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Edinburgh Fund Managers Group plc

Annual Report and Accounts for the year ended 31 January 2000

Edinburgh
FUND MANAGERS

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Our Mission

By combining an innovative approach with proven investment skills, we seek to deliver investment solutions tailored to meet the needs of our clients around the world.

Summary Financial Information

	2000 £000	1999 £000
Turnover	£29,935	£27,001
Operating profit (excluding exceptionals)	*£10,028*	*£9,039*
Pre-tax profit (including exceptionals)	£12,104	£11,690
Earnings per share (excluding exceptionals)	27.5p	23.6p
Dividends per share	25.0p	25.0p
Number of shares in issue	27.8 million	27.8 million
Funds under management	£8.0 billion	£6.6 billion

Chairman's Statement

Edinburgh Fund Managers enjoyed strong investment performance and substantial growth in sales and funds under management in 1999. Our strategy of concentrating on the development of our four key areas of new business, investing in our people and services and keeping a tight rein on costs delivered value to customers and shareholders.

HIGHLIGHTS OF 1999

- Funds under management: increased by 21% to £8.0 billion
- Earnings per share before exceptionals: increased by 17% to 27.5p
- New business: increased by 115%
- Strong and consistent investment performance: over three-quarters of all the company's funds outperformed their benchmarks in 1999, with the totals of our investment trusts at 82% and 90% for our institutio nal portfolios
- Number of strategic partnerships doubled
- Business development: good progress was made in all four areas of the strategic development plan (strategic partnerships, intermediaries, private clients and the institutional market)

REVIEW OF THE YEAR

Business performance

Funds under management rose 21% from £6.6 billion to £8.0 billion as a result of rising markets, good relative performance by the investment team and new business inflows. Revenues rose by 11%, as did costs, reflecting our continued investment in developing the business. This, coupled with an increase in other income, resulted in earnings per share (before exceptionals) rising from 23.6p to 27.5p, an increase of 17%. The proposed final dividend of 17p makes a total dividend payout of 25p, which is unchanged from last year.

Business development strategy

Edinburgh Fund Managers business development strategy is based on four key sources of new business: strategic partnerships, retail sales through IFAs, private clients and the institutional market. All have made good progress in 1999.

Strategic partnerships

Edinburgh Fund Managers doubled the number of strategic partnerships during the year. Through strategic partnerships, we benefit from the powerful retail distribution systems of major institutions and intermediaries within the UK, in overseas and offshore markets and across a wide range of products and brands.

The company signed fund management agreements with five new institutions in 1999, comprising three major banking groups (Bank of Scotland, Bank of Bermuda and Terra Finans in Scandinavia) and two life companies (Isle of Man Assurance Limited and Royal Sun Alliance International).

Strategic partnerships are now in place with a total of nine UK and overseas institutions, of which four are major banking organisations and five are UK and international life companies. These relationships have begun to provide us with a regular inflow of new money to manage, accounting for 38% of this year's new business.

Chairman's Statement

Retail sales
Edinburgh Fund Managers more than doubled retail sales to the intermediary market over the year as a result of good support from national and network IFAs through our inclusion on selection panels for approved products. Open ended funds remain Edinburgh Fund Managers core offering to intermediaries who also committed substantial funds for discretionary management by our private client department. We believe that there is now increased awareness of Edinburgh Fund Managers offering across the board in this important market.

During the year we also launched two new split capital investment trusts, the Edinburgh High Income Trust and the Edinburgh Income and Value Trust.

Private clients
The private client department saw another year of growth in terms of funds under management and number of portfolios. We are now managing around £330 million on a fully discretionary basis, and are looking to develop new products and services in order to take advantage of some exciting business opportunities.

Institutional
The profile of our UK institutional business continues to build steadily, with funds under management of £1.9 billion at the end of the year. The strength of our client relationships is validated by the additional funds received from two of our clients during the year.

1999 saw excellent performance across the full range of mandates under management, with our Edinburgh Exempt Managed Fund ranked in the top quartile of the CAPS industry survey.

We have firmly established a solid three year performance track record which highlights the strength of our investment process. We have continued to develop our relationships with the major actuarial consultancies and now have a strong base on which to build new business.

Source: *Hindsight

Investment performance and awards
Funds in virtually all business areas performed well during the year, with over 75% of all funds outperforming their benchmarks in 1999. Good stock selection and our expertise in smaller companies were highlights. During the course of the year we received awards for achievements in the areas of UK smaller companies, UK large companies, UK tracking, and North American funds. The Edinburgh UK Smaller Companies Fund was named the third best performing British fund of the past decade*.

Board
Angus MacDonald joined the board as a non-executive director during the year. He has made a successful career in the financial and publishing sectors and will make a useful contribution to the future of the company.

I have informed my colleagues that I will be retiring after the annual general meeting in 2001.

OUTLOOK
The strategy and future success of the company continues to be based on the delivery of three equally important principles – value to shareholders; good investment performance and service to clients; and an attractive and rewarding environment for a committed and motivated staff.

The success of this strategy in 1999 is not a reason for complacency. The fund management industry is undergoing a period of rapid change, an environment not helped by increasing levels of equity and bond market volatility. However, we have established a firm base and a strong strategy for the development of the company in the new millennium. My congratulations and thanks to all our staff for their contribution to that achievement, and to our clients for their support.

C H Ross
Chairman

Edinburgh, 22 March 2000

Chief Executive's Review

In 1999 Edinburgh Fund Managers entered the third full year of its strategic development plan to build strong, consistent growth from a secure, diversified business mix of distribution and products.

We continue our programme of investment in people (our key resource), investment management, marketing, customer service and systems, to ensure high levels of consistency and quality and to enable us to win and retain business. Our marketing plan remains tightly focused on four key growth areas for new business, tailored to our particular strengths and resources. In 1996, we redefined our investment process which is now working well. We also take advantage of our flexible corporate structure to set out a product design strategy based on the rapid fulfilment of clear market needs.

Edinburgh Fund Managers is still early in the process of implementing its strategy. However, the consistency of performance across all these areas in 1999, building on the achievements of the previous year, strongly suggests that it is succeeding and that we are well placed to meet the challenges of the years ahead. The start of the new millennium provides an excellent opportunity to review not only the past year, but the progress of our strategy to date.

MARKETING AND BUSINESS DEVELOPMENT

Our business development plan focuses on four key areas: strategic partnerships, own brand retail sales (to intermediaries and direct private investors), private clients and the institutional fund market.

1. Strategic partnerships

Strategic partnerships, through which we supply investment management and products to support the primarily retail operations of major banking and life assurance institutions, offer us a number of major advantages:

- the strength of the substantial distribution channels, brand investment and customer relationships of our partners.

- distribution across a far wider diversity of products and potential markets than we could achieve alone.

- new business achieved by our partners feeds through to us, giving us long term cumulative growth from each partnership.

In 1999 we doubled the number of our strategic partnerships through offering a combination of specialist investment portfolios and strong support service to our customers. We now provide a diversity of expertise. For example, we manage index and derivative funds for the Bank of Bermuda and protected funds, in which we are a UK market leader, to a number of life companies. We offer international fund management to Terra Finans, a leading Norwegian financial services company owned by a group of local savings banks; and we also manage equities and international bonds for the Bank of Scotland's new retail life company in the UK. Our new relationship with Isle of Man Assurance and distribution partners has increased our exposure to the South African market.

While we now have a well-diversified portfolio of partnerships, supporting and servicing them remains crucial, and during the year we reinforced the team in place. Our aim in 2000 is to focus on increasing sales and services to these relationships.

2. Retail sales

The bulk of our marketing spend under our own brand in 1999 has been in the retail market.

Under the retail plan we have focused over the past three years on building our open-ended funds and distributing them through the efficient intermediary market, continuing to support and develop our investment trust business, and building our own private client management business.

In 1999 we undertook a series of major initiatives. Highlights include the launch of a new corporate image under the 'Edinburgh Fund Managers Rock Solid' campaign and the introduction of a new ISA product to coincide with the start of the tax year. We also launched the first phase of our redeveloped website. Our business is facing fundamental change over the coming years as the internet and e-commerce become an increasingly-used distribution channel. We recognise the importance of developing our own internet strategy for e-commerce. At the beginning of 2000 we took the first step with the launch of our *ISA online*, an exciting new development.

