (52) joined the Board 1997. He is Chairman of Foreign and Colonial Management Limited and Govett Asian Recovery Trust and a director of Booker, the Equitable Life Assurance Society Mercury European Privatisation Trust and other companies.

SAINTS' Investment Manager

SAINTS' Investment Manager is Stewart Ivory & Company Limited.

Currently managing assets in excess of £3 billion comprising investment trusts, pension, charitable and private client funds as well as a wide range of unit trusts, Stewart Ivory's reputation has been built on the hallmark Scottish principles of sound investment and prudent risk-taking which have served investors so well for over a century.

left to right

John Thomson, Marcus Brooks, Teddy Tulloch

Those within Stewart Ivory who have responsibility for SAINTS are as follows:

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


MARCUS BROOKS, BA, AAIMR
Director of Stewart Ivory
Joined Stewart Ivory in 1994 as a UK Equities specialist following seven years' experience in London. He has overall responsibility for the portfolio management of SAINTS.

TEDDY TULLOCH, BSC
Director of Stewart Ivory
Joined the Company in 1972. He is Investment Director of Stewart Ivory.

The Non-executive Chairman of Stewart Ivory is James Ferguson. He is a former Deputy Chairman of the Association of Investment Trust Companies (AITC).

James Ferguson

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 principal activity of the Company is that of an investment trust. A review of the Company's business can be found in the Chairman's Statement on pages 3 to 5 and in the Portfolio Manager's Report on pages 6 to 13.

Details of SAINTS' investment company status can be found in Note 1B on the Accounts on page 30 and in the Explanatory Notes to the Notice of Meeting beginning on page 43.

During the year SAINTS bought in 54,792,057 of its own Ordinary 25p shares at a cost of £137.9 million. This represents 24.5 per cent of the share capital at the beginning of the year. These share repurchases increased the net asset value of the remaining shares by 7.4p per share. At the year end, authority existed to repurchase another 6,730,365 shares. In the period from 1st January to 9th February 2000 SAINTS repurchased a further 4,700,000 shares, leaving authority to repurchase 2,030,365 shares at the date of this Report.

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 1998 and the Company manages its affairs to maintain such approval. A note of the PEP and ISA status of the Company is given on page 17.

A final dividend is proposed of 1.38p (1998: 1.37p) payable on 3rd April 2000.

DIRECTORS' INTERESTS

Shares of 25p	1999	1998
William Berry	54,751	53,632
—as Trustee	86,225	188,425
Sir Colin McColl	2,343	2,343
Dr Janet Morgan	9,423	9,423
David W. J. Price	10,000	10,000
Barry E. Sealey	36,902	34,697
Sir John Shaw	19,153	18,627

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, Dr Janet Morgan and Mr William Berry 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 1999 as shown in the accompanying table. Changes to these holdings between that date and 9th February 2000 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 and ISA.

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 for 1999 are given in Note 3 of the Accounts.

A new fee structure has been agreed with effect from 1st January 2000. The fee consists of two parts, a basic fee based on 0.3 per cent of gross assets, calculated on the amount shown in the previous year's accounts. Stewart Ivory will rebate any fees from investments in other funds that it manages. In addition, there will be an annual performance fee where Stewart Ivory will receive 10 per cent of the value of the outperformance up to 1.5 percentage points of outperformance of SAINTS' total return of NAV per share over the total return for the Benchmark. Conversely, Stewart Ivory will pay a penalty of 5 per cent of the value of the underperformance up to 1.5 percentage points of underperformance of the Benchmark. A separate fee of £100,000 will be paid for secretarial services. This fee will be adjusted annually by the retail price index.

SUBSTANTIAL SHAREHOLDERS

At 9th February 2000 the Company had not been notified of any beneficial interest exceeding 3 per cent of its issued Ordinary share capital.

ANNUAL GENERAL MEETING


At the Annual General Meeting of the Company, to be held on 22nd March 2000, four 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
 9th February 2000

Directors' Statement on Corporate Governance

 The Directors' responsibilities for the stewardship of your investment.

DELEGATION

Investment management:
Stewart Ivory

Safeguarding of assets:
The Bank of New York Europe
The Bank of New York

Accounting & company secretarial:
Stewart Ivory

Property portfolio management:
OLIM

Savings scheme administration:
The Bank of New York Europe

PEP/ISA administration:
Cogent

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.

Although we have delegated certain key operational activities to third parties, we retain overall responsibility for the Company's system of internal control. We therefore apply control and reporting procedures for identifying, evaluating and managing the risks faced by the Company. The effectiveness of these procedures are regularly assessed and have been in place for the year under review. 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 complied with 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.
- Each Director must retire by rotation every three years and their re-election is 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 risk management, 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 total return 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 except FRS1 revised, as noted on page 29, have been followed.

3. MONITORING PROCEDURES

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

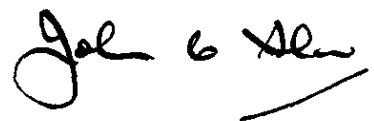
- The Board meets seven times a year to review the overall business of the Company.

