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DOMINION-SCOTTISH INVESTMENTS LIMITED



Fifty-Seventh
ANNUAL REPORT
30th September, 1985



DOMINION-SCOTTISH INVESTMENTS LIMITED

(Incorporated under the Canada Business Corporations Act)

DIRECTORS

Douglas T. Bourke
*Business Executive,
Westmount, Quebec*

*Donald E. Dunn, C.A.
*Vice-President/Finance,
Henry Birks & Sons Limited,
Montreal, Quebec*

*George A. Fierheller
*President and Chief Executive Officer,
Cantel Inc
Toronto, Ontario*

R. Alexander Hammond-Chambers
*Chairman,
Ivory & Sime plc,
Edinburgh, Scotland*

Neil B. Ivory
*President and Chief Executive Officer,
Pembroke Management Ltd.,
Montreal, Quebec*

*John S. Lane, CFA
*Senior Vice-President and General
Manager for Canada,
Sun Life Assurance
Company of Canada,
Toronto, Ontario*

*David T. M. Ross, F.C.C.A.
*Director,
Ivory & Sime plc,
Edinburgh, Scotland*

Hugh R. Snyder
*Business Executive
Toronto, Ontario*

*Member of the Audit Committee

ANNUAL MEETING

Wednesday, 11th December, 1985,
10:00 a.m. at 1018 Sun Life
Building, Montreal, Quebec

OFFICERS

Neil B. Ivory
President and Chief Executive Officer

Ian A. Soutar, CFA
Vice-President

A. Scott Taylor, CFA
Vice-President

Richard Haller
Secretary-Treasurer

Cyril F. Reid
Assistant Secretary-Treasurer

MANAGERS AND LOCATION OF EXECUTIVE OFFICES

Pembroke Management Ltd.
1018 Sun Life Building,
1155 Metcalfe Street,
Montreal, Quebec
H3B 2W8
Tel. 514 866-2724

PREFERENCE SHARES LISTED

Toronto Stock Exchange

AUDITORS

Touche Ross & Co.,
Chartered Accountants,
1 Place Ville Marie,
Montreal, Quebec
H3B 2A2

TRANSFER AGENT AND REGISTRAR

The Royal Trust Company,
Toronto-Dominion Centre,
Toronto, Ontario
M5W 1P9

REGISTERED OFFICE

First Canadian Place, 12th Floor,
100 King Street West,
Toronto, Ontario
M5X 1B3

DOMINION-SCOTTISH INVESTMENTS LIMITED

(Incorporated under the Canada Business Corporations Act)

TO THE SHAREHOLDERS:

NET ASSET VALUE

At 30th September, 1985, net assets amounted to \$99.6 million. Net asset value per common share rose to \$135.18 at 30th September, 1985, from \$107.25 a year ago, an increase of 26%. During the same period The Toronto Stock Exchange 300 Composite Stock Index and the Standard & Poor 500 Composite Stock Index rose 10% and 9.6% respectively.

INCOME AND DIVIDENDS

For the year ended 30th September, 1985, net income available for payment of dividends on the 60,000 preference shares outstanding amounted to \$1,761,234 which was 11.7 times the preference dividend requirement of \$150,000.

Net income available for the common shares was equivalent to \$2.26 per share. An interim dividend of \$0.80 was paid on 31st May, 1985, and a further dividend of \$0.90 per common share was declared, payable on 28th November, 1985, to shareholders of record at the close of business on 18th November, 1985.

OUTLOOK FOR 1986

North American stock markets are currently in a period of consolidation following the strong rise experienced

earlier in 1985. Concerns stem principally from the large fiscal and foreign trade deficits, excessive debt loads that threaten third world countries, farmers and a number of corporations and the possibility of a recession in 1986. Despite these concerns it is believed that a policy of being fully invested in common shares of soundly financed companies exhibiting above average growth will produce satisfactory investment returns over the longer term.

ANNUAL MEETING

The 57th Annual Meeting of the shareholders of the Corporation has been called for Wednesday, 11th December, 1985.

On behalf of the board,

Neil B. Ivory,
President and Chief Executive Officer

Montreal, Quebec,
29th October, 1985.