Chief Executive's Review

Among the retail funds a key area of growth in 1999 where we have expertise was UK smaller companies – a market which has come back into favour. Both of our small company investment trusts have performed well and our OEIC ISA campaign is focusing on the UK Smaller Companies Fund which attracted particular attention during the year as the third best fund of all British funds over 10 years*.

Open-ended funds and the intermediary market
Edinburgh Fund Managers success in the intermediary market is based on carefully analysing and rapidly meeting market needs for products and services. In 1998 Edinburgh Fund Managers was one of the first UK investment houses to convert its unit trusts to OEICS. This was a deliberate strategy, as was the restructuring and recruitment of senior personnel for our sales and service support teams, which was completed by mid 1998.

In 1999 we significantly increased open-ended sales and more than doubled our IFA sales. More than 58% of total open-ended sales came through the intermediary market.

We have been particularly pleased with the growing levels of buying support from national IFAs and the major IFA networks, which was identified in 1998 as a key area for focus by our sales team. We made good progress in broadening the range of products on key broker panels. We are also investing in a telesales team to ensure that we continue to give good quality and cost efficient support to IFAs.

Towards the end of the year we made a substantial addition to our open ended product range and for the first time entered the powerful offshore intermediary market with the launch of the Edinburgh Global Protected Fund range of offshore funds. In their initial offer period these funds attracted $27 million and sales have continued well to date.

The product range was also widened with the introduction of the Classic Portfolio Service. This innovative service is designed to provide investors with a lower entry level to discretionary style portfolio management through investing in an open global fund of funds. This portfolio has an innovative feature in that there is a guaranteed return of the original investment in the event of death.

Investment trusts
Edinburgh Fund Managers is the UK's fourth largest manager of investment trust companies, with over £4.3 billion of investment trust funds under management and they remain an important part of our customer base. Highlights of 1999 were the generally good investment performance of our range of trusts, two new investment trust issues and the launch of the Association of Investment Trust Companies' (AITC) marketing initiative.

In conjunction with the boards of the trusts managed by Edinburgh Fund Managers, we have undertaken a series of initiatives to raise awareness of the attractions of investment trusts to a much wider audience. The objective of our strategy is to ensure that demand and supply for the shares of established trusts are well balanced. This is achieved through a combination of joint marketing initiatives and share buybacks. In addition, we have ensured that the strategy and structures of new trusts meet real needs in the markets of today and tomorrow. We believe that investment trusts have an important place in the future of meeting individuals' savings needs.

Source: *Hindsight

As always the key to demand is performance. In 1999, 82% of our investment trusts outperformed their benchmarks. Particular highlights were the strong recovery in the two UK smaller companies trusts and the emerging market trusts investing in the Far East and Latin America.

We create demand for our established trusts through combined marketing initiatives including jointly-funded national consumer advertising and provision of various retail products. Potential shareholders can now invest in the trusts through the Edinburgh Fund Managers Investment Trust Pension, the Investment Trust ISA and other savings products.

By the end of 1999, the boards of eight of our thirteen investment trusts had put in place share buyback schemes that have been proactively implemented when appropriate.

We also participated very actively in the AITC's £17 million its campaign – a TV, national advertising and broker marketing campaign – by fully integrating the its branding into our marketing.

One disappointment during the year was the loss of the management contract for the £38 million Edinburgh Japan Trust. However, this was offset by the successful restructuring of the Edinburgh Income Trust into a trust with a split capital structure, the Edinburgh High Income Trust, with £69 million of funds under management, and the launch of the £50 million Edinburgh Income and Value Trust.

We will continue to look for further new opportunities in the sector in 2000.

3. Private clients

Our private client business similarly enjoyed another record year in 1999, building on the substantial progress made in 1998. Funds under management rose by around 24% from £269 million to £330 million, with the number of client accounts rising by more than 27%.

The private client team is committed to delivering investment performance and a highly personal service. On the performance front, 1999 was a successful year, with portfolios generally having a significant investment exposure to the key areas of technology, Continental Europe, and the Far East.

The business has continued to attract portfolios from direct private clients and through introductions by major professional practices. Going forward, we intend to build on our existing strengths, while taking advantage of the potential offered by our website and the development of innovative new services.

4. Institutional sales

Following the creation of Edinburgh Institutional Client Management as a dedicated division at the start of the year, three objectives were established:

- Firstly, to ensure the highest quality of service delivery and relationship management for our existing clients

Chief Executive's Review

- Secondly, to complete the building of a strong three year track record across a range of specialist and balanced mandates, and

- Finally, to ensure a high quality flow of information to the leading professional consultancies.

The first objective is an ongoing one and we believe that we can differentiate ourselves from our competitors by the effort we put into building strong client relationships. This is borne out by the fact that our average length of relationship with our clients is over seven years.

The strength of our client relationships is further validated by the additional funds received from two of our clients during the year.

In terms of our investment performance, we achieved our objective. The Edinburgh Exempt Managed Fund performance was top quartile over the year, returning 24.9% against a CAPS pooled fund median of 21% and ranking 16 out of 67 funds. Over three years, the fund was also comfortably above median, achieving 18.3% against the median of 17.3% and ranking 19 out of 62 funds.

The three year results highlight the success of our investment process. We now have a strong performance track record with which to demonstrate our expertise across a range of mandates, from UK Equity Small Cap to UK Equity Large Cap and Balanced.

Improving our marketing and communication to the actuarial consulting community has been a core activity during the year. We became the first fund management house to have our performance GIPS (Global Investment Performance Standards) verified. We now supply consultants and clients with some of the most comprehensive performance analysis in the industry.

In summary, we now have a substantial dedicated team, substantial pension fund assets, a strong performance track record and a focus on developing relationships with the leading investment consultants. I therefore believe that we will see the results of this progress steadily convert into new mandates in the present and coming years.

Share price performance

The progress made by your company was recognised by the market. In 1999 Edinburgh Fund Managers shares were among the three best performing shares of all quoted UK and North American fund management companies, showing a total return of 129.6% over the year to 31 December 1999.*

THE WAY FORWARD

We are confident that we are entering the new millennium with a sound business platform from which we can continue our growth. We remain committed to the business strategy, which has already delivered positive results and, subject to markets remaining strong, we look forward to building on the successes we have made to date.

I would like to add my thanks to those of the chairman to all our staff for their efforts and commitment over the year. It gives me particular pleasure to inform you that as a result of the increase in earnings per share for the year to 31 January 2000 our staff will participate in the profit sharing scheme approved by the shareholders in 1998. All UK staff who have worked for Edinburgh Fund Managers for at least 12 months will receive 5% of their salary in shares (up to a maximum of £8000).

I A Watt
Chief Executive

Edinburgh, 22 March 2000

* Source: Bloomberg.co.uk, Boston 3 Jan; US, UK (and Canadian and Swiss) fund management companies 1 year to 31 December 1999, including reinvested dividends.

1999 saw strong new business growth over most areas as a result of good investment performance and our commitment to sales and marketing.

FUNDS UNDER MANAGEMENT

Total funds under management increased overall from £6.6 billion to £8.0 billion, an increase of 21%. This was as a result of two key factors

MARKET LEVELS

The major markets of the UK, US and Europe rose by around 10% during the year, with specialist markets including the UK small companies sector, Japan, the Pacific and emerging markets rising by significantly more, particularly in the final quarter of 1999. All markets peaked at 31 December 1999 followed by an approximate 5% fall in January 2000, the last month of our financial year. The outperformance registered during the year by the majority of portfolios under management meant that funds under management as a whole rose by more, in general, than the underlying indices.

NEW BUSINESS

New business increased by 115%. This was due to the following factors:

- the launch of two new split capital investment trusts, Edinburgh Income and Value (£50 million) and Edinburgh High Income (£69 million). This helped to offset the loss of the management contract for Edinburgh Japan Trust (£38 million) and investment trust share buybacks of approximately £84 million
- increased sales to our strategic partners
- increased sales through intermediaries, and
- continued growth of our private client business.

Turnover

Management fee income is directly related to funds under management. Turnover increased during the year by 11%, from £27.0 million to £29.9 million as a result of strong markets, particularly in UK small companies and the Pacific and as a result of outperformance. Fees generated by specialist funds are generally higher than mainstream funds which means that funds under management in these areas contribute a disproportionate amount to fees earned.

This helped to increase our revenues as a percentage of funds under management from 0.38% to 0.39%.

