SC 7058

The Scottish Mortgage and Trust PLC

Annual Report & Accounts
31 March 2001

Company Summary

COMPANY DATA AT 31 MARCH 2001

Total assets†	Shareholders' funds	Market capitalisation
£1,660m	£1,464m	£1,239m

† 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	At the year end the Company's share capital consisted of 328,717,888 ordinary shares of 25p each which were issued and fully paid. During the year the Company bought back 10,003,112 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 0.32% of total assets less current liabilities (excluding short term borrowings for investment purposes), calculated on a quarterly basis.
ISA/PEP	An ISA and a PEP transfer facility are available (see inside back cover).
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 2001	31 March 2000	% change
Total assets (before deduction of debentures and short term borrowings)	£1,660.2m	£2,206.6m	
Loans and Debentures	£195.9m	£279.0m	
Equity shareholders' funds	£1,464.3m	£1,927.6m	(24.0)
Net asset value per ordinary share (after deducting prior charges at par)	447.5p	570.2p	(21.5)
Net asset value per ordinary share (after deducting prior charges at market value)	430.9p	549.2p	(21.5)
Share price	377.0p	493.5p	(23.6)
FTSE All-Share Index	2,711.4	3,110.6	(12.8)
FTSE World Ex UK Index (in sterling terms)	299.3	355.2	(15.7)
FTSE World Index (in sterling terms)	302.5	357.1	(15.3)
Benchmark composite index			(14.3)
Dividend per ordinary share	6.00p	5.65p	6.2
Earnings per ordinary share	7.57p	7.82p*	(3.2)
Expense ratio	0.51%	0.50%	
Discount (after deducting prior charges at par)	15.8%	13.5%	
Discount (after deducting prior charges at market value)	12.5%	10.1%	

	Year to 31 March 2001		Year to 31 March 2000	
Year's high and low	**High**	**Low**	**High**	**Low**
Price	494.5p	356.5p	503.5p	375.5p
Net asset value	584.7p	426.5p	595.6p	445.3p
Discount	12.1%	17.9%	12.1%	18.2%

	31 March 2001	31 March 2000
Total return per ordinary share		
Revenue	7.57p	7.82p*
Capital	(127.14p)	105.27p*
Total	(119.57p)	113.09p

*Restated for change in accounting policy (see note 1, page 33).

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 2001:

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 68.

GA Ball. Geoffrey Ball is executive chairman of CALA Group Ltd, having led the Management Buy Out. He is also chairman of Intelli Partners plc. He was for 13 years a director of The Standard Life Assurance Company. He is 57 and was appointed a Director of The Scottish Mortgage and Trust PLC in 1983.

FPM Johnston, CBE. Fred Johnston is a former 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 65.

Sir Donald MacKay, MA FRSE FRSGS. Donald MacKay is 64 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 currently chairman of Grampian Holdings PLC, a director of Edinburgh Income and Value Trust plc and a former chairman of Scottish Enterprise.

WG McQueen. Gordon McQueen is 54 and was appointed a Director of The Scottish Mortgage and Trust PLC on 15 February 2001. He is an executive director of the Bank of Scotland where he is Divisional Chief Executive, Group Treasury and Finance. He is also Chief Executive of Bank of Scotland Treasury Services PLC.

The Earl of Portarlington. George Portarlington is 62 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.

Lord Sanderson of Bowden
Chairman

Sir John Shaw, CBE. Jack Shaw is 68 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.

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 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 around £22 billion. Based in Edinburgh, it is one of the leading privately owned investment management firms in the UK, with 19 partners and a staff of over 350.

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

I have to report that the year which ended on 31 March 2001 has been a difficult one for your Company. The net asset value fell by 21.5% to 447.5p. This compares with a decline of 14.3% in the benchmark index of 50% FTSE All-Share and 50% FTSE World Ex UK (in sterling terms).

As our Interim Statement reported, the principal cause of the poor performance was our heavy exposure to technology and telecommunications in the first part of the year and in addition we were disadvantaged by our European stock selection. It is noteworthy that both these factors were the complete reverse of the pattern of good results reported last year. However, it is gratifying to note that performance in the second half of the year has been virtually in line with the benchmark.

As announced at the AGM the Board has made an accounting change so that 50% of indirect expenses will now be charged to capital. The Board considers that this treatment more appropriately reflects the probable split of returns in line with the Company's objective of maximising total returns to shareholders. The change should enable Scottish Mortgage to continue to provide a steady increase in dividends which was otherwise becoming problematic given the falling dividend pay-outs in many markets. On this new basis earnings per share fell by 3.2% to 7.57p. As noted at the interim stage this figure includes a write-off of £2.9m from a deferred tax debtor which the Board considers unlikely to be crystallised as a result of the low level of unfranked income and a carry forward of tax losses. But for this write-off earnings on the new basis would have been 8.44p, a rise of 7.9%.

Investment background

The global economy has deteriorated in the last year. In particular 12 months ago the American economy was growing rapidly and with little evidence of inflation despite the low unemployment level. This happy situation has not endured. Rising oil prices and monetary tightening contributed to a slowing in the economy beginning last summer. In recent months an abrupt worsening of conditions in the technology and telecommunications industries has brought the United States close to zero growth. The corporate sector has been badly hurt by this course of events. Profits have come under severe pressure and job losses are proliferating. The months ahead will demonstrate if these developments will provoke a recession in America. Much depends on the continuing resilience of consumers and their response to the Bush administration's proposed tax cuts and the Federal Reserve's monetary easing. The continuing strength of the dollar in the face of the current account deficit suggests that investors retain considerable confidence in the actions of the American authorities.

The British economy is reasonably placed to cope with the ramifications of the American slowdown. Current activity levels remain solid despite high profile redundancies and the Foot and Mouth epidemic. Unemployment has fallen below 1 million for the first time in 25 years. The low level of inflation has given the Bank of England ample scope to cut interest rates. A sound fiscal position has made the predictable pre-election boost in government spending acceptable to markets. A modest slowdown in growth remains the most likely scenario for the coming year.

European economies are now showing indications that growth is faltering. Once again Germany has been more seriously damaged by the deterioration in the international environment than the rest of the continent. Tax cuts in several major European economies have allowed the consumer to retain some impetus but this too has been more apparent in France than in Germany. The European Central Bank appears to be more concerned by the lingering impact of the weak euro and high oil prices than by the current indications of gathering economic weakness.

Last year we noted some signs of improvement in the Japanese economy. Fortunately we advised a degree of caution in interpreting this as evidence of a fully-fledged recovery. After a brief, if vigorous, surge in corporate profits and capital expenditure Japan is once again showing weakness. The debts of the government, the doubtful health of the financial system and the understandable anxieties of the consumer have left the economy in no fit state to face a prolonged international downturn. The weakness of Japanese demand has combined with close linkage to the troubled US technology industry to remove the lustre from a potentially impressive recovery in the rest of Asia.

Investment activity

Equities

The principal features of the last year have been the continuing reduction in the British stake, a cut in the European exposure, and an increase in the US weighting. In aggregate we made net sales of £112m to reflect the deteriorating prospects for the global economy and to fund share repurchases.

We have made net sales of £154m in British equities. The bulk of this took place in the first half of the year and reflected our difficulties in finding a sufficient number of individually attractive investments rather than any dissatisfaction with the economic environment. As the Managers' country review (page 13) makes clear the UK market also bore the brunt of our initial reductions in the telecommunications sector.

We have reduced our European stake by £71m. As noted above we have endured a disappointing year in continental markets and it has seemed an appropriate response to lower our large stake in this area. Here too we have made significant reductions in our previously substantial telecommunications and technology holdings.

The net purchases of £80m in America would have been greater if it had not been for our wariness about the current economic outlook. The US market contains incomparably the widest and best selection of equities in the world. Valuation levels are no more demanding than elsewhere and are significantly more attractive than a year ago. As has been the case in the last 12 months we doubt that US equities will significantly underperform their global counterparts despite the possibility of an American recession.

The minor (£32m) and recent net investment in Japan reflects our tentative hope that the monetary authorities and financial institutions in Tokyo are finally starting to face up to their problems. In particular we support the Bank of Japan's decision to guarantee zero interest rates until consumer prices start to rise. We would like to see further steps to expand the money supply and to write-off bad loans but in the meantime we are comforted by the relatively reasonable valuation of Japanese equities both by local standards and increasingly in global comparisons.

Just as the previous year benefited from the heavy weighting in technology and telecommunications stocks so this year has shown the dangers of this position. The Board supports the policy of retaining holdings in the most profitable and solid companies in these sectors in the light of their still bright medium-term prospects. It also welcomes the Managers' acknowledgement that they were slow to appreciate the intensity of the profit squeeze being endured by these sectors in recent months. Sales have now been made to take account of this deterioration and the stable performance relative to the benchmark in the last six months reflects this action.

Fixed interest

The notable change in this area has been the £58m reduction in the holding of Argentine debt. These bonds have been modestly profitable for the Company but we have become concerned that the continuing weakness of the economy is eroding the economic feasibility and political credibility of the hard currency policy. We hope that the current efforts to revitalise the economy enable us to retain the small remaining holding.

Repurchase of shares

We continue to take advantage of our recent freedom to buy-back shares. We have repurchased 10 million shares for cancellation at a cost of £45m. This has enhanced the NAV by 0.5%. We are pleased that the discount to NAV has remained relatively stable despite the difficulties of the past year. We think that this owes much to our willingness to make such repurchases. We will therefore once again be asking shareholders to renew the mandate to repurchase up to a further 15% of the then outstanding shares at the forthcoming AGM.

Revenues and dividend

We are proposing a final dividend of 4.10p. For the full year this gives a total dividend of 6.00p, an increase of 6.2% on 1999/2000. This is the 19th consecutive real increase in the Company's dividend.