- At Board meetings the Investment Manager presents a report on the conduct of the Company's affairs and the Directors are properly briefed on issues arising.
- We review investment policy and performance at our Board meetings.
- There is a formal schedule of matters reserved for the Board.
- We have imposed certain investment limits on Stewart Ivory in managing the portfolio of investments. 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 investment 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 a separate Audit Committee.
- We receive a Compliance Report from the Compliance Officer of the Investment Manager which provides information on issues which are of relevance to the Company.
- We monitor the quality and cost of services provided by third parties.
- We receive reports on the safe custody policies and procedures employed by The Bank of New York Europe and The Bank of New York and the results of their respective auditors' reports on these activities.

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.
- Following the publication of Internal Control Guidance for Directors on the Combined Code in September 1999, by the Internal Control Working Party of the Institute of Chartered Accountants in England and Wales (The Turnbull Report), we can state that the Company has complied throughout the year with those aspects of the Combined Code on Corporate Governance which we believe are applicable to an investment trust.

On Behalf of the Board
 SIR JOHN SHAW, *Chairman*
 9th February 2000



Auditors' Report

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

We have audited the Accounts on pages 26 to 39 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 pages 30 and 31.

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 corporate governance statement on pages 23 and 24 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

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 1999 and of its total return for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

CHIENE & TAIT CA, Registered Auditors
61 Dublin Street, Edinburgh EH3 6NL

9th February 2000

Chiene & Tait CA

Statement of Total Return

FOR THE YEAR ENDED 31ST DECEMBER 1999



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	1999		1998	
	£'000	£'000	£'000	£'000
Income [NOTE 2]				
Dividends from UK companies	11,207		13,908	
Dividends from overseas companies	1,611		2,166	
Dividends from subsidiary companies	—		2,400	
Interest from UK securities	2,185		3,517	
Interest from overseas securities	727		366	
Interest on deposits	1,225		1,176	
Rental income	2,117		1,510	
Underwriting commission	1		23	
Other income	5		4	
Total income		19,078		25,070
Expenses [NOTES 1 G & 3]				
Investment management fee	(2,254)		(2,120)	
Other administrative expenses	(1,656)		(894)	
Total expenses		(3,910)		(3,014)
Income before interest payable and tax		15,168		22,056
Interest payable [NOTE 4]		(4,737)		(5,251)
Income on ordinary activities before tax		10,431		16,805
Tax [NOTE 5]		(1,372)		(2,515)
Income attributable to shareholders		9,059		14,290
Dividends (5.51p per share; 1998 – 5.45p) [NOTE 6]		(10,092)		(12,186)
(Deficit)/surplus prior to special dividend		(1,033)		2,104
Special dividend		—		(2,236)
Transfer from revenue reserve		(1,033)		(132)
INCOME RETURN PER SHARE [NOTE 7]		4.53p		6.39p
Based on the weighted average number of shares				
The notes on pages 30 to 39 form part of these Accounts.				

Statement of Total Return

FOR THE YEAR ENDED 31ST DECEMBER 1999



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	1999	1998
	£'000	£'000
Capital profits / losses		
Realised gains on investments	105,478	24,926
Realised losses on Equities Index		
Unsecured Loan Stock 2004	(853)	—
Realised (losses)/gains on foreign currency loan	(300)	46
Unrealised gains on investments	17,946	43,479
Increase in value of Equities Index		
Unsecured Loan Stock 2004	(20,307)	(9,858)
Currency losses	(156)	(70)
	<hr/>	<hr/>
Capital profits attributable to shareholders	101,808	58,523
	<hr/>	<hr/>
CAPITAL RETURN PER SHARE [NOTE 7]	50.85p	26.17p
Based on the weighted average number of shares	<hr/>	<hr/>



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 weighted average number of shares in issue during the year in line with the requirements of Financial Reporting Standard 14. We believe these calculations of the income, capital and total return do not give a true picture of the returns per share over the year. Using the average number of shares understates the returns due to the repurchase of shares during the year. A more accurate measurement of the returns is the gain in net asset value of 61.77p per share plus the dividends paid of 5.51p per share for a total return of 67.28p.

Total Return	1999	1998
	£'000	£'000
Income attributable to shareholders	9,059	14,290
Capital profits attributable to shareholders	101,808	58,523
	<hr/>	<hr/>
Total return attributable to shareholders	110,867	72,813
	<hr/>	<hr/>
TOTAL RETURN PER SHARE [NOTE 7]	55.38p	32.56p
Based on the weighted average number of shares	<hr/>	<hr/>

The notes on pages 30 to 39 form part of these Accounts.

Balance Sheet

AT 31ST DECEMBER 1999



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.

