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Edinburgh Fund Managers
Group plc

ANNUAL REPORT
AND ACCOUNTS

FOR THE YEAR ENDED
31 JANUARY 1997

	rank		plann.	revised	Score
GM	to		scheduled	delayed	Count
G 302	LUXEMBURG		930		113
Z 419	TURIN		935		339
H 1122	NEAPEL		935		113
H 1906	MADRID		935		113
H 1022	STUTTGART HBF.		935		
F 1701	LYON		940		683
Y 822	HELSINKI		940		113
A 071	SFRANCISCO-DALLAS		946		731
F 743	PARIS		945		683
Y 1116	VENEDIG		945		113
L 023	DALLAS		950		478
A 892	AMSTERDAM		950		72

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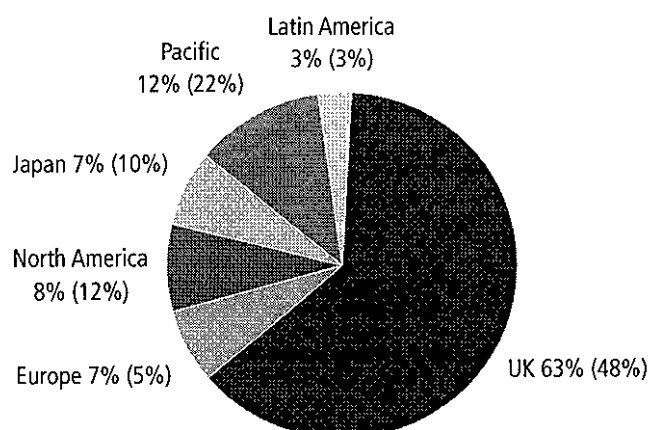
Year ended 31 January 1997

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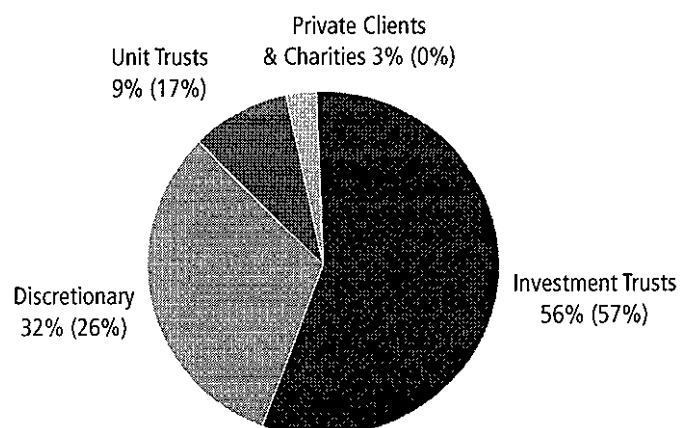
Main Features

	1997	1996
Turnover	£31,129,000	£19,622,000
Operating profit (after exceptionals)	£11,117,000	£10,027,000
Pre-tax profit (before exceptionals)	£17,966,000	£12,769,000
Pre-tax profit (after exceptionals)	£12,558,000	£12,769,000
Earnings per share (before exceptional items and discontinued operations)	40.2p	42.3p
Dividends per share	25.0p	25.0p
Number of shares in issue	31.3 million	19.4 million
Shareholders' funds	£26,502,000	£26,439,000
Funds under management	£7,638 million	£3,538 million

Funds under management – by geographic distribution

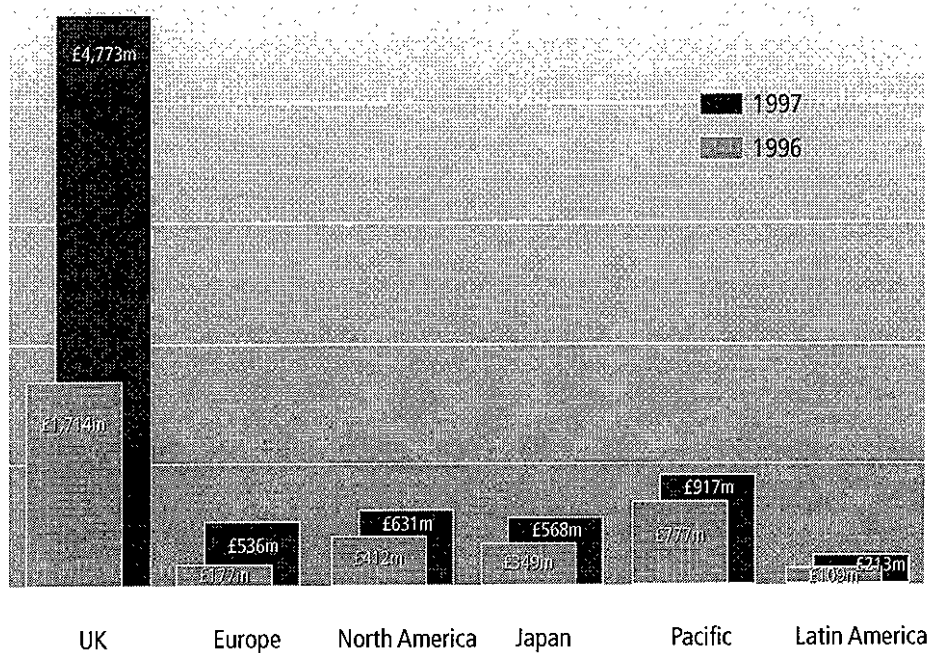


Funds under management – by client

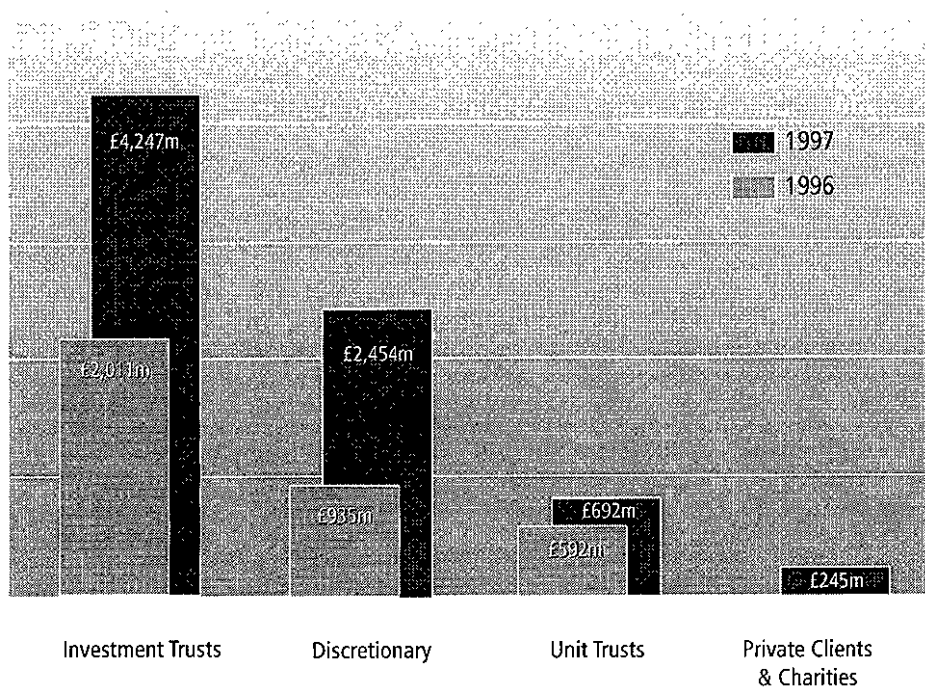


Funds Under Management

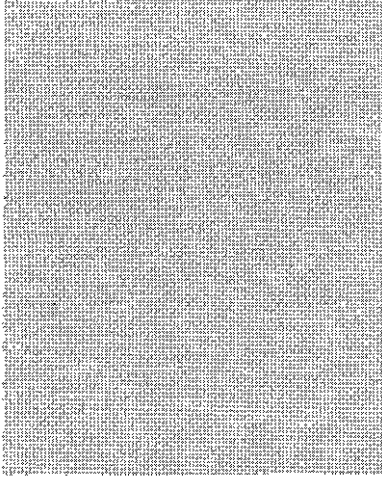
Funds under management – by geographic distribution



Funds under management – by client



Chairman's Statement



In my chairman's statement in the interim report, I referred to the successful progress in integrating the staff and businesses of Dunedin Fund Managers with our own. I am pleased to say that this has now been completed.

Although operating profit per share was ahead of last year's figure, the absence of investment gains during the year resulted in a decline in earnings per share, before exceptional costs related to the acquisition of Dunedin,

from 42.3p to 40.2p. The board is recommending an unchanged final dividend of 17p per share, payable on 21 May 1997, to shareholders on the register on 18 April 1997. If approved, the total dividend for the year will be unchanged at 25p per share.


The chief executive refers in his review to a number of initiatives and new products which have been launched specifically for the personal savings market. These involve a continuing high level of marketing and sales expenditure but the board are confident that this will generate positive returns to shareholders in due course.

