

SECURITIES TRUST OF SCOTLAND

ANNUAL REPORT 1995

1827



MARTIN • CURRIE

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MARTIN CURRIE'S SAVINGS AND PERSONAL EQUITY PLANS

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Investment in Securities Trust of Scotland can be made through the Martin Currie Savings Plan which offers a simple and economic method of purchasing shares and re-investing dividends in the company. The Savings Plan enables investors to save regularly from as little as £20 per month or in lump sums from just £200 at any time. The company is also one of four investment trusts in Martin Currie's personal equity plan which enables investors to enjoy tax free returns on their investments of up to £6,000. Call Michèle Maskall at Martin Currie free on 0500 61 62 65 for free brochures on both these plans.

The value of shares and the income from them may go down as well as up as a result of market and currency movements. Investors may not get back the amount invested. Existing tax levels and reliefs may change and the value of reliefs depends on personal circumstances.

The above statement has been approved by Martin Currie Investment Management Ltd, which is regulated by IMRO.

SECURITIES TRUST OF SCOTLAND

REPORT AND ACCOUNTS For the year ended 31 March 1995

Securities Trust of Scotland has been investing in world markets for more than a century. Founded in 1889, it has established an impressive track record for shareholders seeking rising income and a consequent increase in the capital value of their assets. This performance is based on maintaining a balanced portfolio of investments, diversified across international markets and industrial sectors, with the emphasis on companies exhibiting potential for strong earnings and dividend growth.



THE MANAGERS



Securities Trust of Scotland's investment portfolio is managed by Martin Currie, one of Scotland's leading investment management companies. Founded in 1881, Martin Currie specialises in international equity investment for its investment trust, pension fund and unit trust businesses.

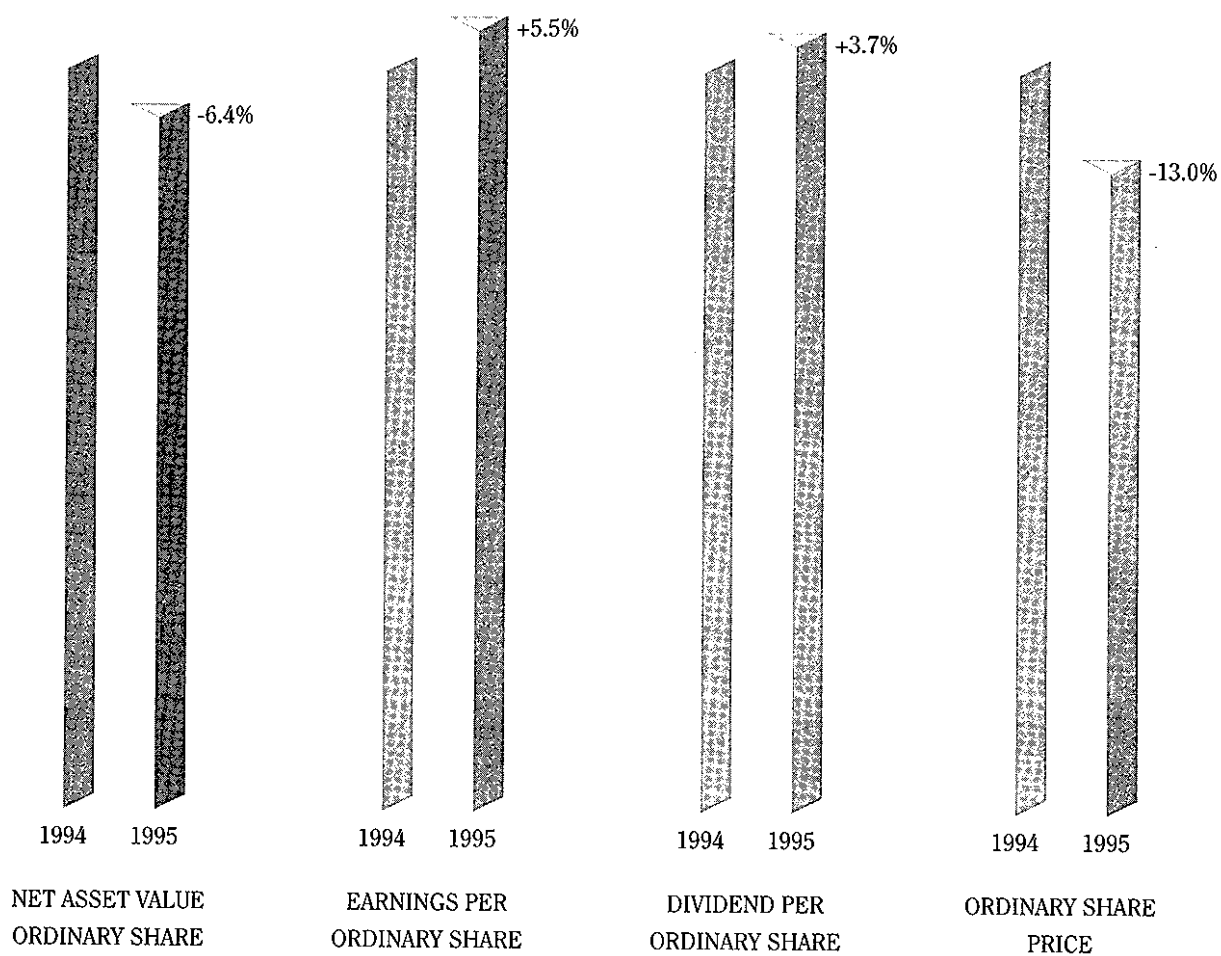
Other investment trusts under Martin Currie's management are:

- Scottish Eastern – *Capital growth in world markets*
- St Andrew Trust – *Capital growth in smaller companies worldwide*
- Martin Currie Pacific Trust – *Capital growth in the Far East*
- Martin Currie European Investment Trust – *Capital growth in Europe*
- Premium Trust – *Capital and income growth in world markets*

FINANCIAL HIGHLIGHTS

Year ended 31 March 1995

	1995	1994	% CHANGE
NET ASSETS ATTRIBUTABLE TO ORDINARY SHARES (£000)	269,982	288,642	-6.4
NET ASSET VALUE PER ORDINARY SHARE	84.3p	90.1p	-6.4
EARNINGS PER ORDINARY SHARE	3.44p	3.26p	+5.5
DIVIDEND PER ORDINARY SHARE	3.37p	3.25p	+3.7
ORDINARY SHARE PRICE	80.5p	92.5p	-13.0



CHAIRMAN'S STATEMENT

I am delighted to be reporting to you for the first time following my appointment as chairman of the board in December.

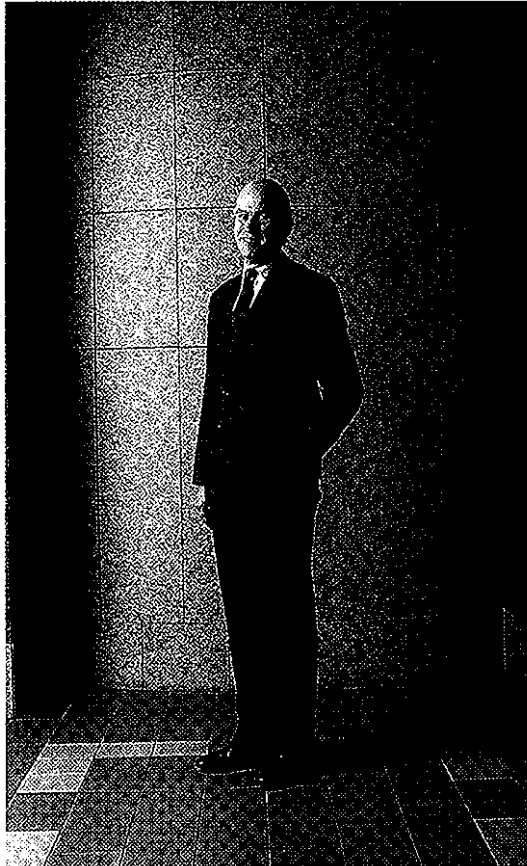
The last year has been a difficult one for investors in international equity and bond markets. This may seem surprising when economies throughout the world are robust, or at least in the early stages of cyclical recovery, and there is generally a strong trend in corporate profits and dividends. However investors have been looking with concern at the inflationary consequences of stronger economies – hence the poor performance of bond markets, which has dampened enthusiasm for equities.

Over the financial year to 31 March 1995 the trust's net asset value per share fell by 6.4%, from 90.1p to 84.3p. The performance of your shares in the stockmarket was rather worse than this – a fall of 13.0%. The reason being that at the start of the year the shares were selling at a premium of 2.7% to their underlying value while by 31 March 1995 they had moved to a discount of 4.5%.

The trust's revenue has, however, continued to improve, and there was a 5.5% increase in earnings per share from 3.26p to 3.44p. Your board is confident that the present structure of the portfolio will permit a further improvement in the coming year, and is therefore recommending an increased final dividend of 2.29p, which will make a total for the year of 3.37p. This is a modest increase of 3.7% over last year's payment, but one which exceeds the rise in the Retail Price Index. Your board is conscious that the primary objective of the company is growth in income in the hands of shareholders, and I am therefore very pleased that after a period of three years in which the dividend has been unchanged we are now able to move forward again.