We are also pleased to report that the two accounts which we manage with a performance fee element have outperformed the relevant benchmarks, thus contributing to increased revenues.

Market returns (year to 31 January 2000)

	Percentage movement	
Region	Local currency	Sterling adjusted
UK	+10.4	+10.4
UK Smaller Companies	+49.1	+49.1
US	+9.0	+10.5
Europe (ex UK)	+24.2	+8.7
Japan	+51.8	+67.1
Pacific (ex Japan)	+26.8	+29.4
Emerging Markets	+67.6	+69.5

Operating and Financial Review

Costs
Operating costs also rose by 11% over the previous year from £18.0 million to £19.9 million. This rise can principally be attributed to the employee bonus scheme (an increase of £1.3 million) and the employee profit sharing scheme (£0.3 million). Significant outperformance by both our fund management teams and the sales teams resulted in specific awards being made for achieving predetermined performance criteria.

Overall costs as a percentage of funds under management have increased from 0.25% to 0.27% but still remain below the average of our peer group.

Operating profit
Operating profit (excluding exceptional items) rose by 11% over the past year from £9.0 million to £10.0 million.

The increase in profits was due to the rise in stock market values and increased management fees from outperformance, both of which were offset by an increase in operating costs as described above.

Interest and other income
During the year we realised gains of £0.5 million on our investment portfolio. In addition, income received as compensation for the loss of Edinburgh Japan Trust of £1.3 million has been treated as other income due to its exceptional nature.

Interest income has fallen due to, on average, a lower level of liquidity held by the Group. This was principally because of the purchases made of our own shares for the Employees' Benefit Trust.

The interest on our overdraft was marginally higher than last year due to higher interest rates.

Pre-tax profit
Pre-tax profits (including exceptionals) rose by 4% from £11.7 million, in the year to 31 January 1999, to £12.1 million.

Taxation
The realised gains on investments during the year did not give rise to capital gains tax and, together with the reduction in the corporation tax rate from 31% to 30%, gave an effective tax rate of 29.9%, down from last year's 32.2%.

Earnings per share
Earnings per share (excluding exceptionals) increased by 17% from 23.6p to 27.5p due to the increase in turnover and costs. Earnings per share (including exceptionals) were up 8% from 28.5p to 30.8p.

The proposed final dividend of 17p makes a total dividend payout of 25p for the year, which is unchanged from last year.

Capital and reserves
Our net cash balances totalled £5 million as at 31 January 2000 compared with £11 million the previous year. There are two main reasons for this reduction. Firstly, the effect of the short term timing differences on our OEIC dealing and settlements positions which are financed out of cash resources. Secondly, during the year we bought 425,000 of our own shares for our Employees' Benefit Trust. This cost the company £1.8 million again reducing cash resources and will be used to offer shares to employees through various share ownership schemes.

Risk management and financial instruments
The key business risk which Edinburgh Fund Managers faces is the stock market risk on our clients' portfolios. Fund management income is directly related to the assets managed. Where client portfolios are invested overseas there is also the currency risk associated with the country in which the assets are invested. We do not use derivatives to hedge these risks.

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure on financial instruments which are held by or issued by the group. The financial instruments which require disclosure include fixed asset investments, cash and the bank overdraft.

The fixed asset investments held are subject to stock market movements. Sterling cash balances, which are held on short term deposit, and the bank overdraft are subject to interest rate market movements. Cash balances in other currencies are in addition subject to exchange rate movements. Detailed information relating the risk profile of these financial instruments is shown in note 20 to the financial statements. The group has taken advantage of the exemption allowed under FRS 13 and excluded short term debtors and creditors from the disclosure of financial instruments.

Technology

Our Year 2000 rollover project was successfully completed. Throughout the coming year we will continue to be vigilant about the possibility of any post Year 2000 problems. We will continue to invest in the upgrading of systems we currently use. The Year 2000 project at Edinburgh Fund Managers has involved investment in time, hardware and software. The expenditure incurred provides a legacy of high performance and stable IT systems which are vital to supporting future business development.

1999 saw the launch of the first phase of our redeveloped website, with the introduction of our online ISA – our first step into e-commerce.

THE YEAR AHEAD

We continue in good shape for the coming year and believe that the specialist markets will continue their recovery. We are focused on producing good investment performance and service levels for all our clients. We wish to build on the significant progress the company has made over the last year. A number of financial services companies around the world are exploring outsourcing strategies. At Edinburgh Fund Managers we wish to be seen as the partner of preference as this trend develops.

The potential loss of business through investment trust share buybacks should be offset by levels of new business. At present we do not anticipate a material rise in operating costs, although investment for the future growth of the company will lead to some cost increases. Throughout the forthcoming months we aim to continue to increase our funds under management in order to increase earnings per share – the key objective for the year ahead.

M W Balfour
Executive director

Edinburgh, 22 March 2000

Corporate Information

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Joint stockbrokers
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New Broad Street House
35 New Broad Street
London EC2M 1SQ

HSBC Investment Bank plc
Thames Exchange
10 Queens Street Place
London EC4R 1BL

C H Ross
Non-executive chairman
C H Ross CA, (59), is chairman of the nominations committee and a member of the audit committee and the remuneration committee. He is also non-executive chairman of Edinburgh Oil & Gas.

J W Blair
Non-executive director
J W Blair BA, LLB, WS, (63), is a member of the audit committee and the nominations committee. He is senior partner of an Edinburgh legal firm.

Sir Angus Grossart

Non-executive deputy chairman

Sir Angus Grossart CBE, LLD, FRSE, DL, (62) is a member of the nominations committee and chairman of the audit committee and the remuneration committee. He is also chairman and managing director of Noble Grossart, chairman of The Scottish Investment Trust and Edinburgh US Tracker Trust and vice-chairman of The Royal Bank of Scotland.

I A Watt

Chief Executive

I A Watt, (55), is an associate of the Institute of Bankers in Scotland and is a non-executive director of Edinburgh Dragon Trust.

M W Balfour

Executive director

M W Balfour CA, (39), is managing director and chief investment officer of Edinburgh Fund Managers plc.

the board

A D M MacDonald

Senior independent non-executive director

A D M MacDonald CBE, MA, LLB, CA, (60), is a member of the audit committee and the remuneration committee. He is also chairman of Edinburgh Inca Trust, Edinburgh Small Companies Trust and joint managing director of MacDonald Orr. He is also chairman of the Scottish Chamber Orchestra.

A F MacDonald

Non-executive director

A F MacDonald, (37), is a member of the nominations committee and the remuneration committee. He is also chairman of eFinancialNews.com.

Directors' Report

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 January 2000.

Business of the group

The principal activity of the group is investment management, which includes the management of investment trusts, unit trusts and OEICs, 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 2 to 11.

Dividends

The directors recommend that a final dividend of 17p (1999–17p) per share be paid on 17 May 2000 to holders of ordinary shares on the register on 7 April 2000 making a total payment of 25p (1999–25p) per share for the year.

The group's profit and loss account surplus for the year of £1,640,000 will be transferred to reserves.

Directors

The board comprises two executive directors and four non-executive directors. Their interests in the company's shares are listed on page 18.

A F MacDonald was appointed a director on 25 October 1999 and, in accordance with the articles of association, he is eligible for appointment at the annual general meeting.

In accordance with the articles of association, A D M MacDonald, C H Ross and I A Watt retire from the board at the annual general meeting and are eligible for re-election. C H Ross intends to retire at the conclusion of the annual general meeting in 2001 and, consequently, if the resolution for his re-election is passed, his term of office will be until the conclusion of the annual general meeting in 2001.

Biographical details of directors for appointment or re-election are given on pages 12 and 13.

Directors' fees

The maximum aggregate of the directors' fees was last set at £100,000 in 1995. A resolution will be proposed at the annual general meeting to increase the maximum aggregate fees of the directors to £130,000 per annum which will provide the board flexibility in appointing additional non-executive directors.

Payment policy

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

The amount owed to trade creditors at 31 January 2000 represented 27 days' average purchases.

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 22 March 2000 the interests as noted in the table opposite in the ordinary share capital had been notified to the company.

Holder	% of share capital held
Hermes Investment Management (on behalf of clients)	19.0
Prudential (including clients)	12.8
Legal & General	4.0
NFU Mutual Insurance Society	3.2

Charitable donations

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

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 16 May 2000, the following two resolutions will be proposed as special resolutions:

- Resolution 9 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% of the issued ordinary share capital.

