Martin Currie Capital Return Trust plc

Annual report for the year ended 31 July 2001

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Company profile

As at 31 July 2001

Investment policy and objective

Martin Currie Capital Return Trust was launched in March 1999 as a major part of the reconstruction of Scottish Eastern Investment Trust.

At an Extraordinary General Meeting on 31 August 2001, shareholders approved proposals to convert the existing share capital of the company into:

- Realisation (A shares) retaining the current investment policy, allowing shareholders to continue to realise their investment in the company over a period of time;
- Continuation (B shares) having a revised investment policy to permit reinvestment of the proceeds of the realisation of assets in the Continuation pool enabling shareholders to continue their exposure to private equity investments.

Management company

Martin Currie Investment Management Ltd. Founded in 1881, the privately owned group specialises in international equity investment and today manages assets of some £7 billion for investment trusts, unit trusts, pensions funds, charities and private clients.

Total assets

£157.9m

Shareholders' funds

£139.7m

Market capitalisation

£125.9m

Capital structure

As at 31 July 2001 there were 106,267,927 ordinary shares of 1p, each entitled to one vote. Following the recent share capital reorganisation there are:

- 67,084,807 Realisation or A shares of 1p, each entitled to 1 vote; and
- 39,183,120 Continuation or B shares of 1p, each entitled to 1 vote.

Management and secretarial fees

The total fees, including irrecoverable VAT, payable to Martin Currie Investment Management Ltd in the year to 31 July 2001 amounted to 0.77% of shareholders' funds. The basis for calculation of these fees is shown in detail on page 11.

AITC membership category

Venture and Development Capital.

Financial highlights

Capital returns	31 July 2001	31 July 2000	Change
Net asset value per share	**131.50p**	132.57p	-0.81%
Share price	**118.50p**	117.50p	0.85%
Discount	**9.89%**	11.37%	-1.48

Total returns*	Year to 31 July 2001	For the period from 23 March 1999 to 31 July 2000
FTSE All-Share index	**-10.91%**	10.93%
Net asset value per share	**0.15%**	34.97%
Share price	**2.39%**	64.66%

Income	Year to 31 July 2001	For the period from 23 March 1999 to 31 July 2000
Revenue return per share	**1.36p**	2.41p
Dividend per share	**1.36p**	2.35p

Total expenses	Year to 31 July 2001	For the period from 23 March 1999 to 31 July 2000
As a percentage of total assets	**0.77%**	1.01%
As a percentage of shareholders' funds	**0.87%**	1.15%

*For definition of total returns see page 27.

Chairman's statement

Over the period economies have worsened, stockmarkets have fallen and merger and takeover activity has dropped. Inevitably, this has affected the valuations of several of our underlying companies. We have made provisions to the carrying values of underperforming or vulnerable investments. But we are pleased to report that, despite this, the net asset value per share is almost unchanged. There has been a healthy flow of realisations, which have totalled £23.7 million. This has offset the drawdowns under commitments of £21.9 million.

At 31 July 2001 the trust's NAV was 131.50p; this compares with 132.57p last year. Including dividends, the NAV total return is 0.15% over the last 12 months. We can report progress in reducing our outstanding commitments. Our process of using the proceeds of realisations to meet these commitments, with bank debt making up any shortfall, has worked well. At the end of July outstanding commitments were just £8.1 million. This compares with £31.5 million last year and £80 million at the company's launch. We expect less than half of those outstanding to be drawn.

The trust's debt at the end of July was £16.8 million. Against total assets of £157.9million, this gives the trust gearing of 12.0%. With our receipt of the proceeds from the sale of Hicks Muse's holding in Triton Energy, the debt has subsequently fallen to £8 million. Gearing is now just 6%. Further realisations are expected over the next 12 months. These are likely to eliminate the trust's debt and allow us to start returning cash to shareholders. The directors are recommending a final dividend of 0.90p per share. Together with the interim dividend of 0.46p this makes 1.36p per share for the year, being the total amount of earnings per share.

While many of our shareholders have been content with the existing mandate, a substantial number have expressed a wish to remain actively involved in private equity in the medium to long term. The reorganisation proposals approved by shareholders at an Extraordinary General Meeting on 31 August will enable us to meet the needs of both sets of shareholders. There will now be two pools of assets: 'realisation' (A shares) and 'continuation' (B shares).

The A shares will retain the existing investment objective: assets will be managed to produce cash over time. The B shares have a revised investment policy which allows us to make new commitments to private equity funds. We believe that the interests of both categories of shareholders are well served by this innovative structure.

David Simpson
11 October 2001

Board of directors

Directors

David Simpson* (60) is a non-executive director of Consignia Pensions Trustees Limited, Edinburgh Income and Value Trust plc, and Fidelity European Values plc. He was a general manager and company secretary of The Standard Life Assurance Company from 1988 to 1996.

Douglas Kinloch Anderson* OBE (62) is executive chairman of Kinloch Anderson Limited. He was national president of the Royal Warrant Holders Association, president of The Edinburgh Chamber of Commerce and Master of the Edinburgh Merchant Company. He is also a director of Fidelity Special Values Plc and Martin Currie Portfolio Investment Trust plc.

Robert Legget* (51) is a managing director of Progressive Value Management Limited, a fund management company specialising in the realisation of illiquid holdings in UK listed small-cap stocks and other "difficult" asset classes. Previously he was a director of Quayle Munro Holdings plc, the Edinburgh based merchant bank.

John Rafferty* (50) is chairman of Burness, the Scottish law firm. He has wide experience of private equity investments and of investment realisation.

David Simpson

Douglas Kinloch Anderson

Robert Legget

John Rafferty

Note: The directors are all non-executive. *Members of the audit committee.

Manager

Martin Currie Investment Management Ltd director, **Hamish Mair**, manages Martin Currie Capital Return Trust's investment portfolio.

