

Independent Auditors' Report

to the members of Scottish Mortgage Investment Trust PLC ('the Company')

We have audited the financial statements of Scottish Mortgage Investment Trust PLC for the year ended 31 March 2009 which comprise the Income Statement, Balance Sheet, Reconciliation of Movements in Shareholders' Funds, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 28.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes the specific information presented in the Chairman's Statement, the Managers' Review, the One Year Summary, the Five Year Summary and the Ten Year Record that is cross referenced from the Business Review section of the Directors' Report. We also report to you if, in our opinion, 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 regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report 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. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2009 and of its loss for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh
14 May 2009

Income Statement

	Notes	For the year ended 31 March 2009			For the year ended 31 March 2008		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments	10	–	(691,354)	(691,354)	–	159,406	159,406
Currency losses	15	–	(50,819)	(50,819)	–	(36,613)	(36,613)
Income	2	57,470	–	57,470	49,575	–	49,575
Investment management fee	3	(2,821)	(2,821)	(5,642)	(3,875)	(3,875)	(7,750)
Recovered VAT	4	3,850	1,816	5,666	–	–	–
Other administrative expenses	5	(1,885)	–	(1,885)	(2,068)	–	(2,068)
Net return before finance costs and taxation		56,614	(743,178)	(686,564)	43,632	118,918	162,550
Finance costs of borrowings	6	(10,786)	(11,548)	(22,334)	(10,025)	(10,025)	(20,050)
Net return on ordinary activities before taxation		45,828	(754,726)	(708,898)	33,607	108,893	142,500
Tax on ordinary activities	7	(11,257)	7,860	(3,397)	(6,564)	3,908	(2,656)
Net return on ordinary activities after taxation		34,571	(746,866)	(712,295)	27,043	112,801	139,844
Net return per ordinary share	8	12.67p	(273.74p)	(261.07p)	9.79p	40.82p	50.61p

The total column of this statement is the profit and loss account of the Company.

All revenue and capital items in this statement derive from continuing operations. No operations were acquired or discontinued during the year. The accompanying notes on pages 35 to 47 are an integral part of the financial statements.

A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

Balance Sheet

	Notes	At 31 March 2009		At 31 March 2008	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments held at fair value through profit or loss	10		1,361,987		2,259,474
Current assets					
Debtors	11	9,073		20,026	
Cash and short term deposits		35,774		13,030	
		44,847		33,056	
Creditors					
Amounts falling due within one year	12	(77,631)		(126,435)	
Net current liabilities			(32,784)		(93,379)
Total assets less current liabilities			1,329,203		2,166,095
Creditors					
Amounts falling due after more than one year	13		(248,866)		(329,651)
			1,080,337		1,836,444
Capital and reserves					
Called-up share capital	14		71,086		68,497
Capital redemption reserve	15		19,094		21,683
Capital reserve – realised	15		974,657		1,712,759
Capital reserve – unrealised	15		(55,955)		(36,430)
Revenue reserve	15		71,455		69,935
Equity shareholders' funds		16	1,080,337		1,836,444
Net asset value per ordinary share (after deducting borrowings at fair value)		17	383.8p		651.4p
Net asset value per ordinary share (after deducting borrowings at par)		17	399.3p		672.5p

The Financial Statements were approved and authorised for issue by the Board and signed on 14 May 2009.

SIR DONALD MACKAY
Chairman

The accompanying notes on pages 35 to 47 are an integral part of the financial statements.

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 March 2009

	Notes	Share capital £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	Total shareholders' funds £'000
Shareholders' funds at 1 April 2008		68,497	21,683	1,712,759	(36,430)	69,935	1,836,444
Adjustment to reserves*		2,589	(2,589)	–	–	–	–
Net return on ordinary activities after taxation	15	–	–	(727,341)	(19,525)	34,571	(712,295)
Shares bought back	14	–	–	(10,761)	–	–	(10,761)
Dividends paid during the year	9	–	–	–	–	(33,051)	(33,051)
Shareholders' funds at 31 March 2009		71,086	19,094	974,657	(55,955)	71,455	1,080,337

* See note 15 on page 41.

For the year ended 31 March 2008

	Notes	Share capital £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	Total shareholders' funds £'000
Shareholders' funds at 1 April 2007		70,365	19,815	1,067,888	541,179	70,618	1,769,865
Transfer between reserves†		–	–	535,237	(535,237)	–	–
Net return on ordinary activities after taxation		–	–	155,173	(42,372)	27,043	139,844
Shares bought back	14	(1,868)	1,868	(45,539)	–	–	(45,539)
Dividends paid during the year	9	–	–	–	–	(27,726)	(27,726)
Shareholders' funds at 31 March 2008		68,497	21,683	1,712,759	(36,430)	69,935	1,836,444

† See note 15 on page 41.

The accompanying notes on pages 35 to 47 are an integral part of the financial statements.