- Resolution 10 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, 22 March 2000

Remuneration Report

Remuneration policy

The specific remuneration package for each of the executive directors, including those of subsidiary undertakings, ('executives') are determined by the remuneration committee ('the committee') on behalf of the board.

The board is committed to pursuing a strategy for continued improvement in the financial performance of the company and recognises the importance of establishing an appropriate remuneration package to attract, retain and motivate high calibre people to achieve this objective. The policy is to align the interests of the company's employees more closely with those of the company's shareholders by incentive payments which recognise shareholder value and by encouraging employees to acquire and retain an equity stake in the company. The remuneration of non-executive directors is determined by the board within the limits set by the company's articles of association.

Directors' service contracts

The notice period for the executive directors' service agreements do not exceed twelve months.

There are no service contracts for non-executive directors. Their letters of appointment confirm the terms and conditions of their appointment. Their re-election is in accordance with the rotation provisions set out in the 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 those with similar responsibilities in fund management companies in Scotland. A company car or cash equivalent and private medical benefits are provided.

Executive share options

Under the unapproved executive share option scheme, ordinary options or super options may be granted over unissued shares on the recommendation of the committee.

Ordinary options are exercisable prior to the fourth, fifth and sixth anniversaries of the date of grant in relation to 25%, 50% and 75% respectively of the number originally granted, but only if the growth in earnings per share of the company exceeds the percentage increase in the retail price index over 3 consecutive years by at least 3% per annum compounded annually. Ordinary options granted, in aggregate with all other executive options granted in the previous 10 years, may not exceed 4 times relevant earnings.

Super options may be granted, in aggregate with all other executive options granted in the previous 10 years, up to a maximum of 8 times relevant earnings. Only one half of the super options can be exercised prior to the sixth anniversary of the date of grant, subject to a growth in the company's earnings per share over 5 consecutive years being at least equivalent to that of the top quartile of companies within the FTSE 100 Index.

Executive options are not granted at a discount to the market value.

Bonuses

For the year ended 31 January 2000, bonuses were awarded, at the discretion of the board, to certain executives in recognition of particular achievements during the year.

Executives with objectively measurable performance can earn a pre-determined minimum bonus if a challenging performance target is met. There is also a discretionary bonus scheme which will, generally speaking, be used only for those executives who do not participate in the performance-related schemes or to those who had not achieved their targets but merited a bonus for some other reason. All bonuses are subject to upper limits.

Executives may elect to take all or part of their bonus, after deduction of tax, in shares of the company whereby the company will buy the shares in the market and deposit them with an employees' benefit trust. If the shares are held for a minimum

Directors' emoluments

	Basic salary £000	Bonus and profit share £000	Fees £000	Benefits £000	Total emoluments excluding pensions 2000 £000	1999 £000
Executive						
I A Watt	210	83	—	10	303	234
M W Balfour	158	73	—	12	243	67
Non-executive						
J W Blair	—	—	12	—	12	12
Sir Angus Grossart	—	—	15	—	15	15
A D M MacDonald	—	—	12	—	12	12
A F MacDonald (appointed 25 October 1999)	—	—	3	—	3	—
Lord Macfarlane of Bearsden (retired 18 May 1998)	—	—	—	—	—	4
C H Ross	—	—	33	—	33	33
Total 2000	368	156	75	22	621	377
Total 1999	254	34	76	13	377	

of three years in the employees' benefit trust, the executive will receive an enhancement of up to 60% of the number of shares held.

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 the normal retirement age 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 pension benefits being paid based on final pensionable salary adjusted to reflect early or late payments respectively. Pension payments will be increased in line with inflation up to 5% per annum, subject to a minimum increase of 3% in each year. For death before retirement a capital sum of four times pensionable salary at the time of death is payable together with a spouse's or dependent children's pension of two thirds of the expected pension at the normal retirement age. In the case of death in retirement, a spouse's or dependent children's pension of 50% of the member's 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.

Directors' pensions

The accrued annual entitlement of Mr I A Watt, who was fifty-four at 31 January 2000, amounts to £122,000 (1999–£113,000). This change reflects the salary increase he received during the period. The additional pension earned in excess of inflation (at the rate of 2.0%) during the year amounted to £7,000. The accrued annual entitlement of Mr M W Balfour, who was thirty-nine at 31 January 2000, amounts to £34,000 (1999–£30,000). This change reflects the salary increase he received during the period. The additional pension earned in excess of inflation amounted to £3,000.

Remuneration Report

Directors' interests in the company at 31 January

	2000			1999		
		Share options			Share options	
	Ordinary shares	Executive	Savings-related	Ordinary shares	Executive	Savings-related
J W Blair	9,000	—	—	9,000	—	—
J W Blair (non beneficial)	—	—	—	2,150	—	—
C H Ross	495,000	—	—	500,000	—	—
I A Watt	139,680	260,100	5,340	136,113	160,100	—
M W Balfour	36,149	224,000	—	36,149	124,000	—

The savings-related share options were granted on 4 May 1999 at 316p. These options can be exercised between 1 June 2004 and 1 December 2004. In May 1999 I A Watt received a bonus in respect of the previous year for which he elected to take 3,567 shares. Under the terms of the bonus scheme, he will be entitled to receive an additional 2,140 shares on 26 May 2002.

Directors' share options

	31.1.99	Options granted	Options exercised	31.1.00	Exercise price	Date from which exercisable	Expiry date
I A Watt							
Executive share options	20,100	—	—	20,100	366.0p	22.6.96	21.6.03
	5,000	—	—	5,000	604.0p	27.5.97	26.5.04
	10,000	—	—	10,000 (1)	726.0p	6.10.98	5.10.05
	25,000	—	—	25,000 (1)	592.5p	1.10.99	30.9.06
	100,000	—	—	100,000 (3)	532.5p	25.3.03	25.3.05
	—	100,000	—	100,000 (3)	407.5p	4.5.04	4.5.06
Total	160,100	100,000	—	260,100			
M W Balfour							
Executive share options	30,000	—	—	30,000	308.0p	22.6.95	21.6.02
	15,000	—	—	15,000	366.0p	22.6.96	21.6.03
	15,000	—	—	15,000	604.0p	27.5.97	26.5.04
	10,000	—	—	10,000 (1)	726.0p	6.10.98	5.10.05
	10,000	—	—	10,000 (1)	592.5p	1.10.99	30.9.06
	44,000	—	—	44,000 (2)	532.5p	25.3.01	25.3.05
	—	100,000	—	100,000 (3)	407.5p	4.5.04	4.5.06
Total	124,000	100,000	—	224,000			

Directors' interests

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. The company has not been notified of any changes in the above holdings between 31 January 2000 and 22 March 2000.

Directors' share options

No options lapsed during the year. The market price of the shares at 31 January 2000 was 652.5p and the range during the year was 240.0p to 652.5p.

(1) 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 2% over the same period.

(2) These are ordinary options which are exercisable prior to the fourth, fifth and sixth anniversaries of the date of grant in relation to 25%, 50% and 75% respectively of the number originally granted, but only if the growth in earnings per share of the company exceeds the percentage increase in the retail price index over 3 consecutive years by at least 3% per annum compounded annually.

(3) Only one half of these super options can be exercised prior to the sixth anniversary of the date of grant, subject to a growth in the company's earnings per share over 5 consecutive years being at least equivalent to that of the top quartile of companies within the FTSE 100 Index.

Corporate Governance

Compliance

The company is committed to high standards of corporate governance throughout the group. The board is accountable to the company's shareholders for good governance and this statement describes how the principles identified in the combined code (appended to the London Stock Exchange listing rules) ('the code') are applied by the company.

In addition, the board confirms that the company has complied throughout the accounting period with the provisions set out in section 1 of the code except for provision D.2.1 where the group has adopted the transitional approach.

Directors

The board consists of a non-executive chairman, four other non-executive directors and two executive directors. All of the non-executive directors are considered by the board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement.

Biographies of the board members appear on pages 12 and 13 of this report. These indicate the high level and range of business and financial experience which enables the board to provide clear and effective leadership and proper stewardship of the company.

The board meets at least four times each year and more frequently where business needs require. The board has a schedule of matters reserved to it for decision and the requirement for board approval on these matters is communicated widely throughout the senior management of the group. This includes matters such as material capital commitments, commencing or settling major litigation, business acquisitions and disposals and appointments to subsidiary company boards.