Hamish Mair

Portfolio distribution and largest holdings

Portfolio distribution

Country/region	31 July 2001	31 July 2000
United Kingdom	57.2%	52.6%
North America	28.7%	31.9%
Continental Europe	14.0%	15.3%
Other markets	0.1%	0.2%
	100.0%	100.0%

Sector analysis	31 July 2001	31 July 2000
Investment funds	93.4%	92.6%
Investment companies	2.3%	3.2%
Investment trusts	1.5%	1.6%
Transport	2.8%	2.6%
	100.0%	100.0%

Asset class	31 July 2001	31 July 2000
Equities/investment funds	111.9%	111.4%
Net cash	(1.3%)	(0.9%)
Less borrowing	(10.6%)	(10.5%)
	100.0%	100.0%

Largest holdings

	Book cost £000	Market value £000	% of market value of total portfolio	Cumulative %
Candover 1997 Fund*	48,746	55,292	35.1	
Hicks, Muse, Tate & Furst Fund IV*	29,059	30,268	19.2	
International Mezzanine Investment IV*	11,779	16,815	10.7	
Candover 1994 Fund*	8,573	14,478	9.2	
1818 Mezzanine Fund*	8,763	10,540	6.7	80.9
*Third Private Equity Fund**	8,656	5,080	3.2	
Dakota, Minnesota & Eastern Railroad+	4,062	4,382	2.8	
Enterprise Plus*	6,137	4,350	2.8	
Candover plc	3,437	3,663	2.3	
Alta Berkeley VCV*	2,077	3,331	2.1	94.1

** These investments are limited partnerships which invest in a diversified portfolio of unlisted equities.*

† Regional operator of railroad company in South Dakota.

Manager's review

The key influences on the global private equity market over the last 12 months have been the bursting of the technology 'bubble' and the slowdown in global economies. As a fund of funds, the trust is exposed to around 190 underlying companies. This diversification acts as protection against problems in specific stocks, sectors or regions.

Our underlying portfolio has a modest exposure to technology but most of the holdings are in 'real economy' companies which are profit generating. Many of these companies are management buyouts. This means that they require strong and rising cash flow in order to service and reduce debt and build equity value. The managers we are backing have a number of ways of creating equity value. The track records of our investment partners, which span periods of economic recession, prove their abilities in this respect.

The trust's underlying portfolio is now maturing. Over the 12 months, there were realisations of £23.7 million. There were a number of substantial sales from our holdings in the Candover funds. From **The Candover 1994 Fund** we have received £7.7 million from the sale of CCIC (a US-listed telecom), £2.1 million from Shepperton Studios and £0.7 million from several partial exits. This fund has achieved an IRR of over 40% and still has six holdings to be realised, a number of which will make impressive returns.

The Candover 1997 Fund made some substantial new investments including £4.9 million in Bourne Leisure and £6.3 million in Picard (French food retailer). There were also substantial re-financings of Inveresk (£3.2 million) and the packaging group Clondalkin (£0.7 million). The investment period of this fund has ended, although there may be some follow-on financings. So far, this fund has achieved two realisations: ASW (£3.0 million) and Claverham (£2.6 million). There are several more realisations which are likely to complete in the current year.

The Hicks, Muse, Tate & Furst Fund IV has had a mixed year. It was necessary to provide against the value of several broadband media stocks in its US portfolio. Three-quarters of the portfolio lies in more traditional companies and we expect material realisations from these over the next 12 to 24 months. After the end of the financial year we received £8.3 million from the sale of Triton Energy (oil). Hicks Muse achieved a return of over 50% for this deal. This is typical of their longer-term track record. During the year, through this fund, the trust invested £1.2 million in the refinancing of Pan American Sports, a Florida based Hispanic broadcasting group. This fund is over 90% invested and will now only make follow-on investments.

International Mezzanine Investment and **1818 Mezzanine** have had a quieter year. Both funds are now fully invested and have entered realisation mode. 1818 Mezzanine distributed £0.6 million and International Mezzanine Investment £0.8 million. Substantial realisations over the next year will depend on the amount of takeovers and mergers in the US and Europe.

Manager's review

The holdings in smaller funds are also now in realisation mode. Significant distributions have been received from **Alta Berkeley** (£0.8 million) and **Scottish Equity Partnership** (£0.98 million). Both these have achieved strong returns. Both also have a significant technology component. So large realisations in the coming year will depend on a return of confidence to this sector. Smaller distributions have been received from the **Albemarle funds** and from our French fund, **Ciclad 2.**

Our small portfolio of direct holdings is steadily moving towards sale. We made an additional follow-on investment of £500,000 into **Two Way TV**. This company, involved in interactive television, is a long-standing holding. We wanted to protect the upside on this investment. But given current conditions for early-stage media stocks, we are unlikely to sell this immediately. There is a prospect of a sale of our holding in **Principal Healthcare Finance.** The **Dakota, Minnesota and Eastern Railroad** has made substantial progress with its report into the environmental impact of its expansion into the Powder River Basin. This should be approved within the next few months, after which the prospects of realisation will be much clearer. Finally, we have sold the remaining holding of 80,000 shares in Martin Currie Limited for £1.1 million.

Our investment partners report that most of their underlying holdings are progressing well. We are confident that the coming year will see growth in NAV and realisations at satisfactory prices. Given the maturity of the portfolio, the small size of outstanding commitments and the reduction of the company's debt, we expect that by this time next year we will be in a position to return capital to shareholders who have retained the realisation mandate (A shares).

Meanwhile, for those who have opted to continue an involvement in private equity by electing for B shares, we are appraising the substantial deal flow of private equity funds and expect to make new commitments shortly. We will select high quality funds which give us a diversified exposure and position the portfolio for strong medium term returns.

Portfolio holdings

United Kingdom		Valuation £	Percentage of the portfolio
Candover 1997 Fund		55,292,000	35.1
Candover 1994 Fund		14,478,000	9.2
Third Private Equity Fund		5,080,000	3.2
Enterprise Plus		4,350,000	2.8
Candover		3,663,000	2.3
Martin Currie Income & Growth Trust (capital shares)		2,387,000	1.5
Principal Healthcare		1,890,000	1.2
Scottish Equity Partnership		1,531,000	1.0
Two Way TV		500,000	0.3
Second Albermarle Fund		433,000	0.3
Piper Retail Fund		*287,000*	*0.2*
Candover 1991 Fund		183,000	0.1
Total United Kingdom investments		**90,074,000**	**57.2**

North America		Valuation £	Percentage of the portfolio
Hicks, Muse, Tate & Furst Fund IV		30,268,000	19.2
1818 Mezzanine Fund		10,540,000	6.7
Dakota, Minnesota & Eastern Railroad		4,382,000	2.8
Venture Associates		35,000	-
Total North American investments		**45,225,000**	**28.7**

