The Scottish Mortgage and Trust PLC

Annual Report & Accounts
31 March 2002

SC 7058

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Company Summary

COMPANY DATA AT 31 MARCH 2002

Total assets†	Shareholders' funds	Market capitalisation
£1,510m	£1,303m	£1,141m

† before deduction of debentures, long 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 (in sterling terms).

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 309,184,688 ordinary shares of 25p each which were issued and fully paid. During the year the Company bought back 19,533,200 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

ISA and PEP transfer facilities are available (see inside back cover). Up to £7,000 per annum can be invested in a Maxi ISA currently.

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 2002	31 March 2001	% change
Total assets (before deduction of debentures, long and short term borrowings)	£1,509.9m	£1,660.2m	
Loans and Debentures	£206.9m	£195.9m	
Equity shareholders' funds	£1,303.0m	£1,464.3m	
Net asset value per ordinary share (after deducting prior charges at par)	423.6p	447.5p	(5.3)
Net asset value per ordinary share (after deducting prior charges at market value)	409.4p	430.9p	(5.0)
Share price	369.0p	377.0p	(2.1)
FTSE All-Share Index	2,557.4	2,711.4	(5.7)
FTSE World Ex UK Index (in sterling terms)	285.0	299.3	(4.8)
FTSE World Index (in sterling terms)	287.8	302.5	(4.8)
Benchmark composite index			(5.2)
Dividend per ordinary share	6.25p	6.00p	4.2
Earnings per ordinary share	7.56p	7.57p	(0.1)
Expense ratio	0.47%	0.51%	
Discount (after deducting prior charges at par)	12.9%	15.8%	
Discount (after deducting prior charges at market value)	9.9%	12.5%	

	Year to 31 March 2002		Year to 31 March 2001	
Year's high and low	**High**	**Low**	**High**	**Low**
Price	417.5p	287.5p	494.5p	356.5p
Net asset value	488.8p	337.3p	584.7p	426.5p
Discount	12.2%	17.5%	12.1%	17.9%

	31 March 2002	31 March 2001
Total return per ordinary share		
Revenue	7.56p	7.57p
Capital	(30.17p)	(127.14p)
Total	(22.61p)	(119.57p)

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 2002:

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 69.

GA Ball. Geoffrey Ball is executive chairman of CALA Group Ltd, having led the Management Buy Out in 1999. He is president of the House Builders Federation of England and Wales. He was for 13 years a director of The Standard Life Assurance Company. He is 58 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 66.

Sir Donald MacKay, MA FRSE FRSGS. Donald MacKay is 65 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 55 and was appointed a Director of The Scottish Mortgage and Trust PLC in 2001. He is an executive director of HBOS plc, Bank of Scotland and Halifax plc, where his chief role is Chief Executive, Group Treasury.

The Earl of Portarlington. George Portarlington is 63 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

JPHS Scott. John Scott is 49 and was appointed a Director of The Scottish Mortgage and Trust PLC on 31 October 2001. He has recently retired from Lazard Brothers & Co. Limited after 14 years as an executive director with that firm. During his twenty years with Lazard, he was deeply involved with the merchant bank's Asian activities and was on the board of Lazard India for 11 years. Mr Scott, who holds a degree in economics from Cambridge University and an MBA from INSEAD (France), specialises in financial advisory and re-structuring work.

Managers and Secretaries

Scottish Mortgage is managed by Baillie Gifford & Co, an investment management firm 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 22 partners and a staff of over 390.

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 the FSA.

Chairman's Statement

The net asset value has fallen by 5.3% to 423.6p which virtually matches the 5.2% decline in the benchmark index of 50% FTSE All-Share and 50% FTSE World Ex UK (in sterling terms). There has been a steady improvement in performance in the second half of the year, after a difficult start to the period. In the last six months the net asset value has risen by 14.9% against a gain of 11.3% in the benchmark index. I am pleased to report that the trust's performance in the key UK market has been good throughout the year with an improvement in the overseas markets in the second half.

Earnings per share were almost unchanged at 7.56p compared with 7.57p in the previous year. The 2000/1 figure would, however, have been 8.44p if there had not been a deferred tax write-off charge of £2.9m. The 10.4% fall from this underlying figure reflects the decline in fixed income earnings after the timely sale of the remaining Argentine bonds in the early months of the year.

The Board is proposing a final dividend of 4.25p. For the full year this gives a total of 6.25p, an increase of 4.2%. We are delighted to say that this is the 20th consecutive annual real increase in the Company's dividend and we look forward to continuing this trend.

Investment background

The past year has been marked by political shocks, global economic weakness and corporate earnings disappointments. The world economy had begun to show signs of strain twelve months ago. The United States, in particular, was already suffering from the excesses of the technology and telecommunications boom of the previous decade. The Federal Reserve's programme of interest rate cuts and the Bush administration's tax cuts were showing some signs of stabilising the situation prior to the terrorist outrages of September 11th. Fortunately the further monetary stimulus and increased government expenditure which followed appear to have revived the American economy sufficiently for it to have avoided a full recession. The most worrying economic feature of the last year has been the extreme weakness of corporate earnings. American operating earnings fell by 20%, which is more than in any 12 month period since the 1930s. Given the questionable nature of so much of the accounting behind these figures the underlying decline was even more dramatic.

The British economy has been as resilient as we had hoped a year ago and corporate profits were flat. However this has not prevented the London stockmarket from performing marginally worse than New York. Telecommunications stocks have been the main casualties. Consumer expenditure and, in particular, the housing market has again supported the economy despite the continued troubles of manufacturing industry. The Monetary Policy Committee has been able to remain relaxed as there is little firm evidence that the buoyancy of consumer demand has led to inflationary pressures.

The main problem in the European economy has been the persistent weakness of Germany. German industrial confidence suffered its usual reverse from the deteriorating international environment whilst consumers have struggled to cope with rising unemployment and restrained real incomes. The frustrations of Germany have been thrown into sharper relief by the steady performance of France. Ironically EMU appears to be proving more demanding for Germany than for its major partners.

The Japanese economy remains troubled. The hopes inspired by the election of Mr Koizumi as Prime Minister have proved exaggerated. The political old guard of the LDP have been an implacable force in thwarting political and financial reform. The banking system is still deeply unsound.

Investment activity

Equities

In aggregate for the year we have made net sales of £43m. This obscures net purchases of £38m in the second half of the year as we became more confident that the corporate profits outlook was starting to stabilise. The most important changes in the geographical balance of the portfolio have been the £86m reduction in European holdings and a £46m addition to the US stake. These moves continue a trend established in the previous year.

The reduction in Europe has been prompted by the weakness in the critical telecommunications sector.

Both the operators and equipment suppliers have seen earnings suffer from overinvestment and excessive debt levels. We do not envisage these trends reversing imminently. Nor do we consider that there are sufficient attractive and reasonably valued defensive stocks to make the reinvestment of the proceeds from these reductions within Europe an appealing policy.

Once again the American increase is an acknowledgement that for all the complexities of the current environment the US still possesses incomparably the widest and best selection of equities in the world. Whilst we are wary about the extent and calibre of any profit recovery in the next year we think that it is appropriate to retain a significant weighting in American equities. Relatively good stock selection results in America have reassured us that this is the right approach.

In contrast to the previous year we made a modest addition (£24m) to the UK position. As noted above we have been reassured by the comparative stability of the British economy at a time of global turbulence. More importantly we have found opportunities to add to some of the steadily growing but defensive stocks which are in abundant supply in the London market. Details of these transactions can be found in the country review of the UK (page 13).

We have ended the year with a small reduction of £10m in the Japanese stake. This is a significant reversal of the increased exposure shown at the time of the Interim Report. We have been disheartened by the increasingly obvious inability of the Japanese authorities to confront their national problems and this has increasingly outweighed the valiant efforts that some companies have made to repair their individual fortunes. Whilst a global recovery may temporarily obscure the symptoms of domestic weakness the structural difficulties seem destined to remain.

In contrast we have been pleased by the progress of several major emerging economies and markets despite the well-publicised problems of Argentina. We have added to our holdings in India and Korea and we have bought a holding in Russia for the first time in the shape of the oil company Yukos. So far this has been a successful investment.

Fixed interest

We are pleased to report that we sold the last of our Argentine bonds before the full severity of the crisis in that country became evident. We were less successful in limiting our exposure to the bonds of alternative telecommunications companies such as Atlantic Telecom and Energis where we suffered losses. The Managers have conducted a major review of their fixed income investment process, to which they have committed substantially increased resources, and we are hopeful that there will be an improved performance in this area in the coming year.

Repurchase of shares

We have been active repurchasers of our own shares in the light of the prevailing discount to NAV. We have bought back a total of 19.5m (5.4%) shares at a cost of £69.5m. This has enhanced the NAV by 1.0 %. We will 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.

Balance sheet

Borrowings have risen from 11.8% to 13.7% of total assets over the year. We have borrowed ¥10,300m (currently £54.5m) at an average interest rate of a little over 0.5%. We think that this will continue to be an attractive source of funding as we believe that the yen will weaken further as the Japanese economy struggles to cope with its structural problems.

Our long-term debt is unchanged. It was built up at a time when interest rates were considerably higher than those prevailing today. The weighted average cost of these borrowings is 9%. If the debentures are revalued at current market prices the net asset value would fall to 409.4p against an unadjusted 423.6p.

Scottish Mortgage shares and marketing activity

In comparison with the two previous years, marketing expenditure ran at a much lower level as the AITC wound down its generic marketing campaign and replaced it with a much reduced promotional levy. The Board remains committed to widening the shareholder base by attracting new investors and savers to the Company. Such demand for shares is an important factor in helping to narrow the discount to net asset value.