Cash Flow Statement

	Notes	For the year ended 31 March 2009		For the year ended 31 March 2008	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	18		56,685		36,358
Servicing of finance					
Interest paid		(21,862)		(18,708)	
Net cash outflow from servicing of finance			(21,862)		(18,708)
Taxation					
Income tax paid		(20)		(10)	
Overseas tax incurred		(3,381)		(2,560)	
Total tax paid			(3,401)		(2,570)
Financial investment					
Acquisitions of investments		(387,778)		(783,355)	
Disposals of investments		595,292		707,926	
Realised currency profit/(loss)		5,132		(1,051)	
Net cash inflow/(outflow) from financial investment			212,646		(76,480)
Equity dividends paid	9		(33,051)		(27,726)
Net cash inflow/(outflow) before financing			211,017		(89,126)
Financing					
Shares bought back		(10,761)		(45,539)	
Bank loans repaid		(227,492)		(72,480)	
Bank loans drawn down		49,980		201,010	
Net cash (outflow)/inflow from financing			(188,273)		82,991
Increase/(decrease) in cash	19		22,744		(6,135)
Reconciliation of net cash flow to movement in net debt	19				
Increase/(decrease) in cash in the period			22,744		(6,135)
Decrease/(increase) in bank loans			177,512		(128,530)
Exchange movement on bank loans			(55,951)		(35,562)
Other non-cash changes			133		115
Movement in net debt in the year			144,438		(170,112)
Net debt at 1 April			(426,597)		(256,485)
Net debt at 31 March			(282,159)		(426,597)

The accompanying notes on pages 35 to 47 are an integral part of the financial statements.

1 Principal Accounting Policies

The financial statements for the year to 31 March 2009 have been prepared on the basis of the accounting policies set out below. These are unchanged from last year and have been applied consistently.

(a) Basis of Accounting

The financial statements are prepared on a going concern basis 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 Directors consider the Company's functional currency to be sterling as the Company's shareholders are predominantly based in the UK and the Company is subject to the UK's regulatory environment.

The financial statements have been prepared in accordance with applicable UK Accounting Standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' issued in 2003, revised 2005.

In order to reflect better the activities of the trust and in accordance with guidance issued by the AIC, supplementary information which analyses the profit and loss account between items of a revenue and capital nature has been presented in the Income Statement.

Financial assets and financial liabilities are recognised in the Company's balance sheet when it becomes a party to the contractual provisions of the instrument.

(b) Investments

Purchases and sales of investments are accounted for on a trade date basis. All investments are designated as fair value through profit or loss upon initial recognition. The fair value of listed investments is bid 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 closing price and are classified for valuation purposes according to the principal geographical area of the underlying holdings.

The fair value of unlisted investments uses valuation techniques, determined by the Directors, based upon latest dealing prices, stockbroker valuations, net asset values and other information, as appropriate.

Gains and losses arising from changes in the fair value of investments are considered to be realised to the extent that they are readily convertible to cash, without accepting adverse terms, at the balance sheet date. Fair value gains on unlisted investments are not considered to be readily convertible to cash and are therefore treated as unrealised. The treatment of listed investments is dependent upon the individual circumstances of each holding.

(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 effective interest rate 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 recognised 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. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised as capital.

(d) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue column of the Income Statement except as follows: where they relate directly to the acquisition or disposal of an investment (transaction costs), in which case they are recognised as capital; 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 attributable to the stepped interest debentures. The finance costs of such borrowings are allocated 50:50 to the revenue column of the Income Statement 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. Gains and losses on the repurchase or early settlement of debt is wholly charged to capital.

(f) Taxation

The tax effect of different items of income and expenditure is allocated between revenue and capital on the same basis as the particular item to which it relates, under the marginal method, using the Company's effective tax rate for the accounting period.

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

(i) Capital Reserve Realised:

Gains and losses on realisation of investments, changes in fair value of instruments which are readily convertible to cash, without accepting adverse terms, 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 and finance costs are allocated to the realised capital reserve in accordance with the Company's objective of combining capital and income growth.

(ii) Capital Reserve Unrealised:

Changes in fair value of investments that are not readily convertible to cash, without accepting adverse terms, and the amounts by which other assets and liabilities valued at fair value differ from their book value are dealt with in this reserve.

2 Income

	2009 £'000	2008 £'000
Income from investments		
Franked investment income	5,624	11,391
UK unfranked investment income†	2,017	1,932
Overseas dividends	41,316	30,146
Overseas interest	5,406	5,428
	54,363	48,897
Other income		
Deposit interest	617	608
Interest on VAT recovered (see note 4)	1,910	–
Underwriting commission and commitment fees	580	70
	3,107	678
Total income	57,470	49,575
Total income comprises:		
Dividends from financial assets designated at fair value through profit or loss	47,287	41,859
Interest from financial assets designated at fair value through profit or loss	7,076	7,038
Deposit interest from financial assets not at fair value through profit or loss	617	608
Other income not from financial assets	580	70
	57,470	49,575
Income from investments		
Listed UK	5,624	11,482
Listed overseas	48,705	37,415
Unlisted	34	–
	54,363	48,897

†Includes OEIC income.