Continental Europe		Valuation £	Percentage of the portfolio
International Mezzanine Investment		16,815,000	10.7
Alta Berkeley V		3,331,000	2.1
Ciclad 2	*France*	1,906,000	1.2
Total Continental European investments		**22,052,000**	**14.0**

Other markets		Valuation £	Percentage of the portfolio
Batavia	*Indonesia*	265,000	0.1
Argentine Equity Investment	*Argentina*	61,000	-
Total 'other markets' investments		**326,000**	**0.1**
TOTAL INVESTMENT PORTFOLIO		**157,677,000**	**100.0**

Report of the directors

The directors submit the financial statements for the year to 31 July 2001. A review of the company's activities during the period is contained in the chairman's statement and the manager's review. This includes all the information recommended for inclusion in an Operating and Financial Review (OFR) by the Accounting Standards Board statement on such reviews.

Principal activities

The Company carries on business as an investment trust. In the period under review, the directors have conducted the affairs of the company so as to enable it to qualify as an investment trust as defined in section 842 of the Income and Corporation Taxes Act 1988 and as an investment company as defined in section 266 of the Companies Act 1985. Under Corporation Tax Self Assessment, the Inland Revenue were no longer obliged to give written approval under section 842 of the Income and Corporation Taxes Act 1988. However, an agreement has been reached recently by the AITC and the Inland Revenue that section 842 approval may be given outwith the CTSA regime and that the Inland Revenue may grant approval in writing within 3 months of the application.

The Company is therefore in the process of seeking formal approval for the year ended 31 July 2001.

Valuation

At the period end the total net assets attributable to ordinary shares were £139,739,000. Based on this figure the net asset value per share was 131.50p.

Income and dividends

Gross revenue for the period was £2,720,000. The revenue return per share was 1.36p.

An interim dividend of 0.46p per share was paid on 18 May 2001. The board now recommends a final dividend payment of 0.90p per share, which makes a total for the year of 1.36p. The final dividend, if approved, is payable on 21 December 2001 to both A and B shareholders equally, who were on the register on 23 November 2001. The board continues to follow a policy of distributing the maximum prudent amount of revenue. After provision for the dividend the sum of £4,000 will be transferred to the revenue reserves.

Share capital reorganisation

Following an extraordinary general meeting of the company held on 31 August 2001, the company's shareholders approved the implementation of the reorganisation proposals set out in the company's circular dated 30 July 2001.

Under these proposals the shareholders were given the opportunity to convert all or part of their existing ordinary shares into:

> Realisation shares (A shares) which retain the current investment policy and provide shareholders with the right to continue to realise their investment over a period of time: and/or
>
> Continuation shares (B shares) which have a revised investment policy to permit reinvestment of the proceeds of the realisation of assets in the continuation pool enabling shareholders to continue their exposure to private equity investments.

Forms of Election from shareholders electing for continuation shares were received in respect of 39,183,120 shares (representing 36.9% of the company's issued share capital). Consequently, forms of election from shareholders electing for realisation shares were either received or were deemed to have been received for 67,084,807 shares (representing 63.1% of the company's issued share capital).

Report of the directors

Based on the company's net asset value of 131.50p per share as at 31 July 2001, the net asset value attributable to the continuation shares, before the deduction of the costs of the proposals and after providing for a 0.90p per share final dividend to all shareholders, is £51.6 million and the net asset value attributable to the realisation shares is £88.1 million.

Realisation elected shares have been reclassified as realisation or A shares and continuation elected shares have been reclassified as continuation or B shares. Both A shares and B shares were admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange on 4 September 2001.

Shareholders

At 31 July 2001 there were 1,226 ordinary shareholders on the main register, who can be analysed as follows:

***Shareholders** at 31 July 2001*

	% of shareholders	% of shares
Individuals and trustees	51.5	1.6
Insurance and investment companies	0.6	2.9
Banks and nominee companies	43.0	94.3
Other holders	4.9	1.2
	100.0	100.0

The company has been notified of the following interests of over 3% in its ordinary share capital following the recent reorganisation:

Realisation or A shares	
Martin Currie Portfolio Investment Trust plc	46.4%
Friends Ivory & Sime	7.0%

Continuation or B shares	
Martin Currie Portfolio Investment Trust plc	20.0%
Prudential plc	19.1%
Co-operative Insurance Society	7.7%
Edinburgh Fund Managers	4.5%

This includes information received up to 19 September 2001.

Directors

On 8 December 2000 Peter Berry resigned as a director of the company, on which date Douglas Kinloch Anderson was appointed. Douglas Kinloch Anderson is also a director of Martin Currie Portfolio Investment Trust which is a major shareholder in the company.

Robert Legget retires by rotation and in accordance with the Articles offers himself for re-election.

Directors' shareholdings are shown in note 21 on page 25.

There were no contracts of significance subsisting during, or at the end of, the period under review in which a director is or was materially interested.

Report of the directors

Managers and secretaries
Martin Currie Investment Management Ltd ("MCIM") are employed as manager and secretaries of the company subject to 12 months notice of termination by either party. During the year to 31 July 2001, the managers were entitled to receive a basic investment management fee, payable quarterly, in arrears, at the rate of 0.7% per annum of total assets less current liabilities. Assets invested in companies or funds managed by MCIM and the value of the shares in Martin Currie Limited (MC) are excluded for the purposes of this calculation.

MCIM are also entitled to an annual secretarial fee at an original rate of £50,000 payable quarterly in arrears and adjusted annually in line with the UK Retail Price Index.

From 31 August 2001, after the share capital reorganisation, the management fee rate of 0.7% per annum will remain unchanged for the realisation or A share pool. However, the fee rate for the continuation or B share pool will be 0.9% of net assets per annum. *The secretarial fee (currently £52,060 per annum) will be allocated to each pool pro rata* to their respective net assets.