The Board is therefore willing to increase marketing expenditure if cost effective methods of doing so can be identified. The responsibility for any major new marketing initiatives lies with the Managers rather than the AITC. To this end a strategic marketing review was carried out by the Managers during the year with the aim of stimulating demand for the Company's shares. We wish to emphasise the fact that Scottish Mortgage represents a stable, secure and low cost instrument for long-term investors.

Perhaps because of market uncertainties demand for our shares through the Baillie Gifford Investment Trust ISA and the Share Plan was weaker than last year. During the coming year the Managers will make renewed efforts to ensure that the advantages of these products are widely publicised. Details of the ISA, Share Plan and PEP Transfer scheme are given on the inside back cover of this report.

The Board and the AGM

Fred Johnston, CBE, retires from the Board after this year's AGM after 11 years of dedicated service. We would like to thank Fred for his many and perceptive contributions over this period and to wish him well in his retirement.

We were delighted when John Scott joined the Board last autumn. He is therefore due to stand for election at the AGM. John was an Executive Director of Lazards, where he specialised in Asian markets. We are sure that his experience will be most useful to us in the years to come.

I would like to extend an invitation to all shareholders to attend the AGM on 4 July 2002 in Edinburgh. Details of the AGM can be found on pages 42 and 43 of this report.

Outlook

The last two years have been demanding for equity investors. Markets have fallen and the economic and political environment has been hazardous. It is unclear how vigorous or prolonged the current stirrings of international economic recovery will prove to be. The political situation in the Middle East is volatile and dangerous. It is against just this type of background that it is easy to become unduly pessimistic about the prospects for markets and to ignore the long-term attractions of a high quality, diversified and flexible equity portfolio such as Scottish Mortgage continues to offer. We consider it likely after two consecutive years of declining market values that we should be able to report a more encouraging picture to you in twelve months time.

Sanderson of Bowden

Sanderson of Bowden
14 May 2002

Managers' Overview

Scottish Mortgage performed almost in line with its benchmark in the last year. This obscures two very different six month periods. In the first half of the year markets fell and our relative performance was also unsatisfactory. Both these factors reversed in the second six months of the year. Given the overall weakness of markets the gearing of the Company was unhelpful and it was this that edged returns marginally below the index.

Performance in UK equities was, however, consistently good throughout the year. The portfolio was underweight in telecommunications and profited from its heavy exposure to defensive growth areas such as beverage and tobacco stocks.

The picture abroad is more complex. Over the course of the year performance in North America was pleasing with good stock selection only marginally hindered by the underweight position in American assets. We were helped by the exposure of the portfolio to financials linked to the buoyant fortunes of the US housing market and by our general avoidance of the more troubled parts of the technology and telecommunications sectors.

Japan was the most problematic market for us this year. The combination of our overweight position and our stock selection caused the underperformance. Details can be found on page 16 of this report. It should be noted that our longer-term performance in Japan remains good.

In Europe the portfolio recovered in the second half of the year. The European holdings tend to be more exposed than those in most other regions to both the economic cycle and the health of financial markets so the Managers regard this area as being prone to volatile results. In Asia we endured a troubled start to the year as an overweight exposure to Hong Kong and weak results in Australia took their toll but here too the second half was considerably more encouraging with help from our Korean assets.

Our performance in bonds was disappointing. Exposure to the telecommunications sector was unhelpful. As noted in the Chairman's Statement Baillie Gifford is devoting considerable efforts to improving results in this area.

PERFORMANCE ATTRIBUTION FOR THE YEAR TO 31 MARCH 2002

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:	
	01.04.01	01.04.01	31.03.02	SM	Benchmark	return	Stock selection	Asset allocation
Portfolio breakdown	%	%	%	%	%	%	%	%
UK	50.0	46.0	52.6	1.0	(3.2)	2.2	2.2	–
Europe ex. UK	11.0	20.3	14.5	(9.8)	(7.1)	(0.8)	(0.6)	(0.2)
Americas	30.6	24.0	29.9	3.3	(0.1)	0.7	0.9	(0.2)
Japan	6.1	8.4	5.1	(27.8)	(20.7)	(1.9)	(0.6)	(1.2)
Asia Pacific ex. Japan	2.0	5.1	4.7	(3.8)	12.8	(0.3)	(0.4)	0.1
Other	0.3	0.2	0.7	99.0	(2.7)	0.2	–	0.2
Bonds	–	6.6	5.8	(7.9)	–	(0.4)	–	(0.4)
Cash	–	2.2	1.9	2.7	–	0.6	–	0.6
Debentures and loans	–	(12.8)	(15.2)	(3.1)	–	(0.4)	–	(0.4)
Total	100.0	100.0	100.0	(3.4)	(3.2)	(0.2)	1.4	(1.6)

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 geographical area represent the return on the appropriate FTSE index.

Contributions cannot be added together as they are geometric; for example to calculate how a return of (3.4%), against a benchmark return of (3.2%) translates into a relative return of (0.2%), divide the portfolio return of 96.6 by the benchmark return of 96.8 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 index.

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 2001	Net acquisitions (disposals)	Appreciation (depreciation)	Valuation at 31 March 2002
Equities*:				
UK	679,515	24,450	(10,830)	693,135
Continental Europe	300,742	(85,727)	(23,970)	191,045
North America	313,461	46,361	5,139	364,961
Japan	124,091	(9,737)	(47,128)	67,226
Asia Pacific	74,853†	(10,188)	(2,910)	61,755
Other Emerging Markets	43,790†	(8,503)	3,691	38,978
	1,536,452	(43,344)	(76,008)	1,417,100
UK corporate bonds	29,247	14,075	(945)	42,377
Euro bonds	36,585	3,451	(6,472)	33,564
US dollar bonds	9,686	(7,008)	(2,678)	–
Argentine bonds	21,923	(18,075)	(3,848)	–
Total investments	1,633,893	(50,901)	(89,951)	1,493,041
Net liquid assets	26,289	(8,891)	(552)	16,846
Total assets	1,660,182	(59,792)	(90,503)	1,509,887

The figures above for total assets are made up of total net assets before deduction of debentures, long and short term borrowings.
* Equities includes OEICs.
† Includes £3,007 switched, on reclassification of Israel, from Asia Pacific to Other Emerging Markets.

Classification	UK %	Continental Europe %	North America %	Japan %	Asia Pacific %	Other Emerging Markets %	2002 Total %	2001 Total %
Equities:*								
Resources	5.5	0.5	1.7	–	0.1	1.3	9.1	9.3
Mining	0.2	–	–	–	0.1	–	0.3	–
Oil and gas	5.3	0.5	1.7	–	–	1.3	8.8	9.3
Industrials	1.4	1.7	–	1.0	1.8	–	5.9	9.1
Chemicals	–	0.4	–	0.2	–	–	0.6	1.1
Construction and building materials	1.4	0.4	–	0.4	–	–	2.2	2.3
Diversified industrials	–	–	–	–	0.6	–	0.6	1.1
Electronic and electrical equipment	–	0.6	–	0.4	1.2	–	2.2	4.0
Engineering and machinery	–	0.3	–	–	–	–	0.3	0.6
Consumer Goods	13.4	2.8	6.2	1.2	–	–	23.6	16.5
Automobiles	–	0.4	–	0.5	–	–	0.9	0.4
Household goods and textiles	–	0.3	–	–	–	–	0.3	–
Beverages	3.7	–	0.4	–	–	–	4.1	1.0
Food producers and processors	–	0.3	0.8	–	–	–	1.1	1.1
Healthcare and pharmaceuticals	6.3	1.5	3.5	0.7	–	–	12.0	10.4
Packaging	–	–	–	–	–	–	–	0.1
Personal care and household products	–	0.3	–	–	–	–	0.3	–
Tobacco	3.4	–	1.5	–	–	–	4.9	3.5
Services and Utilities	10.5	2.4	4.6	0.7	0.9	–	19.1	22.9
Distributors	–	–	–	–	–	–	–	0.5
Retailers	1.1	0.2	1.9	0.2	0.2	–	3.6	4.6
Leisure, entertainment and hotels	1.9	–	–	–	–	–	1.9	0.8
Media and photography	2.5	0.8	2.3	0.1	0.4	–	6.1	5.6
Support services	1.8	0.5	–	–	–	–	2.3	2.3
Transport	0.1	–	–	–	0.3	–	0.4	0.5
Telecommunication services	2.6	0.9	0.4	0.4	–	–	4.3	7.1
Electricity	0.5	–	–	–	–	–	0.5	1.5
Financials	14.5	3.4	7.0	0.9	0.8	1.3	27.9	25.5
Banks	9.5	1.3	0.9	–	0.8	–	12.5	12.1
Insurance	0.7	0.5	1.2	–	–	–	2.4	2.5
Life assurance	1.8	–	–	–	–	–	1.8	1.0
Investment companies	0.5	0.9	–	–	–	1.3	2.7	3.6
Real estate	0.4	–	–	–	–	–	0.4	0.6
Other financial	1.6	0.7	4.9	0.9	–	–	8.1	5.7
Information Technology	0.6	1.9	4.7	0.6	0.5	–	8.3	9.2
Information technology hardware	–	1.2	2.2	0.6	0.1	–	4.1	6.5
Software and computer services	0.6	0.7	2.5	–	0.4	–	4.2	2.7
Total Equities*	45.9	12.7	24.2	4.4	4.1	2.6	93.9	
Total Equities* – 2001	40.9	18.1	18.9	7.5	4.5†	2.6†		92.5
Bonds	2.8	2.2	–	–	–	–	5.0	5.9
Net Liquid Assets	0.1	0.5	0.5	–	–	–	1.1	1.6
Total Assets (before deduction of debentures, long and short term borrowings)	48.8	15.4	24.7	4.4	4.1	2.6	100.0	
Total Assets – 2001	44.1	20.5	19.5	7.5	4.5†	3.9†		100.0
Debentures, Long and Short Term Borrowings	(10.1)	–	–	(3.6)	–	–	(13.7)	(11.8)
Equity Shareholders' Funds	38.7	15.4	24.7	0.8	4.1	2.6	86.3	
Equity Shareholders' Funds – 2001	34.9	17.9	19.5	7.5	4.5†	3.9†		88.2
Number of equity investments*	46	32	26	14	15	3	136	144

* Equities includes OEICs.
† Includes 0.2% switched, on reclassification of Israel, from Asia Pacific to Other Emerging Markets.

