

EDINBURGH FUND MANAGERS GROUP PLC

YEAR ENDED 31 JANUARY 1996

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MAIN FEATURES

	1996	1995
Turnover	£19,622,000	£23,942,000
Pre-tax profit	£12,769,000	£13,741,000
Profit for the financial year	£8,764,000	£9,482,000
Earnings per share	45.4p	49.7p
Dividends per share	25.0p	24.0p
Number of shares in issue	19.4 million	19.2 million
Funds under management	£3,538 million	£3,437 million

FUNDS MANAGED—GEOGRAPHIC

North America			
£412m			
Japan	12%		
£349m			
	10%		
Europe	5%		
£177m		48%	
Latin America	3%		UK
£109m			£1,714m
	22%		
Pacific			
£777m			

FUNDS MANAGED—BY CATEGORY

Discretionary			
£935m			
	26%		
		57%	Investment
			Trusts
	17%		£2,011m
Unit Trusts			
£592m			

CHAIRMAN'S REVIEW



The most significant event, the acquisition of Dunedin Fund Managers, took place after the end of the year. You will already have received details of the advantages we perceive from this major forward move for the group but I would like to emphasise one aspect. Investment trusts are traditionally a Scottish product and it is fitting that one of the largest managers of investment trusts will now be a Scottish company. It is particularly appropriate that, for the second year running, we have been awarded the Premier award for investment trust groups by the Money Observer. Being one of the leaders in this area, in both size and performance, gives us an ideal platform from which to expand.

Results for the year to 31 January 1996 were mixed, distorted by the disposal of our private client management company. This affected both turnover and expenses but, excluding the effects of this disposal, the operating margin of 53 per cent was only slightly down from the 57 per cent level of the previous year. Earnings per share were 45.4p compared to 49.7p in the previous year. The former includes 3.1p from Private Fund Managers, which was sold during the year. The board is recommending a final dividend of 17p per share (1995—16p), payable on 20 May 1996 to holders on the register at 11 April 1996. This proposed increase reflects both the continued strengthening of the balance sheet and an expression of confidence in the future.

There has been an accelerating trend towards change in the fund management industry in recent years. Larger groups, with the capability to provide a wide range of services and products have been developing on the one hand whilst smaller groups concentrating on one particular area are being formed. The acquisition of Dunedin puts us firmly into the former category. Our task now is first to consolidate our position and then move forward on a broader front than in the past.

Mr J R Cowan is not seeking re-election to the board and I would like to thank him on behalf of the shareholders for his contribution.

A handwritten signature in dark ink, appearing to read 'C H Ross'. The signature is fluid and stylized, with a long horizontal stroke at the end.

C H ROSS
Chairman

Edinburgh, 21 March 1996

CHIEF EXECUTIVE'S REVIEW



The past year has proved disappointing for shareholders in terms of profits. The principal reason for this has been our exposure to the Asian Pacific and Latin American markets which were depressed during the past year. This trend has shown signs of reversing in 1996. Despite these market effects your company remains very profitable. The recent Financial Times FT500 survey showed that Edinburgh Fund Managers Group (*Edinburgh*) was the 14th most profitable company in the UK (based on return on capital employed).

Funds under management have remained static at £3.5 billion but this is after the sale of our 100 per cent equity interest in Private Fund Managers in July 1995. They had £380 million of clients' assets under management or under advice at the point of sale. We received £1.85 million for this sale and realised a profit of £0.8 million. This business was sold because it became obvious that we could not transfer, in the sufficient numbers as we desired, the clients to a full discretionary investment management service.

Investment Trusts

In 1995 we have focused on two key areas relating to investment trusts:-

- ◆ The launch of a new investment trust initiative to encourage institutional and retail investors to take a greater interest in the trusts we manage. This initiative has focused on increased dialogue with our major institutional shareholders and the launch of our improved and renamed savings scheme, SaveIT. Since launch, the savings scheme has attracted in excess of 3,000 savers and further initiatives are planned for this year.
- ◆ In April 1995 we launched a "C" share issue for our Edinburgh Japan Trust which raised £21.1 million before expenses. Edinburgh Japan Trust now has gross assets of £50 million. The original launch of Edinburgh Japan Trust in 1992 and the "C" Share Issue were both well timed and Edinburgh Japan Trust was the best performer in the Japan sector over the year to the 31 January 1996 in NAV total return terms (Source: AITC). The British Investment Trust is first in terms of NAV total return when compared to trusts with assets in excess of £500m in the AITC International General Sector over three and five years to 31 January 1996.

Unit Trusts

The year to 31 January 1996 was a more difficult year for unit trust companies with many investors nervous of the world's major stockmarkets. With £592 million of funds under management, including exempt funds, and over 51,000 unitholders, Edinburgh Unit Trust Managers Limited remains one of the major unit trust companies in the industry.

During the year we introduced our first PEP product. From the initial reaction, we are confident that this side of the business will build up substantially. The Edinburgh UK Smaller Companies Fund was ranked the 4th top performing unit trust PEP in the Chase de Vere PEP Guide 1996 for the five years to 31 December 1995.

Pension Funds

We have succeeded in attracting some new business, although new management contracts have been difficult to obtain. Our weighted average house return during 1995 for UK pensions was 20.8 per cent, against the average of the WM 2000 Universe (excluding property) of 20.2 per cent. This remains a priority business for us. With the adoption of an increasingly systematic investment process and improving performance we look forward to further progress in this area.

CHIEF EXECUTIVE'S REVIEW

continued

Investment Performance

I am pleased to report that your company has won a number of awards during the year:

Edinburgh Fund Managers was named the Premier Investment Trust Group of 1995 by Money Observer for the performance of its investment trusts over the five years to 31 December 1995. This is the second consecutive year that we have won this award.

Malvern UK Index Trust, received a second place award in Investment Adviser's UK General Investment Trust performance sector for 1995. In the larger group category Edinburgh Fund Managers came third over the 10 year period.

In the Micropal Unit Trust awards the Edinburgh UK Smaller Companies Fund came second out of 53 funds over the 5 year period to end December 1995.

Dunedin

The acquisition of Dunedin necessitated the raising and underwriting of £75 million, after expenses, of new equity in the group from a wide range of institutions in the City of London. This feat was achieved by our stockbrokers Panmure Gordon & Co and James Capel & Co in three business days. We thank our existing shareholders for their support and welcome our new ones.

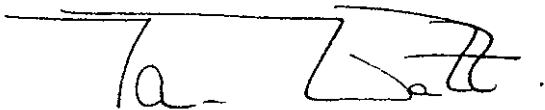
The acquisition achieves much for *Edinburgh*:-

- ◆ we become one of the top three investment trust managers in the UK with assets under management in excess of £4 billion.
- ◆ we will have £0.8 billion in unit trusts including a range of offshore unit trusts available for development.
- ◆ we will have £1.8 billion in UK pension funds.
- ◆ we will have a substantial North American business.
- ◆ we will have a discretionary private client business.