Existing management warrants
The managers are incentivised to maximise the return to shareholders from the company's investments. In order to align the managers' interests with those of shareholders, the company granted MCIM warrants to subscribe for Martin Currie Capital Return Trust shares (which were subsequently assigned to MC, the parent company of MCIM). No consideration was paid for the grant of these warrants which will entitle MC to subscribe for up to five percent of the issued ordinary share capital of the company on admission. The price payable on the exercise of the warrants will be 100p (equivalent to the opening net asset value per share), subject to downward adjustment for capital repayments and distributions made to shareholders by the company, at the rate of 1p per share for every 1p per share returned to shareholders.

These warrants are intended as a long-term incentive and, subject to certain limited exceptions, will not be capable of exercise until the period commencing after the date of the publication of the company's report and financial statements for the financial period ending in 2004.

The warrants may not be exercised unless the performance of the company's net asset value, taking account of distributions and repayments of capital made to shareholders, exceeds a benchmark IRR performance level calculated over the period from admission to the date of exercise of the warrants. The warrants may be exercised on a graduated basis, with the initial IRR hurdle rate being 11 percent and the maximum number of warrants to be exercised requiring an IRR of 15 percent or above.

On 22 March 1999 5,313,396 such warrants for shares in the company were granted to MCIM.

From 31 August 2001, after the share capital reorganisation, the management warrants attach to each of realisation (A share) and continuation (B share) pools in proportion to the number of A and B shares.

New Management Warrants
In order to align the manager's long term interests with those of the continuation share holders, the board has granted further warrants on the continuation pool. These new warrants will be exercisable into a further 5 per cent. of the continuation shares in issue on 4 September 2001 (as enlarged by the exercise of the existing warrants and these further warrants) at any time during the period commencing on the earlier of the fifth anniversary of (i) the existing warrants first becoming exercisable or (ii) the publication of the Annual Report and Accounts for the financial year ending in 2004.

Report of the directors

The new warrants will be exercisable at the NAV per Continuation Share at 31 July 2001 (of 131.50p per share less the costs of the proposals). The terms of the new warrants will be the same as for the current warrants and these warrants will not be exercisable unless the performance of the Continuation Pool's Net Asset Value exceeds a benchmark IRR performance level calculated over the period from the date the warrants come into effect to the date the warrants first become capable of exercise. The warrants will be exercisable on a graduated basis, with the initial IRR hurdle rate being 11 per cent. and the maximum number of warrants to be exercised requiring an IRR of 15 per cent. or above.

Corporate governance

The listing rules of the UK Listing Authority require listed companies to disclose, in relation to Section 1 of the Combined Code produced by the Committee on Corporate Governance in June 1998, how they have applied its principles and whether they have complied with its provisions throughout the accounting period.

The board of Martin Currie Capital Return Trust and its standing committees meet regularly to consider the affairs of the company and to deal with those matters specifically reserved for its attention. All four directors are non-executive and independent within the meaning of the Combined Code. Martin Currie Capital Return Trust does not employ a chief executive nor has a senior non-executive director, other than the chairman, been appointed. In this latter connection, the board believes that, as all the directors are non-executive and independent of the managers, such an appointment is unnecessary.

Directors are chosen with a view to providing the board with a wide range of knowledge and experience to draw upon, both in terms of stock market investment and also general business. A nominations committee, comprising the chairman and all other directors, identifies prospective candidates for new board appointments and makes recommendations for consideration by the full board.

Directors are not specifically appointed for a fixed term. Whilst the company's articles of association currently provide that one third of the directors should retire from office by rotation at each annual general meeting, the board has agreed that directors will offer themselves for re-election at least every three years. The nominations committee considers the re-appointment of those directors retiring by rotation.

The board has an agreed process for obtaining independent legal and professional advice if necessary at the company's expense.

Martin Currie Investment Management Limited is employed as manager of the trust, including the provision of company secretarial and administrative services. The managers ensure that the board is supplied, in a timely manner, with the information necessary for it to discharge its duties effectively. A management engagement committee, comprising all independent members of the board, meets at least annually to review the services provided by the manager and secretaries, the level of their remuneration and any other matters associated with the management agreement. In line with current industry best practice, that agreement allows for one year's notice of termination.

It is the policy of Martin Currie Investment Management Limited, as managers, to exercise the voting rights attaching to the securities in which they invest on all possible occasions, even in respect of routine resolutions. Unless they believe it to be against the best interests of shareholders to do so, it is the manager's policy to support the boards of the companies in which they invest.

Report of the directors

Martin Currie always considers the environmental, social and ethical aspects of every company in which it may or does invest. Inevitably, standards vary from country to country. But Martin Currie expects companies to conform to local 'best practice' at least.

In accordance with the company's articles of association, the remuneration of the directors may not exceed, in aggregate, £150,000 per annum or such higher amount as may be determined by ordinary resolution of the company. The full board act in the role of remuneration committee, taking account of remuneration levels elsewhere in the investment trust industry and other relevant information, when considering the level of directors' fees. As a matter of good practice, directors' fees are reviewed annually. Details of the chairman's remuneration, together with the aggregate remuneration of the board, are disclosed in the notes to the accounts. The members of the board do not have service contracts.

The managers provide a dedicated client services team which maintains regular contact with the company's major institutional shareholders and reports regularly to the board. It is the company's policy to make full use of the annual general meeting as a means of communicating with its shareholders and to encourage their participation in the affairs of the company. Following the conclusion of the formal business of the meeting, the managers are available to shareholders to discuss the performance of the trust and deal with questions as necessary.The board as a whole approves the terms of the chairman's statement and manager's review which form part of the annual and interim reports to shareholders in order to ensure that they present a balanced and understandable assessment of the company's position and future prospects.

The board acknowledges that it is responsible for the company's system of internal control and for reviewing its effectiveness. It has therefore established an ongoing process designed to meet the particular needs of the company and manage the risks to which it is exposed. These procedures are consistent with the guidance provided by the Turnbull Committee. Based principally on the managers' existing risk based system of internal control, this approach seeks to identify two broad categories of risk: inherent, driven by business type, and strategic, driven by business development. These are then used to create a test matrix which identifies the key functions carried out by the managers, the individual activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. A residual risk rating is then applied. The test matrix is continually updated and the board is provided with an interim and annual report, highlighting all material changes to the risk ratings and confirming the action which has been, or is being, taken. Such procedures have been in place throughout the full financial year and up to the date of approval of the annual report and the board is satisfied with their effectiveness.