THIRTY LARGEST EQUITY HOLDINGS

Name	Business	Market value £'000	% of total assets
GlaxoSmithKline	Pharmaceuticals	61,206	4.1
BP	Integrated oil	48,306	3.2
Royal Bank of Scotland	Banking	43,392	2.9
Vodafone	Mobile telecommunications services	39,428	2.6
Diageo	Branded spirits	32,057	2.1
Imperial Tobacco	Tobacco	31,320	2.1
Barclays	Banking	31,009	2.1
Golden West Financial	Savings and loans	26,310	1.7
Shell Transport & Trading	Integrated oil	25,240	1.7
Lloyds TSB	Banking	24,882	1.6
Allied Domecq	Branded spirits	23,220	1.5
Philip Morris	Tobacco, food and beer	21,934	1.5
HSBC Holdings	Banking	21,664	1.4
Wellpoint	Managed healthcare	21,462	1.4
Freddie Mac	Mortgages	20,929	1.4
Gallaher	Tobacco	20,250	1.3
Pfizer	Pharmaceuticals	19,842	1.3
Baillie Gifford Latin American Fund	Investment fund	19,800	1.3
Marsh & McLennan	Insurance and fund management	18,605	1.2
Bunzl	Distributor of consumer products	17,225	1.1
Reed International	Professional information publisher	16,487	1.1
Amvescap	Fund manager	16,429	1.1
AstraZeneca	Pharmaceuticals	16,040	1.1
Compass	TV, catering, leisure and hotels	15,745	1.0
Amerada Hess	Integrated oil	15,605	1.0
HBOS	Banking	15,564	1.0
State Street	Custodian bank	15,284	1.0
Walgreen	Pharmacy chain	15,027	1.0
Analog Devices	Semiconductors	14,961	1.0
CGNU	Life assurance	14,820	1.0
		724,043	47.8

United Kingdom

North America

Other Emerging Markets

United Kingdom

The FTSE All-Share Index fell 5.7% in the year to 31 March. After initial optimism, share prices fell away through the summer as it became increasingly clear the world economy was in trouble and profits were set to disappoint. The terrible events in the US on 11 September led to further sharp falls so that by 21 September, the All-Share Index had fallen some 30% from its level at the start of 2001. In line with most markets, UK equities then staged a strong recovery, encouraged by interest rate cuts and a swift prosecution of the war in Afghanistan. From its September low, the All-Share Index had risen 19% by the end of 2001. Since then, the market has been range-bound.

As in the previous twelve months, the result for the market as a whole masked a wide spread of returns at the sector level. In the first half of the period, defensive sectors did well at the expense of cyclical sectors. In the second half, cyclical sectors recovered and defensive sectors were mixed. Banks produced a positive return for the whole year as did oil stocks. The pharmaceutical sector performed well between March and September before falling away. Telecommunications stocks again had a very poor year.

Against this difficult backdrop, the Company's UK stocks performed creditably. Changes made last year had introduced a more defensive slant to the portfolio and the general drift of transactions through this year reinforced it. The largest overweight sector position throughout the year was in tobacco where two stocks were held, Gallaher and Imperial Tobacco. They made an impressive contribution to performance with Gallaher rising 25% and Imperial over 70%. These figures exclude dividend payments which in both cases are material. Although viewed by many investors as an unattractive and low growth industry, tobacco manufacturing continues to generate substantial amounts of free cash which enables these companies to increase earnings per share either through share buy backs or selective acquisitions. Gallaher and Imperial Tobacco have both made large acquisitions in the last year which should enable them to maintain their enviable record of earnings growth.

In the beverage sector, we purchased Diageo and increased the holding in Allied Domecq. Diageo is increasingly focused on premium spirits brands and through its acquisition of the Seagram drinks business has assumed a leading industry position. This will have material benefits in terms of scale economies and in increasing its control of the distribution chain. Allied Domecq is also improving the quality of its drinks portfolio and its shares trade at a discount to the market despite better than average cash generation and earnings growth. Both companies saw their share prices make large gains.

The Company has continued to run with a profitable overweight position in banks. Despite the economic slowdown, profits held up well. Our stock selection within the sector produced mixed results with the Royal Bank of Scotland and Lloyds TSB notable successes. The holding in Royal Bank is one of the Company's largest overweight positions in the UK market. The revenue growth and cost cutting produced since its acquisition of NatWest are impressive and should underpin further share price appreciation.

Pharmaceutical stocks traditionally provide a safe haven when market conditions are difficult. Unfortunately, this last year has proved an exception. GlaxoSmithKline had a particularly poor year. It is generating substantial cost savings from the merger last year of Glaxo and SmithKline Beecham but the market has focused instead on temporary weakness in the product pipeline. Although only a modest overweight compared to its index position, the holding is the single largest UK equity investment and the share price fall was disappointing. We hope for better in the year ahead.

Heightened tensions in the Middle East supported oil company valuations. We had begun the year with an overweight position and this would have been beneficial were it not for some poorly timed sales of BP and Shell. The third oil holding, Enterprise Oil, was also reduced towards the end of the year but the bulk of the investment was still held when, just after the Company's year end, it agreed to a bid from Shell.

Last year's report detailed how prospects for the telecommunications industry had worsened because of increasing financial costs and price competition. Our downbeat view on the telecommunications sector stocks proved correct and the underweight position was a major contributor to overall performance. Although modest additions were made to the Vodafone holding, this was fully offset by the complete sale of Cable and Wireless.

One pleasing aspect of performance has been the Company's investments in medium sized companies. Many of these have seen strong share price gains, particularly the builders merchant Travis Perkins and the house building stocks. With the housing market buoyant, these continue to look attractive. We have also made efforts to increase the cyclical exposure of the mid cap holdings which should bear fruit as the economy recovers.

Later in the year we increased the cyclical content of the larger capitalisation stocks, notably through the purchase of P&O Princess Cruises, the holiday cruise company. However, the make-up of the UK stockmarket is such that it may lag more economically sensitive markets if the global economy improves. That said, valuations in the UK are reasonable and we are confident the current portfolio can produce a positive return.

1 *One of P&O Princess Cruises' Ships, Oriana, enters Sydney harbour.*

2 *Diageo is becoming a dominant force in the global spirits industry with leading brands such as Smirnoff.*

Continental Europe

European markets have rallied in the last six months but this could not prevent a second consecutive year of losses after a dismal start to the year under review. The FTSE Europe Ex UK Index fell by 8.1% in local terms and 8.8% adjusted to sterling. Our own portfolio underperformed the index for the period but has recovered sharply in both relative and absolute terms in the last six months. We have cut the exposure to European equities to 15.4% of total assets from 20.5% to reflect our doubts about the continental profit outlook.

The European economy has slowed in the last year but is now showing signs of stabilisation. Within this general picture there have been significant national variations. Once again the weakness of the German economy has been revealed by a slowdown in international demand. The domestic consumer has been unwilling to offset this impact and the burden of the former East Germany remains heavy. France has been less seriously affected by the international environment whilst the Italian economy is showing some signs of improved performance and Spain continues to thrive. The European Central Bank is still struggling to find the correct policy balance to confront sluggish growth and lingering inflation anxieties. Any persistent strength in oil prices would complicate their task severely.

Just as the French economy has proved to be relatively resilient so we have also found most of our new purchases in the Paris market over the last year. We have been impressed by the quality of earnings and potential for further growth demonstrated by a surprisingly large range of French equities. We have bought Sanofi-Synthelabo, which seems to us to have one of the most promising pipelines in the global pharmaceutical sector and L'Oreal, which continues to demonstrate an unrivalled leadership of the international cosmetics industry. We have also purchased a holding in the luxury goods company Hermes. Here too earnings prospects are bright and consistent despite the troubles of the important Japanese market. We have even found some opportunities in the more cyclical parts of the French market. BNP Paribas has maintained its credit quality and management poise despite the challenges of the international economy and its own merger process to become one of the most appealing European banking franchises. Publicis too seems to have coped with the challenges of acquisitions and weak demand to turn itself into a major and effective presence in global advertising.

In Germany we found fewer new investments. The exceptions to this have been Porsche and Qiagen. The former continues to thrive in the face of subdued operating conditions in the global automobile industry and we think that its new models and customer focus will enable it to repeat this achievement in the future. Qiagen is a supplier of DNA to the biotechnology sector with an enviable dominance of its niche and a level of profitability that is both high and potentially rising. Of our older holdings in Germany we would note that we still believe in the opportunities offered by the financial services provider MLP despite the decline in the share price over the period and we would note the solid results that the company has reported. In contrast we have been pleased by the strong performance of SAP in the struggling software sector and think that SAP is rebuilding its global leadership after a challenging product transition phase.

The most depressing feature of the year has been the inability of the European telecommunications industry to rebound from its severe downturn. This has forced us to reduce our exposure to both the operators and their equipment suppliers once again. A good example of this trend has been Orange. We admire the ability of Orange to dominate the French mobile market but we have sold the stock as the potential involvement of the company in Germany appears to us to be damaging to both returns and balance sheet. Until there is evidence that consumer demand for 3rd generation mobile services is substantial we will retain a sceptical attitude to telecommunications investments.