Balance sheet

The Board would like to reiterate its belief in the benefits of gearing despite the short-term risks of such a policy. In the last 12 months borrowings have fallen to 11.8% from 12.6% of total assets principally as a consequence of the reduction in the Argentine debt holdings which were funded by dollar borrowings.

Our long-term debt was built up at a time when interest rates were considerably higher than those prevailing today. Valuing the Company's debentures at current market prices produces a net asset value of 430.9p as against the 447.5p assuming repayment of the debentures at par. However, it is important to remember that the assets (principally equities) acquired with these borrowed funds have appreciated substantially in value since purchase while the debentures themselves will be repaid at par.

Scottish Mortgage shares and the AITC its campaign

The Board remains keen to narrow the discount that Scottish Mortgage's shares trade on relative to net asset value in the interests of current shareholders. With this objective in mind the Board has supported the AITC its campaign by the expenditure of a further £640,000 in the last year. The reduction in this sum from the £770,000 of the previous year emphasises our determination to see firm evidence that this generic marketing effort produces an adequate increase in demand for Scottish Mortgage's shares. We have indeed seen an increase in the number of new savers in the share plan since the start of the campaign. However, we welcome the proposal to end specific funding for its in return for the more equitable policy of higher subscriptions for all member companies. We believe that this will lead to a lower aggregate cost to Scottish Mortgage. At the same time we are having intensive discussions with the Managers to try to advance the continuing search to attract more private individuals to the Company.

The Baillie Gifford Investment Trust ISA offers an attractive opportunity for private individuals including as it does the benefit of tax concessions. A revised PEP transfer facility is also available to take advantage of the recently liberalised regulations governing this scheme. Baillie Gifford also offers a Share Plan as a low cost means of purchasing Scottish Mortgage shares. For those who would appreciate additional information we have given details of these schemes inside the back cover of this report.

The Board and the AGM

Sir John Shaw retires from the Board after this year's AGM after 19 years of valiant service. We are extremely grateful to Sir John for his many and considerable efforts on behalf of Scottish Mortgage over this long period. We wish him well for the future.

We are pleased to say that Gordon McQueen, BSc, CA, FCIBS, has agreed to stand for election at the AGM. Gordon McQueen is an executive director of the Bank of Scotland where he is Divisional Chief Executive of Group Treasury and Finance. His expertise will be very valuable to us in the coming years.

I would like to extend an invitation to all shareholders to attend the AGM on 5 July 2001 in Edinburgh. The Board appreciates the interest shown by shareholders in the Company. Details of the AGM can be found on pages 42 and 43 of this report.

Outlook

The last year has been disappointing for equity markets in general and Scottish Mortgage in particular. Concerns over the global economy and the profitability of the corporate sector have mounted in recent months. Whilst we fully expect nerves to remain frayed we would caution against undue pessimism. Significant monetary and fiscal easing is taking place throughout the world and we think that this will revive the international economy. Equity valuations are becoming much more attractive for those able to take a longer-term view in the face of the excessive volatility of daily market movements. It is at such times that the flexibility and diversification offered by Scottish Mortgage ought to prove especially valuable. I hope to present better results to shareholders in the year ahead.

Sanderson of Bowden

Sanderson of Bowden
8 May 2001

Managers' Overview

Scottish Mortgage struggled this year. As the geographic reviews make clear we have suffered from our initial heavy exposure to telecommunications and technology companies. This had been very helpful in the previous year but accounted for the severe downturn in performance in the first half of the year under review. The second half saw our performance virtually match that of the index. The only concern over this period was further underperformance in Europe, where we have been unwilling to move away from the technology sector to the same extent as elsewhere. At an asset allocation level our relatively heavy weightings in Europe and Asia (ex Japan) were unhelpful.

PERFORMANCE ATTRIBUTION FOR THE YEAR TO 31 MARCH 2001

Computed relative to the 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:	
	01.04.00	01.04.00	31.03.01	SM	Benchmark	return	Stock selection	Asset allocation
Equity markets	%	%	%	%	%	%	%	%
UK	50.0	42.9	40.8	(12.0)	(10.7)	(0.9)	(0.6)	(0.3)
Europe ex. UK	10.6	22.4	18.1	(27.1)	(11.2)	(3.7)	(3.0)	(0.8)
Americas	30.3	14.6	21.3	(13.3)	(12.8)	(0.1)	0.1	(0.2)
Japan	7.5	6.8	7.4	(37.1)	(27.9)	(0.8)	(0.8)	0.1
Asia Pacific ex. Japan	1.6	5.3	4.5	(27.1)	(11.8)	(0.9)	(0.3)	(0.6)
Bonds	–	7.2	5.9	(6.2)	–	0.4	–	0.4
Cash	–	0.8	2.0	12.7	–	0.4	–	0.4
Total	100.0	100.0	100.0	(17.5)	(12.7)	(5.5)	(4.5)	(1.1)

Source: HSBC

*The above returns are calculated on a total return basis with net income reinvested. Scottish Mortgage's figures represent the returns on the Company's portfolio and the benchmark 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 (17.5%) (against a benchmark return of (12.7%)) translates into a relative return of (5.5%), divide the portfolio return of 82.5 by the benchmark *return of 87.3 and subtract one.*

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/Thomson Financial Datastream
* *The above figures are calculated on a total return basis with income reinvested.*

INVESTMENT CHANGES (£'000)

	Valuation at 31 March 2000	Net acquisitions (disposals)	Appreciation (depreciation)	Valuation at 31 March 2001
Equities†:				
UK	950,235	(153,607)	(117,113)	679,515
Continental Europe	495,779	(71,315)	(123,722)	300,742
North America	285,272	80,211	(52,022)	313,461
Latin America	37,861	9,667	(6,745)	40,783
Japan	150,007	32,342	(58,258)	124,091
Asia Pacific	118,115	(9,072)	(31,183)	77,860
	2,037,269	(111,774)	(389,043)	1,536,452
UK corporate bonds	27,098	5,338	(3,189)	29,247
Euro bonds	37,216	4,543	(5,174)	36,585
US dollar bonds	11,085	–	(1,399)	9,686
Argentine bonds	83,589	(58,469)	(3,197)	21,923
Total investments	2,196,257	(160,362)	(402,002)	1,633,893
Net liquid assets	10,337	14,336	1,616	26,289
Total assets	2,206,594	(146,026)	(400,386)	1,660,182

The figures above for total assets are made up of total net assets but before deduction of debentures and short term borrowings.
† *Equities includes convertibles and OEICs.*

Classification	UK %	Continental Europe %	North America %	Latin America %	Japan %	Asia Pacific† %	2001 Total %	2000 Total %
Equities:*								
Resources	6.0	0.7	2.1	0.5	–	–	9.3	7.8
Mining	–	–	–	–	–	–	–	1.6
Oil and gas	6.0	0.7	2.1	0.5	–	–	9.3	6.2
Industrials	1.7	3.3	–	–	1.9	2.2	9.1	11.0
Chemicals	–	0.8	–	–	0.3	–	1.1	1.3
Construction and building materials	1.6	0.7	–	–	–	–	2.3	3.1
Aerospace and defence	–	–	–	–	–	–	–	0.2
Diversified industrials	–	–	–	–	–	1.1	1.1	0.7
Electronic and electrical equipment	0.1	1.4	–	–	1.4	1.1	4.0	4.1
Engineering and machinery	–	0.4	–	–	0.2	–	0.6	1.6
Consumer Goods	8.8	2.6	3.9	–	1.2	–	16.5	7.6
Automobiles	–	–	–	–	0.4	–	0.4	0.4
Beverages	0.7	–	0.3	–	–	–	1.0	0.2
Food producers and processors	–	0.4	0.7	–	–	–	1.1	–
Healthcare and pharmaceuticals	5.9	2.2	1.5	–	0.8	–	10.4	4.5
Packaging	0.1	–	–	–	–	–	0.1	0.3
Personal care and household products	–	–	–	–	–	–	–	0.3
Tobacco	2.1	–	1.4	–	–	–	3.5	1.9
Services and Utilities	11.3	2.8	5.6	0.2	2.1	0.9	22.9	29.0
Distributors	0.5	–	–	–	–	–	0.5	0.4
Retailers	1.3	–	2.5	0.2	0.6	–	4.6	3.2
Leisure, entertainment and hotels	0.8	–	–	–	–	–	0.8	1.1
Media and photography	2.6	0.7	1.8	–	0.3	0.2	5.6	3.6
Support services	1.9	0.4	–	–	–	–	2.3	2.6
Transport	0.1	–	–	–	–	0.4	0.5	0.2
Telecommunication services	3.5	1.7	0.4	–	1.2	0.3	7.1	17.3
Electricity	0.6	–	0.9	–	–	–	1.5	0.6
Financials	11.3	6.3	3.8	1.7	1.6	0.8	25.5	17.8
Banks	7.0	3.5	0.7	–	0.3	0.6	12.1	7.6
Insurance	1.0	0.7	0.4	–	0.4	–	2.5	1.8
Life assurance	1.0	–	–	–	–	–	1.0	1.0
Investment companies	0.5	1.2	–	1.7	–	0.2	3.6	5.7
Real estate	0.6	–	–	–	–	–	0.6	0.4
Other financial	1.2	0.9	2.7	–	0.9	–	5.7	1.3
Information Technology	1.8	2.4	3.5	–	0.7	0.8	9.2	19.1
Information technology hardware	0.5	2.0	2.7	–	0.7	0.6	6.5	12.3
Software and computer services	1.3	0.4	0.8	–	–	0.2	2.7	6.8
Total Equities*	40.9	18.1	18.9	2.4	7.5	4.7	92.5	
Total Equities* – 2000	43.1	22.5	12.9	1.7	6.8	5.3		92.3
Bonds	1.8	2.2	0.6	1.3	–	–	5.9	7.2
Net Liquid Assets	1.4	0.2	–	–	–	–	1.6	0.5
Total Assets (before deduction of debentures and short term borrowings)	44.1	20.5	19.5	3.7	7.5	4.7	100.0	
Total Assets – 2000	44.2	24.7	13.4	5.6	6.8	5.3		100.0
Debentures and Short Term Borrowings	(9.2)	(2.6)	–	–	–	–	(11.8)	(12.6)
Equity Shareholders' Funds	34.9	17.9	19.5	3.7	7.5	4.7	88.2	
Equity Shareholders' Funds – 2000	37.3	22.8	9.6	5.6	6.8	5.3		87.4
Number of equity investments*	50	29	27	4	19	15	144	163