There is an agreed procedure for directors to take independent professional advice if necessary and at the company's expense. This is in addition to the access which every director has to the advice and services of the company secretary. The secretary is charged by the board with ensuring that board procedures are followed and complied with.

Whenever a new director is appointed to the board, he or she is provided with access to an appropriate, external training course in respect of the role and duties of public company directors unless he or she has previous experience as a director of a public company and considers that further training is unnecessary.

The differing roles of chairman and chief executive are acknowledged by the board. The key functions of the chairman are to conduct board meetings and meetings of shareholders and to ensure that all directors are properly briefed in order to take a full and constructive part in board discussions. The chief executive is required to develop and lead business strategies and processes as determined by the board to enable the group's business to meet the requirements of its shareholders. The senior independent non-executive director is Mr A D M MacDonald and concerns relating to the executive management of the company or the performance of the other non-executive directors can be raised with him.

To enable the board to function effectively and allow directors to discharge their responsibilities, full and timely access is given to all relevant information.

Appointments to the board are considered by the nominations committee. The members and principal terms of reference of the committee (along with the same information for the audit and remuneration committees) are set out on page 22. The recommendations of the nominations committee are ultimately made to the board, which will consider them before any appointment is made.

Any director appointed during the year is required, under the provisions of the company's articles of associations, to retire and seek election by shareholders at the next annual general meeting. The articles also require that one third of the non-executive directors retire by rotation each year and seek re-election at the annual general meeting and require that every director submits himself for re-election at least every three years.

Directors' remuneration

Full details of directors' remuneration and a statement of the group's remuneration policy is set out in the remuneration report appearing on pages 16 to 19. The members of the remuneration committee and the principal terms of reference of the committee appear on page 22. The chief executive attends meetings of the committee to discuss the performance of the other executive directors (including those of subsidiary companies) and make proposals as necessary, but is not present when his own position is being discussed.

Each executive director abstains from any discussion or voting at board meetings on remuneration committee recommendations where the recommendations have a direct bearing on his own remuneration package. The details of each executive director's individual package are fixed by the committee in line with the policy adopted by the board.

Relations with shareholders

The company places a great deal of importance on communication with its shareholders. The report and accounts are widely distributed to other parties who have an interest in the group's performance.

There is regular dialogue with individual institutional shareholders as well as general presentations after the interim and annual results. All shareholders have the opportunity to put questions to the company's annual general meeting.

Accountability and audit

The respective responsibilities of the directors and the auditors in connection with the financial statements appear on pages 23 and 24. The statement of the directors on going concern appears on page 14.

The board has overall responsibility for ensuring that there is in place a system of internal control for the group. Such a system is designed to provide reassurance with regard to the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. The system also extends to operational and corporate controls and risk management. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year a management committee, the Compliance and Risk Committee, was established with responsibility for identifying, evaluating and managing the company's significant risks.

The audit committee receives reports from the Compliance and Risk Committee setting out key business risks and considers possible financial, operational and compliance controls. The audit committee also receives regular reports from the internal audit function, external auditors and management which include recommendations for improvement. The audit committee's role in this area is confined to a high level review of the arrangements for internal control. The board's agenda includes a regular item for consideration of risk and control and receives reports thereon from the audit committee. At its March 2000 meeting, the board carried out the annual assessment of the effectiveness of the group's system of internal control for the year to 31 January 2000.

Corporate Governance

The audit committee met three times during the year and considered reports from the internal and external auditors, as well as from management. These meetings were attended by senior members of staff and the company's external auditors. The reports from the internal audit function covered specific matters arising during the year in addition to the reviews identified as part of the annual programme mentioned above.

The audit committee keeps the scope and effectiveness of both the internal audit function and the external audit under review. The independence and objectivity of the external auditors is also considered on a regular basis, with particular regard to the level of non-audit fees. The split between audit and non-audit fees for the year under review appears on page 32. The non-audit fees were paid in respect of tax advice, IMRO audit reviews, strategy reviews and year 2000 and are considered by the committee not to affect independence or objectivity.

Board committees

Membership of the board committees and a summary of their terms of reference are set out below:

Audit *committee*	Nominations *committee*	Remuneration *committee*
To assist the board in discharging its duties and responsibilities for financial reporting, corporate governance, internal control and appointment and remuneration of the independent auditors.	To consider and recommend to the board the appointment of directors.	To monitor, review and recommend the group's remuneration policy (as set out on page 16). To determine, on behalf of the board, the remuneration packages of the executives of the group.
Sir Angus Grossart *(Chairman)*	C H Ross *(Chairman)*	Sir Angus Grossart *(Chairman)*
J W Blair	J W Blair	A D M MacDonald
A D M MacDonald	Sir Angus Grossart	A F MacDonald
C H Ross	A F MacDonald	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 of the revenue of the company for that period. In preparing those financial statements, the directors are required to:

— select suitable accounting policies and then apply them consistently;

— make judgements and estimates that are reasonable and prudent;

— state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

— prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they comply with all the above requirements. The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and to detect fraud and other irregularities.

Report of the Auditors

Auditors' report to the members of Edinburgh Fund Managers Group plc
We have audited the financial statements on pages 25 to 40.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the annual report. As described on page 23, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the listing rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinions as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the listing rules regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the statement on pages 20 to 22 reflects the company's compliance with the seven provisions of the combined code specified for our review by the Stock Exchange and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report, including the corporate governance statement and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion
We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 2000 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

KPMG Audit Plc
Chartered Accountants
Registered Auditor

Saltire Court
Edinburgh
22 March 2000

Consolidated Profit and Loss Account

for the year ended 31 January 2000

	Notes	2000 £000	2000 £000	1999 £000	1999 £000
TURNOVER	2		29,935		27,001
ADMINISTRATIVE EXPENSES	3		19,907		17,962
OPERATING PROFIT			10,028		9,039
Gain on disposals of investments	5		528		45
Other income – ordinary	6	536		856	
– exceptional	6	1,281		2,002	
			1,817		2,858
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST			12,373		11,942
Interest payable	7		269		252
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			12,104		11,690
TAXATION	8		3,616		3,770
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION			8,488		7,920
Minority interest			—		1
Profit for the financial year			8,488		7,921
DIVIDENDS	9		6,848		6,950
Retained profit for the year	17		1,640		971
EARNINGS PER SHARE	10		30.8p		28.5p
FULLY DILUTED EARNINGS PER SHARE	10		30.7p		28.4p
EARNINGS PER SHARE (excluding exceptional items)	10		27.5p		23.6p

Consolidated Balance Sheet

at 31 January 2000

	Notes	2000 £000	2000 £000	1999 £000	1999 £000
FIXED ASSETS					
Tangible assets	11		614		997
Investments	12		8,922		4,707
Own shares	18		2,128		308
			11,664		6,012
CURRENT ASSETS					
Stock of shares and units		1,022		453	
Debtors	14	9,924		7,380	
Cash and deposits		6,495		11,951	
		17,441		19,784	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR					
Bank overdraft		1,287		1,256	
Taxation and social security		2,961		1,836	
Other creditors	15	7,789		10,382	
Proposed final dividend		4,646		4,707	
		16,683		18,181	
NET CURRENT ASSETS			758		1,603
TOTAL ASSETS LESS CURRENT LIABILITIES			12,422		7,615
CAPITAL AND RESERVES					
Called up share capital	16		1,392		1,391
Reserves	17		11,030		6,224
EQUITY SHAREHOLDERS' FUNDS			12,422		7,615

Approved by the board on 22 March 2000 and signed on its behalf by:

C H ROSS, Chairman

SIR ANGUS GROSSART, Deputy Chairman

Company Balance Sheet

at 31 January 2000

	Notes	2000 £000	2000 £000	1999 £000	1999 £000
FIXED ASSETS					
Investments	12		86		80
Subsidiary undertakings	13		85,606		85,606
Own shares	18		2,128		308
			87,820		85,994
CURRENT ASSETS					
Debtors falling due after more than one year	14	10,030		8,814	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR					
Bank overdraft		1,287		1,256	
Other creditors	15	10,021		8,362	
Proposed final dividend		4,646		4,707	
		15,954		14,325	
NET CURRENT LIABILITIES			(5,924)		(5,511)
TOTAL ASSETS LESS CURRENT LIABILITIES			81,896		80,483
CAPITAL AND RESERVES					
Called up share capital	16		1,392		1,391
Reserves	17		80,504		79,092
EQUITY SHAREHOLDERS' FUNDS			81,896		80,483