The £157m net reduction in European holdings in the last two years has brought our exposure to a level with which we are now more comfortable. The European corporate sector in aggregate has performed more impressively over long periods of time than it is usually given credit for by investors. We see encouraging evidence that strong market positions and impressive product pipelines will enable this to be the case in the coming years too. We are therefore likely to retain our current weighting despite the inevitable nerves that the current real but hesitant economic recovery will provoke.

1 *Body expertise, the bodycare line by L'Oréal Paris (Consumer Products division).*

2 *2002 model year Porsche 911 Targa.*

North America

The US economy remained weak throughout the year but did not deteriorate as much as feared, mainly because private consumption remained strong with the help of cuts in interest rates and taxes. Indeed the economy contracted in only one quarter in calendar 2001, thus avoiding the usual definition of a recession. This performance was all the more noteworthy given the unexpected and tragic events of September 11. Recent economic data suggests that a steady, if undramatic, recovery has now begun.

While an economic recession was avoided, the profit recession continued for the bulk of the corporate sector. Technology and telecom companies were the hardest hit for a second year. Non-recurring charges for the companies in the S&P 500 Composite Index were huge – equivalent to two thirds of the total for the previous two decades. But even ignoring these charges profits were down sharply in 2001. Nonetheless we believe that we are now near the low point of the profit cycle. American companies have been quick to implement substantial cost cuts and so profits should be leveraged to even a modest economic recovery.

The end of a long bull market has, as usual, been accompanied by a number of scandals and frauds of which Enron is only the most publicised. The downturn has also focused wider attention on the extent to which many companies' "true" earnings are significantly lower than their reported earnings. We have continued to emphasize underlying earnings in our analysis and stock-picking and have moved the balance of the portfolio still further towards stocks with clean earnings. Largely thanks to this our US equity portfolio outperformed the S&P 500 which fell by 1.1% in dollar terms and 1.3% in sterling terms over the year.

As foreshadowed in last year's annual report, we have continued to raise the Company's exposure to the wide range of attractive equities available in the US market. During the year purchases exceeded sales by £46m, taking the Company's North American stake to 24.7% of total assets. One notable feature of the sales was the elimination of the portfolio's exposure to the telecoms equipment sector where prospects continued to deteriorate throughout the year, earnings quality is poor and valuations remain high.

The new names in the portfolio can be characterised as offering robust franchises, high quality earnings streams and usually some economic sensitivity. Automatic Data Processing (payrolls), State Street (custodian services) and DST (mutual fund records) are all involved in outsourced processing services and are leading players in their respective niches. Moody's is a bond rating agency, operating in what is close to a duopoly market. Eli Lilly is one of the few pharmaceutical companies with a strong product pipeline. We also increased exposure to the financial sector during the year as interest rates fell. We would anticipate making further modest additions to the American stake in the coming year.

1 *A Walgreen Store in Atlanta, one of 30 recently opened in the area.*

2 *Brown-Forman's Jack Daniel's whiskey is the top selling American whiskey in the world.*

Japan

Japan's equity market again underperformed its global peers in the year under review. Domestic deflation, financial sector fragility and disappointment over the lack of structural reform measures undertaken by the Koizumi administration combined to diminish the attractiveness of Japanese assets. The TOPIX fell by 17.0% in local currency terms, and yen weakness worsened this to a decline of 21.6% in sterling terms. As it became clear the Company's overweight position in Japan was inappropriate we reduced exposure significantly. With net disinvestment of £9.7m, the Japanese weighting dipped from 7.5% to 4.4% over the period.

Our relative performance has been disappointing this year. The blame for this lies with individual company decisions rather than the balance of the portfolio. In particular we have suffered from the weak results of Fast Retailing, the previously successful clothing retailer, Konami (video games) and Nippon Electric Glass (where pricing has collapsed). We have sold all these three stocks. We retain a holding in Promise (speciality finance) as we are more hopeful of a return to growth in this case.

Declining equity prices and a huge ongoing burden of bad loan write-offs have exposed the limited size and quality of the city banks' capital bases, ensuring that the equity market was haunted by the spectre of banking crisis. We feel that Japan's malfunctioning financial system, which is hampering both the efficient allocation of capital and effective use of monetary policy, is a major factor in its economic problems. Banks themselves are at last becoming a little more active in addressing their difficulties, taking some steps to improve profitability, reduce risk assets and raise new capital. However, a more aggressive reform and recapitalisation programme is required and the government's lack of action on this crucial issue has been regrettable.

Investors have been disappointed by the lack of policy initiatives since Prime Minister Koizumi came to power in April 2001, given his previous reputation as a reformer. Anti-reform elements in the LDP coupled with bureaucratic inertia have been considerable obstacles to progress, and the tense international political situation diverted Diet attention towards defence issues. Koizumi's public approval ratings, his strongest asset, have also been hit by party scandals and disputes, most notably his sacking of the popular foreign minister Tanaka.

The Japanese economy suffered a major slowdown over the past year, as cuts in global capital expenditure, notably in telecommunications hardware and semiconductor production equipment, have hit the industrial sector. Industrial production fell by 7.9% in 2001 to reach its lowest level since 1994, and companies have reacted by cutting capacity and labour, with unemployment rising beyond 5%. Deflation remains a serious problem, exacerbating the nominal value of debts and postponing planned consumption. Many have called for more active monetary policy from the Bank of Japan in response. Recent data suggests that Japan's economy is reaching a cyclical bottom at last, but the timing and amplitude of any recovery is hard to predict.

Despite disappointments on the political front there are still positive signs of improvement among Japanese companies, which are continuing to cut costs and refocus their operations. On the key issue of shareholder returns we are starting to see some progress, partly thanks to increased foreign equity ownership and direct investment. We invested in Japan's first activist shareholder fund, an unquoted vehicle called M&A Consulting (MAC), which takes large stakes in companies with inefficient balance sheets and exerts pressure on them to improve shareholder returns. It is currently involved in a proxy battle, the first of its kind in Japan, with an apparel maker called Tokyo Style, to force the company to pay a special dividend rather than invest in more property.

We reduced the weighting in financials considerably in further reflection of the sector's difficulties, selling the bank UFJ, securities house Nomura and non-life insurer Mitsui Sumitomo Insurance. We also sold technology related shares, such as SMC, Kyocera and Fanuc, where the valuation seemed to discount fully the likely pace of earnings recovery. New holdings were focused on domestic restructuring themes, with the purchases of building materials suppliers MEW and Tostem Inax.

Valuations in Japan are now more in line with international markets than they have been since the mid 1980s, and we remain optimistic about prospects for earnings and cash flow growth at the companies in which we invest. However, firmer signs of political reform and financial sector stabilisation will be required before we increase our overall weighting in the market.

yota's Lexus brand continues to gain US rket share.

One of Fuji Photo's digital cameras.

Asia Pacific and Other Emerging Markets

Asia Pacific

Until October the markets of the Asia Pacific region suffered from the deteriorating global demand picture. From that point on they began to rally strongly, outperforming the rest of the world. Underlying this recovery were the early indications of a business improvement which has recently become more evident. The strength of Asia's rebound reflects its relatively high dependence on export demand, particularly those industries where rapid inventory depletion followed by restocking caused unusual volatility in business orders, such as electronic goods and semiconductors. For this reason Korea and Taiwan were the best performing markets.

The portfolio's poor performance during the year relative to its benchmark was principally caused by heavy exposure to Hong Kong and disappointing stock selection in Australia. An example of our difficulties in Hong Kong was Li & Fung, a company which depends on North American markets, whose share price has been severely affected by the poor conditions in the US during the year but which has begun to recover with the American economy. We have also been disappointed by the performance of Legend, the Chinese PC manufacturer, which has seen some cyclical pressure on sales. Brambles, our largest holding in Australia, has underperformed as it has been experiencing unexpected difficulties in its pallet pool business, which we believe to be temporary.

We reduced our exposure to Asia during the summer, primarily by cutting our Hong Kong holdings, but moved back into the markets in November, concentrating on Korea, Taiwan and India. We bought a large position in Samsung Electronics and repurchased a holding in Infosys, the Indian software company. Both of these we have owned before and have regarded as being attractive investments for the long term but vulnerable to nearer term pressures. The weakness of markets in the autumn was therefore a welcome opportunity to buy them back, and Samsung in particular has since performed well. We have tended to keep faith with our Hong Kong investments in spite of their lack of performance.

Looking forward we feel that the prospects for Asia are relatively good. Even a mild export recovery should provide some support to earnings, and Asian exporters continue to surprise through their product development and cost efficiency. Perhaps more intriguing is the possibility that consumption in the region, which has been very subdued since the Asian crisis of 1997-8, is now showing signs of returning, as economies have paid off debt and investment excesses have been largely corrected. This may provide us with a more varied scope of potential investments.

Other Emerging Markets

During the year, exposure to other emerging markets fell to 2.6% of total assets after net disposals of £8m. The bulk of our stake is invested in Latin America, where stockmarkets had divergent returns over the year. Argentina hit the headlines with the collapse of its currency board, economic implosion and the related political turmoil. However, the very strong performance of the Mexican market was more significant for our portfolio. Mexico continues to benefit from its economic convergence with the US and was particularly helped by signs of recovery in America in the final quarter of the year. Although the Brazilian market was weak over the period, the MSCI Latin American Index rose by 6.1% in sterling terms and our main holding, the Baillie Gifford Latin American Fund, performed significantly better than this.