* Equities includes convertibles and OEICs
† Including Israel

THIRTY LARGEST EQUITY HOLDINGS

Name	Business	Market value £'000	% of total assets
GlaxoSmithKline	Pharmaceuticals	73,998	4.5
BP	Integrated oil	53,777	3.2
Vodafone	Mobile telecommunications	51,531	3.1
Royal Bank of Scotland	Banking	43,173	2.6
Shell Transport & Trading	Integrated oil	37,753	2.3
HSBC Holdings	Banking	28,696	1.7
Lloyds TSB	Banking	23,864	1.4
Golden West Financial	Savings and loans	23,281	1.4
Baillie Gifford Latin American Fund	Investment fund	23,220	1.4
Philip Morris	Tobacco, food and beer	22,929	1.4
Freddie Mac	Mortgages	21,446	1.3
Baillie Gifford European Smaller Companies Fund	Small company fund	20,174	1.2
Barclays	Banking	19,733	1.2
NTT DoCoMo	Mobile telecommunications	19,578	1.2
Deutsche Bank	Banking	18,877	1.1
Amerada Hess	Integrated oil	18,463	1.1
Imperial Tobacco	Tobacco	18,306	1.1
Novartis	Pharmaceuticals	17,958	1.1
Walgreen	Pharmacy chain	17,879	1.1
Aventis	Pharmaceuticals	17,739	1.1
Amvescap	Fund manager	17,379	1.0
Prudential	Life assurance	16,931	1.0
EOG Resources	Natural gas	16,240	1.0
Gallaher	Tobacco	16,125	1.0
Wellpoint	Managed care	16,089	1.0
Nokia	Mobile telecommunications equipment	15,187	0.9
Dixons	Electrical retailer	14,747	0.9
CGNU	Insurance	14,543	0.9
Exelon	Electricity utility	14,530	0.9
MLP	Financial services	14,140	0.8
		728,286	43.9

United Kingdom

The FTSE All-Share Index fell 12.8% over the year to 31 March 2001. In the first half of this period, the market traded up and down with no firm direction. In the second half sharp falls in telecoms, technology and media stocks led the index lower. The sector moves reversed those of the previous 12 months: previously fashionable sectors tumbled (telecommunications fell 52%, media 36%, and technology 60%) whilst defensive sectors came to the fore. For example, beverages rose 32%, food and drug retailers 26%, and tobacco 47%. Some cyclicals also fared better, notably the housebuilders. We made a further reduction in the UK holdings of £154m so that our exposure now reflects more appropriately the comparatively limited selection of appealing stocks that is available in the British market.

We made several changes to the portfolio during the year, in general taking steps to increase its defensiveness. Our initially overweight position in telecommunications hurt performance, but our subsequent move to underweight this area and the increased defensiveness of the portfolio helped, leaving us marginally behind the index for the year.

Our perception of the prospects of the telecommunications industry changed dramatically in the course of the year. While growth in mobile phone subscribers has continued apace, the economics of the industry deteriorated. The 3rd generation license auctions saw the start of a large increase in costs for the operators: not only are they now paying much more for licenses, but roll-out costs for the new networks are considerable, debt has increased, and there are more competitors in most markets. Only the strongest companies will have a chance to prosper in this environment so our main exposure remains through a reduced holding in Vodafone. We sold British Telecom as serious price deflation emerged in some of its core businesses, debt levels spiralled and earnings estimates were slashed. We also sold smaller holdings in alternative carriers such as Atlantic Telecom and Energis, where overcapacity is driving down pricing even more than we had anticipated.

We have increased exposure to economically defensive stocks that at the same time have reasonable growth prospects. We increased our pharmaceuticals position through the purchase of AstraZeneca, which has an exciting pipeline of new drugs. The merger of Glaxo Wellcome and SmithKline Beecham created one of the world's largest drug companies. We think that if GlaxoSmithKline can reap the rewards of scale while retaining a culture of drug innovation, it should perform well. Our overweight position in tobacco paid off handsomely. In the beverage sector we purchased Allied Domecq. This increasingly focused drinks company offers good scope for growth as well as a low valuation.

We retained a successful overweight in banks. The market became more confident that interest rates were not going to rise much (indeed interest rates finished the period under review 0.25% lower than at the start), and earnings' growth remained solid. Our investment in the Royal Bank of Scotland was particularly helpful. After the acquisition of NatWest, the company has found greater cost savings and generated faster growth than the market was expecting. We also increased our holdings in the oil sector as the crude price seemed likely to us to remain higher than the market expected. This turned out to be correct.

We increased our small position in the media sector through purchases of Reed International (business journal publishing), and WPP (one of the largest advertising agencies in the world). Reed is insensitive to economic conditions and is emerging from a period of rigorous restructuring. Fears of a major slowdown in US advertising growth enabled us to buy WPP at an attractive price and the outlook for long-term growth is very solid.

The economic outlook for the UK is fairly favourable. GDP growth is running at 2.5% and whilst unemployment is low inflation is very subdued. The Bank of England has the scope to cut interest rates further and the government to ease fiscal policy once again if the international slowdown proves more damaging than is currently thought likely. Whilst we are still finding it difficult to identify many new buying ideas the British market does offer a degree of stability in both economic conditions and corporate earnings that is welcome at present.

1 *An example of Allied Domecq's new adv campaign for its well-known brands*

2 *A Shell platform in the Gulf of Mexico, water depth of 1km. Shell's excellent dee capabilities will be one of the drivers fo over the next few years*

Continental Europe

It has been a very disappointing year for our European investments. The FTSE Europe Ex UK Index lost 15.6% in local terms or 12.6% in sterling after the modest recovery in the euro. Unfortunately our portfolio performed much worse than this owing to its very heavy exposure to technology as well as our failure to participate fully in the rally in economically defensive stocks.

The speed and scope of the profit squeeze in the technology sector surprised us. Whilst we recognised the likelihood of a modest setback as internet idealism faded and capacity increases proliferated we did not expect that demand would fall as sharply as has occurred. Nor did we think that margins would collapse as dramatically as has happened. We were probably too confident in our views given the success of our investments in this area in the previous year. However, we are determined not to sell our holdings in businesses with highly attractive long-term growth opportunities and market positions simply because of the current cyclical problems. Pleasingly we think that many of our holdings are indeed proving their relative strength in the present demanding circumstances.

The initial falls in European markets last spring were provoked by the high cost of 3rd generation mobile phone licences and by evidence of increasing competition in the entire telecommunications market. This was exacerbated by indulgent use of plentiful capital and we responded by selling our holdings in Deutsche Telekom and Sonera, two of the worst offenders in this regard. In recent weeks we have become slightly more confident about the telecommunications sector as excessive competition has died away and as valuations have collapsed. Most notably we have bought a holding in Orange which enjoys an extremely strong position in the French market and which was floated at a low valuation.

By last autumn markets were becoming nervous about the prospects for all technology companies. Telecommunications equipment makers saw orders fall sharply. We have subsequently reduced our holding in Nokia and begun to sell Ericsson. Nokia's share price has suffered from the general deterioration in growth expectations but we admire the way it has exploited the current market weakness to make substantial market share gains. Semiconductor demand and prices fell away at the same time. We have reduced our holding in Philips but we have been determined to maintain our stake in ASML. This semiconductor equipment company has become ever more dominant in world markets through increasing technological leadership and the purchase of an American competitor. Internet related equipment expenditures collapsed by the winter. We were badly hurt by the weak earnings reported by Intershop in this segment. We regard this as our single worst misjudgement of the year and we have subsequently sold the stock.

Our performance in the other sectors of the market was mediocre but improved in the course of the year. We have slowly rebuilt our holdings in European pharmaceutical companies as we have been delighted to see evidence that their pipelines are now healthier than at any time in the recent past. We have purchased Aventis, Novartis and Akzo Nobel as strong examples of this general trend. In the financial sector our general approach has been to focus on the fund management and asset gathering segments. Here two German stocks have impressed us. Deutsche Bank is finally exploiting the strength of its domestic fund management franchise and MLP has proved both dynamic and secure in its dominance of the regular savings market for the German professional classes.

We have been slightly disappointed by indications that the European economy has slowed markedly in recent months. We are concerned by the reluctance of the European Central Bank to cut interest rates as we see no sign that inflation is a danger. Despite these concerns we see no reason to become too gloomy. Helped by widespread fiscal stimulus European economies are still growing, even if at a more modest pace than we had once hoped. Corporate earnings are proving volatile rather than depressing. We would emphasise that many of our holdings are showing pleasing underlying trends amidst the cyclical anxieties. In many industries continental companies are improving their global position. We believe that markets should perform better in the coming year and think that this will also be true of our portfolio.

1 *Novartis technicians conducting genomics research*

2 *French international football as shown on TF1's EUROSPORT channel*

The Americas

United States

The S&P 500 Composite Index fell by 22.6% in dollar terms over the year although the strength of the dollar reduced this to a loss of 13.1% in sterling terms. Our US equity portfolio matched this performance despite our slight slowness to reduce the substantial exposure to technology stocks which had contributed greatly to the previous year's good performance.

The most notable development in the United States this year, other than the fall in the stockmarket, has been a sharp slowdown in the pace of economic growth. At the end of 1999 the economy was growing at an annual rate in excess of 8% in real terms. By the end of 2000 growth was barely 1%, although initial estimates suggest a small rebound in the first quarter of 2001.