	1999		1998	
	£'000	£'000	£'000	£'000
Investments [NOTES 8, 9, 10 & 11]				
<i>Equity</i>				
UK		425,538		429,847
North America		71,617		110,689
Continental Europe		54,982		46,350
Japan		35,053		13,200
Pacific Rim / Emerging Markets		23,207		11,334
Unquoted		10,208		11,135
Margin on Futures		3,642		4,875
Subsidiary Companies [NOTE 12]		409		392
		<u>624,656</u>		<u>627,822</u>
<i>Fixed Interest:</i>				
UK Government		—		55,239
 Property		<u>30,150</u>		<u>19,620</u>
		<u>654,806</u>		<u>702,681</u>
Current Assets				
Debtors [NOTE 13]	2,190		3,916	
Cash and Deposits	66,005		6,272	
		<u>68,195</u>		<u>10,188</u>
Current Liabilities due within one year				
Creditors [NOTE 14]	4,613		4,992	
Recommended Final and Special Dividend [NOTE 6]	2,330		5,299	
		<u>6,943</u>		<u>10,291</u>
Current Assets less Current Liabilities		<u>61,252</u>		<u>(103)</u>
Total Assets less Current Liabilities		<u>716,058</u>		<u>702,578</u>
<i>Less Creditors due after one year</i> [NOTE 15]				
Equities Index Unsecured Loan Stock 2004	119,972		100,258	
8 per cent Debenture Stock 2022	55,596		24,690	
4 per cent Irredeemable Debenture Stock	476		476	
		<u>176,044</u>		<u>125,424</u>
EQUITY SHAREHOLDERS' FUNDS [NOTE 16]		<u>540,014</u>		<u>577,154</u>
Share Capital and Reserves				
Ordinary 25p shares issued and fully paid [NOTE 17]		42,204		55,902
Capital Redemption Reserve [NOTE 18]		13,698		—
Capital Reserve-Realised [NOTE 18]		319,230		352,976
Capital Reserve-Unrealised [NOTE 18]		156,508		158,869
Revenue Reserve [NOTE 19]		8,374		9,407
		<u>540,014</u>		<u>577,154</u>
NET ASSET VALUE PER SHARE		<u>319.9p</u>		<u>258.1p</u>

These Accounts were approved by the Board on 9th February 2000 and were signed on its behalf by: SIR JOHN C. SHAW, Director DAVID W. J. PRICE, Director

The notes on pages 30 to 39 form part of these Accounts.

Cash Flow Statement

FOR THE YEAR TO 31ST DECEMBER 1999



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 on 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.

	1999		1998	
	£'000	£'000	£'000	£'000
Balances at the start of the year: Cash	6,272		7,615	
Deposits	—		11,000	
Cash and deposits at the start of the year		6,272		18,615
Income				
Dividends received	12,761		16,039	
Interest received	5,118		4,695	
Underwriting commission and other income	1,898		1,558	
Administrative expenses paid	(3,756)		(2,962)	
Income less administrative expenses		16,021		19,330
Interest paid on borrowings	(4,384)		(5,219)	
Dividends paid to shareholders	(13,752)		(12,142)	
Cash paid in respect of interest and dividends		(18,136)		(17,361)
Total tax paid		(701)		(743)
Capital				
Purchases of investments	(276,341)		(194,290)	
Sales of investments	447,640		189,956	
		171,299		(4,334)
Repurchase of Ordinary share capital	(137,785)		—	
Issue of 8 per cent Debenture Stock 2022	30,937		—	
Repayment of Equities Index Unsecured Loan Stock 2004	(1,446)		—	
Foreign currency loans	(300)		(9,154)	
Currency losses	(156)		(70)	
Cash received / (paid) in respect of capital transactions		62,549		(13,558)
Currency loss on foreign currency loans		—		(11)
Increase / (decrease) in the year: Cash	49,733		(1,343)	
Deposits	10,000		(11,000)	
Increase / (decrease) in cash and deposits in the year		59,733		(12,343)
Balances at the end of the year: Cash	56,005		6,272	
Deposits	10,000		—	
Cash and deposits at the year end		66,005		6,272

Notes on the Accounts

FOR THE YEAR TO 31ST DECEMBER 1999



The Notes on the Accounts on pages 30 to 39 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 TRUE AND FAIR VIEW

At the AGM on 24th March 1999, the shareholders gave approval for SAINTS to buy back a limited amount of its issued share capital. In order that the buy back of shares proceed, SAINTS ceased to be an investment company within the meaning of S266, Companies Act 1985. However, it continued to conduct its affairs as an investment trust for taxation purposes under S842 of the Income and Corporation Taxes Act 1988, and the Articles of the Company prohibit capital profits from being distributed by way of dividend. As such, the Directors consider it necessary to continue to present the accounts in accordance with the SORP. Under the SORP, the financial performance of SAINTS is presented in a statement of total return in which the income return is the profit and loss account of the Company. The income return excludes capital losses on disposal of investments, calculated by reference to their previous carrying amount, of £5.4m (1998 – £6.1m), realised currency losses of £0.2m (1998 – £0.1m) and income credited to capital of £1.2m (1998 – nil). Since the Company is no longer an investment company, the Companies Act and/or FRS3 would ordinarily require these amounts to be included in the profit and loss account. In the opinion of the Directors the inclusion of these items in the profit and loss account would be misleading because they would obscure and distort both the revenue and capital performance of the Company, and would not show clearly the revenue profits emerging to be distributable by way of dividend. The Directors therefore consider that these departures from the specific provisions of Schedule 4 of the Companies Act relating to the form and content of accounts for companies other than investment companies and these

departures from accounting standards are necessary to give a true and fair view. The departures have no effect on total return or on the Balance Sheet.