3 Investment Management Fee

	2009			2008		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	2,821	2,821	5,642	3,717	3,717	7,434
Unrecovered VAT thereon	–	–	–	158	158	316
	2,821	2,821	5,642	3,875	3,875	7,750

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). 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 itself attract a management fee.

4 Recovered VAT

In 2007 the European Court of Justice ruled that investment trust management fees should be exempt from VAT. During the period, in respect of the periods 1990 to 1996 and from 2000 to 2007 the Company received a reimbursement of £5,666,000 which has been allocated to revenue and capital in the manner in which it had originally been charged, plus £1,910,000 of interest thereon.

5 Other Administrative Expenses – all charged to the revenue column of the income statement

	2009 £'000	2008 £'000
General administrative expenses	1,695	1,908
Directors' fees (see Directors' Remuneration Report page 26)	169	139
Auditors' remuneration for audit services	20	20
Auditors' remuneration for other services – certification of results for the debenture trustees	1	1
	1,885	2,068

6 Finance Costs of Borrowings

	Revenue £'000	2009 Capital £'000	Total £'000	Revenue £'000	2008 Capital £'000	Total £'000
Financial liabilities not at fair value through profit or loss						
Bank loans and overdrafts repayable within five years	3,859	4,621	8,480	3,089	3,089	6,178
Debentures repayable wholly or partly in more than five years	6,927	6,927	13,854	6,936	6,936	13,872
	10,786	11,548	22,334	10,025	10,025	20,050

7 Tax on Ordinary Activities

	Revenue £'000	2009 Capital £'000	Total £'000	Revenue £'000	2008 Capital £'000	Total £'000
UK corporation tax	11,257	(7,860)	3,397	6,708	(3,908)	2,800
Overseas taxation	3,397	–	3,397	2,800	–	2,800
Double taxation relief	(3,397)	–	(3,397)	(2,800)	–	(2,800)
Total current tax	11,257	(7,860)	3,397	6,708	(3,908)	2,800
Recovery of refundable income written off in previous years	–	–	–	(144)	–	(144)
	11,257	(7,860)	3,397	6,564	(3,908)	2,656

	2009 £'000	2008 £'000
The tax charge for the year is lower than the standard rate of corporation tax in the UK of 28% (2008 – 30%)		
The differences are explained below:		
Net return on ordinary activities before taxation	(708,898)	142,500
Net return on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 28% (2008 – 30%)	(198,491)	42,750
Capital returns not taxable	207,808	(36,838)
Income not taxable (franked investment income)	(1,575)	(3,417)
Losses from previous periods utilised	(4,357)	–
Overseas withholding tax	3,397	2,800
Double taxation relief	(3,397)	(2,800)
Adjustment to income received from OEICs for tax purposes	12	17
Tax on refundable income written off in previous years	–	144
Current tax charge for the year	3,397	2,656

At 31 March 2009 the Company had surplus management expenses and losses on non-trading loan relationships of £42 million (2008 – £56 million) 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.

8 Net Return per Ordinary Share

	2009		2008	
	Revenue	Capital	Revenue	Capital
	12.67p	(273.74p)	9.79p	40.82p
		(261.07p)		50.61p

Revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £34,571,000 (2008 – £27,043,000), and on 272,833,733 (2008 – 276,364,832) ordinary shares, being the weighted average number of ordinary shares during the year.

Capital return per ordinary share is based on the net capital loss for the financial year of £746,866,000 (2008 – net capital gain of £112,801,000), and on 272,833,733 (2008 – 276,364,832) ordinary shares, being the weighted average number of ordinary shares during the year.

There are no dilutive or potentially dilutive shares.

9 Ordinary Dividends

	2009	2008	2009	2008
			£'000	£'000
Amounts recognised as distributions in the period:				
Previous year's final (paid 2 July 2008)	5.30p	5.00p	14,521	13,984
Interim (paid 28 November 2008)	6.80p	5.00p	18,530	13,742
	12.10p	10.00p	33,051	27,726

We also set out below the total dividends paid and proposed in respect of the financial year, which is the basis on which the requirements of section 842 of the Income and Corporation Taxes Act 1988 are considered. The revenue available for distribution by way of dividend for the year is £34,571,000 (2008 – £27,043,000).