Internal control procedures are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss. The directors monitor the investment performance of the company in comparison to its benchmark index and to comparable investment trusts at each board meeting. They also review the company's activities since the last meeting to ensure that they adhere to its agreed investment policy and approved investment guidelines and, if necessary, approve changes to such policy and/ or guidelines.

The board has reviewed the need for an internal audit function and has decided that the systems and procedures employed by the managers, including their own internal audit function and the work carried out by the trust's external auditors, provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the company's assets, is maintained. An internal audit function, specific to the trust, is therefore considered unnecessary.

Report of the directors

The board has a formally established audit committee with set terms of reference. The committee currently comprises the chairman, together with all other directors and they are clearly identified in the annual report. Other than as disclosed above, the company has complied with the provisions set out in Section 1 of the Combined Code on Corporate Governance, issued by the UK Listing Authority, throughout the financial year ended 31 July 2001. Specifically, the Company does not comply with Code Provision:

A.2.1 In relation to the appointment of a senior non-executive director, other than the chairman. An explanation is given in the text; and

A.6.1 Directors are not appointed for a fixed term of office. However, the nominations committee, which meets at least annually, is charged with specific responsibility for considering the rotation of directors and the renewal of the board.

Going concern

The directors, after making suitable enquiries, are satisfied that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

Directors' responsibility statement

The directors are required by UK company law to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss for the period.

Suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements. Applicable accounting standards have been followed.

The directors are also responsible for maintaining adequate accounting records, which enable them to ensure that they comply with the Companies Act 1985, for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.

Management of financial risk

The major financial risks faced by the company are funding risk, interest rate risk, currency risk and stockmarket risk.

The board of Martin Currie Capital Return Trust regularly reviews these risks and approves any decisions made by the manager on how overall risks are managed.

Funding risk - the company's financial instruments comprise borrowings, cash, short-term debtors and creditors etc, (as identified in the notes to the accounts) that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the company's operations. Throughout the period under review, no trading in derivatives was undertaken.

Financial assets are included in the balance sheet at the directors' valuation or market values as appropriate, which represent fair values. Equity investments are valued at £157,677,000 (2000: £159,378,000) as shown in note 8.

Interest rate risk - the company finances its operations and particularly further investments in existing funds through a mixture of retained profits, realisations from investments and bank overdrafts and borrowings. The company has borrowed in sterling, per notes 11 and 12 to the accounts. The company has a £10 million overdraft facility, of which £1.803 million had been borrowed at 31 July 2001 (31 July 2000: £1.476 million). The company has a 2 year £15 million loan facility, which is drawn down on a quarterly basis, when the rate for the next quarter is fixed. The facility was fully drawn down at 31 July 2001 at an interest rate of 6.27% (2000: 7.27%). The average cost of debt was 6.90% (2000: 6.93%).

The interest rate of the loan facility is fixed for a period of 3 months at a time and therefore the fair value of the loan is not materially different from the carrying value.

Financial assets

		31 July 2001		31 July 2000	
	Currency	Currency amount 000	Amount £000	Currency amount 000	Amount £000
Investments					
United Kingdom	Sterling	90,074	90,074	83,833	83,833
North America	US$	64,919	45,551	76,700	51,212
Continental Europe	Euro	35,921	22,052	39,328	24,333
Cash & bank balances					
Current Account	Sterling	(1,803)	(1,803)	(1,476)	(1,476)
Currency Account	US$	1	1	190	127

Financial liabilities

Facility	31 July 2001 Currency	31 July 2000 Currency	Variable rate	Final repayment date
Overdraft facility	£10m of which £1.803m had been drawn as at 31 July 2001	£10m of which £1.476m had been drawn as at 31 July 2000	LIBOR	On demand
Bank Revolving Credit Facility	£15m fully drawn as at 31 July 2001 until 2 August 2001	£15m fully drawn as at 31 July 2000 until 2 October 2000	LIBOR	March 2003

Currency risk - Although the company is based in the UK, 42.9% (2000: 47.4%) of its portfolio of investments are denominated in foreign currencies and, as a result, movements in these currencies affect the company's sterling balance sheet.

Throughout the period under review, no currency swaps have been taken out. The company does not speculate in currency. The company's policy is that currency hedging against weakness of an investment currency is to be limited to the extent of the exposure to that currency and only into sterling.

Stockmarket risk - The board decide the investment strategy required to fulfil the company's objectives. By the very nature of its activities only a small part of the company's investments are directly exposed to market price fluctuations.

The management team associated with Martin Currie Capital Return Trust endeavour to ensure that the company's asset allocation is such that the effects of adverse price movements are minimised through detailed and continuing analysis with the objective of maximising overall longer term return to shareholders.

Auditors
On 28 June 2001, Ernst & Young, the company's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001.

In accordance with Section 385 of the Companies Act 1985 Ernst & Young LLP will be proposed for re-appointment as auditors at the annual general meeting. The resolution for their appointment is set out in the notice of the AGM on page 28.

By order of the board
Martin Currie Investment Management Ltd
Secretaries
Edinburgh, 11 October 2001

Report of the auditors

To the shareholders of Martin Currie Capital Return Trust
We have audited the financial statements on pages 18 to 25, which have been prepared under the historical cost convention modified to include the revaluation of fixed asset investments and on the accounting policies set out on page 21.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the annual report. As described on page 14, 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 the information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the corporate governance statement on pages 12 to 14 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 either 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 circumstances of the company, 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 July 2001 and of the revenue for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
Edinburgh, 11 October 2001

Statement of total return

(incorporating the revenue account*)

Period ended 31 July

		Year ended 31 July 2001			Period from 23 March 1999 to 31 July 2000		
	Note	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gains/(losses) on investments - realised	8	-	7,156	7,156	-	8,654	8,654
- unrealised		-	(7,115)	(7,115)	-	26,962	26,962
Currency (losses)/gains		-	(23)	(23)	-	127	127
Income - franked	2	151	-	151	940	-	940
- unfranked	2	2,569	-	2,569	3,246	-	3,246
Investment management fee		(257)	(770)	(1,027)	(331)	(994)	(1,325)
Other expenses	4	(184)	-	(184)	(293)	-	(293)
Net return before finance costs and taxation		2,279	(752)	1,527	3,562	34,749	38,311
Interest payable and similar charges	3	(298)	(891)	(1,189)	(307)	(925)	(1,232)
Return on ordinary activities before taxation		1,981	(1,643)	338	3,255	33,824	37,079
Taxation on ordinary activities	5	(532)	498	(34)	(695)	576	(119)
Return on ordinary activities after taxation for the financial year		1,449	(1,145)	304	2,560	34,400	36,960
Dividends in respect of equity shares 1.36p per share (2000: 2.35p)	6	(1,445)	-	(1,445)	(2,497)	-	(2,497)
Transfer to/(from) reserves	16, 17	4	(1,145)	(1,141)	63	34,400	34,463
Return per ordinary share	7	1.36p	(1.08p)	0.28p	2.41p	32.37p	34.78p

*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.
No operations were acquired or discontinued in the period.