C 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, Allsop & Co., 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.

D 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.

1 Accounting Policies (continued)

E 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.

F 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.

G 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.

H 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 FTSE 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.

I 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 taken to income on a time apportioned basis over the life of the Stock.

2 Income

	1999 £'000	1998 £'000
<i>Total income comprises:</i>		
Income from securities	15,730	22,357
Deposit interest	1,225	1,176
Other income	2,123	1,537
	<hr/> 19,078	<hr/> 25,070
<i>Income from securities comprises:</i>		
Securities listed in the UK	12,933	16,654
Securities listed overseas	1,960	2,532
Unlisted securities	837	3,171
	<hr/> 15,730	<hr/> 22,357

Dividends from UK companies include £124,000 received as foreign income dividends (1998 – £2,481,000).

	1999	1998
	£'000	£'000
3 Expenses		
	<i>Investment management fee comprises:</i>	
	Investment management fee	2,002
	Irrecoverable VAT	252
		<u>2,254</u>
		<u>1,889</u>
		<u>231</u>
		<u>2,120</u>

Stewart Ivory & Company Limited is employed as Investment Manager and Secretary under a contract which may be terminated by either party on giving one year's notice. For 1999 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, was payable to Stewart Ivory in respect of these services. Shareholders' funds, for the purpose of calculating management fees, exclude holdings in other 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.

From 1st January 2000 the basis of the management fee has been amended, details of which can be found on page 22.

<i>Other administrative expenses comprise:</i>		
Auditors' remuneration: audit	12	11
Auditors' remuneration: other fees	4	7
Directors' fees	78	65
PEP and ISA administration costs paid to Stewart Ivory & Company Ltd	38	33
AITC 'its' advertising fee and associated marketing	574	—
Bank charges, custody fees and other expenses	806	724
Irrecoverable VAT	144	54
	<u>1,656</u>	<u>894</u>

During the year the Chairman's emoluments amounted to £18,000 (1998 – £15,000).

Each other Director received fees at a rate of £12,000 per annum (1998 – £10,000).

4 Interest Payable

Debenture and loan stocks	4,721	5,188
Bank overdrafts	4	4
Foreign currency loans	12	59
	<u>4,737</u>	<u>5,251</u>

5 Tax

Tax on franked investment income	1,123	2,229
Overseas tax	262	279
	<u>1,385</u>	<u>2,508</u>
Deferred tax	(13)	7
	<u>1,372</u>	<u>2,515</u>

	1999 £'000	1998 £'000
6 Dividends		
First interim of 1.37p per share (1998 – 1.36p)	3,044	3,041
Second interim of 1.38p per share (1998 – 1.36p)	2,367	3,041
Third interim of 1.38p per share (1998 – 1.36p)	2,351	3,041
	<hr/>	<hr/>
	7,762	9,123
Recommended final of 1.38p per share (1998 – 1.37p)	2,330	3,063
Special of 1.00p per share	—	2,236
	<hr/>	<hr/>
	10,092	14,422
	<hr/>	<hr/>
Total dividend per share for the year	5.51p	6.45p
	<hr/>	<hr/>
Total dividend per share for the year including tax credit	6.12p	7.40p
	<hr/>	<hr/>

The total dividend per share for 1998 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 weighted average number of shares in issue during the year (1999 – 200,196,390; 1998 – 223,608,000). The capital return per share is calculated by dividing the capital profits or losses attributable to shareholders by the weighted average 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 weighted average 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	MARGIN ON FUTURES £'000	PROPERTY £'000	TOTAL £'000
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
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Valuation at 31.12.98	606,518	16,429	55,239	4,875	19,620	702,681
Purchases at cost	239,808	—	14,778	11,112	10,643	276,341
Sales proceeds	(359,996)	(3,447)	(65,754)	(16,745)	(1,698)	(447,640)
Realised gains on sales	94,683	1,216	4,362	5,033	184	105,478
Change in unrealised gains in the year	25,192	611	(8,625)	(633)	1,401	17,946
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Valuation at 31.12.99	606,205	14,809	—	3,642	30,150	654,806
Book cost at 31.12.99	381,632	11,144	—	2,103	26,351	421,230
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Unrealised gains at 31.12.99	224,573	3,665	—	1,539	3,799	233,576
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Listed and unlisted securities include securities with an equity element valued at £3,920,000 (1998 – £13,535,000).