	2009	2008	2009	2008
			£'000	£'000
Dividends paid and proposed in the period:				
Interim dividend per ordinary share (paid 28 November 2008)†	6.80p	5.00p	18,530	13,742
Proposed final dividend per ordinary share (payable 1 July 2009)	5.50p	5.30p	14,965	14,521
Adjustment to previous year's final dividend re shares bought back			–	(89)
	12.30p	10.30p	33,495	28,174

†The interim dividend includes a non-recurring 1.5p per share.

10 Fixed Assets – Investments

	2009	2008
	£'000	£'000
Financial assets designated at fair value through profit or loss on initial recognition		
Listed UK – equity investments	125,692	251,692
Listed Overseas – equity investments	1,153,928	1,919,232
Listed Overseas – debt instruments	79,067	88,550
Unlisted – debt instruments	3,300	–
Total investments in financial assets at fair value through profit or loss	1,361,987	2,259,474

10 Fixed Assets – Investments (continued)

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total £'000
Cost of investments at 1 April 2008	248,342	1,555,414	–	1,803,756
Fair value adjustment at 1 April 2008	3,350	452,368	–	455,718
Fair value of investments at 1 April 2008	251,692	2,007,782	–	2,259,474
Movements in year:				
Purchases at cost	57,612	322,921	3,300	383,833
Sales – proceeds	(85,004)	(505,065)	–	(590,069)
– gains	(16,922)	(48,134)	–	(65,056)
Amortisation of fixed interest book cost	–	103	–	103
Changes in fair value	(92,694)	(533,604)	–	(626,298)
Change in listing	11,008	(11,008)	–	–
Fair value of investments at 31 March 2009	125,692	1,232,995	3,300	1,361,987
Cost of investments at 31 March 2009	215,036	1,314,231	3,300	1,532,567
Fair value adjustment at 31 March 2009	(89,344)	(81,236)	–	(170,580)
Fair value of investments at 31 March 2009	125,692	1,232,995	3,300	1,361,987

The purchases and sales proceeds figures above include transaction costs of £596,000 (2008 – £1,443,000) and £811,000 (2008 – £923,000) respectively.

	Realised £'000	2009 Unrealised £'000	Total £'000	Realised £'000	2008 Unrealised £'000	Total £'000
Net gains on investments designated at fair value through profit or loss on initial recognition						
Securities:						
Gains on sales	(65,056)	–	(65,056)	238,925	–	238,925
Changes in fair value	(626,298)	–	(626,298)	(79,519)	–	(79,519)
	(691,354)	–	(691,354)	159,406	–	159,406

Changes in fair value of investments which are readily convertible to cash, without accepting adverse terms, at the balance sheet date are considered to be realised. Fair value gains on unlisted investments are not treated as readily convertible to cash, whereas the treatment of fair value gains on listed investments depends upon the individual circumstances of each investment.

Of the gains on sales during the year a net loss of £17,951,000 (2008 – gain of £49,109,000) was included in the fair value adjustment at the previous year end.

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

	C income shares held	2009 Value £'000	% of fund held	C income shares held	2008 Value £'000	% of fund held
Baillie Gifford European Smaller Companies Fund	5,767,177	11,794	26.6	5,767,177	16,633	25.6

11 Debtors

	2009 £'000	2008 £'000
Amounts falling due within one year:		
Income accrued	8,185	9,260
Sales for subsequent settlement	–	5,223
FX sales for subsequent settlement	–	5,165
UK taxation recoverable	67	48
Other debtors and prepayments	821	330
	9,073	20,026

The carrying amount of debtors is a reasonable approximation of fair value.

12 Creditors – Amounts falling due within one year

	2009 £'000	2008 £'000
Lloyds TSB Scotland plc multi-currency loan	69,067	–
BNP Paribas multi-currency loan	–	59,661
The Royal Bank of Scotland multi-currency loan	–	50,315
Purchases for subsequent settlement	1,220	5,165
FX purchases for subsequent settlement	–	5,170
Other creditors and accruals	7,344	6,124
	77,631	126,435

Included in other creditors is £369,000 (2008 – £1,071,000) in respect of the investment management fee.

Borrowing facilities

A 1 year £50 million multi-currency loan facility, at the time of draw down, has been arranged with Lloyds TSB Scotland plc.

A 3 year £100 million multi-currency loan facility, at the time of draw down, has been arranged with ING Bank N.V.

At 31 March 2009 drawings were as follows:

Lloyds TSB Scotland plc

US\$ 99million at an interest rate of 3.11% per annum.

ING Bank N.V.

¥8,500 million at an interest rate of 1.63% per annum (see note 13).

CHF 60.5 million at an interest rate of 3.45% per annum (see note 13).

The main covenants relating to the above loans are:

(i) Total borrowings shall not exceed 35% of the Company's net asset value.

(ii) The Company's minimum net asset value shall be £760 million.

(iii) The Company shall not change the investment manager without prior written consent of the lenders.