We continue to find particularly attractive oil companies in non-Asian emerging markets. We have retained our successful holding in Petrobras, the Brazilian integrated oil company. In addition, we have purchased a stake in the Russian oil producer Yukos, where the potential to increase production looks excellent and the valuation is appealing.

Whilst emerging markets are bound to remain volatile we have been encouraged by the ability of the other Latin American markets to cope with the debacle in Argentina. At the same time we are hopeful that in both Asia and Europe there are likely to be more opportunities in emerging economies than has previously been the case. We would expect our holdings in emerging markets to increase modestly in the future.

1 *Singapore Press Holdings' Straits Times dominates the newspaper market in Singapore. Picture c/o Singapore Press Holdings.*

2 *Russian oil giant Yukos is in the process modernising its production equipment. Picture c/o Yukos.*

LIST OF INVESTMENTS AS AT 31 MARCH 2002

Classification	Name	Business	Market value £'000	%
UNITED KINGDOM				
Mining	Xstrata	Diversified mining	3,187	0.2
Oil and gas	BP	Integrated oil	48,306	
	Enterprise Oil	Oil exploration and production	6,045	
	Shell Transport & Trading	Integrated oil	25,240	
			79,591	5.3
Construction and building materials	Bellway	House builder	4,116	
	Bovis Homes	House builder	4,770	
	Redrow	House builder	5,700	
	Travis Perkins	Builders' merchant	7,105	
			21,691	1.4
Beverages	Allied Domecq	Branded spirits	23,220	
	Diageo	Branded spirits	32,057	
			55,277	3.7
Healthcare and pharmaceuticals	Alliance UniChem	Wholesale distributor of pharmaceutical products	12,144	
	AstraZeneca	Pharmaceuticals	16,040	
	Cambridge Antibody	Pharmaceuticals	1,805	
	GlaxoSmithKline	Pharmaceuticals	61,206	
	Shire Pharmaceuticals	Pharmaceuticals	3,312	
			94,507	6.3
Tobacco	Gallaher	Tobacco	20,250	
	Imperial Tobacco	Tobacco	31,320	
			51,570	3.4
Retailers	N Brown	Retailer	2,714	
	Dixons	Electrical retailer	13,860	
			16,574	1.1
Leisure, entertainment and hotels	Compass	TV, catering, leisure and hotels	15,745	
	P & O Princess Cruises	Global cruises	12,957	
			28,702	1.9
Media and photography	Reed International	Professional information publisher	16,487	
	Trinity Mirror	Newspaper publisher	9,770	
	WPP	Global advertising agency	11,565	
			37,822	2.5
Support services	Bunzl	Distributor of consumer products	17,225	
	Electrocomponents	Distributor of electronic components	7,163	
	Premier Farnell	Distributor of electronic components	3,046	
			27,434	1.8
Transport	Stagecoach	Bus and train operator	2,054	0.1
Telecommunication services	Vodafone	Mobile telecommunications services	39,428	2.6
Electricity	Scottish & Southern Energy	Electricity utility	8,160	0.5
Banks	Barclays	Banking	31,009	
	HBOS	Banking	15,564	
	HSBC Holdings	Banking	21,664	
	Lloyds TSB	Banking	24,882	
	Royal Bank of Scotland	Banking	43,392	
	Standard Chartered	Banking	6,186	
			142,697	9.5
Insurance	Jardine Lloyd Thompson	Insurance broker	2,509	
	Royal & Sun Alliance	General insurance	8,062	
			10,571	0.7
Life assurance	CGNU	Life assurance	14,820	
	Prudential	Life assurance	13,056	
			27,876	1.8
Investment companies	UK Balanced Property Trust	Property investment trust	7,725	0.5
Real estate	Hammerson	Property	5,650	0.4

Classification	Name	Business	Market value £'000	%
Other financial	Amvescap	Fund manager	16,429	
	Cattles	Consumer credit	3,419	
	Intermediate Capital	Mezzanine finance provider	4,296	
			24,144	1.6
Software and computer services	Sage	Business software	8,475	0.6
	TOTAL UNITED KINGDOM EQUITIES		693,135	45.9
CONTINENTAL EUROPE				
Oil and gas	Total Fina Elf	Integrated oil – France	6,983	0.5
Chemicals	Akzo Nobel	Chemicals and pharmaceuticals – Netherlands	6,564	0.4
Construction and building materials	CRH	Building materials – Ireland	5,631	0.4
Electronic and electrical equipment	EPCOS	Electronic components – Germany	6,092	
	Schneider Electric	Electronic equipment – France	3,315	
			9,407	0.6
Engineering and machinery	Atlas Copco	Engineering – Sweden	5,189	0.3
Automobiles	Porsche	Automobiles – Germany	5,800	0.4
Household goods and textiles	Luxottica	Eyewear – Italy	4,842	0.3
Food producers and processors	Nestle	Food producer – Switzerland	4,768	0.3
Healthcare and pharmaceuticals	Aventis	Pharmaceuticals – France	5,104	
	Novartis	Pharmaceuticals – Switzerland	5,440	
	Qiagen	Biotech supplies – Germany	3,673	
	Sanofi-Synthelabo	Pharmaceuticals – France	7,746	
			21,963	1.5
Personal care and household products	L'Oreal	Personal care – France	4,033	0.3
Retailers	Hermes	Luxury goods – France	3,335	0.2
Media and photography	Publicis Groupe	Advertising – France	4,411	
	VNU	Publishing and media research – Netherlands	6,715	
			11,126	0.8
Support services	Adecco	Recruitment agency – Switzerland	8,057	0.5
Telecommunication services	Sonera	Telecommunications – Finland	3,737	
	Telecom Italia Mobile	Mobile telecommunications – Italy	5,396	
	Telefonica	Telecommunications – Spain	4,690	
			13,823	0.9
Banks	BNP Paribas	Banking – France	6,172	
	Credit Suisse	Banking – Switzerland	4,813	
	Deutsche Bank	Banking – Germany	5,961	
	Santander	Banking – Spain	3,173	
			20,119	1.3
Insurance	Swiss Re	Reinsurance – Switzerland	7,766	0.5
Investment companies	Baillie Gifford European Smaller Companies Fund	Small company fund	12,808	0.9
Other financial	MLP	Financial services – Germany	9,681	0.7
Information technology hardware	ASM Lithography	Semiconductor equipment – Netherlands	9,276	
	Ericsson	Telecommunications equipment – Sweden	4,484	
	Nokia	Mobile telecommunications equipment – Finland	4,308	
			18,068	1.2
Software and computer services	SAP	Business software – Germany	11,082	0.7
	TOTAL EUROPEAN EQUITIES		191,045	12.7

Classification	Name	Business	Market value £'000	%
NORTH AMERICA				
Oil and gas	Amerada Hess	Integrated oil	15,605	
	EOG Resources	Natural gas	9,969	
			25,574	1.7
Beverages	Brown-Forman	Alcoholic beverages	6,949	0.4
Food producers and processors	Wrigley	Chewing gum	13,103	0.8
Healthcare and pharmaceuticals	Eli Lilly	Pharmaceuticals	11,237	
	Pfizer	Pharmaceuticals	19,842	
	Wellpoint	Managed healthcare	21,462	
			52,541	3.5
Tobacco	Philip Morris	Tobacco, food and beer	21,934	1.5
Retailers	Costco Wholesale	Warehouse clubs	13,590	
	Walgreen	Pharmacy chain	15,027	
			28,617	1.9
Media and photography	AOL Time Warner	Media and entertainment	8,885	
	Omnicom	Advertising agency	13,921	
	TMP Worldwide	Internet recruitment	11,607	
			34,413	2.3
Telecommunication services	Crown Castle International	Mobile telecommunications infrastructure	5,570	0.4
Banks	M&T Bank	Banking	13,207	0.9
Insurance	Marsh & McLennan	Insurance and fund management	18,605	1.2
Other financial	Freddie Mac	Mortgages	20,929	
	Golden West Financial	Savings and loans	26,310	
	Moody's	Bond rating agency	11,390	
	State Street	Custodian bank	15,284	
			73,913	4.9
Information technology hardware	Analog Devices	Semiconductors	14,961	
	Applied Materials	Semiconductor capital equipment	8,575	
	Maxim Integrated Products	Semiconductors	9,389	
			32,925	2.2
Software and computer services	Automatic Data Processing	Payroll processing	14,322	
	DST Systems	Mutual fund processing	10,666	
	First Data	Transaction processing	12,622	
			37,610	2.5
	TOTAL NORTH AMERICAN EQUITIES		364,961	24.2
JAPAN				
Chemicals	Sumitomo Chemical	Diversified chemicals and pharmaceuticals	3,465	0.2
Construction and building materials	Matsushita Electric Works	Building materials	2,133	
	Tostem Inax	Housing materials	4,356	
			6,489	0.4
Electronic and electrical equipment	Canon	Office automation equipment	6,477	0.4
Automobiles	Toyota Motor	Car manufacturer	7,291	0.5
Healthcare and pharmaceuticals	Kao	Household goods	4,516	
	Takeda Chemical Industries	Pharmaceutical manufacturer	5,228	
			9,744	0.7
Retailers	Yamada Denki	Consumer electronics retailer	3,592	0.2
Media and photography	Fuji Photo Film	Photographic imagery products	2,055	0.1