You will have received a letter from the chief executive concerning changes in our future relationship with the Coal Board Pension Schemes and in particular the proposed liquidation of The British Investment Trust. We have enjoyed a mutually beneficial relationship since 1988 but the privatisation of British Coal and subsequent closing of the Coal Board Pension Schemes to new members meant that the realisation of their 85 per cent holding in The British Investment Trust was inevitable. Whilst it is disappointing to lose an important client, the ongoing arrangements we have agreed should minimise any adverse effect on earnings per share.

A short-term effect of the acquisition and integration of Dunedin was a decline in the level of new business. Potential clients, quite naturally, suspend judgement until they are satisfied that continuity will be maintained, particularly of investment staff. Our executive staff have been given two clear instructions – even better investment performance and more new business. I hope to be able to report on the achievement of these in the future.



C H Ross, Chairman
Edinburgh, 25 March 1997



Chief Executive's Review

The past year has been one of challenge and achievement. We have doubled funds under management, increased the type and diversity of our clients, gained additional experienced staff and removed uncertainty and confusion relating to the shareholding of The British Investment Trust ('BIT'). As a result of the proposed sale of BIT's shareholding in the group, we will have achieved a broader spread of shareholders, ensuring the continued independence of the group.

The disappointing outcome in the past twelve months has been the marginal decline in earnings per share from 42.3p to 40.2p. Based on the level of stock markets and sterling at the time of the Dunedin acquisition, we were budgeting for an improvement in earnings per share. At the operating profit level (before exceptionals) we achieved this on a per share basis despite the strength of sterling and weakness during the year in the smaller emerging markets. The decline in other income (no realised investment gains) and a rise in the rate of tax from 31.3 per cent to 33.6 per cent accounted for the decline on a per share basis.

The Dunedin Acquisition

The acquisition of Dunedin was completed on 19 March 1996 and this has provided us with a number of benefits, opportunities and increased market profile:-

- We are now one of the largest investment trust managers in the UK.
- We have increased the size of our unit trust business with a range of offshore funds.
- We have added £1.5 billion in UK pension funds.
- We have gained substantial new North American business.
- We have added a discretionary private client business.

The opportunities we identified in the acquisition were long-term but we are already seeing the

benefits. In North America we have been successful in retaining a larger proportion of Dunedin's clients (all of whom had the right to terminate on 19 March) than we expected.

Turning to the integration process itself, we set up working parties with the management of Dunedin to look at the various integration issues prior to the completion date. This allowed the integration of Dunedin and their people into our Edinburgh offices to be effected within three weeks of the acquisition.

Investment Performance and Process

We took the opportunity during the integration process to question every aspect of our investment process as there were a number of areas of investment performance we did not deem satisfactory. As a result, we have introduced an enhanced investment process from which the initial results are very encouraging.

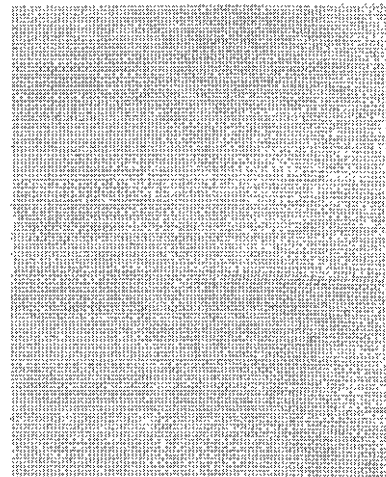
Sales and Marketing

The increase in the size of the group necessitated a re-focusing of our sales and marketing effort with particular emphasis on direct contact with the retail market. In the middle of January we launched an advertising campaign to increase our profile in the savings market. This has been followed by specific product advertising. The campaign is currently generating enquiries at the rate of more than 8,000 per month, which is very encouraging.

Several new products were introduced during the year:-

1. The Investment Trust Pension Plan

Launched in May, our pension plan was designed to offer investors unparalleled investment choice by allowing selection from a range of investment trusts managed by the UK's leading investment trust managers. We have taken in over £5 million to date



Chief Executive's Review

and I am pleased to report that over 80 per cent of the sales are of the investment trusts we manage.

2. Edinburgh Safety First Fund

This innovative new growth unit trust was launched in March. It provides investors with the benefits of stock market growth from a managed portfolio of shares selected from the top 200 UK companies, whilst limiting risk through a unique 'protected price'. This product has broadened our exposure to the intermediary market.

3. Edinburgh Global Assets Trust

Launched in early 1997, this Bermuda based mutual fund is aimed at offshore investors. At the end of the launch period, this fund was worth US\$28 million.

4. Investment Trust PEP

We re-launched this PEP product in February to cover all Edinburgh and Dunedin investment trusts. We currently have over £100 million invested in the PEP.

Investment Trusts

A number of actions to enhance the long-term prospects and attraction to investors have been taken (see table).

Additionally American Trust increased its concentration on North America while Edinburgh New Tiger Investment Trust changed its mandate to allow it to invest in Hong Kong and Singapore.

Date

August 1996	Dunedin Japan Investment Trust and Edinburgh Japan Trust were merged.
January 1997	The Edinburgh Investment Trust announced that it would concentrate on the UK equity market.
February 1997	Dunedin Worldwide Investment Trust borrowed £50 million in a 10 year multi-currency loan.
February 1997	Dunedin Income Growth Investment Trust issued a £30 million 7½% debenture 2019.
April 1997	Malvern UK Index Trust proposed change of name to Edinburgh UK Tracker Trust.

Edinburgh Inca Trust increased its exposure to larger companies in South America.

Unit Trusts

We have merged four former Dunedin unit trusts into Edinburgh trusts with similar policies and have branded all trusts with the Edinburgh name. We anticipate a further rationalisation of our unit trust products during the course of the next twelve months. PEP sales have increased during the year but despite having trusts invested in the UK, Japan and America in the top two quartiles of the performance tables over one to five years we experienced a net outflow of funds during the year. We have introduced new management, and sales targets for the sales force, in order to ensure that this trend is reversed.

Discretionary and Private Clients

In the pension fund arena we have had a quiet year but have been successful in acquiring new specialist mandates.

We have also taken on a new managing director of our private client operation and this is generating momentum in this business.

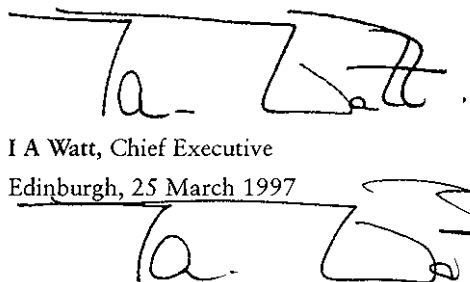
Staff

The past year with its many challenges has shown the depth and calibre of staff which the group employs. They have on your behalf worked long and hard during the past twelve months and deserve recognition for the progress achieved to date.

We are pleased to say that over 80 per cent of all staff have an equity interest in the group either directly or through the Executive Share Option or Save As You Earn schemes. We already pay discretionary bonuses when appropriate but are looking at other incentive schemes linked specifically to shares in the group.

I A Watt, Chief Executive

Edinburgh, 25 March 1997



Operating and Financial Review

Operating review

The profits of the group reflect a combination of the levels of funds under management, the rates of fees and the costs of running the business. The key factors which affect these are the volatility of different markets and currencies, particularly the US dollar.

The acquisition of Dunedin, which more than doubled funds under management, also changed the geographic analysis of the funds under management. The amount managed in the UK increased from 48 per cent to 63 per cent, while in the Pacific Basin it reduced from 22 per cent to 12 per cent. This reduced the level of risk to the volatility of overseas markets. As fees from managing UK investments are lower than the fees from specialist funds investing in the Pacific Basin, Japan and Latin America, revenues expressed as a percentage of funds under management are also lower.

The movements during the year to 31 January 1997 in major stock markets were as follows:

Region	Percentage movement	
	Local currency	Sterling adjusted
UK	+13	+13
US	+24	+16
Europe (ex UK)	+29	+11
Japan	-15	-29
Pacific (ex Japan)	+7	+3
Latin America	+18	+11

In the Pacific Basin the markets had been 10 per cent lower during the year.

Results for the year

The results for the year include the effects of the acquisition of Dunedin from 19 March 1996.

Turnover increased by 59 per cent to £31.1 million, including a contribution of £11.2 million from former Dunedin clients. Reflecting the increase in the UK managed investments, revenues, as a percentage of funds under management, declined from an average of 0.56 per cent earned in the previous year to 0.43 per cent. In its last accounting year, Dunedin earned revenues of 0.36 per cent and this reduced to an average of 0.30 per cent following the reduction in its exposure to US clients. Approximately half of the revenue came from investment trusts.

Administrative expenses have been split between the ongoing costs of the business and exceptional costs. Ordinary expenses of £14.6 million were 52 per cent higher than last year, reflecting the acquisition of Dunedin. This resulted in exceptional expenses of £5.4 million relating to the rationalisation of the enlarged business. These costs included staff contract costs and redundancies of £2.2 million, provisions for property and writing off fixed assets of £2.1 million and professional fees and marketing costs of combining the businesses of £1.1 million. Following the rationalisation, running costs for the combined businesses have been reduced by approximately £7 million per annum. Expressed as a percentage of funds under management, costs are 0.20 per cent, compared with last year's figure of 0.27 per cent and Dunedin's previous year's figure of 0.24 per cent.