We are excited about the opportunity this acquisition brings to our group which will manage assets in excess of £8 billion. We have become one of the UK's leading independent investment management companies.

Staff

My final tribute must be to our staff who have worked long and hard to achieve last year's results and to complete successfully the acquisition of Dunedin. They and our new colleagues from Dunedin are already working hard on your behalf to make this acquisition a success.



I A WATT
Chief Executive

Edinburgh, 21 March 1996

OPERATING AND FINANCIAL REVIEW

OPERATING REVIEW

The main factors which influence the profit of a fund management group are the level of funds under management and the rate of fees on the different types of funds. The exposure to the volatility of different markets and currencies, particularly the US dollar, has an additional effect on the group's funds under management. All the major stockmarkets rose during the year to 31 January 1996, with funds under management rising by 3 per cent to £3,538 million. The disposal of the private client business of Private Fund Managers, which represented 11 per cent of funds under management at 31 January 1995, was more than made up by the market rise.

RESULTS FOR THE YEAR

Fund management income of £18.9 million was down from last year's level of £22.3 million. Excluding the private client business, it fell to £18.1 million from £19.4 million. The principal reason for this was the exposure in funds under management to Japan, the Pacific Basin and Latin America, where markets had been lower during the year. Fees from the specialist trusts investing in these markets are higher than the average fees earned. Fund management income of the continuing operations expressed as a percentage of the average value of funds under management fell from 0.59 per cent to 0.56 per cent. Unit trust trading profit was less than half of the level achieved last year.

Administrative expenses of £9.6 million were 16 per cent lower than last year. Excluding the higher costs of running the private client stockbroking business, costs were slightly lower than the previous year.

The operating profit from the continuing business fell from £12.0 million to £10.0 million with operating profit margins falling from 57 per cent to 53 per cent. The operating profit margin on the private client business had been 16 per cent.

The profit realised on the disposal of the private client business was £0.8 million. Gains of £0.4 million during the year were realised on the investment portfolio. This was more than double last years figure.

The pre tax profit figure of £12.8 million was 7 per cent lower than last year.

The tax charge is lower than the standard rate of 33 per cent because there were brought forward capital gains tax losses. These have now been fully utilised and next year's tax charge is anticipated to be closer to 33 per cent.

Earnings per share fell by 9 per cent to 45.4p. This included 3.1p of earnings relating to the discontinued private client business. The earnings per share from continuing operations was 42.3p.

The proposed final dividend of 17p will make a total of 25p per share, an increase of 4 per cent over the previous year. The dividend cover on the continuing business is 1.7 times, compared with last year's dividend which was 2.1 times covered by earnings.

FINANCIAL RESOURCES

The balance sheet includes £24.8 million held in cash and £6.0 million of marketable investments. The cost of the post balance sheet acquisition of Dunedin Fund Managers will be met principally from the share issue and the balance sheet will remain strong, with cash and marketable investments expected to exceed £20 million after taking into account acquisition costs and goodwill.



I A WATT
Chief Executive

Edinburgh, 21 March 1996

DIRECTORS

DIRECTORS

C H Ross (Chairman)
A M M Grossart CBE (Deputy Chairman)
I A Watt (Chief Executive)
J W Blair
J R Cowan CBE
Lord Macfarlane of Bearsden
A D M MacDonald

All non-executive except for I A Watt

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REGISTRARS

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Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR
Telephone: 0131-556 8555

STOCKBROKERS

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

BANKERS

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

AUDITORS

KPMG
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

SECRETARY

Catherine C J Miller

NON-EXECUTIVE DIRECTORS

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

A M M Grossart CBE, LL.D., MA, CA is managing director of Noble Grossart Limited, chairman of The Scottish Investment Trust plc and a director of American Trust plc, The Royal Bank of Scotland plc and a number of other companies in the UK and the USA.

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

J R Cowan CBE, B.Sc. (Hons), CEng, FIME is deputy chairman of The British Investment Trust PLC.

Lord Macfarlane of Bearsden is chairman of Macfarlane Group (Clansman) plc, United Distillers plc, United Distillers UK plc and American Trust plc. He is a director of General Accident Fire & Life Assurance Corporation plc and the former deputy chairman of the Clydesdale Bank plc.

A D M MacDonald MA, LL.B., CA is chairman of Caledonian Bank PLC, Edinburgh Inca Trust plc, Edinburgh Small Companies Trust plc and joint managing director of MacDonald Orr Limited, corporate finance advisers. He is a director of several other companies involved in brewing, hotels, newspaper publishing and engineering. He is also chairman of the Scottish Chamber Orchestra and a director of the Edinburgh Festival Council.

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 January 1996.

As described below, a scheme of arrangement under section 425 of the Companies Act 1985 was implemented on 1 August 1995. The comparative figures, therefore, relate to Edinburgh Fund Managers plc.

BUSINESS OF THE GROUP

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

REVIEW OF ACTIVITIES

A review of the business and likely future developments of the group are given in the statements of the chairman and of the chief executive and in the operating and financial review on pages 3 to 6.

SCHEME OF ARRANGEMENT

Edinburgh Fund Managers Group plc ("*Edinburgh*") was incorporated on 28 April 1995. Susan P Inglis and M J Murray were appointed directors on 28 April 1995. On 3 May 1995, all the non-executive directors of Edinburgh Fund Managers plc (that is J W Blair, J R Cowan, A M M Grossart and Lord Macfarlane of Bearsden) were appointed non-executive directors of *Edinburgh*. Of the executive directors of Edinburgh Fund Managers plc, C H Ross and I A Watt were appointed as executive chairman and chief executive respectively (and accordingly as executive directors) of *Edinburgh* and Susan P Inglis & M J Murray resigned on the same date.

Edinburgh was established as the new holding company for Edinburgh Fund Managers plc and its subsidiary undertakings on 1 August 1995. This was achieved by implementing a scheme of arrangement under section 425 of the Companies Act 1985.

Under the scheme of arrangement, 19,372,486 ordinary shares in Edinburgh Fund Managers plc were exchanged for the same number of ordinary shares in *Edinburgh*. Edinburgh Fund Managers plc thereby became a wholly-owned subsidiary of *Edinburgh*. In addition, Edinburgh Fund Managers plc transferred its interests in its operating subsidiaries, Edinburgh Unit Trust Managers Limited and Edinburgh Oil Management Limited, to *Edinburgh* so that they became direct subsidiaries of *Edinburgh*.