13 Creditors – Amounts falling due after more than one year

	Nominal rate	Effective rate	2009 £'000	2008 £'000
Debenture stocks:				
£20 million 8–14% stepped interest debenture stock 2020	14.0%	12.3%	22,052	22,132
£75 million 6.875% debenture stock 2023	6.875%	6.9%	74,488	74,451
£50 million 6–12% stepped interest debenture stock 2026	12.0%	10.8%	54,490	54,580
4½% irredeemable debenture stock			675	675
Bank loans:				
ING Bank N.V. multi-currency loan			97,161	119,614
Lloyds TSB Scotland plc multi-currency loan			–	58,199
			248,866	329,651

Debenture stocks

The debenture stocks are stated at the cumulative amount of net proceeds after issue, plus accrued finance costs attributable to the stepped interest debentures. The cumulative effect is to increase the carrying amount of borrowings by £6,030,000 (2008 – £6,163,000) over nominal value. The debenture stocks are secured by a floating charge over the assets of the Company.

14 Called-up Share Capital

	2009		2008	
	Number	£'000	Number	£'000
Authorised ordinary shares of 25p each	360,720,000	90,180	360,720,000	90,180
Allotted, called-up and fully paid ordinary shares of 25p each	272,089,897	68,022	273,989,897	68,497
Treasury shares of 25p each	12,256,279	3,064	10,356,279	2,589
Total	284,346,176	71,086	284,346,176	71,086

The Company's authority permits it to hold shares bought back 'in treasury'. Such treasury shares may be subsequently either sold for cash (at, or at a premium to, net asset value per ordinary share) or cancelled. In the year to 31 March 2009, a total of 1,900,000 (2008 – 7,471,279) ordinary shares with a nominal value of £475,000 (2008 – £1,868,000) were bought back at a total cost of £10,761,000 (2008 – £45,539,000) and held in treasury. At 31 March 2009 the Company had authority to buy back a further 40,021,185 ordinary shares.

Under the provisions of the Company's Articles the share buy-backs were funded from the realised capital reserve.

15 Capital and Reserves

	Share capital £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	Total shareholders' funds £'000
At 1 April 2008	68,497	21,683	1,712,759	(36,430)	69,935	1,836,444
Adjustment to reserves*	2,589	(2,589)	–	–	–	–
Net loss on realisation of investments	–	–	(65,056)	–	–	(65,056)
Fair value movement of investments	–	–	(626,298)	–	–	(626,298)
Exchange differences	–	–	5,132	–	–	5,132
Exchange differences on multi-currency loans	–	–	(36,426)	(19,525)	–	(55,951)
Shares bought back	–	–	(10,761)	–	–	(10,761)
Investment management fee charged to capital	–	–	(2,821)	–	–	(2,821)
VAT recovered	–	–	1,816	–	–	1,816
Finance costs of borrowings charged to capital	–	–	(11,548)	–	–	(11,548)
Tax relief on management fee and finance costs	–	–	7,860	–	–	7,860
Dividends paid in year	–	–	–	–	(33,051)	(33,051)
Revenue return on ordinary activities after taxation	–	–	–	–	34,571	34,571
At 31 March 2009	71,086	19,094	974,657	(55,955)	71,455	1,080,337

Distributable capital reserves

Changes in fair value of investments which are readily convertible to cash, without accepting adverse terms, at the balance sheet date are included in realised, rather than unrealised, capital reserves. The balances on both reserves at 1 April 2007 have been amended by a reserve transfer to reflect this change.

*The adjustment to the share capital and the capital redemption reserve is to reflect that when shares have been bought back in prior years and held in treasury they should not have been treated as cancelled.

16 Total Shareholders' Funds

	2009 £'000	2008 £'000
Total shareholders' funds are attributable as follows:		
Equity shares	1,080,337	1,836,444
Total shareholders' funds have been calculated in accordance with the provisions of FRS26. However, the net asset value per share figures in note 17 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)	1,080,337,000	1,836,444,000
Number of ordinary shares in issue at the year end*	272,089,897	273,989,897
Shareholders' funds per ordinary share	397.1p	670.3p
Additions/(deductions)		
– expenses of debenture issue	(0.7p)	(0.7p)
– allocation of interest on borrowings	2.9p	2.9p
Net asset value per ordinary share	399.3p	672.5p

*Excluding shares held in treasury.

17 Net Asset Value per Ordinary Share

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

	2009	2008	2009 £'000	2008 £'000
Ordinary shares	399.3p	672.5p	1,086,367	1,842,607

	2009 £'000	2008 £'000
The movements during the year of the assets attributable to the ordinary shares were as follows:		
Total net assets at 1 April	1,842,607	1,776,143
Total recognised gains and losses for the year	(712,295)	139,844
Dividends appropriated in the year	(33,051)	(27,726)
Adjustment to debentures	(133)	(115)
Shares bought back	(10,761)	(45,539)
Total net assets at 31 March	1,086,367	1,842,607

Net asset value per ordinary share is based on net assets (adjusted to reflect the deduction of the debentures at par/nominal value (see note 23)) and on 272,089,897 (2008 – 273,989,897) ordinary shares, being the number of ordinary shares (excluding treasury shares) in issue at the year end. Shareholders' funds as reported on the face of the balance sheet have been computed in accordance with the provisions of FRS26. A reconciliation of the two sets of figures under these two conventions is given in note 16.