The draft of a Statement of Recommended Practice (SORP) on accounting issues relating to investment trusts has recently been published for discussion. The SORP has been sponsored by the Association of Investment Trust Companies, and when its proposals are finalised they are likely to become standard accounting practice for all investment trusts. Your board welcomes the publication of the SORP and is currently studying its recommendations. We hope to be in a position to provide shareholders with more information at the interim stage.

My predecessor, David Birrell, retired in December after serving as a director of your company since 1977. Since February 1994 he also served as chairman, taking over that position following the death of Ian MacPherson. I would like to thank him for his valuable contribution to the board's discussions over the years, and to wish him a happy retirement.



After the turmoil of last year the outlook for bond markets, and therefore for equities, is more positive. The continuing strong growth in corporate profits in the UK should provide us with a rising stream of dividend income from our core UK portfolio over the coming year, and we intend to take advantage of the interesting opportunities for capital growth which are opening up in overseas markets as a result of the falls of the last 12 months.

David Whitaker
15 May 1995

TEN YEAR RECORD

<i>Year ended 31 March</i>	<i>Net asset value £000</i>	<i>Per ordinary share</i>	<i>Earnings per ordinary share</i>	<i>Dividend per ordinary share</i>	<i>Ordinary share price</i>
1985	123,041	38.4p	1.05p	1.00p	28.2p
1986	165,513	51.7p	1.36p	1.25p	41.2p
1987	210,587	65.8p	1.55p	1.50p	55.0p
1988	189,710	59.3p	1.86p	1.80p	49.0p
1989	218,293	68.2p	2.26p	2.25p	59.5p
1990	223,600	69.8p	2.90p	2.82p	63.5p
1991	235,012	73.4p	3.10p	3.10p	70.5p
1992	224,627	70.1p	3.00p	3.25p	64.5p
1993	270,636	84.5p	3.03p	3.25p	81.5p
1994	288,642	90.1p	3.26p	3.25p	92.5p
1995	269,982	84.3p	3.44p	3.37p	80.5p

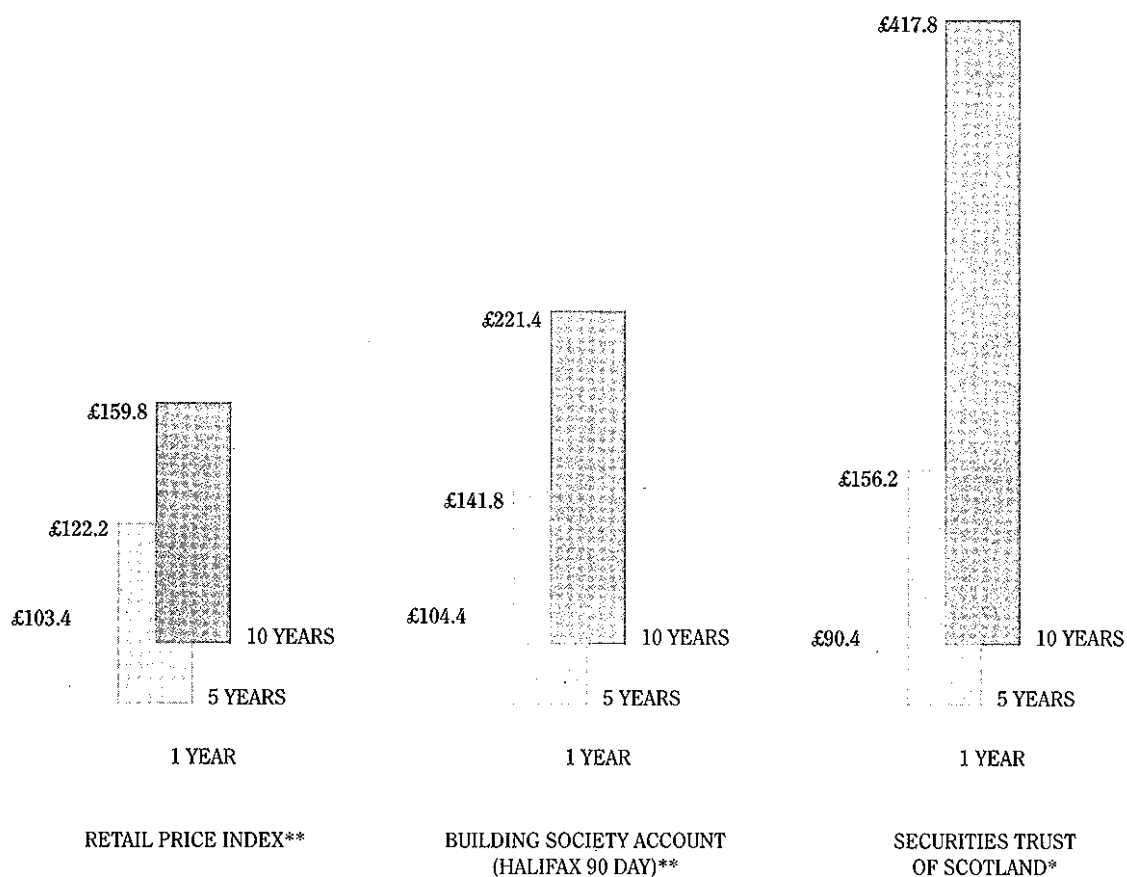
Note: Capitalisation issues were made to ordinary shareholders in June 1986 and June 1989 in the ratio of one new share for every share held. Figures for prior years have been adjusted where appropriate.

PERFORMANCE COMPARISON

£100 INVESTED OVER PERIODS TO 31 MARCH 1995

* Source AITC – ordinary share price with net income re-invested

** Source: HSW



DIRECTORS AND MANAGERS



The board of directors (l-r) Sir Ronald Miller, Sir Alick Rankin, chairman David Whitaker, Michael Kennedy and Richard Cole-Hamilton.

***David Whitaker (57)** is chairman of The Wemyss Development Co Ltd and a number of BES assured tenancy companies. He is a chartered accountant and retired as a senior partner in the Edinburgh office of Ernst & Young in 1992. He joined the board of Securities Trust in April 1994 and became chairman in December.

***Richard Cole-Hamilton (60)** retired as chief executive of Clydesdale Bank plc in 1992. A chartered accountant, he is chairman of Stakis plc and a director of Caledonian Newspaper Publishing Ltd. He is a vice-president of the Scottish Council Development and Industry. In 1993 he was awarded the CBE for services to banking. He joined the board of Securities Trust in 1992.

Michael Kennedy (59) is chief executive of Martin Currie Investment Management Ltd. He joined Martin Currie in 1965, spending more than 20 years managing investments in the Far East. He is a director of Scottish Life Assurance Company, Martin Currie Pacific Trust plc, Venture Associates SA and the Royal Infirmary of Edinburgh NHS Trust. He is also financial adviser to the Royal Scottish Academy. He joined the board of Securities Trust in 1991.

MANAGERS AND SECRETARIES

Martin Currie Investment Management Ltd
Saltire Court, 20 Castle Terrace
Edinburgh EH1 2ES
Telephone 0131-229 5252 Fax 0131-228 5959
Regulated by IMRO

***Sir Ronald Miller (58)** is deputy chairman of Scottish Amicable Life Assurance Society, a director of Christian Salvesen plc and was previously chairman of the textile group Dawson International plc. He is chairman of the British Knitting & Clothing Export Council and a member of the court of Napier University. He joined the board of Securities Trust in 1983.

***Sir Alick Rankin (60)** is chairman of the brewing, retail and leisure group Scottish & Newcastle plc, and Christian Salvesen plc. He is deputy chairman of General Accident plc, and his other directorships include Bank of Scotland, Sears plc and James Finlay plc. He is also a vice president of the Brewers' Society and chairman of the Holyrood Brewery Foundation. He joined the board of Securities Trust in 1991.

** Member of the audit committee*

AUDITORS

Chiene & Tait, CA
3 Albyn Place, Edinburgh EH2 4NQ

BANKERS

The Royal Bank of Scotland plc
The Chase Manhattan Bank NA

REGISTRARS AND TRANSFER OFFICE

The Royal Bank of Scotland plc
Registrar's Department, PO Box 435
Owen House, 8 Bankhead Crossway North
Edinburgh EH11 4BR
Telephone 0131-442 4111

MANAGERS' REVIEW

CAPITAL PERFORMANCE

The past year has been dominated by the steady rise in US interest rates which began in February 1994 and on which we commented in last year's annual report. It was a difficult period for international equity markets as investors ignored generally good news on corporate profits and concentrated on the effects of increasing interest rates and slowing economic activity. As global bond yields rose, so equities fell. The exceptions were few, but three markets did produce significant gains – Taiwan, South Africa, and, surprisingly given that it was the cause of the uncertainty, the USA. After excellent returns in 1993, Asia and Latin America had the sharpest falls.

