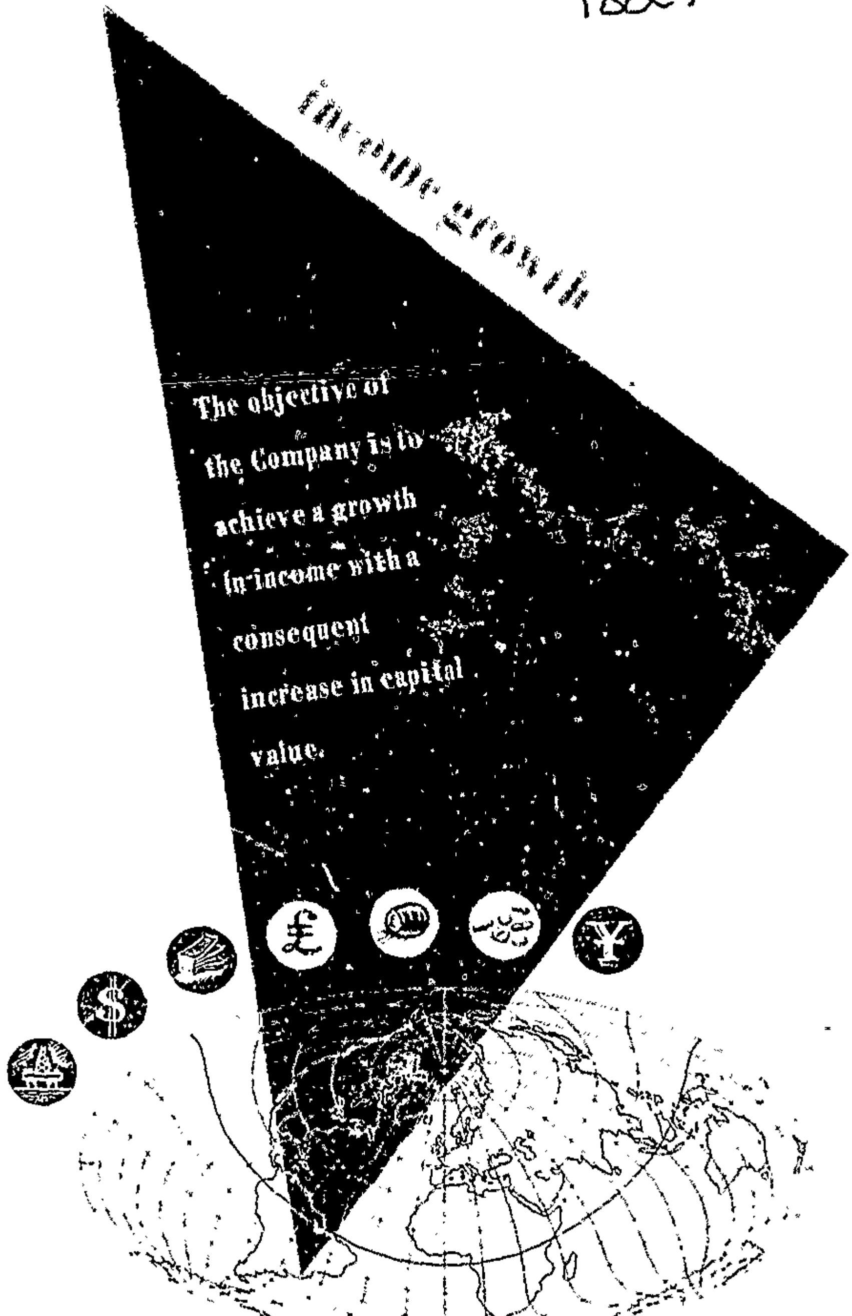
Securities Trust of Scotland

REPORT AND ACCOUNTS 1989

1827



IN CURRIE

The first 100 years:

from £40,000 to £218 million

THE REVERSIONARY Association Limited was incorporated in Edinburgh on 13th February 1889. Its Managers were Scott-Moncrieff, Thomson & Shiells and its Registered Office 17 Melville Street. The principal object of the Company was stated as:

"To purchase, sell, or deal in Reversionary, or Contingent, or Life Interests, or in Annuities or Policies of Assurance".

The capital of the Association was £100,000, divided into 20,000 shares of £5 each and 8,080 shares were initially taken up by 134 Shareholders.

By the turn of the century, the business of dealing in Reversionary interests had begun to decline, and funds were invested increasingly in stocks and shares. By the 1920's the Company was no longer conducting reversionary business, but had become an Investment Trust. In 1926, therefore, it changed its name to Securities Trust of Scotland Limited and increased its Share Capital to £500,000.

In 1960 there was a scheme of Arrangement and Amalgamation between Securities Trust of Scotland Limited, Second Securities Trust of Scotland Limited, Melville Trust Limited and The Oregon Mortgage Company Limited. This became effective in 1961 and the Consolidated Balance Sheet of that year shows Issued Share Capital of over £7 million and Total Assets Attributable to Share Capital of over £13 million.

In 1968, the Board of the Company elected to have more direct control of its management and came to an arrangement with Scott-Moncrieff, Thomson & Shiells, whereby two of their partners Messrs A. D. R. Macphail and D. L. Skinner were appointed Manager and Assistant Manager of Securities Trust of Scotland Limited. At the same time the Registered Office was moved to 11 Chester Street.

In 1972 Angus Macphail and David Skinner became partners in Martin Currie & Company who were appointed Managers and Secretaries of the Company, and the Registered Office was moved to 29 Charlotte Square. The partnership of Martin Currie was incorporated in 1985 and Martin Currie Investment Management Limited continue to be Managers and Secretaries, with Robin Young leading the team responsible for the Company's portfolio. (Angus Macphail has retired and David Skinner is now Managing Director of Martin Currie.)

In March 1989 the called up Ordinary Capital of the Company is £40,040,000 which, with the proposed capitalisation issue, will increase to £80,080,000, and Shareholders' funds of over £218 million are owned by 11,553 Shareholders, a notable advance from the small beginnings one hundred years ago.

REPORT AND ACCOI
for the year ended 31st March

1827

A member of The Association of
Investment Trust Companies

Notice is hereby given that the One hundred and first Annual General Meeting of Securities Trust of Scotland p.l.c. will be held at 29 Charlotte Square, Edinburgh EH2 4HA, on Wednesday, 28th June 1989, at 12.30 p.m., to consider the following resolutions:

1 *to receive the Report of the Directors and the Accounts for the year ended 31st March 1989;*

2 *to declare a dividend;*

3 *to re-elect Mr R. Young as a Director;*

4 *to re-elect Mr R. A. B. Miller as a Director;*

5 *to re-appoint Mr R. M. Sinclair, C.A., as Auditor;*

6 *to authorise the Directors to fix the remuneration of the Auditor for the year ending 31st March 1990,*

and to transact any other ordinary business of the Company.

By Order of the Board

Martin Currie Investment Management Ltd.
Secretaries

29 Charlotte Square
Edinburgh EH2 4HA

5th June 1989

Notes

The Report and Accounts are circulated to Ordinary Shareholders, Preference Stockholders and Debenture Stockholders of the Company, but only the Ordinary Shareholders are entitled to attend or vote at the meeting.

A member entitled to attend and vote may appoint a proxy in his stead who need not be a member of the Company. Proxies to be valid must be lodged at the office of the Registrar not less than forty-eight hours before the time of the meeting. A form of proxy is enclosed.

There are no contracts between the Company and the Directors. A copy of the Service Contract between the Company and Martin Currie Investment Management Ltd., which is referred to in the Directors' Report, will be available for inspection at the meeting.

Subject to confirmation at the meeting, the Ordinary Dividend will be payable on 3rd July 1989 *to Shareholders on the Register on* 8th June 1989.

The Register of Directors' shareholdings will be available for inspection at the meeting.

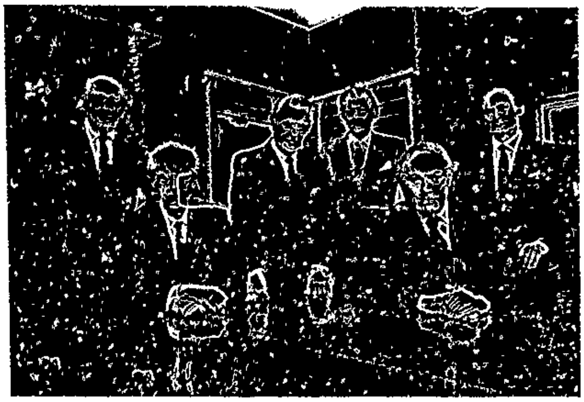
The objective of the Company is to achieve a growth in income with a consequent increase in capital value. This aim will be accomplished through a balanced portfolio of investments diversified both internationally and industrially. A common characteristic will be the potential for strong earnings and dividend growth to provide increasing dividend income for shareholders.

The Year in Brief

year ended 31st March 1989

	1989	*1988*	% change
Earnings per Ordinary Share	4.52p	*3.72p*	+21.5
Dividends per Ordinary Share	4.50p	*3.60p*	+25.0
Net Assets attributable to Ordinary Shares (£000)	218,293	*189,710*	+15.1
Net Asset Value of each Ordinary Share			
Prior charges at par	136.3p	*118.5p*	+15.0
Prior charges at market value	136.7p	*118.7p*	+15.2
Ordinary Share Price	119p	*98p*	+21.4

1 for 1 Scrip Issue proposed



The Board of Directors (left to right) John Weir, David Birrell, Bill Morrison, Robin Young, Tim Lewis and Ronald Miller.