Edinburgh offered to grant replacement options over shares upon the release of the options then outstanding over ordinary shares of 5p each in Edinburgh Fund Managers plc under The EFM Group Executive Share Option Scheme and under The EFM Group Savings-Related Share Option Scheme. Those offers were accepted in their entirety and replacement options were granted by the company between 10 August 1995 and 17 October 1995 which were identical to the options released, save that the replacement options were over shares in *Edinburgh*.

On 1 August 1995, the non-executive directors resigned from the board of Edinburgh Fund Managers plc, C H Ross resigned as executive chairman of Edinburgh Fund Managers plc and I A Watt resigned as managing director of Edinburgh Fund Managers plc and was appointed non-executive director and chairman of Edinburgh Fund Managers plc.

ACQUISITION OF DFM HOLDINGS LIMITED

Information on the acquisition of DFM Holdings Limited, which completed on 19 March 1996, was sent to shareholders on 16 February 1996. Following the acquisition, the enlarged group would, on the basis of figures at 31 January 1996, have approximately £8.4 billion of funds under management. The directors consider that the enlarged group will have greater potential for long-term growth than the original group would have on its own.

DIRECTORS' REPORT

continued

DIVIDENDS

The directors recommend that a final dividend of 17p (1995—16p) per share be paid on 20 May 1996 to holders of ordinary shares on the register on 11 April 1996 making a total payment of 25p (1995—24p) per share for the year.

The directors propose that the group's undistributed profit for the year of £3,912,000 be transferred to reserves.

SHARE CAPITAL

Prior to 1 August 1995, the share capital of Edinburgh Fund Managers plc was increased by the issue of 167,150 ordinary shares as a result of the exercise of options under both the company's executive and savings-related share option schemes.

On 1 August 1995, under the scheme of arrangement, 19,372,486 ordinary shares in Edinburgh Fund Managers plc were exchanged for 19,372,486 ordinary shares in Edinburgh Fund Managers Group plc.

After 1 August 1995, the share capital of Edinburgh Fund Managers Group plc was increased by the issue of 14,000 ordinary shares as a result of the exercise of options under the company's executive share option scheme. Details of the current authorised and issued ordinary share capital are shown on page 26.

DIRECTORS

The board comprises one executive director and six non-executive directors. Their interests in the company's shares are listed on page 13.

A D M MacDonald was appointed as a non-executive director of Edinburgh Fund Managers Group plc on 21 September 1995.

On 30 September 1995, C H Ross retired as an executive director of Edinburgh Fund Managers Group plc and was appointed a non-executive director and chairman of Edinburgh Fund Managers Group plc.

In accordance with the articles of association, all present directors retire from office. Their appointment will be proposed at the annual general meeting except for Mr J R Cowan who has reached the end of his term of office.

Details of the appointment of Lord Macfarlane of Bearsden are given under 'annual general meeting'.

FIXED ASSETS

Information relating to changes in fixed assets is given in the notes to the financial statements.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE POLICY

The company maintains insurance in respect of directors' and officers' liabilities in relation to their acts on behalf of the group.

CORPORATE GOVERNANCE

Compliance

The board considers that it fully complies with The Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance ("the Code") 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.

DIRECTORS' REPORT

continued

CORPORATE GOVERNANCE—continued

Reporting

The auditors, KPMG, have confirmed that in their opinion: with respect to the directors' statements on internal financial control as set out above and on going concern, the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which they are aware from their audit work on the financial statements; and that the directors' statement above appropriately reflects the company's compliance with the other paragraphs of the Code specified by the Listing Rules for their review. They have carried out their review in accordance with the Bulletin issued by the Auditing Practices Board, which does not require them to perform any additional work necessary to express a separate opinion on the effectiveness of either the company's system of internal financial control or corporate governance procedures, or on the ability of the group to continue in operational existence.

Board Committees

Audit	Nominations	Remuneration
A M M Grossart (Chairman)	C H Ross (Chairman)	A M M Grossart (Chairman)
J W Blair	J R Cowan	Lord Macfarlane of Bearsden
C H Ross	A M M Grossart	C H Ross

A D M MacDonald was appointed to the audit committee on 15 February 1996.

All the above named are non-executive directors.

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.

SUBSTANTIAL SHARE INTERESTS

At 31 January 1996, the following interests in the ordinary share capital had been notified to the company.

Holder	Percentage of share capital held
The British Investment Trust PLC	52.5
American Trust plc	8.1
Legal & General Assurance Society	3.1

Following the completion of the placing and open offer on 19 March 1996, save as notified hereunder, no person has reported an interest in 3 per cent or more of the enlarged ordinary share capital of the company.

Holder	Percentage of share capital held
The British Investment Trust PLC	32.8
Hermes Investment Management Limited	6.4
American Trust plc	5.0
Legal & General Assurance Society	3.3

CHARITABLE DONATIONS

During the year the group made charitable donations of £11,000.

AUDITORS

Our auditors KPMG have indicated that a limited liability company, KPMG Audit Plc, is to assume responsibility for certain aspects of their audit business. Accordingly, a resolution is to be proposed at the annual general meeting for the appointment of KPMG Audit Plc as auditors of the company.

DIRECTORS' REPORT

continued

ANNUAL GENERAL MEETING

At the annual general meeting of the company to be held on 17 May 1996, an ordinary resolution will be proposed under 'special business' to appoint Lord Macfarlane of Bearsden to the board.

Lord Macfarlane of Bearsden attained the age of 70 years on 5 March 1996. Lord Macfarlane of Bearsden offers himself for appointment as a non-executive director, and, at the annual general meeting, his appointment will be proposed. Special notice under section 293(5) of the Companies Act 1985 to propose the appointment of Lord Macfarlane of Bearsden has been received by the company.

Also at the annual general meeting, the following three resolutions will be proposed to give the directors general authority to allot shares, limited power to allot shares in disapplication of statutory pre-emption rights and give the company the authority to purchase its own shares:

- Ordinary Resolution No 11 will be proposed to confer an authority on the directors, in substitution for any existing authority to allot unissued ordinary shares up to a maximum nominal amount of £500,000 in accordance with Section 80 of the Companies Act 1985.
- Special Resolution No 12 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 13 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, 21 March 1996

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 10 of the directors' report.

COMPLIANCE

The company has adopted the provisions of the Code of Best Practice issued by the Study Group on Directors' Remuneration, the Greenbury Code. The committee has complied with Section A of the best practice provisions, annexed to the listing rules throughout the year. 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) are 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 executive directors are determined after a review of the performance of the individual. It is the aim of the committee to reward directors 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 executive directors at the discretion of the board in recognition of particular achievements during the year.