Net assets attributable to ordinary shareholders fell by 6.4% over the year to 31 March 1995, from £288.6m to £270.0m, or 84.3p per share. This performance compares with declines of 1.5% in the FT-SE-A All-Share Index and 3.1% in the FT-A World Index over the same period.

The largest part of the trust's assets (71%) is invested in the UK where our equity portfolio declined by 4.0%, a worse performance than that of the FT-SE-A All-Share Index, while our gilt and corporate debenture portfolio fell by 11.0%.

Overall our overseas equity portfolio fell by 7.4%. The most resilient part was North America, which rose by 3.9% despite the 8.9% fall in the value of the US dollar over the year. Our investments in Hong Kong and other Asian countries were hit hard by a general collapse in the stockmarkets in those regions in the second half of the year; however this must be seen in the context of the substantial profits that we made from investing there in 1993. Our investments in South Africa were more successful. We had only a very small position in Latin America, and so were unaffected by the collapse in those markets which followed the currency crisis in Mexico in December.

MAJOR MARKET MOVEMENTS

		Local Currency %	Sterling adjusted %
UK	<i>FT-SE-A All-Share Index</i>	-1.5	-1.5
USA	<i>S&P Composite Index</i>	12.3	2.4
Continental Europe	<i>FT-A Europe (ex UK) Index</i>	-9.5	-3.1
Japan	<i>Tokyo Stock Exchange Index</i>	-16.3	-9.3
Other Far East	<i>FT-A Pacific Basin (ex Japan) Index</i>	-3.2	-8.0
World	<i>FT-A World Index</i>	-	-3.1



The Martin Currie team which manages the company's portfolio (l-r) Allan MacLeod, Michael Gibson, David Cavaye, Grant Wilson and Tim Hall.

MANAGERS' REVIEW

GEARING

In January we increased the level of our medium-term borrowings by taking out a £20m one-year bank loan at the time when our previous £10m loan was repaid, so adding a net £10m. The proceeds of the loan were used to increase our holdings of gilt-edged and corporate debenture stocks.

At the year end the trust had gearing of 18% of total assets.

CURRENCIES

The main currency impact on the portfolio during the year was the 8.9% depreciation of the US dollar against sterling.

Because all of our borrowing is denominated in sterling our exposure to overseas currencies is higher than that of the underlying portfolio.

ORDINARY SHAREHOLDERS' CURRENCY EXPOSURE

	Portfolio distribution %	Currency exposure %
UK	75.8	71.1
North America	8.4	10.5
Continental Europe	5.9	6.9
Japan	0.7	0.0
Other Far East	6.9	8.0
Others	2.3	3.5

REVENUE ACCOUNT

Gross revenue increased by 2.6% to £19.4m. Franked income was 13.2% higher at £11.2m, reflecting the growth in dividends from our UK equity investments. Our bond holdings made a substantial contribution to unfranked income, although the benefit of enhanced scrip dividends which we enjoyed in 1994 was absent this year. The reorganisation of our North American portfolio in the previous financial year, to favour capital growth rather than immediate income, combined with the weakness of the US dollar, meant a sharp fall in our revenue from that region.

Interest costs rose as a result of additional borrowing, and administrative expenses were slightly higher. However the tax charge was lower due to the utilisation of deferred tax to offset the provision for irrecoverable advance corporation tax

made last year. Revenue after taxation rose by 5.4% over the year, and earnings per share increased from 3.26p per share to 3.44p.

Total expenses as a percentage of gross revenue and of shareholders' funds are shown below. They include the element of the management fee (50%) that is charged to capital.

TOTAL EXPENSES (*expressed as a percentage*)

	1995	1994
Gross revenue	9.8%	8.9%
Shareholders' funds	0.7%	0.6%

After payment of the proposed final dividend, revenue reserves will be increased by £229,000 to £2.6m.

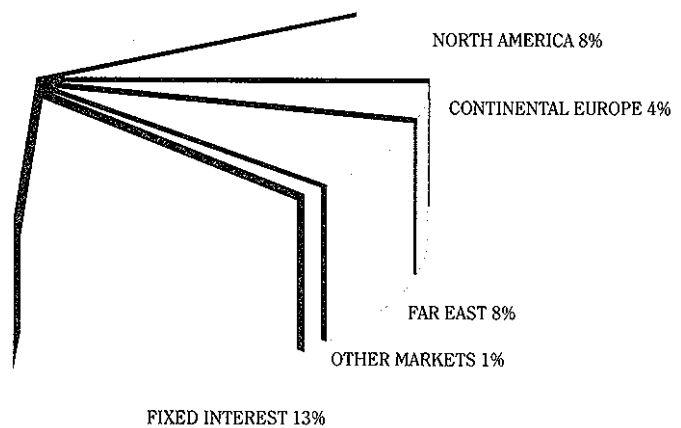
OUTLOOK

1995 should be another year of global economic growth. The USA and UK are expected to grow more modestly as the year progresses, under the influence of higher interest rates, but we do not expect either to move into recession. Their stockmarkets are on reasonable valuations, well supported by rising profits and dividends. We expect a further recovery in the gilt market over the next six months, and may use that opportunity to reduce our holdings and rebuild the overseas part of the portfolio.

PORTFOLIO DISTRIBUTION

EQUITIES	1995	1994
United Kingdom	66%	64%
North America	8%	10%
Continental Europe	4%	6%
Far East	8%	10%
Other markets	1%	1%
FIXED INTEREST		
United Kingdom	9%	5%
Overseas	4%	4%

UNITED KINGDOM 66%



LARGEST HOLDINGS

	<i>% of market value of total portfolio</i>	<i>Cumulative %</i>
GLAXO	2.4	
BANK OF SCOTLAND*	2.4	
BRITISH TELECOMMUNICATIONS	2.3	
MACDONALD MARTIN DISTILLERIES	2.1	
SHELL TRANSPORT & TRADING	2.0	11.2
<hr/>		
COMMERCIAL UNION**	2.0	
TREASURY 8% STOCK 2009	1.6	
LONDON ELECTRICITY	1.4	
POWERGEN	1.3	
REPUBLIC OF ITALY 11% BOND 2003	1.3	18.8
<hr/>		
SCOTTISH & NEWCASTLE	1.3	
NORTH WEST WATER	1.3	
GREAT UNIVERSAL STORES	1.2	
ESCOM 11% BOND 2007	1.2	
GENERAL ELECTRIC	1.2	25.0
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THORN EMI	1.2	
BTR	1.2	
BRITISH GAS	1.2	
ALLIED DOMECQ	1.2	
GRANADA GROUP	1.1	30.9
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UNILEVER	1.1	
CABLE & WIRELESS	1.1	
UNITED NEWSPAPERS	1.1	
TREASURY 8% STOCK 2003	1.1	
BAT INDUSTRIES	1.1	36.4

* Ordinary and 9¼% preference shares

** 8⅜% preference shares

UK PORTFOLIO REVIEW

PERFORMANCE

The positive factors of low domestic inflationary pressures and strong company profits, reflecting both the benefits of cost cutting in earlier years and recent stronger economic growth, were largely ignored by investors during the year. Instead concern over rising UK interest rates capped a sustained recovery in share prices from the lows seen early in 1994. Despite low inflation and a much reduced government funding requirement gilt yields fell sharply, though there was some improvement in the first quarter of 1995, allowing equities to finish the year on a stronger note. Over the 12 months, the FT-SE-A All-Share Index fell by 1.5%.

Our UK equity portfolio underperformed the FT-SE-A All-Share Index, falling by 4.0%. Our holdings in the poor performing building materials, housebuilding, property and textiles sectors were particularly damaging. With uncertainty surrounding the extent of US interest rate rises, economy-sensitive stocks such as these were severely derated, although in most cases earnings and dividend growth came through strongly.

We suffered in comparison to the FT-SE-A All-Share Index through having a relatively modest exposure to the regional electricity companies over 1994 but the recent impact of the regulator's policy change has favoured our more cautious view towards utilities as another election draws nearer.

The oil and pharmaceutical sectors were the best performers over the year and our investments in Shell Transport & Trading, Glaxo and SmithKline Beecham contributed positively, as did our food manufacturing and retailing stocks, with Unilever and J. Sainsbury moving strongly ahead. Takeover bids resulted in strong gains in the shares of Northern Electric and the naval shipbuilder VSEL.

ANALYSIS

During the year we invested a net £40.8m in the UK, £27.9m into equities and £12.9m into gilts and corporate debentures.

New holdings included J. Sainsbury, Reckitt & Coleman, British Airways, and, in the smaller company sector, Watson & Philip and Forth Ports.

A feature of the second half of the year was the rebuilding of our low position in the financial sector through purchases of Bank of Scotland, National Westminster Bank, Lloyds Abbey Life and HSBC, partly funded by successful sales of Lloyds Bank and TSB. In the utility sector we bought Northern

Electric and subsequently sold it following the takeover bid by Trafalgar House, reinvesting in London Electricity. Attracted by the yield on the Powergen partly-paid issue, we switched some of our ordinary shares into the partly-paid and added to this position following the initial price fall. We added to our holding in British Telecom following a lengthy period of underperformance.