Directors (All non-Executive)

T. S. Lewis, Chairman
D. Birrell
R. A. B. Miller, C.B.E.
W. M. Morrison
J. M. Weir
R. Young

Timothy S. Lewis (67) was appointed to the Board in 1971 and became Chairman in 1985. Before his retirement he was a Director of Scottish & Newcastle Breweries p.l.c.

David Birrell (64) was appointed to the Board in 1977. He is Senior Partner in Dundas & Wilson, C.S., the Edinburgh Solicitors and a Director of the Clydesdale Bank PLC, Scottish Life Assurance Company and Saltire Insurance Investments p.l.c.

Ronald A. B. Miller (52) was appointed to the Board in 1983. He is Chairman and Chief Executive of Dawson International PLC, a Director of Christian Salvesen PLC and The Scottish Amicable Life Assurance Society.

William M. Morrison (62) was appointed in 1980. He is a Director and was, until his retirement, General Manager of the Scottish Life Assurance Company.

John M. Weir (64) has been a Director of the Company since 1967 and is a Director of Sidlaw Group p.l.c.

Robin Young (62) was appointed to the Board in 1986. He is a Director of Martin Currie Investment Management Ltd., The Edinburgh Investment Trust and Scottish Equitable Life Assurance Society.

Managers and Secretaries

Martin Currie Investment Management Ltd.
29 Charlotte Square
Edinburgh EH2 4HA
Telephone 031-225 3811
Telex 72505 MCCO G

Martin Currie Investment Management Ltd. (a member of IMRO) is a wholly owned subsidiary of Martin Currie Ltd. which was formed as a partnership in 1881 and has been exclusively involved in investment management since 1958. Martin Currie, based in Edinburgh, is a leading independent investment management group.

Total funds under management at 31st March 1989 amounted to £2,318 million under the following categories:

Investment Trust Companies	*£842 million*
Scottish Eastern Investment Trust	
(investing for capital growth)	
Securities Trust of Scotland	
(investing for income growth)	
St Andrew Trust	
(investing in smaller companies)	
Martin Currie Pacific Trust	
(investing in the Pacific area)	
Tax exempt funds	*£1,167 million*
Charities, U.K. and U.S. Pension Funds	
Unit Trusts	*£309 million*

Martin Currie Unit Trusts Ltd., a wholly owned subsidiary of Martin Currie, manages eight unit trusts.

Martin Currie's Chairman, *Barry Stewart*, leads a team of 22 investment management and 64 administrative personnel in their offices in Charlotte Square, Edinburgh. *Robin Young* is the Martin Currie Director who is most specifically involved in the management of Securities Trust. He heads a team of specialists who are identified on page 6, all of whom have particular geographical responsibilities.

Auditor

R. M. Sinclair, C.A.
3 Albyn Place, Edinburgh EH2 4NQ

Bankers

The Royal Bank of Scotland p.l.c.
The Chase Manhattan Bank N.A.

Registrars and Transfer Office

The Royal Bank of Scotland p.l.c.
Registrar Department
P.O. Box 435
Owen House
8 Bankhead Crossway North, Edinburgh EH11 4BR
Telephone 031-442 4111

I am pleased to report that we have had another very satisfactory year with both income and capital reaching record year-end levels. Earnings grew from 3.72p to 4.52p and your Board are recommending a 25% increase in the annual rate of dividend to 4.50p which, if approved at the A.G.M., will amount to a very full distribution of earnings. One reason for this larger than normal distribution is that on the 13th February your company completed 100 years in business and it was agreed that the most appropriate way to celebrate the event was by paying as high a dividend as possible. In addition a free distribution of one new share for each share held is proposed.

Assuming the dividend is approved, shareholders will be receiving income from their investment, after deducting the standard rate of tax, at nearly three times the level of five years ago and over five times the level of ten years ago. Shareholders capital, in terms of the net asset value of their shares, has more than doubled in five years and more than quadrupled in ten. In both periods the capital performance has been superior to the capital increases in the Financial Times All-Share index.

The 15% growth in net asset value over the year was less than the rise in the index, due mainly to our long term approach to investment and to the cost of buying forward Yen to cover the repayment of a £20 million Yen loan.

I was glad to see in the last Budget that the Chancellor proposed that the amount individuals should be allowed to invest in Personal Equity Plans would be increased to £4,800. It is disappointing that the very small amount to be allowed to be invested in what I consider to be the ideal vehicle for private investors, Investment Trusts, is to be restricted to only £750 unless over 75% of a Trust's portfolio, excluding convertible stock, is invested in the U.K. Presumably the thinking behind this ruling is to support domestic companies despite the fact that many of them have much more than 25% of their interests overseas. It also ignores the positive effect on this country's continuing balance of payments problem which is helped considerably by income from overseas investment. In this context Securities Trust contributed some £2 million of "invisible earnings" in the year under review. Because we intend to retain our international flexibility your Board decided that it would not be in the best interests of shareholders to adjust the portfolio to qualify for the larger proportion of PEP fund money.

I am delighted to welcome so many new shareholders to the company. As I have said before I regard an Investment Trust as one of the best means for an investor to achieve maximum benefit at the least risk to capital. The general awareness of my views appears to be spreading. At the end of March we had 11,553 shareholders compared with 8,518 last year and of these 2,510 have joined us through the Martin Currie Savings Plan.

The outlook for the year to March 1990 is somewhat uncertain. Steps taken to restrict economic growth to sustainable levels and to contain inflationary tendencies in the world will make life harder for industry and commerce. Profit growth is likely to be slower but many opportunities will be available to the long term investor for both income growth and capital appreciation.

I will be retiring from the Board on 28th June, having completed 18 extremely enjoyable years with the Company. During this time, and thanks to all concerned with the Direction and Management, very considerable success has been achieved.

I am very pleased that my colleagues have invited Mr Bill Morrison to be my successor as Chairman. His very wide experience as General Manager of the Scottish Life Assurance Company as well as his other important connections with the world of finance will continue to be an invaluable asset to the Company and I would like to take this opportunity of wishing him all possible success and, at the same time, to thank my colleagues, the Managers and everyone at Martin Currie for all their help and co-operation during the past four years.

Tim Lewis 19th May 1989

Martin Currie's team responsible for the management of Securities Trust's investment portfolio (left to right) Robin Young, Hugh Seymour, Michael Gibson and Tristan Clube.

Revenue

Income from investments was £13.7 million in the year to 31st March 1989 compared with £11.4 million in 1988. Part of this increase was due to the extra income provided by the investment of additional funds raised in the middle of the year when the Yen equivalent of £20 million was borrowed for two years at an interest rate of 5 9/16%.

After deducting interest on borrowed money and administrative expenses pre-tax income rose from £8.6 million to £10.2 million. After charging tax and Preference Stock dividends earnings per Ordinary Share rose 21.5% to 4.52p and out of this your Board recommend increasing total dividends for the year by 25% to 4.50p.

Most of the improvement in income came from holdings in the U.K., U.S.A. and Hong Kong in all of which countries corporate profits growth was strong. In addition revenue benefited from the very high short term interest rates that were received on cash deposits.

Table 1: Yield Profile

	1989 %	*1988 %*
United Kingdom	5.4	*5.0*
U.S.A.	5.7	*5.5*
Canada	6.0	*4.5*
Japan	1.7	*1.4*
Hong Kong	5.1	*5.4*
Total Portfolio	5.1	*5.3*
F.T. All-Share Index	4.2	*4.2*

The yield profile (Table 1) shows returns higher than those on the relevant countries' equity indices because approximately 15% of funds is invested in higher yielding convertible Loan Stocks or convertible Preference Shares. In Japan dividend yields are low but their equities have produced consistent capital growth which allows part of the realised gains to be transferred to higher yielding investments elsewhere.

In the year ahead there are reasonable prospects for further useful dividend increases from our holdings particularly as pay-out ratios (the proportion of earnings paid out as dividends) are at a low level historically.

Capital

At 31st March the market value of the Trust's investment portfolio was £251 million which compares with £200 million a year ago. £20 million of the increase is due to the investment of the Yen borrowing referred to earlier. In addition to the investments there was £12.5 million of current assets available for investment when opportunities arise.

After allowing for borrowings and Preference Stock, total net assets attributable to Ordinary Shareholders increased in value during the year from £190 million to £218 million with the result that the Net Asset Value per share rose 15% from 118.5p to 136.3p. The change in Net Asset Value is compared with the performance of the major stock market indices in Table 2.

The overall performance was below that of the indices due mainly to the cautious approach to investment in the year under review and the cost to capital of buying forward Yen which will not be required until the Yen Loan is repaid in September 1990.