The Federal Reserve believes that the slowdown is the result of a normal cyclical correction in business inventories, but is concerned that part of the corporate sector's response to this correction, job cuts, may affect consumer confidence and so lead to a more severe downturn. It is therefore willing to cut interest rates sharply in an effort to bolster sentiment. In addition the new Republican administration plans to cut taxes although the size of the package is proving contentious within Congress.

The outlook for consumer spending, which makes up two-thirds of the economy remains central. The current evidence is mixed. Property prices have continued to rise and purchases of big ticket items such as homes and cars have held up surprisingly well so far. However, borrowing levels are high, the savings rate is low, stockmarket losses have come as a shock and unemployment has started to rise. On balance we think that the current monetary and fiscal easing will prove sufficient to maintain the traditional willingness of the American consumer to support the economy but plainly the next six months will be critical.

The prospects for the technology sector deteriorated far more dramatically than we initially anticipated. Production capacity had risen sharply in the sector in the past two years. When investors reassessed their enthusiasm for financing internet and start-up telecommunications ventures capital spending by these companies collapsed. The resulting inventory overhang will take several quarters to clear but we wish to retain positions in a number of technology companies that can demonstrate strong market leadership and bright prospects beyond the current cyclical difficulties.

In the last annual report we signalled our intention to raise the Company's exposure to the wide range of strong businesses available in North America. During the year we made net purchases of £80m, taking the Company's North American stake to 19.5% of total assets. These purchases were largely concentrated in the defensive growth sectors of the stockmarket and included Brown-Forman, a bourbon producer; William Wrigley, the chewing gum company; and CVS, a pharmacy chain. We also increased exposure to the financial and media sectors in anticipation of further interest rate cuts. We are likely to make further additions to the American stake if our current belief that a recession can be avoided is borne out in the coming months.

Latin America

This has been a difficult year for Latin American stockmarkets. Argentina came under pressure because of concerns that the lengthy recession was undermining the country's ability to service its debts and maintain its currency regime. This hurt confidence in Brazil, contributing to currency weakness and higher interest rates. Mexico fared better, benefiting from its stronger economic fundamentals and the continued growth of exports to the US.

1 *The monster logo of TMP Worldwide's monster.com, America's leading internet recruitment site*

2 *CNN, an AOL Time Warner company, rep[illegible] the merger of AOL and Time Warner*

Japan

1 *Fast Retailing is Japan's foremost retailer of low-priced casual clothing*

2 *Sumitomo Chemical's advanced plastic materials have a variety of uses including walls for convertible open air swimming pools*

Japanese equities performed even more disappointingly than their global counterparts in the year under review. The combination of the global de-rating of technology and telecommunications shares with disappointment about Japan's sluggish economy and the lack of structural reform created a miserable 12 months for equity investors. The TOPIX declined by 25.1% in local currency terms, and yen weakness worsened this to a fall of 31.2% in sterling terms. Scottish Mortgage's Japanese portfolio lagged this index owing to a high weighting in technology and telecommunications so relinquishing some of the strong relative performance of recent years.

Economic growth failed to match expectations. The initial impetus from exports and capital expenditure met with little response from domestic consumption and gradually petered out as global economic growth faded. On top of this, the fragility of the country's financial system was again exposed. The weak equity market and continuing heavy burden of non-performing loans cast fresh doubts on the capital adequacy of major banks, and several life insurance companies went bankrupt. An ill-timed interest rate rise did not help matters.

The important bright spot against this depressing background was the buoyancy of corporate profits. Quoted companies in aggregate beat their earnings forecasts throughout 2000, and the broader Ministry of Finance survey continues to show corporate Japan's pre-tax earnings growing at a rate of over 30% year on year. This suggests that companies are delivering on their restructuring promises and are achieving a strong recovery in profitability despite the absence of top line growth.

The international collapse of technology stocks had a severe impact in Japan, where valuations had become especially stretched and certain bellwether stocks reported disappointing results. We sold highly rated technology companies that were failing to deliver forecast rates of earnings growth, such as Softbank, Fujitsu, Sony and MCI. However, many other electronics and communications stocks were dragged down by sentiment despite continuing strong operational performance. We took advantage of this to increase the stakes in mobile operator NTT DoCoMo and semiconductor manufacturer Rohm, and to buy new holdings in telecommunications component supplier Kyocera and office automation equipment manufacturer Canon.

Elsewhere in the portfolio we made a successful switch in the automobile sector from Toyota to Honda. This was prompted by Honda's booming US sales and comparatively low valuation. In the retail sector we switched from Ryohin Keikaku to Fast Retailing, whose Uni-Qlo discount clothing outlets are enjoying startling growth.

Near the end of the period more encouraging signs began to appear in Japan. The central bank cut interest rates back to zero, and promised to keep them there until price deflation is over. Meanwhile the government indicated willingness to start the long overdue series of banking sector reforms necessary for improving the strength and efficiency of the country's financial system and process of capital allocation in general. We responded to this by increasing our Japanese weighting, buying the newly merged major bank UFJ, Promise (consumer lending) and Fuji Photo. We are cautiously optimistic about the year ahead and look eagerly for continued evidence that Japan is finally attempting to address its structural problems.

Asia Pacific

The performance of Asian economies has been subject to violent swings over the last year. The single most influential factor behind these changes has been the rise and decline of demand from the USA. Asia's overall economic recovery since the crisis of 1997 has been driven almost entirely by export growth, primarily from America, and as that single prop has been removed, expectations of total economic growth for the region have been revised down accordingly. Weakness in exports has been exacerbated by anaemic demand from Japan and by the fall of the yen.

Countries with the most exposed export sectors, such as Australia, Taiwan and Singapore, have seen the trade slowdown spread quickly into their domestic economies. Their reaction has been to allow their currencies to depreciate and to loosen their interest rate policies in order to sustain some growth. In doing this they have been helped by having greater policy flexibility than other countries in the region such as Hong Kong with its currency link to the strong US dollar.

Stockmarkets have all reacted poorly to the economic slowdown. Unfortunately our portfolio underperformed the FTSE Asia Pacific Ex Japan Index, which itself declined by 14.7% over the year. We suffered from our exposure to the weak Korean and Taiwanese markets where earnings expectations dropped sharply during the autumn and winter. Generally technology and telecommunication stocks, the market favourites of the previous year, fell particularly sharply. Our Chinese stocks, Legend and China Mobile, were unfortunately no exception. Our Indian software holdings were also affected by increasing concerns about lower technology spending and we have sold our holding in Infosys in the face of this situation.

The outlook for the next 12 months is unclear. In the short-run Asian markets will continue to be heavily dependent on the development of the American economy. Any renewed weakness in Japanese demand and the yen would carry additional dangers. We are, however, confident that the structural trends in the Asian economy continue to offer us appealing investment opportunities. We have been particularly encouraged by the progress of the Chinese economy in surviving the global slowdown. We think that foreign investment and internal reform will make China and its associated markets an exciting area in the years ahead. Throughout the region entrepreneurial ambitions remain high and the pace of technological innovation pleasing. We are therefore intending to maintain our Asian exposure at around current levels.

1 *One of Legend's internet enabled PCs*

2 *Some of Johnston Electric's range of mot*

LIST OF INVESTMENTS AS AT 31 MARCH 2001

Classification	Name	Business	Market value £'000	%
UNITED KINGDOM				
Oil and gas	BP	Integrated oil	53,777	
	Enterprise Oil	Oil exploration and production	8,269	
	Shell Transport & Trading	Integrated oil	37,753	
			99,799	6.0
Construction and building materials	Bellway	House builder	6,241	
	Bovis Homes	House builder	6,441	
	Low & Bonar	Flooring, plastics and specialist materials	1,444	
	Redrow	House builder	5,857	
	Travis Perkins	Builders' merchant	6,194	
			26,177	1.6
Electronic and electrical equipment	Pace Micro Technology	Electronics	1,969	0.1
Beverages	Allied Domecq	Branded spirits	12,510	0.7
Healthcare and pharmaceuticals	Alliance UniChem	Drug wholesaler and pharmacist	11,619	
	AstraZeneca	Pharmaceuticals	9,576	
	Cambridge Antibody	Pharmaceuticals	2,415	
	GlaxoSmithKline	*Pharmaceuticals*	73,998	
			97,608	5.9
Packaging	British Polythene	Polythene packaging	2,059	0.1
Tobacco	Gallaher	Tobacco	16,125	
	Imperial Tobacco	Tobacco	18,306	
			34,431	2.1
Distributors	Electrocomponents	Distributor of electronic components	8,220	0.5
Retailers	Brown, N	Retailer	6,548	
	Dixons	Electrical retailer	14,747	
			21,295	1.3
Leisure, entertainment and hotels	Compass	Catering	13,805	0.8
Media and photography	Reed International	Professional information publisher	12,890	
	SMG	ITV broadcaster, newspaper publisher	7,847	
	Trinity Mirror	Newspaper publisher	9,680	
	WPP	Global advertising agency	12,699	
			43,116	2.6
Support services	Bunzl	Distributor	13,748	
	Capita	White collar outsourcing services	6,453	
	Hays	Business services	11,330	
			31,531	1.9
Transport	Stagecoach Holdings	Bus and train operator	1,541	0.1
Telecommunication services	Cable & Wireless	Telecommunications	6,935	
	Vodafone	Mobile telecommunications	51,531	
			58,466	3.5
Electricity	Scottish & Southern Energy	Electricity utility	9,944	0.6
Banks	Barclays	Banking	19,733	
	HSBC Holdings	Banking	28,696	
	Lloyds TSB	Banking	23,864	
	Royal Bank of Scotland	Banking	43,173	
			115,466	7.0
Insurance	CGNU	Insurance	14,543	
	Jardine Lloyd Thompson	Insurance broker	1,309	
			15,852	1.0
Life assurance	Prudential	Life assurance	16,931	1.0
Investment companies	Baillie Gifford British Smaller Companies Fund	Small company fund	7,638	0.5
Real estate	Hammerson	Property	10,490	0.6
Other financial	Amvescap	Fund manager	17,379	
	Cattles	Consumer credit	2,905	
			20,284	1.2