The operating profit percentage of 53 per cent (excluding exceptionals) is unchanged from the previous year's profit on the continuing business.

Part of the reduction in earnings per share is accounted for by the fact that no investment gains were realised during the year. Last year's gains were £0.4 million.

Operating and Financial Review

The effective tax rate of 33.6 per cent is higher than last year's rate of 31.3 per cent, when all brought forward capital gains losses were utilised.

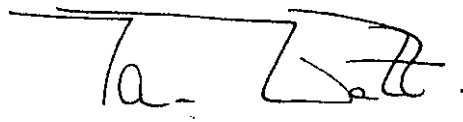
Earnings per share excluding exceptionals fell to 40.2p. The proposed final dividend of 17p per share will make an unchanged total of 25p per share for the year.

Financial resources

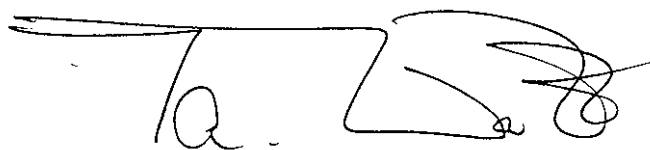
The £84 million acquisition of Dunedin was financed primarily by the issue of shares. The balance being covered by the assets in Dunedin's balance sheet. After writing off the goodwill on the acquisition, which was achieved by cancelling the share premium account as described in note 17 to the financial statements, the balance sheet shows a similar picture to last year.

The cash balances at 31 January 1997 were £34 million compared with £25 million the previous year. There was an unusually high level of unit trust activity around the year end resulting in the cash balances and creditors being approximately £10 million higher than in the previous year.

On 14 March 1997, the company announced its proposals to buy back 2,645,000 shares from The British Investment Trust PLC at a price of 56.5p. If approved, this will utilise approximately £15 million of the group's cash resources.



I A Watt, Chief Executive
Edinburgh, 25 March 1997



Directors' Report & Accounts 1997

Corporate Information

Registered Office

Edinburgh Fund Managers Group plc
 Donaldson House
 97 Haymarket Terrace
 Edinburgh EH12 5HD
 Telephone: 0131-313 1000
 Facsimile: 0131-313 6300
 Registered no: SC 157875

Registrars

The Royal Bank of Scotland plc
 Owen House
 8 Bankhead Crossway North
 Edinburgh EH11 4BR
 Telephone: 0131-523 6051

Bankers

The Royal Bank of Scotland plc
 36 St Andrew Square
 Edinburgh EH2 2YR

Auditors

KPMG Audit Plc
 Saltire Court
 20 Castle Terrace
 Edinburgh EH1 2EG

Joint Stockbrokers

Panmure Gordon & Co Limited
 New Broad Street House
 35 New Broad Street
 London EC2M 1NH

HSBC James Capel
 Thames Exchange
 10 Queens Street Place
 London EC4R 1BL

Board of Directors

C H Ross

Chairman

C H Ross CA is a director of The British Investment Trust and chairman of Edinburgh Oil and Gas.

A M M Grossart

Deputy Chairman

A M M Grossart CBE, ILLD, MA, CA is managing director of Noble Grossart, chairman of The Scottish Investment Trust, vice chairman of The Royal Bank of Scotland and a director of American Trust and a number of other companies.

I A Watt

Chief Executive

I A Watt is an associate of the Institute of Bankers in Scotland. He is also a director of Edinburgh New Tiger Trust, Edinburgh Dragon Trust and of Piper Global Funds, the adviser to Pacific European Growth Fund.

J W Blair

Director

J W Blair BA, LLB, WS is senior partner of an Edinburgh legal firm and a director of The British Investment Trust.

Lord Macfarlane of Bearsden

Director

Lord Macfarlane of Bearsden is chairman of Macfarlane Group (Clansman) and American Trust and Honorary Life President of United Distillers, the former deputy chairman of the Clydesdale Bank and a director of General Accident Fire & Life Assurance Corporation and a number of other companies.

A D M MacDonald

Director

A D M MacDonald MA, LLB, CA is chairman of Edinburgh Inca Trust, Edinburgh Small Companies Trust and joint managing director of MacDonald Orr, corporate finance advisers and is a director of a number of other companies. He is also chairman of the Scottish Chamber Orchestra.

Directors' Report

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 January 1997.

Business of the group

The principal activity of the group is investment management, which includes the management of investment trusts, unit trusts, pension funds, private clients and other discretionary portfolios.

Review of activities

A review of the business and likely future developments of the group are given in the chairman's statement, the chief executive's review and the operating and financial review on pages 4 to 8.

Acquisition of DFM Holdings Limited

On 19 March 1996 the company acquired the entire issued share capital of DFM Holdings Limited ('Dunedin') for a cash consideration of £83.25 million. The cash was raised principally by means of a placing and open offer of ordinary shares in Edinburgh Fund Managers Group plc.

Share capital

On 4 March 1996 the authorised share capital was increased from £2,000,000 to £2,250,000 by the creation of an additional 5,000,000 ordinary shares of 5p each. This increased the number of authorised shares of the company to 45,000,000.

On 19 March 1996 the company issued 11,631,891 ordinary shares under a placing and open offer to finance the acquisition of Dunedin, bringing the total number of issued shares to 31,018,377. During the year to 31 January 1997 the issued share capital was also increased by the issue of 260,468 ordinary shares as a result of the exercise of options under both the company's executive and savings-related share option schemes. Details of the current authorised and issued ordinary share capital are shown on pages 33 and 34.

On 26 September 1996 shareholders resolved to cancel the share premium account. Details of the court of session's confirmation are shown on page 33.

Dividends

The directors recommend that a final dividend of 17p (1996—17p) per share be paid on 21 May 1997 to holders of ordinary shares on the register on 18 April 1997 making a total payment of 25p (1996—25p) per share for the year.

The group's profit and loss account deficit for the year of £1,468,000 will be transferred from reserves.

Directors

The board comprises one executive director and five non-executive directors. Their interests in the company's shares are listed on page 14.

J R Cowan retired from the board on 17 May 1996.

In accordance with the articles of association, Mr C H Ross retires from the board at this time and is eligible for re-election.

Payment policy

It is the group's payment policy to ensure settlement of suppliers' invoices in accordance with their stated terms. In certain circumstances, settlement terms are agreed prior to business taking place.

Going concern

After making enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Directors' Report

Holder	Percentage of share capital held
The British Investment Trust PLC	32.5
Hermes Investment Management Limited	8.5
M&G Investment Management Limited	5.5
American Trust plc	5.0

Table 1 Substantial Share Interests

Substantial share interests

At 25 March 1997, the interests as noted in Table 1 above in the ordinary share capital had been notified to the company.

On 11 March 1997 it was announced that The British Investment Trust's holding would be reduced to nil by way of a placing and share buy-back.

Charitable donations

During the year the group made charitable donations of £12,000.

Auditors

Resolutions will be proposed at the annual general meeting to reappoint KPMG Audit Plc as auditors of the company and to authorise the directors to fix their remuneration.

Annual general meeting

At the annual general meeting to be held on 20 May 1997, the following two resolutions will be proposed to give the directors limited power to allot shares in disapplication of statutory pre-emption rights and give the company the authority to purchase its own shares:

- Special Resolution No 6 will be proposed for the purpose of empowering the directors to allot unissued ordinary shares for cash without applying pre-emption rights if the issue is either made in connection with a rights issue or does not exceed 5 per cent of the issued ordinary share capital.
- Special Resolution No 7 will be proposed to authorise the company to make market purchases of its own shares. This authority, if conferred, will only be exercised if to do so would result in an increase in earnings per share and is in the best interests of shareholders generally.

By order of the board

Catherine C J Miller, Secretary
Edinburgh, 25 March 1997



Report of the Remuneration Committee

Report of the remuneration committee to the shareholders on behalf of the board

Composition of the remuneration committee

The members of the remuneration committee ('the committee') are given on page 16.

Compliance

The committee considers that this company has complied throughout the year with Section A of the best practice provisions, annexed to the listing rules of the London Stock Exchange. The committee also confirms that full consideration has been given to the best practice provisions set out in Section B, annexed to the listing rules, in determining the remuneration package for the directors.

Remuneration policy

The remuneration of executive directors, including those of subsidiary undertakings, ('executives') is determined by the non-executive members of the board after considering recommendations from the committee. The remuneration of non-executive directors is determined by the full board within the limits set by the company's articles of association.

Salaries

The salaries of executives are determined after a review of their performance. It is the aim of the board to reward executives competitively and on the broad principle that their remuneration should be based around the median remuneration paid to directors with similar responsibilities in fund management companies in Scotland.

Share options

The company operates a share option scheme for executives which was approved by shareholders on 9 June 1995. Options issued under the scheme may be exercised between three and ten years after the date granted, only if earnings per share growth in the preceding three years has exceeded the rate of inflation by two per cent.

Bonuses

The company does not operate a formal bonus scheme but bonuses may be paid to executives at the discretion of the board in recognition of particular achievements during the year.

