SC7058

The Scottish Mortgage and Trust PLC

Annual Report & Accounts
31 March 2000

Contents

Company Summary

COMPANY DATA AT 31 MARCH 2000

Total assets†	Shareholders' funds	Market capitalisation
£2,207m	£1,928m	£1,672m

† before deduction of debentures and short term borrowings.

Policy and Objective	Scottish Mortgage is one of the largest investment trust companies in the UK. Its objective is to maximise total return to shareholders at the same time as generating real dividend growth. It invests internationally, mainly in quoted securities. Its portfolio is concentrated in a relatively small number of holdings. These are mainly in strong businesses with good prospects for growth. Its managers are constantly alert for opportunities for major strategic moves.
Benchmark	The portfolio benchmark against which performance is measured is 50% FTSE All-Share Index and 50% FTSE World Ex UK Index.
Management Details	Baillie Gifford & Co are appointed as investment managers and secretaries to the Company. The management contract can be terminated at twelve months notice.
Capital Structure	The Company's share capital consists of 338,721,000 ordinary shares of 25p each which are issued and fully paid. During the year the Company bought back 21,999,000 shares for cancellation. Long term gearing has been secured by the issue of £146 million (nominal value) of Debenture stocks.
Management Fee	Baillie Gifford & Co's annual remuneration is calculated at 0.08% of total assets less current liabilities (excluding short term borrowings for investment purposes) per quarter.
PEP/ISA	An ISA and a PEP transfer facility are available. The Company qualifies for the full investment limit in a Personal Equity Plan.
AITC	The Company is a member of The Association of Investment Trust Companies of which it was one of the founder members in 1932.

Year's Summary

	31 March 2000	31 March 1999	% change
Total assets (before deduction of debentures and short term borrowings)	£2,206.6m	£1,868.3m	18.1
Loans and Debentures	£279.0m	£222.4m	25.4
Equity shareholders' funds	£1,927.6m	£1,645.9m	17.1
Net asset value per ordinary share (after deducting prior charges at par)	570.2p	457.3p	24.7
Net asset value per ordinary share (after deducting prior charges at market value)	549.2p	434.9p	26.3
Share price	493.5p	375.5p	31.4
FTSE All-Share Index	3,110.6	2,894.8	7.5
FTSE World Ex UK Index (in sterling terms)	355.2	284.5	24.8
FTSE World Index (in sterling terms)	357.1	291.3	22.6
Benchmark composite index			16.1
Dividend per ordinary share	5.65p	5.50p	2.7
Earnings per ordinary share	4.11p	5.62p	(26.9)
Expenses ratio	0.50	0.38	31.6
Discount (after deducting prior charges at par)	13.5%	17.9%	
Discount (after deducting prior charges at market value)	10.1%	13.7%	

	Year to 31 March 2000		Year to 31 March 1999	
Year's high and low	**High**	**Low**	**High**	**Low**
Price	503.5p	375.5p	400.0p	266.0p
Net asset value	595.6p	445.3p	464.2p	332.5p
Discount	12.1%	18.2%	9.6%	21.7%

	31 March 2000	31 March 1999
Total return per ordinary share		
Revenue	4.11p	5.62p
Capital	108.98p	19.79p
Total	113.09p	25.41p

Five Year Summary

The following charts indicate how an investment in Scottish Mortgage has performed relative to its benchmark (applied retrospectively), its underlying net asset value and the retail price index over a five year period to 31 March 2000.

Directors and Management

Directors

Lord Sanderson of Bowden. Russell Sanderson is a former Minister of State at the Scottish Office. He is chairman of the Clydesdale Bank PLC and a director of National Australia Group Europe and of other companies. Lord Sanderson was appointed a Director of The Scottish Mortgage and Trust PLC in 1991 and became Chairman in 1993. He is 67.

GA Ball. Geoffrey Ball is executive chairman of CALA Group Ltd, having led the Management Buy Out last year. He is also chairman of Intelli Partners plc. He was for 13 years a director of The Standard Life Assurance Company. He is 56 and was appointed a Director of The Scottish Mortgage and Trust PLC in 1983.

FPM Johnston, CBE. Fred Johnston is chairman of Johnston Press plc and a non-executive director of Lloyds TSB Bank Scotland plc. He is a former member of the Press Council and a former president of the Newspaper Society. He was appointed a Director of The Scottish Mortgage and Trust PLC in 1991. Mr Johnston is 64.

Sir Donald MacKay, MA FRSE FRSGS. Donald MacKay is 63 and was appointed a Director of The Scottish Mortgage and Trust PLC in 1999. He is an economist who was Professor of Political Economy at Aberdeen University and Professor of Economics at Heriot-Watt University. He is chairman of DTZ Pieda Consulting and a former chairman of Scottish Enterprise. He is currently chairman of Grampian Holdings PLC and a director of Edinburgh Income and Value Trust plc.

The Earl of Portarlington. George Portarlington is 61 and was appointed a Director of The Scottish Mortgage and Trust PLC in 1997. He is a former director of Queensland Trading and Holding Company Limited of Brisbane and of Cold Storage Holdings Limited of Singapore.

Sir John Shaw, CBE. Jack Shaw is 67 and is Governor of The Bank of Scotland and a director of other companies. He is a former president of the Institute of Chartered Accountants of Scotland and was appointed a Director of The Scottish Mortgage and Trust PLC in 1982.

Lord Sanderson of Bowden
Chairman

Managers and Secretaries

Scottish Mortgage is managed by Baillie Gifford & Co, an investment management business formed in 1927 out of the legal firm Baillie & Gifford, WS, which had been Managers and Secretaries to the Company since its formation in 1909.

Baillie Gifford is one of the five largest investment trust groups in the UK and currently manages six investment trusts. Baillie Gifford also manages unit trusts and open-ended investment companies, together with investment portfolios on behalf of pension funds, charities and other institutional clients, both in the UK and overseas. Funds under the management or advice of Baillie Gifford total over £21 billion. Based in Edinburgh, it is one of the leading privately owned investment management firms in the UK, with 20 partners and a staff of over 300.

The manager of Scottish Mortgage's portfolio is James Anderson, a partner of Baillie Gifford. Stock selection is primarily the responsibility of specialist teams covering all the regions of the world.

The firm of Baillie Gifford & Co is regulated by IMRO.

Chairman's Statement

The Company's net asset value has risen by 24.7% to another new year end peak of 570.2p per share. This is significantly ahead of the 7.5% rise in the FTSE All-Share Index and is also above the 22.6% gain in the FTSE World Index (in sterling terms). The key factor behind this pleasing performance has been our excellent results in all overseas markets. We outperformed the local markets in Japan, Asia, Europe and the US by significant margins. Our UK stock selection was disappointing but our reduced exposure to British equities assisted performance. Full performance attribution details can be found on page 8.

Earnings have fallen by 26.9% to 4.11p. As we stressed last year falling equity yields have challenged our ability to combine revenue progress with the desired level of borrowings. In the last twelve months this issue has been exacerbated by the sharp gains in technology and telecommunications shares which tend to have minimal or zero dividends. At the same time our expenses have risen owing to higher management fees (as a consequence of the rising asset value), our contribution to the AITC its campaign and an increased tax burden.

We consider that modest dividend increases are still achievable but in the interests of the primary consideration of producing the best overall returns for shareholders some restraint in dividend policy may be necessary in future years.

Investment background

The international economy has improved in the last year. Twelve months ago fears of global recession were already moderating but the subsequent acceleration in global economic activity has been remarkable. The next year may well see global growth at its highest level for more than a decade. The US economy has continued to expand briskly but inflation has still remained subdued despite minimal unemployment and a sharp rise in oil prices. The current account deficit has deteriorated again. Despite this the dollar has benefited from the exemplary growth rate of the economy and investor confidence in the skills of the Federal Reserve and Silicon Valley.

The British economy has grown more rapidly than we thought probable a year ago. This has been reflected in a sharp fall in unemployment and an unexpectedly early turn in the interest rate cycle. As yet higher interest rates do not appear to have hurt consumer confidence or the housing market to any major extent but rate rises have sustained sterling at a demanding level with damaging consequences for exporters.

Continental economies have emerged from the worst of the slowdown that they endured in the aftermath of the Asian and Russian crises. Whilst French and Spanish growth has been fuelled by consumer demand there are now signs that Germany and Italy are finally benefiting from the improving global growth and the marked weakness of the euro.

There is contradictory evidence from the Japanese economy. There are signs that the long-awaited recovery may be within sight. We had similar hopes a year ago only for these to be dashed by renewed recession. It appears that corporate profits and consequently capital expenditure are now rising but consumer anxiety and government debts remain major shadows. Elsewhere in Asia recovery has blossomed. Korea and Taiwan have benefited from their positions in the global technology value chain. China has avoided devaluation and Hong Kong has climbed out of a severe recession.

In currency markets the most pervasive feature has been the weakness of the fledgling euro. It has fallen by 10.3% versus sterling but it has also suffered against the yen and the dollar. As was the case last year the yen has been the strongest major currency rising by 16.8% against the pound.

Investment activity

Equities

The geographical distribution of the equity portfolio has changed significantly in the year under review. The largest change has been in the British portfolio. The stake has been reduced by £164m with the reduction accelerating in the second half of the year. Twelve months ago we felt that the UK was favourably placed because of the obvious scope for monetary and fiscal easing and hence higher economic growth. This was indeed the case but as the world economy has regained vitality the buoyancy of the British economy has become something of a concern rather than an attraction. Rising interest rates have reduced the appeal of the financial sector whilst industrials have suffered from the strength of the pound against the euro. The comparative paucity of technology opportunities in the UK market has been an equally potent constraint on our enthusiasm for British equities.

Over the year we have been buyers in the US (£17m) and Europe (£42m). In both markets we have been heavily influenced by the wealth of technology and telecommunication investment opportunities. The monetary tightening now underway in the US is offsetting the consistently high growth and productivity improvements that would otherwise attract us to the New York markets. The reduction of £46m in the Japanese portfolio stems principally from the sale of the Nikkei index linked bond (which suffered from being effectively hedged against the yen) but latterly we have trimmed our direct equity exposure as ratings have risen sharply.

As the individual Managers' geographical reviews make clear the critical factor in our performance over the last twelve months has been our substantial exposure to technology and telecommunications stocks in international markets. We would highlight the rise in holdings in the information technology sector from 6.2% to 19.1% of total assets. It should be stressed that our policy has been to concentrate on companies with strong market positions and solid profitability. We are confident that our holdings will survive and prosper when more speculative issues have lost their appeal. Telecommunications have risen to 17.3% of total assets from 12.0% a year ago. We are now becoming slightly more cautious about the outlook in this sector as earnings progress has not always lived up to the now demanding valuation levels.

Fixed interest

We have added £57m to our fixed income portfolio in the course of the year. We have found opportunities in two distinct areas. We have been able to obtain a worthwhile yield advantage by investing in quality corporate bonds matched by short-term borrowings. At the same time we have bought a selection of high yield bonds where we think that there is significantly greater opportunity for obtaining both incremental income and capital gains. In particular we feel that there are a series of start-up telecommunications ventures that offer fixed interest paper with double digit yields whilst often enjoying the backing of strong and solvent parent companies. We have considerable confidence that this policy will be rewarded in the coming years.

Repurchase of shares

Last year we welcomed the granting of shareholder authorisation to buy-back shares. Over the past year we have repurchased 22m shares (6.1% of the outstanding capital) for cancellation at a cost of just over £100m. This has enhanced the asset value per share by 0.9%. We think that the rating of Scottish Mortgage is showing preliminary indications of being supported by this initiative. We will therefore be asking shareholders to renew the mandate to buy-back up to a further 15% of the then outstanding shares at the forthcoming AGM.

Revenues and dividend

Despite the fall in earnings we are proposing a final dividend of 3.85p. We are partially drawing on revenue reserves that have been built up with such an eventuality in mind. For the year this gives a total dividend of 5.65p, an increase of 2.7% compared with 1998/9.

Balance sheet

The Company continues to believe in the benefits of gearing. Our past experience justifies this view. At the same time it is only fair to acknowledge that our long term debt was issued at interest rates higher than those prevailing today. The net asset value is therefore 549.2p if the debentures are valued at current market prices rather than balance sheet cost. On this revised basis our asset value has risen by 26.3% over the course of the year.

Borrowings have increased from 11.9% to12.6% of total assets. This small rise has been to fund the fixed income component of the portfolio whilst we have become more cautious about the prospects for borrowings to fund equity purchases given current valuations.

Benchmarks

The Association of Investment Trust Companies has recommended the adoption of index benchmarks for the industry. Discussions with shareholders have tended to support this suggestion although a wide variety of views have been expressed to the Managers. The Board currently believes that a benchmark comprised of a 50% weighting in the FTSE All-Share Index and 50% in the FTSE World Ex UK Index is the appropriate measure for the Company. This permits international diversification and exposure to the world's most exciting companies whilst acknowledging the importance of the home market and its income advantages that weigh heavily with many of our shareholders. The Board will regularly review the suitability of the selected benchmark. If applied retrospectively the composite index gained 16.1% in the year under review.

The Board intends to encourage the Managers to treat the proposed benchmark with respect but without removing the capacity of the Company to make major strategic moves. We do not wish this long-standing policy to be eroded by the existence of the benchmark which we feel should be used to measure the success of the Managers rather than to restrain their freedom of action. The Board is fully committed to such an approach to investment and accepts that this means that periods of short term under-performance of the proposed benchmark will prove inevitable.