Table 2: Capital Performance

	Actual %	*Adjusted to Sterling %*
Net Asset Value per share	+15.0	+15.0
Financial Times All-Share	+20.0	+20.0
Standard & Poors Composite	+13.9	+27.4
Tokyo Stock Exchange	+15.0	+20.5

Table 3: Investment Changes 1988/89

	Valuation 31.3.88 £000	Purchases £000	Sales £000	Net Appreciation £000	Valuation 31.3.89 £000
United Kingdom	132,400	28,712	20,040	22,334	163,406
Europe	—	5,055	1,192	95	3,958
North America	36,104	15,413	7,619	4,839	48,737
Japan	21,688	14,951	16,581	2,011	22,069
Hong Kong	7,905	2,764	1,337	2,557	11,889
Brazil	1,592	—	917	728	1,403
	199,689	66,895	47,686	32,564	251,462

Table 3 details the movement of funds geographically during the year. It can also be seen that apart from the investment of the additional borrowing turnover was relatively low. The main change of emphasis was some reduction in Japanese holdings with most of the funds realised moving to Hong Kong. Since the end of our year the holding in Brazil has been sold at a substantial profit. This table should be read in conjunction with Table 4 "Geographical Distribution and Currency Exposure" and the table on page 19 where a full analysis details the proportion of funds invested in each sector of the market.

Table 4: Geographical Distribution and Currency Exposure

at 31st March 1989

	Total £M	%	U.K. £M	%	North America £M	%	Japan £M	%	Hong Kong £M	%	Other Areas £M	%
Investments	251.5	100.0	163.4	65.0	48.7	19.4	22.1	8.8	11.9	4.7	5.4	2.1
Net Current Assets	12.5		12.9		0.1		(0.5)		—		—	
	264.0		176.3		48.8		21.6		11.9		5.4	
Less:												
Debentures & Loans	(42.9)		(42.9)		—		—		—		—	
Preference Capital	(2.8)		(2.8)		—		—		—		—	
	218.3	100.0	130.6	59.8	48.8	22.3	21.6	9.9	11.9	5.5	5.4	2.5

Apart from the forward purchase of Yen to cover the Yen Loan referred to earlier there were no hedging operations open at the year end. It will be seen that after deducting the loan and Preference capital the currency exposure of shareholders' net assets is now 40% overseas with 27% in Dollars (North America plus Hong Kong), 10% in Yen and 3% elsewhere (Germany, Spain and Brazil).

The number of companies in which investments were held at 31st March totalled 122 giving an average size holding of about £2 million. This compares with 124 holdings and £1.6 million at the end of last year. In the following pages brief details are given of the largest holdings which taken together account for 56% of the portfolio.

Current Year

We have seen a considerable improvement in confidence in world stockmarkets since the end of 1987. Inflation is still worrisome, particularly in the U.K. where high interest rates have in themselves added to the cost of living and are now leading to higher wage demands. On top of this, the U.K. has a serious balance of payments problem which is likely to persist. However, looking ahead, the Government with its large budget surplus is better placed than at almost any time in the past to control the domestic economy.

In the U.S.A. investors are placing less emphasis on the "twin deficits" which, unless there is a setback, appear to be reaching manageable levels. Inflation, though on a rising trend, is unlikely to run out of control. Furthermore, with the savings rate rising, both bonds and equities are benefiting from the weight of money, domestic and foreign, looking for a home in what is currently perceived as a strong currency.

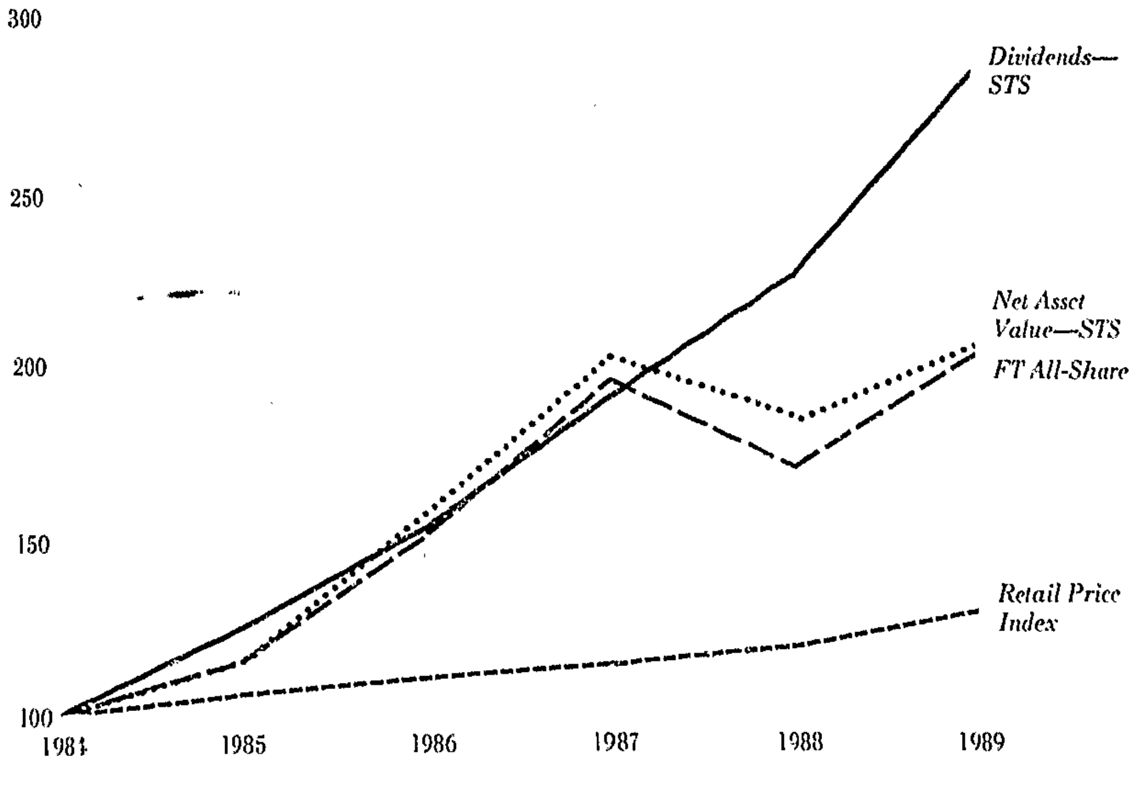
In the Far East, Japan is proving to be the engine for a new and very important economic area which shows every sign of continuing growth.

At present, in a higher interest rate environment, the rate of profit growth from British and American corporations is likely to be lower than in 1988 but there is scope for higher dividend payments.

Against the present background the overseas exposure in the portfolio may appear too low. However, a considerable portion of our U.K. holdings have growing international earnings and we intend to build up positions in these companies.

16th May 1989

The graph below shows the real growth in Assets and Dividends (to a base of 100 at 31st March 1984).



Market Review

The note of cautious optimism struck in our Report last year was more than justified by a 20% rise in the FT All-Share Index over the year ending 31 March 1989. This performance, in local currency terms, compared favourably with other major equity markets such as New York and Tokyo and was similar to gains recorded in Continental Europe.

The pattern in the U.K., however, was quite different from that of other markets, with almost all the capital appreciation occurring since the New Year. London lagged behind other stockmarkets in 1988 largely because of "over-heating" concerns, which we discussed this time last year. We warned then against inflationary pressures and likely balance of payments problems and our fears were abundantly justified. Treasury forecasts, on which the Chancellor's stimulative 1988 budget was based, turned out to be much too sanguine on both inflation and the trade deficit, largely because the economy's resilience was seriously underestimated in the aftermath of October 1987. In order to protect Sterling and cool the economy down, bank base rates had to be increased from historically low levels of 7.5% last June to 13% by the end of 1988, providing a difficult back-drop for both gilts and equities in the latter half of last year.

Since December, however, interest rates and the trade deficit have stabilised, although inflation has continued to increase on a monthly basis, much of which can be ascribed to higher mortgage and fuel costs. Consumer spending has been under a cloud as a result of high interest rates, but most parts of the economy still appear reasonably healthy, with the "hard landing" fears of late last year supplanted by a belief that a period of "stagflation" will probably only lead to a temporary hiccup in economic growth. Despite the potential squeeze on the corporate sector, company profit and dividend growth have been impressive, and show few signs so far of tailing off.

In sharp contrast to the low morale in the City of London, still plagued by over-capacity, industry is in generally good fettle despite the problems of working at near full capacity. The under-valuation by international standards of the average U.K. company is demonstrated by the continuing high level of takeover activity, which shows no sign of abating, and this has been of considerable benefit to the portfolio. Corporate acquisitions have helped fuel investor liquidity, and strong institutional cash flow has been one of the dynamic features behind the market's recent rise.

Investment Activity

Despite investing a net £8.7 million in U.K. Equities over the year, the domestic proportion of the portfolio fell marginally from [illegible]% to 65% at 31st March 1989. This reflected a year when sectors which have been traditionally emphasised in the portfolio for their inherent dividend growth and yield characteristics, such as oils and financial stocks, fared less well than the market as a whole. Some of the largest holdings in the Trust, such as the oil majors, fell into this under-performing category.