Balance sheet

As at 31 July

	Note	2001 £000	2001 £000	2000 £000	2000 £000
Investments at market value					
Listed on The Stock Exchange in the UK		6,050		6,721	
Unlisted at directors' valuation		151,627		152,657	
	8		157,677		159,378
Current assets					
Debtors	9	213		102	
Cash at bank	10	1		127	
		214		229	
Creditors					
Amounts falling due within one year	11	(3,152)		(3,727)	
Net current liabilities			(2,938)		(3,498)
Total assets less current liabilities			154,739		155,880
Creditors					
Amounts falling due after one year	12		(15,000)		(15,000)
Total assets			139,739		140,880
Capital and reserves					
Called-up ordinary share capital	13		1,063		1,063
Share premium	14		65,205		65,205
Special distributable reserve	15		40,000		40,000
Capital reserve	16		33,404		34,549
Revenue reserve	16		67		63
	17		139,739		140,880
Net asset value per ordinary share of 1p	7		131.50p		132.57p

David Simpson, chairman
11 October 2001

Statement of cash flow

	Note	Year ended 31 July 2001 £000	£000	Period from 23 March 1999 to 31 July 2000 £000	£000
Operating activities					
Net dividends and interest received from investments		2,594		3,897	
Interest received from deposits		20		75	
Investment management fee		(1,347)		(765)	
Cash paid to and on behalf of directors		(66)		(55)	
Bank charges		(2)		(5)	
Other cash payments		(134)		(183)	
Net cash inflow from operating activities	18		1,065		2,964
Servicing of finance					
Interest paid		(1,207)		(1,139)	
Net cash outflow from servicing of finance			(1,207)		(1,139)
Capital expenditure and financial investment					
Payments to acquire investments		(21,929)		(57,096)	
Receipts from disposal of investments		23,671		39,505	
Exchange differences		(23)		127	
Net cash inflow/(outflow) from capital expenditure and financial investment			1,719		(17,464)
Equity dividends paid			(2,030)		(956)
Net cash outflow before financing			(453)		(16,595)
Financing					
Movement in long-term borrowings		-		15,000	
Net cash inflow from financing			-		15,000
Decrease in cash	19		(453)		(1,595)

The notes on pages 21 to 25 form part of these financial statements.

Notes to the financial statements

1 Accounting policies

a) The financial statements have been prepared in accordance with applicable accounting standards and the Statement of Recommended Practice for Financial Statements of Investment Trust Companies (SORP).

b) Income from equity investments is determined 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. Income from fixed interest securities is recognised on an effective yield basis. Franked investment income is shown net of the relevant tax credit. Other income includes any taxes deducted at source. Scrip dividends are treated as unfranked investment income; any excess in value of the shares received over the amount of the cash dividend is recognised in capital reserves.

c) Interest receivable and payable and management expenses are treated on an accruals basis.

d) The management fee and finance costs are allocated 75% to capital and 25% to revenue in accordance with the board's expected long-term split of returns in the form of capital gains and income, respectively. Details of the contract for management and secretarial services are given on page 11 of the directors' report.

e) Realised and unrealised gains and losses on investments and exchange adjustments to overseas currencies are taken to capital reserve.

f) Listed investments are valued at mid-market prices. These valuations also represent the fair value of the investments. Unlisted investments are valued on the basis of the latest information in line with the relevant principles of the British Venture Capital Association guidelines. Investments held in foreign currencies are translated at the rates of exchange ruling on the balance sheet date. Investments are recognised initially as at trade date of a transaction.

g) Revenue received and interest paid in foreign currencies are translated at the rates of exchange ruling on the transaction date and exchange gains and losses arising on such transactions are taken to the revenue account.

h) All financial assets and liabilities are recognised in the financial statements. Short term debtors and creditors have been excluded from the disclosures, other than the currency disclosures, as allowed by FRS13.

	Year to 31 July 2001 £000	Period from 23 March 1999 to 31 July 2000 £000
2 Income from investments		
From listed investments	107	320
From unlisted investments	2,593	3,791
	2,700	4,111
Interest on deposits	20	75
	2,720	4,186

	Year to 31 July 2001			Period from 23 March 1999 to 31 July 2000		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
3 Interest payable and similar charges						
Interest payable on bank loans and overdrafts	298	891	1,189	307	925	1,232
	298	891	1,189	307	925	1,232

	Year to 31 July 2001 £000	Period from 23 March 1999 to 31 July 2000 £000
4 Administrative expenses		
Advertising	-	1
Auditors' fees - audit work	11	17
- non audit work	7	2
Bank charges	2	5
Directors' fees*	47	74
Legal fees	4	28
Printing and postage	15	25
Registration fees	6	9
Secretarial fee	56	79
Irrecoverable VAT	6	5
Other	30	48
	184	293

*Included in directors' fees above was an amount of £14,000 (period to 31 July 2000: £21,000) paid to the chairman during the year. All other directors were paid at an annual rate of £11,000 during the year.

Notes to the financial statements

5 Taxation on ordinary activities

	Year to 31 July 2001 Revenue £000	Capital £000	Total £000	Period from 23 March 1999 to 31 July 2000 Revenue £000	Capital £000	Total £000
UK corporation tax	(532)	498	(34)	(695)	576	(119)

Tax relief is allocated between income and capital on the statement of total return using the semi proportional method.