DOMINION-SCOTTISH INVESTMENTS LIMITED

STATEMENT OF FINANCIAL POSITION

as at 30th September, 1985

	<u>1985</u>	<u>1984</u>
INVESTMENTS (Note 2)	<u>\$99,619,023</u>	<u>\$78,540,215</u>
CURRENT ASSETS		
Cash and term deposits	401,964	417,843
Due from broker	3,630	—
Accrued income on investments	240,273	191,747
Income taxes recoverable	—	594,200
	<u>645,867</u>	<u>1,203,790</u>
CURRENT LIABILITIES		
Accrued expenses	126,855	102,052
Income taxes payable	574,100	—
	<u>700,955</u>	<u>102,052</u>
NET CURRENT (LIABILITIES) ASSETS	<u>(55,088)</u>	<u>1,101,738</u>
NET ASSETS (Note 4)	<u>\$99,563,935</u>	<u>\$79,641,953</u>
REPRESENTED BY		
CAPITAL STOCK		
5% cumulative redeemable (at \$52.50) preference shares of no par value		
Authorized — 76,730 shares		
Issued — 60,000 shares	\$ 3,000,000	\$ 3,000,000
Common shares of no par value		
Authorized — 1,200,000 shares		
Issued — 713,224 shares	<u>2,979,493</u>	<u>2,979,493</u>
	<u>5,979,493</u>	<u>5,979,493</u>
RETAINED EARNINGS	<u>1,721,398</u>	<u>1,180,000</u>
SURPLUS ON CHANGES IN INVESTMENTS (Note 3)	<u>45,561,475</u>	<u>40,973,862</u>
UNREALIZED APPRECIATION OF INVESTMENTS (Note 2) ..	<u>46,301,569</u>	<u>31,508,598</u>
	<u>\$99,563,935</u>	<u>\$79,641,953</u>

On behalf of the Board

Neil B. Way, Director

J. S. Lane, Director

DOMINION-SCOTTISH INVESTMENTS LIMITED

STATEMENT OF INCOME AND RETAINED EARNINGS

for the year ended
30th September, 1985

	<u>1985</u>	<u>1984</u>
INCOME FROM INVESTMENTS.....	\$2,684,155	\$1,976,177
Management expenses	506,463	411,800
Other expenses.....	57,624	52,067
	<u>564,087</u>	<u>463,867</u>
	2,120,068	1,512,310
Income and withholding taxes.....	358,834	222,443
NET INCOME.....	1,761,234	1,289,867
Retained earnings at beginning of year	1,180,000	896,002
	<u>2,941,234</u>	<u>2,185,869</u>
Dividends		
5% preference shares.....	150,000	150,000
Common shares.....	1,069,836	855,869
	<u>1,219,836</u>	<u>1,005,869</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$1,721,398</u>	<u>\$1,180,000</u>
Net income per common share.....	<u>\$2.26</u>	<u>\$1.60</u>

AUDITORS' REPORT

The Shareholders,
Dominion-Scottish Investments Limited.

We have examined the statement of financial position of Dominion-Scottish Investments Limited (a subsidiary of GBC Capital Ltd.) as at 30th September, 1985 and the statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at 30th September, 1985 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Quebec,
29th October, 1985.

Touche Ross Co
Chartered Accountants

DOMINION-SCOTTISH INVESTMENTS LIMITED

NOTES TO FINANCIAL STATEMENTS 30th September, 1985

1. Accounting policies and presentation

- a. General
The Corporation follows generally accepted accounting principles in the preparation of its financial statements and their application is consistent with that of the preceding year.
- b. Foreign currencies
Transactions in foreign currencies during the year were recorded at the relative rates of exchange applicable on the dates of such transactions. Amounts in foreign currencies included in assets and liabilities are shown in Canadian funds, converted at rates of exchange applicable at the year end, any adjustment thereon being credited or charged, as the case may be, to "Surplus on changes in investments".
- c. Statement of changes in financial position
A statement of changes in net assets (Note 4) has been substituted for a statement of changes in financial position.