9 Changes in investments



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

	VALUATION AT 31.12.98 £'000	NET PURCHASES (SALES) £'000	INCREASE (DECREASE) IN VALUE £'000	VALUATION AT 31.12.99 £'000
Listed Equities				
United Kingdom	429,847	(80,686)	76,377	425,538
North America	110,689	(43,947)	4,875	71,617
Continental Europe	41,448	1,398	7,944	50,790
Japan	13,200	2,093	19,760	35,053
Pacific Rim / Emerging Markets	11,334	954	10,919	23,207
Total Listed Equities	606,518	(120,188)	119,875	606,205
Unlisted Equities	16,429	(3,447)	1,827	14,809
Fixed Interest	55,239	(50,976)	(4,263)	—
Margin on Futures	4,875	(5,633)	4,400	3,642
Properties	19,620	8,945	1,585	30,150
Total Investments	702,681	(171,299)	123,424	654,806

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 %	1999 TOTAL %	1998* TOTAL %
Quoted Equities							
Mineral extraction	5.9	0.6	0.4	—	—	6.9	5.0
General industrials	4.2	1.3	1.4	1.7	—	8.6	7.8
Consumer goods	7.7	1.8	0.6	0.3	0.3	10.7	19.9
Services	18.4	2.0	2.2	1.9	0.9	25.4	23.8
Utilities	2.8	0.3	—	—	0.1	3.2	4.9
Financials	14.1	1.3	2.1	0.7	0.5	18.7	19.1
Information technology	6.3	2.7	0.4	0.3	—	9.7	3.8
Investment trusts	—	—	—	—	1.4	1.4	1.9
Total Quoted Equities	59.4	10.0	7.1	4.9	3.2	84.6	86.2
Unit trusts	—	—	0.6	—	—	0.6	0.7
Unquoted Equities	0.6	—	0.8	0.1	—	1.5	1.5
Subsidiaries	0.1	—	—	—	—	0.1	0.1
Fixed Interest	—	—	—	—	—	—	7.8
Margin on Futures	0.5	—	—	—	—	0.5	0.7
Properties	4.2	—	—	—	—	4.2	2.7
Net current assets	8.5	—	—	—	—	8.5	0.3
Total assets less current liabilities	73.3	10.0	8.5	5.0	3.2	100.0	100.0
1998 Total	73.2	15.8	7.4	2.0	1.6		100.0
Financed by:							
Equities Index Unsecured							
Loan Stock	16.8	—	—	—	—	16.8	14.3
Debenture Stocks	7.8	—	—	—	—	7.8	3.6
Shareholders' funds	48.7	10.0	8.5	5.0	3.2	75.4	82.1
Total investments	73.3	10.0	8.5	5.0	3.2	100.0	100.0

*Restated due to reclassification of industrial sectors by FTSE International.

11 Significant Interests



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

NAME OF COMPANY	CLASS OF SHARE (% HELD)	CAPITAL AND RESERVES £'000	PROFIT RETAINED FOR YEAR £'000
Martenby†	Ord. £1 (43.5%) Cum. Red. Pref. £1 (42.2%)	1,902	155
Stewart Ivory Holdings†	'C' Ord. £1 (100%)	9,299	78
The Scottish Oriental Smaller Companies Trust†	Ord. 25p (39.3%)	24,659	59
The Quantum Fund†	Def'd. £1 (33.3%)	—	—
Amoebics†	Ord. 1p (21.4%)	—	—
Bioresins†	Ord. 1p (20.0%)	—	—
Stirling Hearing Systems†	Ord. 1p (21.5%)	—	—

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 and Scottish American Market Operations Limited 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	1999 £'000	1998 £'000
Interest on deposits	23	195
Expenses	(2)	(51)
Profit before tax	21	144
Tax	(4)	(33)
Profit after tax	17	111
Dividend paid	—	(2,400)
Profit / (loss) for the year	17	(2,289)
Aggregate extracts from the Balance Sheets at 31st December		
Cash and deposits	457	468
Creditors due within one year	(48)	(76)
Parent company's interest	409	392

Notes: (a) Interest and expenses are dealt with on an accruals basis.

(b) Neither subsidiary held any investments at 31st December 1999.

	1999 £'000	1998 £'000
13 Debtors		
Income accounted for but not received	1,960	2,686
Other debtors	189	1,189
Group relief	41	41
	<u>2,190</u>	<u>3,916</u>
14 Creditors		
Third interim dividend	2,351	3,041
Group relief	201	201
Deferred tax	11	24
Income tax	160	377
Interest payable	1,362	1,010
Other creditors	528	339
	<u>4,613</u>	<u>4,992</u>

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

15 Creditors due after one year

The Equities Index Unsecured Loan Stock 2004 will be redeemed at an amount to be determined by the level of the FTSE All-Share Index on 30th September 2004. Interest equivalent to the yield on that index is paid quarterly. 37,004,975 units of 5p nominal were outstanding at 31st December 1999 (1998 – 37,494,975). 490,000 units were purchased on 6th April 1999 at £2.945 per unit and subsequently cancelled. The repayment value at 31st December 1999 was £3.24206 (1998 – £2.67392) 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 per cent 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 4 per cent Irredeemable Debenture Stock.