6 Dividends on ordinary shares

	Year to 31 July 2001 £000	*Period from 23 March 1999 to* 31 July 2000 £000
Interim of 0.46p paid 18 May 2001 (2000: 0.90p)	489	956
Proposed final of dividend of 0.90p (2000: 1.45p)	956	1,541
Total 1.36p (2000: 2.35p)	1,445	2,497

The final dividend will be payable to both A and B shareholders equally.

7 Returns and net asset value per ordinary share

The returns and net asset value per ordinary share are based on the following figures:

Revenue return	£1,449,000	£2,560,000
Capital return	(£1,145,000)	£34,400,000
Net assets attributable to equity shareholders	£139,739,000	£140,880,000
Number of ordinary shares in issue as at 31 July 2001	106,267,927	106,267,927
Average number of ordinary shares in issue during period	106,267,927	106,267,927

Returns per ordinary share are calculated on the average number of ordinary shares in issue during the period and the net asset value is calculated on the number of ordinary shares in issue at the period end.

The net asset value per share would have to reach approximately 165p for any of the existing management warrants mentioned on page 11 of the report of the directors to be exercisable. Hence, at the balance sheet date, there was no dilution to either revenue return or net asset value per share.

8 Investments

	31 July 2001 Listed investments £000	Unlisted investments £000	Total £000	31 July 2000 Listed investments £000	Unlisted investments £000	Total £000
Cost at beginning of period	6,001	126,266	132,267	9,721	96,297	106,018
Movements during the period:						
Purchases	-	21,929	21,929	-	57,096	57,096
Sales	-	(23,671)	(23,671)	(6,141)	(33,360)	(39,501)
Realised gains	-	7,156	7,156	2,421	6,233	8,654
Cost at end of the period	6,001	131,680	137,681	6,001	126,266	132,267
Unrealised gains	49	19,947	19,996	720	26,391	27,111
Valuation	6,050	151,627	157,677	6,721	152,657	159,378

Contingent liabilities in respect of outstanding calls on investments at 31 July 2001 amounted to £8.1m (2000: £31.5m).

Notes to the financial statements

	31 July 2001 £000	31 July 2000 £000
9 Debtors		
Tax recoverable	-	25
Accrued income	194	70
Other debtors	19	7
	213	102
10 Cash at bank		
US$ bank account	1	127
	1	127
11 Creditors		
Amounts falling due within one year:		
Proposed final dividend	956	1,541
Interest accrued	75	93
Due to manager, MCIM	240	560
Accrued expenses	51	57
Bank overdraft	1,803	1,476
Taxation	27	-
	3,152	3,727
12 Creditors		
Amounts falling due after one year:		
£15 million revolving loan repayable March 2003 (interest rate fixed quarterly - current rate 6.27%)	15,000	15,000
	15,000	15,000

	31 July 2001 No of shares	31 July 2000 No of shares
13 Share capital		
Equity share capital		
Ordinary shares of 1p		
Authorised	150,000,000	150,000,000
Issued	106,267,927	106,267,927
	31 July 2001 £000	**2000 £000**
Equity share capital	1,063	1,063

Following the recent share capital reorganisation on 31 August 2001 there are:

- 67,084,807 Realisation or A shares of 1p, each entitled to 1 vote; and
- 39,183,120 Continuation or B shares of 1p, each entitled to 1 vote.

On 22 March 1999 5,313,396 management warrants were issued to MCIM and subsequently assigned to MC, MCIM's parent company, giving the right to subscribe for ordinary shares of the company. The exercise price and right to subscribe is calculated according to the rules laid out for the existing management warrants on page 11.

Details of the new warrants granted to the manager following the recent reconstruction are given on page 11.

Notes to the financial statements

	31 July 2001 £000	31 July 2000 £000
14 Share premium		
Balance brought forward	65,205	105,205
Share premium cancelled and reclassified as special distributable reserve	-	(40,000)
	65,205	65,205

At the EGM on 31 August 2001, shareholders gave approval, subject to Court approval, to cancel the share premium account and to transfer the balance to the special distributable reserve. *This will give the company greater flexibility in returning cash to shareholders over time.*

	31 July 2001 £000	31 July 2000 £000
15 Special distributable reserve		
Balance brought forward	40,000	-
Share premium account cancelled and reclassified as special distributable reserve	-	40,000
	40,000	40,000
16 Movement in reserves		
Capital reserve		
Realised gain at beginning of period	7,438	-
Net realised gains on investments during the period	7,156	8,654
Net realised (losses)/gains on currencies during the period	(23)	127
Capitalised expenses (see note below)*	(1,163)	(1,343)
	13,408	7,438
Unrealised appreciation on investments at end of period	19,996	27,111
Total capital reserve at end of period	33,404	34,549

*Capitalised expenses include 75% of the basic management fee and finance costs which are allocated to capital reserve, net of associated tax relief.

	31 July 2001 £000	31 July 2000 £000
Revenue reserve		
Revenue reserve at beginning of period	63	-
Transfer to revenue reserve for period	4	63
Total revenue reserve at end of period	67	63
17 Reconciliation of movements in shareholders' funds		
Revenue available for distribution	1,449	2,560
Dividends	(1,445)	(2,497)
	4	63
Other recognised (losses)/gains for the period	(1,145)	34,400
Net movement in shareholders' funds	(1,141)	34,463
Opening shareholders' funds	140,880	106,417
Closing shareholders' funds	139,739	140,880

Notes to the financial statements

18 Reconciliation of net revenue before finance costs and taxation to net cash inflow from operating activities

	Year to 31 July 2001 £000	Period from 23 March 1999 to 31 July 2000 £000
Net revenue before finance costs and taxation	2,279	3,562
Increase in dividends receivable and other debtors	(136)	(77)
(Decrease)/increase in other creditors	(326)	617
Capitalised management expenses	(770)	(994)
Tax received/(withheld) on investment income	18	(144)
Net cash inflow from operating activities	1,065	2,964

19 Analysis of net debt

	As at 31 July 2000 £000	Cash flows £000	As at 31 July 2001 £000
Cash at bank and in hand	127	(126)	1
Bank overdraft	(1,476)	(327)	(1,803)
	(1,349)	(453)	(1,802)
Bank borrowings - falling due after one year	(15,000)	-	(15,000)
	(16,349)	(453)	(16,802)

20 Reconciliation of net cash flow to movement in net debt

	31 July 2001 £000	31 July 2000 £000
Balance at start of period	(16,439)	246
Decrease in cash in period	(453)	(1,595)
Cash inflow from increase in debt	-	(15,000)
Net debt at period end	(16,802)	(16,349)

21 Directors' shareholdings

	31 July 2001 1p shares	31 July 2000 or date of appointment 1p shares
David Simpson	40,000	40,000
Robert Legget	10,000	10,000
John Rafferty	10,000	5,000
Douglas Kinloch Anderson (appointed 8 December 2000)	-	-

All holdings are beneficially owned by the directors.