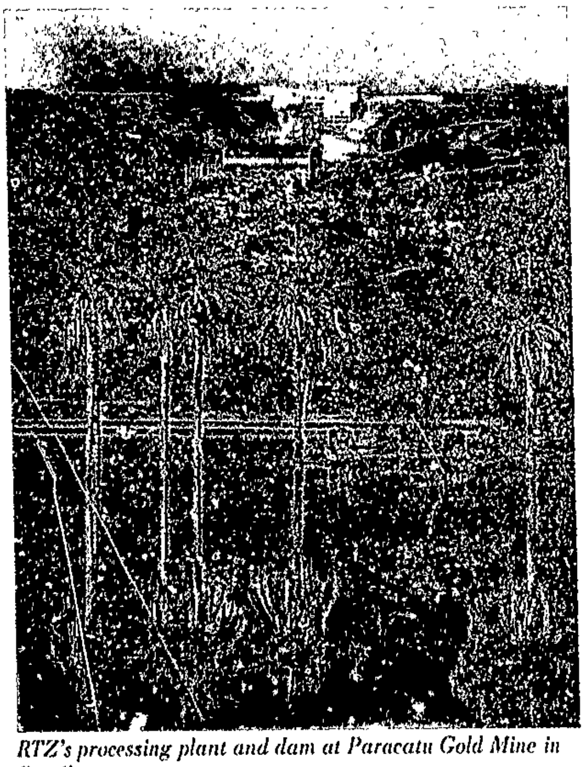
Europe's first Earth Observation Satellite for which the primary sensor is provided by GEC's Marconi subsidiary.

In volatile market conditions, convertible loan and preference stocks continued to provide attractive investment opportunities and our holdings were increased. At the end of the year, convertibles accounted for 16.0% of the U.K. portfolio.

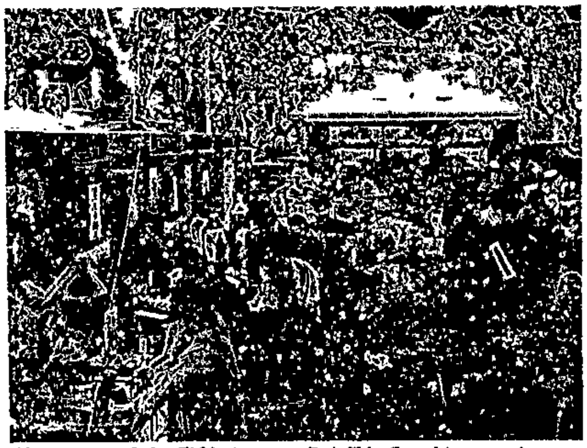
Substantial new holdings in the portfolio included GEC, Redland, Rolls Royce and Standard Chartered, all bought initially on a very attractive yield basis. In some cases, such as GEC, there has already been a significant re-rating of the shares.

The portfolio has continued to benefit from "takeover" interest, with substantial holdings such as Consolidated Goldfields, Gateway (for the second time) and Scottish and Newcastle all receiving bids in the course of the year.

At the year-end, there were sixty-six quoted holdings and three unquoted in the U.K. portfolio representing an average commitment of £2.5 million. New entrants in the "Largest Holding" list were GEC, Hanson, Guinness and RTZ. The top twenty holdings in the table represent 47.4% of the U.K. portfolio.



RTZ's processing plant and dam at Paracatu Gold Mine in Brazil.



Shoppers at Saks Fifth Avenue, B.A.T.'s flagship store in New York.

Investment Strategy

Last year we pinned our faith in a firmer Dollar helping sustain the economic cycle in the U.K. and elsewhere. Indeed the London equity market has remained closely tied to New York and the British situation is in many ways now comparable to America's, with both "supply-side" economies suffering from large trade deficits, capacity restraints and inflationary concerns, as a result of strong economic growth. An important difference between the two economies is, however, the large budget surplus in the U.K. which gives the Chancellor more leeway to regulate demand than his opposite number in Washington.

We believe that the Conservative Government is firmly committed to arresting inflation, even if this means further interest rate increases. A slowing economy, of which there is mounting evidence, should in time ease pressure on the balance of payments deficit and inflation, and allow interest rates to fall towards the end of this year. This could lead to a lower level for Sterling, which would be helpful for equities.

There is no doubt that even in this relatively optimistic scenario corporate profit and dividend growth will slow, as the economy decelerates. We believe that this is largely discounted in current share prices, hence the high proportion of assets invested in the U.K.

16th May 1989

British Petroleum

Value: £10,008,000
Largest domestic oil company and biggest company in the U.K. after British Telecom.

Shell Transport and Trading

Value: £7,738,000
U.K. arm of Royal Dutch, one of the world's leading international oil companies.

Macdonald Martin

Value: £6,656,000
The Group is benefiting from current recovery in whisky prices and strong performance of Glenmorangie.

B.A.T. Industries

Value: £4,887,000
Company has used highly cash generative tobacco interests to diversify into paper, retailing and financial services.

Allied Lyons

Value: £4,470,000
Second largest brewer in the U.K. Alan Bond owns 11% of the equity.

Consolidated Goldfields

Value: £3,975,000
Diversified mining and aggregates company currently under threat from Minorco.

Shanks & McEwan

Value: £3,487,000
Waste disposal company which owns around half of the available landfill capacity in the U.K.

Beecham Group

Value: £3,267,000
Proposed merger with SmithKline will make the combined group the second largest world-wide pharmaceutical company.

Trusthouse Forte

Value: £3,124,000
Major U.K. and international hotelier with interests in catering services including Little Chef.

Scottish & Newcastle

Value: £3,010,000
Scotland's leading brewer which has just fought off unwelcome bid approach from Elders in Australia.

Barclays

Value: £2,997,000
Largest domestic clearing bank.

General Electric

Value: £2,912,000
U.K.'s leading electric company currently bidding for Plessey in conjunction with Siemens.

Hanson

Value: £2,760,000
Broadly diversified industrial conglomerate with important interests in the U.S.

Fitch Lovell

Value: £2,740,000
Food manufacturer and distributor likely to be involved in continuing rationalisation of food industry in the U.K.

United Biscuits

Value: £2,686,000
Leading domestic biscuit manufacturer with important restaurant interests and a substantial presence in the U.S.

Guinness

Value: £2,640,000
International drinks company which has recently forged important link with LVMH in France.

Pearl

Value: £2,568,000
Life assurance company currently benefiting from growth in personal pensions.

RTZ

Value: £2,556,000
Britain's largest mining company which has recently acquired BP's natural resource interests.

Royal Insurance

Value: £2,496,000
International insurance group operating principally in the U.K. and U.S.

British Telecom

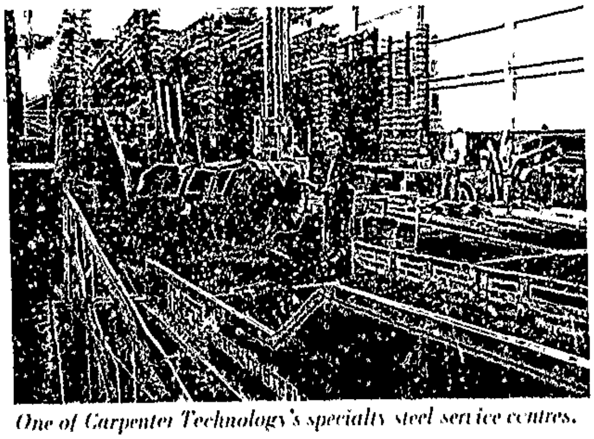
Value: £2,480,000
Largest U.K. quoted company still has substantial potential to improve profitability.

Market Review

In the year to 31st March 1989 the United States stockmarket as measured by the Standard and Poors Composite Index rose 13.9%. The value of the Dollar also increased from 53p to 59p with the result that after adjusting for the change in value of the currency the index was up 27.4% in Sterling terms. In Canada the Toronto Stock Exchange Index rose 8% and with a rise of 16% in the Canadian Dollar the index adjusted to Sterling was up 24.6%.

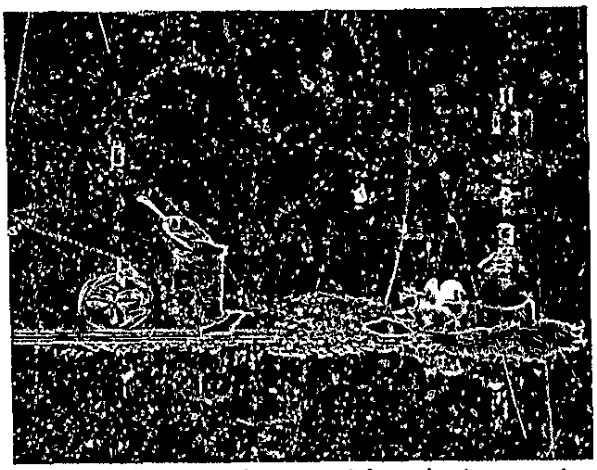
When the year started investors generally were very concerned that after the October 1987 stockmarket crash a recession would follow. However, by the end of June when equities had risen about 6% it became clear that economic expansion was not only continuing but moving ahead at too fast a rate due to rapid expansion of money supply at the end of 1987. This led the Federal Reserve to tighten the money supply and raise interest rates particularly at the short end. Long bond yields, however, remained relatively stable at between 8¾% and 9½% which, with inflation holding steady at about 4%, offered the cautious investor a real return of 5%. In this period, June to December, it was not surprising that equities were dull with little change in share prices except when there was takeover activity.

In the final quarter of our year, after it was learned that the economy had grown 3.8%, that inflation at 4½% was not out of control, that the savings rate had improved and corporate profits were at or above expectations, equities began to return to favour and the index moved up 6%.



One of Carpenter Technology's specialty steel service centres.

Probably the most notable feature during the year was the billions of dollars taken out of equities by takeovers or buy-outs. Much of this money was left sitting on the sidelines where it is likely to stay until there is some sign of interest rates easing.



Speciality chemicals by Lawter, mainly used to improve print speed and clarity.