On 13th December 1999, a further tranche of 8 per cent Debenture Stock with a nominal value of £25,000,000 was issued by way of a placing at a price of £124.701 per £100 nominal. Expenses of the issue, which included auditors' remuneration of £7,500, amounted to £269,000.

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

	£'000	£'000
Nominal value of 8% Debenture Stock		50,000
Premium less issue expenses		<u>5,573</u>
		55,573
Costs of issue charged to revenue in prior years	23	
Charged to revenue during the year	<u>—</u>	
		<u>23</u>
Carrying value of 8% Debenture Stock at end of the year		<u>55,596</u>

	1999 £'000	1998 £'000
16 Reconciliation of movements in shareholders' funds		
Shareholders' funds at the start of the year	577,154	518,763
Realised capital gains	104,169	24,902
Cost of shares repurchased	(137,915)	—
Unrealised capital (losses)/gains	(2,361)	33,621
Income deficit for the year	(1,033)	(132)
Shareholders' funds at the end of the year	<u>540,014</u>	<u>577,154</u>

17 Share Capital

	AUTHORISED		ISSUED AND FULLY PAID	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Ordinary shares of 25p each	70,000	70,000	42,204	55,902

At 31st December 1999 168,815,943 (1998 – 223,608,000) Ordinary shares of 25p each were in issue.

18 Capital Reserves

Capital Redemption Reserve:

Par value of shares cancelled	<u>13,698</u>	<u>—</u>
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Capital Reserve – Realised:

Balance at the start of the year	352,976	328,074
Realised gains on investments	105,478	24,926
Cost of shares repurchased*	(137,915)	—
Currency losses	(156)	(70)
Realised losses on Equities Index Unsecured Loan Stock 2004	(853)	—
Realised (losses)/gains on foreign currency loans	(300)	46
	<u>319,230</u>	<u>352,976</u>

Capital Reserve – Unrealised:

Balance at the start of the year	158,869	125,248
Unrealised gains on investments	17,946	43,479
Increase in value of Equities Index Unsecured Loan Stock 2004	(20,307)	(9,858)
	<u>156,508</u>	<u>158,869</u>

*During the year, 54,792,057 Ordinary shares were repurchased by the Company. These repurchases were transacted at a cost of £14.3m less than the net asset value attributable to those shares, effectively increasing the net asset value at the end of the year by 7.4p per share. These repurchases represented 24.5 per cent of the share capital in existence at the start of the year.

19 Revenue Reserve

Balance at the start of the year	9,407	9,539
(Income deficit)/retained income for the year prior to special dividend	(1,033)	2,104
Special dividend	—	(2,236)
	<u>8,374</u>	<u>9,407</u>

20 Cash Flow Statement

	1999 £'000	1998 £'000
(a) Reconciliation of total income as shown in the Statement of Total Return to income less administrative expenses in the Cash Flow Statement		
Total income per the Statement of Total Return	19,078	25,070
Total expenses per the Statement of Total Return	(3,910)	(3,014)
Decrease / (increase) in dividends accounted for but for which the cash had not been received at the year end	966	(175)
Decrease / (increase) in other debtors	982	(375)
Increase in creditors	28	53
Tax credits suffered on UK dividends	(1,123)	(2,229)
Income less administrative expenses per Cash Flow Statement	16,021	19,330

(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	6,272	49,733	—	—	56,005
Short term deposits	—	10,000	—	—	10,000
	6,272	59,733	—	—	66,005
Foreign currency loan	—	300	(300)	—	—
Equities Index Unsecured Loan					
Stock 2004	(100,258)	1,446	—	(21,160)	(119,972)
8% Debenture Stock 2022	(24,690)	(30,937)	—	31	(55,596)
4% Irredeemable Debenture Stock	(476)	—	—	—	(476)
Net Debt	(119,152)	30,542	(300)	(21,129)	(110,039)

1999
£'000

1998
£'000

21 Commitments and Contingent Liabilities

There are liabilities in respect of:

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

22 Post-Balance Sheet Events

On 14th January 2000, the Company repurchased 2,500,000 units of the Equities Index Unsecured Loan Stock 2004 at a cost of £7,837,000.

During the period from 1st January 2000 to 9th February 2000, the Company repurchased 4,700,000 Ordinary 25p shares at a total cost of £12,083,000. These repurchases were transacted at a cost of £2,438,000 less than the net asset value attributable to those shares, effectively increasing the net asset value by 1.5p per share. These repurchases represented 2.1 per cent of the share capital in existence at 1st January 1999.

23 Financial Instruments



As required by Financial Reporting Standard 13 (FRS13) this section highlights the risks and potential risks to shareholders, and details how these risks are managed. Of course, one of the main features of larger international investment trusts such as SAINTS is to diversify risks by investing in a variety of companies in different geographic regions.