2. Investments

	<u>1985</u>	<u>1984</u>
At market value	\$99,619,022	\$76,861,714
At directors' valuation	<u>1</u>	<u>1,678,501</u>
	99,619,023	78,540,215
At average cost	<u>53,317,454</u>	<u>47,031,617</u>
Unrealized appreciation of investments	<u>\$46,301,569</u>	<u>\$31,508,598</u>

3. Surplus on changes in investments

	<u>1985</u>	<u>1984</u>
Balance at beginning of year	\$40,973,862	\$37,710,389
Gain on changes in investments including gain on exchange of \$98,565 (1984 — \$33,428)	6,135,313	4,357,973
Income taxes on changes in investments	<u>1,547,700</u>	<u>1,094,500</u>
	4,587,613	3,263,473
Balance at end of year	<u>\$45,561,475</u>	<u>\$40,973,862</u>

DOMINION-SCOTTISH INVESTMENTS LIMITED

NOTES TO
FINANCIAL STATEMENTS
30th September, 1985
(Continued)

4. Changes in net assets	<u>1985</u>	<u>1984</u>
Net assets at beginning of year	<u>\$79,641,953</u>	<u>\$78,471,947</u>
Add		
Gain on changes in investments:		
Securities at average cost		
at beginning of year	47,031,617	45,738,269
Purchases	<u>19,260,382</u>	<u>15,259,128</u>
	<u>66,291,999</u>	<u>60,997,397</u>
Securities at average cost		
at end of year	<u>53,317,454</u>	<u>47,031,617</u>
Cost of securities sold	<u>12,974,545</u>	<u>13,965,780</u>
Proceeds from securities sold	<u>19,011,293</u>	<u>18,290,325</u>
	<u>6,036,748</u>	<u>4,324,545</u>
Gain on exchange	<u>98,565</u>	<u>33,428</u>
Net income for the year	<u>1,761,234</u>	<u>1,289,867</u>
Increase in unrealized appreciation of investments ...	<u>14,792,971</u>	<u>—</u>
	<u>22,689,518</u>	<u>5,647,840</u>
Deduct		
Income taxes on changes in investments	<u>1,547,700</u>	<u>1,094,500</u>
Dividends:		
5% preference shares	<u>150,000</u>	<u>150,000</u>
Common shares	<u>1,069,836</u>	<u>855,869</u>
Decrease in unrealized appreciation		
of investments	<u>—</u>	<u>2,377,465</u>
	<u>2,767,536</u>	<u>4,477,834</u>
Net increase for the year	<u>19,921,982</u>	<u>1,170,006</u>
Net assets at end of year	<u>\$99,563,935</u>	<u>\$79,641,953</u>
Net asset value per common share	<u>\$135.18</u>	<u>\$107.25</u>

5. Directors' and officers' remuneration

Aggregate remuneration paid during the year to the Corporation's directors amounted to \$36,800 (1984 — \$34,500). The Corporation has five officers, one of whom is also a director. The officers of the Corporation as such received no remuneration.

DOMINION-SCOTTISH INVESTMENTS LIMITED

INVESTMENT PORTFOLIO

as at 30th September, 1985

	Par Value or Number of Shares	Market Value
BANKS & FINANCE		
Canadian Imperial Bank of Commerce, preferred A	13,000	\$ 1,313,000
*Cincinnati Financial Corporation	40,000	2,742,000
*SunTrust Banks Inc.	44,000	1,907,746
*Union Planters Corporation, 6%, cv., debs. due 1997	\$1,500,000	2,462,659
		<u>\$ 8,425,405</u>
 CONSUMER PRODUCTS		
*New York Times Company, Class A	25,000	\$ 1,371,000
Scott's Hospitality Inc.	100,000	2,612,500
Scott's Hospitality Inc., Class C	100,000	2,650,000
		<u>\$ 6,633,500</u>
 ENERGY		
Chauvco Resources Ltd., Class A	200,000	\$ 950,000
†Corrida Oils Ltd. Warrants	500,000	1
*Noble Affiliates, Inc.	130,000	2,316,990
Numac Oil & Gas Ltd.	100,000	1,125,000
Precambrian Shield Resources	175,000	875,000
Renaissance Energy Ltd., convertible 2nd preferred	40,000	1,285,600
		<u>\$ 6,552,591</u>
 MANUFACTURING		
*Acco World Corporation	75,000	\$ 2,120,766
Harris Steel Group Inc., Class A	560,000	4,900,000
Harris Steel Group Inc., Class B	440,000	3,465,000
*Lockheed Corporation	60,000	3,886,785
*Nucor Corporation	40,000	2,385,540
*Teledyne Inc.	10,000	3,167,010
		<u>\$19,925,101</u>