The AITC its campaign

The Board has supported the Association of Investment Trust Companies in its efforts to improve the marketing of the sector to private individuals. We hope that this will help to narrow the discount to net asset value that Scottish Mortgage's shares have traded on in the past. The Board felt that this objective justified the expenditure of £770,000 in the last twelve months and looks forward to evidence that this burden on our revenue account is translating into an increased appetite for our shares. We will consider our continuing support for the campaign in this light.

ISA and Share Plan

The Baillie Gifford Investment Trust ISA offers an attractive method for private individuals to invest in the Company with the benefit of tax concessions. A PEP transfer facility is available. Baillie Gifford also offer a Share Plan as a low cost means of purchasing stock in the Company. For those who would appreciate further information we have given details of these schemes inside the back cover of this report.

Board and Managers

I would like to thank my colleagues on the Board for their advice and support during the year, and particularly for the uncomplaining way in which they have shouldered the ever-increasing burden of corporate governance work, much of which seems rather inappropriate for an investment trust company.

I would also like to pay tribute to our Managers for producing such an excellent result this year and, in particular to thank Max Ward, who has been the Baillie Gifford partner with particular responsibility for our portfolio for the last eleven years, for his highly successful efforts on your behalf. Max retired from Baillie Gifford at the end of April and has our very best wishes for the years ahead. His role in Scottish Mortgage's affairs will be assumed by James Anderson, a member of Baillie Gifford's Investment Policy Committee, who I am sure will prove a worthy successor.

Outlook

The last year has been an exciting and profitable period in equity markets. Traditional geographical and macroeconomic analysis has been less important than sectoral policy. This may remain the pattern in the months ahead although current valuations make it less likely that the performance benefits of a heavy exposure to the telecommunications and technology industries will be as beneficial as in the last year. The technology sector in America has led the growing movement away from traditional dividend policies that has made income an increasingly scarce commodity in global equity markets. This development will be a significant constraint on our ability to increase dividends in the manner of the past. We regret this but we are determined to preserve our freedom to search for capital gains in all markets and all sectors in the interest of maximising total returns for shareholders. We continue to believe that Scottish Mortgage's diversified and flexible international portfolio offers a good way to invest in the demanding markets of today.

Sanderson of Bowden
10 May 2000

Managers' Overview

Scottish Mortgage enjoyed an outstanding year in overseas markets. As the figures below demonstrate the Company outperformed the local indices in Japan, Europe, the Americas and Asia by a significant margin. In all of these areas the key contribution was made by our large holdings in the technology and telecommunications sectors.

Results in the UK were disappointing. The portfolio failed to exploit the opportunities in the media sector. Despite reducing our holdings in British banks in the course of the year our heavy exposure to this area was damaging.

Asset allocation relative to the new benchmark of 50% FTSE All-Share and 50% FTSE World Ex UK was helpful. This was particularly the case in the second half of the year when the substantial European weighting greatly aided performance and the belated reduction of the UK position was also beneficial.

PERFORMANCE ATTRIBUTION FOR THE 12 MONTHS TO 31 MARCH 2000

Computed relative to the proposed benchmark (50% FTSE All-Share Index and 50% FTSE World Ex UK Index (in sterling terms)) with net income reinvested.

PERFORMANCE ATTRIBUTION (in sterling terms)

	Benchmark allocation	Scottish Mortgage asset allocation		Performance*		Contribution to relative	Contribution attributable to:		
							Stock	Asset	Currency
	allocation					to relative	selection	allocation	effect
	01.04.99	01.04.99	31.03.00	SM	Benchmark	return			
Equity markets	%	%	%	%	%	%	%	%	%
UK	50.0	55.8	42.9	2.69	9.89	(3.02)	(3.11)	0.11	–
Europe ex. UK	11.0	18.9	22.4	54.58	23.24	5.20	2.88	3.07	(0.79)
Americas	31.3	12.2	14.6	37.71	21.66	0.98	1.33	(0.11)	(0.24)
Japan	6.1	5.4	6.8	100.41	56.50	1.78	1.78	(0.05)	0.05
Asia Pacific ex. Japan	1.6	2.3	5.3	42.45	23.58	0.59	0.32	0.16	0.11
Bonds	–	5.4	7.2	10.94	–	(0.40)	–	(0.39)	(0.01)
Cash	–	–	0.8	14.86	–	–	–	0.01	–
Total	100.0	100.0	100.0	23.98	17.98	5.18	3.13	2.90	(0.88)

Source: HSBC

*Please note that the above figures are calculated on a total return basis with net income reinvested.
The benchmark total return performance figures for each geographic area represent the return in the appropriate FTSE index.
Contributions cannot be added together, they are geometric; for example to calculate how a return of 23.98% (against a benchmark of 17.98%) translates into a relative performance of 5.18%, divide the portfolio performance of 123.98 by the benchmark year end figure of 117.98.

The chart below compares Scottish Mortgage's performance in each of the geographical regions in which it invests with the relevant local indices.

Source: HSBC/Primark Datastream

* Please note that the above figures are calculated on a total return basis with the net income reinvested.

INVESTMENT CHANGES (£'000)

	Valuation at 31 March 1999	Net acquisitions (disposals)	Appreciation (depreciation)	Valuation at 31 March 2000
Equities (including convertibles and OEICs/unit trusts):				
UK	1,041,056	(147,591)*	56,770	950,235
Continental Europe	351,900	25,039*	118,840	495,779
North America	197,541	17,321	70,410	285,272
Latin America	29,063	(4,941)	13,739	37,861
Japan	100,008	(46,132)	96,131	150,007
Asia Pacific	42,677	44,906	30,532	118,115
	1,762,245	(111,398)	386,422	2,037,269
UK corporate bonds	20,525	6,969	(396)	27,098
Euro bonds	–	38,860	(1,644)	37,216
US dollar bonds	–	10,860	225	11,085
Argentine bonds	80,046	–	3,543	83,589
Total investments	1,862,816	(54,709)	388,150	2,196,257
Net liquid assets	5,512	4,825	–	10,337
Total assets	1,868,328	(49,884)	388,150	2,206,594

* The takeover of Mannesmann by Vodafone results in its book cost of £16,888,000 being transferred from Continental Europe to the UK and being netted off against the acquisitions and disposals figures respectively. The market value of the holding in Mannesmann at the date of takeover was £86 million.

The figures above for total assets are made up of total net assets but before deduction of debentures and short term borrowings.

Geographical
2000 (1999)

Continental Europe
24.7% (18.9%)

North America
13.4% (10.7%)

UK
44.2% (56.9%)

Latin America
5.6% (5.8%)

Japan
6.8% (5.4%)

Asia Pacific
5.3% (2.3%)

Sector
2000 (1999)

Industrials
11.0% (6.7%)

Consumer goods
7.6% (14.5%)

Resources
7.8% (6.2%)

Net liquid assets
0.5% (0.3%)

Overseas bonds
6.0% (4.3%)

Services and utilities
29.0% (31.4%)

UK corporate bonds
1.2% (1.1%)

Information technology
19.1% (6.2%)

Financials
17.8% (29.3%)

Classification	**UK** %	**Continental Europe** %	**North America** %	**Latin America** %	**Japan** %	**Asia Pacific** %	**2000 Total** %	**1999 Total** %
Equities: (including convertibles and OEICs/unit trusts)								
Resources	5.7	1.0	0.7	–	–	0.4	7.8	6.2
Mining	1.2	–	–	–	–	0.4	1.6	–
Oil and gas	4.5	1.0	0.7	–	–	–	6.2	6.2
Industrials								6.7
Chemicals	–	0.8	0.3	–	0.2	–	1.3	0.3
Construction and building materials	2.5	0.6	–	–	–	–	3.1	3.5
Aerospace and defence	–	–	0.2	–	–	–	0.2	0.4
Diversified industrials	–	–	–	–	–	0.7	0.7	0.6
Electronic and electrical equipment	–	1.7	–	–	1.1	1.3	4.1	0.4
Engineering and machinery	0.6	0.4	0.3	–	0.3	–	1.6	1.5
none Goods	5.0	0.4	0.9	–	1.0	0.3	7.6	14.5
Automobiles	0.1	–	–	–	0.3	–	0.4	1.2
Household goods and textiles	–	–	–	–	–	–	–	0.1
Beverages	–	–	–	–	–	0.2	0.2	0.1
Healthcare and pharmaceuticals	3.2	0.4	0.5	–	0.4	–	4.5	9.1
Packaging	0.3	–	–	–	–	–	0.3	0.2
Personal care and household products	–	–	–	–	0.3	–	0.3	0.6
Tobacco	1.4	–	0.4	–	–	0.1	1.9	3.2
Services and Utilities	17.9	5.7	2.0	0.3	2.3	0.8	29.0	31.4
Distributors	0.4	–	–	–	–	–	0.4	0.9
Retailers	1.2	0.5	0.7	0.2	0.6	–	3.2	5.8
Leisure, entertainment and hotels	0.7	–	0.4	–	–	–	1.1	1.4
Media	2.1	1.1	0.1	–	–	0.3	3.6	4.5
Restaurants, pubs and breweries	–	–	–	–	–	–	–	1.0
Support services	1.5	0.8	–	–	0.3	–	2.6	3.5
Transport	–	–	–	–	–	0.2	0.2	1.8
Telecommunication services	11.6	3.3	0.6	0.1	1.4	0.3	17.3	12.0
Electricity	0.4	–	0.2	–	–	–	0.6	0.4
Gas distribution	–	–	–	–	–	–	–	0.1
nones	8.9	4.3	1.1	1.4	0.7	1.4	17.8	29.3
Banks	4.6	2.0	0.3	–	0.4	0.3	7.6	15.4
Insurance	0.8	1.0	–	–	–	–	1.8	4.2
Life assurance	1.0	–	–	–	–	–	1.0	1.4
Real estate	0.4	–	–	–	–	–	0.4	0.2
none financial	0.7	–	0.3	–	0.3	–	1.3	4.0
Investment companies	1.4	1.3	0.5	1.4	–	1.1	5.7	4.1
none Technology	2.5	7.6	7.4	–	1.2	0.4	19.1	6.2
none technology hardware	0.4	4.9	6.0	–	1.0	–	12.3	3.5
Software and computer services	2.1	2.7	1.4	–	0.2	0.4	6.8	2.7
Total Equities **(including convertibles and OEICs/unit trusts)**	43.1	22.5	12.9	1.7	6.8	5.3	92.3	
Total Equities – 1999 (including convertibles and OEICs/unit trusts)	55.7	18.8	10.6	1.5	5.4	2.3		94.3
Bonds	1.2	1.7	0.5	3.8	–	–	7.2	5.4
Net Liquid Assets	(0.1)	0.5	–	0.1	–	–	0.5	0.3
Total Assets **(before deduction of debentures and short term borrowings)**	44.2	24.7	13.4	5.6	6.8	5.3	100.0	
Total Assets – 1999	56.9	18.9	10.7	5.8	5.4	2.3		100.0
Debentures and Short Term Borrowings	(6.9)	(1.9)	(3.8)	–	–	–	(12.6)	(11.9)
Equity Shareholders' Funds	37.3	22.8	9.6	5.6	6.8	5.3	87.4	
Equity Shareholders' Funds – 1999	45.0	18.9	10.7	5.8	5.4	2.3		88.1
Number of equity investments **(including convertibles and OEICs/unit trusts)**	63	32	27	4	18	19	163	136

Name	Business	Market value £'000	% of total assets
Vodafone AirTouch	Mobile telecommunication services	147,559	6.7
BP Amoco	International oil	56,874	2.6
Nokia	Telecommunications equipment	53,686	2.4
Glaxo Wellcome	Pharmaceuticals	44,875	2.0
Shell Transport & Trading	International oil	42,640	1.9
Ericsson	Telecommunications equipment	41,592	1.9
British Telecom	Telecommunications	39,950	1.8
Lloyds TSB	Retail banking and insurance	34,755	1.6
Intel	Semiconductors	33,081	1.5
Baillie Gifford Brtitish Smaller Companies Fund	Small company fund	31,154	1.4
NTT DoCoMo	Mobile telecommunications	30,876	1.4
Baillie Gifford European Smaller Companies Fund	Small company fund	29,280	1.3
Royal Bank of Scotland	Banking	27,730	1.2
Baillie Gifford Latin American Fund	Investment fund	27,600	1.2
SAP	Computer software	25,869	1.2
VNU	Publishing and broadcasting	23,883	1.1
Cable & Wireless Communications	Telecommunications and cable television	23,850	1.1
HSBC	Banking	23,712	1.1
Telefonica	Telecommunications	22,327	1.0
Total Fina Elf	Integrated oil	21,607	1.0
Prudential	Life assurance	21,296	1.0
Intershop Communications	Computer software	20,472	0.9
Microsoft	Computer software	19,981	0.9
Scientific-Atlanta	Cable transmission equipment	19,824	0.9
Cable & Wireless	Telecommunications	19,767	0.9
Cisco Systems	Data networking products	19,385	0.9
Applied Materials	Semiconductor capital equipment	17,842	0.8
Sun Microsystems	Enterprise network products	17,621	0.8
SmithKline Beecham	Pharmaceuticals	17,388	0.8
Gallaher	Tobacco	17,181	0.8
		973,657	44.1

United Kingdom

The FTSE All-Share Index gained 7.5% over the year to 31 March 2000. For the first half of this period, the market traded in a narrow range. The second six months was much more volatile and was notable for its very wide range of returns between different sectors. Telecommunications, media and technology were by far the best performing areas of the market as investors focussed on them as the prime beneficiaries of the explosive growth of the internet. The information technology sector index rose by 129% while media registered a 68% gain and telecommunications gained 49%. By contrast, defensive sectors were friendless, especially those where companies are finding profits growth difficult against a background of low inflation. The water sector was the worst performing area of the market (down 30%) followed closely by transport, retail and tobacco.