Pension Scheme

The executive directors are 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

continued

DIRECTORS' EMOLUMENTS

	<i>Basic Salary</i>	<i>Fees</i>	<i>Benefits</i>	<i>Total emoluments excluding pensions</i>		<i>Pension</i>	
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>1996 £'000</i>	<i>1995 £'000</i>	<i>1996 £'000</i>	<i>1995 £'000</i>
<i>Executive</i>							
I A Watt	135	—	10	145	127	22	17
<i>Non-executive</i>							
J W Blair	—	8	—	8	8	—	—
J R Cowan	—	8	—	8	5	—	—
A M M Grossart	—	8	—	8	8	—	—
A D M MacDonald	—	3	—	3	—	—	—
Lord Macfarlane of Bearsden	—	8	—	8	8	—	—
C H Ross	90	10	9	109	131	15	17
Total	225	45	19	289	287	37	34
Total 1995	240	29	18	287		34	

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

Until final guidance is available from the Institute of Actuaries under the Greenbury Code, the figures for pensions shown above are the proportionate contributions paid by the company on the basis described in note 21 to the accounts.

C H Ross was executive chairman until 30 September 1995. His salary, benefits and pension contributions set out above relate to the period of employment to that date. During the year, his pension entitlement was increased at a net cost (after allowing for contributions from Mr Ross) of £121,000 which was met from surplus funds within the pension scheme.

DIRECTORS' INTERESTS IN THE COMPANY AT 31 JANUARY

	1996			1995		
	<i>Share options</i>			<i>Share options</i>		
	<i>Ordinary shares</i>	<i>Executive</i>	<i>Savings -related</i>	<i>Ordinary shares</i>	<i>Executive</i>	<i>Savings -related</i>
J W Blair	8,000	—	—	10,000	—	—
Lord Macfarlane of Bearsden	10,000	—	—	10,000	—	—
C H Ross	500,000	—	—	500,000	—	—
I A Watt	14,245	145,000	8,549	18,245	135,000	8,549

The interests detailed above are beneficially held by the directors. The comparative figures represent the directors' interests in Edinburgh Fund Managers plc.

Following the completion of the placing and open offer on 19 March 1996, the directors' interests in the ordinary shares are as follows:

	<i>Ordinary shares</i>
J W Blair	9,000
Lord Macfarlane of Bearsden	16,000
C H Ross	500,000
I A Watt	22,568

There were no changes to the directors' share options.

REPORT OF THE REMUNERATION COMMITTEE

continued

DIRECTORS' INTERESTS IN OTHER GROUP COMPANIES

	<i>Ordinary shares</i>	
	1996	1995
The British Investment Trust PLC		
J W Blair — beneficial	9,165	9,165
— non-beneficial	49,700	40,000
I A Watt	967	800

Since 31 January 1996, I A Watt has acquired a further 13 ordinary shares in The British Investment Trust PLC through SaveIT (formerly The EFM Investment Trust Purchase Scheme). The interests detailed above are beneficially held by the directors unless otherwise stated.

Other than disclosed above, no director had any interests in the share capital of any group company.

Following the implementation of the placing and open offer on 19 March 1996, The British Investment Trust PLC is no longer a group company as its interest in the share capital of Edinburgh Fund Managers Group plc has been reduced from 52.5 per cent to 32.8 per cent.

DIRECTORS' SHARE OPTIONS

I A Watt

	<i>Number of options</i>			<i>Exercise price</i>	<i>Date from which exercisable</i>	<i>Expiry date</i>
	31.1.95	Granted	31.1.96			
Executive Share Options	35,000	—	35,000	282p	16.5.89	16.5.96
	20,000	—	20,000	297p	15.5.90	15.5.97
	5,000	—	5,000	210p	8.6.93	8.6.00
	30,000	—	30,000	225p	3.6.94	3.6.01
	19,900	—	19,900	308p	22.6.95	22.6.02
	20,100	—	20,100	366p	22.6.96	22.6.03
	5,000	—	5,000	604p	27.5.97	27.5.04
	—	*10,000	10,000	726p	6.10.98	6.10.05
	<u>135,000</u>	<u>10,000</u>	<u>145,000</u>			

Savings-Related						
Share Options	8,549	—	8,549	212p	1.12.97	1.6.98

No options lapsed during the year. The market price of the shares at 31 January 1996 was 716p and the range during the year was 658p to 761p.

* The options granted in 1995 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 over the same period.

On behalf of the board



A M M GROSSART
Chairman, Remuneration Committee

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.

AUDITORS' REPORT



Saltire Court, Edinburgh

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

We have audited the financial statements on pages 16 to 28 and the detailed information set out on pages 12 to 14 in the report of the remuneration committee.

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 of 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 1996 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

KPMG
Chartered Accountants
Registered Auditors

Edinburgh, 21 March 1996

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 JANUARY 1996

		Continuing operations 1996 £'000	Discontinued operations 1996 £'000	Total 1996 £'000	Total 1995 £'000
	Notes				
Turnover	2	18,810	812	19,622	23,942
Administrative expenses	3	8,819	776	9,595	11,458
Operating profit		9,991	36	10,027	12,484
Profit on disposal of investments	5	447	—	447	214
Profit on disposal of discontinued operations	6	—	799	799	—
Other income	7	1,464	32	1,496	1,043
Profit on ordinary activities before taxation		11,902	867	12,769	13,741
Taxation	8			3,997	4,250
Profit on ordinary activities after taxation				8,772	9,491
Minority interest				8	9
Profit for the financial year				8,764	9,482
Dividends	9			4,852	4,606
Retained profit for the year added to reserves	17			3,912	4,876
Earnings per share	10	42.3p	3.1p	45.4p	49.7p


CONSOLIDATED BALANCE SHEET

AT 31 JANUARY 1996

	Notes	1996 £'000	1996 £'000	1995 £'000	1995 £'000
Fixed assets					
Tangible assets	11		1,168		1,455
Investments	12		6,048		3,324
			<u>7,216</u>		<u>4,779</u>
Current assets					
Stock of units		1,451		1,227	
Debtors	13	6,331		3,616	
Cash and deposits		24,809		23,683	
		<u>32,591</u>		<u>28,526</u>	
Creditors: amounts falling due within one year					
Taxation and social security		4,243		4,689	
Other creditors	14	5,735		3,609	
Proposed final dividend		3,296		3,073	
		<u>13,274</u>		<u>11,371</u>	
Net current assets			<u>19,317</u>		<u>17,155</u>
Total assets less current liabilities			<u>26,533</u>		<u>21,934</u>
Minority interest			<u>94</u>		<u>86</u>
			<u>26,439</u>		<u>21,848</u>
Capital and reserves					
Called up share capital	15		969		960
Share premium account	17		37		7,324
Revaluation reserve	17		363		(127)
Capital reserve	17		7,777		—
Profit and loss account	17		17,293		13,691
Equity shareholders' funds			<u>26,439</u>		<u>21,848</u>