We have maintained large holdings in the preference share issues of Bank of Scotland, Commercial Union and General Accident. The relaxing of the PEP rules proposed in the Budget gave these, and indeed our convertible and debenture holdings, a useful boost, compensating for the declines in the first half of the year.

We disposed of our entire holdings in Harrison & Crosfield, Smith & Nephew, Inchcape, and Scottish Hydro-Electric where we were concerned about the trading prospects and relatively poor dividend growth. We reduced our large holding in Macdonald Martin Distilleries after a year of substantial recovery in the company's fortunes and in its share price.

OUTLOOK

The concern over further interest rate rises in the UK seems to us overdone. The British economy is a long way from overheating – growth is being led by exports, while consumer spending is rising only modestly. Sterling's weakness and rising input prices may lead the Bank of England to raise rates again, but this has been discounted in the equity and gilt markets, while the fall in the currency is strengthening the competitive advantages of British manufacturing industry.

Growth in profits and dividends is surpassing investors' expectations and forecasts for 1995 have been raised. Companies continue to generate cash and to improve their dividend cover, and current forecasts in the market are for dividend growth of 10% in the coming year. Takeover activity is likely to continue, providing further impetus for share prices and additional liquidity, as in the case of Glaxo's recent acquisition of Wellcome.

The relationship with the gilt market has improved. The stockmarket is not expensive, and its valuation compares favourably with those of the other major markets. We expect that share prices will continue to recover, with some broadening out from the recent leadership by the large FTSE 100 companies.

UK PORTFOLIO REVIEW

LARGEST HOLDINGS

(These represent 34% of the total UK portfolio which comprises 76 equity and 17 fixed interest holdings)

Glaxo (£7,695,000)
Pharmaceuticals

Bank of Scotland* (£7,582,000)
Bank

British Telecommunications (£7,244,000)
Telephone utility

Macdonald Martin Distilleries (£6,718,000)
Whisky distiller

Shell Transport & Trading (£6,381,000)
International oil company

Commercial Union** (£6,315,000)
Insurance

Treasury 8% Stock 2009 (£4,989,000)
Government bond

London Electricity (£4,371,000)
Electric utility

Powergen (£4,032,000)
Electricity generator

Scottish & Newcastle (£3,983,000)
Beer, pubs and holiday villages

North West Water (£3,975,000)
Water utility

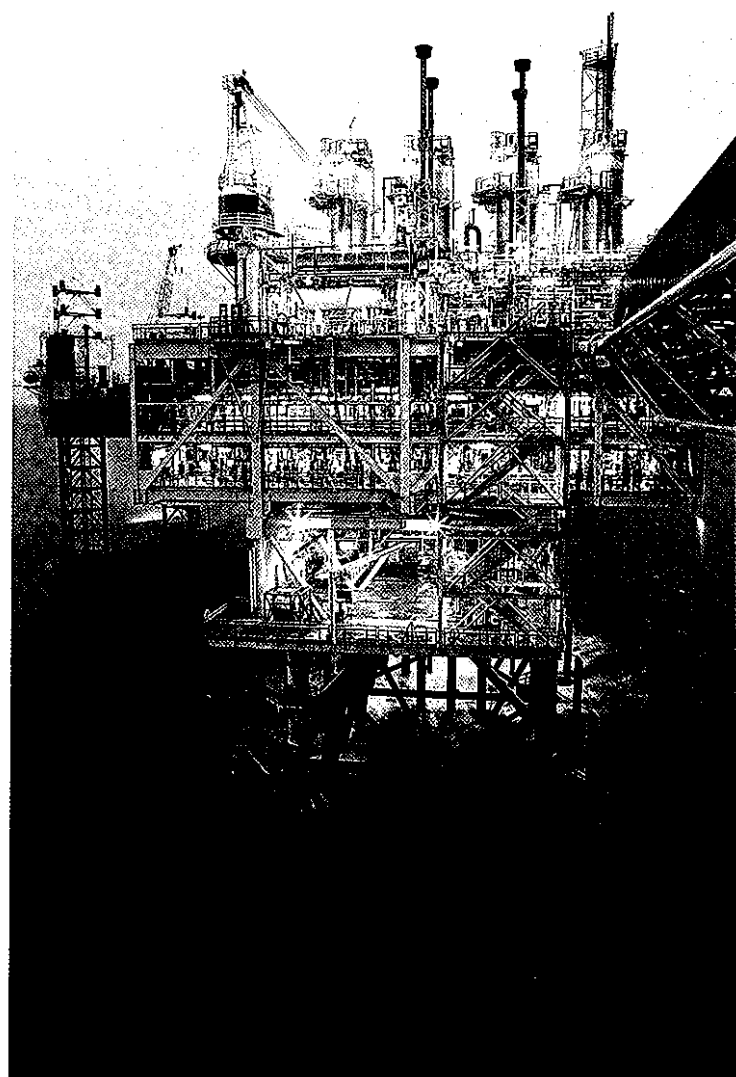
Great Universal Stores (£3,924,000)
Burberry and Scotch House stores, mail order and consumer finance

General Electric Company (£3,842,000)
Electronics, power generation equipment and defence systems

Thorn EMI (£3,836,000)
Publishing and distribution of recorded music, and rental of television sets

BTR (£3,810,000)
Industrial holding company

British Gas (£3,725,000)
Gas utility



The Rough field in the North Sea produces gas for the British Gas system.

* Ordinary and 9¼% preference shares

** 8⅞% preference shares

NORTH AMERICAN PORTFOLIO REVIEW

PERFORMANCE

Our North American portfolio appreciated by 3.9% over the year. This compares with a rise of 12.3% in the Standard & Poors Composite Index, or 2.4% when adjusted for the 8.9% fall in the US dollar against sterling. In Canada, where our only investment at present is in a government bond, shares did less well, the Toronto Stock Exchange Index falling by 0.4%, and by 10.5% in sterling terms.

The US stockmarket proved to be remarkably resilient in the face of rising short-term interest rates and a weak bond market, and traded within a fairly tight range for most of the year. Recently, however, the economic data have been indicating a slowdown in economic activity, raising hopes that the interest rate cycle might be nearing its peak. The equity market therefore finished on a strong note, supported by a firm bond market.

The sectors which performed best during the year included many of the worst-performing ones from the previous year, notably, for our portfolio, healthcare and tobacco. For both of these industries, the legislative environment has improved. Hillary Clinton's health care initiative foundered and seems likely to be permanently deferred, while the tobacco companies put up a strenuous defence against class action suits in the courts. Our holdings in Bristol Myers and Philip Morris appreciated strongly. Elsewhere Intel (in the technology sector) and Walt Disney also benefited from better investor recognition of their good prospects.

ANALYSIS

We withdrew a net £5.3m from North America during the year, reducing the proportion of the company's assets invested there to 8.4% from 9.5% at 31 March 1994. This reflected our concern that share prices would find it difficult to make headway against a background of rising interest rates, and indeed, until recently, this was the case. We reduced our positions in the real estate, banking and consumer spending sectors which are vulnerable to higher interest rates.

We made new investments in Union Pacific, operator of one of the most extensive railroad systems in North America, and Archer-Daniels-Midland, a leading processor of agricultural commodities. Having sold our holding in Texaco earlier in the year, we have recently reinvested in this company at a

lower price, encouraged that the global economic recovery will improve the outlook for energy prices. We took advantage of an opportunity to purchase a holding in the media company Viacom when its share price was unduly depressed by arbitrage activity, following its takeover of Paramount and its merger with Blockbuster Entertainment. Having sold it at a profit, we used the proceeds to invest in Kemper Corporation, whose share price had fallen sharply, following the lapsing of bids from General Electric and Conesco, to a level which in our view failed to reflect the true asset value of the company; since the end of the year this view has been confirmed by an agreed offer from Zurich Insurance.

In January we made an investment in the Canadian bond market in the belief that the Liberal government is committed to a reduction of public spending and a restoration of order to the country's weakening finances. The investment was made after an attack by foreign investors had taken down both the bond market and the Canadian dollar, and before the Federal budget in February lifted confidence once again.

OUTLOOK

The US has enjoyed a sustained period of economic growth which has been slowed but not halted by a year of higher interest rates. Inflation appears to be under control, and the slowing momentum of the economy suggests that short-term interest rates are now near their peak, although with industry operating at close to full capacity the Federal Reserve may not yet be ready to lower rates and indeed may raise them another one or two times.

Investors are clearly expecting a 'soft landing' for the economy and share prices may be vulnerable to disappointment in the short-term. Nevertheless share valuations are already quite modest, and the prospect of further good growth in profits – the result of higher productivity and the very competitive position that a low dollar gives US manufacturing industry – should restrict the extent of any downward correction. Dividend growth continues to be strong, reflecting the increase in corporate cash flow, although some of this is being returned to shareholders in the form of share buybacks rather than by direct dividend increases.

NORTH AMERICAN PORTFOLIO REVIEW



Distribution of Bristol-Myers Squibb health care products in Moscow.