Pension scheme

The executives are entitled to be members of the group pension scheme which covers all eligible employees. The scheme is non-contributory and provides for retirement at the age of 60 with a pension based on final salary, excluding any bonuses, and years of pensionable service.

Directors' service agreements

Directors' service agreements do not exceed twelve months.

Report of the Remuneration Committee

Directors' emoluments

	Basic Salary	Bonus	Fees	Benefits	Total emoluments excluding pensions	
	£000	£000	£000	£000	1997 £000	1996 £000
EXECUTIVE						
I A Watt	155	50	—	14	219	145
NON-EXECUTIVE						
J W Blair	—	—	10	—	10	8
J R Cowan (resigned—May 1996)	—	—	3	—	3	8
A M M Grossart	—	—	10	—	10	8
A D M MacDonald	—	—	10	—	10	3
Lord Macfarlane of Bearsden	—	—	10	—	10	8
C H Ross	—	—	30	—	30	109
TOTAL	155	50	73	14	292	289
Total 1996	225	—	45	19	289	

Benefits relate to the provision of a company car, housing subsidy and medical insurance.

Directors' pensions

I A Watt is entitled to participate in the company's pension scheme. The scheme is non-contributory and is governed by an independent trust. The normal retirement age under the pension scheme is sixty which enables members to achieve the maximum pension benefit of two thirds of final pensionable salary at normal retirement age after forty years of service. The rules of the scheme allow for both early and late retirement with benefits being paid based on final pensionable salary adjusted to reflect early or late payments respectively. For death before retirement a capital sum of four times pensionable salary at the time of

death is payable together with a spouse's pension of two thirds of the expected pension at the normal retirement age. In the case of death in retirement a spouse's pension of 50 per cent of the members pension is payable. In the event of death within five years of retirement an additional lump sum is payable amounting to the sum of the pension which would have been paid over the balance of the five years. In certain circumstances children's allowances are payable up to the age of eighteen (or twenty one if still in full time education).

In the case of I A Watt, who was fifty one at 31 January 1997, the accrued annual entitlement amounts to £82,000 (1996—£69,000). This change reflects the salary increase he received during the period.

Report of the Remuneration Committee

Directors' interests in the company at 31 January

	1997			1996		
	Ordinary shares	Share options Executive	Savings -related	Ordinary shares	Share options Executive	Savings -related
J W Blair	9,000	—	—	8,000	—	—
J W Blair (non beneficial)	2,150	—	—	—	—	—
Lord Macfarlane of Bearsden	16,000	—	—	10,000	—	—
C H Ross	500,000	—	—	500,000	—	—
I A Watt	125,468	60,100	8,549	14,245	145,000	8,549

The interests detailed above are beneficially held by the directors unless otherwise stated. Other than those disclosed above, no director had any interests in the share capital of any group company.

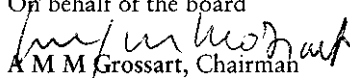
Directors' share options

	31.1.96	Exercised	Granted	31.1.97	Exercise price	Date from which exercisable	Expiry date
I A Watt							
Executive share options	35,000	35,000	—	—	282.0p	16.5.89	16.5.96
	20,000	20,000	—	—	297.0p	15.5.90	15.5.97
	5,000	5,000	—	—	210.0p	8.6.93	8.6.00
	30,000	30,000	—	—	225.0p	3.6.94	3.6.01
	19,900	19,900	—	—	308.0p	22.6.95	22.6.02
	20,100	—	—	20,100	366.0p	22.6.96	22.6.03
	5,000	—	—	5,000	604.0p	27.5.97	27.5.04
	10,000	—	—	10,000*	726.0p	6.10.98	6.10.05
	—	—	25,000	25,000*	592.5p	1.10.99	1.10.06
	145,000	109,900	25,000	60,100			
Savings-related share options	8,549	—	—	8,549	212p	1.12.97	1.6.98

No options lapsed during the year. The mid market price on the date the options were exercised was 718p. The market price of the shares at 31 January 1997 was 597.5p and the range during the year was 561.5p to 725.0p.

* These options are exercisable only if, over any three consecutive financial years of the company commencing on the first day of any financial year of the company the end of which falls after the date of grant of the options, the percentage

increase in the earnings per share exceeds the percentage increase in the retail price index by at least two per cent per annum over the same period.

On behalf of the board

 A M M Grossart, Chairman
 Remuneration Committee
 Edinburgh, 25 March 1997

Corporate Governance

Compliance

The board considers that the company fully complies with The Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance and that it has done so throughout the year.

Internal control

The directors acknowledge their responsibility for the company's system of internal financial controls. Such a system can provide only reasonable and not absolute assurance against material misstatement or loss. The key policies and procedures that have been established to provide effective internal financial control include complete and accurate accounting, annual budgets with monthly management reporting, controls over expenditure, compliance monitoring procedures and formal reporting to the audit committee. The directors have reviewed the effectiveness of the system of internal financial control.

Board committees

The board has established a number of committees to facilitate the smooth running of the business within the company. Each committee has detailed terms of reference which are reviewed and approved periodically by the board. All members of these committees are non-executive directors.

Audit committee

The audit committee meets at least twice each year to review the interim financial statement and the annual report and accounts. These meetings are also attended by other senior members of staff and the company's auditors. In addition to reviewing accounting policies and financial statements issued to shareholders, the committee considers the operation of the compliance function and reviews aspects of the control systems with which senior management are involved. The terms of reference for this committee also cover the appointment and remuneration of the independent auditors.

Nominations committee

This committee is principally concerned with considering and recommending to the board the appointment of directors.

Remuneration committee

It is responsible for reviewing the company's remuneration policy (as set out on page 13) and, within that policy, for making recommendations to the board, whose non-executive members determine the remuneration packages of the executives of the company. It is also responsible for the company's incentive schemes (including share option schemes) for executives and employees.

Audit committee	Nominations committee	Remuneration committee
A M M Grossart (Chairman)	C H Ross (Chairman)	A M M Grossart (Chairman)
J W Blair	J W Blair (appointed 17 May 1996)	Lord Macfarlane of Bearsden
A D M MacDonald (appointed 15 February 1996)	A M M Grossart	C H Ross
C H Ross		

Statement of Directors' Responsibilities

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Review Report by KPMG Audit Plc on Corporate Governance Matters

To Edinburgh Fund Managers Group plc

In addition to our audit of the accounts, we have reviewed the directors' statements on page 16 on the company's compliance with the paragraphs of the Code of Best Practice specified for our review by the Listing Rules and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to any non-compliance with the disclosure requirements of the Listing Rules 12.43(j) and 12.43(v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform any additional work necessary to express any opinion on the effectiveness of either the group's system of internal financial control or corporate governance procedures, or on the ability of the company or group to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control on page 16 and going concern on page 11, in our opinion the directors have provided the disclosures required by the Listing Rules. Such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the company and examination of relevant documents, in our opinion the directors' statement on page 16 appropriately reflects the company's compliance with the other paragraphs of the code specified for our review by the Listing Rules.

KPMG Audit Plc

Chartered Accountants

KPMG Audit Plc

Saltire Court

Edinburgh

25 March 1997

Auditors' Report

Report of the auditors to the members of Edinburgh Fund Managers Group plc

We have audited the financial statements on pages 19 to 35. We have also examined the amounts disclosed relating to emoluments, share options and long-term incentive scheme interests of the directors which form part of the report of the remuneration committee on pages 13 to 15.

Respective responsibilities of directors and auditors

As described above, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements, and to report our opinion to you.

Basis of 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 group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 January 1997 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

KPMG Audit Plc

Saltire Court
Edinburgh
25 March 1997

Consolidated Profit and Loss Account

For the year ended 31 January 1997

	Notes	1997 £000	1996 £000
TURNOVER	2		
Continuing operations		19,948	19,622
Acquired operations		11,181	—
		<u>31,129</u>	<u>19,622</u>
ADMINISTRATIVE EXPENSES	3		
Ordinary		14,604	9,595
Exceptional		5,408	—
		<u>20,012</u>	<u>9,595</u>
OPERATING PROFIT		11,117	10,027
Profit on disposal of investments	5	(34)	447
Profit on disposal of discontinued operations	6	—	799
Other income	7	1,475	1,496
		<u>12,558</u>	<u>12,769</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			
Continuing operations		12,030	12,769
Acquired operations		528	—
		<u>12,558</u>	<u>12,769</u>
TAXATION	8	4,222	3,997
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		8,336	8,772
Minority interest		7	8
		<u>8,329</u>	<u>8,764</u>
Profit for the financial year		8,329	8,764
DIVIDENDS	9	9,797	4,852
		<u>9,797</u>	<u>4,852</u>
(Loss)/retained profit for the year	17	(1,468)	3,912
EARNINGS PER SHARE	10	28.1p	45.4p
EARNINGS PER SHARE (before exceptional items and discontinued operations)	10	40.2p	42.3p