We made a number of changes to our portfolio during the year, primarily in order to increase exposure to telecommunications and technology at the expense of those companies with poorer growth prospects but also to reduce the interest rate sensitivity of the portfolio. Although these changes were beneficial to performance, our portfolio as a whole lagged the FTSE All-Share Index. Most of the underperformance came at the end of the review period. In particular we suffered from our underweight position in the media sector. We exacerbated this situation by our sale of Reuters on the grounds that earnings continued to be disappointing whilst the market preferred to focus on the internet potential of the business.

Part of the increase in our telecommunications exposure stemmed from Vodafone's successful all-share take-over of Mannesmann. Nearly one in two Britons now owns a mobile phone and we continue to expect rapid growth in subscriber numbers, revenues and profits, as new technologies, such as wireless internet, gain acceptance. Other purchases during the period included Energis, Atlantic Telecom, British Telecom, ARM and Computacenter.

Most noteworthy among the "old economy" additions to the portfolio were the mining companies, Billiton and Anglo American, which are beneficiaries of the strong growth of the global economy. We also increased our exposure to the building sector, purchasing Hanson, the aggregates producer, and a number of housebuilders such as Bovis and Barratt. These additions were funded by the sales of Stagecoach, Boots and Whitbread – all of which announced disappointing profits. In a similar vein, we reduced our stake in Glaxo Wellcome. We also cut back our exposure to the banks sector (including the sale of Halifax) where investor sentiment has been damaged by increasing competition and rising interest rates.

Although the interest rate outlook deteriorated slightly during the year, Britain continues to enjoy a favourable combination of robust growth and low inflation. Growth in domestic demand has been especially strong (with the housing market at its most buoyant since the 1980's) and, as a result, most commentators expect interest rates to rise further over the coming months. Against this background, we maintain a slightly cautious view on UK equities and, after sales of £164m, have reduced our stake to 43.1% of total assets. In part, this reflects our preference for overseas equity markets where the choice of attractive technology stocks is generally greater.

1 *One of Vodafone's regional monitoring centr[es] in Germany*

2 *Underground mining at a Billiton colliery*

Continental Europe

After a sluggish start European markets performed well in the period under review. The FTSE Europe Ex UK Index rose by 34.6% in local terms although this was *reduced to a gain of 21.2% in sterling* terms. Our own portfolio performed considerably better than this thanks to dramatic gains in our technology and telecommunications holdings.

During the year we made net purchases of £42m. In the first half of the year we had been disappointed by the halting progress of major European companies such as Daimler-Chrysler and Novartis and this led to a *modest reduction in the continental stake.* By the end of the year we were considerably happier with the development of the European economy and the advance in corporate earnings. Over the course of the year the European stake has risen to 22.5% of total assets despite the take-over of Mannesmann by Vodafone. Mannesmann had been our largest European holding.

An ASM Lithography wafer stepper machine

Nokia manufacturing facility in China

As elsewhere in the world markets have been *overwhelmingly dependent on their exposure* to technology and telecommunications. European markets are surprisingly well endowed in this respect even if the geographical distribution of technological excellence is at odds with historic economic leadership. Scandinavia rather than France and Germany is the main driving force in Europe's endeavours to respond to American economic dominance. This is most evident in mobile telecommunications. We have added to our large positions in both Nokia and Ericsson as the former retained and the latter regained our confidence in their leadership of respectively the global handset market and mobile infrastructure markets. We have also benefited from ownership of Sonera but we recently reduced our holding as the valuation *of its mobile telecommunications technology* has become demanding. We have been less enthusiastic about the traditional telecommunications incumbents elsewhere in Europe but in the case of Telefonica we feel that there has been a valiant attempt to build new businesses in the mobile and *internet world.*

In contrast to the impressive progress of Europe's technology leaders we have been *frustrated in our efforts to find attractive* businesses in most other segments of the market. In particular we have been disappointed by the failure of most banks and insurance companies to meet the challenges of consolidation and technological change. We have therefore *reduced our holdings in the financial sector.* We have sold Societe Generale, Banca di Roma and Bayerische Hypo Vereinsbank on the basis of their flawed approaches to potential and actual mergers. We have also sold Munich Re and reduced our holding in Zurich Allied as we have been puzzled by their managerial approaches. As yet only the sale of Munich Re has proved a mistake and we feel disinclined to rebuild our exposure to major continental financial institutions. The burgeoning flows into European equities and into internet banking seem to us to be captured more satisfactorily through smaller and more vibrant organisations such as Bankinter and Julius Baer.

European markets have enjoyed a buoyant phase. European economies are adequately placed. Growth has improved, inflation has remained subdued and unemployment has fallen surprisingly sharply. The political environment has become more favourable - notably with Chancellor Schroder moving firmly towards economic liberalisation. Despite this the euro has behaved depressingly for reasons that we are still struggling to understand. We do not feel that this should distract us *from the appealing economic prospects* and exciting corporate opportunities that the continent continues to offer investors.

The Americas

United States

The S&P Composite Index rose by 16.5% in dollar terms and 17.9% in sterling terms over the year. Our US equity portfolio bettered this performance by a healthy margin. This was a marked improvement in relative performance compared to the previous year and is largely attributable to a substantial increase in our exposure to technology stocks.

Technology stocks accounted for the bulk of the net purchases of £17m, which increased our US stake to 12.9% of total assets. We bought Applied Materials, which is the world's leading producer of capital equipment for the semiconductor industry and Scientific-Atlanta, a producer of equipment for cable broadcasting. We also purchased a series of companies exposed to the strong demand for semiconductors and telecommunications devices: Analog Devices, Texas Instruments and Motorola.

Following another year of strong performance, valuations in the technology area are undoubtedly high by historical standards. Recent turbulence has only sharpened our awareness of the need to monitor our exposure carefully. Nevertheless, while stock prices are likely to be volatile, the fundamental outlook for technology companies remains excellent. This is particularly true for those which, like the bulk of our technology holdings, are exposed to the burgeoning demand for internet infrastructure and mobile telephony equipment.

By contrast, and despite the continuing and exceptional strength of the domestic economy, more traditional sectors of the stockmarket have struggled again this year. This has reflected concerns over the impact on corporate profitability of rises in interest rates, raw material prices and a further tightening in the labour market.

In an attempt to rein in the economy and to pre-empt inflationary pressure the Federal Reserve raised interest rates by a quarter point five times during the Company's year, thus reversing the rate cuts of autumn 1998 and modestly tightening policy. While we welcome these moves, they have as yet had little effect on consumer demand, which has remained extremely robust and has been the main driver of both economic growth and record trade and current account deficits.

Current valuations and the obvious imbalances in the external accounts and the labour market led us to be very selective in our purchases. Despite this we continue to be attracted to US equities by the unrivalled variety of strong businesses to be found there. Our exposure to America is therefore more likely to rise than fall in the year ahead.

Latin America

It has been an encouraging year for Latin America. The Brazilian devaluation in January 1999 had the potential to cause serious macro-economic problems for the region, but policymakers generally reacted responsibly to the crisis. As a result, interest rates and inflation in much of the region are once again trending downwards and economic activity has been accelerating following weakness last year. A more favourable external environment, including the firming of many commodity prices, has helped the recovery. In particular, the Mexican economy continues to benefit from robust demand for its exports from the US. During the year we made £5m of net disposals from the Latin American equity stake but price appreciation increased the value of the holdings to 1.7% of total assets by the end of the year.

We have retained our Argentine bond position, valued at £83.6m or 3.8% of total assets. Argentina has weathered the storm of the Brazilian devaluation, growth is returning and the new President appears to be committed to fiscal rectitude and market-oriented policies.

1 *A newly completed Scientific-Atlanta facility*

2 *Time Warner's Road Runner high speed onli service*

Japan

The Japanese equity market continued to recover strongly during the period under review as optimism grew over the prospects for economic recovery. TOPIX posted an increase of 34.6% over the year to 31 March 2000, and yen strength increased this to 57.3% in sterling terms. Scottish Mortgage's Japanese portfolio did substantially better than this owing to its focus on 'New Japan' stocks, which boast above-average growth rates and value generation. Japanese exposure rose as a proportion of total assets from 5.4% to 6.8% despite net sales of £46m over the period as a whole. We sold the Nikkei index linked bond in order to invest directly in our favourite companies.

Early 1999 saw a marked improvement in economic conditions, driven by strong growth in export demand and by government-funded stabilisation of the country's precarious banking system. This recovery levelled off in the second half of the year because of a rising currency and continued weakness in consumption influenced by labour market uncertainty, and GDP data indicated that Japan slipped back into recession. However, we are sceptical about the accuracy of these GDP figures, which are based on flawed and incomplete activity measures. Other indicators, such as output-based monthly series, business sentiment surveys and anecdotal evidence from companies, paint a stronger picture. Extremely high rates of expansion in technology sectors, as corporate Japan attempts to catch up with global IT standards, should provide a tangible boost to overall capital expenditure and economic growth.

The stockmarket has been boosted by significant liquidity inflows, both from domestic investors and from foreign institutions. These have been almost exclusively into 'New Japan' telecommunications, media, technology and services sectors, resulting in a polarisation of performance even more marked than that elsewhere in the world. This is partly a reflection of the massive structural problems still facing most traditional 'Old Japan' industrial and financial sectors, and the unwinding of cross-shareholdings between them. We bought stakes in companies such as Softbank, a leading global internet investor, Fujitsu, an IT services and equipment supplier, and Benesse, a provider of educational services, while increasing existing holdings in technology stocks Rohm, Sony and Hitachi. This strategy proved successful, as the valuation premium attached to Japan's relatively small component of high growth stocks expanded dramatically. Our largest holding is NTT DoCoMo, the dominant cellular operator, which rose more than threefold over the year, helped by strong new subscriber growth and rapid adoption of its i-mode mobile internet service.

We reduced our Japanese exposure towards the end of the period under review, on concern that valuations of the market's high flying technology stocks were becoming over-extended by global standards and vulnerable to a change in sentiment, especially in cases where a company's operational performance fell short of expectations. However, we believe that liquidity flows should continue to be supportive of the market during the year ahead, with domestic retail funds expected to shift from maturing postal savings deposits into equities.

Educational materials from Benesse

[To]yota's 'intelligent automation' a device for [de]tecting defects

Asia Pacific

Asia's economic revival, which had already begun twelve months ago, accelerated over the course of the year. Firm demand from America and a revival of trade with Japan led to strong export performance across the region, which in turn fed through into improved consumption and investment. Even the most depressed economies, notably Hong Kong and China, had moved out of their deflationary phase by early 2000. We comfortably outperformed the 20.2% rise in the FTSE Pacific Basin Ex Japan Index (in sterling terms).

This economic improvement was primarily responsible for the strong movement of stockmarkets in the first half of the year, as almost all Asian markets rose in unison. Latterly there has been a differentiation among Asian markets, which has been a reflection of the sector-driven polarisation witnessed in all major stockmarkets. Those markets such as Hong Kong, Taiwan and Korea, which have a heavy exposure to telecommunications and technology, have fared significantly better. Holdings such as Cheung Kong and Samsung benefited from this trend. We were underweight in Australia, which underperformed steadily throughout the year.

In economic terms, the outlook for the region depends most on the severity of any slowdown in the American economy. That aside, the recovery in most Asian economies seems to have become self-sustaining, and any rise in Japanese activity would be beneficial. Much of the export revival stems not from the traditional Asian outputs of commodity goods, but from demand for electronic goods and semiconductors, which are increasingly prominent. Thus trade activity should remain strong as long as global consumption of mobile handsets, set-top boxes and the like continues to swell. With currencies mostly floating and little sign of overheating, there are currently few financial stresses in Asian economies.

Many Asian companies, especially in north Asia, have embraced the opportunities brought by new technologies and the internet with tremendous vigour. This has led to a dramatic change in the established composition of stockmarkets, as traditional heavyweights like banking and property have been pushed aside by fast-growing newcomers in telecommunications and software. China's long march towards the market economy has finally begun to produce companies of genuine importance, and the new entrepreneurialism unleashed in India is potentially bringing another new giant into the picture. These dynamic market conditions are providing copious individual opportunities, but are making the performance of Asian markets increasingly reliant on global industry and stockmarket trends.