Following the recent share capital reorganisation the directors held the following shares in the company:

	A or realisation shares	B or continuation shares
David Simpson	20,000	20,000
Robert Legget	-	10,000
John Rafferty	5,000	5,000
Douglas Kinloch Anderson	-	-

No other changes have occurred since the balance sheet date.

Information for investors

Directors
David Simpson *(Chairman)*
Robert Legget
John Rafferty
Douglas Kinloch Anderson

Manager and secretaries
Martin Currie Investment Management Ltd
Saltire Court
20 Castle Terrace
Edinburgh EH1 2ES

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Registered number
Registered in Scotland No. 179412

Auditors
Ernst & Young LLP
Ten George Street
Edinburgh EH2 2DZ

Bankers
Bank of Scotland
The Mound
Edinburgh EH1 1YZ

Capital gains tax
The company itself pays no capital gains tax. Individual investors might have a liability to tax on disposal of their shares.

Tax status
The directors have conducted the affairs of the company as to enable it to qualify as an investment trust as defined in section 842 of the Income and Corporation Taxes Act 1988 in the period under review.

Key dates

December	Annual general meeting
March	Interim results announced
April	Interim report issued
September	Year end results announced
October	Annual report issued

The intention is to pay dividends twice a year as revenues permit.

Martin Currie Capital Return Trust plc is a member of the Association of Investment Trust Companies.

Association of Investment Trust Companies
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8-13 Chiswell Street
London EC1Y 4YY

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Other investment trusts
Martin Currie manages nine other investment trusts:

Martin Currie Enhanced Income Trust
Martin Currie European Investment Trust
Martin Currie High Income Trust
Martin Currie Income & Growth Trust
Martin Currie Japan Investment Trust
Martin Currie Pacific Trust
Martin Currie Portfolio Investment Trust
Premium Trust
Securities Trust of Scotland

Glossary of investment trust terms

Net asset value
The net asset value of an investment trust, usually expressed on a 'per share' basis, is the value of all its assets, less its liabilities. You arrive at the net asset value per share by dividing that figure of assets less liabilities by the number of shares. So the net asset value of a trust with assets of £10 million, liabilities of £2 million and 16 million ordinary shares would be 50 pence per share. You find net asset values expressed as either diluted or undiluted, that is including or excluding the value of any outstanding warrants.

Discount and premium
An investment trust is a company listed on the London Stock Exchange. By their nature, stockmarkets and share prices fluctuate. That's why an investment trust's share price is rarely the same as its net asset value per share. When the share price is below the net asset value it is trading at a discount. Share prices above the net asset value are at a premium.

Gearing
At its simplest, gearing is borrowing. Just like any other public company, an investment trust can borrow money to invest in additional stocks and shares for its portfolio. The effect of the borrowing on the shareholders' assets is called 'gearing'. If the trust's assets grow, the shareholders' assets grow proportionately more because the debt remains the same. But if the value of the trust's assets falls, the situation is reversed. So gearing has to be finely judged if it is to enhance, and not reduce, performance.

Warrants
Investment trust companies can issue securities which give holders the right, but not the obligation, to buy shares in the company at a fixed price on a specific date or period in the future. These are known as warrants. The exercise of warrants can 'dilute' the net asset value per ordinary share if the exercise price is below the share price.

Hedging
Adverse exchange rate movements can have a dramatic effect on the value of an overseas investment portfolio. Protecting against that risk - by locking into a fixed exchange rate - is known as hedging.

Total return
The combined effect of any dividend paid, together with the rise or fall in the share price or net asset value. Performance comparisons can then be made between trusts with different dividend policies. Any dividends (after tax) received by a shareholder are assumed to have been re-invested in either additional shares (ie share price total return) or the trust's assets (ie net asset value total return).

IRR
The internal rate of return (IRR) represents the compound annual rate of interest which, when applied to a series of future cash flows, results in a present value equivalent to the value of the initial investment.

Notice of meeting

Notice is hereby given that the second annual general meeting of Martin Currie Capital Return Trust will be held at Saltire Court, 20 Castle Terrace, Edinburgh EH1 2ES, on Monday 17 December 2001 at 12.30pm for the purpose of transacting the following business:

Ordinary business

1 To receive the report of the directors and the accounts for the year ended 31 July 2001;

2 To declare a dividend in respect of A ordinary shares;*

3 To declare a dividend in respect of B ordinary shares;†

4 To re-elect Robert Legget as a director;

5 To re-appoint Ernst & Young LLP, as auditors;

6 To authorise the directors to fix the remuneration of the auditors for the year ending 31 July 2002;

and to transact any other ordinary business of the company.

By order of the board
Martin Currie Investment Management Ltd
Secretaries
Registered office
Saltire Court
20 Castle Terrace
Edinburgh EH1 2ES

11 October 2001

Notes
The report and accounts are circulated to both A and B shareholders of the company, but only holders of A and B ordinary shares (subject to the Notes below) are entitled to attend or vote at the meeting.

A member entitled to attend and vote may appoint a proxy in his stead who need not be a member of the company. Proxies to be valid must be lodged not less than 48 hours before the time of the meeting. A form of proxy is enclosed.

The register of directors' shareholdings will be available for inspection at the meeting.

There are no contracts between the company and the directors. A copy of the management contract with Martin Currie Investment Management Ltd, which is referred to in the directors' report, will be available for inspection at the meeting.

*In accordance with article 9.5(4) of the Articles of Association holders of B ordinary shares do not have the right to vote on a declaration of a dividend in respect of the A ordinary shares.

†In accordance with article 9.4(5) of the Articles of Association holders of A ordinary shares do not have the right to vote on a declaration of a dividend in respect of the B ordinary shares.