Investment Activity

During the year nearly £8 million was added to commitments in North America with approximately £6 million going into the U.S.A. and £2 million into Canada. These additional funds along with changes in market values had the net effect of slightly increasing the North American content from 18% of the portfolio to 19.4%.

The list of the twenty largest holdings on page 14 shows seven changes from last year. Anheuser-Busch and Northern Trust were sold. Merry Land, Lomas and Nettleton, Dominion Resources, Mesa Limited Partnership and Southwest Gas are all still held but have been replaced in the Top Twenty by new and larger holdings in Burlington Resources (convertible into Anadarko), Bristol-Myers, U.S.X., Tenneco, Salomon, Lawter International and B.C.E. Development Corporation. From these changes it will be seen that we have been moving a slightly greater proportion of funds into the industrial sectors. The North American portfolio contained thirty stocks with the largest twenty holdings representing 73.4% of the total commitment.

Investment Strategy

Our year has started well in the U.S.A. with a rise of about 5% in the market which has taken heart from the economic statistics which now show some evidence that the Budget deficit can be contained, that inflation, although it may rise to about 5%, is under control and the trade deficit will be a gradually declining problem.

A year ago we were emphasising investment in the industrial sector where, due to the weaker dollar, manufacturers were becoming much more competitive in world terms. We still see good prospects for these companies but are beginning to put some funds into the interest rate sensitive area—companies which will benefit from any decline in interest rates.

In the year ahead we expect overall company earnings to grow about 10% with good prospects for dividend increases and continuing efforts by management to improve capital values for shareholders.

Canada

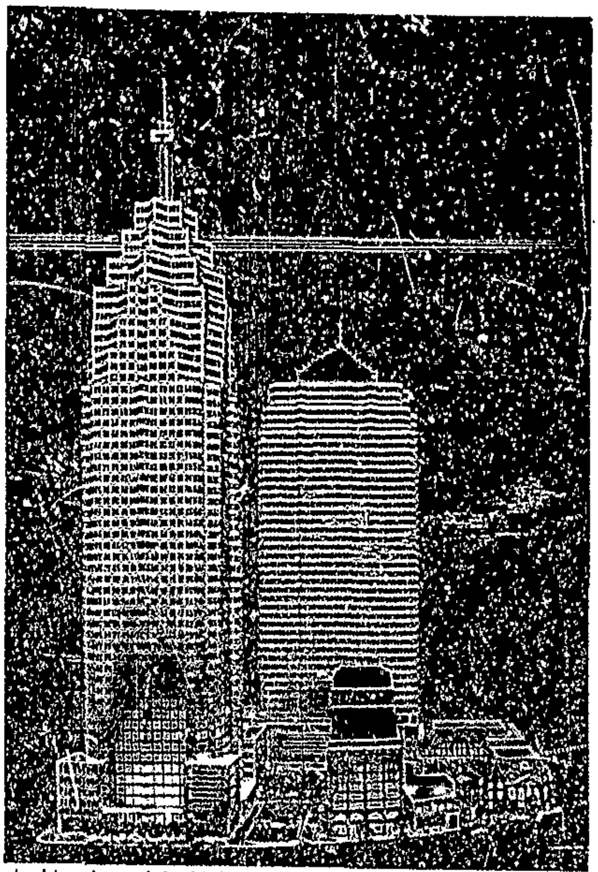
A little over 4% of the portfolio is invested in Canada where the most notable events have been the re-election of the Conservative Government and the signing of a free trade agreement with the U.S.A.

In 1988 real economic growth was 4.5%, earnings in general were up 20% and the dollar appreciated 5% against its U.S.A. counterpart. In 1989 we expect economic growth to slow to about 3% and earnings in general to increase about 10%.

The biggest problem in Canada is the budget deficit which is expected to be around $30 billion in the year to March 1990. The latest budget plans are, however, a step in the right direction with the aim of reducing the deficit to $15 billion by 1993.

Until very recently activity on the Stock Exchanges has been minimal with investors concentrating on high yielding bonds. This has led to an exceptionally low valuation of equities which are now attractively priced for the longer term investor.

16th May 1989



Architect's model of BCED's development in Toronto.

Marsh and McLennan

Value: £2,950,000
The world's largest insurance broker which will benefit as expectations of cyclical recovery in the insurance industry grow.

General Motors

Value: £2,950,000
Substantial progress from continuing strong automobile sales and the restructuring of the company by new management.

Xerox

Value: £2,102,000
Leading U.S. producer of copying machines with growing office information business and improving financial services division. Significant exposure to overseas earnings.

Burlington Resources

Value: £2,097,000
The holding is convertible into shares of Anadarko, a leading gas producer which is benefiting from the more favourable environment for the natural gas industry.

H & R Block

Value: £1,999,000
Service company whose main business is assisting individuals in the completion of tax returns.

Bristol-Myers

Value: £1,949,000
A large diversified company with leading positions in ethical proprietary drugs, toiletries, hair-care and household products. Its long-term growth rate of 14% should be maintained.

U.S.X.

Value: £1,933,000
The largest U.S. steel-maker with significant oil and gas interests. Earnings are expected to benefit from recent strong demand for steel and the improvements in the oil price.

American Information Tech. Corp. (Ameritech)

Value: £1,826,000
The local telephone operation in the Chicago area with growing non-regulated activities.

Tenneco

Value: £1,799,000
A diversified company involved in natural gas pipelines, ship-building and the manufacture of farm machinery and motor components.

Laidlaw Transportation

Value: £1,711,000
Canadian based, with significant waste management and school-bus operations in the U.S.A.

Bank of Montreal

Value: £1,689,000
One of the leading Canadian banks with a profitable subsidiary in the U.S.A.

Carpenter Technology

Value: £1,688,000
A speciality steel producer benefiting from re-organisation, lower value of the dollar and the recovery in the capital goods sector.

Bowater

Value: £1,681,000
The major producer of newsprint in the U.S. with growing interest in coated paper and pulp from its large forest reserves.

Brascan

Value: £1,592,000
Canadian holding company with interests in natural resources, consumer products and financial services.

American Home Products

Value: £1,528,000
A diversified manufacturer of ethical and proprietary drugs, food and household products.

A.T. Cross

Value: £1,522,000
Manufacturer of fine writing instruments, luggage and leather accessories.

Salomon

Value: £1,518,000
A leading Wall Street brokerage house and commodities trader currently benefiting from major restructuring following weakness in the securities industry.

Lawter International

Value: £1,511,000
A manufacturer of speciality chemicals used in the printing industry to enhance quality. Based in Chicago, this company has an enviable track record of stable growth.

B.C.E. Development Corp.

Value: £1,414,000
A Vancouver based property developer with interests across North America and controlled by Bell Canada Enterprises.

P.W.A. Corporation

Value: £1,323,000
Main subsidiary Canadian Airlines International accounts for about 40% of Canadian regular and charter flights. It is currently undertaking massive rationalisation measures.

an

rket Review

The 15% rise in the stockmarket over the year has reflected the superior performance of the Japanese economy. Although experiencing a slight slowdown, robust real growth of about 5% is easily achievable in the current year, indicating that the structural shift to domestic led growth is now firmly entrenched. The Government's efforts to stimulate the domestic economy in the wake of two years of sharp Yen appreciation have thus been very successful. Consumption and capital expenditure have strongly supported economic expansion, whereas the traditional bellwether of Japan's prosperity, the external sector, has only played a minor role.

Despite tightness in some areas of the economy, inflation has remained negligible. To an extent this has reflected the Government's desire to stimulate import growth, not only to appease foreign demands but also to apply downward pressure on notoriously high domestic price levels. Not surprisingly, the consumer has responded enthusiastically, enjoying income tax cuts and generous bonus payments linked to the success of the corporate sector.

In terms of world trade imbalances, the impressive growth in imports has not been matched by the expected decline in Japanese exports. Such has been the demand for consumer products overseas that Japan's trade surplus has remained stubbornly high.

Marui's merchandise data processing system which provides detailed information for full cost control.

The two non-economic factors which had a major market impact were the Emperor's protracted demise and the long drawn out "Recruit Cosmos" scandal. The latter could be an important watershed in reforming Japan's archaic political system.

Mitsubishi Rayon is the largest supplier of water clarifiers for home use in Japan.

Investment Activity

£1.6 million was taken out of the market during the year, and Japan now represents 9% of the portfolio.

The focus early in the year was very much on earnings recovery situations and the main activity was therefore in steel, shipbuilding and technology companies. Later on, there was an emphasis on beneficiaries of lower interest rates, hence the high exposure to railway issues, trading houses and real estate companies.

The Government's enthusiasm for promoting the regional development of Japan, combined with strong demand from the private sector for building new plant capacity, led to a revaluation of the construction sector towards the end of the year. Holdings were accordingly increased in infrastructure, environmental and construction-related companies in recognition of the increasing levels of public expenditure being channelled towards these areas. Defence-related issues have also been emphasised in the portfolio.

Investment Strategy

Japan's burgeoning domestic economy should ensure that it remains relatively insulated from a slowdown in world growth. Although demand for Japanese consumer exports will probably be subdued, the shift of manufacturing capacity overseas should continue apace, thereby limiting any decline in the current account surplus. A combination of this and a low interest rate environment should ensure that surplus liquidity can be directed towards the stockmarket. Although the future of the Government in the wake of "Recruit Cosmos" and the ever present concern on protectionism are potential negatives, a strong currency and healthy corporate profit growth of at least 10% should ensure that the Tokyo Index reaches new peak levels in the months ahead.