1 *Brambles shipping division's trans-Bass Strait service in Australia*

2 *Foster's is India's first locally-brewed international beer*

Classification	Name	Business	Market value £'000	%
UNITED KINGDOM				
Mining	Anglo American	Mining	10,487	
	Billiton	Mining	15,301	
			25,788	1.2
Oil and gas	BP Amoco	International oil	56,874	
	Shell Transport & Trading	International oil	42,640	
			99,514	4.5
Construction and building materials	*Barratt Developments*	*House builder*	3,562	
	Bellway	House builder	5,561	
	Bovis Homes Group	House builder	6,380	
	Fairview	House builder	3,660	
	Hanson	Building materials	6,852	
	Heywood Williams	*Building materials*	1,588	
	Redrow Group	House builder	5,070	
	Travis Perkins	Builders' merchant	5,945	
	Wolseley	Distributor of building materials and plumbing equipment	15,435	
			54,053	2.5
Engineering and machinery	Glynwed	Pipe systems and food service equipment	3,390	
	IMI	Fluid control and drinks dispensing equipment	4,540	
	Metalrax	Precision components	1,605	
	Vitec	Photographic equipment	2,775	
			12,310	0.6
Automobiles	GKN	Vehicle components, helicopters	3,134	0.1
Healthcare and *pharmaceuticals*	Alliance UniChem	Drug wholesaler and pharmacist	7,460	
	Glaxo Wellcome	*Pharmaceuticals*	44,875	
	SmithKline Beecham	Pharmaceuticals	17,388	
			69,723	3.2
Packaging	British Polythene	Polythene packaging	3,129	
	Low & Bonar	Packaging, plastics and specialist materials	2,651	
	Macfarlane Group	Packaging	769	
			6,549	0.3
Tobacco	*Gallaher*	*Tobacco*	17,181	
	Imperial Tobacco	Tobacco	13,878	
			31,059	1.4
Distributors	Electrocomponents	Distributor of electronic components	9,533	0.4
Retailers	Brown, N	Retailer	9,632	
	DFS Furniture	Furniture retailer	6,594	
	Dixons	Electrical retailer	11,333	
			27,559	1.2
Leisure, entertainment and hotels	Granada	TV, catering, leisure and hotels	15,468	0.7
Media	Daily Mail	Media group, primarily newspapers	16,361	
	Scottish Media	ITV broadcaster, newspaper publisher	12,315	
	St Ives	Printer	5,050	
	Trinity Mirror	Newspaper publisher	12,050	
			45,776	2.1
Support services	Bunzl	Distributor	9,685	
	Capita Group	White collar outsourcing services	7,213	
	Hays	Business services	16,410	
			33,308	1.5
Telecommunication services	Atlantic Telecom	Telecommunications	7,868	
	British Telecom	Telecommunications	39,950	
	Cable & Wireless	*Telecommunications*	19,767	
	Cable & Wireless Communications	Telecommunications and cable television	23,850	
	Energis	Telecommunications	16,076	
	Vodafone AirTouch	Mobile telecommunication services	147,559	
			255,070	11.6

Classification	Name	Business	Market value £'000	%
Electricity	Scottish & Southern Energy	Electricity utility	8,208	0.4
Banks	Alliance & Leicester	Retail banking	16,285	
	HSBC	Banking	23,712	
	Lloyds TSB	Retail banking and insurance	34,755	
	Royal Bank of Scotland	Banking	27,730	
			102,482	4.6
Insurance	CGU	Insurance	13,125	
	Jardine Lloyd Thompson	Insurance broker	667	
	Limit	Insurance	4,877	
			18,669	0.8
Life assurance	Prudential	Life assurance	21,296	1.0
Real estate	Hammerson	Property	8,453	0.4
Other financial	AMVESCAP	Fund manager	8,836	
	Provident Financial	Personal loans	6,690	
			15,526	0.7
Investment companies	Baillie Gifford British Smaller Companies Fund	Small company fund	31,154	1.4
Information technology hardware	ARM Holdings	Microprocessors	7,580	
	Psion	Mobile devices	2,220	
			9,800	0.4
Software and computer services	Autonomy	Software	8,557	
	Computacenter	Distributor of IT products and services	6,480	
	Misys	Software	15,330	
	Sage Group	Business software	15,436	
			45,803	2.1
	TOTAL UNITED KINGDOM EQUITIES		950,235	43.1
CONTINENTAL EUROPE				
Oil and gas	Total Fina Elf	Integrated oil – France	21,607	1.0
Chemicals	BASF	Chemicals – Germany	16,568	0.8
Construction and building materials	CRH	Building materials – Ireland	14,339	0.6
Electronic and electrical equipment	EPCOS	Electronic equipment – Germany	11,051	
	Philips Electronics	Electronic equipment – Netherlands	14,219	
	Siemens	Electronic equipment – Germany	12,408	
			37,678	1.7
Engineering and machinery	Atlas Copco	Engineering – Sweden	9,054	0.4
Healthcare and pharmaceuticals	Roche	Pharmaceuticals – Switzerland	9,770	0.4
Retailers	Carrefour	Hypermarkets – France	7,549	
	Hennes & Mauritz	Clothing retailer – Sweden	4,257	
			11,806	0.5
Media	VNU	Publishing and broadcasting – Netherlands	23,883	1.1
Support services	Adecco	Recruitment consultants – Switzerland	17,039	0.8
Telecommunication services	Acciona	Mobile telecommunications and construction – Spain	4,958	
	Deutsche Telecom	Telecommunications – Germany	10,354	
	Equant	Telecommunications – France	7,792	
	Sonera	Telecommunications and telecommunications technology – Finland	14,810	
	Telecom Italia Mobile	Telecommunications – Italy	10,703	
	Telefonica	Telecommunications – Spain	22,327	
			70,944	3.3

Classification	Name	Business	Market value £'000	%
Banks	Bankinter	Banking – Spain	8,112	
	BNP	Banking – France	8,494	
	BSCH	Banking – Spain	10,824	
	Julius Baer	Banking – Switzerland	8,425	
	San Paolo IMI	Banking – Italy	8,781	
			44,636	2.0
Insurance	AXA	Insurance – France	13,468	
	Zurich Allied	Insurance – Switzerland	7,516	
			20,984	1.0
Investment companies	Baillie Gifford European Smaller Companies Fund	Small company fund	29,280	1.3
Information technology hardware	ASM Lithography	Semiconductors – Netherlands	12,992	
	Ericsson	Telecommunications equipment – Sweden	41,592	
	Nokia	Telecommunications equipment – Finland	53,686	
			108,270	4.9
Software and computer services	*Cap Gemini*	*Computer software – France*	13,580	
	Intershop Communications	Computer software – Germany	20,472	
	SAP	Computer software – Germany	25,869	
			59,921	2.7
	TOTAL EUROPEAN EQUITIES		495,779	22.5
NORTH AMERICA				
Oil and gas	Schlumberger	Oil services	14,386	0.7
Chemicals	Dow Chemical	Chemicals	6,431	0.3
Aerospace and defence	General Dynamics	Defence	5,457	0.2
Electronic and electrical equipment	Concord Communications	Data communication equipment	37	–
Engineering and *machinery*	*Parker-Hannifin*	*Motion control products*	6,474	0.3
Healthcare and pharmaceuticals	Schering-Plough	Pharmaceuticals	11,636	0.5
Tobacco	Philip Morris	Tobacco, food and beer	8,607	0.4
Retailers	Costco	Warehouse clubs	5,931	
	Walgreen	Pharmacy chain	9,685	
			15,616	0.7
Leisure, entertainment and hotels	Time Warner	Media and entertainment	8,776	0.4
Media	TMP Worldwide	Internet recruitment	1,522	0.1
Telecommunication services	Crown Castle International	Mobile telecommunications infrastructure	7,360	
	MCI Worldcom	Telecommunications	6,817	
			14,177	0.6
Electricity	Unicom	Electric utility	4,576	0.2
Banks	Suntrust Banks	Regional bank	6,516	0.3
Other financial	Golden West Financial	Savings and loans	5,865	0.3
Investment companies	Baillie Gifford American *Smaller Companies Fund*	*Small company fund*	11,860	0.5
Information technology hardware	Analog Devices	Semiconductors	9,436	
	Applied Materials	Semiconductor capital equipment	17,842	
	Cisco Systems	Data networking products	19,385	
	Intel	Semiconductors	33,081	
	Motorola	Wireless equipment and handsets	8,237	
	Scientific-Atlanta	Cable transmission equipment	19,824	
	Sun Microsystems	Enterprise network products	17,621	
	Texas Instruments	Semiconductors	7,081	
			132,507	6.0
Software and computer services	First Data	Transaction processing	10,848	
	Microsoft	Computer software	19,981	
			30,829	1.4
	TOTAL NORTH AMERICAN EQUITIES		285,272	12.9

Classification	Name	Business	Market value £'000	%
LATIN AMERICA				
Retailers	Brasileira de Distribicao	Supermarkets – Brazil	4,152	0.2
Telecommunication services	Telesp	Sao Paolo telephone utility – Brazil	1,210	0.1
Investment companies	Baillie Gifford Latin American Fund	Investment fund – Latin America	27,600	
	Genesis Chile Fund	Investment fund – Chile	4,899	
			32,499	1.4
	TOTAL LATIN AMERICAN EQUITIES		37,861	1.7
JAPAN				
Chemicals	Sumitomo Chemicals	Diversified chemicals	4,457	0.2
Electronic and electrical equipment	Fanuc	Industrial electronics	6,175	
	Hitachi	Electrical machinery	8,277	
	Sony	Consumer electronics	9,230	
			23,682	1.1
Engineering and machinery	SMC	Specialist pumps	6,570	0.3
Automobiles	Toyota Motor	Automobile manufacturer	6,925	0.3
Healthcare and pharmaceuticals	Yamanouchi Pharmaceutical	Pharmaceuticals	8,930	0.4
Personal care and household products	Kao	Household goods	6,717	0.3
Retailers	Ryohin Keikaku	Own brand retailer	7,821	
	Yamada Denki	*Consumer electronics retailer*	4,767	
			12,588	0.6
Support services	Benesse	Educational services	5,232	0.3
Telecommunication services	NTT DoCoMo	Mobile telecommunications	30,876	1.4
Banks	Mitsubishi Trust and Banking	Trust bank	8,943	0.4
Other financial	Takefuji	Consumer finance	7,617	0.3
Information technology hardware	Fujitsu	Semiconductors and computers	9,241	
	Matsushita Communications Industrial	Cellular phones	5,429	
	Rohm	Semiconductors	7,767	
			22,437	1.0
Software and computer services	Softbank	Internet investor	5,033	0.2
	TOTAL JAPANESE EQUITIES		150,007	6.8
ASIA PACIFIC				
Mining	Broken Hill Proprietary	Diversified resources – Australia	5,092	
	Rio Tinto Australia	Diversified resources – Australia	4,276	
			9,368	0.4
Diversified industrials	Cheung Kong Holdings	Property and telecommunications investment company – Hong Kong	14,724	0.7
Electronic and electrical equipment	Hon Hai Precision	Electronics manufacturer – Taiwan	6,082	
	†Nasteel Electronics	Electronics manufacturer – Singapore	9,365	
	Samsung Electronics	Electronics manufacturer – Korea	6,931	
	Winbond Electronics	Electronics manufacturer – Taiwan	6,525	
			28,903	1.3
Beverages	Foster's Brewing	Brewing – Australia	4,280	0.2
Tobacco	BAT Malaysia	Tobacco – Malaysia	1,435	0.1
Media	Singapore Press	Newspaper publisher – Singapore	7,583	0.3
Transport	Brambles Industries	Logistical services – Australia	4,384	0.2
Telecommunication services	Telecom Corp of New Zealand	Telephone utility – New Zealand	6,165	0.3
Banks	Commonwealth Bank of Australia	Banking – Australia	3,859	
	Malayan Banking	Banking – Malaysia	4,215	
			8,074	0.3

†denotes holding in covertible loan stock

Classification	Name	Business		Market value £'000	%
Investment companies	Atlantic Korea Smaller Companies	Investment fund – Korea		6,919	
	Baillie Gifford Pacific Fund	*Pacific basin fund*		11,543	
	UTI International India IT Fund	Investment fund – India		5,137	
				23,599	1.1
Software and computer services	Chinadotcom	Internet service provider – China		5,077	
	Pacific Century Regional Development	Internet investor – Singapore		4,523	
				9,600	0.4
	TOTAL ASIA PACIFIC EQUITIES			118,115	5.3
	Value of equity stocks and OEICs		2,027,904		
	Convertible loan stocks having an element of equity		9,365		
TOTAL EQUITY INVESTMENTS				2,037,269	92.3
FIXED INTEREST					
Sterling denominated	Atlantic Telecom 13.25% 2010		7,950		
	Bank of Scotland (SAM) 2072		19,148		
			27,098		
Euro denominated	ACM European Enhanced Income Fund		4,950		
	Atlantic Telecom 13% 2010		7,630		
	Bank of Scotland 5.5% 2009		1,416		
	BSCH Issuances 5.125% 2009		2,756		
	Colt Telecom Group 7.625% 2008 (DM)		4,390		
	Imperial Tobacco 6.375% 2006		1,478		
	Norsk Hydro 6.25% 2010		3,039		
	PTC International Finance II 11.25% 2009		3,197		
	Royal Bank of Scotland 4.875% 2009		1,364		
	Standard Chartered Bank 5.375% 2009		2,763		
	Swedish Match 6.125% 2006		1,499		
	Woolwich 5.25% 2011		2,734		
			37,216		
US dollar denominated	Cellco Finance 15% 2005		3,260		
	Cellco Finance 12.75% 2005		7,825		
			11,085		
	Argentina 11.375% 2017		42,453		
	Argentina 9.75% 2027		41,136		
			83,589		
TOTAL FIXED INTEREST				158,988	7.2
NET LIQUID ASSETS				10,337	0.5
TOTAL ASSETS AT MARKET VALUE (before deduction of debentures and short-term borrowings)				2,206,594	100.0

CAPITAL

At 31 March	Total assets £'000	Debenture stocks, long and short term borrowings £'000	Equity shareholders' funds £'000	Equity shareholders' funds per share p	Net asset value per share # p	Share price p	Discount †† %
1990	710,368	122,566	587,802	163.0	163.8	128.5	21.6
1991	733,023	115,360	617,663	171.2	172.3	148.0	14.1
1992	738,314	116,196	622,118	172.5	173.7	142.0	18.2
1993	1,029,800	239,710	790,090	219.0	220.3	184.5	16.3
1994	1,047,750	123,542	924,208	256.2	257.4	219.0	14.9
1995	1,072,822	195,505	877,317	243.2	244.4	217.0	11.2
1996	1,323,010	209,871	1,113,139	308.6	309.8	268.7	13.3
1997	1,472,300	256,229	1,216,071	337.1	338.4	290.5	14.2
1998	1,877,159	303,063	1,574,096	436.4	437.4	384.0	12.2
1999	1,868,328	222,427	1,645,901	456.3	457.3	375.5	17.9
2000	**2,206,594**	**279,010**	**1,927,584**	**569.1**	**570.2**	**493.5**	**13.5**

Net asset value per ordinary share has been calculated after deducting prior charges at par value (see note 19, page 40).
†† Discount is the difference between Scottish Mortgage's quoted share price and its underlying net asset value.