C H ROSS, Director

A M M GROSSART, Director



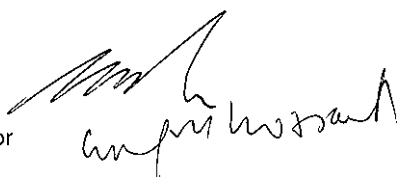
COMPANY BALANCE SHEET

AT 31 JANUARY 1996

	Notes	1996 £'000	£'000
Fixed assets			
Investments:	12		
Shares in subsidiary undertakings			1,014
Other investments			<u>5,663</u>
			6,677
Current assets			
Debtors	13	1,037	
Cash and deposits		<u>16,211</u>	
		17,248	
Creditors: amounts falling due within one year			
Taxation and social security		824	
Other creditors	14	5,115	
Proposed final dividend		<u>3,296</u>	
		9,235	
Net current assets			<u>8,013</u>
Total assets less current liabilities			<u>14,690</u>
Capital and reserves			
Called up share capital	15		969
Share premium	17		37
Revaluation reserve	17		397
Profit and loss account	17		<u>13,287</u>
Equity shareholders' funds			<u>14,690</u>

C H ROSS, Director

A M M GROSSART, Director



STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 JANUARY 1996

	1996 £'000	1995 £'000
Profit for the financial year	8,764	9,482
Movement in revaluation of investments and property	179	(580)
Movement in minority interest	1	7
Currency translation differences	—	1
Total recognised gains and losses relating to the year	<u>8,944</u>	<u>8,910</u>

NOTE OF HISTORICAL COST PROFITS

FOR THE YEAR ENDED 31 JANUARY 1996

	1996 £'000	1995 £'000
Reported profit on ordinary activities before taxation	12,769	13,741
Realisation of investment revaluation (losses)/gains of prior years	(310)	21
Historical cost profit for the year before taxation	<u>12,459</u>	<u>13,762</u>
Historical cost profit for the year after taxation, minority interest and dividends	<u>3,602</u>	<u>4,897</u>

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 JANUARY 1996

	1996 £'000	1995 £'000
Profit for the financial year	8,764	9,482
Dividends	4,852	4,606
Retained profit for the year	3,912	4,876
Other recognised gains and losses	180	(572)
Issue of shares	499	542
Net addition to shareholders' funds	4,591	4,846
Shareholders' funds at 31 January 1995	21,848	17,002
Shareholders' funds at 31 January 1996	<u>26,439</u>	<u>21,848</u>

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 JANUARY 1996

	Notes	1996 £'000	1995 £'000
Net cash inflow from operating activities	18	9,540	18,112
Returns on investments and servicing of finance			
Interest received		1,444	933
Dividends received		62	74
Dividends paid		<u>(4,629)</u>	<u>(4,568)</u>
Net cash outflow from returns on investments and servicing of finance		(3,123)	(3,561)
Taxation			
UK corporation tax paid		(4,444)	(3,027)
Investing activities			
Purchase of tangible fixed assets		(360)	(577)
Purchase of investments		(8,201)	(5,158)
Sale of tangible fixed assets		330	103
Sale of investments		6,086	3,296
Profit on disposal of discontinued operations	6	<u>799</u>	<u>—</u>
Net cash outflow from investing activities		(1,346)	(2,336)
Net cash inflow before financing		627	9,188
Financing			
Issue of shares following exercise of options	15	<u>499</u>	<u>542</u>
Increase in cash and cash equivalents	18	<u>1,126</u>	<u>9,730</u>

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

On 1 August 1995, shareholders in Edinburgh Fund Managers plc received shares in Edinburgh Fund Managers Group plc under a Scheme of Arrangement which had been approved by shareholders (see directors' report). These accounts represent the consolidated accounts of Edinburgh Fund Managers Group plc and all its subsidiary undertakings as if the reorganisation had been effective for the whole period.

As Edinburgh Fund Managers Group plc was incorporated during the year, there are no comparative figures for the accounts of the company.

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.

Goodwill

Goodwill arising on the acquisition of subsidiaries and management contracts is written off against reserves in the year of acquisition.

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.

Investment income and interest

Dividends and interest on investments are credited to the profit and loss account on an ex-dividend basis. Interest on loans and short-term deposits is dealt with on an accruals basis. Income from investments includes income tax deducted or, where applicable, the imputed tax credits.

Operating lease payments

Operating lease payments are charged in the profit and loss account in the year in which they are due, adjusted for any rent free periods and premiums.

Pension contributions

A funded pension scheme covers the majority of the group's permanent employees. 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 cost or valuation of tangible assets is written off on a straight line basis over the expected useful lives of the assets as follows:

Freehold properties	100 years
Office furniture	7 years
Motor vehicles	4 years
Office equipment	3 years

Taxation

(a) Advance corporation tax payable on a proposed dividend, which it is anticipated will be covered by tax credits on franked investment income available for set off within the following year, is not included as taxation payable and recoverable. To the extent that any such advance corporation tax is not so covered, the liability is included as current taxation payable and the recovery provided for in debtors.

(b) Imputed tax credits received on franked investment income are treated as part of the taxation charge.

NOTES TO THE FINANCIAL STATEMENTS

continued

1. ACCOUNTING POLICIES—continued

- (c) Deferred taxation is provided for on unrealised appreciation of investments and on short-term timing differences in computing the profits for accounting and taxation purposes offset by any recoverable advance corporation tax which it is anticipated will not be recovered within the following year.

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, stockbroker valuations, 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.

2. TURNOVER AND OPERATING PROFIT

	1996			1995		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Fund management income	18,101	812	18,913	19,367	2,972	22,339
Net profit from unit trust trading	709	—	709	1,603	—	1,603
Turnover	18,810	812	19,622	20,970	2,972	23,942
Administrative expenses	8,819	776	9,595	8,954	2,504	11,458
Operating profit	9,991	36	10,027	12,016	468	12,484

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

3. ADMINISTRATIVE EXPENSES

Administrative expenses include:

	1996 £'000	1995 £'000
Auditors' remuneration — audit fees	26	25
— other	40	39
Depreciation	372	316
Operating lease payments	418	448

4. DIRECTOR AND EMPLOYEE INFORMATION

Average number of employees of the group (including executive directors) 129 (1995—150)

Salaries	4,106	5,028
Social security costs	379	468
Pension scheme contributions	550	406
Other pension contributions	19	53
	5,054	5,955

Detailed information concerning directors' emoluments, shareholdings and options is shown in the report of the remuneration committee on pages 12 to 14.