LARGEST HOLDINGS

(These represent 90% of the total North American portfolio which comprises 25 holdings)

Bristol-Myers Squibb (£2,393,000)

Pharmaceuticals and consumer healthcare products

Government of Canada 6.5% Bond 2004 (£1,922,000)

Government Bond

Intel (£1,688,000)

Semiconductor manufacturer

Marsh & McLennan Companies (£1,674,000)

Insurance broking

Colgate-Palmolive (£1,621,000)

Detergents, soap, toothpaste and other personal care products

Freeport McMoRan (£1,620,000)

Copper, gold and fertiliser producer

Schlumberger (£1,537,000)

Oil and gas drilling services

Eastman Kodak (£1,504,000)

Manufacturer of photographic film

Union Pacific (£1,412,000)

Railways, trucking and oil and gas production

Sears Roebuck (£1,314,000)

Retailing and insurance

Archer-Daniels-Midland (£1,313,000)

Processing of agricultural commodities

General Electric (£1,280,000)

Electrical and electronics manufacturing, TV broadcasting and financial services

Dean Witter, Discover (£1,249,000)

Credit cards and stockbroking

Walt Disney Company (£1,225,000)

Film production and theme parks

Kemper (£1,165,000)

Insurance and stockbroking

Philip Morris Companies (£1,084,000)

Tobacco, beer and food

FAR EASTERN PORTFOLIO REVIEW

PERFORMANCE

After the strong returns in 1993 this was a year of retreat for investors in Asia. Our portfolio fell in value by 11.2%, which compares with a decline of 8.0% in the FT-A Pacific Basin (ex Japan) Index. The main reason for the poor performance of the region's stockmarkets was the steady rise in US (and thus, local) interest rates, which had an adverse impact on these liquidity-driven markets, while a general disenchantment with emerging stockmarkets contributed to the selling pressure. Currency moves also had a negative effect, as the US dollar depreciated by 8.9% against sterling and most Asian currencies are dollar-linked. The only markets to give a positive return in sterling terms were Taiwan, South Korea and New Zealand.

In Japan, where for most of the year we had almost no exposure, the Tokyo Stock Exchange Index fell by 16.3%, and by 9.3% when adjusted for the appreciation of the yen. Despite a modest recovery in economic activity, and a particularly strong improvement in the profits of manufacturing industry, the mood of local investors remained negative for most of the year, not least in the final quarter after the disruption caused by the Kobe earthquake.

ANALYSIS

At 31 March 1995 the region accounted for 7.6% of the total portfolio, down from 9.8% at the end of the previous year.

ALLOCATION OF FAR EASTERN PORTFOLIO

	At 31 March 1995 %	At 31 March 1994 %
Australia	12	24
Hong Kong	36	66
India	9	-
Japan	9	1
Malaysia	13	9
Singapore	14	-
Taiwan	7	-
	<hr/> 100	<hr/> 100

We made net sales amounting to £9.9m during the year, mainly in Hong Kong property companies, where we realised significant profits, and in Australia. Our Hong Kong portfolio is now concentrated on industrial conglomerates - Hutchison Whampoa and Swire Pacific - which have less

significant property interests, and on the international bank HSBC. In Australia we added a holding in the natural resources sector through Broken Hill Proprietary, having disposed of our banking and insurance investments. The geographical distribution of the portfolio was broadened, with new investments being made in Singapore, Malaysia and, through mutual funds, India and Taiwan.

We re-entered the Japanese market in March at a time when the Tokyo Stock Exchange Index had sunk to its lowest level since August 1992, investing through a mutual fund with a diversified portfolio of Japan's best companies.

OUTLOOK

Despite the poor recent performance of its stockmarkets Asia remains the most dynamic economic region in the world, even without the additional impetus to regional trade that will come from the development of China and India, in which resides one quarter of the world's population. For the time being, however, share prices will continue to be influenced by investors' perceptions of the US interest rate cycle. We are likely to increase our investments in the region over the next six months, but believe that prices may move lower in the meantime.

The immediate outlook for the Tokyo market is also uncertain, though in Japan's case the problem is the pressure that the yen's rise is putting on industry's margins. This has brought the share price of some excellent companies, for example in the technology sector, down to historically low valuations. Though constrained somewhat by the meagre dividends that we will receive, we intend to take the opportunity to build up our investment in the coming months.

FAR EASTERN PORTFOLIO REVIEW



Genting's resort hotel in the Highlands region of Malaysia.

LARGEST HOLDINGS

(These represent 78% of the total Far Eastern portfolio which comprises 16 holdings)

Hutchison Whampoa (Hong Kong)

Container terminals in Hong Kong and Southern China, telecommunications and retailing

£2,261,000

Broken Hill Proprietary (Australia)

Iron ore and coal mining, oil and gas production, and steel

£2,134,000

Indian Opportunities Fund

Country fund

£2,116,000

Martin Currie Japan Fund

Country fund

£2,111,000

United Overseas Bank (Singapore)

Bank

£1,827,000

Singapore Press Holdings (Singapore)

English language publisher

£1,767,000

HSBC Holdings (Hong Kong)

Holding company for banks in the Far East, USA and UK

£1,735,000

Swire Pacific (Hong Kong)

Air transport (Cathay Pacific) and residential property development

£1,633,000

Genting (Malaysia)

Hotels and casinos

£1,620,000

Sun Hung Kai Properties (Hong Kong)

Property development and investment

£1,571,000

OTHER COUNTRIES - LARGEST HOLDINGS

Escom 11% Bond 2007 (South Africa)

Electric utility

£3,861,000

Liberty Life 6 1/2% Convertible Bond (South Africa)

Life assurance company with strategic shareholdings in leading South African companies

£2,051,000

CONTINENTAL EUROPEAN PORTFOLIO REVIEW

PERFORMANCE

After the strong gains in 1993, share prices in Continental European markets performed less well in the past year, and the sterling-based FT-A Europe (ex UK) Index declined by 3.1%. The best returns were in Sweden, Ireland and The Netherlands, and the worst in Italy, Spain and Austria. In Germany the DAX Index fell by 9.9% and in France the CAC 40 Index by 10.7%.

The rise in interest rates in the USA led to a decline in European bond markets, and against this background it was difficult to justify equity valuations, even though economies were generally improving and there were some positive political developments. These included the re-election of Chancellor Kohl's coalition government in Germany and the vote in Sweden and Finland to join the European Union.

Our Continental European equity portfolio fell by 3.7% during the year.

ANALYSIS

We reduced our position in the region with net sales of £10.7m, and at 31 March 1995 it represented only 5.9% of the total portfolio, compared with 9.3% at the end of the previous year.

ALLOCATION OF CONTINENTAL EUROPEAN PORTFOLIO

	At 31 March 1995	At 31 March 1994
	%	%
Belgium	5	5
France	19	25
Germany	3	13
Ireland	—	8
Italy	29	23
Netherlands	17	4
Spain	14	11
Sweden	—	5
Switzerland	13	6
	<u>100</u>	<u>100</u>

During the year our equity portfolio was concentrated in The Netherlands, Switzerland and France. We held only a small position in Germany where we judged the stockmarket to be overvalued despite a strong recovery in corporate profits. We cut back on our holdings in Scandinavia as we became increasingly concerned about spiralling budget deficits and increased inflationary expectations.

We reduced our exposure to cyclical industries which had performed well but seemed likely to experience a deterioration of profit growth. We sold our holdings in DSM (chemicals), Fiat, the French building materials company Imetal, and the cement producers Lafarge and Holderbank, the latter before a sharp fall in its share price as investors focused on the negative impact of its extensive Latin American activities. We also sold several of our banking, insurance and utility investments – Deutsche Bank, Bayerische Hypotheken Bank, Bank of Ireland, Axa and Electrabel. Part of the proceeds of these sales were re-invested in companies with more steady and sustainable profits growth – Roche (pharmaceuticals), Nestlé (food manufacturing), and the Italian telephone utility Telecom Italia.

Our holdings of government bonds in Italy and Spain had a negative impact on our performance during the year, but we have retained them in the belief that economic reforms, particularly in Italy, will lead to an improvement in the public finances of both countries. In the meantime they are generating a high stream of income.

OUTLOOK

Continental European economies are expected to continue their steady improvement in 1995, though high levels of unemployment will limit the extent of any recovery in consumer expenditure. The recent rise in the deutschemark may put some pressure on Germany's exports, but will be very beneficial for companies elsewhere in Europe that supply the German market. The presidential election in France should be a catalyst for an improvement in investor confidence in that country. However, at the present time we are not considering an increase in our investments in the region.

CONTINENTAL EUROPEAN PORTFOLIO REVIEW

LARGEST HOLDINGS

(These represent 77% of the total Continental European portfolio which comprises 17 holdings)

Republic of Italy 11% Bond 2003 (Italy)

Government bond

£4,185,000

Government of Spain 10.5% Bond 2003 (Spain)

Government bond

£1,882,000

Elf Aquitaine (France)

International oil company

£1,204,000

Wolters Kluwer (Netherlands)

Specialist publisher

£1,048,000

Internationale Nederlanden (Netherlands)

Insurance and banking group

£1,028,000

Société Générale de Banque (Belgium)

Bank

£1,025,000

Saint-Gobain (France)

Building materials

£995,000

Roche Holdings (Switzerland)

Pharmaceuticals

£963,000

KLM Royal Dutch Airlines (Netherlands)

Airline

£947,000

Telecom Italia (Italy)

Telephone utility

£912,000



KLM aircraft on the tarmac at Schipol Airport in Amsterdam.