Consolidated Balance Sheet

At 31 January 1997

	Notes	1997 £000	1996 £000
FIXED ASSETS			
Tangible assets	11	1,249	1,168
Investments	12	8,039	6,048
		<u>9,288</u>	<u>7,216</u>
CURRENT ASSETS			
Stock of units		3,139	1,451
Debtors	14	10,961	6,331
Cash and deposits		34,232	24,809
		<u>48,332</u>	<u>32,591</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Taxation and social security		5,782	4,243
Other creditors	15	19,898	5,735
Proposed final dividend		5,317	3,296
		<u>30,997</u>	<u>13,274</u>
NET CURRENT ASSETS		<u>17,335</u>	<u>19,317</u>
TOTAL ASSETS			
LESS CURRENT LIABILITIES		26,623	26,533
Minority interest		121	94
		<u>26,502</u>	<u>26,439</u>
CAPITAL AND RESERVES			
Called up share capital	16	1,564	969
Share premium account	17	23	37
Capital reserve	17	7,777	7,777
Revaluation reserve	17	(491)	363
Profit and loss account	17	17,629	17,293
EQUITY SHAREHOLDERS' FUNDS		<u>26,502</u>	<u>26,439</u>

Approved by the board on 25 March 1997 and signed on its behalf by:

C H Ross, Director

A M M Grossart, Director

Company Balance Sheet

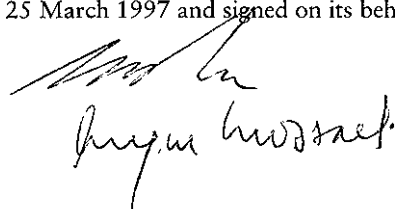
At 31 January 1997

	Notes	1997 £000	1996 £000
FIXED ASSETS			
Investments	12	7,497	5,663
Subsidiary undertakings	13	85,477	1,014
		<u>92,974</u>	<u>6,677</u>
CURRENT ASSETS			
Debtors	14	5,143	1,037
Cash and deposits		11,157	16,211
		<u>16,300</u>	<u>17,248</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Taxation and social security		1,337	824
Other creditors	15	10,904	5,115
Proposed final dividend		5,317	3,296
		<u>17,558</u>	<u>9,235</u>
NET CURRENT (LIABILITIES)/ASSETS		<u>(1,258)</u>	<u>8,013</u>
TOTAL ASSETS			
LESS CURRENT LIABILITIES		<u>91,716</u>	<u>14,690</u>
CAPITAL AND RESERVES			
Called up share capital	16	1,564	969
Share premium account	17	23	37
Special capital reserve	17	75,177	—
Revaluation reserve	17	(533)	397
Profit and loss account	17	15,485	13,287
EQUITY SHAREHOLDERS' FUNDS		<u>91,716</u>	<u>14,690</u>

Approved by the board on 25 March 1997 and signed on its behalf by:

C H Ross, Director

A M M Grossart, Director



Statement of Total Recognised Gains and Losses

For the year ended 31 January 1997	1997 £000	1996 £000
Profit for the financial year	8,329	8,764
Movement in revaluation of investments and property	(645)	179
Minority interest in revaluation of investments and property	21	1
Currency translation differences	(4)	—
Total recognised gains and losses relating to the year	<u>7,701</u>	<u>8,944</u>

Note of Historical Cost Profits and Losses

For the year ended 31 January 1997	1997 £000	1996 £000
Reported profit on ordinary activities before taxation	12,558	12,769
Realisation of investment revaluation gains/(losses) of prior years	344	(310)
Historical cost profit for the year before taxation	<u>12,902</u>	<u>12,459</u>
Historical cost profit/(loss) for the year after taxation, minority interest and dividends	<u>(1,237)</u>	<u>3,602</u>

Reconciliation of Movement in Shareholders' Funds

For the year ended 31 January 1997	1997		1996	
	Consolidated £000	Company £000	Consolidated £000	Company £000
Profit for the financial period	8,329	10,187	8,764	18,134
Dividends	<u>9,797</u>	<u>9,797</u>	<u>4,852</u>	<u>4,847</u>
Retained profit for the period	(1,468)	390	3,912	13,287
Other recognised gains and losses	(628)	(700)	180	397
Issue of shares	77,336	77,336	499	1,006
Goodwill arising on acquisition of Dunedin	<u>(75,177)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net addition to shareholders' funds	63	77,026	4,591	14,690
Shareholders' funds at 31 January 1996	<u>26,439</u>	<u>14,690</u>	<u>21,848</u>	<u>—</u>
Shareholders' funds at 31 January 1997	<u>26,502</u>	<u>91,716</u>	<u>26,439</u>	<u>14,690</u>

Consolidated Cash Flow Statement

For the year ended 31 January 1997

	Notes	1997 £000	1996 £000
Cash inflow from operating activities	(a)	23,725	9,540
Returns on investments and servicing of finance	(b)	1,407	1,506
Taxation		(5,442)	(4,444)
Capital expenditure and financial investment	(c)	(2,148)	(2,145)
Acquisitions and disposals	(d)	(77,676)	799
Equity dividends paid		(7,775)	(4,629)
Cash (outflow)/inflow before financing		(67,909)	627
Financing		77,336	499
Increase in cash in the period	(e)	9,427	1,126

(a) Reconciliation of operating profit to operating cash flows

Operating profit	11,117	10,027
Depreciation charges	609	372
Loss/(gain) on disposal of fixed assets	398	(38)
Other income	37	23
Increase in stock of units	(1,642)	(224)
(Increase)/decrease in debtors	2,782	(2,688)
Increase in creditors	10,424	2,068
	<u>23,725</u>	<u>9,540</u>
Net cash inflow before exceptional items	27,707	9,540
Outflow related to exceptional items	3,982	—
Cash inflow from operating activities	<u>23,725</u>	<u>9,540</u>

(b) Returns on investments and servicing of finance

Interest received	1,312	1,444
Dividends received	95	62
	<u>1,407</u>	<u>1,506</u>

(c) Capital expenditure and financial investment

Purchase of tangible assets	(380)	(360)
Purchase of investments	(5,768)	(8,201)
Sale of tangible assets	727	330
Sale of investments	3,273	6,086
	<u>(2,148)</u>	<u>(2,145)</u>

Consolidated Cash Flow Statement

	Notes	1997 £000	1996 £000	
(d) Acquisitions and disposals				
Purchase of subsidiary undertaking	18	(84,463)	—	
Net cash acquired with subsidiary	18	5,105	—	
Sale of Dunedin Ventures	18	1,282	—	
Sale of trade investment	18	400	—	
Disposal of subsidiary undertaking	6	—	799	
Cash (outflow)/inflow arising on acquisitions and disposals		<u>(77,676)</u>	<u>799</u>	
(e) Analysis of net debt				
	31 Jan 1996 £000	Cash Flow £000	Exchange movement £000	31 Jan 1997 £000
Cash and deposits	24,809	9,427	(4)	34,232

Notes to the Financial Statements

1. Accounting policies

The significant accounting policies adopted in arriving at the financial information set out in these financial statements are as follows:

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards.

Basis of consolidation

The Group accounts consolidate the accounts of the company and all its subsidiary undertakings. The profit before tax includes the results of subsidiary undertakings from their effective date of acquisition. The excess of the cost of the shares in subsidiary undertakings acquired over the fair value of their net assets is charged directly to reserves as goodwill which is then written off against capital reserves. The cost of management contracts is also written off against reserves in the year of acquisition.

As permitted by section 230 of the Companies Act 1985, a separate profit and loss account of Edinburgh Fund Managers Group plc is not presented.

Turnover

Turnover represents the amount receivable for the year in respect of income from fund management services and the net profit derived from the issue and sale of units.

Operating lease payments

Operating lease payments are charged in the profit and loss account in the year in which they are due.

Pension contributions

The majority of the group's permanent employees are covered by funded defined benefit pension schemes. Contributions are calculated by external actuaries and charged to the profit and loss account over the estimated service lives of the employees.

Depreciation

Fixed tangible assets are stated at historical cost or valuation less accumulated depreciation. The tangible assets are written down to their estimated residual value on a straight line basis over the expected useful lives of the assets as follows:

Office furniture	7 years
Motor vehicles	4 years
Office equipment	3 years

Deferred taxation

Deferred taxation is provided for on timing differences which are expected to reverse in the future, including those arising on the unrealised appreciation of investments.

Investments

Listed investments are valued at market prices. Unlisted investments are included at a valuation determined by the directors based upon, where appropriate, latest dealing prices, net asset values and other latest known accounting information.

Foreign currencies

Assets and liabilities in foreign currencies are converted at the rates of exchange on the last day of the financial year. Exchange differences are taken to reserves. Transactions involving foreign currencies are converted at the rate ruling on the date of the transaction.

Stock of units

These are held by the managers for the purpose of unit trust trading and are valued at the lower of cost and net realisable value.

Notes to the Financial Statements

	1997	1996		
		Continuing operations	Discontinued operations	Total
	£000	£000	£000	£000
2. Turnover and operating profit				
Fund management income	30,544	18,101	812	18,913
Net profit from unit trust trading	585	709	—	709
Turnover	<u>31,129</u>	<u>18,810</u>	<u>812</u>	<u>19,622</u>

All the turnover of the group related to its principal activity of investment management.