Approved by the board on 22 March 2000 and signed on its behalf by:

C H ROSS, Chairman

SIR ANGUS GROSSART, Deputy Chairman

Statement of Total Recognised Gains and Losses

for the year ended 31 January 2000

	2000 £000	1999 £000
Profit for the year	8,488	7,921
Movement in revaluation of investments	3,123	(1,468)
Minority interest in revaluation of investments	—	9
Total recognised gains and losses relating to the year	11,611	6,462

Note of Historical Cost Profits and Losses

for the year ended 31 January 2000

	2000 £000	1999 £000
Reported profit on ordinary activities before taxation	12,104	11,690
Realisation of investment revaluation losses of prior years	(1,944)	(136)
Historical cost profit for the year before taxation	10,160	11,554
Historical cost (loss)/profit for the year after taxation, minority interest and dividends	(304)	835

Reconciliation of Movement in Shareholders' Funds

for the year ended 31 January 2000

	2000		1999	
	Consolidated £000	Company £000	Consolidated £000	Company £000
Profit for the year	8,488	8,217	7,921	8,290
Dividends	6,848	6,848	6,950	6,950
Retained profit for the year	1,640	1,369	971	1,340
Other recognised gains and losses	3,123	—	(1,459)	(119)
Issue of shares	44	44	235	235
Net addition/(reduction) to shareholders' funds	4,807	1,413	(253)	1,456
Shareholders' funds at 31 January 1999	7,615	80,483	7,868	79,027
Shareholders' funds at 31 January 2000	*12,422*	*81,896*	*7,615*	*80,483*

Consolidated Cash Flow Statement

for the year ended 31 January 2000

	Notes	2000 £000	1999 £000
Cash inflow from operating activities	(a)	6,076	13,121
Returns on investments and servicing of finance	(b)	240	507
Taxation		(2,510)	(4,489)
Capital expenditure and financial investment	(c)	(2,428)	(502)
Acquisitions and disposals	(d)	—	(109)
Equity dividends paid		(6,909)	(6,953)
Cash inflow/(outflow) before financing		(5,531)	1,575
Financing	(e)	44	235
Increase/(decrease) in cash in the period	(f)	(5,487)	1,810

Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of operating profit to operating cash flows

		2000	1999
Operating profit		10,028	9,039
Depreciation charge		434	524
Gain on disposal of fixed assets		(8)	(57)
Other income	– ordinary	42	133
	– exceptional	1,281	2,002
(Increase)/decrease in stock of shares and units		(568)	390
(Increase)/decrease in debtors		(2,600)	(73)
Increase/(decrease) in creditors		(2,533)	1,163
		6,076	13,121
Net cash inflow before exceptional items		4,795	11,119
Inflow related to exceptional items		1,281	2,002
Cash inflow from operating activities		6,076	13,121

(b) Returns on investment and servicing of finance

	2000	1999
Interest received	494	732
Dividends received	15	27
Interest paid	(269)	(252)
Cash inflow from investment and servicing of finance	240	507

Notes to the Consolidated Cash Flow Statement

	2000 £000	1999 £000
(c) Capital expenditure and financial investment		
Purchase of tangible assets	(261)	(692)
Purchase of investments	(4,304)	(176)
Purchase of own shares	(1,820)	(308)
Sale of tangible assets	218	208
Sale of investments	3,739	466
Cash outflow from capital expenditure and financial investment	(2,428)	(502)
(d) Acquisitions and disposals		
Buy out of minority interest in subsidiary undertaking	—	(109)
Cash outflow arising on acquisitions and disposals	—	(109)
(e) Financing		
Issue of shares	44	235
Cash inflow from financing	44	235

(f) Analysis of net debt

	31 January 1999 £000	Cash flow £000	31 January 2000 £000
Cash and deposits	11,951	(5,456)	6,495
Bank overdraft	(1,256)	(31)	(1,287)
Net funds	10,695	(5,487)	5,208

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.

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 open-ended fund trading.

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 a funded defined benefit pension scheme. 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

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.

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.

Foreign currencies

Assets and liabilities in foreign currencies are converted at the rates of exchange on the last day of the financial year. Transactions involving foreign currencies are converted at the rate ruling on the date of the transaction. Foreign subsidiaries are translated using the closing rate method.

Stock of shares and units

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

Notes to the Financial Statements

		2000 £000	1999 £000
2 Turnover			
Fund management income		29,513	26,693
Net profit from OEIC and unit trust trading		422	308
Turnover – continuing operations		29,935	27,001

3 Administrative expenses

Administrative expenses include:			
Remuneration paid to the auditors			
and their associates	– audit fees	44	41
	– other	97	112
Depreciation		434	524
Operating lease payments	– land and buildings	522	477
	– office equipment	62	61

Audit fees paid in respect of the parent undertaking amounted to £7,000 (1999–£6,000).

4 Director and employee information

Average number of employees of the group (excluding non-executive directors) 205 (1999–203)

Salaries and bonuses	9,872	7,912
Social security costs	1,017	767
Pension scheme costs	879	753
Other pension costs	38	58
	11,806	9,490
Directors' remuneration (including pension contributions)		
Fees	75	76
Other emoluments	546	300
	621	376

Detailed information concerning directors' emoluments, shareholdings and options is shown in the remuneration report on pages 16 to 19.

5 Gain on disposal of investments

Realised gain/(loss) on investments	(1,416)	(91)
Loss brought into account at 31 January 1999	1,944	136
Gain since 31 January 1999 on disposal of investments	528	45

Notes to the Financial Statements

	2000 £000	1999 £000

6 Other Income

	2000 £000	1999 £000
Ordinary		
Income from listed investments	6	5
Income from unlisted investments	9	22
Interest	479	696
Other	42	133
	536	856

Exceptional

Exceptional income represents compensation for the loss of the management contract of Edinburgh Japan Trust. In the previous year this represented the fees recovered following the liquidation of Dunedin Worldwide Investment Trust.

	2000 £000	1999 £000
	1,281	2,002

7 Interest payable

	2000 £000	1999 £000
Interest on bank overdraft	269	252

8 Taxation

	2000 £000	1999 £000
Corporation tax at 30.1% (1999–31.0%) on net profit for year	3,525	3,540
Tax on franked investment income	—	5
Transfer from/(to) deferred taxation	39	181
Underprovision/(overprovision) in previous year	52	44
	3,616	3,770
The tax charge includes provision for tax on the exceptional items	383	646

9 Dividends

	2000 £000	1999 £000
Interim dividend of 8.0p (1999– 8.0p) per share paid 1 November 1999	2,202	2,243
Final dividend of 17.0p (1999–17.0p) per share payable 17 May 2000	4,646	4,707
	6,848	6,950

The proposed final dividend will be paid on 17 May 2000 to shareholders on the register at the close of business on 7 April 2000. The ex-dividend date will be 3 April 2000.

Notes to the Financial Statements

10 Earnings per share

	2000 £000	1999 £000
Profit after taxation and minority interests	8,488	7,921
Adjustments		
Exceptional items	(1,281)	(2,002)
Taxation attributable	383	646
	898	(1,356)
Profit before exceptional items and after taxation and minority interests	7,589	6,565
Basic weighted average number of shares outstanding	27,551,041	27,803,724
Number of shares under option that would have been issued	580,100	163,850
Number of shares that would have been issued at fair value	(531,929)	(122,035)
Fully diluted weighted average number of shares	27,599,212	27,845,539
Basic earnings per share	30.8p	28.5p
Basic adjustments for exceptional items	(3.3p)	(4.9p)
Basic earnings per share (excluding exceptional items)	27.5p	23.6p
Fully diluted earnings per share	30.7p	28.4p

Earnings per share (excluding exceptional items) is shown as this gives a better indication of maintainable earnings than basic earnings per share.

Basic weighted average number of shares outstanding included an adjustment for the shares held within the employees' benefit trust which are not beneficially owed by employees as those shares have no dividend entitlement.

11 Tangible Assets

	Cost £000	Depreciation £000	Net Book Value £000
Consolidated			
At 31 January 1999	2,612	1,615	997
Additions	261	—	261
Disposals	(469)	(259)	(210)
Depreciation charge for the year	—	434	(434)
At 31 January 2000	2,404	1,790	614

Tangible assets comprise office furniture and equipment and motor vehicles.