In pursuit of the Company's objective set out on page 1, SAINTS holds a portfolio of financial instruments which may be exposed to various forms of risk, as described below.

The Company's financial instruments comprise:

- equities, index futures, fixed interest and property investments;
- cash balances, liquid resources and borrowings.

The risks arising from these financial instruments are market price risk, interest rate and liquidity risk, foreign currency risk and counterparty risk.

23 Financial Instruments (continued)

Market Price Risk

Market risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. Market price movements represent a potential loss to the Company. Therefore, the Investment Manager monitors the asset allocation of the portfolio on an ongoing basis, whilst also ensuring that individual stocks meet an acceptable risk-reward profile.

During the year SAINTS held FTSE futures in order to hedge part of the movement in the Equities Index Unsecured Loan Stock. At 31st December 1999 SAINTS held FTSE futures which expire in March 2000 representing a hedge on 29 per cent of its liability on the Equities Index Unsecured Loan Stock.

Financial assets and liabilities are stated in the Balance Sheet at values which are not materially different from their fair values.

Interest Rate and Liquidity Risk

SAINTS' financial assets mainly comprise readily realisable securities and other investments which neither pay interest nor have a maturity date.

When the Company retains cash balances the majority is held in sterling current and deposit accounts. Interest is received on sterling current account balances at a rate linked to the UK base rate. Interest on fixed deposits is earned at market rates determined at the time the deposit is placed.

At 31st December 1999 the Company held the following fixed rate investment:

International Mezzanine Investment 8% 2003 Loan Stock

At 31st December 1999 the Company had the following floating and fixed rate liabilities:

	CARRYING VALUE £'000	MARKET VALUE £'000
Equities Index Unsecured Loan Stock 2004	119,972	119,972
8% Debenture Stock 2022	55,596	63,937
4% Irredeemable Debenture Stock	476	368

The interest and capital liabilities of the Loan Stock vary in accordance with movements in the income and capital returns of the FTSE All-Share Index.

Foreign Currency Risk

The Company holds foreign currency cash balances and invests in securities which are priced in foreign currencies, both of which give rise to foreign currency risk. At 31st December 1999 SAINTS had overseas cash balances of £4,000 and the value of securities priced in foreign currencies was £177,973,000. SAINTS' portfolio is listed on pages 14 and 15, and further details on the geographic exposure can be found on pages 12 and 13 and in Note 9 on the accounts. Currently it is not SAINTS' policy to hedge its foreign currency risk, but it may do so from time to time. As permitted by FRS13 short-term debtors and creditors have been excluded from the above disclosures.

Counterparty Risk


Certain transactions in securities that SAINTS enters into expose it to the risk that the counterparty will not deliver either the shares (on a purchase) or the cash (on a sale) after the Company has fulfilled its responsibilities. However, the vast majority of SAINTS' purchases and sales of investments are on a delivery versus payments basis. Securities are dealt through brokers which have been approved by the Investment Manager as an acceptable counterparty.

Notice of Annual General Meeting

Notice is hereby given that the One Hundred and Twenty Seventh Annual General Meeting of The Scottish American Investment Company P.L.C. will be held at 45 Charlotte Square, Edinburgh on 22nd March 2000 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 1999.
- 2 To declare a final dividend.
- 3 To re-elect Mr William Berry as a Director.
- 4 To re-elect Dr Janet Morgan as a Director.
- 5 To re-appoint Chiene & Tait, CA as auditors and to authorise the Directors to fix their remuneration.

 Notes explaining Resolutions 6, 7, 8 and 9 are given on pages 43 and 44.

SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions of which resolutions 6, 7 and 9 will be proposed as special resolutions:

- 6 '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") in substitution for any existing authority under Section 166 of the Act, but without prejudice to any exercise of any such authority prior to the date hereof, provided that:
 - (i) the maximum number of Shares hereby authorised to be acquired shall be 24,518,534 Shares or, if less, the number of Shares representing 14.99 per cent of the issued share capital of the Company on the date on which this resolution is passed;
 - (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 per cent 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 2001, 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.'
- 7 'THAT the Articles of Association of the Company (the "Articles") be amended as follows:
 - (i) by adding between the words "Companies Act 1985)" and "or be applied" in the fourth last line of Article 123, the words ", otherwise than

by way of the redemption or purchase of any of the Company's own shares in accordance with Section 160 or Section 162 of the Companies Act 1985,"; and

(ii) by deleting Article 123A.'

8 'THAT the Directors be and are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal amount of £13,507,131 in substitution for any existing authority under Section 80(2) of the Act but without prejudice to any exercise of any such authority prior to the date hereof such authority to expire five years from the date hereof but so that such authority shall allow the Company to make offers or agreements before the expiry of such authority which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.'