Classification	Name	Business	Market value £'000	%
Information technology hardware	ARM Holdings	Chip designer	3,290	
	Marconi	Telecommunications equipment manufacturer	5,620	
			8,910	0.5
Software and computer services	Computacenter	Distributor of IT products and services	2,070	
	Diagonal	Software consulting	1,054	
	Misys	Business software	8,820	
	Parity	Systems integration and IT staffing service	266	
	Sage	Business software	9,263	
			21,473	1.3
	TOTAL UNITED KINGDOM EQUITIES		679,515	40.9
CONTINENTAL EUROPE				
Oil and gas	Total Fina Elf	Integrated oil – France	12,074	0.7
Chemicals	Akzo Nobel	Chemicals and pharmaceuticals – Netherlands	13,154	0.8
Construction and building materials	CRH	Building materials – Ireland	11,113	0.7
Electronic and electrical equipment	EPCOS	Electronic components – Germany	10,561	
	Legrand	Electronic equipment – France	5,652	
	Philips Electronics	Electronics – Netherlands	6,545	
			22,758	1.4
Engineering and machinery	Atlas Copco	Engineering – Sweden	7,069	0.4
Food producers and processors	Nestle	Food producer – Switzerland	7,164	0.4
Healthcare and pharmaceuticals	Aventis	Pharmaceuticals – France	17,739	
	Novartis	Pharmaceuticals – Switzerland	17,958	
			35,697	2.2
Media and photography	TF1	TV station – France	3,889	
	VNU	Publishing and media research – Netherlands	7,837	
			11,726	0.7
Support services	Adecco	Recruitment agency – Switzerland	6,689	0.4
Telecommunication services	Orange	Mobile telecommunications – France	13,775	
	Telecom Italia Mobile	Mobile telecommunications – Italy	7,526	
	Telefonica	Telecommunications – Spain	7,629	
			28,930	1.7
Banks	Bankinter	Banking – Spain	4,842	
	BSCH	Banking – Spain	7,639	
	Credit Suisse	Banking – Switzerland	10,972	
	Deutsche Bank	Banking – Germany	18,877	
	Julius Baer	Private banking – Switzerland	9,380	
	San Paolo IMI	Banking – Italy	6,071	
			57,781	3.5
Insurance	Swiss Re	Reinsurance – Switzerland	11,673	0.7
Investment companies	Baillie Gifford European Smaller Companies Fund	Small company fund	20,174	1.2
Other financial	MLP	Financial services – Germany	14,140	0.9
Information technology hardware	ASM Lithography	Semiconductor equipment – Netherlands	13,288	
	Ericsson	Telecommunications equipment – Sweden	5,331	
	Nokia	Mobile telecommunications equipment – Finland	15,187	
			33,806	2.0
Software and computer services	SAP	Business software – Germany	6,794	0.4
	TOTAL EUROPEAN EQUITIES		300,742	18.1

LIST OF INVESTMENTS

Classification	Name	Business	Market value £'000	%
NORTH AMERICA				
Oil and gas	Amerada Hess	Integrated oil	18,463	
	EOG Resources	Natural gas	16,240	
			34,703	2.1
Electronic and electrical equipment	Concord Communications	Data communication equipment	10	-
Beverages	Brown-Forman	Branded spirits	5,926	0.3
Food producers and processors	Wrigley	Chewing gum	11,878	0.7
Healthcare and pharmaceuticals	Pfizer	Pharmaceuticals	8,267	
	Wellpoint	Managed care	16,089	
			24,356	1.5
Tobacco	Philip Morris	Tobacco, food and beer	22,929	1.4
Retailers	Costco Wholesale	Warehouse clubs	12,700	
	CVS	Pharmacy chain	10,285	
	Walgreen	Pharmacy chain	17,879	
			40,864	2.5
Media and photography	AOL Time Warner	Media and entertainment	10,887	
	Omnicom	Advertising agency	8,243	
	TMP Worldwide	Internet recruitment	10,450	
			29,580	1.8
Telecommunication services	Crown Castle International	Mobile telecommunications infrastructure	6,147	0.4
Electricity	Exelon	Electricity utility	14,530	0.9
Banks	M&T Bank	Banking	11,505	0.7
Insurance	Marsh & McLennan	Insurance and fund management	7,660	0.4
Other financial	Freddie Mac	Mortgages	21,446	
	Golden West Financial	Savings and loans	23,281	
			44,727	2.7
Information technology hardware	Analog Devices	Semiconductors	10,196	
	Applied Materials	Semiconductor capital equipment	11,076	
	Cisco Systems	Data networking products	3,715	
	Maxim Integrated Products	Semiconductors	4,973	
	Nortel Networks	Communications equipment	2,668	
	Scientific-Atlanta	Cable transmission equipment	12,872	
			45,500	2.7
Software and computer services	First Data	Transaction processing	13,146	0.8
	TOTAL NORTH AMERICAN EQUITIES		313,461	18.9
LATIN AMERICA				
Oil and gas	Petrobras	Integrated oil – Brazil	8,370	0.5
Retailers	Brasileira de Distribuicao	Supermarkets – Brazil	4,053	0.2
Investment companies	Baillie Gifford Latin American Fund	Investment fund – Latin America	23,220	
	Genesis Chile Fund	Investment fund – Chile	5,140	
			28,360	1.7
	TOTAL LATIN AMERICAN EQUITIES		40,783	2.4

Classification	Name	Business	Market value £'000	%
JAPAN				
Chemicals	Sumitomo Chemical	Diversified chemicals	4,429	0.3
Electronic and electrical equipment	Canon	Office automation equipment	6,385	
	Fanuc	Industrial electronics	3,726	
	Hitachi	Electrical machinery	6,691	
	Nippon Electric Glass	Specialist glass	5,927	
			22,729	1.4
Engineering and machinery	SMC	Pneumatic machinery	4,125	0.2
Automobiles	Honda Motor	Automobile manufacturer	7,127	0.4
Healthcare and pharmaceuticals	Kao	Household goods	6,208	
	Takeda Chemical Industries	Pharmaceutical manufacturer	7,471	
			13,679	0.8
Retailers	Fast Retailing	Casual wear retailer	5,441	
	Yamada Denki	Consumer electronics retailer	3,662	
			9,103	0.6
Media and photography	Fuji Photo Film	Photographic imagery	4,974	0.3
Telecommunication services	NTT DoCoMo	Mobile telecommunications	19,578	1.2
Banks	UFJ Holdings	Banking	4,926	0.3
Insurance	Sumitomo Marine & Fire	Insurance	6,157	0.4
Other financial	Nomura Securities	Investment bank	9,434	
	Promise	Consumer finance	6,015	
			15,449	0.9
Information technology hardware	Kyocera	Electronic components	4,731	
	Rohm	Semiconductors	7,084	
			11,815	0.7
	TOTAL JAPANESE EQUITIES		124,091	7.5
ASIA PACIFIC (including Israel)				
Diversified industrials	Cheung Kong Holdings	Industrial conglomerate – Hong Kong	5,530	
	Hutchison Whampoa	Industrial conglomerate – Hong Kong	8,086	
	Li & Fung	Supply chain management – Hong Kong	4,383	
			17,999	1.1
Electronic and electrical equipment	Hon Hai Precision	Electronics manufacturer – Taiwan	6,353	
	Johnson Electric	Micromotor manufacturer – Hong Kong	4,675	
	Samsung Electronics	Electronics manufacturer – Korea	6,596	
			17,624	1.1
Media and photography	Singapore Press	Newspaper publisher – Singapore	3,779	0.2
Transport	Brambles Industries	Logistical services – Australia	7,531	0.4
Telecommunication services	China Mobile	Cellular telecommunications – Hong Kong	4,331	0.3
Banks	Commonwealth Bank of Australia	Banking – Australia	3,585	
	DBS Group	Banking – Singapore	6,350	
			9,935	0.6
Investment companies	UTI International India IT Fund	Investment fund – India	3,592	0.2
Information technology hardware	Legend Holdings	PC manufacturer – Hong Kong	4,780	
	Winbond Electronics	Semiconductor manufacturer – Taiwan	5,282	
			10,062	0.6
Software and computer services	Check Point Software Technology	Security software – Israel	3,007	0.2
	TOTAL ASIA PACIFIC EQUITIES		77,860	4.7

LIST OF INVESTMENTS

Classification	Name		Market value £'000	%
TOTAL EQUITY INVESTMENTS			1,536,452	92.5
FIXED INTEREST				
Sterling denominated	Atlantic Telecom 13.25% 2010	2,512		
	Bank of Scotland (SAM) 2072	19,477		
	IPC Magazines 9.625% 2008	1,700		
	Royal Bank of Scotland AVS	5,558		
		29,247		
Euro denominated	ACM European Enhanced Income Fund	4,050		
	Atlantic Telecom 13% 2010	2,500		
	Bank of Scotland 5.5% 2009	1,524		
	BSCH Issuances 5.125% 2009	2,937		
	BSN Finance 10.25% 2009	2,251		
	Colt Telecom Group 7.625% 2008 (DM)	2,014		
	Enitel ASA 12.5% 2010	1,430		
	Fixed Link Finance 10.75% 2009	2,798		
	Imperial Tobacco 6.375% 2006	1,599		
	Norsk Hydro 6.25% 2010	3,234		
	PTC International Finance II 11.25% 2009	3,233		
	Royal Bank of Scotland 4.875% 2009	1,474		
	Standard Chartered Bank 5.375% 2009	2,966		
	Swedish Match 6.125% 2006	1,603		
	Woolwich 5.25% 2011	2,972		
		36,585		
US dollar denominated	Cellco Finance 12.75% 2005	6,690		
	Cellco Finance 15% 2005	2,996		
		9,686		
	Argentina 9.75% 2027	10,993		
	Argentina 11.375% 2017	10,930		
		21,923		
TOTAL FIXED INTEREST			97,441	5.9
NET LIQUID ASSETS			26,289	1.6
TOTAL ASSETS AT MARKET VALUE			1,660,182	100.0

(before deduction of debentures and short term borrowings)

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† %
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
2001	**1,660,182**	**195,893**	**1,464,289**	**445.4**	**447.5**	**377.0**	**15.8**

* 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 ‡ p	Dividend per ordinary share net p	Expense ratio § %	Actual gearing ¶	Potential gearing ‖
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	27,807**	7.82**	5.65	0.50	105	114
2001	**44,075**	**25,212**	**7.57**	**6.00**	**0.51**	**104**	**113**

‡ 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 to 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 change in accounting policy to charge expenses 50:50 between revenue and capital (see note 1, page 33).