REVENUE / GEARING RATIOS

Year to 31 March	Gross revenue £'000	*Available for ordinary shareholders £'000*	*Earnings per ordinary share net† p*	*Dividend per ordinary share net p*	Expense ratio¶ %	Actual gearing‡	Potential gearing§
1990	31,672	13,356	3.70	3.35	0.22	113	121
1991	35,309	15,207	4.22	3.70	0.26	109	119
1992	35,294	14,846	4.12	3.90	0.36	102	119
1993	37,442	13,818	3.83	4.00	0.31	107	130
1994	35,751	14,847	4.12	4.10	0.34	106	113
1995	42,504	19,390	5.37	4.40	0.24	105	122
1996	48,114	21,394	5.93	4.65	0.29	101	119
1997	50,571	24,604	6.82	5.15	0.27	104	121
1998	52,184	21,685	6.01	5.35	0.37	107	119
1999	44,894*	20,263	5.62	5.50	0.38	107	114
2000	**44,100**	**14,624**	**4.11**	**5.65**	**0.50**	**105**	**114**

† The calculation of earnings per ordinary share is based on the revenue from ordinary activities after taxation and the weighted average number of ordinary shares in issue (see note 8, page 35).
¶ Ratio of total operating costs against average shareholders' funds.
‡ Total assets (including all debt used for investment purposes) less all cash and fixed interest securities (ex convertibles) divided by shareholders' funds.
§ Total assets (including all debt used for investment purposes) divided by shareholders' funds.
* Restated for the adoption of FRS16 "current taxation" (see note 1, page 33).

CUMULATIVE PERFORMANCE

At 31 March	Net asset value per share #	Share price	Benchmark	Earnings per ordinary share net	Dividend per ordinary share net	Retail price index	Net asset value # total return**	Price total return**	Benchmark total return‡‡
1990	100	100	100	100	100	100	100	100	100
1991	105	115	102	114	110	108	108	118	106
1992	106	111	100	111	116	113	111	116	107
1993	134	144	123	104	119	115	143	155	138
1994	157	170	138	111	122	117	170	188	159
1995	149	169	135	145	131	121	165	189	160
1996	189	209	165	160	139	125	212	240	203
1997	207	226	175	184	154	128	235	264	223
1998	267	299	226	162	160	132	308	354	296
1999	279	292	246	152	164	135	326	353	328
2000	**348**	**384**	**285**	**111**	**169**	**139**	**412**	**468**	**384**
Compound Annual Returns									
5 year	18.5%	17.9%	16.2%	(5.2%)	5.1%	2.7%	20.1%	19.8%	19.1%
10 year	13.3%	14.4%	11.0%	1.1%	5.4%	3.3%	15.2%	16.7%	14.4%

** Source AITC.
‡‡ Source Primark Datastream.

Directors' Report

The Directors have pleasure in submitting their Annual Report together with the results of the Company for the year to 31 March 2000.

Review of Activities

During the year under review the Company has followed the normal activities of an investment trust company. The Company qualifies for the full investment limit in a Personal Equity Plan and it is the Directors' intention that the Company will conduct its affairs so as to continue to be a qualifying trust. A review of the main features of the year is contained in the Chairman's Statement and in the Managers' Portfolio Review on the preceding pages.

Dividends

The Board recommends a final dividend of 3.85p per ordinary share which, together with the interim already paid, makes a total of 5.65p for the year compared with 5.50p for the previous year.

If approved, the recommended final dividend on the ordinary shares will be paid on 5 July 2000 to shareholders on the register at the close of business on 9 June 2000.

After payment of the dividend the accumulated revenue balance is reduced by £4,819,000 to £24,546,000.

Status

Shareholders' approval of the share buy-back proposal at the Extraordinary General Meeting held in February 1999 required an amendment to the Articles to enable the Company to use its capital reserve to fund buy-backs of its own shares. The amendment to the Articles necessitated the loss of Scottish Mortgage's investment company status but had no effect on the Company's status as an Investment Trust (for taxation purposes). Following a recent amendment to the Companies Act, an investment company is now permitted to distribute its capital profits for the purposes of purchasing its own shares without losing its investment company status. An amendment to the Articles to reflect the change in company law will enable the Company to regain its investment company status.

The Company has received approval as an Investment Trust from the Inland Revenue in respect of the year to 31 March 1999 and has subsequently directed its affairs so as to enable it to continue to seek such approval.

Corporate Governance

The Committee on Corporate Governance published its report on the principles of good governance and code of best practice ('the Combined Code') in June 1998.

The Board has considered the principles set out in the Combined Code and believes that the Company's current practice, given the special circumstances of an Investment Trust Company is, in all material respects, consistent with the principles of the Combined Code.

The Principles of Good Governance

The Board

The Board's regular meetings take place every two months. It has a number of matters reserved for its approval including investment policy, borrowings, treasury matters and dividend policy. The Board also reviews the financial statements, investment transactions, revenue budgets and performance.

The Board currently comprises six Directors all of whom are non-executive and independent of the Company's Managers. The executive responsibilities for investment management have been delegated to the Company's Managers and Secretaries, Baillie Gifford & Co, and in the context of a Board comprised entirely of non-executive Directors, there is no chief executive officer. Lord Sanderson was appointed Chairman in 1993 and is also the senior independent member. The Directors all have appropriate business and financial experience with which to conduct the business of the Board. Information about them can be found on page 4.

Given the non-executive nature of the Board a separate nomination committee has not been established. It is the view of the Board that the appointment of new Directors should be a matter for consideration by the Board as a whole.

Upon appointment each Director is provided with a summary of the responsibilities and duties of directors, together with relevant background information on the Company. Consistent with the recommendation of the Code of Best Practice, the Board will provide appropriate training for new Directors where necessary.

Under the provisions of the Company's Articles, a Director appointed during the year is required to retire and seek election by shareholders at the next Annual General Meeting. The Articles also require that one third of the Directors retire by rotation and submit themselves for re-election. In order to ensure compliance with the spirit of this provision, the Board has resolved further that no Director shall serve for a period of greater than three consecutive years without submitting himself for re-election.

There is an agreed procedure for Directors to seek independent professional advice if necessary and at the Company's expense.

Remuneration

Since all Directors are non-executive, the Company is not required to comply with principles B.1 to B.3 of the Combined Code in respect of executive Directors' remuneration. There is no separate remuneration committee and the Board as a whole considers recommendations put forward by the Managers and Secretaries, from time to time, for changes in Directors' fees.

In setting Directors' fee levels it is the Company's policy to take account of fees paid by comparable investment trusts to ensure that remuneration is sufficient to attract Directors of the appropriate quality and experience.

No Director has a contract of service and there is no notice period. Directors' fees are detailed in note 4 on page 34; no other benefits are provided.

Internal Control

The practical measures to ensure compliance with regulation and company law, and to provide effective and efficient operations and investment management, have been delegated to the Managers and Secretaries, Baillie Gifford & Co, under the terms of the Management Agreement. The Board acknowledges its responsibilities to supervise and control the discharge by the Managers and Secretaries of their obligations.

Baillie Gifford & Co is responsible for the design, implementation and maintenance of control policies and procedures to safeguard the assets of the Company and to manage its affairs properly. This responsibility also extends to maintaining effective operational and compliance controls and risk management.

The Company's investments are segregated from those of Baillie Gifford & Co and its other clients through the appointment of The Bank of New York Europe Limited and The Fuji Bank, Limited as independent custodians of the Company's investments.

Baillie Gifford & Co has an established compliance function in accordance with IMRO regulations. The compliance function provides the Board with a report on monitoring procedures at least annually. Baillie Gifford & Co conducts an annual review of its system of internal control which is documented within an internal controls report. This report is independently reviewed by Baillie Gifford & Co's auditors. A copy of the internal controls report is submitted to the Board. Baillie Gifford & Co has expanded its compliance department to establish an internal audit function responsible for ensuring that all significant strategic, commercial relationship, investment and operational risks are effectively controlled by management.

The Directors acknowledge their responsibility for the Company's system of internal financial controls, which is designed to provide reasonable but not absolute assurance against material misstatement or loss, and confirm that they have reviewed the effectiveness of the system.

In limiting their review to internal financial control, the Directors have adopted the transitional approach recommended by the UK Listing Authority of the Financial Services Authority in respect of the implementation of the guidance "Internal Control: Guidance for Directors on the Combined Code" (the Turnbull guidance).

The Board has undertaken a full review of all aspects of the Turnbull guidance and believes that much of its current approach to internal control review meets with the Turnbull recommendations. The Board confirms that, by formalising its review of the effectiveness of internal controls, it expects to have in place by June 2000 the procedures necessary to implement the Turnbull guidance. To ensure that risk management and internal control are considered on a regular basis and that a full risk and control assessment is undertaken, the Directors are confident that, by June 2000, the following processes will be established in compliance with the guidance:

- Internal controls strategy will be formalised with the production of a detailed risk map whereby significant risks are identified and the key controls to manage those risks are confirmed as in place and operating effectively.

- Reporting procedures for the internal audit function and compliance, department with regard to their respective risk framework and regulatory monitoring programmes, will be defined and formalised within a service level agreement.
- Regular reports on internal control will be submitted for Board review.

In setting internal control policies, the Board has reviewed the guidance provided by the Association of Investment Trust Companies and has adopted their recommendations as they relate to a wholly non-executive Board, where the executive functions of investment management and administration have been delegated to third parties.

Accountability and Audit

The respective responsibilities of the Directors and the auditors in connection with the Financial Statements are included on pages 28 and 29.

The accounts have been prepared on the going concern basis as it is the Directors' opinion that the Company will continue in operational existence for the foreseeable future.

An audit committee has been established in compliance with the Combined Code consisting of all independent non-executive Directors. Its authority and duties are clearly defined within its written terms of reference. The Chairman of the Board has been appointed Chairman of the Audit Committee. The committee meets periodically to review the Company's interim and annual financial statements. It meets at least annually with the external auditors and approves the level of fees for audit and non-audit services.

An Investment Management Agreement between the Company and Baillie Gifford & Co sets out the matters over which the Managers have authority in accordance with the policies and directions of, and subject to restrictions imposed by, the Board. The Management Agreement is terminable on not less than 12 months' notice and the Audit Committee regularly reviews the terms of the management agreement.

Relations with Shareholders

The Company's Managers meet regularly with institutional shareholders and report to the Board. The Company's Annual General Meeting provides a forum for communication with private shareholders and the Board announces the level of proxies lodged. The notice period for the Annual General Meeting is twenty working days.

Compliance

The Board considers that throughout the year it has complied fully with the Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance. In addition, the Board considers that throughout the year the Company has been in compliance with the Combined Code Provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the UK Listing Authority of the Financial Services Authority, with the exception of the appointment of a nomination committee, the absence of which has been explained above. As permitted by the UK Listing Authority of the Financial Services Authority, the Company has complied with the Combined Code provision D.2.1 on internal control by reporting on internal financial control in accordance with the guidance for Directors on internal control and financial reporting that was issued in December 1994.

Directors

The Directors at the year end, and their interests in the Company, were as follows:

Name	*Nature of interest*	*Ordinary 25p shares held at* 31 March 2000	31 March 1999
Lord Sanderson of Bowden	Beneficial	65,505	63,559
	Non-beneficial	29,500	37,485
GA Ball	Beneficial	10,000	10,000
FPM Johnston	Beneficial	30,000	30,000
Sir Donald MacKay	Beneficial	2,469	2,469†
The Earl of Portarlington	Beneficial	936,000	936,000
Sir John Shaw	Beneficial	7,000	7,000

† holding at date of appointment

Lord Sanderson of Bowden and Mr GA Ball retire by rotation and, being eligible, are recommended by the Board for re-election.

Mr IS Irwin retired from and Sir Donald MacKay was appointed to the Board on 1 July 1999.

There have been no changes intimated in the Directors' interests up to 9 May 2000.

Substantial Holdings

The following information has been intimated to the Company as at 9 May 2000 in compliance with section 198 of the Companies Act 1985.

Name	Number of ordinary 25p shares held	% of issue
D.C. Thomson and Co Ltd	15,000,000	4.43
The Prudential Corporation Group of Companies	13,634,338	4.03
Barclays PLC	13,152,477	3.88

Repurchase of Shares

At the Extraordinary General Meeting held on 11 February 1999 the Company was granted authority to purchase up to 54,071,928 ordinary shares (equivalent to 14.99% of its then issued share capital), such authority to expire on 10 August 2000 unless previously varied, revoked or renewed.