The report of the remuneration committee in respect of the directors' remuneration provides the information required by schedule 6 of the Companies Act 1985 in relation to the disclosure of the banding information.

NOTES TO THE FINANCIAL STATEMENTS

continued

	1996 £'000	1995 £'000
5. PROFIT ON DISPOSAL OF INVESTMENTS		
Realised gain on investments and property	137	252
Loss/(gain) brought into account at 31 January 1995	310	(38)
	<u>447</u>	<u>214</u>

6. PROFIT ON DISPOSAL OF DISCONTINUED OPERATIONS

On 7 July 1995, the substantial part of the private client business was sold to Invesco Private Portfolio Management Ltd for £1,850,000. The remainder of the business of Private Fund Managers has been discontinued. The profit from discontinued operations is shown before taxation of £270,000.

	1996 £'000	1995 £'000
7. OTHER INCOME		
Income from listed investments	55	6
Income from unlisted investments	7	68
Interest	1,410	960
Other	24	9
	<u>1,496</u>	<u>1,043</u>

8. TAXATION

Corporation tax at 33 (1995—33) per cent on net profit for year	3,967	4,378
Tax on franked investment income	67	104
Transfer to deferred taxation	(4)	20
Over provision in previous year	(33)	(71)
Group ACT relief	—	(181)
	<u>3,997</u>	<u>4,250</u>

9. DIVIDENDS

Interim dividend of 8.0p (1995— 8.0p) per share paid 3 November 1995	1,556	1,533
Final dividend of 17.0p (1995—16.0p) per share payable 20 May 1996	3,296	3,073
	<u>4,852</u>	<u>4,606</u>

25.0p

24.0p

The proposed final dividend will be paid on 20 May 1996 to shareholders on the register at the close of business on 11 April 1996. The ex-dividend date will be 1 April 1996. The provision for the proposed dividend is based on 19,386,486 shares in issue at 31 January 1996. No provision has been made in the accounts for the dividend which will be payable on the new ordinary shares issued on 19 March 1996 (note 16).

10. EARNINGS PER SHARE

The earnings per share of 45.4p (1995—49.7p) is the profit after taxation and minority interest of £8,764,000 (1995—£9,482,000) divided by the weighted average of 19,324,641 (1995—19,089,676) shares in issue during the year. There is no material difference between the basic and fully diluted earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

continued

	<i>Freehold properties</i>	<i>Office equipment and vehicles</i>	<i>Total</i>
11. TANGIBLE ASSETS			
Consolidated	£'000	£'000	£'000
Cost or valuation:			
At 31 January 1995	469	1,957	2,426
Additions	—	360	360
Disposals	(216)	(233)	(449)
At 31 January 1996	<u>253</u>	<u>2,084</u>	<u>2,337</u>
Depreciation:			
At 31 January 1995	9	962	971
Charge for the year	4	368	372
Disposals	(5)	(169)	(174)
At 31 January 1996	<u>8</u>	<u>1,161</u>	<u>1,169</u>
Net book value 31 January 1996	<u>245</u>	<u>923</u>	<u>1,168</u>
Net book value 31 January 1995	<u>460</u>	<u>995</u>	<u>1,455</u>

The freehold properties consist of offices at 4 Melville Crescent, Edinburgh. At 31 January 1996 the properties were valued by the directors at their book value of £245,000. During the year to 31 January 1996, 19 Walker Street was sold.

	<i>Historical cost £'000</i>	<i>Depreciation £'000</i>	<i>Net book cost £'000</i>
At 31 January 1995	549	89	460
Depreciation	—	4	(4)
Disposals	(254)	(43)	(211)
At 31 January 1996	<u>295</u>	<u>50</u>	<u>245</u>

The group is committed to operating lease payments in the year ending 31 January 1997, in respect of office premises which expire between two and five years, amounting to £33,000 (1995—£106,000) and, over five years, amounting to £408,000 (1995—£408,000).

	Consolidated £'000	Company £'000
12. INVESTMENTS		
Market value 31 January 1995	3,324	—
Unrealised appreciation 31 January 1995	(135)	—
Cost 31 January 1995	<u>3,459</u>	<u>—</u>
Transfers from other group companies at cost	—	5,071
Additions at cost	8,201	4,051
Disposals at cost	(5,966)	(3,856)
Cost 31 January 1996	<u>5,694</u>	<u>5,266</u>
Unrealised appreciation 31 January 1996	354	397
Market value 31 January 1996	<u>6,048</u>	<u>5,663</u>

NOTES TO THE FINANCIAL STATEMENTS

continued

12. INVESTMENTS—continued

		1996		1995	
		Consolidated	Company	Consolidated	Company
		£'000	£'000	£'000	£'000
Listed	— UK	4,924	4,692	2,253	—
	— Overseas	786	786	691	—
Unlisted		338	185	380	—
		<u>6,048</u>	<u>5,663</u>	<u>3,324</u>	<u>—</u>

Subsidiary undertakings

Shares in subsidiary undertakings are shown at cost of £1,014,000. The share capital of these companies consists solely of equity shares.

<i>Name</i>	<i>Registered</i>	<i>Nature and place of business</i>	<i>% owned</i>
Edinburgh Fund Managers plc	Scotland	Investment management (UK)	100
Edinburgh Unit Trust Managers Ltd	Scotland	Unit trust management (UK)	100
Edinburgh Oil Management Ltd	Scotland	Oil and gas management (UK)	78

		1996		1995	
		Consolidated	Company	Consolidated	Company
		£'000	£'000	£'000	£'000
13. DEBTORS					
Amounts falling due within one year					
Management fees receivable		1,963	—	1,839	—
Debtors for units sold or cancelled		3,070	—	372	—
Amounts owed by parent		225	—	181	—
ACT recoverable		—	161	—	—
Other debtors		155	52	366	—
Prepayments		99	—	99	—
		<u>5,512</u>	<u>213</u>	<u>2,857</u>	<u>—</u>

Amounts falling due outwith one year

Deferred taxation:

ACT recoverable during the year ending

31 January 1998

Accelerated capital allowances

824	824	768	—
(5)	—	(9)	—
<u>819</u>	<u>824</u>	<u>759</u>	<u>—</u>
<u>6,331</u>	<u>1,037</u>	<u>3,616</u>	<u>—</u>

14. OTHER CREDITORS

Creditors for units repurchased or created

Amount owed to subsidiary

Accruals

Other creditors

4,865	—	2,099	—
—	5,115	—	—
724	—	1,331	—
146	—	179	—
<u>5,735</u>	<u>5,115</u>	<u>3,609</u>	<u>—</u>

NOTES TO THE FINANCIAL STATEMENTS

continued

15. CALLED UP SHARE CAPITAL

	Number of shares	£'000
Authorised		
Ordinary shares of 5p each	40,000,000	2,000
Issued and fully paid		
At 31 January 1995	19,205,336	960
Issued during year	181,150	9
At 31 January 1996	19,386,486	969

During the year to 31 January 1996, 176,000 ordinary shares of 5p each were allotted following exercises of options under the EFM Group Executive Share Option Scheme for a total consideration of £488,000 and 5,150 ordinary shares of 5p each were allotted following the exercise of options under the EFM Group Savings-Related Share Options Scheme for a consideration of £11,000.