18 Reconciliation of Net Return before Finance Costs and Taxation to Net Cash Inflow from Operating Activities

	2009 £'000	2008 £'000
Net return on ordinary activities before finance costs and taxation	(686,564)	162,550
Losses/(gains) on investments – securities	691,354	(159,406)
Currency losses	50,819	36,613
Amortisation of fixed income book cost	(103)	43
Decrease in accrued income	1,058	635
(Increase) in debtors	(491)	(113)
Increase/(decrease) in creditors	612	(3,964)
Net cash inflow from operating activities	56,685	36,358

19 Analysis of Change in Net Debt

	At 1 April 2008 £'000	Cash flows £'000	Other non-cash changes £'000	Exchange movement £'000	At 31 March 2009 £'000
Cash at bank and in hand	13,030	22,744	–	–	35,774
Loans due within one year	(109,976)	123,941	(58,200)	(24,832)	(69,067)
Loans due in two to five years	(177,813)	53,571	58,200	(31,119)	(97,161)
Debenture stocks	(151,838)	–	133	–	(151,705)
	(426,597)	200,256	133	(55,951)	(282,159)

20 Related Party Transactions

The Directors' fees for the year are detailed in the Directors' Remuneration Report on page 26. 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 the Companies Act. The details of the management fee are set out in note 3, and the management fee due to Baillie Gifford as at 31 March 2009 is disclosed in note 12.

21 Contingencies, Guarantees and Financial Commitments

At the year end the Company had a contingent liability amounting to £6.7 million (2008 – £10 million) under a subscription agreement relating to participating unsecured loan notes. The obligation will expire on 31 December 2010.

22 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 HM Revenue and Customs guidelines so as to ensure maintenance of the Company's Investment Trust status.

23 Financial Instruments

As an Investment Trust, the Company invests in equities and makes other investments so as to achieve its investment objective of maximising total return, whilst also generating real dividend growth, from a focused and actively managed global portfolio. In pursuing its investment objective, the Company is exposed to various types of risk that are associated with the financial instruments and markets in which it invests.

These risks are categorised here as market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. The Board monitors closely the Company's exposures to these risks but does so in order to reduce the likelihood of a permanent loss of capital rather than to minimise the short term volatility. Risk provides the potential for both loss and gains and in assessing risk, the Board encourages the Managers to exploit the opportunities that risk affords.

The risk management policies and procedures outlined in this note have not changed substantially from the previous accounting period.

23 Financial Instruments (continued)

Market Risk

The fair value of future cash flows of a financial instrument or other investment held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – currency risk, interest rate risk and other price risk. The Board of Directors reviews and agrees policies for managing these risks and the Company's Investment Managers both assess the exposure to market risk when making individual investment decisions and monitor the overall level of market risk across the investment portfolio on an ongoing basis. Details of the Company's investment portfolio are shown in note 10.

Currency Risk

Certain of the Company's assets, liabilities and income are denominated in currencies other than sterling (the Company's functional currency and that in which it reports its results). Consequently, movements in exchange rates may affect the sterling value of those items.

The Investment Managers monitor the Company's exposure to foreign currencies and report to the Board on a regular basis. The Investment Managers assess the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value and income of a movement in the rates of exchange to which the Company's assets, liabilities, income and expenses are exposed. However, the country in which a company is listed is not necessarily where it earns its profits. The movement in exchange rates on overseas earnings may have a more significant impact upon a company's valuation than a simple translation of the currency in which the company is quoted.

Foreign currency borrowings can limit the Company's exposure to anticipated future changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments.

Exposure to currency risk through asset allocation, which is calculated by reference to the currency in which the asset or liability is quoted, is shown below.

	Investments £'000	Cash and deposits £'000	Loans and debentures £'000	Other debtors and creditors *	Net exposure £'000
At 31 March 2009					
US dollar	591,706	–	(69,067)	1,136	523,775
Euro	148,661	–	–	368	149,029
Swedish krona	97,155	–	–	–	97,155
Swiss franc	44,399	28,935	(37,121)	(18)	36,195
Japanese yen	79,642	–	(60,040)	895	20,497
Other overseas currencies	274,762	–	–	2,435	277,197
Total exposure to currency risk	1,236,325	28,935	(166,228)	4,816	1,103,848
Sterling	125,662	6,839	(151,705)	(4,307)	(23,511)
	1,361,987	35,774	(317,933)	509	1,080,337

* Includes net non-monetary assets of £19,000.