CLASSIFICATION OF INVESTMENTS

At 31 March 1995

	UK %	North America %	Far East %	Continental Europe %	Others %	1995 Total %	1994 Total %
MINERAL EXTRACTION							
Extractive industries	0.8	0.5	0.7	—	—	2.0	2.0
Oil, integrated	2.0	0.3	—	0.4	—	2.7	2.7
Oil exploration and production	—	0.5	—	—	—	0.5	1.2
	2.8	1.3	0.7	0.4	—	5.2	5.9
GENERAL INDUSTRIALS							
Building & construction	0.9	—	—	—	—	0.9	0.5
Building materials & merchants	2.7	—	—	—	—	2.7	4.7
Chemicals	0.7	—	—	—	—	0.7	1.0
Diversified industrials	4.1	—	1.2	0.3	—	5.6	6.0
Electronic & electric equipment	2.5	0.5	—	0.4	—	3.4	2.4
Engineering	1.3	—	—	—	—	1.3	1.7
Engineering, vehicles	—	—	—	0.2	—	0.2	0.4
Paper, packaging & printing	0.8	—	—	—	—	0.8	0.8
Textiles & apparel	0.5	—	—	—	—	0.5	0.5
	13.5	0.5	1.2	0.9	—	16.1	18.0
CONSUMER GOODS							
Breweries	1.3	—	—	—	—	1.3	1.6
Spirits, wines & ciders	3.3	—	—	—	—	3.3	2.8
Food producers	3.5	0.4	—	0.3	—	4.2	3.9
Household goods	0.8	0.5	—	—	—	1.3	0.6
Healthcare	—	—	—	—	—	—	0.6
Pharmaceuticals	3.4	0.8	—	0.3	—	4.5	4.1
Tobacco	1.1	0.3	—	—	—	1.4	2.2
	13.4	2.0	—	0.6	—	16.0	15.8
SERVICES							
Distributors	1.2	—	—	—	—	1.2	2.1
Leisure & hotels	3.9	0.4	—	—	—	4.3	4.2
Media	1.8	—	0.6	0.3	—	2.7	2.5
Retailers, food	2.6	—	—	—	—	2.6	0.8
Retailers, general	1.2	0.6	—	—	—	1.8	3.7
Support services	—	—	—	—	—	—	—
Transport	1.7	0.5	—	0.3	—	2.5	2.6
Other services & business	0.2	0.9	—	—	—	1.1	1.2
	12.6	2.4	0.6	0.6	—	16.2	17.1
UTILITIES							
Electricity	3.3	—	—	—	—	3.3	6.7
Gas distribution	1.1	—	—	—	—	1.1	1.8
Telecommunications	3.4	—	1.0	0.3	—	4.7	3.4
Water	1.3	—	—	0.2	—	1.5	1.1
	9.1	—	1.0	0.5	—	10.6	13.0
FINANCIALS							
Banks, retail	5.4	—	1.1	0.6	—	7.1	7.2
Banks, merchant	—	—	—	—	—	—	—
Insurance	3.8	0.5	—	—	—	4.3	6.0
Life assurance	0.9	0.4	—	—	0.7	2.0	0.3
Other financial	1.4	0.5	1.9	0.3	0.4	4.5	2.7
Property	1.8	0.2	1.1	—	—	3.1	5.6
	13.3	1.6	4.1	0.9	1.1	21.0	21.8
INVESTMENT TRUSTS							
	1.6	—	—	—	—	1.6	—
Total equities (including convertible stocks) ¹	66.3	7.8	7.6	3.9	1.1	86.7	91.6
Fixed interest	9.5	0.6	—	2.0	1.2	13.3	8.4
TOTAL PORTFOLIO	75.8	8.4	7.6	5.9	2.3	100.0 ²	—
TOTAL PORTFOLIO (1994)	69.3	9.5	9.8	9.3	2.1	—	100.0

Notes: ¹ Convertibles amounted to 8.1% (1994 - 7.8%)

² The value of 100% is £316,840,000 (1994 - £329,496,000)

ADDITIONAL INFORMATION

SHAREHOLDERS

At 31 March 1995 there were 18,745 ordinary shareholders on the main register and a further 5,378 participants in the Martin Currie Savings Plan. These 24,123 holders can be analysed as follows:

	% of share- holders	% of equity capital
Individuals and trustees	80.1	48.1
Insurance and investment companies	0.5	3.7
Banks and nominee companies	14.9	38.7
Other holders	4.5	9.5
	100.0	100.0

The company has been notified of the following interest in its ordinary share capital:

<i>Bank of Scotland SP Nominees Ltd</i>	7.34%
<i>(Martin Currie Savings Plan)</i>	

TAX STATUS

The company has been approved as an investment trust by the Inland Revenue under Section 842 of the Income and Corporation Taxes Act 1988 up to 31 March 1994 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 31 March 1982 values of the company's shares are:

Ordinary 25p	13.81p
Preference (per £100 stock)	£29.50p

PUBLICATION OF SHARE PRICE AND PERFORMANCE STATISTICS

The price of the company's ordinary shares appears daily in *The Scotsman*, *The Herald*, *The Daily Telegraph*, *The Times*, *The Independent*, and *The Financial Times*. Real-time share price information can be obtained on the FT Cityline by dialling 01836 433977.

Estimated net asset values are printed daily in *The Daily Telegraph* and *The Financial Times*. Net asset value and share price performance statistics are also available from:

The Association of Investment Trust Companies
Durrant House
8-13 Chiswell Street
London EC1Y 4YY
Tel: 0171-588 5347

FINANCIAL CALENDAR

April	Year-end figures announced
May	Annual report issued
June	Annual general meeting
July	Final dividend on ordinary shares
September	Half-year preference dividend
October	Interim figures announced
November	Interim report issued
December	Interim dividend on ordinary shares
March	Half-year preference dividend

Securities Trust of Scotland is a member of the
Association of Investment Trust Companies

REPORT OF THE DIRECTORS

The directors submit the accounts of the company for the year ended 31 March 1995. A review of the company's activities during the year is contained in the chairman's statement and managers' reviews. The managers' reviews include all the information recommended for inclusion in an Operating and Financial Review (OFR).

REVENUE

Gross income for the year was £19,383,000 compared to £18,899,000 last year. Earnings per share increased from 3.26p to 3.44p.

DIVIDENDS ON ORDINARY SHARES

An interim dividend of 1.08p per share was paid on 16 December 1994. The directors recommend payment of a final dividend of 2.29p which makes a total for the year of 3.37p (1994 - 3.25p). The dividend is payable on 3 July 1995 to shareholders on the register on 2 June 1995.

VALUATION

At the year end the total net assets attributable to ordinary shares were £269,982,000 compared with £288,642,000 in 1994. Based on this figure, the net asset value per ordinary share was 84.3p compared with 90.1p last year.

DIRECTORS

Directors are appointed for specific terms subject to their election or re-election being approved by shareholders. Directors' shareholdings are shown in note 20 on page 30.

David Birrell retired in December 1994 and he was succeeded as chairman by David Whitaker, who joined the board in April 1994. Richard Cole-Hamilton retires from the board by rotation and, being eligible, offers himself for re-election.

During the year the company maintained liability insurance for its directors.

MANAGERS AND SECRETARIES

At 31 March 1995, Martin Currie Investment Management Ltd ("MCIM") were employed under contract as managers and secretaries of the company. The terms of the contract currently provide that MCIM are appointed until 31 March 1998 at a basic annual remuneration which, in the year under review, was calculated on a quarterly basis at the rate of 0.40% of the average of the last eight quarterly net asset values of the company (after adding back prior charges).

Investment in 'in-house' funds managed by MCIM are excluded when calculating the management fee charged to Securities Trust.

An additional sum was paid by the company to finance a share of the costs of the Martin Currie Savings Plan. In the year under review, this amounted to £146,000.

Michael Kennedy is interested in this contract as a director of MCIM and as a shareholder in its parent company Martin Currie Ltd.

CORPORATE GOVERNANCE

The board, which meets regularly throughout the year with the managers, maintains overall control of the direction, strategy and performance of the company. Four of its present five directors are independent non-executive directors.

An audit committee with written terms of reference comprising all non-executive directors, with the exception of Michael Kennedy, has met twice during the year and has reported back to the full board.

The directors, after making suitable enquiries, are satisfied that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the accounts.

The Cadbury Committee on the Financial Aspects of Corporate Governance recommends that listed companies should state within their report and accounts their degree of compliance with the Code of Best Practice published by the Committee. The directors have considered the code and, where necessary, taken action to ensure that the company follows the recommendations therein so far as currently in force.