Hong Kong

The Hong Kong economy continues to record strong growth. Overall in 1988 it grew by 7.5% with corporate earnings rising 25%. The most notable area of growth was re-export trade, particularly with China, emphasising the increased interdependence of Hong Kong and the mainland. For the current year this trend is likely to continue with the economy forecast to expand by 7% and corporate earnings by 20%.

Inflation and political developments in China remain the principal concerns within Hong Kong. The inflation rate in 1989 is expected to be over 10% as labour charges and rent increases push up prices. Shortage of labour remains a problem despite the successful efforts by the manufacturing sector to move production over the border. The situation has been acute enough to force the Government to allow migrant workers into Hong Kong even though this is unpopular locally.

One of Swire Pacific's tugs in Hong Kong harbour.

China's shift from a centrally controlled to a more market orientated economy has slowed down as the Government tries to stem rampant inflation. This slowing of reform has resulted in recent public demonstrations and political infighting. These developments across the border come at an unwelcome time as Hong Kong discusses the second draft of "The Basic Law" and the passports dispute with the U.K. continues.

Despite these problems, we have so far maintained our exposure to Hong Kong as the economy is buoyant, with corporate earnings growth ranking among the highest in the world and with share prices generally discounting the difficulties ahead.

During the course of the year our investment in Jardine Strategic Holdings was sold in order to re-invest in Mandarin Oriental and Dairy Farm. Both companies are benefiting from Hong Kong's strong economy.

16th May 1989

Japan

Hitachi

Value: £2,068,000
One of Japan's representative high technology enterprises. A major integrated manufacturer of computers, memory semiconductors and consumer electronics equipment.

Sumitomo Bank

Value: £2,049,000
Major City Bank with widespread retail network. Emphasising overseas expansion.

Maeda Road

Value: £1,774,000
A major road building company affiliated with Maeda Construction. Although it has a strong base in the Tokyo area, it is emphasising its development in provincial regions.

Mitsubishi

Value: £1,706,000
Leading trading company with diversified interests including metals, oil and industrial machinery. Fostering joint venture agreements overseas with particular emphasis on the Communist block.

Mitsubishi Rayon

Value: £1,672,000
Principal synthetic fibre manufacturer diversifying into new materials such as optical fibres, carbon fibres and resins. Links with the defence agency are proving very beneficial.

Hankyu

Value: £1,452,000
Leading railway operator based in Kansai area with diversified interests in real estate development, leisure and the retail industry.

Marui

Value: £1,439,000
Well located Tokyo-based department store chain aggressively emphasising sales to the younger generation.

Sekisui House

Value: £1,420,000
Japan's largest house builder advancing into general construction and real estate redevelopments, particularly in the leisure area.

NEC

Value: £1,417,000
One of Japan's representative high technology enterprises. A major integrated manufacturer of computers, memory semiconductors and telecommunications equipment.

Hong Kong

Swire Pacific 'A'

Value: £5,197,000
A major South East Asian trading company with extensive interests principally in property, airlines and the oil sector. The company is particularly emphasising its property investments and its aircraft fleet.

Hong Kong & Shanghai Bank

Value: £2,077,000
Hong Kong's major bank with significant interests in the Far East, Middle East and the U.S.A. It owns the Marine Midland Bank, a number of financial services groups and 15% of the Midland Bank.

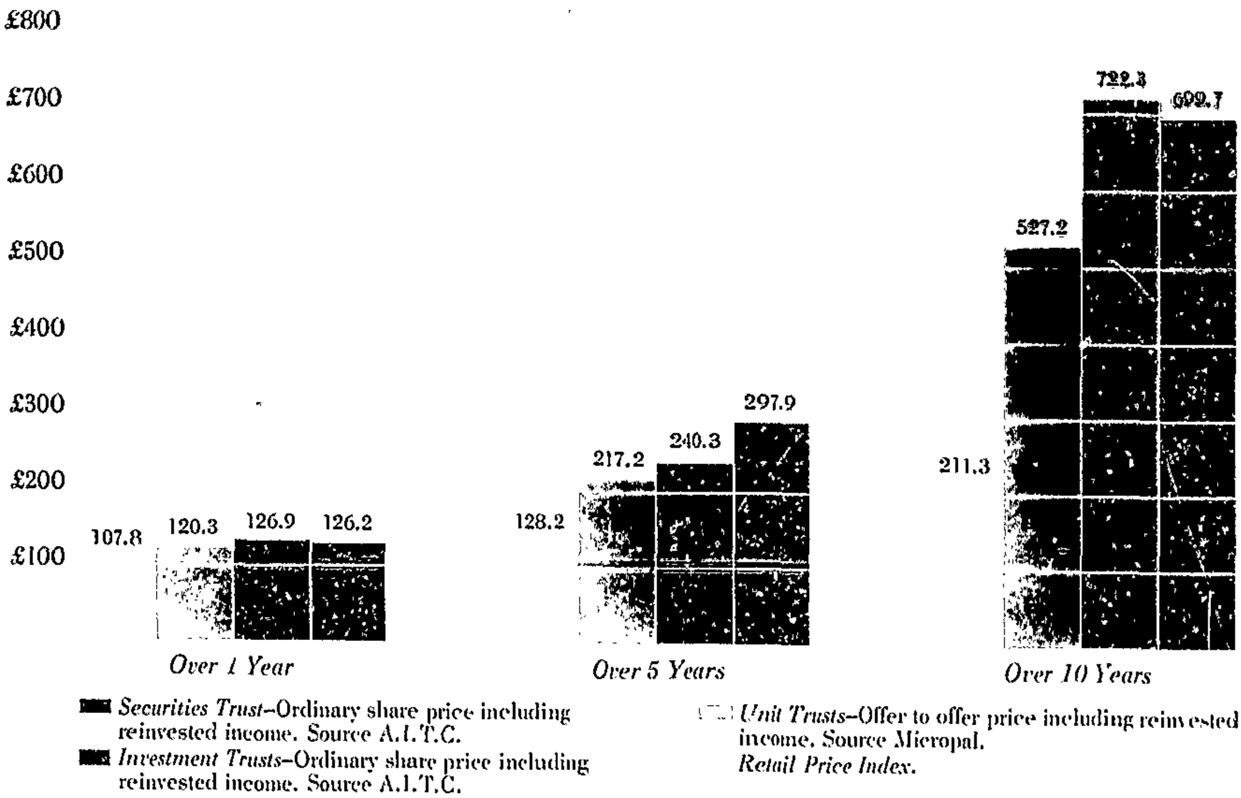
Dairy Farm

Value: £1,829,000
Supermarket retailer based in Hong Kong with overseas interests in the U.K., Australia and Taiwan.

Cross Harbour Tunnel

Value: £1,424,000
The operator of the road tunnel connecting Hong Kong island with Kowloon.

to 31st March 1989, compared with investment alternatives



Year ended 31st March	*Earnings per Ordinary Share Net*	*Dividends per Ordinary Share Net*	*Net assets attributable to Ordinary Shares* *Total £000*	*Per Share*
1979	0.91p	0.88p	51,567	32.2p
1980	1.30p	1.20p	43,044	26.9p
1981	1.28p	1.22p	58,628	36.6p
1982	1.25p	1.27p	58,938	36.8p
1983	1.49p	1.39p	86,178	53.8p
1984	1.67p	1.60p	104,227	65.1p
1985	2.10p	2.00p	123,041	76.8p
1986	2.72p	2.50p	165,513	103.3p
1987	3.09p	3.00p	210,587	131.5p
1988	3.72p	3.60p	189,710	118.5p
1989	4.52p	4.50p	218,293	136.3p

Notes:

1 Capitalisation issues were made to Ordinary Shareholders in June 1979, June 1983 and June 1986 in the ratio of one new share for every share held. Figures for previous years have been adjusted where appropriate.

2 Earnings per share for the year ended 31st March 1980 included non-recurring dividends amounting to 0.21p per share (net) following the end of dividend controls.