CUMULATIVE PERFORMANCE

At 31 March	Net asset value per share	Net asset value total return ††	Share price	Share price total return ††	Benchmark	Benchmark total return‡‡	Earnings per ordinary share	Dividend per ordinary share net	Retail price index
1991	100	100	100	100	100	100	100	100	100
1992	101	103	96	98	98	102	98	105	104
1993	128	133	125	131	121	131	91	108	106
1994	149	158	148	159	136	151	98	111	108
1995	142	153	147	160	132	152	127	119	112
1996	180	197	182	203	163	192	141	126	115
1997	196	219	196	223	171	210	162	139	118
1998	254	287	259	299	221	278	142	145	122
1999	265	305	254	299	242	309	133	149	125
2000	331	383	333	396	281	363	185	153	128
2001	**260**	**302**	**255**	**306**	**241**	**317**	**179**	**162**	**131**
Compound Annual Returns									
5 year	7.6%	8.9%	7.0%	8.6%	8.1%	10.5%	5.0%	5.2%	2.6%
10 year	10.0%	11.7%	9.8%	11.8%	9.2%	12.2%	6.0%	5.0%	2.7%

†† Source: AITC.
‡‡ Source: Thomson Financial 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 2001.

Review of Activities

During the year under review the Company has followed the normal activities of an investment trust company. The Company qualified for the full investment limit in a Personal Equity Plan during the period to 5 April 2001, from that date PEP investment restrictions no longer apply. 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 4.10p per ordinary share which, together with the interim already paid, makes a total of 6.00p for the year compared with 5.65p for the previous year.

If approved, the recommended final dividend on the ordinary shares will be paid on 11 July 2001 to shareholders on the register at the close of business on 15 June 2001.

After payment of the dividend the accumulated revenue balance is increased by £5,533,000 to £43,262,000.

Status

An amendment to the Articles to reflect the change in company law to enable the Company to regain its investment company status was passed at the Annual General Meeting in June 2000. The Company has subsequently given notice to the Registrar of Companies of its intention to carry on business as an Investment Company.

The Company carries on business as an investment trust. It was approved by the Inland Revenue as an investment trust under section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31 March 1999. In the opinion of the Directors the Company has subsequently conducted its affairs so as to enable it to continue to obtain such approval.

The Company will continue to seek approval under section 842 of the Income and Corporation Taxes Act 1988 each year. However, under Corporation Tax Self Assessment, which applies to accounting periods ended after 30 June 1999, the Inland Revenue will no longer be obliged to give written approval. Instead the Inland Revenue have twelve months after the return filing date in which to give notice that they intend to enquire into the return but, if no such notice is given then approval may be assumed to have been obtained.

Corporate Governance

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 seven 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 arrange 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 Controls and Risk Management

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 Mizuho Holdings (formerly 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 controls 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's head of internal audit and compliance provides the Board with regular reports on its monitoring programmes.

The Directors acknowledge their responsibility for the Company's system of internal controls and for reviewing its effectiveness. The system of internal controls is designed to manage rather than eliminate risk and can only provide reasonable but not absolute assurance against material misstatement or loss. The Directors confirm that they have reviewed the effectiveness of the system and they have procedures in place to review its effectiveness on a regular basis.

The Board has undertaken a full review of all aspects of the published guidance "Internal Control: Guidance for Directors on the Combined Code" (the Turnbull guidance) and believes that as of June 2000 it has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, in accordance with the Turnbull recommendations. To ensure that risk management and internal controls are considered on a regular basis and that a full risk and control assessment is undertaken on an annual basis, the following processes have been established in compliance with the guidance:

- Internal controls strategy has been formalised following the production of a detailed risk map whereby significant risks are identified and the key controls to manage these risks are confirmed as in place and operating effectively.
- Reporting procedures for the internal audit function, in respect of its risk framework monitoring and audit programme, and the compliance department, in respect of its regulatory monitoring programme, are defined and formalised within a service level agreement.
- Regular reports on internal controls are prepared by the Managers and submitted for Board review.

These procedures ensure that consideration is given regularly to the nature and extent of risks facing the Company and that they are being actively monitored. Where changes in risk have been identified during the year they also provide a mechanism to assess whether further action is required to manage the risks identified. The Board confirms that these procedures have been in place since June 2000, are operating effectively and continue to be in place up to the date of approval of this Report.

Accountability and Audit

The respective responsibilities of the Directors and the auditors in connection with the Financial Statements are set out 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.

The Company has given discretionary voting powers to the investment managers, Baillie Gifford & Co. The Managers vote against resolutions they consider may damage shareholders rights or economic interests. Baillie Gifford & Co give consideration to socially responsible investments when making investment decisions as they believe this to be in the best interest of the Company in the long term, but their overriding consideration is to produce good investment returns for shareholders.

Compliance

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. The area of non-compliance is that there is no nomination committee, the absence of which has been explained above. As previously stated, internal control procedures have been in place since June 2000 which accord with the guidance for directors on compliance with the Combined Code.

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 2001	31 March 2000
Lord Sanderson of Bowden	Beneficial	68,759	65,505
	Non-beneficial	29,500	29,500
GA Ball	Beneficial	10,000	10,000
FPM Johnston	Beneficial	30,000	30,000
Sir Donald MacKay	Beneficial	2,469	2,469
WG McQueen (appointed 15 February 2001)	Beneficial	1,500†	–
	Non-beneficial	3,000†	–
The Earl of Portarlington	Beneficial	936,000	936,000
Sir John Shaw	Beneficial	9,000	7,000

† Holdings at date of appointment.

Mr WG McQueen was appointed to the Board on 15 February 2001. His appointment falls to be confirmed at the Annual General Meeting.

The Earl of Portarlington retires by rotation and, being eligible, is recommended by the Board for re-election.

Sir John Shaw will retire from the Board at the conclusion of the Annual General Meeting.

There have been no changes intimated in the Directors' interests up to 4 May 2001.

Substantial Holdings

The following information has been intimated to the Company as at 4 May 2001 in compliance with section 198 of the Companies Act 1985:

Name	Number of ordinary 25p shares held	% of issue
DC Thomson and Co Ltd	15,000,000	4.6
Barclays PLC	13,152,477	4.0
Prudential plc	10,938,100	3.3

Repurchase of Shares

At the Annual General Meeting held on 29 June 2000 the Company was granted authority to purchase up to 50,265,422 ordinary shares (equivalent to 14.99% of its then issued share capital), such authority to expire at the conclusion of the Annual General Meeting of the Company to be held in 2001 or 28 December 2001, whichever is earlier, unless previously varied, revoked or renewed.

During the year to 31 March 2001 the Company bought back 10,003,112 ordinary shares (nominal value £2,500,778), on the London Stock Exchange for cancellation. The total consideration for these shares was £45,466,000. Between 1 April 2001 and the date of this report the Company has bought back a further 250,000 shares for cancellation at a cost of £1,012,000.

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 the 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 0.5%.

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 2002 or 4 January 2003. 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.

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 2001.

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
Managers and Secretaries
8 May 2001

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

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 2001 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
8 May 2001

STATEMENT OF TOTAL RETURN
(incorporating the revenue account*)

		for the year ended 31 March 2001			for the year ended 31 March 2000		
	Notes	**Revenue £'000**	**Capital £'000**	**Total £'000**	**Revenue (restated) £'000**	**Capital (restated) £'000**	**Total (restated) £'000**
(Losses)/gains on investments	9	–	(401,816)	(401,816)	–	388,150	388,150
Currency losses	17	–	(8,477)	(8,477)	–	(948)	(948)
Income	2	44,075	–	44,075	44,100	–	44,100
Investment management fee	3	(3,408)	(3,408)	(6,816)	(3,525)	(3,525)	(7,050)
Other administrative expenses	4	(1,811)	–	(1,811)	(1,861)	–	(1,861)
NET RETURN BEFORE FINANCE COSTS AND TAXATION		38,856	(413,701)	(374,845)	38,714	383,677	422,391
Finance costs of borrowings	5	(9,661)	(9,661)	(19,322)	(9,658)	(9,658)	(19,316)
RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION		29,195	(423,362)	(394,167)	29,056	374,019	403,075
Tax on ordinary activities	6	(3,983)	–	(3,983)	(1,249)	–	(1,249)
RETURN ON ORDINARY ACTIVITIES AFTER TAXATION *for the financial year attributable to equity shareholders*		25,212	(423,362)	(398,150)	27,807	374,019	401,826
Dividends in respect of equity shares	7	(19,679)	–	(19,679)	(19,443)	–	(19,443)
TRANSFER TO/(FROM) RESERVES		5,533	(423,362)	(417,829)	8,364	374,019	382,383
RETURN PER ORDINARY SHARE	8	7.57p	(127.14p)	(119.57p)	7.82p	105.27p	113.09p

* 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 on pages 33 to 41 are an integral part of this statement.