	Investments £'000	Cash and deposits £'000	Loans and debentures £'000	Other debtors and creditors *	Net exposure £'000
At 31 March 2008					
US dollar	951,109	3,754	(65,409)	1,826	891,280
Euro	274,461	2,291	(58,199)	(317)	218,236
Swedish krona	203,573	–	–	–	203,573
Swiss franc	101,795	–	(79,612)	(619)	21,564
Japanese yen	89,457	–	(84,569)	166	5,054
Other overseas currencies	385,155	–	–	2,244	387,399
Total exposure to currency risk	2,005,550	6,045	(287,789)	3,300	1,727,106
Sterling	253,924	6,985	(151,838)	267	109,338
	2,259,474	13,030	(439,627)	3,567	1,836,444

* Includes net non-monetary assets of £19,000.

23 Financial Instruments (continued)

Currency Risk Sensitivity

At 31 March 2009, if sterling had strengthened by 5% in relation to all currencies, with all other variables held constant, total net assets and total return on ordinary activities would have decreased by the amounts shown below. A 5% weakening of sterling against all currencies, with all other variables held constant, would have had an equal but opposite effect on the financial statement amounts. The analysis is performed on the same basis for 2008.

	2009 £'000	2008 £'000
US dollar	26,189	44,564
Euro	7,451	10,912
Swedish krona	4,857	10,178
Swiss franc	1,810	1,078
Japanese yen	1,025	253
Other overseas currencies	13,860	19,370
	55,192	86,355

Interest Rate Risk

Interest rate movements may affect directly:

- the fair value of the investments in fixed interest rate securities ;
- the level of income receivable on cash deposits;
- the fair value of the Company's fixed-rate borrowings; and
- the interest payable on the Company's variable rate borrowings.

Interest rate movements may also impact upon the market value of the Company's investments outwith fixed income securities. The effect of interest rate movements upon the earnings of a company may have a significant impact upon the valuation of that company's equity.

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions and when entering borrowing agreements.

The Board reviews on a regular basis the amount of investments in cash and fixed income securities and the income receivable on cash deposits, floating rate notes and other similar investments.

The Company finances part of its activities through borrowings at approved levels. The amount of such borrowings and the approved levels are monitored and reviewed regularly by the Board. Movements in interest rates, to the extent that they affect the market value of the Company's fixed rate borrowings, may also affect the amount by which the Company's share price is at a discount or a premium to the net asset value at fair value.

The interest rate risk profile of the Company's financial assets and liabilities at 31 March is shown below:

Financial Assets	2009			2008		
	Fair value £'000	Weighted average interest rate	Weighted average period until maturity	Fair value £'000	Weighted average interest rate	Weighted average period until maturity
Fixed rate:						
Sterling bonds	–	–	–	2,577	8.4%	5 years
Sterling bonds (perpetual)*	416	8.2%	N/A	–	–	–
Euro bonds	771	3.1%	8 years	2,735	13.8%	11 years
US bonds (perpetual)*	404	8.0%	N/A	1,864	17.0%	N/A
Floating rate:						
Sterling bonds (interest rate linked to sterling LIBOR)	4,931	4.7%	10 years	14,651	9.7%	31 years
Euro bonds (interest rate linked to euro LIBOR)	1,115	6.3%	76 years	2,144	10.2%	77 years
Brazilian bonds (index linked)	71,430	10.5%	36 years	64,579	11.4%	37 years

*Based on expected maturity date.

The cash deposits generally comprise call or short term money market deposits of less than one month which are repayable on demand. The benchmark rate which determines the interest payments received on cash balances is the bank base rate.

23 Financial Instruments (continued)

Interest Rate Risk (continued)

Financial Liabilities	2009 £'000	2008 £'000
The interest rate risk profile of the Company's financial liabilities at 31 March was:		
Floating rate – Swiss franc denominated	–	18,059
– Yen denominated	–	41,602
– US\$ denominated	69,067	50,315
Fixed rate – Sterling denominated	151,705	151,838
– US\$ denominated	–	15,094
– Yen denominated	60,040	42,967
– Swiss franc denominated	37,121	61,553
– Euro denominated	–	58,199
	317,933	439,627

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

In one year or less, or on demand	69,067	109,976
In two to five years	97,161	177,813
In more than five years (weighted average period fixed 15 years)	151,030	151,163
No fixed date for repayment	675	675
	317,933	439,627

Interest Rate Risk Sensitivity

An increase of 100 basis points in bond yields as at 31 March 2009 would have decreased total net assets and total return on ordinary activities by £6,633,000 (2008 – £7,201,000). A decrease of 100 basis points would have had an equal but opposite effect.

An increase of 100 basis points in bond yields as at 31 March 2009 would have increased the net asset value per share (with borrowings at fair value) by 2.40p (2008 – 3.70p). A decrease of 100 basis points would have had an equal but opposite effect.