During the year to 31 March 2000 the Company bought back 21,999,000 ordinary shares (nominal value £5,499,750, being 6.1% of the issued share capital as at 11 February 1999) on the London Stock Exchange for cancellation. The total consideration for these shares was £100,700,000. Since 1 April 2000 the Company has bought back a further 490,000 shares for cancellation at a cost of £2,245,000.

The principal reasons for such share buy-backs are:

(i) to enhance net asset value for continuing shareholders by purchasing shares at a discount to the prevailing net asset value;

(ii) to address any imbalance between the supply of and demand for Scottish Mortgage's shares that results in a difference between the published net asset value per share and the quoted market price.

The shares in question were purchased at a price (after allowing for costs) below the net asset value and subsequently cancelled, thereby reducing the issued share capital (see note 16 on page 39). As a result of such purchases the net asset value of the Company has increased by approximately 0.9%.

The Directors are seeking shareholders' approval at the Annual General Meeting to renew the authority to purchase up to 14.99% of the Company's ordinary shares in issue at the date of the passing of the resolution, such authority to expire at the Annual General Meeting of the Company to be held in 2001. Under the Listing Rules of the UK Listing Authority of the Financial Services Authority, the maximum price that may be paid on the exercise of the authority must not exceed 105% of the average of the middle market quotations for the shares over the five business days immediately preceding the date of purchase. The minimum price that may be paid will be 25p per share. Purchases of shares will be made within guidelines established, from time to time, by the Board. Your attention is drawn to Special Business, Resolution No. 7, in the Notice of Annual General Meeting.

Amendment to the Articles

Following a recent amendment to the Companies Act, an investment company is now permitted to distribute its capital profits for the purposes of purchasing its own shares without losing its investment company status. It is proposed that the Articles be amended to take account of this change in the law. Details of the amendment to the Articles are set out in Resolution No. 8 in the Notice of Annual General Meeting.

For the avoidance of doubt, notwithstanding the change to the Companies Act or the amendment to the Articles, the Company will continue to be prohibited from using its capital reserve to fund dividend payments.

Creditor Payment Policy

It is the Company's payment policy for the forthcoming financial year to get the best terms for all business. In general, the Company agrees with its suppliers the terms on which business will take place and it is its policy to abide by these terms. The Company had no trade creditors at 31 March 2000.

Year 2000 Compliance

Baillie Gifford's Year 2000 compliance project, which extended to seeking reassurance from major external suppliers regarding Year 2000 issues, was complete in all critical areas by the end of December 1999. To date there has been no disruption to Scottish Mortgage's business operations resulting from the date change to the Year 2000. The Managers have assured the Directors that they will continue to monitor the situation as part of an ongoing project of monitoring systems and operations.

The costs associated with implementing the Year 2000 review are borne by Baillie Gifford & Co, and therefore no provision has been made in Scottish Mortgage's accounts for Year 2000 expenses.

Auditors

The auditors, KPMG Audit Plc, are willing to continue in office and in accordance with section 385 and section 390A of the Companies Act 1985 resolutions concerning their reappointment and remuneration will be submitted to the Annual General Meeting.

By order of the Board

BAILLIE GIFFORD & Co Baillie Gifford & Co
Managers and Secretaries
10 May 2000

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Auditors' Report

TO THE MEMBERS OF THE SCOTTISH MORTGAGE AND TRUST PLC

We have audited the financial statements on pages 30 to 41.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described on page 28 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

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

We review whether the statement on pages 24 to 26 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 March 2000 and of its total return for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh
10 May 2000

STATEMENT OF TOTAL RETURN
(incorporating the revenue account*)

		for the year ended 31 March 2000			for the year ended 31 March 1999		
		Revenue	Capital	Total	Revenue (restated)	Capital	Total (restated)
Gains on investments	9	–	388,150	388,150	–	73,082	73,082
Currency losses	17	–	(948)	(948)	–	(1,700)	(1,700)
Income	2	44,100	–	44,100	44,894	–	44,894
Investment management fee	3	(7,051)	–	(7,051)	(5,116)	–	(5,116)
Other administrative expenses	4	(1,860)	–	(1,860)	(953)	–	(953)
NET RETURN BEFORE FINANCE COSTS AND TAXATION		35,189	387,202	422,391	38,825	71,382	110,207
Finance costs of borrowings	5	(19,316)	–	(19,316)	(17,787)	–	(17,787)
RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION		15,873	387,202	403,075	21,038	71,382	92,420
Tax on ordinary activities	6	(1,249)	–	(1,249)	(775)	–	(775)
RETURN ON ORDINARY ACTIVITIES AFTER TAXATION *for the financial year attributable to equity shareholders*		14,624	387,202	401,826	20,263	71,382	91,645
Dividends in respect of equity shares	7	(19,443)	–	(19,443)	(19,840)	–	(19,840)
TRANSFER (FROM)/TO RESERVES		(4,819)	387,202	382,383	423	71,382	71,805
RETURN PER ORDINARY SHARE	8	4.11p	108.98p	113.09p	5.62p	19.79p	25.41p

* The revenue column of this statement is the profit and loss account of the Company.
All revenue and capital items in the above statement derive from continuing operations.
The accompanying notes are an integral part of this statement.

	Notes	at 31 March 2000 £'000	at 31 March 2000 £'000	at 31 March 1999 £'000	at 31 March 1999 £'000
FIXED ASSETS					
Investments	9		2,196,257		1,862,816
CURRENT ASSETS					
Debtors	11	13,033		13,882	
Cash at bank and in hand		18,651		7,593	
		31,684		21,475	
CREDITORS					
Amounts falling due within one year	12	(147,957)		(85,963)	
NET CURRENT LIABILITIES			(116,273)		(64,488)
TOTAL ASSETS					
less current liabilities			2,079,984		1,798,328
CREDITORS					
Amounts falling due after more than one year	13		(152,400)		(152,427)
			1,927,584		1,645,901
CAPITAL AND RESERVES					
Called-up share capital	16		84,680		90,180
Capital redemption reserve	17		5,500		–
Capital reserve – realised	17		1,088,677		917,969
Capital reserve – unrealised	17		724,181		608,387
Revenue reserve	17		24,546		29,365
EQUITY SHAREHOLDERS' FUNDS	18		1,927,584		1,645,901
NET ASSET VALUE PER ORDINARY SHARE	19		570.2p		457.3p

The Accounts were approved by the Board and signed on their behalf on 10 May 2000.

Chairman

The accompanying notes are an integral part of this statement.

	Notes	for the year ended 31 March 2000 £'000	for the year ended 31 March 2000 £'000	for the year ended 31 March 1999 £'000	for the year ended 31 March 1999 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	21		37,318		37,398
SERVICING OF FINANCE					
Interest paid		(15,059)		(17,639)	
NET CASH OUTFLOW FROM SERVICING OF FINANCE			(15,059)		(17,639)
TAXATION					
Income tax paid		(2,873)		(1,320)	
Overseas tax suffered		(1,082)		(1,001)	
Corporation tax recovered		-		60	
TOTAL TAX PAID			(3,955)		(2,261)
FINANCIAL INVESTMENT					
Acquisitions of investments		(866,787)		(566,995)	
Disposals of investments		917,294		583,452	
Realised currency loss		(1,305)		(2,577)	
NET CASH INFLOW FROM FINANCIAL INVESTMENT			49,202		13,880
EQUITY DIVIDENDS PAID			(12,715)		(26,693)
NET CASH INFLOW BEFORE FINANCING			54,791		4,685
FINANCING					
Shares purchased for cancellation		(100,700)		-	
Loans repaid		(365,000)		(204,390)	
Loans drawn down		421,967		123,000	
Realised currency gain on multi-currency loans		-		1,651	
NET CASH OUTFLOW FROM FINANCING			(43,733)		(79,739)
INCREASE/(DECREASE) IN CASH	22		11,058		(75,054)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT	22				
Increase/(decrease) in cash in the period			11,058		(75,054)
(Increase)/decrease in bank loans			(56,967)		79,739
Exchange movement			357		877
Other non-cash changes			27		20
MOVEMENT IN NET DEBT IN THE PERIOD			(45,525)		5,582
NET DEBT AT 1 APRIL 1999			(214,834)		(220,416)
NET DEBT AT 31 MARCH 2000			(260,359)		(214,834)

The accompanying notes are an integral part of this statement.

1 PRINCIPAL ACCOUNTING POLICIES

A summary of the principal accounting policies, which are unchanged from last year and have been applied consistently, except for the adoption of FRS16 'Current Tax', is set out below.

The change introduced by FRS16, accounting for UK dividend income net of tax, has been reflected in the 2000 financial statements with corresponding changes to the comparative figures. In the year to 31 March 2000 this reduces gross income and taxation equally by £2,318,000 (31 March 1999 – £3,589,000), the net effect has no impact upon the revenue return attributable to equity shareholders.

(a) BASIS OF ACCOUNTING

The accounts are prepared under the historical cost convention, modified to include the revaluation of fixed asset investments, and on the assumption that approval as an investment trust will continue to be granted.

The accounts have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies'.

True and fair override

The Company is currently not an investment company within the meaning of section 266 of the Companies Act 1985. However, it continues to conduct its affairs as an investment trust for taxation purposes under section 842 of the Income and Corporation Taxes Act 1988, and the Articles of the Company prohibit capital profits from being distributed by way of dividend. As such, the Directors consider it appropriate to continue to present the accounts in accordance with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (the SORP). Under the SORP, the financial performance of the Company is presented in a statement of total return in which the revenue column is the profit and loss account of the Company. The revenue column excludes certain capital items which, since the Company is no longer an investment company, the Companies Act and FRS3 would ordinarily require to be included in the profit and loss account: losses on disposal of investments, calculated by reference to their previous carrying amount, of £6.0m (1999 – £73.5m) and realised currency losses of £1.3m (1999 – £1.7m). In the opinion of the Directors the inclusion of these items in the profit and loss account would be misleading because they would obscure and distort both the revenue and capital performance of the Company, and would not show clearly the revenue profits emerging to be distributable by way of dividend. The Directors therefore consider that these departures from the specific provisions of Schedule 4 of the Companies Act relating to the form and content of accounts for companies other than investment companies and these departures from accounting standards are necessary to give a true and fair view. The departures have no effect on total return or on the balance sheet.

(b) INVESTMENTS

Listed investments are shown at middle market value, or in the case of FTSE 100 constituents, at last traded prices issued by the London Stock Exchange.

Listed investments include Open Ended Investment Companies ('OEICs') authorised in the UK; these are valued at mid price (previously held as unit trusts valued at the mid of creation and cancellation price) and are classified for valuation purposes according to the principal geographical area of the underlying holdings.

Unlisted investments are shown at a valuation determined by the Directors based upon latest dealing prices, stockbroker valuations, net asset values and other information, as appropriate.

(c) INCOME

(i) Income from equity investments is brought into account on the date on which the investments are quoted ex-dividend or, where no ex-dividend date is quoted, when the Company's right to receive payment is established.

(ii) Interest from fixed interest securities is recognised on an accruals basis. Fixed interest securities issued at a significant discount or premium are accounted for on an effective yield basis.

(iii) Unfranked investment income includes the taxes deducted at source.

(iv) Interest receivable on deposits is dealt with on an accruals basis.

(v) If scrip is taken in lieu of dividends in cash, the net amount of the cash dividend declared is credited to the revenue account.

(d) EXPENSES

All expenses are accounted for on an accruals basis and are charged through the revenue account except where they relate directly to the acquisition or disposal of an investment, in which case they are added to the cost of the investment or deducted from the sale proceeds.

(e) LONG TERM BORROWINGS AND FINANCE COSTS

Long term borrowings are carried in the balance sheet at the cumulative amount of net proceeds after issue, plus accrued finance costs. The finance costs of such borrowings are allocated to the revenue account at a constant rate on the carrying amount. Issue costs are written off at a constant rate over the life of the borrowings.

(f) TAXATION

Deferred taxation is provided on all timing differences which are expected to crystallise in the foreseeable future, calculated at the current tax rate relevant to the benefit or liability.

(g) FOREIGN CURRENCIES

Transactions involving foreign currencies are converted at the rate ruling at the time of the transaction. Assets and liabilities in foreign currencies are translated at the closing rates of exchange at the balance sheet date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in capital reserve or revenue reserve as appropriate.

(h) CAPITAL RESERVES

Realised: Gains and losses on realisation of investments and realised exchange differences of a capital nature are dealt with in this reserve.

Unrealised: Unrealised appreciation represents the amount by which the market value of assets and liabilities differs from their book value and is dealt with in this reserve.

	2000	1999
	£'000	£'000
2 INCOME		(restated)
INCOME FROM INVESTMENTS		
Franked investment income†	20,866	18,399
UK unfranked investment income‡	1,497	1,149
Overseas dividends	9,777	9,270
Overseas interest	10,777	9,785
Foreign income dividends	–	2,734
Scrip dividends	–	1,114
	42,917	42,451
OTHER INCOME		
Deposit interest	1,183	2,306
Underwriting commission	–	137
	1,183	2,443
TOTAL INCOME	44,100	44,894
TOTAL INCOME COMPRISES		
Dividends	31,298	31,841
Interest from investments	11,619	10,610
Other	1,183	2,443
	44,100	44,894
INCOME FROM INVESTMENTS		
Listed UK	22,650	23,396
Listed overseas	20,267	19,055
	42,917	42,451

† Restated to comply with FRS16 'Current Tax' (see note 1).
‡ Includes income from OEICs/unit trusts.