The operating profit of the acquired operations, which is attributable entirely to Dunedin, has been stated after charging exceptional expenses of £5,408,000.

	1997	1996
	£000	£000
3. Administrative expenses		
Administrative expenses include:		
Auditors' remuneration — audit fees	38	26
— other (see note)	33	40
Depreciation	609	372
Operating lease payments — land and buildings	<u>392</u>	<u>418</u>

Note:

During the year, additional fees of £69,000 were paid to the auditors which formed part of the exceptional expenses and the cost of acquisition.

Exceptional administrative expenses all relate to acquisitions and comprise:

Staff contract costs and redundancies	2,182
Provisions for property costs and fixed assets	2,070
Legal and professional fees and marketing costs	<u>1,156</u>
	<u>5,408</u>

Notes to the Financial Statements

	1997 £000	1996 £000
4. Director and employee information		
Average number of employees of the group (excluding non-executive directors) 198 (1996—129)		
Salaries	5,951	4,106
Social security costs	605	379
Pension scheme costs	805	550
Other pension costs	19	19
	<u>7,380</u>	<u>5,054</u>
Directors' remuneration (including pension contributions)		
Fees	73	45
Other emoluments	245	282
	<u>318</u>	<u>327</u>
Detailed information concerning directors' emoluments, shareholdings and options is shown in the report of the remuneration committee on pages 13 to 15, which provides the information required by schedule 6 of the Companies Act 1985 in relation to the disclosure of the banding information.		
5. Profit on disposal of investments		
Realised gain on investments and property	310	137
(Gain)/loss brought into account at 31 January 1996	<u>(344)</u>	<u>310</u>
	<u>(34)</u>	<u>447</u>
6. Profit on disposal of discontinued operations		
During the year to 31 January 1996, the group disposed of the private client stockbroking business of Private Fund Managers. The profit before taxation from this sale was £799,000.		
7. Other Income		
Income from listed investments	81	55
Income from unlisted investments	14	7
Interest	1,343	1,410
Other	37	24
	<u>1,475</u>	<u>1,496</u>
8. Taxation		
Corporation tax at 33 (1996—33) per cent on net profit for year	4,170	3,967
Tax on franked investment income	153	67
Transfer to deferred taxation	(42)	(4)
Over provision in previous year	<u>(59)</u>	<u>(33)</u>
	<u>4,222</u>	<u>3,997</u>
The tax charge is after provision for tax relief on the exceptional costs	<u>1,818</u>	<u>—</u>

Notes to the Financial Statements

	1997	1996
	£000	£000
9. Dividends		
Interim dividend of 8.0p (1996— 8.0p) per share paid 1 November 1996	2,502	1,556
Final dividend of 17.0p (1996—17.0p) per share payable 21 May 1997	<u>5,318</u>	<u>3,296</u>
Dividends paid in respect of the year to 31 January 1997	7,820	4,852
Dividends paid on 11,631,891 new shares issued in March 1996	<u>1,977</u>	<u>—</u>
	<u>9,797</u>	<u>4,852</u>

The proposed final dividend will be paid on 21 May 1997 to shareholders on the register at the close of business on 18 April 1997. The ex-dividend date will be 14 April 1997.

The final dividend of 17p per share in respect of the year to 31 January 1996, paid 20 May 1996, was reflected through the 1996 accounts in respect of the shares in issue at 31 January 1996. On 19 March 1996, 11,631,891 new ordinary shares were issued. These shares were entitled to the 17p dividend in respect of the year to 31 January 1996 and the dividend on these has been shown through the profit and loss account for the year to 31 January 1997. No other shares issued during the year were entitled to the final dividend attributable to the year to 31 January 1996.

10. Earnings per share

Profit after taxation and minority interests	8,329	8,764
Adjustments		
Exceptional items (1996—discontinued operations)	5,408	(867)
Taxation attributable	<u>1,818</u>	<u>(277)</u>
	<u>3,590</u>	<u>(590)</u>
Profit before exceptional items and discontinued operations after taxation and minority interests	<u>11,919</u>	<u>8,174</u>
Weighted average number of shares in issue	<u>29,658,580</u>	<u>19,324,641</u>
Earnings per share	28.1p	45.4p
Adjustments for exceptional items and discontinued operations	<u>12.1p</u>	<u>(3.1)p</u>
Earnings per share (before exceptional items and discontinued operations)	<u>40.2p</u>	<u>42.3p</u>

There is no material difference between the basic and fully diluted earnings per share either for the earnings per share or for the adjusted earnings per share.

Notes to the Financial Statements

	Freehold properties	Office equipment and vehicles	Total
11. Tangible Assets			
CONSOLIDATED	£000	£000	£000
Cost or valuation:			
At 31 January 1996	253	2,084	2,337
Acquisition of Dunedin	—	1,435	1,435
Additions	—	380	380
Disposals	(253)	(1,133)	(1,386)
At 31 January 1997	<u>—</u>	<u>2,766</u>	<u>2,766</u>
Depreciation:			
At 31 January 1996	8	1,161	1,169
Charge for the year	1	608	609
Disposals	(9)	(252)	(261)
At 31 January 1997	<u>—</u>	<u>1,517</u>	<u>1,517</u>
Net book value 31 January 1997	<u>—</u>	<u>1,249</u>	<u>1,249</u>
Net book value 31 January 1996	<u>245</u>	<u>923</u>	<u>1,168</u>

The freehold property was an office at 4 Melville Crescent, Edinburgh which was sold during the year to 31 January 1997.

	Historical cost £000	Depreciation £000	Net book cost £000
At 31 January 1996	295	50	245
Depreciation	—	1	(1)
Disposals	(295)	(51)	(244)
At 31 January 1997	<u>—</u>	<u>—</u>	<u>—</u>

The group is committed to operating lease payments in the year ending 31 January 1998, in respect of office premises which expire between two and five years, amounting to £83,000 (1996—£33,000) and, over five years, amounting to £408,000 (1996—£408,000).

Notes to the Financial Statements

	Consolidated £000	Company £000
12. Investments		
Market value 31 January 1996	6,048	5,663
Unrealised appreciation 31 January 1996	354	397
Cost 31 January 1996	5,694	5,266
Acquisition of Dunedin	20	—
Additions at cost	5,768	5,711
Disposals at cost	(2,963)	(2,947)
Cost 31 January 1997	8,519	8,030
Unrealised appreciation 31 January 1997	(480)	(533)
Market value 31 January 1997	8,039	7,497

	1997		1996	
	Consolidated £000	Company £000	Consolidated £000	Company £000
Listed — UK	7,580	7,187	4,924	4,692
— Overseas	—	—	786	786
Unlisted	459	310	338	185
	8,039	7,497	6,048	5,663

13. Subsidiary undertakings	Company £000
Cost 31 January 1996	1,014
Additions at cost	84,463
Cost 31 January 1997	85,477

The share capital of the subsidiary undertakings consists solely of equity shares. The following are the principal operating subsidiaries of the group.

DIRECTLY HELD SUBSIDIARY UNDERTAKINGS

Name	Registered/ incorporated	Nature and place of business	% owned
Edinburgh Fund Managers plc	Scotland	Investment management (UK)	100
Edinburgh Unit Trust Managers Limited	Scotland	Unit trust management (UK)	100
Edinburgh Portfolio Managers Limited	Scotland	Investment management (UK)	100
Edinburgh Oil Management Limited	Scotland	Oil and gas management (UK)	78
DFM Holdings Limited	Scotland	Holding company (UK)	100

Notes to the Financial Statements

INDIRECTLY HELD SUBSIDIARY UNDERTAKINGS

Edinburgh Unit Trust Managers (Ireland) Ltd	Ireland	Unit trust management (Ireland)	100
Edinburgh Fund Managers (Bermuda) Limited	Bermuda	Investment management (Bermuda)	100
Taytems Nominees Limited	Scotland	Nominee Company (UK)	100
Dunedin Fund Managers Limited	Scotland	Investment management (UK)	100
Dunedin Berkeley Management Company Limited	Jersey	Investment management (Jersey)	100

Dunedin Unit Trust Managers Limited, Dunedin Pension Fund Managers Limited and Dunedin Financial Services Limited were put into members' voluntary liquidation during the year.