9 'THAT the Directors be and are hereby authorised to allot equity securities (within the meaning of Section 94 of the Companies Act 1985 ("the Act")) pursuant to the authority conferred by resolution number 8 proposed at the Annual General Meeting of the Company convened for 22nd March 2000, as if Section 89 of the 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 of 25p each in the Company ("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 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 this resolution) of equity securities up to an aggregate nominal value of £2,026,069;

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

22nd February 2000


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 20th March 2000 ("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 4BR, 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 the SAINTS ISA, 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, Marcus Brooks, the Director of Stewart Ivory responsible for SAINTS, will give a short presentation on the results for 1999 and the investment outlook.

EXPLANATORY NOTES TO NOTICE OF ANNUAL GENERAL MEETING

 This section provides an explanation of the resolutions which will be proposed as Special Business. The resolutions are 6, 7, 8 and 9 as contained in the Notice of Meeting.

At the Annual General Meeting to be held on 22nd March 2000 four resolutions will be proposed as Special Business in order to renew the Company's authority to buy its own shares, to update the Articles to take account of the recent change to the Companies Act 1985 in relation to *Investment Companies*, and to renew the Directors' authority to allot shares and the limited disapplication of the statutory pre-emption rights. These are resolutions 6, 7, 8 and 9 contained in the Notice of Meeting.

At the Company's last Annual General Meeting held on 24th March 1999 it was resolved that the Company be authorised to purchase in the market up to 33,518,839 Ordinary shares (14.99 per cent of its Ordinary Share Capital in issue at that time). Following this Meeting a significant number of Ordinary shares were repurchased and on 11 August 1999 the Directors were given authority to buy back a further 28,494,365 of the Company's own shares amounting to just under 15 per cent of the Company's issued share capital. Between the date of the last AGM and 31st December 1999 54,792,057 Ordinary shares in aggregate have been repurchased by the Company at a cost of £137,915,000. In the period from 1st January to 9th February 2000 a further 4,700,000 Ordinary shares have been repurchased at a cost of £12,083,000. The effect of these buy-backs was to increase the net asset value per share for those shareholders who retained their shares. Ordinary shares which were purchased by the Company were cancelled, thereby reducing the Company's issued share capital.

The Board has resolved that 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 in the best interests of the shareholders, the further objective of any such purchase being 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 deals through the market.

The Directors are now recommending in Resolution 6 that this authority to purchase the Company's own shares should be renewed and should now expire at the Company's Annual General Meeting to be held in 2001. The Directors will consider seeking shareholder approval for its renewal at that meeting. As required by the Listing Rules of the London Stock Exchange, the maximum price which may be paid on any exercise of this share purchase authority must not exceed 105 per cent of the average of the middle market quotations for the Ordinary shares for the five business days immediately preceding the date of purchase, and the minimum price which may be paid is 25p, the nominal value.

A further special resolution will be proposed at the Annual General Meeting to amend the Company's Articles. At the last Annual General Meeting held on 24th March 1999 it was resolved to amend the Articles to update their provisions generally and also to permit the Capital Reserve to be used to fund purchases by the Company of its own shares. This involved the Company giving up its *Investment Company* status within the meaning of Section 266 of the Companies Act in order to allow the Company to buy back shares using capital profits.

On 8th November 1999 The Companies (Investment Companies) (Distribution of Profits) Regulations 1999 came into force. These Regulations

changed the relevant provisions of the Companies Act and now allow an Investment Company to distribute its capital profits by way of a redemption or purchase of its own shares, provided this is permitted by its Articles.

Accordingly it is proposed to amend the Articles, by passing Resolution 7, to enable the Company to regain Investment Company status while continuing to use capital reserves to fund the repurchase of its own shares.

The Company has received confirmation from its tax advisers, Ernst & Young, that its status as an investment trust for the purposes of the Income and Corporation Taxes Act 1988 will not be affected by this amendment; the Company will remain prohibited from using its capital reserve to fund dividend payments, and the Directors intend to continue to conduct the affairs of the Company in such a manner so as to satisfy the conditions for approval as an investment trust, thus ensuring exemption from UK taxation on its capital gains.

Resolution 8 will, if approved, renew the Directors' authority to allot shares, up to a total of 54,028,526 Ordinary shares over the next five years. Resolution 9 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 the date of the AGM (assuming full exercise of the existing buy back authority) 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 relating to buy-in of 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, but only if it believes it is advantageous to the Company's shareholders to do so.

Your Directors consider that the above proposals are 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 the resolutions to be proposed at the Annual General Meeting, as they intend to do in respect of their own beneficial shareholdings of 102,859 Ordinary shares.

Over a Century of Success

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

Since then it has been looking after private investors' money through 24 changes of government and two World Wars. Today it is a well diversified international general trust with North American investments representing only 13.2 per cent of shareholders' funds.

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

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

If you require any further information please contact:

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SAINTS



The Scottish American
Investment Company P.L.C.



STEWART IVORY
& COMPANY LIMITED

INVESTMENT MANAGERS

Regulated by IMRO