Options relating to all Share Option Schemes outstanding at 31 January 1996 to subscribe for ordinary shares of 5p were as follows:

Executive Share Option Schemes

Subscription price	Last date when options exercisable	Number of shares	
		1996	1995
276p	25 June 1995	—	80,000
282p	16 May 1996	40,000	80,000
297p	15 May 1997	45,000	45,000
179p	21 May 1998	25,000	25,000
187p	30 May 1999	43,750	54,750
210p	8 June 2000	25,000	30,000
225p	3 June 2001	85,000	85,000
308p	22 June 2002	79,900	124,900
366p	22 June 2003	104,100	109,100
604p	27 May 2004	265,000	275,000
726p	6 October 2005	250,000	—
		962,750	908,750

Savings-Related Share Option Schemes

212p	1 June 1998	158,994	164,506
460p	1 December 1999	27,375	30,033
580p	1 June 2001	32,817	—
		219,186	194,539

All references to shares in issue before 2 August 1995 relate to Edinburgh Fund Managers plc and from that date to Edinburgh Fund Managers Group plc.

16. POST BALANCE SHEET EVENT

It was announced on 16 February 1996 that the group conditionally agreed to acquire the entire issued ordinary share capital of DFM Holdings Limited ("Dunedin") for £83.25 million. The consideration was satisfied by the net proceeds of a placing and open offer to raise approximately £75.0 million (after expenses) and by cash from the group's own resources.

At an extraordinary general meeting held on 4 March 1996, the acquisition of Dunedin was approved by shareholders and 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.

On 19 March 1996, the acquisition became unconditional, whereupon 11,631,891 new ordinary shares of the company, which rank *pari passu* with the existing ordinary shares, were issued at 675p per share. This increased the issued share capital to 31,018,377 ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS

continued

	Share premium £'000	Revaluation reserve £'000	Capital reserve £'000	Profit and loss account £'000	Total £'000
17. RESERVES					
Consolidated					
At 31 January 1995	7,324	(127)	—	13,691	20,888
Retained profit for the year	—	—	—	3,912	3,912
Issue of shares before 1 August 1995	453	—	—	—	453
Movement resulting from					
scheme of arrangement	(7,777)	—	7,777	—	—
Issue of shares after 1 August 1995	37	—	—	—	37
Realisation of revaluation					
losses of prior year	—	310	—	(310)	—
Movement in revaluation of investments	—	179	—	—	179
Movement in minority interest	—	1	—	—	1
At 31 January 1996	<u>37</u>	<u>363</u>	<u>7,777</u>	<u>17,293</u>	<u>25,470</u>
Company					
At 31 January 1995	—	—	—	—	—
Retained profit for the year	—	—	—	13,287	13,287
Issue of shares after 1 August 1995	37	—	—	—	37
Movement in revaluation of investments	—	397	—	—	397
At 31 January 1996	<u>37</u>	<u>397</u>	<u>—</u>	<u>13,287</u>	<u>13,721</u>

Cumulative goodwill written off to reserves to 31 January 1996 amounted to £9,107,000 (1995—£9,107,000).

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

	1996 £'000	1995 £'000
18. CONSOLIDATED CASH FLOW STATEMENT		
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	10,027	12,484
Depreciation	372	315
Gain on sale of tangible fixed assets	(38)	(9)
Other income	23	9
(Increase)/decrease in stock of units	(224)	3,439
(Increase)/decrease in debtors	(2,688)	13,129
Increase/(decrease) in creditors	2,068	(11,255)
Net cash inflow from operating activities	<u>9,540</u>	<u>18,112</u>
Analysis of changes in cash and cash equivalents during the year		
Balance at 31 January 1995	23,683	13,953
Net cash inflow before adjustments for the effect of foreign exchange rate changes	<u>1,126</u>	<u>9,730</u>
Balance at 31 January 1996	<u>24,809</u>	<u>23,683</u>

NOTES TO THE FINANCIAL STATEMENTS

continued

18. GROUP CASH FLOW STATEMENT—continued

	1996 £'000	1995 £'000	Change in year £'000
Analysis of the balances of cash and cash equivalents as shown in the balance sheet			
Cash and deposits	<u>24,809</u>	<u>23,683</u>	<u>1,126</u>

19. DIRECTORS' MATERIAL INTERESTS

No contract or arrangement existed during the year in which any of the directors was materially interested.

20. CONTRACTS WITH SUBSTANTIAL SHAREHOLDER

Two agreements exist between Edinburgh Fund Managers plc and The British Investment Trust PLC ('BIT'), whereby Edinburgh Fund Managers plc receives management fees for acting as Manager and Secretary of BIT and Investment Manager of certain other funds. The management agreements are terminable by Edinburgh Fund Managers plc on one year's notice and by BIT on three years' notice.

Management fees received in the year ended 31 January 1996 under these agreements amounted to £2,464,000 (1995—£2,258,000). Amounts receivable at the balance sheet date are shown in note 13.

21. 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.

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 contributions for the year were £550,000 (1995—£407,000). This pension charge was after a deduction of £56,000 (1995—£101,000) in respect of the amortisation of 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.

22. ULTIMATE PARENT UNDERTAKING

At 31 January 1996, The British Investment Trust PLC, registered in Scotland, was the ultimate parent undertaking, owning 10,175,000 ordinary shares representing 52.5 per cent of the ordinary share capital of the company. Following the acquisition of Dunedin on 19 March 1996, this holding of 10,175,000 ordinary shares represented 32.8 per cent of the enlarged share capital. Copies of the accounts of The British Investment Trust PLC may be obtained from 97 Haymarket Terrace, Edinburgh.

23. COMMITMENTS AND CONTINGENCIES

There were no capital commitments or contingent liabilities at 31 January 1996 (1995—nil).

24. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 21 March 1996.