Classification	Name	Business	Market value £'000	%
Telecommunication services	NTT DoCoMo	Mobile telecommunications	5,847	0.4
Other financial	*MAC Japan Active Shareholder Fund LP	Shareholder activist fund	5,332	
	Promise	Consumer finance	7,751	
			13,083	0.9
Information technology hardware	Hitachi	Electronics conglomerate	4,322	
	Rohm	Specialist semiconductors	4,861	
			9,183	0.6
	TOTAL JAPANESE EQUITIES		67,226	4.4
ASIA PACIFIC				
Mining	BHP Billiton	Diversified resource – Australia	2,264	0.1
Diversified industrials	Hutchison Whampoa	Industrial conglomerate – Hong Kong	5,571	
	Li & Fung	Supply chain management – Hong Kong	3,363	
			8,934	0.6
Electronic and electrical equipment	Hon Hai Precision	Electronics manufacturer – Taiwan	3,559	
	Johnson Electric	Micromotor manufacturer – Hong Kong	2,957	
	Samsung Electronics	Electronics manufacturer – Korea	12,464	
			18,980	1.2
Retailers	Coles Myer	General retailer – Australia	2,412	0.2
Media and photography	Singapore Press	Newspaper publisher – Singapore	2,529	
	Tom.Com	Media – Hong Kong	2,827	
			5,356	0.4
Transport	Brambles Industries	Logistical services – Australia	4,985	0.3
Banks	Commonwealth Bank of Australia	Banking – Australia	4,383	
	Hang Seng Bank	Banking – Singapore	2,357	
	Kookmin Bank	Banking – Korea	4,670	
			11,410	0.8
Information technology hardware	Legend Holdings	PC manufacturer – Hong Kong	2,036	0.1
Software and computer services	Infosys Technologies	Software developer – India	5,378	0.4
	TOTAL ASIA PACIFIC EQUITIES		61,755	4.1
OTHER EMERGING MARKETS				
Oil and gas	Petrobras	Integrated oil – Brazil	9,294	
	Yukos	Integrated oil – Russia	9,884	
			19,178	1.3
Investment companies	Baillie Gifford Latin American Fund	Investment fund – Latin America	19,800	1.3
	TOTAL OTHER EMERGING MARKETS EQUITIES		38,978	2.6

* denotes unlisted security

Classification	Name		Market value £'000	%
TOTAL EQUITY INVESTMENTS			1,417,100	93.9
FIXED INTEREST				
Sterling denominated	British Gas 8.875% 2008	3,978		
	Bank of Scotland (SAM) 2072	19,764		
	Cairngorm F/R 2016	2,982		
	Castle Transmission 9% 2007	1,496		
	Innogy 8.375% 2006	9,530		
	P & O Princess Cruises 7.125% 2012	1,327		
	Yell Finance 10.75% 2011	3,300		
		42,377		
Euro denominated	ACM European Enhanced Income Fund	2,150		
	Bank of Scotland 5.5% 2009	1,503		
	BSCH Issuances 5.125% 2009	2,885		
	Europa Two F/R 2027	2,356		
	Fresenius Med Care 7.375% 2011	1,207		
	Geldilux F/R 2005	2,437		
	Kamps 8.5% 2009	1,884		
	Manitowoc 10.375% 2011	1,317		
	Messer Griesheim 10.375% 2011	2,646		
	Norsk Hydro 6.25% 2010	3,104		
	PTC International Finance II 11.25% 2009	3,186		
	Royal Bank of Scotland 4.875% 2009	1,456		
	Standard Chartered Bank 5.375% 2009	2,939		
	Swedish Match 6.125% 2006	1,556		
	Woolwich 5.25% 2011	2,938		
		33,564		
TOTAL FIXED INTEREST			75,941	5.0
NET LIQUID ASSETS			16,846	1.1
TOTAL ASSETS AT MARKET VALUE			1,509,887	100.0

(before deduction of debentures, long 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 † %
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
2002	**1,509,887**	**206,899**	**1,302,988**	**421.4**	**423.6**	**369.0**	**12.9**

* Net asset value per ordinary share has been calculated after deducting prior charges at par value (see note 18, 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 II
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
2002	**36,377**	**24,213**	**7.56**	**6.25**	**0.47**	**109**	**116**

‡ 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.
II 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.

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
1992	100	100	100	100	100	100	100	100	100
1993	127	129	130	134	124	129	93	103	102
1994	148	153	154	161	139	148	100	105	104
1995	141	148	153	163	135	149	130	113	108
1996	178	191	189	206	166	189	144	119	111
1997	195	212	205	227	175	206	166	132	114
1998	252	278	270	304	226	273	146	137	118
1999	263	296	264	304	247	304	136	141	120
2000	328	372	348	403	287	357	190	145	123
2001	258	294	265	311	246	312	184	154	126
2002	**244**	**282**	**260**	**310**	**233**	**302**	**183**	**160**	**128**
Compound Annual Returns									
5 year	4.6%	5.8%	4.9%	6.5%	5.9%	7.9%	2.1%	4.0%	2.3%
10 year	9.3%	10.9%	10.0%	12.0%	8.8%	11.7%	6.3%	4.8%	2.5%

†† 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 2002.

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 4.25p per ordinary share which, together with the interim already paid, makes a total of 6.25p for the year compared with 6.00p for the previous year.

If approved, the recommended final dividend on the ordinary shares will be paid on 10 July 2002 to shareholders on the register at the close of business on 14 June 2002.

After payment of the dividend the accumulated revenue balance is increased by £4,760,000 to £48,022,000.

Status

The Company is an investment company within the meaning of section 266 of the Companies Act 1985.

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. For the years ended 31 March 2000 and 2001 the Company has received approval under section 842 outwith the Corporation Tax Self Assessment process. Such approval will not preclude the Inland Revenue from opening a subsequent enquiry into the Company's tax return. In the opinion of the Directors the Company has subsequently conducted its affairs so as to enable it to continue to obtain such approval and will continue to seek approval under section 842 of the Income and Corporation Taxes Act 1988 each year.

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 and Mizuho Corporate Bank, Limited (formerly The Fuji Bank, Limited) as independent custodians of the Company's investments.

Baillie Gifford & Co has an established compliance function in accordance with FSA 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. The partner in charge of the compliance and internal audit department 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 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 department, 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; and
- 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 the 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 throughout the Company's financial year, 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 shareholders and their representatives and report to the Board. The Company's Annual General Meeting provides a forum for communication with 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 due weight to what they consider to be socially responsible investment when making investment decisions, but their overriding objective 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. There is no nomination committee, the absence of which has been explained above. As previously stated, internal control procedures have been in place throughout the Company's financial year 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 2002	Ordinary 25p shares held at 31 March 2001
Lord Sanderson of Bowden	Beneficial	65,606	68,759
	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	Beneficial	1,500	1,500
	Non-beneficial	3,000	3,000
The Earl of Portarlington	Beneficial	936,000	936,000
JPHS Scott (appointed 31 October 2001)	Beneficial	2,088	–

Mr JPHS Scott was appointed to the Board on 31 October 2001. His appointment falls to be confirmed at the Annual General Meeting.

Sir Donald MacKay retires by rotation and, being eligible, is recommended by the Board for re-election.

Mr FPM Johnston will retire from the Board at the conclusion of the Annual General Meeting.

Sir John Shaw retired from the Board on 5 July 2001.

There have been no changes intimated in the Directors' interests up to 13 May 2002.

Substantial Holdings

The following information has been intimated to the Company as at 13 May 2002 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	4.9
Barclays PLC	13,152,477	4.3
Prudential plc	10,938,100	3.5

Repurchase of Shares

At the Annual General Meeting held on 5 July 2001 the Company renewed its authority to purchase shares in the market, in respect of up to 48,499,079 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 2002 or 4 January 2003, whichever is earlier, unless previously varied, revoked or renewed.

During the year to 31 March 2002 the Company bought back 19,533,200 ordinary shares (nominal value £4,883,000), on the London Stock Exchange for cancellation. The total consideration for these shares was £69,469,000. Between 1 April 2002 and the date of this report the Company has bought back a further 800,000 shares for cancellation at a cost of £2,907,000.

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 discount of the quoted market price to the published net asset value per share.

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 15 on page 39). As a result of such purchases the net asset value of the Company has increased by approximately 1.0%.

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 2003 or 3 January 2004. Under the Listing Rules of the UK Listing Authority of the FSA, 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 obtain 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 2002.

Auditors

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

By order of the Board

Baillie Gifford & Co.

BAILLIE GIFFORD & Co

Managers and Secretaries

14 May 2002

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.

Independent 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 1985. 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 Listing Rules, 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 2002 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
14 May 2002

STATEMENT OF TOTAL RETURN
(incorporating the revenue account*)

		for the year ended 31 March 2002			for the year ended 31 March 2001		
	Notes	**Revenue £'000**	**Capital £'000**	**Total £'000**	**Revenue £'000**	**Capital £'000**	**Total £'000**
Losses on investments	9	–	(89,951)	(89,951)	–	(401,816)	(401,816)
Currency gains/(losses)	16	–	3,447	3,447	–	(8,477)	(8,477)
Income	2	36,377	–	36,377	44,075	–	44,075
Investment management fee	3	(2,695)	(2,695)	(5,390)	(3,408)	(3,408)	(6,816)
Other administrative expenses	4	(1,103)	–	(1,103)	(1,811)	–	(1,811)
NET RETURN BEFORE FINANCE COSTS AND TAXATION		32,579	(89,199)	(56,620)	38,856	(413,701)	(374,845)
Finance costs of borrowings	5	(7,396)	(7,393)	(14,789)	(9,661)	(9,661)	(19,322)
RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION		25,183	(96,592)	(71,409)	29,195	(423,362)	(394,167)
Tax on ordinary activities	6	(970)	–	(970)	(3,983)	–	(3,983)
RETURN ON ORDINARY ACTIVITIES AFTER TAXATION *for the financial year attributable to equity shareholders*		24,213	(96,592)	(72,379)	25,212	(423,362)	(398,150)
Dividends in respect of equity shares	7	(19,453)	–	(19,453)	(19,679)	–	(19,679)
TRANSFER TO/(FROM) RESERVES		4,760	(96,592)	(91,832)	5,533	(423,362)	(417,829)
RETURN PER ORDINARY SHARE	8	7.56p	(30.17p)	(22.61p)	7.57p	(127.14p)	(119.57p)