DOMINION-SCOTTISH INVESTMENTS LIMITED

INVESTMENT PORTFOLIO

as at 30th September, 1985
(Continued)

	Number of Shares	Market Value
METALS AND MINING		
Dickenson Mines Ltd., Class A, cum rights	200,000	\$ 1,331,000
Dickenson Mines Ltd., Class B, cum rights.....	150,000	998,250
Inco Ltd., com. ind., preferred C	125,000	3,328,125
Kiena Gold Mines Ltd.	60,000	1,462,500
Lornex Mining Corporation Ltd.	58,700	1,819,700
		<u>\$ 8,939,575</u>
 REAL ESTATE		
Carma Ltd., Class A	2,000,000	\$ 640,000
*Cousins Properties Incorporated	306,822	8,833,712
*The Rouse Company	160,000	4,990,440
		<u>\$14,464,152</u>
 RETAILING		
Grafton Group Limited.....	36,000	\$ 472,500
Grafton Group Limited, Class A	144,000	1,908,000
*Pep Boys-Manny Moe & Jack	150,000	4,884,187
*Pic 'N' Save Corporation	100,000	3,221,850
		<u>\$10,486,537</u>
 SERVICE & DISTRIBUTION		
Laidlaw Transportation Limited, Class B	300,000	\$ 4,087,500
*Noble Drilling Corporation	32,500	150,382
Nowco Well Service Ltd.....	110,000	2,090,000
*PHH Group Inc.....	125,000	5,869,594
*The Harper Group	112,500	2,718,436
Wajax Limited, Class A	125,000	1,812,500
Wajax Limited, convertible preferred A.....	60,000	1,770,000
		<u>\$18,498,411</u>
 UTILITIES		
Interprovincial Pipe Line Limited.....	75,000	\$ 3,168,750
TransCanada PipeLines Limited	100,000	2,525,000
		<u>\$ 5,693,750</u>
 TOTAL VALUE OF INVESTMENT PORTFOLIO		 <u><u>\$99,619,023</u></u>

*U.S. Securities
at Directors' valuation

DOMINION-SCOTTISH INVESTMENTS LIMITED

FINANCIAL SUMMARY

Fiscal Year	Gross Income \$	Expenses \$	Taxes on Income (1) \$	Net Income \$	Net gain on changes in investments (2) \$	Total Net Assets \$	Per Common Share		
							Net Asset Value (3) \$	Net Income \$	Dividends \$
1971	433,850	98,533	32,000	303,317	99,013	15,836,452	17.79	0.21	0.24
1972	459,778	134,052	3,943	329,669	1,453,301	23,095,670	27.97	0.25	0.12
1973	421,730	141,282	10,004	290,452	634,846	18,873,333	22.05	0.20	0.15
1974	538,789	85,388	52,935	400,466	(586,146)	13,460,048	14.46	0.35	0.25
1975	598,661	99,014	103,309	396,338	431,084	17,637,031	20.31	0.35	0.25
1976	697,316	118,412	100,000	478,904	1,283,604	20,986,869	25.01	0.46	0.40
1977(4)	481,256	112,595	90,294	278,367	1,062,150	24,373,421	29.76	0.23	—
1978	926,348	198,019	164,013	564,316	4,141,575	36,213,174	46.36	0.58	0.23
1979	1,290,733	261,621	229,104	800,008	5,102,995	49,276,792	64.67	0.91	0.58
1980	1,576,053	365,304	227,968	982,781	3,148,889	71,670,614	96.07	1.17	0.91
1981	1,935,676	457,931	232,835	1,244,910	6,276,590	62,913,771	83.79	1.54	1.85
1982	1,898,889	388,061	340,129	1,170,699	1,522,974	55,764,401	73.77	1.43	1.50
1983	1,747,164	494,101	279,806	973,257	5,065,589	78,471,947	105.61	1.15	1.40
1984	1,976,177	463,867	222,443	1,289,867	3,263,473	79,641,953	107.25	1.60	1.20
1985	2,684,155	564,087	358,834	1,761,234	4,587,613	99,563,935	135.18	2.26	1.50

(1) Excludes taxes paid on gain on changes in investments.

(2) After deducting taxes relating to gain on changes in investments.

(3) After deducting preference shares at the redemption price of \$52.50 per share.

(4) Nine month period ended September 30, 1977; prior years ended on December 31.