The foregoing statement has been reviewed by the auditors in accordance with guidance issued by the Auditing Practices Board. The auditors have confirmed that the directors' comments on going concern are consistent with the information of which they are aware based on their normal audit work on the accounts and have satisfied themselves that the statement appropriately reflects the company's compliance with the other specific matters required by the Code which, under the listing requirements of the London Stock Exchange, should be reviewed by the auditors.

Continued

Chiene & Tait, CA, will be proposed for re-appointment as auditors in accordance with section 385 of the Companies Act 1985.

The company complies with the EU equities rule and is therefore eligible for an investment of up to £6,000 in a personal equity plan. It is the present intention of the directors that the company will continue to satisfy this requirement.

M. J. F. H. /

By order of the board
Martin Currie Investment Management Ltd, *Secretaries*
Edinburgh, 15 May 1995

The directors are required by UK company law to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the revenue for the year.

The accounts have been prepared on the going concern basis. Suitable accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, have been used in the preparation of the accounts. Applicable accounting standards have been followed.

The directors are also responsible for maintaining adequate accounting records, which enable them to ensure that they comply with the Companies Act 1985, for safeguarding the assets of the company and for taking reasonable steps for preventing and detecting fraud and other irregularities.

To the members of Securities Trust of Scotland plc

We have audited the financial statements on pages 22 to 30 which have been prepared on the basis of the accounting policies set out on page 26.

As described above the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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 financial statements.

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 March 1995, and of its net revenue and statement of cash flow for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chino — and on

Chiene & Tait
Chartered Accountants
Registered Auditors
Edinburgh, 15 May 1995

REVENUE ACCOUNT

Year ended 31 March 1995

	Note	1995	1994
		£000	£000
INCOME FROM INVESTMENTS	2		
Franked		11,180	9,877
Foreign income dividend		198	—
Unfranked			
United Kingdom		2,942	4,202
North America		957	1,734
Other foreign		<u>4,106</u>	<u>3,086</u>
		<u>8,005</u>	<u>9,022</u>
		19,383	18,899
INTEREST PAYABLE	3	4,114	3,773
ADMINISTRATIVE EXPENSES	4	<u>1,185</u>	<u>1,073</u>
		5,299	4,846
REVENUE BEFORE TAXATION		14,084	14,053
TAXATION	5	<u>2,970</u>	<u>3,507</u>
		11,114	10,546
DIVIDENDS			
On preference stock		90	90
On ordinary shares	6	<u>10,795</u>	<u>10,410</u>
		10,885	10,500
TRANSFERRED TO REVENUE RESERVE	16	<u>229</u>	<u>46</u>
EARNINGS PER ORDINARY SHARE	7	<u>3.44p</u>	<u>3.26p</u>

BALANCE SHEET

Year ended 31 March 1995

	Note	1995 £000	1994 £000
FIXED ASSETS			
INVESTMENTS AT MARKET VALUE	8 & 9		
Listed on The Stock Exchange in the UK		237,172	227,369
Listed on Stock Exchanges abroad		75,454	99,790
Unlisted at directors' valuation		4,214	2,337
		<u>316,840</u>	<u>329,496</u>
CURRENT ASSETS			
Debtors	10	7,443	7,668
Cash at bank	11	4,283	2,876
		<u>11,726</u>	<u>10,544</u>
CREDITORS			
Amounts falling due within one year	12	(30,589)	(23,306)
NET CURRENT LIABILITIES		<u>(18,863)</u>	<u>(12,762)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		297,977	316,734
CREDITORS			
Amounts falling due after one year			
Debentures	13	(25,000)	(25,000)
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred tax	14	(152)	(249)
TOTAL ASSETS ATTRIBUTABLE TO SHARE CAPITAL		<u>272,825</u>	<u>291,485</u>
CAPITAL AND RESERVES			
Called up preference capital – non-equity	15	2,843	2,843
Called up ordinary capital	15	80,080	80,080
Capital reserve	16	187,280	206,169
Revenue reserve	16	2,622	2,393
EQUITY SHAREHOLDERS FUNDS		<u>269,982</u>	<u>288,642</u>
		<u>272,825</u>	<u>291,485</u>
NET ASSET VALUE PER ORDINARY SHARE	7	<u>84.3p</u>	<u>90.1p</u>


SIR RONALD MILLER, DIRECTOR

THE ACCOUNTS WERE APPROVED BY THE BOARD ON 15 MAY 1995

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 March 1995

	Note	1995	1994
		£000	£000
CAPITAL PROFIT ON INVESTING ACTIVITIES			
Realised gains		29,150	36,563
Unrealised losses		<u>(47,443)</u>	<u>(17,948)</u>
		(18,293)	18,615
CURRENCY TRANSACTIONS			
Realised losses		(124)	(374)
OTHER CAPITAL CHARGES AND CREDITS		<u>(472)</u>	<u>(281)</u>
		(596)	(655)
CAPITAL (DEFICIT)/SURPLUS FOR THE YEAR		(18,889)	17,960
REVENUE AVAILABLE FOR DISTRIBUTION		<u>11,114</u>	<u>10,546</u>
TOTAL RECOGNISED (LOSSES) AND GAINS FOR THE YEAR		<u>(7,775)</u>	<u>28,506</u>
DISTRIBUTABLE PROFITS			
Revenue available for distribution		11,114	10,546
Dividends		<u>(10,885)</u>	<u>(10,500)</u>
Transfer to distributable reserves		229	46
NON-DISTRIBUTABLE PROFITS			
Transfer (from)/to non-distributable reserves		<u>(18,889)</u>	<u>17,960</u>
MOVEMENT IN SHAREHOLDERS' FUNDS	17	<u>(18,660)</u>	<u>18,006</u>

STATEMENT OF CASH FLOW

Year ended 31 March 1995

	Note	1995	1994
		£000	£000
OPERATING ACTIVITIES			
Net dividends and interest received from investments		15,314	15,400
Interest received from deposits		114	196
Investment management fee		(1,288)	(1,240)
Cash paid to and on behalf of directors		(45)	(56)
Bank charges		(85)	(162)
Exchange losses		(124)	(374)
Other cash payments		(327)	(241)
NET CASH INFLOW FROM OPERATING ACTIVITIES	18	13,559	13,523
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid		(3,779)	(3,913)
Dividends paid		(10,500)	(10,500)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(14,279)	(14,413)
TAXATION			
Corporation tax recovered		405	1,438
ACT paid		(1,010)	(1,441)
NET CASH OUTFLOW FROM TAXATION		(605)	(3)
INVESTING ACTIVITIES			
Payments to acquire investments		(182,953)	(193,383)
Receipts from disposal of investments		175,685	198,407
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES		(7,268)	5,024
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING		(8,593)	4,131
FINANCING			
Repayment of 7% Debenture Stock		-	5,000
Increase in loan capital		(10,000)	-
Increase/(decrease) in cash and deposits	19	1,407	(869)
		(8,593)	4,131

NOTES ON THE ACCOUNTS

1 ACCOUNTING POLICIES

- a) The accounts of the company have been prepared in accordance with applicable accounting standards.
- b) Income from equity investments is determined on the basis of amounts due and payable during the year and includes the full value of enhanced scrip dividends. 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. Enhanced scrip dividends are included with listed investment income. Income from overseas is converted at the rate of exchange ruling at the date of receipt.
- c) Interest receivable and payable and administrative expenses are treated on an accruals basis.
- d) Gains and losses on realisation of investments and exchange adjustments relating to overseas currencies are taken to capital reserve. A proportion of the investment management fee is also taken to capital reserve.
- e) Listed investments are valued at market prices and unlisted investments are valued by the directors on the basis of the latest available information. Foreign currencies are translated at the rates of exchange ruling on the balance sheet date.
- f) Deferred taxation is provided using the liability method on all timing differences to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

2 INCOME FROM INVESTMENTS

	1995		1994
	£000	£000	£000
From listed investments			
Equities	12,445		13,484
Convertibles/fixed interest	6,279		3,415
Enhanced scrip dividends	149		1,314
	<u>18,873</u>		<u>18,213</u>
From unlisted investments			
Equities	198		86
Interest on deposits	122		194
Underwriting commission	185		293
Stock lending commission	2		—
Miscellaneous income	3		113
	<u>19,383</u>		<u>18,899</u>

3 INTEREST PAYABLE

	1995	1994
	£000	£000
On borrowings repayable within five years	1,156	782
On all other borrowings	2,958	2,991
	<u>4,114</u>	<u>3,773</u>

4 ADMINISTRATIVE EXPENSES

include:

Audit fee	9	9
Management fee	704	559

Since 1 April 1991 the basic management fee has been allocated one half to revenue and one half to capital (see note 16).