* 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 2002 £'000	at 31 March 2002 £'000	at 31 March 2001 £'000	at 31 March 2001 £'000
FIXED ASSETS					
Investments	9		1,493,041		1,633,893
CURRENT ASSETS					
Debtors	11	16,874		11,253	
Cash at bank and in hand	10	18,279		32,780	
		35,153		44,033	
CREDITORS					
Amounts falling due within one year	12	(41,621)		(61,271)	
NET CURRENT LIABILITIES			(6,468)		(17,238)
TOTAL ASSETS LESS CURRENT LIABILITIES			1,486,573		1,616,655
CREDITORS					
Amounts falling due after more than one year	13		(183,585)		(152,366)
			1,302,988		1,464,289
CAPITAL AND RESERVES					
Called-up share capital	15		77,296		82,179
Capital redemption reserve	16		12,884		8,001
Capital reserve – realised	16		939,610		1,133,274
Capital reserve – unrealised	16		225,176		197,573
Revenue reserve	16		48,022		43,262
EQUITY SHAREHOLDERS' FUNDS	17		1,302,988		1,464,289
NET ASSET VALUE PER ORDINARY SHARE	18		423.6p		447.5p

The Accounts were approved by the Board and signed on their behalf on 14 May 2002.

Sandy J Bowden.

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 2002		for the year ended 31 March 2001	
	Notes	£'000	£'000	£'000	£'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	20		29,925		33,018
SERVICING OF FINANCE					
Interest paid		(15,012)		(17,811)	
NET CASH OUTFLOW FROM SERVICING OF FINANCE			(15,012)		(17,811)
TAXATION					
Income tax paid		(34)		(2,439)	
Overseas tax suffered		(998)		(1,102)	
TOTAL TAX PAID			(1,032)		(3,541)
FINANCIAL INVESTMENT					
Acquisitions of investments		(495,639)		(856,742)	
Disposals of investments		539,802		1,015,473	
Realised currency (loss)/gain		(552)		1,616	
NET CASH INFLOW FROM FINANCIAL INVESTMENT			43,611		160,347
EQUITY DIVIDENDS PAID			(19,791)		(19,242)
NET CASH INFLOW BEFORE FINANCING			37,701		152,771
FINANCING					
Shares purchased for cancellation		(67,249)		(45,466)	
Loans repaid		(79,350)		(259,519)	
Loans drawn down		94,423		176,969	
Realised currency loss on multi-currency loans		(26)		(10,626)	
NET CASH OUTFLOW FROM FINANCING			(52,202)		(138,642)
(DECREASE)/INCREASE IN CASH	21		(14,501)		14,129
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT	21				
(Decrease)/increase in cash in the period			(14,501)		14,129
(Increase)/decrease in bank loans			(15,047)		93,176
Exchange movement			3,999		(10,093)
Other non-cash changes			42		34
MOVEMENT IN NET DEBT IN THE PERIOD			(25,507)		97,246
NET DEBT AT 1 APRIL			(163,113)		(260,359)
NET DEBT AT 31 MARCH			(188,620)		(163,113)

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.

(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 UK 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, 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, calculated at the current tax rate relevant to the benefit or liability. Deferred tax assets are recognised only to the extent that it will be more likely than not that there will be taxable profits from which underlying timing differences can be deducted.

(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 the 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.

	2002 £'000	2001 £'000
2 INCOME		
INCOME FROM INVESTMENTS		
Franked investment income	18,063	19,723
UK unfranked investment income†	3,418	2,632
Overseas dividends	8,597	9,047
Overseas interest	4,806	10,674
	34,884	42,076
OTHER INCOME		
Deposit interest	1,484	1,963
Underwriting commission	9	36
	1,493	1,999
TOTAL INCOME	36,377	44,075
TOTAL INCOME COMPRISES		
Dividends	27,743	29,705
Interest from investments	7,141	12,371
Other	1,493	1,999
	36,377	44,075
INCOME FROM INVESTMENTS		
Listed UK	21,289	22,625
Listed overseas	13,595	19,451
	34,884	42,076

† Includes income from OEICs.

3 INVESTMENT MANAGEMENT FEE	2002			2001		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	2,418	2,418	4,836	3,034	3,034	6,068
Irrecoverable VAT thereon	277	277	554	374	374	748
	2,695	2,695	5,390	3,408	3,408	6,816

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) managed by Baillie Gifford & Co; however the OEICs' share class held by the Company does not attract a management fee.

4 OTHER ADMINISTRATIVE EXPENSES – *all charged to revenue*	2002 £'000	2001 £'000
General administrative expenses	983	1,705
Directors' fees	106	92
Auditors' remuneration for audit services	14	14
	1,103	1,811

General administrative expenses includes the Company's contribution to the AITC's campaign of £128,000 (2001 – £641,000) plus VAT.

The Chairman's emoluments amounted to £21,000 (2001 – £20,000). The five (2001 – five) other Directors who served on the Board throughout the year each received fees of £15,000 (2001 – £14,000) per annum. In addition Mr JPHS Scott, who was appointed a Director on 31 October 2001, received fees of £6,205 and Sir John Shaw, who retired on 5 July 2001, received fees of £3,945. In the year to 31 March 2001 Mr WG McQueen, who was appointed a Director on 15 February 2001, received fees of £1,726. No pension contributions were made in respect of Directors.

	2002			2001		
	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	424	421	845	2,685	2,685	5,370
Debentures repayable wholly or partly in more than five years	6,972	6,972	13,944	6,976	6,976	13,952
	7,396	7,393	14,789	9,661	9,661	19,322

6 TAX ON ORDINARY ACTIVITIES						
Overseas taxation	970	–	970	1,104	–	1,104
Deferred taxation – on finance costs of borrowings	–	–	–	2,879	–	2,879
	970	–	970	3,983	–	3,983

There is no corporation tax charge at 31 March 2002 or 31 March 2001 as the Company has unrelieved management expenses which are available to be carried forward. The tax charge for 31 March 2002 comprises overseas withholding taxes written off.

At 31 March 2002 the Company had surplus management expenses of £18m (2001 – £15m) which have not been recognised as a deferred tax asset. This is because the Company is not expected to generate taxable income in a future period in excess of the deductible expenses of that future period and, accordingly, it is unlikely that the Company will be able to reduce future tax liabilities through the use of existing surplus expenses.

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	2002	2001	2002 £'000	2001 £'000
Adjustment to provision for 2001/2000 final dividend	–	–	(52)	(90)
Interim dividend per ordinary share (paid 30 November 2001)	2.00p	1.90p	6,365	6,291
Proposed final dividend per ordinary share (payable 10 July 2002)	4.25p	4.10p	13,140	13,478
	6.25p	6.00p	19,453	19,679

8 RETURN PER ORDINARY SHARE	2002			2001		
	Revenue	Capital	Total	Revenue	Capital	Total
	7.56p	(30.17p)	(22.61p)	7.57p	(127.14p)	(119.57p)

Revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £24,213,000 (2001 – £25,212,000), and on 320,181,479 (2001 – 332,981,965) 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 £96,592,000 (2001 – net capital loss of £423,362,000), and on 320,181,479 (2001 – 332,981,965) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

	2002	2001
	£'000	£'000
9 FIXED ASSETS – INVESTMENTS		
Listed at market value – UK	746,265	728,923
– overseas	741,444	904,970
Unlisted	5,332	–
	1,493,041	1,633,893

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total £'000
Cost of investments held at 1 April 2001	538,525	898,685	–	1,437,210
Unrealised appreciation at 1 April 2001	190,398	6,285	–	196,683
Value of investments held at 1 April 2001	728,923	904,970	–	1,633,893
Movements in year:				
Purchases at cost	175,690	312,975	5,967	494,632
Sales – proceeds	(145,557)	(399,976)	–	(545,533)
– realised losses on sales	(7,471)	(106,058)	–	(113,529)
(Decrease)/increase in unrealised appreciation	(5,320)	29,533	(635)	23,578
Value of investments held at 31 March 2002	746,265	741,444	5,332	1,493,041
Cost of investments held at 31 March 2002	561,187	705,626	5,967	1,272,780
Unrealised appreciation/(depreciation) at 31 March 2002	185,078	35,818	(635)	220,261
Value of investments held at 31 March 2002	746,265	741,444	5,332	1,493,041

(LOSSES)/GAINS ON INVESTMENTS	2002 £'000	2001 £'000
Realised (losses)/gains on sales	(113,529)	125,325
Increase/(decrease) in unrealised appreciation	23,578	(527,141)
	(89,951)	(401,816)

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:

	2002		2001	
	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
Baillie Gifford European Smaller Companies Fund	7,910,800	21.1	11,258,000	23.6
Baillie Gifford Latin American Fund	15,000,000	83.3	20,000,000	32.0

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:

	2002			2001		
	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 bonds	19,631	8.8%	6 years	4,212	12.5%	8 years
European bonds	26,621	7.1%	8 years	32,535	8.6%	8 years
US bonds	–	–	–	9,686	13.4%	4 years
Argentine bonds	–	–	–	21,923	10.5%	21 years
Floating rate:						
UK bonds (interest rate linked to sterling LIBOR)	22,746	3.4%	63 years	19,477	3.2%	71 years
European bonds (interest rate linked to euro LIBOR)	4,793	7.8%	14 years	–	–	–

	2002 £'000	2001 £'000
Cash:		
UK deposits	5,148	31,761
Foreign deposits – euro	6,135	1,007
– US dollar	6,954	–
– Japanese yen	42	12
	18,279	32,780

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	9,039	8,303
Sales for subsequent settlement	6,501	770
Taxation recoverable	82	464
Other debtors and prepayments	1,252	1,716
	16,874	11,253

12 CREDITORS

Amounts falling due within one year:		
ING Bank N.V. yen loan	23,314	–
Banque Nationale de Paris multi-currency loan	–	43,527
Purchases for subsequent settlement	–	1,007
Proposed final dividend	13,140	13,478
Other creditors and accruals	5,167	3,259
	41,621	61,271

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 £35 million multi-currency loan facility has been arranged with National Australia Bank Limited.
A ¥4,400 million loan facility has been arranged with ING Bank N.V.
At 31 March 2002 drawings were as follows:

National Australia Bank Limited	¥5,900 million at an interest rate of 0.65% per annum (see note 13).
ING Bank N.V.	¥4,400 million at an interest rate of 0.41% per annum.