Equities and Convertibles	U.K. %	*North America* %	*Far East*[2] %	*Other*[3] %	1989 Total %	*1988 Total* %
Capital Goods:						
Building Materials	2.4	—	—	—	2.4	*2.6*
Computers/Office/Telecom Equipment	—	0.8	—	—	0.8	*0.6*
Contracting and Construction	1.5	—	1.3	—	2.8	*1.7*
Electricals	—	—	—	—	—	—
Electronics	1.2	—	1.4	—	2.6	*3.4*
Mechanical Engineering	0.9	—	—	—	0.9	*0.5*
Metals and Metal Forming	—	0.7	0.9	—	1.6	*0.7*
Motors	0.8	1.2	—	0.7	2.7	*1.9*
Other Industrial Materials	2.4	—	—	—	2.4	*3.0*
	9.2	2.7	3.6	0.7	16.2	*14.4*
Consumer Goods:						
Brewers and Distillers	6.7	—	—	—	6.7	*6.9*
Diversified Consumer Goods	—	1.2	—	—	1.2	*3.2*
Food Manufacturing	4.4	—	—	—	4.4	*5.4*
Food Retailing	1.1	—	0.7	—	1.8	*1.5*
Health and Household Products	1.3	1.4	0.3	—	3.0	*2.7*
Leisure	2.7	—	0.5	—	3.2	*2.1*
Packaging and Paper	0.6	1.7	—	—	2.3	*2.4*
Publishing and Printing	0.9	—	—	—	0.9	*1.4*
Stores	4.9	0.4	1.8	—	7.1	*7.4*
Textiles	0.7	—	—	—	0.7	*0.6*
	23.3	4.7	3.3	—	31.3	*33.6*
Other Groups:						
Chemicals	0.8	0.6	0.7	—	2.1	*1.3*
Conglomerates	2.7	—	—	—	2.7	*2.7*
Shipping and Transport	1.9	1.5	0.6	—	4.0	*5.3*
Telephone Networks	1.6	—	—	—	1.6	*1.6*
Miscellaneous	3.4	0.8	—	—	4.2	*3.2*
	10.4	2.9	1.3	—	14.6	*14.1*
Industrial Group:						
Oil and Gas	8.0	1.8	—	—	9.8	*9.3*
Financial Group:						
Banks	4.5	0.7	0.8	—	6.0	*6.1*
Diversified Holding Companies	—	0.7	2.1	—	2.8	*1.2*
Financial Institutions and Services	—	1.4	1.9	—	3.3	*3.2*
Insurance—Life	2.4	—	—	—	2.4	*2.9*
Insurance—Composite	1.8	—	—	—	1.8	*2.1*
Insurance—Brokers	0.8	1.2	—	—	2.0	*1.7*
Merchant Banks	—	—	—	—	—	*0.6*
Property	0.7	1.0	—	—	1.7	*2.9*
Other Financial	0.6	—	0.5	—	1.1	*2.2*
Investment Trusts	—	0.4	—	0.6	1.0	*1.2*
Mining Finance	2.6	—	—	—	2.6	*2.2*
	13.4	5.4	5.3	0.6	24.7	*26.3*
Overseas Traders	0.7	—	—	—	0.7	*0.7*
Utilities	—	1.9	—	0.8	2.7	*1.6*
Fixed Interest	—	—	—	—	—	—
Total 1989	65.0	19.4	13.5	2.1	100.0[4]	*100.0*
Total 1988	66.3	18.1	14.8	0.8	100.0	

Notes: 1. Convertibles amounted to 15.1% (1988—16.3%).
2. Far East includes: Japan 8.8% (1988—10.9%) and Hong Kong 4.7% (1988—3.9%).
3. Other includes Brazil 0.5% (1988—0.8%) and Europe 1.6% (1988—nil).
4. The value of 100% is £251,462,000, being the invested portfolio.

The Directors submit the accounts of the Company for the year ended 31st March 1989. A review of the Company's activities during the year is contained in the Chairman's Statement and Managers' Review.

Revenue

Gross revenue for the year has increased from £11,447,000 to £13,729,000.

Dividends on Ordinary Shares

An interim dividend of 1.50p was paid on 5th December 1988. The Directors recommend payment of a final dividend of 3.00p which makes a total for the year of 4.50p (1988—3.60p).

After provision for the dividend, the revenue to be carried forward is increased by £34,000.

Valuation

At the year end the total net assets attributable to the Ordinary Shares were £218,293,000 compared with £189,710,000 in 1988. Based on this figure, the Net Asset Value per Ordinary Share was 136.3p compared with 118.5p a year ago.

Currency Loan

In September 1988 Yen 4,503.8 million was borrowed for two years at an interest rate of 5 9/16%. Most of this borrowing has been protected by the forward purchase of Yen against Sterling.

Directors

Mr R. Young and Mr R. A. B. Miller retire from the Board by rotation and, being eligible, offer themselves for re-election.

Mr T. S. Lewis retires from the Board at close of business on the day of the Annual General Meeting. Mr Lewis joined the Board in 1971 and became Chairman in 1985. His colleagues on the Board would like to take this opportunity to thank him for his considerable and very valuable contribution to the success of the Company over many years and particularly when he was Chairman. He will be missed, and his colleagues wish him a long and happy retirement.

No Director has a service contract with the Company. Mr Birrell is a partner in Dundas & Wilson, C.S., the Company's law agents who receive fees from the Company for their services.

Directors who have held office during the year and their shareholdings are shown opposite. Holdings include beneficial and family interests. Holdings as trustee only are shown in brackets. There have been no changes in these holdings up to 15th May 1989.

Managers and Secretaries

At 31st March 1988 there existed a contract between the Company and Martin Currie Investment Management Ltd. (MCIM), which provides that MCIM are appointed Managers and Secretaries of the Company until 30th September 1990 at an annual remuneration which in the year under review was 0.25% of the average total assets less current liabilities of the last three audited Balance Sheets.

Mr Young is interested in this contract as a Director of MCIM.

Auditor

Mr R. M. Sinclair, C.A., will be proposed for re-appointment as Auditor in accordance with Section 384 of the Companies Act 1985.

Capitalisation Issue

Enclosed with this Report is a Notice convening an Extraordinary General Meeting of the Company for the purpose of considering a Resolution which, if approved, will result in an increase in authorised capital to £83 million and a capitalisation issue of 160.16 million Ordinary Shares of 25p each in the ratio of one new share for each Ordinary Share held. The new shares will rank *pari passu* with the existing Ordinary Shares, save for the right to receive any final dividend declared in respect of the year ended 31st March 1989. Details of the proposals are given to shareholders in the circular attached to the enclosed Notice of Meeting.

By Order of the Board

Martin Currie Investment Management Ltd.
Secretaries
5th June 1989

Directors' shareholdings

		31st March 1989		*31st March 1988*	
T. S. Lewis	Ordinary Shares	16,000	(—)	*16,000*	*(—)*
D. Birrell	Ordinary Shares	8,000	(72,800)	*8,000*	*(72,800)*
R. A. B. Miller	Ordinary Shares	2,000	(—)	*2,000*	*(—)*
W. M. Morrison	Ordinary Shares	8,000	(22,000)	*4,000*	*(—)*
J. M. Weir	Ordinary Shares	88,000	(—)	*88,000*	*(—)*
R. Young	Ordinary Shares	15,000	(—)	*10,000*	*(—)*

To the members of Securities Trust of Scotland p.l.c.

I have audited the financial statements on pages 22 to 27 in accordance with approved auditing standards.

In my opinion the accounts give a true and fair view of the state of the Company's affairs at 31st March 1989 and of its revenue and source and application of funds for the year then ended and comply with the Companies Act 1985.

R. M. Sinclair, C.A. R M Sinclair CA

Edinburgh, 5th June 1989

2

	Note	1989		1988	
		£000	£000	£000	£000
Income from Investments	2				
Franked			7,453		6,105
Unfranked					
United Kingdom		3,043		2,084	
North America		2,450		2,373	
Other Foreign		781		885	
			6,274		5,342
			13,729		11,447
Interest on Borrowed Money	3	2,748		2,161	
Administrative Expenses	4	828		707	
			3,576		2,868
Revenue before taxation			10,153		8,579
Taxation	5		2,822		2,524
Revenue after taxation			7,331		6,055
Dividends					
On Preference Stock		90		90	
On Ordinary Shares	6	7,207		5,766	
			7,297		5,856
Transferred to General Reserve			34		199
Earnings per Ordinary Share	7		4.52p		3.72p

	Note	1989 £000	1989 £000	1988 £000	1988 £000
Fixed Assets					
Investments at Market Value	8 & 9				
Listed on The Stock Exchange in the U.K.			161,614		130,696
Listed on Stock Exchanges abroad			87,087		66,446
Unlisted at Directors' Valuation			2,761		2,547
			251,462		199,689
Current Assets					
Debtors	10	281		1,461	
Cash at bank	11	17,814		16,791	
		18,095		18,252	
Creditors					
Amounts falling due within one year	12	5,576		5,388	
Net Current Assets			12,519		12,864
Total Assets less Current Liabilities			263,981		212,553
Creditors					
Amounts falling due after one year Debentures and Loans	13		42,845		20,000
Total Assets attributable to Share Capital			221,136		192,553
Capital and Reserves					
Called up Preference Capital	14		2,843		2,843
Called up Ordinary Capital	14	40,040		40,040	
Capital Reserve	15	174,638		146,089	
General Reserve	15	3,615		3,581	
			218,293		189,710
			221,136		192,553
Net Asset Value per Ordinary Share	7		136.3p		118.5p

T. S. Lewis, *Chairman*
W. M. Morrison, *Director*

5th June 1989

	1989		1988	
	£000	£000	£000	£000
Liquid Funds at 1st April 1988				
Cash on Deposit and in Bank		16,791		9,466
Debtors and Sales for future settlement		1,360		462
Creditors and Purchases for future settlement		(1,410)		(1,782)
		16,741		8,146
Movement of Funds				
Revenue				
Revenue before Taxation	10,153		8,579	
Taxation paid and suffered*	(3,924)		(2,353)	
Dividends paid*	(6,336)		(5,215)	
	(107)		1,011	
Capital				
Sales of Investments	47,686		76,512	
Appreciation of Foreign Currency Balances	67		2,664	
Purchases of Investments	(66,895)		(71,592)	
Increase in Borrowings	20,000		—	
	858		7,584	
Total increase in Liquid Funds		751		8,595
		17,492		16,741
Liquid Funds at 31st March 1989:				
Cash on Deposit and in Bank	17,814		16,791	
Debtors and Sales for future settlement	281		1,360	
Creditors and Purchases for future settlement	(603)		(1,410)	
		17,492		16,741

In order to show how the operations of a company have been financed, and the way in which its financial resources have been used, all audited financial accounts are required to show a Statement of Source and Application of Funds.