The company is committed to the following operating lease payments in the year ending 31 January 2001.

	2000 Property £000	2000 Office equipment £000	1999 Property £000	1999 Office equipment £000
Operating leases which expire:				
– within one year	4	31	4	—
– in one to five years	72	31	84	62
– over five years	408	—	408	—
	484	62	496	80

Notes to the Financial Statements

12 Investments

	Consolidated £000	Company £000
Market value 31 January 1999	4,707	80
Unrealised appreciation 31 January 1999	(6,124)	(169)
Cost 31 January 1999	10,831	249
Additions at cost	4,304	6
Disposals at cost	(5,156)	—
Cost 31 January 2000	9,979	255
Unrealised appreciation 31 January 2000	(1,057)	(169)
Market value 31 January 2000	8,922	86

	2000		1999	
	Consolidated £000	Company £000	Consolidated £000	Company £000
Listed — UK	8,002	—	4,358	—
Unlisted	920	86	349	80
	8,922	86	4,707	80

13 Subsidiary undertakings

	Company £000
Cost 31 January 2000 and 31 January 1999	85,606

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

Name	*Registered/ incorporated*	*Nature and place of business*	*% owned*
Directly held subsidiary undertakings			
Edinburgh Fund Managers plc	Scotland	Investment management (UK)	100
Edinburgh Unit Trust Managers Limited	Scotland	Unit trust and OEIC management (UK)	100
Edinburgh Fund Managers (Private Clients) Limited	Scotland	Investment management (UK)	100
The Edinburgh Securities Company Limited	Scotland	Investment company (UK)	100
Edinburgh Oil Management Limited	Scotland	Oil and gas management (UK)	100
Edinburgh Fund Managers (Canada) Inc	Canada	Mutual fund management (Canada)	100

Notes to the Financial Statements

13 Subsidiary undertakings (continued)

Name	Registered/ incorporated	Nature and place of business	% owned
Indirectly held subsidiary undertakings			
Edinburgh Unit Trust Managers (Ireland) Limited	Ireland	Unit trust management (Ireland)	100
Edinburgh Fund Managers (Bermuda) Limited	Bermuda	Investment management (Bermuda)	100
Edinburgh Fund Managers (Trustees) Limited	Scotland	ESOP trustee company (UK)	100

14 Debtors

	2000 Consolidated £000	2000 Company £000	1999 Consolidated £000	1999 Company £000
Amounts falling due within one year:				
Management fees receivable	4,230	—	2,816	—
Debtors for shares and units sold or cancelled	3,933	—	2,260	—
Other debtors	387	—	1,252	—
Prepayments	835	—	502	—
	9,385	—	6,830	—
Amounts falling due outwith one year:				
Amounts owed by subsidiaries	—	10,030	—	8,814
Deferred consideration on sale of Dunedin Ventures	455	—	427	—
Deferred taxation:				
Accelerated capital allowances	13	—	17	—
Other timing differences	71	—	106	—
	539	10,030	550	8,814
	9,924	10,030	7,380	8,814

The decrease in deferred taxation on accelerated capital allowances and other timing differences from 31 January 1999 to 31 January 2000 of £39,000 has been transferred to the profit and loss account (see note 8).

15 Other creditors

	2000 Consolidated £000	2000 Company £000	1999 Consolidated £000	1999 Company £000
Creditors for shares and units repurchased or created	3,005	—	7,646	—
Amounts owed to subsidiaries	—	10,021	—	8,349
Accruals	3,382	—	1,436	13
Trade creditors	1,024	—	1,200	—
Provisions (see note below)	378	—	100	—
	7,789	10,021	10,382	8,362

Provisions:	Pensions £000	Share schemes £000	Total £000
At 31 January 1999	16	84	100
Provided during year	14	348	362
Utilised during year	—	(84)	(84)
At 31 January 2000	30	348	378

The pension provision represents an amount held in an unfunded unapproved retirement benefit scheme. The provision for the share schemes represents an estimate of the share enhancement payable in respect of the group's share incentive scheme.

16 Called up share capital

	Number of shares	£000
Authorised		
Ordinary shares of 5p each		
At 31 January 2000 and 1999	45,000,000	2,250
Issued and fully paid		
At 31 January 1999	27,816,134	1,391
Issued during year on exercise of options	23,750	1
At 31 January 2000	27,839,884	1,392

During the year a total of 23,750 ordinary shares were allotted following the exercise of options under the EFM Group Executive Share Option Scheme for a total consideration of £44,000.

Notes to the Financial Statements

16 Called up share capital (continued)

Options relating to share option schemes outstanding at 31 January 2000 to subscribe for new ordinary shares were as follows:

Subscription price	Last date when options exercisable	Number of shares 2000	1999
Executive share option schemes			
187p	29 May 1999	—	23,750
210p	7 June 2000	5,000	5,000
308p	21 June 2002	30,000	30,000
366p	21 June 2003	75,100	75,100
604p	26 May 2004	185,000	185,000
726p	5 October 2005	190,000	205,000
699p	24 March 2006	175,000	220,000
592.5p	30 September 2006	696,000	746,000
547.5p	31 March 2007	62,000	62,000
532.5p	25 March 2005	359,500	359,500
582.5p	5 May 2005	30,000	30,000
317.5p	24 September 2005	30,000	30,000
407.5p	4 May 2006	440,000	—
439p	23 September 2006	44,000	—
		2,321,600	1,971,350
Savings-related share option schemes			
460p	1 December 1999	—	13,800
580p	1 June 2001	1,306	9,807
463p	1 June 2002	21,604	104,998
		22,910	128,605

Options relating to savings-related share options outstanding at 31 January 2000 over existing shares totalled 342,620 shares of which 64,735 are exercisable before 1 December 2002 and 277,885 are exercisable before 1 December 2004.

17 Reserves

	Capital redemption reserve £000	Share premium account £000	Special capital reserve £000	Re-valuation reserve £000	Profit and loss account £000	Total £000
Consolidated						
At 31 January 1999	183	425	—	(6,124)	11,740	6,224
Retained profit for the year	—	—	—	—	1,640	1,640
Issue of shares	—	43	—	—	—	43
Movement in revaluation of investments	—	—	—	5,067	(1,944)	3,123
At 31 January 2000	183	468	—	(1,057)	11,436	11,030

Notes to the Financial Statements

	Capital redemption reserve £000	Share premium account £000	Special capital reserve £000	Re-valuation reserve £000	Profit and loss account £000	Total £000
Company						
At 31 January 1999	183	425	75,177	(169)	3,476	79,092
Retained profit for the year	—	—	—	—	1,369	1,369
Issue of shares	—	43	—	—	—	43
At 31 January 2000	183	468	75,177	(169)	4,042	80,504

Cumulative goodwill written off to reserves to 31 January 2000 amounted to £84,284,000 (1999–£84,284,000).

There are no non-equity interests in the reserves.

18 Employees' share schemes

The company has an employees' benefit trust and an approved profit sharing scheme to increase share ownership amongst the staff in order to align the interests of the staff with other shareholders. A subsidiary company Edinburgh Fund Managers (Trustees) Limited acts as the corporate trustee of The Edinburgh Fund Managers Group Employees' Benefit Trust and The Edinburgh Fund Managers Group Profit Sharing Scheme.

The employees' benefit trust is used to hold shares for the benefit of employees who elect to use all or part of their bonus payable under one of the three bonus schemes to acquire shares. These bonus schemes, are an Investment Scheme (for investment performance), a Salesmen Scheme (for new business) and a Discretionary Scheme (for staff who do not participate in either of the other schemes). Employees electing to receive shares in lieu of cash (Deferred Bonus Shares) will receive an enhancement of up to 60% of the number of shares purchased with their after tax bonus (Matching Shares). The shares are held within the employees' benefit trust and, subject to the employee continuing to be employed, after three years the Deferred Bonus Shares and the Matching Shares will be transferred to the beneficial ownership of the employee. Shares held which are not beneficially owned by employees have no dividend entitlement. The first invitations to staff to elect to receive shares under these schemes were made in April 1999 and 43,000 shares are held by the employees' benefit trust for staff. This will entitle those employees to an additional 26,000 Matching Shares.