	Notes	at 31 March 2001 £'000	at 31 March 2001 £'000	at 31 March 2000 (restated) £'000	at 31 March 2000 (restated) £'000
FIXED ASSETS					
Investments	9		1,633,893		2,196,257
CURRENT ASSETS					
Debtors	11	11,253		13,033	
Cash at bank and in hand		32,780		18,651	
		44,033		31,684	
CREDITORS					
Amounts falling due within one year	12	(61,271)		(147,957)	
NET CURRENT LIABILITIES			(17,238)		(116,273)
TOTAL ASSETS LESS CURRENT LIABILITIES			1,616,655		2,079,984
CREDITORS					
Amounts falling due after more than one year	13		(152,366)		(152,400)
			1,464,289		1,927,584
CAPITAL AND RESERVES					
Called-up share capital	16		82,179		84,680
Capital redemption reserve	17		8,001		5,500
Capital reserve – realised	17		1,133,274		1,075,494
Capital reserve – unrealised	17		197,573		724,181
Revenue reserve	17		43,262		37,729
EQUITY SHAREHOLDERS' FUNDS	18		1,464,289		1,927,584
NET ASSET VALUE PER ORDINARY SHARE	19		447.5p		570.2p

The Accounts were approved by the Board and signed on their behalf on 8 May 2001.

Chairman

The accompanying notes on pages 33 to 41 are an integral part of this statement.

CASH FLOW STATEMENT

	Notes	for the year ended 31 March 2001 £'000	£'000	for the year ended 31 March 2000 £'000	£'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	21		33,018		37,318
SERVICING OF FINANCE					
Interest paid		(17,811)		(15,059)	
NET CASH OUTFLOW FROM SERVICING OF FINANCE			(17,811)		(15,059)
TAXATION					
Income tax paid		(2,439)		(2,873)	
Overseas tax suffered		(1,102)		(1,082)	
TOTAL TAX PAID			(3,541)		(3,955)
FINANCIAL INVESTMENT					
Acquisitions of investments		(856,742)		(866,787)	
Disposals of investments		1,015,473		917,294	
Realised currency gain/(loss)		1,616		(1,305)	
NET CASH INFLOW FROM FINANCIAL INVESTMENT			160,347		49,202
EQUITY DIVIDENDS PAID			(19,242)		(12,715)
NET CASH INFLOW BEFORE FINANCING			152,771		54,791
FINANCING					
Shares purchased for cancellation		(45,466)		(100,700)	
Loans repaid		(259,519)		(365,000)	
Loans drawn down		176,969		421,967	
Realised currency loss on multi-currency loans		(10,626)		-	
NET CASH OUTFLOW FROM FINANCING			(138,642)		(43,733)
INCREASE IN CASH	22		14,129		11,058
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT	22				
Increase in cash in the period			14,129		11,058
Decrease/(increase) in bank loans			93,176		(56,967)
Exchange movement			(10,093)		357
Other non-cash changes			34		27
MOVEMENT IN NET DEBT IN THE PERIOD			97,246		(45,525)
NET DEBT AT 1 APRIL			(260,359)		(214,834)
NET DEBT AT 31 MARCH			(163,113)		(260,359)

The accompanying notes on pages 33 to 41 are an integral part of this statement.

1 PRINCIPAL ACCOUNTING POLICIES

A summary of the principal accounting policies is set out in paragraphs (a) to (h) below. All have been applied consistently throughout the current and preceding year except for a change in policy for accounting for expenses connected with the maintenance or enhancement of the value of investments. In this respect, 50% of management fees, including related VAT, and finance costs are allocated to realised capital reserve in accordance with the Company's objective of combining capital and income growth. The Board considers this treatment more appropriately reflects the expected long term split of returns. Previously all management fees, and related VAT, and finance costs were charged 100% to revenue. The effect of the change in accounting policy is to increase revenue return, and to decrease capital return, attributable to equity shareholders by £13,069,000 (2000 – £13,183,000). The total return figures have been restated and there has been a transfer between capital and revenue reserves at 1 April 2000 to take account of the change (see note 17). There is no impact on overall total return recognised in either period.

(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'.

(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 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) Franked income is stated net of tax credits.

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

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

(vi) 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. Expenses are charged through the revenue account except as follows: 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 and where they are connected with the maintenance or enhancement of the value of investments (see note 1), in which case they are charged 50:50 to the revenue account and realised capital reserve.

(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 50:50 to the revenue account and realised capital reserve 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. Purchases of the Company's own shares for cancellation are also funded from this reserve. 50% of management fees, including related VAT, and finance costs are allocated to realised capital reserve in accordance with the Company's objective of combining capital and income growth.

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.

	2001	2000
	£'000	£'000
2 INCOME		
INCOME FROM INVESTMENTS		
Franked investment income	19,723	20,866
UK unfranked investment income†	2,632	1,497
Overseas dividends	9,047	9,777
Overseas interest	10,674	10,777
	42,076	42,917
OTHER INCOME		
Deposit interest	1,963	1,183
Underwriting commission	36	–
	1,999	1,183
TOTAL INCOME	44,075	44,100
TOTAL INCOME COMPRISES		
Dividends	29,705	31,298
Interest from investments	12,371	11,619
Other	1,999	1,183
	44,075	44,100
INCOME FROM INVESTMENTS		
Listed UK	22,625	22,650
Listed overseas	19,451	20,267
	42,076	42,917

† Includes income from OEICs/unit trusts.

3 INVESTMENT MANAGEMENT FEE	2001			2000 (restated)		
	Revenue £'000	*Capital* £'000	*Total* £'000	*Revenue* £'000	*Capital* £'000	*Total* £'000
Investment management fee	3,034	3,034	6,068	3,110	3,110	6,220
Irrecoverable VAT thereon	374	374	748	415	415	830
	3,408	3,408	6,816	3,525	3,525	7,050

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 the unit trust holdings the Company is fully rebated for any fees charged and 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 in the year to 31 March 2000 (2001 – £Nil).

4 OTHER ADMINISTRATIVE EXPENSES – *all charged to revenue*	2001	2000
	£'000	£'000
General administrative expenses	1,705	1,766
Directors' fees	92	82
Auditors' remuneration for audit services	14	13
	1,811	1,861

General administrative expenses includes the Company's contribution to the AITC's campaign of £641,000 (2000 – £770,000) plus VAT.

The Chairman's emoluments amounted to £20,000 (2000–£19,000). The five (2000–four) other Directors who served on the Board throughout the year each received fees of £14,000 (2000–£12,500) per annum. In addition Mr WG McQueen, who was appointed a Director on 15 February 2001, received fees of £1,726. In the year to 31 March 2000 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. No pension contributions were made in respect of Directors.

	2001			2000 (restated)		
	Revenue £'000	**Capital £'000**	**Total £'000**	**Revenue £'000**	**Capital £'000**	**Total £'000**
5 FINANCE COSTS OF BORROWINGS						
Bank loans and overdrafts repayable within five years	2,685	2,685	5,370	2,678	2,678	5,356
Debentures repayable wholly or partly in more than five years	6,976	6,976	13,952	6,980	6,980	13,960
	9,661	9,661	19,322	9,658	9,658	19,316

6 TAX ON ORDINARY ACTIVITIES						
Overseas taxation	1,104	–	1,104	1,206	–	1,206
Deferred taxation – current year timing differences	–	–	–	43	–	43
– on finance costs of borrowings	2,879	–	2,879	–	–	–
	3,983	–	3,983	1,249	–	1,249

The tax charge of £3,983,000 for the year to 31 March 2001 includes the £2,879,000 deferred tax balance. The deferred tax balance has been written off in the period as the extent of tax losses carried forward makes crystallisation of the timing differences unlikely in the foreseeable future.

7 ORDINARY DIVIDENDS	**2001**	**2000**	**2001 £'000**	**2000 £'000**
Adjustment to provision for 2000 final dividend	–	–	(90)	–
Interim dividend per ordinary share (paid 1 December 2000)	1.90p	1.80p	6,291	6,402
Proposed final dividend per ordinary share (payable 11 July 2001)	4.10p	3.85p	13,478	13,041
	6.00p	5.65p	19,679	19,443

8 RETURN PER ORDINARY SHARE	2001			2000 (restated)		
	Revenue	**Capital**	**Total**	**Revenue**	**Capital**	**Total**
	7.57p	(127.14p)	(119.57p)	7.82p	105.27p	113.09p

Revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £25,212,000 (2000 – £27,807,000), and on 332,981,965 (2000 – 355,302,538) 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 loss for the financial year of £423,362,000 (2000 – net capital gain of £374,019,000), and on 332,981,965 (2000 – 355,302,538) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

	2001	2000
	£'000	£'000
9 FIXED ASSETS – INVESTMENTS		
Listed at market value – UK	728,923	995,772
– overseas	904,970	1,200,485
	1,633,893	2,196,257

	Listed in UK £'000	Listed overseas £'000	Total £'000
Cost of investments held at 1 April 2000	658,817	813,616	1,472,433
Unrealised appreciation at 1 April 2000	336,955	386,869	723,824
Value of investments held at 1 April 2000	995,772	1,200,485	2,196,257
Movements in year:			
Purchases at cost	198,737	656,958	855,695
Sales – proceeds	(351,280)	(664,963)	(1,016,243)
– realised gains on sales	32,251	93,074	125,325
Decrease in unrealised appreciation	(146,557)	(380,584)	(527,141)
Value of investments held at 31 March 2001	728,923	904,970	1,633,893
Cost of investments held at 31 March 2001	538,525	898,685	1,437,210
Unrealised appreciation at 31 March 2001	190,398	6,285	196,683
Value of investments held at 31 March 2001	728,923	904,970	1,633,893

	2001 £'000	*2000* £'000
(LOSSES)/GAINS ON INVESTMENTS		
Realised gains on sales	125,325	272,713
(Decrease)/increase in unrealised appreciation	(527,141)	115,437
	(401,816)	388,150

During the year the Company had holdings in Open Ended Investment Companies ('OEICs') managed by Baillie Gifford & Co, the Company's investment manager. The share class held in these OEICs does not attract a management fee. At 31 March the Company held:

	2001		2000	
	C class shares held	% value of share class held	C class shares held	% value of share class held
Baillie Gifford British Smaller Companies Fund	6,000,000	3.5	23,145,431	10.2
Baillie Gifford European Smaller Companies Fund	11,258,000	23.6	12,200,000	22.5
Baillie Gifford American Smaller Companies Fund	–	–	2,029,850	18.9
Baillie Gifford Latin American Fund	20,000,000	32.0	20,000,000	26.8
Baillie Gifford Pacific Fund	–	–	8,250,745	8.9

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 was:

	2001			2000		
	Market value £'000	**Weighted average interest rate**	**Weighted average period until maturity**	**Market value £'000**	**Weighted average interest rate**	**Weighted average period until maturity**
Fixed rate:						
UK corporate bonds	4,212	12.5%	8 years	7,950	13.3%	10 years
European bonds	32,535	8.6%	8 years	32,266	8.0%	9 years
US bonds	9,686	13.4%	4 years	11,085	13.4%	5 years
Argentine bonds	*21,923*	*10.5%*	*21 years*	*83,589*	*10.5%*	*22 years*
Floating rate:						
UK corporate bond (interest rate linked to LIBOR)	19,477	3.2%	71 years	19,148	3.0%	72 years

	2001 £'000	**2000 £'000**
Cash:		
UK deposits	31,761	6,925
Foreign deposits – euro	1,007	10,384
– US dollar	–	1,336
– Japanese yen	12	6
	32,780	18,651

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

Due within one year:		
Income accrued (net)	8,303	7,841
Sales for subsequent settlement	770	–
Taxation recoverable	464	930
Other debtors	1,716	1,383
Due after more than one year:		
Deferred taxation (note 15)	–	2,879
	11,253	13,033

12 CREDITORS

Amounts falling due within one year:		
Banque Nationale de Paris multi-currency loan	43,527	84,624
Clydesdale Bank multi-currency loan	–	41,986
Purchases for subsequent settlement	1,007	2,054
Proposed final dividend	13,478	13,041
Other creditors	3,259	6,252
	61,271	147,957

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 National Australia Bank Limited.
At 31 March 2001 drawings were as follows:
Banque Nationale de Paris €70 million
Included in other creditors is £328,000 (2000 – £1,265,000) in respect of the investment management fee.

			2001	2000
			£'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%	22,494	22,526
£75 million 6.875% debenture stock 2023	6.875%	6.9%	74,192	74,155
£50 million 6–12% stepped interest debenture stock 2026	12%	10.8%	55,005	55,044
4½% irredeemable debenture stock			675	675
			152,366	152,400

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.

14 FINANCIAL LIABILITIES

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

	2001	2000
Floating rate – US dollar denominated	–	84,624
– Euro denominated	43,527	41,986
Fixed rate – Sterling denominated	152,366	152,400
	195,893	279,010

The maturity profile of the Company's financial liabilities at 31 March was:

	2001	2000
In one year or less, or on demand	43,527	126,610
In more than five years (weighted average period fixed 23 years)	151,691	151,725
No fixed date for repayment	675	675
	195,893	279,010

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:

	2001			2000		
	Nominal £'000	Book £'000	Market £'000	Nominal £'000	Book £'000	Market £'000
8–14% stepped interest debenture stock 2020	20,000	22,494	36,650	20,000	22,526	39,200
6.875% debenture stock 2023	75,000	74,192	78,668	75,000	74,155	84,218
6–12% stepped interest debenture stock 2026	50,000	55,005	84,150	50,000	55,044	92,825
4½% irredeemable debenture stock	675	675	580	675	675	593
	145,675	152,366	200,048	145,675	152,400	216,836

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 447.5p to 430.9p. Taking the market price of the ordinary shares at 31 March 2001 of 377.0p, this would have given a discount to net asset value of 12.5% as against 15.8% on a traditional basis. At 31 March 2000 the effect would be to reduce net asset value from 570.2p to 549.2p. Taking the market price of the ordinary shares at 31 March 2000 of 493.5p, this would have given a discount to net asset value of 10.1% as against 13.5%.

Gains and losses on hedges

At 31 March 2001 there were no unrecognised gains/losses on hedges. Realised currency profits/losses are taken to capital reserve and are not reflected in the revenue account unless they are of a revenue nature.

Short term debtors and creditors have been excluded from the disclosure of financial instruments.

	2001	2000
	£'000	£'000
15 DEFERRED TAXATION		
Timing differences related to:		
Allocation of finance costs of borrowings (note 6)	–	2,879

16 CALLED-UP SHARE CAPITAL

	2001		2000	
	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	328,717,888	82,179	338,721,000	84,680

At the Annual General Meeting on 29 June 2000 the Company renewed its authority to purchase shares in the market, in respect of 50,265,422 ordinary shares (equivalent to 14.99% of its issued share capital at that date). In the year to 31 March 2001 a total of 10,003,112 (2000 – 21,999,000) ordinary shares with a nominal value of £2,500,778 were bought back at a total cost of £45,466,000 (2000 – £100,700,000). At 31 March 2001 the Company had authority to buy back a further 43,656,943 ordinary shares.

Under the provisions of the Company's Articles the share buy-backs were funded from the realised capital reserve. The nominal value of the share capital is maintained through a transfer of reserves to the capital redemption reserve.

17 RESERVES

	Capital redemption reserve *£'000*	Capital reserve – realised *£'000*	Capital reserve – unrealised *£'000*	Revenue reserve *£'000*
At 1 April 2000 as previously stated	5,500	1,088,677	724,181	24,546
Effect of change in accounting policy (see note 1)	–	(13,183)	–	13,183
	5,500	1,075,494	724,181	37,729
Net gain on realisation of investments	–	125,325	–	–
Decrease in unrealised appreciation	–	–	(527,141)	–
Exchange differences	–	1,616	–	–
Exchange differences on multi-currency loans	–	(10,626)	533	–
Shares purchased for cancellation	2,501	(45,466)	–	–
Investment management fee	–	(3,408)	–	–
Finance costs of borrowings	–	(9,661)	–	–
Retained net revenue for the year	–	–	–	5,533
At 31 March 2001	8,001	1,133,274	197,573	43,262

18 TOTAL SHAREHOLDERS' FUNDS	*2001*	*2000*
	£'000	£'000
Total shareholders' funds are attributable as follows:		
Equity shares	1,464,289	1,927,584

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)	£1,464,289,000
Number of ordinary shares in issue at the year end	328,717,888
Shareholders' funds per ordinary share (pence)	445.4p
Additions/(deductions)	
– expenses of debenture issue	(0.8p)
– allocation of interest on borrowings	2.9p
Net asset value per ordinary share	447.5p

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:

	2001	2000	2001 £'000	2000 £'000
Ordinary shares	447.5p	570.2p	1,470,984	1,931,434

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

Total net assets at 1 April	1,931,434	1,649,751
Total recognised gains and (losses) for the year	(398,150)	401,826
Dividends appropriated in the year	(19,679)	(19,443)
Write off of deferred tax on finance costs	2,879	27
Adjustment to debentures	(34)	(27)
Shares purchased for cancellation	(45,466)	(100,700)
Total net assets at 31 March	1,470,984	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 328,717,888 (2000 – 338,721,000) ordinary shares, being the number of ordinary shares in issue at the year end. 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

Shareholders' funds at 1 April	1,927,584	1,645,901
Total recognised (losses) and gains for the year (after dividend payments)	(417,829)	382,383
Shares purchased for cancellation	(45,466)	(100,700)
Shareholders' funds at 31 March	1,464,289	1,927,584

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	38,856	38,714
Investment management fees charged to capital	(3,408)	(3,525)
(Increase)/decrease in accrued income	(356)	1,037
(Increase) in debtors	(333)	(281)
(Decrease)/increase in creditors	(1,741)	1,373
	33,018	37,318

22 ANALYSIS OF CHANGE IN NET DEBT

	At 1 April 2000 £'000	Cash flows £'000	Other non-cash changes £'000	Exchange movement £'000	At 31 March 2001 £'000
Cash at bank and in hand	18,651	14,129	–	–	32,780
Loans due within one year	(126,610)	93,176	–	(10,093)	(43,527)
Debenture stocks	(152,400)	–	34	–	(152,366)
	(260,359)	107,305	34	(10,093)	(163,113)

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 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. The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk and foreign currency risk.

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-second 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, 5 July 2001, at 11.00 am for the following purposes:

Ordinary Business

1. To approve the Accounts of the Company for the year to 31 March 2001 with the Reports of the Directors and of the Auditors thereon.
2. *To declare a dividend.*
3. To re-elect The Earl of Portarlington as a Director.
4. To elect Mr WG McQueen 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 resolution as a Special Resolution:

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 2002 or 4 January 2003, 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.

By order of the Board

BAILLIE GIFFORD & Co
Managers and Secretaries
1 June 2001

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. Shareholders will find a Form of Proxy 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 Baillie Gifford Savings Management Limited (see contact details on inside back cover of this report).

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, 5 July 2001 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 027 0133.

ANALYSIS OF SHAREHOLDERS

ANALYSIS OF SHAREHOLDERS AT 31 MARCH 2001

	Ordinary shares held		Shareholders	
	Number	%	Number	%
Individuals	57,138,575	17.4	13,199	42.7
Baillie Gifford Share Plan/PEP/ISA	19,023,790	5.8	8,318	26.9
Nominee Companies and Banks	198,543,136	60.4	7,025	22.8
Insurance Companies	11,008,134	3.3	172	0.6
Other holders	*43,004,253*	*13.1*	*2,175*	*7.0*
	328,717,888	100.0	30,889	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 Company** The price of shares is quoted daily in the *Financial Times* and can also be found on the Baillie Gifford website at **www.bailliegifford.com,** 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 Registrars' 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 Investment Trust 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 and 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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