The above statement details the movements in assets, liabilities and capital which have been made during the year and their resultant effect on liquid funds. In considering the statement, shareholders should bear in mind the following:

*1 The figures for taxation and dividends paid are shown on a cash basis. That is, they include amounts paid in respect of the previous year but exclude amounts relating to the year to 31st March 1989 which were not payable until after that date.

2 This Company is an Investment Trust with virtually the whole of its assets in the form of readily marketable securities. Thus the change in the net liquid position as shown above is of much less significance than the change in the total assets shown in the Balance Sheet.

1 Accounting Policies

The Accounts of the Company have been prepared in accordance with the following Accounting Policies:

(a) Income from Equity Investments is determined on the basis of amounts due and payable during the year. Income from fixed interest securities to which the provisions of the Accrued Income Scheme apply is credited to the Revenue Account on an accruals basis. Franked Investment Income received includes the relevant tax credit and other income includes the taxes deducted at source. Income from overseas is converted at the rate of exchange ruling at the date of receipt.

(b) Interest receivable and payable and administrative expenses are treated on an accruals basis.

(c) Gains and losses on realisation of Investments are taken to Capital Reserve. Exchange adjustments relating to overseas loans and currencies are also taken to this Reserve.

(d) Listed investments are valued at market prices and foreign currencies at the rates of exchange ruling on the Balance Sheet date.

2 Income from Investments

	1989		1988	
	£000	£000	£000	£000
is made up as follows:				
From Listed Investments				
Equities	9,945		8,629	
Convertibles/Fixed Interest	1,187	11,132	1,117	9,746
From Unlisted Investments				
Equities	91		108	
Convertibles/Fixed Interest	47	138	79	187
Interest on Temporary Deposits		2,392		1,439
Underwriting Commission		67		75
		13,729		11,447

3 Interest on Borrowed Money

	1989	1988
	£000	£000
On loans repayable within five years	598	11
On all other loans	2,150	2,150
	2,748	2,161

4 Administrative Expenses

include:		
Directors' Fees	38	32
Audit Fee	5	5

5 Taxation on Revenue Account

Corporation Tax at 35% based on the results of the year	950	870
Less: Double Taxation Relief	(311)	(347)
	639	523
Add: Overseas Tax	311	347
Tax on Franked Income	1,869	1,652
Adjustment in respect of previous years	3	2
	2,822	2,524

Any Advance Corporation Tax payable in respect of the Final Dividend will be recoverable and accordingly no provision has been made.

	1989 £000	*1988 £000*
6 Dividends on Ordinary Shares		
are as follows:		
Interim of 1.50p (1988—1.20p)	2,402	*1,922*
Proposed Final of 3.00p (1988—2.40p)	4,805	*3,844*
Total 4.50p (1988—3.60p)	7,207	*5,766*

7 Earnings and Net Asset Value

per Ordinary Share are calculated on the 160,160,000 Shares issued.

8 Investments

Valuation at 1st April	199,689	*228,251*
Less: Unrealised Appreciation	(45,706)	*(83,458)*
Cost at 1st April	153,983	*144,793*
Add: Additions at cost	66,895	*71,592*
	220,878	*216,385*
Less: Disposals at cost	(38,918)	*(62,402)*
Cost at 31 March	181,960	*153,983*
Add: Unrealised Appreciation	69,502	*45,706*
Valuation at 31st March	251,462	*199,689*

There are Contingent Liabilities on Investments amounting to £1,709,000 (1988—£3,774,000).

9 Substantial Shareholding

At 31st March 1989 the Company held shares of the Issued Capital in the class indicated, of the following company which is registered in Scotland.

Macdonald Martin Distilleries p.l.c.	
427,000 'A' Ordinary Shares 50p	18.6%
41,000 'B' Ordinary Shares 25p	5.1%

Dividends received from this investment during the year of £131,270 (1988—£116,470) including the tax credit, have been credited to Revenue Account as Franked Investment Income.

10 Debtors

Due by Brokers	—	*1,114*
Advance Corporation Tax and Income Tax recoverable *less* Corporation Tax as shown in Note 5	—	*101*
Other Debtors	281	*246*
	281	*1,461*

11 Cash at Bank

On Deposit—Short Term	17,380	*16,118*
On other Accounts	434	*673*
	17,814	*16,791*

12 Creditors

		1989 £000	*1988 £000*
Amounts falling due within one year:			
Advance Corporation Tax and Income Tax recoverable *less* Corporation Tax as shown in Note 5		34	—
Proposed Final Dividend		4,805	*3,844*
Interest accrued		721	*134*
Due to Brokers		—	*1,403*
Other Creditors		16	*7*
		5,576	*5,388*

13 Debentures and Loans

		1989 £000	*1988 £000*
Repayable after one year:			
7% Debenture Stock 1988/93		5,000	*5,000*
12% Debenture Stock 2013		15,000	*15,000*
5⅙% loan of Yen 4,503.8m to September 1990	20,000		
Capital cost of forward cover to maturity	2,845		
		22,845	—
		42,845	*20,000*

Debenture Stocks are secured by Trust Deeds.

The Articles of Association permit the issue of further Debenture Stock by the Company, provided the sums borrowed shall not at any time without the previous sanction of the Company in General Meeting exceed in the aggregate, except for temporary purposes, the nominal amount of the issued and paid-up Share Capital of the Company and the amount of all the published reserve funds of the Company.

14 Called up Share Capital

	1989		*1988*	
	Authorised £000	Allotted, Issued and Fully Paid £000	*Authorised £000*	*Allotted, Issued and Fully Paid £000*
4.5% (now 3.15% plus tax credit) Cumulative Preference Stock	2,843	2,843	*2,843*	*2,843*
160,160,000 Ordinary Shares of 25p each	40,157	40,040	*40,157*	*40,040*
	43,000	42,883	*43,000*	*42,883*

15 Reserves

	1989 £000	*1988 £000*
The movement in Capital Reserve is as follows:		
Realised profit at 1st April 1988	100,383	*83,707*
Net Realised Gains on Investments and movement on Currencies during the year	5,990	*16,676*
Provision for Corporation Tax (see below)	(1,237)	—
	105,136	*100,383*
Unrealised appreciation on investments at 31st March 1989	69,502	*45,706*
	174,638	*146,089*
The movement in General Reserve is as follows:		
As at 1st April 1988	3,581	*3,382*
Transfer from Revenue Account for year	34	*199*
	3,615	*3,581*

The provision covers Corporation Tax on a proportion of the surpluses arising from forward currency sales during 1986 and 1987 which the Inland Revenue has taxed as income.

Shareholders

At 31st March 1989, the Ordinary Shareholders including Savings Plan holders numbered 11,553 (1988 equivalent—8,554) and are analysed below:

	% of Shareholders		% of Equity Capital	
	31.3.89	*31.3.88*	31.3.89	*31.3.88*
Individuals and Trustees	94.2	*92.4*	43.7	*37.5*
Insurance and Investment Companies	1.0	*1.4*	36.6	*41.3*
Pension Funds	0.2	*0.4*	9.7	*11.6*
Other holders	4.6	*5.8*	10.0	*9.6*
	100.0	100.0	100.0	100.0

The Company has been notified of the following interests in its Ordinary Share Capital:

The Standard Life Assurance Company 8.06%.

The Equity and Law Life Assurance Society p.l.c. 5.99%

Scottish Widows' Fund and Life Assurance Society 5.13%.

As far as the Company is aware, no other Shareholder holds 5% or more of the Company's Ordinary Share Capital.

Tax Status

The Company has been treated as an Investment Trust by the Inland Revenue under Section 842 of the Income and Corporation Taxes Act 1988 up to 31st March 1988, and in the year under review satisfies the conditions laid down in the Act.

The Company is not a "Close" Company for taxation purposes.

The Company itself pays no Capital Gains Tax. Individual investors might have a liability to tax on disposal of their shares; for the purpose of this calculation the 31st March 1982 values of the Company's shares are:

Ordinary 25p	28.25p
Preference (per £100 stock)	£32

Publication of Share Price and Performance Statistics

The price of the Company's Ordinary Shares appears daily in *The Scotsman, The Glasgow Herald, The Daily Telegraph, The Times* and *The Financial Times* Share Information Service, or can be obtained on the F.T. Cityline by dialling 0836 43 3977.

Weekly Net Asset Values are supplied daily in *The Daily Telegraph*. Net Asset Value and Share Price performance statistics are available in the form of a monthly Information Service from The Association of Investment Trust Companies, Park House (6th Floor), 16 Finsbury Circus, London EC2M 7JJ.
Tel. 01-588 5347.

Financial Calendar

March	Half-year Preference Dividend
	Half-year Interest on 12% Debenture Stock
April	Year-end figures announced
May	Half-year Interest on 7% Debenture Stock
June	Annual Report issued
	Annual General Meeting
July	Final Dividend on Ordinary Shares
September	Half-year Preference Dividend
	Half-year Interest on 12% Debenture Stock
October	Half-year figures announced
November	Half-year report issued
	Half-year Interest on 7% Debenture Stock
December	Interim Dividend on Ordinary Shares