	1997		1996	
	Consolidated £000	Company £000	Consolidated £000	Company £000
14. Debtors				
Amounts falling due within one year:				
Management fees receivable	3,914	—	1,963	—
Debtors for units sold or cancelled	2,873	—	3,070	—
Amounts owed by parent	—	—	225	—
ACT recoverable	1,721	800	—	161
Other debtors	393	14	155	52
Prepayments	361	—	99	—
	<u>9,262</u>	<u>814</u>	<u>5,512</u>	<u>213</u>
Amounts falling due outwith one year:				
Amounts owed by subsidiaries	—	3,000	—	—
Deferred consideration on sale of Dunedin Ventures	373	—	—	—
Deferred taxation:				
ACT recoverable during the year ending 31 January 1999	1,329	1,329	824	824
Accelerated capital allowances	(6)	—	(5)	—
Other timing differences	3	—	—	—
	<u>1,699</u>	<u>4,329</u>	<u>819</u>	<u>824</u>
	<u>10,961</u>	<u>5,143</u>	<u>6,331</u>	<u>1,037</u>
15. Other creditors				
Creditors for units repurchased or created	15,423	—	4,865	—
Amount owed to subsidiary	—	10,153	—	5,115
Accruals	4,208	751	724	—
Trade creditors	267	—	146	—
	<u>19,898</u>	<u>10,904</u>	<u>5,735</u>	<u>5,115</u>

Notes to the Financial Statements

	Number of shares	£000
16. Called up share capital		
AUTHORISED		
Ordinary shares of 5p each	45,000,000	2,250
ISSUED AND FULLY PAID		
At 31 January 1996	19,386,486	969
Issued during year on exercise of options	260,468	13
Issued during year on acquisition of Dunedin	11,631,891	582
At 31 January 1997	31,278,845	1,564

During the year to 31 January 1997, 248,900 ordinary shares of 5p each were allotted following exercises of options under the EFM Group Executive Share Option Scheme for a total consideration of £663,000 and 11,568 ordinary shares of 5p each were allotted following the exercise of options under the EFM Group Savings-Related Share Options Scheme for a total consideration of £26,000.

Options relating to all Share Option Schemes outstanding at 31 January 1997 to subscribe for ordinary shares of 5p were as follows:

EXECUTIVE SHARE OPTION SCHEMES

Subscription price	Last date when options exercisable	Number of shares	
		1997	1996
282p	16 May 1996	—	40,000
297p	15 May 1997	—	45,000
179p	21 May 1998	25,000	25,000
187p	30 May 1999	38,750	43,750
210p	8 June 2000	5,000	25,000
225p	3 June 2001	—	85,000
308p	22 June 2002	40,000	79,900
366p	22 June 2003	90,100	104,100
604p	27 May 2004	255,000	265,000
726p	6 October 2005	240,000	250,000
699p	25 March 2006	245,000	—
592.5p	1 October 2006	946,000	—
		<u>1,884,850</u>	<u>962,750</u>

SAVINGS-RELATED SHARE OPTION SCHEMES

212p	1 June 1998	140,874	158,994
460p	1 December 1999	25,425	27,375
580p	1 June 2001	24,729	32,817
463p	1 June 2002	148,817	—
		<u>339,845</u>	<u>219,186</u>

Notes to the Financial Statements

	Share premium account £000	Capital reserve £000	Special capital reserve £000	Re- valuation reserve £000	Profit and loss account £000	Total £000
17. Reserves						
CONSOLIDATED						
At 31 January 1996	37	7,777	—	363	17,293	25,470
Loss for the year					(1,468)	(1,468)
Issue of shares	76,741					76,741
Elimination of share premium account	(76,755)		76,755			
Goodwill arising on acquisition of Dunedin			(75,177)			(75,177)
Transfer to profit and loss account of dividend paid on new shares			(1,578)		1,578	
Movement in revaluation of investments				(875)	230	(645)
Exchange differences					(4)	(4)
Movement in minority interest				21		21
At 31 January 1997	<u>23</u>	<u>7,777</u>	<u>—</u>	<u>(491)</u>	<u>17,629</u>	<u>24,938</u>
COMPANY						
At 31 January 1996	37	—	—	397	13,287	13,721
Retained profit for the year					390	390
Issue of shares	76,741					76,741
Elimination of share premium account	(76,755)		76,755			
Movement in revaluation of investments				(930)	230	(700)
Transfer to profit and loss account of dividend paid on new shares			(1,578)		1,578	
At 31 January 1997	<u>23</u>	<u>—</u>	<u>75,177</u>	<u>(533)</u>	<u>15,485</u>	<u>90,152</u>

At an extraordinary general meeting of the company held on 26 September 1996, it was resolved that the share premium account of the company be cancelled. Confirmation was granted on 30 January 1997 by the court of session that the share premium of £76,755,000 be transferred to a special capital reserve to enable the goodwill arising on the acquisition of Dunedin to be written off in the consolidated balance sheet. The court also confirmed that the difference between the amount of the goodwill and the special capital reserve should be available for distribution to the shareholders of the company. This is represented by the transfer from the special capital reserve to the profit and loss account of £1,578,000.

Cumulative goodwill written off to reserves to 31 January 1997 amounted to £84,284,000 (1996—£9,107,000).

There are no non-equity interests in the reserves or minority interests.

Notes to the Financial Statements

	Book value £000	Fair value adjustments £000	Fair value £000
18. Acquisition of DFM Holdings Limited			
Tangible assets	1,932	(497)	1,435
Unlisted investments	35	(15)	20
Dunedin Ventures Limited	—	1,282	1,282
Investments	400	—	400
Debtors and stock	7,716	(88)	7,628
Cash at bank and in hand	5,790	(685)	5,105
Creditors: due within one year	(5,911)	(891)	(6,802)
Creditors: due outwith one year	(244)	462	218
Net assets	<u>9,718</u>	<u>(432)</u>	<u>9,286</u>
Goodwill arising on acquisition			<u>75,177</u>
			<u>84,463</u>
Cash consideration			83,250
Expenses of acquisition			<u>1,213</u>
Fair value consideration			<u>84,463</u>

The fair value adjustments relate to aligning accounting policies for the depreciation of fixed assets, to record contracted commitments and the fair value of Dunedin Ventures. This subsidiary company, which was held with a view to resale, had cash balances of £685,000.

ANALYSIS OF PRE-ACQUISITION PROFIT OF DFM HOLDINGS LIMITED

	£000
Turnover	<u>714</u>
Operating profit	243
Other income	<u>34</u>
Profit before tax	277
Tax	<u>91</u>
Profit after tax	<u>186</u>

The figures above relate to the period from 29 February 1996, being the year end of DFM Holdings Limited, to 18 March 1996. Edinburgh Fund Managers Group plc acquired 100 per cent of DFM Holdings Limited on 19 March 1996 and its results are consolidated, using the acquisition method of accounting, from that date. The profits after tax of DFM Holdings Limited for the year ended 29 February 1996 were £4,656,000.

Notes to the Financial Statements

19. Material contracts

Prior to 19 March 1996, The British Investment Trust PLC ('BIT') held 52.5 per cent of the share capital of the company and after that date had a holding of 32.8 per cent. Two agreements existed between Edinburgh Fund Managers plc and BIT whereby Edinburgh Fund Managers plc received management fees for acting as Manager and Secretary of BIT (and investment manager of certain other funds). As BIT is a substantial shareholder, these contracts are deemed to be related party transactions. The management fees receivable under these agreements during the year ended 31 January 1997 amounted to £2,723,000 with £233,000 being due at the balance sheet date.

20. Pensions

Retirement benefits based on salary close to retirement are provided for eligible group employees. The assets of the scheme are held under trust separately from those of the group. Following the acquisition of Dunedin, the Dunedin pension scheme was merged with the existing scheme on 1 January 1997.

Contributions to the scheme are charged to the profit and loss account to spread the cost of pensions over employees' working lives with the group. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit credit method. The most recent valuation was as at 1 February 1995. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. In the calculations, it was assumed that the investment returns would be 9.5 per cent per annum, that salary increases would average 8.5 per cent per annum and that present and future pensions would increase at the rate of 4.75 per cent per annum.

The pension scheme cost for the year was £805,000 (1996—£550,000), including £14,000 in respect of prepaid contributions from the Dunedin Pension Scheme, leaving a prepayment of £197,000 at 31 January 1997. The pension charge was after a deduction of £110,000 (1996—£56,000) in respect of the amortisation of the existing surplus. The amortisation is over 14 years, the assumed average remaining service lives of the pensionable employees.

The most recent actuarial valuation as at 1 February 1995 showed that the market value of the scheme's assets was £8,540,000. The actuarial value of those assets represented 109 per cent of the value of benefits that had accrued to members, after allowing for expected salary increases.

21. Commitments and contingencies

There were no capital commitments or contingent liabilities at 31 January 1997 (1996—nil).

22. Post balance sheet event

On 11 March 1997, a proposed reconstruction of The British Investment Trust PLC ('BIT') and a proposed sale of BIT's 32.5 per cent holding in the company via an institutional placing and share buy-back was announced. The reconstruction will reduce funds under management by approximately £0.9 billion and will result in a loss of revenues of up to a maximum of £2.4 million.

The proposed share buy-back will be financed out of existing resources. No dividend will be paid on the 2,645,000 shares being bought back. The notice convening an extraordinary general meeting to be held on 7 April 1997, at which a special resolution will be proposed to approve the share buy-back, was sent separately to shareholders on 14 March 1997.