Directors' fees:

Total	58	56
Former chairman (until December 1994)	9	9
Present chairman (from December 1994)	3	—

The directors' fees fell within the following bands:

	No of directors	No of directors
£0 – £5,000	—	1
£5,001 – £10,000	6	6

NOTES ON THE ACCOUNTS

Continued

9 SUBSTANTIAL SHAREHOLDINGS

At 31 March 1995 the company held 12,500 ordinary shares (25% of the issued capital) of Trustco Finance plc (registered in England). The latest available information in respect of Trustco is as follows:

Principal country of operation	Share and loan capital	Reserves £000	Loss after tax £000
UK	50,000 £1 ordinary (25p paid)	(3)	8
	£40,000,000 11.5% Several Debenture Stock 2016		

Further information is provided in note 13. The directors consider it inappropriate to treat this investment as an associated undertaking because of the nature of its business. No income has been received during the year from this investment. The shares are unlisted and are included in the balance sheet at directors' valuation.

10 DEBTORS

	1995 £000	1994 £000
Interest accrued	1,116	996
Due by brokers	3,420	5,377
Tax recoverable	2,440	1,241
Other debtors	467	54
	<u>7,443</u>	<u>7,668</u>

11 CASH AT BANK

On deposit – short term	1,581	2,325
On other accounts	2,702	551
	<u>4,283</u>	<u>2,876</u>

12 CREDITORS – Amounts falling due within one year

Proposed final dividend	7,336	6,951
Interest accrued	630	295
Due to brokers	2,411	5,999
Other creditors	212	61
Bank loan	20,000	10,000
	<u>30,589</u>	<u>23,306</u>

13 DEBENTURES AND LOANS

Repayable after one year:		
12% Debenture stock 2013	15,000	15,000
11.5% Trustco Debenture Stock 2016	10,000	10,000
	<u>25,000</u>	<u>25,000</u>

NOTES ON THE ACCOUNTS

Continued

5	TAXATION ON REVENUE ACCOUNT	1995	1994
		£000	£000
	Corporation tax at 33% based on the results of the year	829	769
	<i>Less:</i> Double taxation relief	(325)	(404)
	Movement on advance corporation tax write-off provision	(117)	381
	Movement on deferred tax	(97)	138
		<hr/>	<hr/>
		290	884
	<i>Add:</i> Overseas tax	444	418
	Tax on franked income	2,236	2,205
		<hr/>	<hr/>
		2,970	3,507
		<hr/>	<hr/>
 6	 DIVIDENDS ON ORDINARY SHARES		
	Interim of 1.08p (1994 – 1.08p)	3,459	3,459
	Proposed final of 2.29p (1994 – 2.17p)	7,336	6,951
		<hr/>	<hr/>
	Total 3.37p (1994 – 3.25p)	10,795	10,410
		<hr/>	<hr/>
 7	 EARNINGS AND NET ASSET VALUE		
	per ordinary share are calculated on the 320,320,000 shares issued.		
 8	 INVESTMENTS		
	Valuation at 1 April	329,496	310,255
	<i>Less:</i> Unrealised appreciation	(71,132)	(89,080)
		<hr/>	<hr/>
	Cost at 1 April	258,364	221,175
	<i>Add:</i> Additions at cost	179,365	194,589
		<hr/>	<hr/>
		437,729	415,764
	<i>Less:</i> Disposals at cost	(144,578)	(157,400)
		<hr/>	<hr/>
	Cost at 31 March	293,151	258,364
	<i>Add:</i> Unrealised appreciation	23,689	71,132
		<hr/>	<hr/>
	Valuation at 31 March	316,840	329,496
		<hr/>	<hr/>

There are contingent liabilities on investments amounting to £2,287,855 (1994 – £3,435,733).

NOTES ON THE ACCOUNTS

Continued

13 DEBENTURES AND LOANS

Continued

The company's debenture stocks are secured by trust deeds. The articles of association permit the issue of further debenture stocks 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.

The company has borrowed £10,000,000 from Trustco Finance plc, which was formed as a vehicle to raise money by the issue of a "pooled" debenture. The net proceeds of the issue were then lent on to various borrowers. The loan is secured by a floating charge over the assets of the company.

14	DEFERRED TAX	1995 £000	1994 £000
	On short term timing differences	152	249

15 CALLED UP SHARE CAPITAL

	1995		1994	
	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 (non-equity)	2,843	2,843	2,843	2,843
320,320,000 ordinary shares of 25p each (equity)	80,157	80,080	80,157	80,080
	<u>83,000</u>	<u>82,923</u>	<u>83,000</u>	<u>82,923</u>

16	MOVEMENT ON RESERVES	1995 £000	1994 £000
	Capital reserve		
	Realised profit at 1 April	135,037	99,129
	Realised gains in investments during the year	29,150	36,563
	Realised losses on currencies during the year	(124)	(374)
	Capitalised expenses (see note below*)	(472)	(374)
	Prior year tax adjustment	—	93
		<u>163,591</u>	<u>135,037</u>
	Unrealised appreciation on investments at 31 March	23,689	71,132
	Total capital reserve at 31 March	<u>187,280</u>	<u>206,169</u>

**The figure for capitalised expenses includes one half of the basic management fee of £1,253,000 plus VAT which from 1 April 1991 has been allocated to capital reserve, net of the associated tax relief. The proportion allocated is based on an assessment of the activities undertaken by the managers in pursuit of the investment objectives of the company.*

	Revenue reserve		
	As at 1 April	2,393	2,347
	Transfer from revenue account for year	229	46
	Total revenue reserve at 31 March	<u>2,622</u>	<u>2,393</u>

NOTES ON THE ACCOUNTS

Continued

17	RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS			1995	1994			
				£000	£000			
	Revenue available for distribution			11,114	10,546			
	Dividends			10,885	10,500			
				<u>229</u>	<u>46</u>			
	Other recognised gains and losses for year			(18,889)	17,960			
				<u>(18,660)</u>	<u>18,006</u>			
	Net addition to shareholders' funds			291,485	273,479			
	Opening shareholders' funds			<u>272,825</u>	<u>291,485</u>			
	Closing shareholders' funds							
18	RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES							
	Net revenue before interest payable and taxation			18,198	17,826			
	Increase in accrued income			(533)	(264)			
	Increase/(decrease) in creditors			151	(66)			
	Exchange losses			(124)	(374)			
	Capitalised management expenses			(704)	(559)			
	Tax withheld from income on investments			(3,429)	(3,040)			
				<u>13,559</u>	<u>13,523</u>			
	Net cash inflow from operating activities							
19	RECONCILIATION OF MOVEMENTS IN FINANCING TO ASSETS AND LIABILITIES AS SHOWN IN THE BALANCE SHEET			1995	Change	1994	Change	1993
				£000	in year	£000	in year	£000
	Cash at bank			2,702	2,151	551	(346)	897
	Short term deposits			1,581	(744)	2,325	(523)	2,848
				<u>4,283</u>	<u>1,407</u>	<u>2,876</u>	<u>(869)</u>	<u>3,745</u>
20	DIRECTORS' SHAREHOLDINGS			31 March 1995			31 March 1994	
	D A Whitaker	Ordinary shares		5,000			—	
	A R Cole-Hamilton	Ordinary shares		6,000			3,000	
	W M C Kennedy	Ordinary shares		56,000			56,000	
	W M C Kennedy	Preference shares		10			10	
	Sir Ronald Miller	Ordinary shares		4,000			4,000	
	Sir Alick Rankin	Ordinary shares		5,000			5,000	

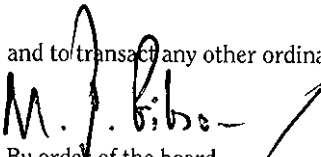
Directors who held office at the end of the year and their shareholdings are shown above. Holdings include beneficial and family interests. There are no non-beneficial interests. There have been no changes in these holdings up to 15 May 1995.

NOTICE OF MEETING

Notice is hereby given that the one hundred and seventh Annual General Meeting of Securities Trust of Scotland plc will be held at Saltire Court, 20 Castle Terrace, Edinburgh EH1 2ES on Thursday 15 June 1995 at 12.30 pm for the purpose of transacting the following business:

- 1 To receive the report of the directors and the accounts for the year ended 31 March 1995;
- 2 To declare a dividend;
- 3 To re-elect A R Cole-Hamilton as a director;
- 4 To re-appoint Chiene & Tait CA as auditors;
- 5 To authorise the directors to fix the remuneration of the auditors for the year ending 31 March 1996;

and to transact any other ordinary business of the company.


By order of the board

Martin Currie Investment Management Ltd

Secretaries

Registered Office

Saltire Court

20 Castle Terrace

Edinburgh EH1 2ES

22 May 1995

NOTES

The report and accounts are circulated to ordinary shareholders, preference stockholders and debenture stockholders of the company, but only holders of ordinary shares are entitled to attend or vote at the meeting.

A member entitled to attend and vote may appoint a proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the company. Proxies to be valid must be lodged at the office of the registrars of the company not less than forty-eight hours before the time of the meeting. A form of proxy is enclosed. Appointment of a proxy will not preclude a member from attending the meeting and voting in person.

Subject to confirmation at the meeting, the ordinary dividend will be payable on 3 July 1995 to ordinary shareholders on the register on 2 June 1995.

The register of directors' shareholdings will be available for inspection at the meeting.

There are no contracts between the company and the directors. A copy of the management contract with Martin Currie Investment Management Ltd, which is referred to in the directors' report, will be available for inspection at the meeting.