3 INVESTMENT MANAGEMENT FEE – *all charged to revenue*		
Investment management fee	6,220	4,578
Irrecoverable VAT thereon	831	538
	7,051	5,116

Baillie Gifford & Co are employed by the Company as Managers and Secretaries under a management agreement which is terminable on not less than 12 months notice, or on shorter notice in certain circumstances. The fee in respect of each quarter is 0.08% of total assets less current liabilities (excluding short term borrowings for investment purposes) and is subject to VAT at the appropriate rate. The management fee is levied on all assets, including holdings in collective investment schemes (OEICs/unit trusts) managed by Baillie Gifford & Co. However, in respect of such holdings the Company is fully rebated for any fees charged. The OEICs share class held by the Company does not attract a management fee. The investment management fee above is shown after crediting such rebates, which amounted to £450,000 (1999 – £928,000).

4 OTHER ADMINISTRATIVE EXPENSES – *all charged to revenue*		
General administrative expenses	1,765	859
Directors' fees	82	81
Auditors' remuneration for audit services	13	13
	1,860	953

General administrative expenses includes the Company's contribution to the AITC's its campaign of £770,000 (1999 – Nil) plus VAT.

The Chairman's emoluments amounted to £19,000 (1999–£18,000). The four other Directors who served on the Board throughout the year each received fees of £12,500 (1999–£12,000) per annum. In addition Sir Donald MacKay, who was appointed a Director on 1 July 1999, and Mr IS Irwin, who retired on 1 July 1999, received fees of £9,392 and £3,142 respectively. In the year to 31 March 1999 Mr GD Gwilt, who retired on 18 June 1998, received fees of £2,597. No pension contributions were made in respect of Directors.

	2000 £'000	1999 £'000
5 FINANCE COSTS OF BORROWINGS – *all charged to revenue*		
Bank loans and overdrafts repayable within five years	5,356	3,816
Debentures repayable wholly or partly in more than five years	13,960	13,971
	19,316	17,787

	2000 £'000	1999 £'000
6 TAX ON ORDINARY ACTIVITIES		(restated)
UK corporation tax at 30% (1999 – 31%)	–	–
Over provision of corporation tax in previous year	–	(60)
Overseas taxation	1,206	1,001
Deferred taxation – current year timing differences	43	(263)
– change in corporation tax rate	–	97
	1,249	775

Restated to comply with FRS16 'Current Tax' (see note 1).

7 ORDINARY DIVIDENDS	2000	1999	2000 £'000	1999 £'000
Interim dividend per ordinary share	1.80p	1.75p	6,402	6,313
Second interim dividend per ordinary share	–	2.00p	–	7,214
Proposed final dividend per ordinary share	3.85p	1.75p	13,041	6,313
	5.65p	5.50p	19,443	19,840

The fall in the total cost of the dividend reflects the lower number of shares in issue resulting from 22 million shares bought back in the period.

8 RETURN PER ORDINARY SHARE	2000			1999		
	Revenue	Capital	Total	Revenue		Total
	4.11p	108.98p	113.09p	5.62p	19.79p	25.41p

Revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £14,624,000 (1999 – £20,263,000), and on 355,302,538 (1999 – 360,720,000) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

Capital return per ordinary share is based on the net capital gains for the financial year of £387,202,000 (1999 – £71,382,0000), and on 355,302,538 (1999 – 360,720,000) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

	2000	1999
	£'000	£'000
9 FIXED ASSETS – INVESTMENTS		
Listed at market value – UK	995,772	1,061,581
– overseas†	1,200,485	801,235
	2,196,257	1,862,816

	Listed in UK £'000	Listed† overseas £'000	Total £'000
Cost of investments held at 1 April 1999	613,623	640,806	1,254,429
Unrealised appreciation at 1 April 1999	*447,958*	*160,429*	*608,387*
Value of investments held at 1 April 1999	1,061,581	801,235	1,862,816
Movements in year:			
Purchases at cost	326,529	536,056	862,585
Sales – proceeds	(463,249)	(454,045)	(917,294)
– realised gains on sales	165,026	107,687	272,713
(Decrease)/increase in unrealised appreciation	(111,003)	226,440	115,437
Takeover, non cash adjustment	16,888	(16,888)	–
Value of investments held at 31 March 2000	995,772	1,200,485	2,196,257
Cost of investments held at 31 March 2000	658,817	813,616	1,472,433
Unrealised appreciation at 31 March 2000	336,955	386,869	723,824
Value of investments held at 31 March 2000	995,772	1,200,485	2,196,257

GAINS ON INVESTMENTS	2000 £'000	1999 £'000
Realised gains on sales	272,713	69,351
Increase in unrealised appreciation	115,437	3,731
	388,150	73,082

During the year, the Company had holdings in collective investment schemes managed by Baillie Gifford & Co, the Company's investment manager. Fees in respect of the unit trusts managed by Baillie Gifford & Co are rebated to the Company to avoid the double charging of fees (see note 3). During the year the unit trusts were converted to open ended investment companies and the share class held in the OEICs *managed by Baillie Gifford & Co does not attract a management fee. At 31 March 2000 the Company held:*

	At 31 March 2000		At 31 March 1999	
	C class shares held	% value of fund	Units held	% value of fund
Baillie Gifford British Smaller Companies Fund	*23,145,431*	*10.2*	*23,145,431*	9.3
Baillie Gifford European Smaller Companies Fund	12,200,000	22.5	12,200,000	24.7
Baillie Gifford American Smaller Companies Fund	2,029,850	18.9	2,029,850	21.3
Baillie Gifford Latin American Fund	20,000,000	26.8	20,000,000	27.6
Baillie Gifford Pacific Fund	8,250,745	8.9	8,250,745	17.3

† At 1 April 1999 includes Guaranteed Nikkei 300 1¼% equity index linked notes 1999, listed in Luxembourg. As there is no trading price for these notes they have been valued on the basis of information supplied by the issuer. They are classified as equity based, and their valuation reflects the 31 March 1999 value of the underlying derivative holdings which were combined to produce the redemption terms.

10 FINANCIAL ASSETS

A full list of the Company's investments is given on pages 18 to 22. In addition a geographical analysis of the portfolio, an analysis of the investment portfolio by broad industrial or commercial sector, and a list of the 30 largest equity investments by their aggregate market value, are contained in the Managers' Review Section.

Exposure to currency risk through asset allocation is indicated on page 11.

The interest rate risk profile of the Company's financial assets at 31 March 2000 was:

	2000			1999		
	Market value £'000	**Weighted average interest rate**	**Maturity**	**Market value £'000**	**Weighted average interest rate**	**Maturity**
Fixed rate:						
UK corporate bond	7,950	13.3%	10 years	–	–	–
European bonds	32,266	8.0%	9 years	–	–	–
US bonds	11,085	13.4%	5 years	–	–	–
Argentine bonds	83,589	10.5%	22 years	80,046	10.5%	23 years
Floating rate:						
UK corporate bond (interest rate linked to LIBOR)	19,148	3.0%	72 years	20,525	4.0%	73 years

	2000 £'000	**1999 £'000**
Cash:		
UK deposits	6,925	5,128
Foreign deposits – euro	10,384	–
– US dollar	1,336	2,460
– Japanese yen	6	5
	18,651	7,593

The cash deposits generally comprise call or short term money market deposits of less than one month.
Short-term debtors and creditors have been excluded from the disclosure of financial instruments.

11 DEBTORS

	2000	1999
Due within one year:		
Income accrued (net)	7,841	9,147
Taxation recoverable	930	711
Other debtors	1,383	1,102
Due after more than one year:		
Deferred taxation (note 15)	2,879	2,922
	13,033	13,882

12 CREDITORS

	2000	1999
Amounts falling due within one year:		
Banque Nationale de Paris multi-currency loan	84,624	50,000
The Royal Bank of Scotland multi-currency loan	–	20,000
Clydesdale Bank multi-currency loan	41,986	–
Purchases for subsequent settlement	2,054	6,256
Proposed final dividend	13,041	6,313
Other creditors	6,252	3,394
	147,957	85,963

Borrowing facilities

A £100 million short-term multi-currency loan facility has been arranged with The Royal Bank of Scotland plc, expiring within 12 months.
A £80 million multi-currency loan facility has been arranged with Banque Nationale de Paris on an uncommitted basis.
A €70 million loan facility has been arranged with the Clydesdale Bank plc.
At 31 March 2000 drawings were as follows:

Banque Nationale de Paris	US$135 million
Clydesdale Bank plc	€70 million

Included in other creditors is £1,265,000 (1999 – £752,000) in respect of the investment management fee.

			2000	1999
			£'000	£'000
13 CREDITORS				
Amounts falling due after more than one year:				
Debenture stocks:	Nominal rate	Effective rate		
£20 million 8–14% stepped interest debenture stock 2020	14%	12.3%	22,526	22,555
£75 million 6.875% debenture stock 2023	6.875%	6.9%	74,155	74,117
£50 million 6–12% stepped interest debenture stock 2026	12%	10.8%	55,044	55,080
4½% irredeemable debenture stock			675	675
			152,400	152,427

Debenture stocks

The debenture stocks are stated in accordance with the requirements of FRS4; the cumulative effect is to increase the carrying amount of borrowings by £6.7 million.

The debenture stocks are secured by a floating charge over the assets of the Company.

	2000	1999
14 FINANCIAL LIABILITIES		
The interest rate risk profile of the Company's financial liabilities at 31 March 2000 was:		
Floating rate – Sterling denominated	–	70,000
– US dollar denominated	84,624	–
– Euro denominated	41,986	–
Fixed rate – Sterling denominated	152,400	152,427
	279,010	222,427
Maturity profile:		
In one year or less, or on demand	126,610	70,000
In more than five years (average period fixed 24 years)	151,725	151,752
No fixed date for repayment	675	675
	279,010	222,427

Fair value of financial liabilities

The debenture stock issues are included in the accounts in accordance with FRS4. A comparison with the closing mid market value is as follows:

	2000			1999		
	Nominal £'000	**Book** £'000	**Market** £'000	**Nominal** £'000	**Book** £'000	**Market** £'000
8–14% stepped interest debenture stock 2020	20,000	22,526	39,200	20,000	22,555	40,800
6.875% debenture stock 2023	75,000	74,155	84,218	75,000	74,117	89,340
6–12% stepped interest debenture stock 2026	50,000	55,044	92,825	50,000	55,080	95,867
4½% irredeemable debenture stock	675	675	593	675	675	577
	145,675	152,400	216,836	145,675	152,427	226,584

All short-term borrowings are stated at market value.

Deducting prior charges at market value would have the effect of reducing net asset value per share from 570.2p to 549.2p. Taking the market price of 493.5p at 31 March 2000 this would have given a discount to net asset value of 10.1% as against 13.5% on a traditional basis. At 31 March 1999 the effect would be to reduce net asset value from 457.3p to 434.9p. Taking the market price of 375.5p at 31 March 1999 this would have given a discount to net asset value of 13.7% as against 17.9%.

Gains and losses on hedges

At 31 March 2000 there were no unrecognised gains/losses on hedges. Realised currency profits/losses are taken to capital reserve and *are not reflected in the profit and loss account unless they are of a revenue nature.*

	2000	1999
	£'000	£'000
15 DEFERRED TAXATION (note 11)		
Timing differences related to:		
Allocation of finance costs of borrowings	2,879	2,922

16 CALLED-UP SHARE CAPITAL	2000		1999	
	Number	£'000	Number	£'000
Authorised ordinary shares of 25p each	360,720,000	90,180	360,720,000	90,180
Allotted, issued and fully paid ordinary shares of 25p each	338,721,000	84,680	360,720,000	90,180

At the Extraordinary General Meeting in February 1999, shareholders granted the Company authority to purchase shares in the market up to 54,071,928 ordinary shares (equivalent to 14.99% of its issued share capital at that date). The Company indicated that it would not purchase shares prior to the abolition of ACT in April, as a result, at 31 March 1999 the Company's authority to buy-back shares remained unchanged at 54,071,928 shares. During the year to 31 March 2000 21,999,000 ordinary shares, being 6.1% of the issued share capital as at 11 February 1999 were bought back for a total consideration of £100,700,000 and were subsequently cancelled. At 31 March 2000 the Company had remaining authority to buy-back 32,072,928 shares.

Under the provisions of the Company's Articles the share buy-back was funded from the realised capital reserve. The nominal value of the share capital has been maintained by the provision of a capital redemption reserve.