FIVE YEAR RECORD

Year ended 31 January	1992	1993	1994	1995	1996
	£m	£m	£m	£m	£m
Funds under management	<u>1,906</u>	<u>2,391</u>	<u>4,011</u>	<u>3,437</u>	<u>3,538</u>
	£'000	£'000	£'000	£'000	£'000
Shareholder's funds	<u>15,045</u>	<u>15,711</u>	<u>17,002</u>	<u>21,848</u>	<u>26,439</u>
Fund management income	8,738	9,693	17,072	22,339	18,913
Net profit from unit trust trading	<u>522</u>	<u>1,383</u>	<u>1,415</u>	<u>1,603</u>	<u>709</u>
Turnover	9,260	11,076	18,487	23,942	19,622
Administrative expenses	<u>6,047</u>	<u>7,202</u>	<u>10,643</u>	<u>11,458</u>	<u>9,595</u>
Operating profit	3,213	3,874	7,844	12,484	10,027
Profit on disposal of investments	90	(307)	1,028	214	447
Profit on disposal of discontinued operations	—	—	—	—	799
Other income	<u>1,480</u>	<u>1,182</u>	<u>903</u>	<u>1,043</u>	<u>1,496</u>
Profit on ordinary activities before taxation and extraordinary items	4,783	4,749	9,775	13,741	12,769
Taxation	<u>1,326</u>	<u>1,616</u>	<u>2,741</u>	<u>4,250</u>	<u>3,997</u>
Profit on ordinary activities after taxation	3,457	3,133	7,034	9,491	8,772
Minority interest	<u>10</u>	<u>12</u>	<u>11</u>	<u>9</u>	<u>8</u>
Profit for the financial year	<u>3,447</u>	<u>3,121</u>	<u>7,023</u>	<u>9,482</u>	<u>8,764</u>
Earnings per share	<u>18.6p</u>	<u>16.7p</u>	<u>37.2p</u>	<u>49.7p</u>	<u>45.4p</u>
Dividends per share	<u>13.0p</u>	<u>13.5p</u>	<u>22.0p</u>	<u>24.0p</u>	<u>25.0p</u>

Note: ¹ This five year record has been prepared in accordance with FRS 3 from 1993.

² Prior to the implementation of the scheme of arrangement effected on 1 August 1995, the figures relate to Edinburgh Fund Managers plc.

GROUP INFORMATION

Edinburgh Fund Managers Group plc

Chief executive
Secretary

Iain Watt BSc, AIB, AIIMR
Catherine Miller BSc, CAS, CA

Edinburgh Fund Managers plc

Joint managing director
Joint managing director

Peter Arthur LLB, FCIS
Michael Balfour BCom, CA

Edinburgh Unit Trust Managers Ltd

Joint managing director
Joint managing director

James Hay
Nigel Whittingham

Address

Donaldson House
97 Haymarket Terrace
Edinburgh EH12 5HD

Tel: 0131-313 1000
Fax: 0131-313 6300

Edinburgh Oil Management Ltd

10 Coates Crescent
Edinburgh EH3 7AL

Tel: 0131-225 5454
Fax: 0131-220 2253

Managing director

Alf Bissett BA

Edinburgh Fund Managers plc North America

Nations Bank Plaza
600 Peachtree Street
Atlanta, Georgia 30308
USA

Tel: 001 404 874 1575
Fax: 001 404 874 1480

Director

Gloria Carlson

Edinburgh Fund Managers plc is regulated by IMRO.

Edinburgh Unit Trust Managers Ltd is a member of the Association of Unit Trusts and Investment Funds, and is regulated by IMRO and the Personal Investment Authority.

NOTICE OF MEETING

Notice is hereby given that the first 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 17 May 1996 at 12.15 pm for the following purposes:

Ordinary resolution

1. to adopt the report of the directors and the financial statements for the year ended 31 January 1996;
2. to declare a final dividend;
3. to appoint Mr J W Blair as a director;
4. to appoint Mr A M M Grossart as a director;
5. to appoint Mr A D M MacDonald as a director;
6. to appoint Lord Macfarlane of Bearsden a director, special notice having been given, pursuant to Sections 293 and 379 of the Companies Act 1985 of the intention to propose the following ordinary resolution:
"that Lord Macfarlane of Bearsden, who attained the age of 70 years on 5 March 1996 be appointed a director of the company";*
7. to appoint Mr C H Ross as a director;
8. to appoint Mr I A Watt as a director;
9. to appoint KPMG Audit Plc as auditors, special notice having been given, pursuant to Section 391 of the Companies Act 1985 of the intention to propose the following ordinary resolution:
"that KPMG Audit Plc be appointed as auditors of the company";
10. to authorise the directors to fix the auditors' remuneration;
11. that, in substitution for any existing authority under Section 80 of the Companies Act 1985 (the 'Act'), the directors of the company be generally and unconditionally authorised in accordance with Section 80 of the Act to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal amount of £500,000, such authority to expire on 16 May 2001, unless previously revoked, varied or extended by the company in general meeting, save that the company may at any time prior to the expiry of such authority make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such authority and the directors of the company may allot relevant securities in pursuance of such an offer or agreement as if such authority had not expired.

* Special business

Special resolution

12. 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

NOTICE OF MEETING

continued

- (ii) to the allotment (otherwise than pursuant to paragraph (i) of this Resolution) of equity securities up to an aggregate nominal amount of £77,545 being 5 per cent of the nominal value of the existing issued share capital of the company;

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.

13. that the company be and it is hereby authorised in accordance with section 166 of the Companies Act 1985 to make purchases (within the meaning of section 163 of the said 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 3,101,838; and
- (ii) the minimum price which may be paid for a share shall be 5p; and
- (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 1997 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
29 March 1996



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.
3. The service contracts between the directors and the company or any of its subsidiaries will be available for inspection at the registered office of the company during normal business hours from the date of this notice until the conclusion of the meeting.

If approved, the final dividend will be paid on 20 May 1996.

FORM OF PROXY

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

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 Friday, 17 May 1996 and at any adjournment thereof.

	FOR	AGAINST
ADOPTION OF REPORT AND FINANCIAL STATEMENTS		
DECLARATION OF FINAL DIVIDEND		
APPOINTMENT OF J W BLAIR*		
APPOINTMENT OF A M M GROSSART *†‡		
APPOINTMENT OF A D M MACDONALD *		
APPOINTMENT OF LORD MACFARLANE OF BEARSDEN †‡		
APPOINTMENT OF C H ROSS *†‡		
APPOINTMENT OF I A WATT		
APPOINTMENT OF KPMG AUDIT PLC AS AUDITORS		
AUTHORISATION OF DIRECTORS TO FIX THE REMUNERATION OF THE AUDITORS		
AUTHORISATION OF DIRECTORS TO ALLOT ORDINARY SHARES		
LIMITED DISAPPLICATION OF PRE-EMPTION RIGHTS		
AUTHORISATION TO PURCHASE OWN SHARES		

SIGNED DATE

- Special Business
- * 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 notarially 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