Other Price Risk

Changes in market prices other than those arising from interest rate risk or currency risk may also affect the value of the Company's net assets.

The Board manages the market price risks inherent in the investment portfolio by ensuring full and timely access to relevant information from the Investment Managers. The Board meets regularly and at each meeting reviews investment performance, the investment portfolio and the rationale for the current investment positioning to ensure consistency with the Company's objectives and investment policies. The portfolio does not seek to reproduce the index, investments are selected based upon the merit of individual companies and therefore performance may well diverge from the short term fluctuations of the benchmark.

Other Price Risk Sensitivity

Fixed asset investments are valued at bid prices which equate to their fair value. A full list of the Company's investments is given on pages 14 to 16. 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.

118.7% of the Company's net assets are invested in equities. A 3% increase in quoted equity valuations at 31 March 2009 would have increased total assets and total return on ordinary activities by £38,488,000 (2008 – £65,128,000). A decrease of 3% would have had an equal but opposite effect.

Liquidity Risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk is potentially significant but as the majority of the Company's assets are investments in quoted securities that are believed to be readily realisable. The Board provides guidance to the Investment Managers as to the maximum exposure to any one holding and to the maximum aggregate exposure to substantial holdings.

The Company has the power to take out borrowings, which give it access to additional funding when required.

Credit Risk

This is the risk that a failure of a counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss.

This risk is managed as follows:

- Where the Investment Managers make an investment in a bond or other security with credit risk, that credit risk is assessed and then compared to the prospective investment return of the security in question.

23 Financial Instruments (continued)

Credit Risk (continued)

- The Board regularly receives information from the Investment Managers on the credit ratings of those bonds and other securities in which the Company has invested.
- The Company's listed investments are held on its behalf by The Bank of New York Mellon (acting as agent), the Company's custodian. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed. The Investment Managers monitor the Company's risk by reviewing the custodian's internal control reports and reporting its findings to the Board.
- Investment transactions are carried out with a large number of brokers whose creditworthiness is reviewed by the Investment Managers. Transactions are ordinarily undertaken on a delivery versus payment basis whereby the Company's custodian bank ensures that the counterparty to any transaction entered into by the Company has delivered on its obligations before any transfer of cash or securities away from the Company is completed.
- Transactions involving derivatives, and other arrangements wherein the creditworthiness of the entity acting as broker or counterparty to the transaction is likely to be of sustained interest, are subject to rigorous assessment by the Investment Managers of the creditworthiness of that counterparty. The Company's aggregate exposure to each such counterparty is monitored regularly by the Board.
- Cash is held only at banks that are regularly reviewed by the Managers.

Credit Risk Exposure

The maximum exposure to credit risk at 31 March was:

	2009 £'000	2008 £'000
Fixed interest investments	79,067	88,550
Cash and short term deposits	35,774	13,030
Debtors and prepayments	9,073	20,026
	123,914	121,606

None of the Company's financial assets are past due or impaired.

Fair Value of Financial Assets and Financial Liabilities

The Directors are of the opinion that the financial assets and liabilities of the Company are stated at fair value in the balance sheet with the exception of long term borrowing. Long term borrowings are included in the accounts in accordance with FRS26. A comparison with the fair value (closing offer value) is as follows:

	Par/nominal £'000	2009 Book £'000	Fair £'000	Par/nominal £'000	2008 Book £'000	Fair £'000
8–14% stepped interest debenture stock 2020	20,000	22,052	31,721	20,000	22,132	34,153
6.875% debenture stock 2023	75,000	74,488	77,282	75,000	74,451	82,176
6–12% stepped interest debenture stock 2026	50,000	54,490	76,249	50,000	54,580	83,375
4½% irredeemable debenture stock	675	675	540	675	675	606
Total debentures	145,675	151,705	185,792	145,675	151,838	200,310
Fixed rate loans		97,161	99,100		177,813	181,086
Total long term borrowings		248,866	284,892		329,651	381,396

All short term borrowings are stated at fair value.

Deducting long term borrowings at fair value would have the effect of reducing the net asset value per share from 399.3p to 383.8p. Taking the market price of the ordinary shares at 31 March 2009 of 353.0p, this would have given a discount to net asset value of 8.0% as against 11.6% on a traditional basis. At 31 March 2008 the effect would have been to reduce the net asset value from 672.5p to 651.4p. Taking the market price of the ordinary shares at 31 March 2008 of 600.0p, this would have given a discount to net asset value of 7.9% as against 10.8% on a traditional basis.

Capital Management

The Company does not have any externally imposed capital requirements. The capital of the Company is the ordinary share capital (see note 14) which is managed in accordance with its investment policy in pursuit of its investment objective, both of which are detailed on pages 18 and 19. Shares may be issued and/or repurchased as explained on pages 24 and 25.