17 RESERVES	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
At 1 April 1999	–	917,969	608,387	29,365
Net gain on realisation of investments	–	272,713	–	–
Increase in unrealised appreciation	–	–	115,437	–
Exchange differences	–	(1,305)	–	–
Exchange differences on multi-currency loans	–	–	357	–
Shares purchased for cancellation	5,500	(100,700)	–	–
Retained net deficit for the year	–	–	–	(4,819)
At 31 March 2000	5,500	1,088,677	724,181	24,546

18 TOTAL SHAREHOLDERS' FUNDS	2000	1999
	£'000	£'000
Total shareholders' funds are attributable as follows:		
Equity shares	1,927,584	1,645,901

Total shareholders' funds have been calculated in accordance with the provisions of Financial Reporting Standard 4 'Capital Instruments'. However, the net asset value per share figures in note 19 have been calculated on the basis of shareholders' rights to reserves as specified in the Articles of Association of the Company. A reconciliation of the two figures is as follows:

Shareholders' funds attributable to ordinary shares (as above)	£1,927,584,000
Number of ordinary shares in issue at the year end	338,721,000
Shareholders' funds per ordinary share (pence)	569.1p
Additions/(deductions)	
– expenses of debenture issue	(0.9p)
– allocation of interest on borrowings (net)	2.0p
Net asset value per ordinary share	570.2p

19 NET ASSET VALUE PER ORDINARY SHARE

The net asset value per ordinary share and the net asset value attributable to the ordinary shareholders at the year end calculated in accordance with the Articles of Association were as follows:

	2000	1999	2000 £'000	1999 £'000
Ordinary shares	570.2p	457.3p	1,931,434	1,649,751

The movements during the year of the assets attributable to the ordinary shares were as follows:

Total net assets at 1 April 1999	1,649,751
Total recognised gains and (losses) for the year	401,826
Dividends appropriated in the year	(19,443)
Shares purchased for cancellation	(100,700)
Total net assets at 31 March 2000	1,931,434

Net asset value per ordinary share is based on net assets (adjusted to reflect the deduction of the debentures at par), and on 338,721,000 (1999 – 360,720,000) *ordinary shares, being the number of ordinary shares in issue at each date. The analysis of* shareholders' funds on the face of the balance sheet has been computed in accordance with the provisions of Financial Reporting Standard 4 'Capital Instruments'.

A reconciliation of the two sets of figures under these two conventions is given in note 18.

20 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2000 £'000	1999 £'000
Shareholders' funds at 1 April 1999	1,645,901	1,574,096
Total recognised gains and (losses) for the year (after dividend payments)	382,383	71,805
Shares purchased for cancellation	(100,700)	–
Shareholders' funds at 31 March 2000	1,927,584	1,645,901

21 RECONCILIATION OF NET REVENUE BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

		(restated)
Net revenue on ordinary activities before finance costs and taxation	35,189	38,825
Decrease/(increase) in accrued income	1,037	(243)
Increase in debtors	(281)	(242)
Increase in creditors	1,373	172
Scrip dividends non-cash adjustment	–	(1,114)
	37,318	37,398

22 ANALYSIS OF CHANGE IN NET DEBT

	At 1 April 1999 £'000	Cash flows £'000	Other non-cash changes £'000	Exchange movement £'000	At 31 March 2000 £'000
Cash at bank and in hand	7,593	11,058	–	–	18,651
Loans due within one year	(70,000)	(56,967)	–	357	(126,610)
Debenture stocks	(152,427)	–	27	–	(152,400)
	(214,834)	(45,909)	27	357	(260,359)

23 DIRECTORS' INTERESTS IN CONTRACTS

No Director has a contract of service with the Company.

During the year no Director was interested in any contract or other matter requiring disclosure under section 232 of the Companies Act 1985.

24 SUMMARY OF MAIN INVESTMENT RESTRICTIONS

(as incorporated within the investment management agreement between the Company and Baillie Gifford & Co)

Holding size

At time of investment, a maximum of 8% of total assets may be invested in any one holding. This restriction does not apply to investment in collective investment schemes, issues by way of rights or certain government bonds.

A maximum of 40% of total assets may be invested in holdings exceeding 3% of the value of the Company's total assets. Again, this restriction does not apply to collective investment schemes, issues by way of rights or certain government bonds.

Categories of investment

No investment shall be made on which there is unlimited liability.

The Managers must seek permission of the Board to invest in collective investment schemes managed by Baillie Gifford & Co.

Transactions in futures and options must be consistent with Inland Revenue guidelines so as to ensure maintenance of the Company's Investment Trust status.

25 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Company operates as an Investment Trust Company in accordance with S842 of the Income and Corporation Taxes Act 1988. The international nature of the Company's investment activities provides opportunities for both market appreciation and currency gains, but leaves it exposed to the risk of market volatility and currency fluctuations.

In the case of an investment trust, capital profits from investing activities and currency gains are not recognised in the revenue account, but are credited directly to a separate capital reserve which the Company is prohibited from distributing in the form of dividends.

The Company makes use of gearing (long and short term borrowings) to achieve improved performance in rising markets.

The Company's revenue account may be affected by fluctuations in short term interest rates; income from overseas investment can be affected by currency fluctuations.

The Company's financial instruments comprise its debenture stocks, its short term borrowings, and its cash and liquid resources. The main purpose of these financial instruments is to provide finance for investment activities. In addition to the equity portfolio, the Company maintains investments in UK corporate and overseas government and corporate bonds as part of its investment strategy.

The Company may, from time to time, enter into derivative transactions to hedge specific currency or interest rate risk. No such transactions were undertaken in the period under review.

The Company has precisely defined guidelines to govern the purchase or writing of options on individual shares. No options were purchased or written in the year under review.

Trading in financial instruments is not within the normal activities of an investment trust, nor is it the Company's policy to trade in such instruments. Transactions in financial instruments generally arise as a result of strategic investment decisions.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Company's Managers may not enter into derivative transactions without the prior approval of the Board, and all borrowing facilities require Board authorisation. The Board agrees policies for managing risk with the Company's Managers.

Interest Rate Risk

The Company finances its operations by means of realised capital profits, retained revenue reserves, bank borrowings and the issue of debenture stocks.

The Company has negotiated short term multi-currency borrowing facilities at interest rates linked to LIBOR and may draw down funds for a period of up to 12 months.

The Company has issued a mix of stepped and fixed interest debenture stocks. The stepped interest debenture stocks have reached their final step and are deemed to be fixed.

Liquidity Risk

The Company's policy with regard to liquidity is to ensure continuity of funding. Short term flexibility is achieved by overdraft facilities.

Foreign Currency Risk

The international nature of the Company's investment activities gives rise to a currency risk which is inherent in the performance of its overseas investments. It is not the Company's policy to hedge this risk on a continuing basis, but the Company may from time to time match specific overseas investment with foreign currency borrowings.

The revenue account is subject to currency fluctuation arising on overseas income. The Company does not hedge this currency risk.

NOTICE IS HEREBY GIVEN that the ninety-first Annual General Meeting of The Scottish Mortgage and Trust PLC will be held within the Registered Office of the Company, 1 Rutland Court, Edinburgh EH3 8EY, on Thursday, 29 June 2000, at 11.00 am for the following purposes:

Ordinary Business

1. To approve the Accounts of the Company for the year to 31 March 2000 with the Reports of the Directors and of the Auditors thereon.
2. To declare a dividend.
3. To re-elect Lord Sanderson of Bowden as a Director.
4. To re-elect Mr GA Ball as a Director.
5. To reappoint KPMG Audit Plc as Auditors.
6. To authorise the Directors to fix the remuneration of the Auditors.

Special Business

To consider and, if thought fit, to pass the following resolutions as Special Resolutions:

7. That, in substitution for any existing authority, the Company be authorised, in accordance with section 166 of the Companies Act 1985 (the 'Act'), to make market purchases (within the meaning of section 163(3) of the Act) of ordinary shares of 25p each in the capital of the Company ('Shares'), provided that:
   (a) the maximum number of Shares hereby authorised to be purchased shall be 14.99% of the issued share capital on the date on which this resolution is passed;
   (b) the minimum price which may be paid for a Share shall be 25p;
   (c) the maximum price (exclusive of expenses) which may be paid for a Share shall be 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the Shares for the five business days immediately preceding the date of purchase; and
   (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2001 or 28 December 2001, whichever is the earlier, save that the Company may, prior to such expiry, enter into a contract to purchase Shares under such authority which will or might be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract.
8. That, the Articles of Association of the Company be amended by:
   (i) deleting the following words in article 144 thereof:

   'provided that, subject to Article 144A, no part of the capital reserve or any other moneys in the nature of accretion to capital shall in any event be available for distribution as dividend or any other distribution (within the meaning ascribed thereto by section 263(2) of the Act).'

   and by inserting the following words in their place:

   'provided that no part of the capital reserve or any other moneys in the nature of accretion to capital shall in any event be available for distribution as dividend or any other distribution (within the meaning ascribed thereto by section 263(2) of the Act) otherwise than by way of redemption or purchase of the Company's own shares in accordance with sections 160 and 162 of the Act.'; and

   (ii) deleting Article 144A in its entirety.

By order of the Board

BAILLIE GIFFORD & Co
Managers and Secretaries
26 May 2000

Baillie Gifford

Notes

1 A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company. A Form of Proxy is enclosed.
2 Only holders of ordinary shares are entitled to attend or be represented at the meeting.
3 Shareholders participating in the Baillie Gifford Investment Trust Share Plan and/or the Baillie Gifford Investment Trust ISA/PEP may vote and/or attend the meeting on application to their respective plan administrator as detailed in the terms and conditions of the plans.
4 No Director has a contract of service with the Company.

HOW TO FIND US

The Annual General Meeting of the Company will be held at the offices of Baillie Gifford & Co at 1 Rutland Court, Edinburgh EH3 8EY on Thursday, 29 June 2000 at 11.00 am.

If you have any queries as to how to vote or how to attend the meeting, please call us on 0800 917 2112.

ANALYSIS OF SHAREHOLDERS

ANALYSIS OF SHAREHOLDERS AT 31 MARCH 2000

	Ordinary shares held		Shareholders	
	Number	%	Number	%
Individuals	61,156,874	18.1	13,298	42.6
Baillie Gifford Share Plan/PEP/ISA	17,781,014	5.3	8,377	26.8
Nominee Companies and Banks	203,398,144	60.0	7,310	23.4
Insurance Companies	11,191,744	3.3	185	0.6
Other holders	45,193,224	13.3	2,055	6.6
	338,721,000	*100.0*	*31,225*	*100.0*

- **How to Invest** *The Company's shares are traded on the London Stock Exchange. They can be bought by placing* an order with a stockbroker, by asking a professional adviser to do so, or through the Baillie Gifford Investment Trust Share Plan (of which details follow on the adjacent page).

- **Sources of Further Information on the Trust** The price of shares is quoted daily in the *Financial Times, The Daily Telegraph, The Scotsman, The Herald, The Independent* and *The Times*. The share price can also be found on the Baillie Gifford website at **www.bailliegifford.co.uk**, Trustnet at www.trustnet.co.uk and on other financial websites. Company factsheets are also available on the Baillie Gifford website and are updated monthly. These are available from Baillie Gifford on request.

- **Key Dates** Ordinary shareholders normally receive two dividends in respect of each financial year. An interim dividend is paid at the end of November/beginning of December and a final dividend is paid at the beginning of July. The AGM is normally held in late June/early July.

- **CGT** For Capital Gains Tax indexation purposes, the market value (adjusted for the bonus issue of 4 for 1) of an ordinary share in the Company as at 31 March 1982 was 30.6p.

- **Share Register Enquiries** Computershare Services PLC currently maintains the share register on behalf of the Company. *In the event of queries regarding shares registered in your own name, please contact the Registrars on* 0870 702 0010. By quoting the reference number on your share certificate, investors can check their holding on the Registrar's web site: www.cshare.co.uk

Scottish Mortgage is an investment trust. Investment trusts offer investors the following advantages:

- Participation in a diversified portfolio of shares.
- Constant supervision at low cost by experienced professional managers.
- Freedom from capital gains tax on capital profits realised within the portfolio.
- The opportunity to achieve improved performance for shareholders' funds in rising markets by the borrowing of additional money.

Shares in Scottish Mortgage are also available within an ISA or PEP Transfer wrapper or through Baillie Gifford's Investment Trust Share Plan as detailed on the adjacent page. These products can also be used to invest in the five other investment trusts managed by Baillie Gifford:

- Baillie Gifford Shin Nippon PLC
- Mid Wynd International Investment Trust PLC
- Pacific Horizon Investment Trust PLC
- *The Baillie Gifford Japan Trust PLC*
- The Monks Investment Trust PLC.

These accounts have been approved by the Directors of The Scottish Mortgage and Trust PLC. The information about the ISA, PEP and Share Plan has been approved by Baillie Gifford Savings Management Limited. Baillie Gifford Savings Management Limited is the ISA Manager of the Baillie Gifford Investment Trust ISA, the PEP Manager of the Baillie Gifford Investment Trust PEP and the Manager of the Baillie Gifford Share Plan. Baillie Gifford Savings Management Limited is wholly owned by Baillie Gifford & Co. Both are regulated by IMRO. Baillie Gifford only provides information about its products and does not provide investment advice. The staff of Baillie Gifford may have positions in investment trusts managed by Baillie Gifford and may buy, sell or offer to make a purchase or sale of such *securities from time to time. The value of ISA or PEP tax advantages will depend on personal circumstances. Past performance is not* necessarily a guide to future performance. The capital value of and income distributed by an investment trust can go down as well as up and an investor may not get back the amount originally invested. The price of an investment trust share will fluctuate in accordance with supply and demand and may not reflect the underlying net asset value.

Baillie Gifford's Share Plan

You can invest from £250 or from £30 per month in any of the six investment trusts managed by Baillie Gifford through the Baillie Gifford Investment Trust Share Plan. The only charges are stamp duty at 0.5%, market maker's spread and a selling charge of £10 plus VAT.

Baillie Gifford's Investment Trust ISA

You can put any of our trusts in a tax efficient wrapper by investing from £2,000 or £250 per month or by transferring an ISA from your existing manager.

Baillie Gifford's Investment Trust PEP Transfer

You can transfer an existing PEP to access different markets through our investment trusts or to change your investment manager.

Further Information

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