The Profit Sharing Scheme is an Inland Revenue approved profit sharing scheme and is open to all employees of the group with one year's service. Each year, subject to certain profit targets being met, shares will be purchased and held within the scheme for the benefit of participants. If the shares remain in the trust for three years they will be released to participants free of tax. An accrual of £334,000 has been made for the year ended 31 January 2000.

At 31 January 1999, 130,000 own shares of 5p each were held by the employees' benefit trust. During the year, a further 425,000 shares were purchased. Of these 43,000 shares are being held for the beneficial ownership of employees. At 31 January 2000, 512,000 shares which were not beneficially owned by employees were held by the employees' benefit trust and are included in the balance sheets at a cost of £2,128,000 (market value–£3,339,000). The 512,000 shares held will be used to increase staff ownership of shares through future bonus payments, including Deferred Bonus Shares and Matching Shares and to satisfy the share options outstanding under the savings-related share options scheme.

Notes to the Financial Statements

19 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 1998. 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 6.25% per annum, that salary increases would average 5.5% per annum and that present and future pensions would increase at the rate of 3.0% per annum.

The pension scheme cost for the year was £862,000 (1999–£737,000). The charge was after a deduction of £385,000 (1999–£329,000) 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 1998 showed that the market value of the scheme's assets was £27,482,000. The assessed value of those assets represented 129% of the value of benefits that had accrued to members, after allowing for expected salary increases. The next actuarial valuation will be as at 1 February 2001.

Due to the impact of Inland Revenue restrictions, part of the normal benefit for one member is provided through an unfunded unapproved arrangement. The cost of unapproved benefits has been determined by an Actuary using financial assumptions which are consistent with those used to value benefits in the Edinburgh Fund Managers Group plc Retirement and Death Benefits Plan. A notional provision of £30,000 (1999–£16,000) is included in respect of the cost of providing the unapproved benefits accrued to 31 January 2000 (see note 15).

20 Financial Instruments

The group's financial instruments comprise equity shares, cash balances, a bank overdraft and debtors and creditors that arise directly from its operations. As permitted under FRS 13, *Derivatives and Other Financial Instruments*, short term debtors and creditors have been excluded from these disclosures.

The interest rate and currency profiles of the group's financial assets at 31 January 2000 were as follows:

	Total £000	No interest £000	Floating rate £000
Sterling	14,105	8,167	5,938
US Dollar	1,086	557	529
Other currencies	151	115	36
	15,342	8,839	6,503

The no interest financial assets do not have a maturity date and principally comprise fixed asset investments. The floating rate financial assets principally comprise cash and deposit balances which earn interest at rates which fluctuate according to money market rates.

The group's only financial liability at 31 January 2000 was the bank overdraft of £1,287,000 which is in sterling, has a floating interest rate and no fixed repayment date.

Ten Year Record

Year ended 31 January	1991 £m	1992 £m	1993 £m	1994 £m	1995 £m	1996 £m	1997 £m	1998 £m	1999 £m	2000 £m
Funds under management	1,414	1,906	2,391	4,011	3,437	3,538	7,638	7,256	6,622	8,035

	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Shareholders' funds	15,472	15,045	15,711	17,002	21,848	26,439	26,502	7,868	7,615	12,422
Fund management income	7,330	8,738	9,693	17,072	22,339	18,913	30,544	29,468	26,693	29,513
Net profit from OEIC and unit trust trading	399	522	1,383	1,415	1,603	709	585	546	308	422
Turnover	7,729	9,260	11,076	18,487	23,942	19,622	31,129	30,014	27,001	29,935
Administrative expenses	5,629	6,047	7,202	10,643	11,458	9,595	14,604	15,977	17,962	19,907
Operating profit	*2,100*	*3,213*	*3,874*	*7,844*	*12,484*	*10,027*	*16,525*	*14,037*	*9,039*	*10,028*
Profit on disposal of investments	76	90	(57)	1,028	214	447	(34)	(68)	45	528
Other net income	1,981	1,480	1,182	903	1,043	1,496	1,475	578	604	267
Profit on ordinary activities before taxation and exceptional items	4,157	4,783	4,999	9,775	13,741	11,970	17,966	14,547	9,688	10,823
Exceptional items	—	—	—	—	—	799	(5,408)	2,414	2,002	1,281
Profit on ordinary activities before taxation	4,157	4,783	4,999	9,775	13,741	12,769	12,558	16,961	11,690	12,104
Taxation	1,256	1,326	1,616	2,741	4,250	3,997	4,222	5,127	3,770	3,616
Profit on ordinary activities after taxation	2,901	3,457	3,383	7,034	9,491	8,772	8,336	11,834	7,920	8,488
Minority interest	(33)	10	12	11	9	8	7	9	(1)	—
Profit for the financial year	2,934	3,447	3,371	7,023	9,482	8,764	8,329	11,825	7,921	8,488
Earnings per share excluding exceptional items	15.9p	18.6p	18.1p	37.2p	49.7p	42.3p	40.2p	35.6p	23.6p	27.5p
Dividends per share	12.0p	13.0p	13.5p	22.0p	24.0p	25.0p	25.0p	25.0p	25.0p	25.0p

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 to 31 July 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 16 May 2000 at 12.15 pm to be followed by a buffet lunch. Shareholders are asked to reply on the enclosed card if they will be attending the meeting.

Corporate Legal Structure

Edinburgh Fund Managers Group plc

Chairman:
Colin Ross

Deputy Chairman:
Sir Angus Grossart

Chief Executive:
Iain Watt

Directors:
M W Balfour
J W Blair
A D M MacDonald
A F MacDonald

Edinburgh Fund Managers plc

Chairman:
Iain Watt

Directors:
Mike Balfour
(Chief Investment Officer, Managing Director)
Andy Bamford
Iain Beattie
Graham Brock
Graham Campbell
Alistair Currie
David Currie
Alex Gowans
Carole Haddow
Jim Hay
Rod MacRae
David McCraw
Graham McGeorge
Ken McKenna
Ian Massie
Catherine Miller
Harry Morgan
Colin Peters
Jamie Sandison
Elizabeth Thom
Nigel Whittingham

Edinburgh Unit Trust Managers Ltd

Chairman:
Iain Watt

Directors:
Mike Balfour
Alan Bathgate
Marianne Cantley
Jim Hay (Managing Director)
Jon Hodesdon
Brian Nicholson
Nigel Whittingham

Edinburgh Fund Managers (Private Clients) Ltd

Chairman:
Iain Watt

Directors:
Alan Aitchison
Graham Brock
Harry Morgan (Managing Director)
Robert Seaton

Notice of Meeting

Notice is hereby given that the fifth 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 16 May 2000 at 12.15 pm for the following purposes:

ORDINARY BUSINESS

Ordinary resolutions

1. to adopt the report of the directors and the financial statements for the year ended 31 January 2000;

2. to declare a final dividend;

3. to appoint Mr A F MacDonald as a director;

4. to re-elect Mr A D M MacDonald as a director;

5. to re-elect Mr C H Ross as a director until the conclusion of the annual general meeting in 2001;

6. to re-elect Mr I A Watt as a director;

7. to re-appoint KPMG Audit Plc as auditors;

8. to authorise the directors to fix the auditors' remuneration.

Special resolutions

9. that the directors be and are hereby empowered pursuant to section 95 of the Companies Act 1985 ('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% 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.

10. 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% 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% 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 five 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 2001 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.

SPECIAL BUSINESS

To consider, and, if thought fit, to pass the following ordinary resolution:

11. That, with effect from the passing of this resolution, the maximum aggregate fees of the board of directors be increased to £130,000 per annum, in accordance with Article 94 of the Articles of Association of the company.

Catherine C J Miller
Secretary
Edinburgh, 5 April 2000

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

Note

Holders of ordinary shares are entitled to attend and vote at the meeting.

Members must be entered on the company's register of members 48 hours before the time appointed for the meeting. If the meeting is adjourned for more than 48 hours then, for members to be entitled to vote, they must be entered on the company's register of members 48 hours prior to the time fixed for the adjourned meeting. Any such holder may appoint another person (whether a member of the company or not) as his proxy to attend and vote on a poll in his stead. Proxies must be lodged at the company's registrars, Computershare Services plc, PO Box 457, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 4BR not less than 48 hours before the time appointed for the meeting. Completion of a form of proxy will not prevent a holder of ordinary shares from attending or voting in person should he so wish.

If approved, the final dividend will be paid on 17 May 2000.