Five Year Record

Year ended 31 January	1993	1994	1995	1996	1997
	£m	£m	£m	£m	£m
Funds under management	<u>2,391</u>	<u>4,011</u>	<u>3,437</u>	<u>3,538</u>	<u>7,638</u>
	£000	£000	£000	£000	£000
Shareholders' funds	<u>15,711</u>	<u>17,002</u>	<u>21,848</u>	<u>26,439</u>	<u>26,502</u>
Fund management income	9,693	17,072	22,339	18,913	30,544
Net profit from unit trust trading	<u>1,383</u>	<u>1,415</u>	<u>1,603</u>	<u>709</u>	<u>585</u>
Turnover	11,076	18,487	23,942	19,622	31,129
Administrative expenses	<u>7,202</u>	<u>10,643</u>	<u>11,458</u>	<u>9,595</u>	<u>14,604</u>
Operating profit	3,874	7,844	12,484	10,027	16,525
Profit on disposal of investments	(307)	1,028	214	447	(34)
Other income	<u>1,182</u>	<u>903</u>	<u>1,043</u>	<u>1,496</u>	<u>1,475</u>
Profit on ordinary activities before taxation and exceptional items	4,749	9,775	13,741	11,970	17,966
Exceptional items	<u>—</u>	<u>—</u>	<u>—</u>	<u>799</u>	<u>(5,408)</u>
Profit on ordinary activities before taxation	4,749	9,775	13,741	12,769	12,558
Taxation	<u>1,616</u>	<u>2,741</u>	<u>4,250</u>	<u>3,997</u>	<u>4,222</u>
Profit on ordinary activities after taxation	3,133	7,034	9,491	8,772	8,336
Minority interest	<u>12</u>	<u>11</u>	<u>9</u>	<u>8</u>	<u>7</u>
Profit for the financial year	<u>3,121</u>	<u>7,023</u>	<u>9,482</u>	<u>8,764</u>	<u>8,329</u>
Earnings per share before exceptional items and discontinued operations	<u>16.7p</u>	<u>37.2p</u>	<u>49.7p</u>	<u>42.3p</u>	<u>40.2p</u>
Dividends per share	<u>13.5p</u>	<u>22.0p</u>	<u>24.0p</u>	<u>25.0p</u>	<u>25.0p</u>

Note: Prior to the implementation of the scheme of arrangement effected on 1 August 1995, the figures relate to Edinburgh Fund Managers plc.

Shareholder Information

Financial calendar

Announcements, ordinary share dividend payments and the issue of the annual and interim reports may normally be expected in the following months:

- March –** Preliminary figures and recommended final dividend for year announced
- April –** Annual report and accounts published
- May –** Annual general meeting and final dividend paid
- September –** Interim figures and interim dividend announced
- October –** Interim report for half-year to 31 July published
- November –** Interim dividend paid

Annual general meeting

This year's annual general meeting will be held at Donaldson House on Tuesday 20 May 1997 at 12.15 pm to be followed by a buffet. Shareholders are asked to reply on the enclosed card if they will be attending the meeting.

Group Structure

Locations

Edinburgh:

Edinburgh Fund Managers plc

Donaldson House
97 Haymarket Terrace
Edinburgh EH12 5HD

Tel: 0131-313 1000

Fax: 0131-313 6300

Dundee:

Edinburgh Fund Managers plc

Belsize House
West Ferry
Dundee DD5 1NF

Tel: 01382-778244

Fax: 01382-739543

Atlanta:

Edinburgh Fund Managers

North America

NationsBank Plaza
600 Peachtree Street NE, Suite 3820
Atlanta, Georgia 30308, USA

Tel: 001 404 874 1575

Fax: 001 404 874 1480

Executive Management Committee

Iain Watt
Chief Executive

Administration Division

Peter Arthur
Joint Managing Director
Edinburgh Fund Managers

Investment Management Division

Mike Balfour
Joint Managing Director
Edinburgh Fund Managers

Sales & Marketing Division

Nigel Whittingham
Group Marketing & Sales Director
Edinburgh Fund Managers

Edinburgh Fund Managers Group plc

**Edinburgh
Fund
Managers**

**Edinburgh
Unit Trust
Managers**

**Edinburgh
Portfolio
Managers**

Edinburgh Fund Managers plc is regulated by IMRO. Edinburgh Unit Trust Managers Limited is regulated by the Personal Investment Authority and IMRO.

Notice of Meeting

Notice is hereby given that the second annual general meeting of Edinburgh Fund Managers Group plc will be held at the registered office of the company, Donaldson House, 97 Haymarket Terrace, Edinburgh, on 20 May 1997 at 12.15 pm for the following purposes:

Ordinary resolutions

1. to adopt the report of the directors and the financial statements for the year ended 31 January 1997;
2. to declare a final dividend;
3. to re-elect Mr C H Ross as a director;
4. to re-appoint KPMG Audit Plc as auditors;
5. to authorise the directors to fix the auditors' remuneration.

Special resolutions

6. that the directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 ('the Act') to allot equity securities (within the meaning of Section 94(2) of the Act) for cash pursuant to any general authority conferred upon them for the purposes of Section 80 of the Act as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited:
 - (i) to the allotment of equity securities in connection with any rights issue in favour of the holders of ordinary shares on the register on a date fixed by the directors where the equity securities respectively attributable to the interests of all the holders of ordinary shares are proportionate (as nearly as practicable) to the respective numbers of ordinary shares held by them on that date, provided that the directors may make such exclusions or other arrangements as they may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws in any territory or the requirements of any relevant regulatory body or stock exchange; and
 - (ii) to the allotment (otherwise than pursuant to paragraph (i) of this Resolution) of equity securities up to an aggregate nominal amount equal to 5 per cent of the nominal value of the existing issued share capital of the company as at the date of the passing of this resolution;

and shall expire at the conclusion of the next annual general meeting of the company after the passing of this Resolution or fifteen months from the passing of this Resolution, whichever is earlier, save that the company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities pursuant to any such offer or agreement as if the power conferred hereby had not expired.

Notice of Meeting

7. that the company be and it is hereby authorised in accordance with Section 166 of the Act to make purchases (within the meaning of Section 163 of the Act) of ordinary shares of 5p each in the company ("shares") provided that:
- (i) the maximum number of shares hereby authorised to be purchased is 10 per cent of the issued share capital of the company as at the date of the passing of this resolution;
 - (ii) the minimum price which may be paid for a share shall be 5p;
 - (iii) the maximum price (exclusive of expenses) which may be paid for a share shall not be more than 5 per cent above the average of the middle market quotation (as derived from the Daily Official List of the London Stock Exchange) for the shares for the ten business days immediately preceding the date of purchase; and
 - (iv) unless renewed, the authority hereby conferred shall expire at the conclusion of the annual general meeting of the company to be held in 1998 save that the company may, prior to such expiry, enter into a contract to purchase shares which will or may be completed or executed wholly or partly after such expiry.

By order of the board

Catherine C J Miller, Secretary
Edinburgh, 3 April 1997



Registered office:
Donaldson House
97 Haymarket Terrace
Edinburgh EH12 5HD

Notes

1. A member entitled to attend and vote at the above meeting may appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the company.
2. An instrument of proxy for use at the above meeting and the power of attorney or other authority (if any) under which it is signed, or an extract from the Books of Council and Session or a notarially certified copy of such power or authority, should be deposited at the office of the company's registrars, The Royal Bank of Scotland plc, PO Box 457, Owen House, 8 Bankhead Crossway North, Edinburgh not less than 48 hours before the time appointed for holding the meeting.

If approved, the final dividend will be paid on 21 May 1997.

Form of Proxy

I/We _____ BLOCK
 of _____ CAPITALS
 being (a) member(s) of Edinburgh Fund Managers Group plc hereby appoint _____ PLEASE

or, failing him, the chairman of the meeting as my/our proxy to vote for me/us and on my/our behalf at the annual general meeting of the company to be held on Tuesday, 20 May 1997 at 12.15 pm and at any adjournment thereof.

	<i>For</i>	<i>Against</i>
Adoption of Report and Financial Statements		
Declaration of Final Dividend		
Re-election of Colin Ross*†‡		
Re-appointment of KPMG Audit Plc as Auditors		
Authorisation of Directors to Fix the Remuneration of the Auditors		
Limited Disapplication of Pre-emption Rights		
Authorisation to Purchase Own Shares		

Signed _____ Date _____

* Member of Audit Committee

† Member of Nominations Committee

‡ Member of Remuneration Committee

Notes:

- Proxies must be lodged at the address overleaf not less than 48 hours before the time appointed for holding the meeting, together with the power of attorney or other authority (if any) under which it is signed or an extract from the Books of Council and Session or a notorially certified copy of such power of attorney.
- A corporation should execute under its common seal or the hand of a duly authorised officer.
- Members are entitled to appoint a proxy of their own choice. If desired the name of such proxy can be inserted in the space provided. If no name is inserted in such space, the chairman of the meeting will act as proxy.
- Please indicate how you wish your votes to be cast by placing a cross in the appropriate spaces. Unless otherwise indicated the proxy will vote as he thinks fit or will abstain.
- In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders; and for this purpose seniority shall be determined by the order in which the names stand in the register of members.
- Completion of this form of proxy will not prevent members from attending the meeting and voting in person should they so wish.
- A proxy need not be a member of the company.

Second fold

BUSINESS REPLY SERVICE
Licence No. EH59

2

THE ROYAL BANK OF SCOTLAND plc
REGISTRAR'S DEPARTMENT
PO BOX 457, OWEN HOUSE
8 BANKHEAD CROSSWAY NORTH
EDINBURGH EH11 OXG

First Fold

Third fold and tuck in