Included in other creditors is £208,000 (2001 – £328,000) in respect of the investment management fee.

	Nominal rate	Effective rate	2002 £'000	2001 £'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	14.0%	12.3%	22,459	22,494
£75 million 6.875% debenture stock 2023	6.875%	6.9%	74,229	74,192
£50 million 6–12% stepped interest debenture stock 2026	12.0%	10.8%	54,961	55,005
4½% irredeemable debenture stock			675	675
National Australia Bank Limited multi-currency loan (see note 12)			31,261	–
			183,585	152,366

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 £6.6 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:

	2002 £'000	2001 £'000
Floating rate – Yen denominated	54,575	–
– Euro denominated	–	43,527
Fixed rate – Sterling denominated	152,324	152,366
	206,899	195,893

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

	2002 £'000	2001 £'000
In one year or less, or on demand	23,314	43,527
In more than one year, but less than five years	31,261	–
In more than five years (weighted average period fixed 22 years)	151,649	151,691
No fixed date for repayment	675	675
	206,899	195,893

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:

	2002			2001		
	Nominal £'000	**Book £'000**	**Market £'000**	**Nominal £'000**	**Book £'000**	**Market £'000**
8–14% stepped interest debenture stock 2020	20,000	22,459	34,318	20,000	22,494	36,650
6.875% debenture stock 2023	75,000	74,229	74,175	75,000	74,192	78,668
6–12% stepped interest debenture stock 2026	50,000	54,961	80,375	50,000	55,005	84,150
4½% irredeemable debenture stock	675	675	530	675	675	580
	145,675	152,324	189,398	145,675	152,366	200,048

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 423.6p to 409.4p. Taking the market price of the ordinary shares at 31 March 2002 of 369.0p, this would have given a discount to net asset value of 9.9% as against 12.9% on a traditional basis. At 31 March 2001 the effect would be to reduce net asset value 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%.

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

Gains and losses on hedges

At 31 March 2002 there were no unrecognised gains/losses on hedges. Realised currency gains/losses are taken to the capital reserve and are not reflected in the revenue account unless they are of a revenue nature.

	2002		2001	
	Number	£'000	Number	£'000
15 CALLED-UP SHARE CAPITAL				
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	309,184,688	77,296	328,717,888	82,179

At the Annual General Meeting on 5 July 2001 the Company renewed its authority to purchase shares in the market, in respect of 48,499,079 ordinary shares (equivalent to 14.99% of its issued share capital at that date). In the year to 31 March 2002 a total of 19,533,200 (2001 – 10,003,112) ordinary shares with a nominal value of £4,883,000 were bought back at a total cost of £69,469,000 (2001 – £45,466,000). At 31 March 2002 the Company had authority to buy back a further 34,140,879 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 to the capital redemption reserve.

16 RESERVES	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
At 1 April 2001	8,001	1,133,274	197,573	43,262
Net loss on realisation of investments	–	(113,529)	–	–
Increase in unrealised appreciation	–	–	23,578	–
Exchange differences	–	(552)	–	–
Exchange differences on multi-currency loans	–	(26)	4,025	–
Shares purchased for cancellation	4,883	(69,469)	–	–
Investment management fee	–	(2,695)	–	–
Finance costs of borrowings	–	(7,393)	–	–
Retained net revenue for the year	–	–	–	4,760
At 31 March 2002	12,884	939,610	225,176	48,022

17 TOTAL SHAREHOLDERS' FUNDS	2002 £'000	2001 £'000
Total shareholders' funds are attributable as follows:		
Equity shares	1,302,988	1,464,289

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 18 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)	£1,302,988,000
Number of ordinary shares in issue at the year end	309,184,688
Shareholders' funds per ordinary share (pence)	421.4p
Additions/(deductions)	
– expenses of debenture issue	(0.8p)
– allocation of interest on borrowings	3.0p
Net asset value per ordinary share	423.6p

18 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:

	2002	2001	2002 £'000	2001 £'000
Ordinary shares	423.6p	447.5p	1,309,641	1,470,984

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

	2002	2001
Total net assets at 1 April	1,470,984	1,931,434
Total recognised gains and (losses) for the year	(72,379)	(398,150)
Dividends appropriated in the year	(19,453)	(19,679)
Write off of deferred tax on finance costs	–	2,879
Adjustment to debentures	(42)	(34)
Shares purchased for cancellation	(69,469)	(45,466)
Total net assets at 31 March	1,309,641	1,470,984

Net asset value per ordinary share is based on net assets (adjusted to reflect the deduction of the debentures at par) and on 309,184,688 (2001 – 328,717,888) 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 17.

19 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2002	2001
Shareholders' funds at 1 April	1,464,289	1,927,584
Total recognised (losses) and gains for the year (after dividend payments)	(91,832)	(417,829)
Shares purchased for cancellation	(69,469)	(45,466)
Shareholders' funds at 31 March	1,302,988	1,464,289

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

	2002	2001
Net revenue on ordinary activities before finance costs and taxation	32,579	38,856
Investment management fees charged to capital	(2,695)	(3,408)
(Increase) in accrued income	(291)	(356)
Decrease/(increase) in debtors	464	(333)
(Decrease) in creditors	(132)	(1,741)
	29,925	33,018

21 ANALYSIS OF CHANGE IN NET DEBT

	At 1 April 2001 £'000	Cash flows £'000	Other non-cash changes £'000	Exchange movement £'000	At 31 March 2002 £'000
Cash at bank and in hand	32,780	(14,501)	–	–	18,279
Loans due within one year	(43,527)	20,374	–	(161)	(23,314)
Loans due in more than one year	–	(35,421)	–	4,160	(31,261)
Debenture stocks	(152,366)	–	42	–	(152,324)
	(163,113)	(29,548)	42	3,999	(188,620)

22 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.

23 CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS

At the year end the Company had a contingent liability amounting to £14 million under a subscription agreement relating to participating loan notes. The obligation will expire on 31 December 2005. There were no contingent liabilities at 31 March 2001.

24 SUMMARY OF MAIN INVESTMENT RESTRICTIONS

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

Holding size

At the 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, which provide finance for investment activities, comprise its debenture stocks, its long and short term borrowings, and its cash and liquid resources. In addition to the equity portfolio, the Company maintains investments in UK 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, credit 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.

Credit Risk

In addition to interest rate risk, the Company's investments in bonds are also subject to credit risk. Credit risk reflects the possibility that a borrower will not be able to meet its obligation to make payments of interest or principal when they fall due. The Managers analyse the credit risk of the Company's bond investments prior to purchase and continue to monitor developments in credit quality subsequently.

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-third 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, 4 July 2002, at 11.00 am for the following purposes:

Ordinary Business

1. To approve the Accounts of the Company for the year to 31 March 2002 with the Reports of the Directors and of the Auditors thereon.
2. To declare a dividend.
3. To re-elect Sir Donald MacKay as a Director.
4. To elect Mr JPHS Scott 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 2003 or 3 January 2004, 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
31 May 2002

Baillie Gifford

Notes

1 A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company. A Form of Proxy for the use of members is enclosed.

2 An ordinary shareholder entered on the Register of Members 48 hours before the meeting is entitled to attend and vote at the meeting pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995. Any changes to the Register of Members after such time and date shall be disregarded in determining the rights of any shareholder to attend and/or vote at the meeting.

3 Shareholders participating in the Baillie Gifford Investment Trust Share Plan and/or the Baillie Gifford Investment Trust ISA/PEP who wish to vote and/or attend the meeting must complete and return the enclosed reply-paid Form of Direction.

4 No Director has a contract of service with the Company.

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, 4 July 2002 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 2002

	Ordinary shares held		Shareholders	
	Number	%	Number	%
Individuals	52,328,563	16.9	12,237	44.2
Baillie Gifford Share Plan/PEP/ISA	19,199,056	6.2	8,945	32.3
Nominee Companies and Banks	199,287,568	64.5	5,276	19.0
Insurance Companies	7,141,926	2.3	128	0.5
Other holders	31,227,575	10.1	1,102	4.0
	309,184,688	100.0	27,688	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 early 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 Investor 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, you can check your 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 the FSA. 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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1 Rutland Court
EDINBURGH EH3 8EY

Tel: 0800 027 0133
We may record your call

e-mail: its@bailliegifford.com
website: www.bailliegifford.com

Fax: 0131 474 3248

Pillans & Wilson, Edinburgh. 67625

DIRECTORS

Chairman
Lord Sanderson of Bowden

GA Ball
FPM Johnston
Sir Donald MacKay
WG McQueen
The Earl of Portarlington
JPHS Scott

MANAGERS, SECRETARIES AND REGISTERED OFFICE

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Company Registration No. 7058